

PAO SOVCOMFLOT

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

30 September 2016

PAO Sovcomflot

Contents

Condensed Consolidated Income Statement	2
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Statement of Cash Flows	6
Notes to the Condensed Consolidated Interim Financial Statements	
1. Organisation, Basis of Preparation and Accounting Policies	7
2. Segment Information	8
3. Fleet	9
4. Vessels Under Construction	10
5. Investments in Joint Ventures	10
6. Finance Lease Receivables	10
7. Trade and Other Receivables	11
8. Cash and Bank Deposits	11
9. Non-Current Assets Held for Sale	11
10. Dividends	12
11. Trade and Other Payables	12
12. Secured Bank Loans	12
13. Finance Lease Liabilities	12
14. Other Loans	12
15. Income Taxes	13
16. Financial Risk Management	13
17. Contingent Assets and Liabilities	15
18. Related Party Transactions	15
19. Events After the Reporting Period	16
20. Date of Issue	16

PAO Sovcomflot

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

	Note	Nine months ended (unaudited)		Three months ended (unaudited)	
		30/09/2016 \$'000	30/09/2015 \$'000	30/09/2016 \$'000	30/09/2015 \$'000
Freight and hire revenue		1,039,364	1,135,690	359,104	386,157
Voyage expenses and commissions		(174,085)	(189,093)	(70,191)	(57,127)
Time charter equivalent revenues		<u>865,279</u>	<u>946,597</u>	<u>288,913</u>	<u>329,030</u>
Direct operating expenses					
Vessels' running costs		231,415	256,211	81,603	84,387
Charter hire payments		16,398	45,605	10,045	19,043
		<u>(247,813)</u>	<u>(301,816)</u>	<u>(91,648)</u>	<u>(103,430)</u>
Net earnings from vessels' trading		617,466	644,781	197,265	225,600
Other operating revenues		14,586	16,706	5,524	6,591
Other operating expenses		(6,645)	(8,125)	(2,283)	(2,391)
Depreciation, amortisation and impairment		(226,733)	(223,026)	(78,301)	(73,638)
General and administrative expenses		(86,364)	(76,915)	(29,857)	(25,755)
(Loss) / gain on sale of assets		(562)	9,235	(133)	1,084
Loss on sale of subsidiary		-	(727)	-	(148)
Gain on sale of equity accounted investments		-	5,402	-	-
Allowance for credit losses		107	(180)	(700)	(304)
Share of profits in equity accounted investments		11,287	12,665	769	4,840
Operating profit		<u>323,142</u>	<u>379,816</u>	<u>92,284</u>	<u>135,879</u>
Other (expenses) / income					
Financing costs		(121,576)	(105,012)	(35,596)	(35,243)
Interest income		14,882	12,663	3,822	3,982
Other non-operating income	17	-	40,559	-	-
Other non-operating expenses	17	(5,166)	(3,349)	(1,420)	(1,035)
Gain / (loss) on ineffective hedging instruments		396	203	341	(138)
Foreign exchange gains		28,194	10,388	2,449	1,490
Foreign exchange losses		(9,217)	(18,968)	(1,152)	(9,473)
Net other expenses		<u>(92,487)</u>	<u>(63,516)</u>	<u>(31,556)</u>	<u>(40,417)</u>
Profit before income taxes		230,655	316,300	60,728	95,462
Income tax expense	15	(12,602)	(18,426)	(8,667)	(13,894)
Profit for the period		<u>218,053</u>	<u>297,874</u>	<u>52,061</u>	<u>81,568</u>
Profit attributable to:					
Owners of the parent		210,314	285,234	51,192	79,960
Non-controlling interests		7,739	12,640	869	1,608
		<u>218,053</u>	<u>297,874</u>	<u>52,061</u>	<u>81,568</u>
Earnings per share					
Basic earnings per share for the period attributable to equity holders of the parent		<u>\$0.107</u>	<u>\$0.145</u>	<u>\$0.026</u>	<u>\$0.041</u>

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

PAO Sovcomflot

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

	Note	Nine months ended (unaudited)		Three months ended (unaudited)	
		30/09/2016 \$'000	30/09/2015 \$'000	30/09/2016 \$'000	30/09/2015 \$'000
Profit for the period		218,053	297,874	52,061	81,568
Other comprehensive income:					
Share of associates' other comprehensive income		19	(17)	3	(20)
Share of joint ventures' other comprehensive income	5	1,241	656	3,750	(2,118)
Exchange loss on translation from functional currency to presentation currency		(1,703)	(7,811)	(478)	(5,523)
Reclassification adjustment relating to foreign investments disposed of during the period		-	1,834	-	-
Derivative financial instruments recycled and debited to the income statement		19,568	20,261	4,722	5,268
Fair value movement of derivative financial instruments (debited) / credited to other comprehensive income		(39,762)	(30,656)	6,001	(25,114)
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		(20,637)	(15,733)	13,998	(27,507)
Remeasurement losses on employee benefit obligations		(313)	(170)	(36)	(3)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(313)	(170)	(36)	(3)
Total other comprehensive income for the period, net of tax		(20,950)	(15,903)	13,962	(27,510)
Total comprehensive income for the period		197,103	281,971	66,023	54,058
Total comprehensive income attributable to:					
Owners of the parent		189,285	269,831	65,153	53,201
Non-controlling interests		7,818	12,140	870	857
		197,103	281,971	66,023	54,058

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

PAO Sovcomflot

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

	Note	30/09/2016 (unaudited) \$'000	31/12/2015 \$'000
Assets			
Non-current assets			
Fleet	3	5,686,676	5,388,542
Vessels under construction	4	440,430	368,453
Intangible assets		4,734	4,668
Other property, plant and equipment		59,397	60,284
Investment property		837	7,468
Investments in associates		131	104
Investments in joint ventures		108,783	98,306
Available-for-sale investments		1,012	1,012
Loans to joint ventures		47,850	52,468
Finance lease receivables	6	63,082	66,956
Derivative financial instruments		200	8,050
Trade and other receivables	7	2,785	16,002
Deferred tax assets		2,933	7,387
Bank deposits	8	10,000	10,000
		<u>6,428,850</u>	<u>6,089,700</u>
Current assets			
Inventories		50,047	37,568
Loans to joint ventures		4,750	8,320
Derivative financial instruments		281	-
Trade and other receivables	7	236,536	174,605
Finance lease receivables	6	5,433	4,875
Current tax receivable		2,041	888
Cash and bank deposits	8	317,649	357,427
		<u>616,737</u>	<u>583,683</u>
Non-current assets held for sale	9	7,966	28,130
		<u>624,703</u>	<u>611,813</u>
Total assets		<u><u>7,053,553</u></u>	<u><u>6,701,513</u></u>
Equity and liabilities			
Capital and reserves			
Share capital		405,012	405,012
Reserves		3,012,871	2,916,047
Equity attributable to owners of the parent		<u>3,417,883</u>	<u>3,321,059</u>
Non-controlling interests		<u>164,613</u>	<u>159,922</u>
Total equity		<u><u>3,582,496</u></u>	<u><u>3,480,981</u></u>
Non-current liabilities			
Trade and other payables	11	33,323	16,045
Secured bank loans	12	1,863,800	1,596,434
Finance lease liabilities	13	83,266	173,690
Derivative financial instruments		49,894	32,135
Retirement benefit obligations		3,747	3,067
Other loans	14	876,058	875,492
Deferred tax liabilities		1,459	776
		<u>2,911,547</u>	<u>2,697,639</u>
Current liabilities			
Trade and other payables	11	172,416	181,676
Other loans	14	-	16,984
Secured bank loans	12	273,260	289,142
Finance lease liabilities	13	93,036	10,120
Current tax payable		3,399	2,042
Derivative financial instruments		17,399	22,929
		<u>559,510</u>	<u>522,893</u>
Total liabilities		<u><u>3,471,057</u></u>	<u><u>3,220,532</u></u>
Total equity and liabilities		<u><u>7,053,553</u></u>	<u><u>6,701,513</u></u>

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

PAO Sovcomflot
Condensed Consolidated Statement of Changes in Equity
For the period ended 30 September 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	-	-	-	-	-	285,234	285,234	12,640	297,874
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(17)	-	(17)	-	(17)
Share of joint ventures' other comprehensive income	-	-	-	670	(14)	-	656	-	656
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(7,229)	-	(7,229)	(582)	(7,811)
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	-	-	-	20,261	-	-	20,261	-	20,261
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(30,656)	-	-	(30,656)	-	(30,656)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(152)	(152)	(18)	(170)
Total comprehensive income	-	-	-	(9,725)	(5,526)	285,082	269,831	12,140	281,971
Dividends (Note 10)	-	-	-	-	-	(20,543)	(20,543)	(1,355)	(21,898)
At 30 September 2015 (unaudited)	405,012	818,845	(834,490)	(91,525)	(36,484)	2,989,022	3,250,380	167,174	3,417,554
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	-	-	-	-	-	210,314	210,314	7,739	218,053
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	19	-	19	-	19
Share of joint ventures' other comprehensive income	-	-	-	1,227	14	-	1,241	-	1,241
Exchange (loss) / gain on currency translation from functional currency to presentation currency	-	-	-	-	(1,815)	-	(1,815)	112	(1,703)
Derivative financial instruments recycled and debited to the income statement	-	-	-	19,568	-	-	19,568	-	19,568
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(39,762)	-	-	(39,762)	-	(39,762)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(280)	(280)	(33)	(313)
Total comprehensive income	-	-	-	(18,967)	(1,782)	210,034	189,285	7,818	197,103
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 September 2016 (unaudited)	405,012	818,845	(834,490)	(87,237)	(46,340)	3,162,093	3,417,883	164,613	3,582,496

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.

PAO Sovcomflot

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

	Note	Nine months ended (unaudited)	
		30/09/2016 \$'000	30/09/2015 \$'000
Operating Activities			
Cash received from freight and hire of vessels		985,185	1,105,619
Other cash receipts		13,507	60,192
Cash payments for voyage and running costs		(418,333)	(489,670)
Other cash payments		(75,070)	(99,311)
Cash generated from operations		505,289	576,830
Interest received		5,581	2,457
Income tax paid		(7,090)	(8,711)
Net cash inflow from operating activities		503,780	570,576
Investing Activities			
Expenditure on fleet		(20,556)	(30,973)
Fleet acquisitions in the period		(347,220)	-
Expenditure on vessels under construction		(234,024)	(485,808)
Interest capitalised		(16,533)	(4,362)
Expenditure on other property, plant and equipment		(2,495)	(2,121)
Investment in joint venture		-	(107)
Loan repayments from joint ventures		8,502	3,978
Proceeds from sale of subsidiary net of cash disposed		-	7,532
Proceeds from sale of vessels		28,172	108,113
Proceeds from sale of other property, plant and equipment		272	9,580
Capital element received on finance leases		3,550	3,051
Interest received on finance leases		9,074	10,028
Dividends received from equity accounted for investments		2,023	772
Bank term deposits	8	-	(1,632)
Net cash outflow used in investing activities		(569,235)	(381,949)
Financing Activities			
Proceeds from borrowings		1,372,593	493,081
Repayment of borrowings		(1,113,188)	(412,399)
Financing costs		(41,927)	(6,714)
Repayment of finance lease liabilities		(7,679)	(7,220)
Restricted deposits	8	846	1,039
Funds in retention bank accounts	8	(4,157)	(10,728)
Interest paid on borrowings		(79,568)	(76,527)
Interest paid on finance leases		(9,002)	(9,459)
Dividends paid		(98,148)	(21,858)
Acquisition of non-controlling interests		(59)	-
Net cash inflow / (outflow) from / (used in) financing activities		19,711	(50,785)
(Decrease) / increase in Cash and Cash Equivalents		(45,744)	137,842
Cash and Cash Equivalents at 1 January	8	332,680	253,840
Net foreign exchange difference		2,655	(6,706)
Cash and Cash Equivalents at 30 September	8	289,591	384,976

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

PAO Sovcomflot

**Notes to the Condensed Consolidated Interim Financial Statements – 30 September 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 131 vessels at the period end, comprising 113 tankers, 2 chartered in seismic vessels, 8 gas carriers, 2 bulk carriers and 6 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 and 19).

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 nine-month period ended 30 September 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 last quarter 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.

PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 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 September 2016

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and hire revenue	478,064	204,723	108,327	176,778	71,472	1,039,364
Voyage expenses and commissions	(110,973)	(55,874)	(990)	(684)	(5,564)	(174,085)
Time charter equivalent revenues	367,091	148,849	107,337	176,094	65,908	865,279
Direct operating expenses						
Vessels' running costs	(101,959)	(57,850)	(20,521)	(34,674)	(16,411)	(231,415)
Charter hire payments	-	(170)	-	-	(16,228)	(16,398)
Net earnings from vessels' trading	265,132	90,829	86,816	141,420	33,269	617,466
Vessels' depreciation	(89,805)	(37,472)	(21,374)	(45,737)	(1,947)	(196,335)
Vessels' drydock cost amortisation	(12,968)	(4,795)	(3,896)	(4,406)	(525)	(26,590)
Loss on sale of vessels	(159)	(254)	-	-	-	(413)
Net foreign exchange gains / (losses)	-	743	-	(45)	3,748	4,446
Segment operating profit	<u>162,200</u>	<u>49,051</u>	<u>61,546</u>	<u>91,232</u>	<u>34,545</u>	<u>398,574</u>
Unallocated						
General and administrative expenses						(86,364)
Financing costs						(121,576)
Other income and expenses (net)						25,490
Net foreign exchange gains						14,531
Profit before income taxes						<u>230,655</u>
Carrying amount of fleet in operation	<u>2,209,845</u>	<u>1,094,622</u>	<u>949,132</u>	<u>1,369,456</u>	<u>63,621</u>	<u>5,686,676</u>
Deadweight tonnage of fleet used in operations ('000)	<u>7,653</u>	<u>2,449</u>	<u>472</u>	<u>1,243</u>	<u>157</u>	<u>11,974</u>

Period ended 30 September 2015

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and hire revenue	518,856	247,474	100,837	170,535	97,988	1,135,690
Voyage expenses and commissions	(116,375)	(60,025)	(302)	(932)	(11,459)	(189,093)
Time charter equivalent revenues	402,481	187,449	100,535	169,603	86,529	946,597
Direct operating expenses						
Vessels' running costs	(115,971)	(73,350)	(15,708)	(36,575)	(14,607)	(256,211)
Charter hire payments	-	-	-	-	(45,605)	(45,605)
Net earnings from vessels' trading	286,510	114,099	84,827	133,028	26,317	644,781
Vessels' depreciation	(85,289)	(34,628)	(18,876)	(43,335)	(2,138)	(184,266)
Vessels' drydock cost amortisation	(13,766)	(4,510)	(3,540)	(3,795)	(605)	(26,216)
Vessels' impairment provision (net)	-	(5,368)	-	-	(2,734)	(8,102)
Gain / (loss) on sale of vessels	2,531	(1,792)	-	-	-	739
Net foreign exchange gains / (losses)	-	229	-	(24)	(5,227)	(5,022)
Segment operating profit	<u>189,986</u>	<u>68,030</u>	<u>62,411</u>	<u>85,874</u>	<u>15,613</u>	<u>421,914</u>
Unallocated						
General and administrative expenses						(76,915)
Financing costs						(105,012)
Other income and expenses (net)						79,871
Net foreign exchange losses						(3,558)
Profit before income taxes						<u>316,300</u>
Carrying amount of fleet in operation	<u>2,320,023</u>	<u>953,911</u>	<u>982,326</u>	<u>1,145,795</u>	<u>73,430</u>	<u>5,475,485</u>
Carrying amount of non-current assets held for sale	<u>-</u>	<u>14,778</u>	<u>-</u>	<u>-</u>	<u>4,950</u>	<u>19,728</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>222</u>	<u>11,444</u>

PAO Sovcomflot

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

3. Fleet

	<u>Vessels</u> <u>\$'000</u>	<u>Drydock</u> <u>\$'000</u>	<u>Total Fleet</u> <u>\$'000</u>
Cost			
At 1 January 2015	6,779,919	159,654	6,939,573
Expenditure in period	649	29,451	30,100
Transfer from vessels under construction (Note 4)	408,832	8,000	416,832
Transfer to non-current assets held for sale (Note 9)	(18,864)	(1,602)	(20,466)
Disposals in period	(54,832)	(1,791)	(56,623)
Write-off of fully amortised drydock cost	-	(28,391)	(28,391)
At 30 September 2015	<u>7,115,704</u>	<u>165,321</u>	<u>7,281,025</u>
At 1 January 2016	7,071,178	164,932	7,236,110
Expenditure in period	14,264	3,600	17,864
Acquisitions during the period	340,265	6,955	347,220
Transfer from vessels under construction (Note 4)	154,475	1,500	155,975
Write-off of fully amortised drydock cost	-	(3,159)	(3,159)
At 30 September 2016	<u>7,580,182</u>	<u>173,828</u>	<u>7,754,010</u>
Depreciation, amortisation and impairment			
At 1 January 2015	1,582,218	78,372	1,660,590
Charge for the period	184,266	26,216	210,482
Impairment provision	1,497	-	1,497
Transfer to non-current assets held for sale (Note 9)	(12,788)	(1,490)	(14,278)
Eliminated on disposal	(23,330)	(1,030)	(24,360)
Write-off of fully amortised drydock cost	-	(28,391)	(28,391)
At 30 September 2015	<u>1,731,863</u>	<u>73,677</u>	<u>1,805,540</u>
At 1 January 2016	1,779,699	67,869	1,847,568
Charge for the period	196,335	26,590	222,925
Write-off of fully amortised drydock cost	-	(3,159)	(3,159)
At 30 September 2016	<u>1,976,034</u>	<u>91,300</u>	<u>2,067,334</u>
Net book value			
At 30 September 2016	<u>5,604,148</u>	<u>82,528</u>	<u>5,686,676</u>
At 31 December 2015	<u>5,291,479</u>	<u>97,063</u>	<u>5,388,542</u>
		<u>30/09/2016</u>	<u>31/12/2015</u>
Market value (\$'000)		<u>4,464,500</u>	<u>5,092,750</u>
Current insured values (\$'000)		<u>6,175,667</u>	<u>5,830,970</u>
Total deadweight tonnage (dwt)		<u>11,967,428</u>	<u>11,243,584</u>

As at 30 September 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.

The following vessels were acquired during the period:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Segment</u>	<u>DWT</u>	<u>Date of acquisition</u>
Zaliv Baikal	Aframax tanker LR2	Oil Product	104,527	5 August 2016
SCF Ussuri	Handymax tanker	Oil Product	50,923	12 August 2016
SCF Don	Handymax tanker	Oil Product	50,923	22 August 2016
Zaliv Vostok	Aframax tanker LR2	Oil Product	104,527	24 August 2016
Zaliv Amurskiy	Aframax tanker LR2	Oil Product	104,542	30 August 2016
SCF Anadyr	Handymax tanker	Oil Product	50,973	1 September 2016
SCF Enterprise	Multifunctional ice breaking supply vessel	Offshore	4,482	6 September 2016
SCF Angara	Handymax tanker	Oil Product	50,956	20 September 2016
Zaliv Amerika	Aframax tanker	Crude Oil	104,535	22 September 2016
SCF Irtysh	Handymax tanker	Oil Product	50,975	23 September 2016
SCF Endeavour	Multifunctional ice breaking supply vessel	Offshore	4,482	27 September 2016

Included in the Group's fleet are 2 vessels (2015 – 2) held under finance leases with an aggregate carrying value as at 30 September 2016 of \$187.6 million (31 December 2015 – \$195.2 million).

PAO Sovcomflot

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

4. Vessels Under Construction

	<u>30/09/2016</u>	<u>30/09/2015</u>
	<u>\$'000</u>	<u>\$'000</u>
At 1 January	368,453	237,250
Expenditure in period	227,952	499,175
Transfer to fleet (Note 3)	(155,975)	(416,832)
At 30 September	<u>440,430</u>	<u>319,593</u>
Total deadweight tonnage (dwt)	<u>191,800</u>	<u>233,800</u>

The following vessel was delivered during the period:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Segment</u>	<u>DWT</u>	<u>Delivery Date</u>
Shturman Albanov	Ice-class shuttle tanker	Offshore	42,000	16 August 2016

Vessels under construction at 30 September 2016 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel, three MIB standby vessels and two ice-class shuttle tankers scheduled for delivery between October 2016 and July 2017 at a total contracted cost to the Group of \$1,131.9 million of which \$520.0 million related to contracts with related parties. As at 30 September 2016, \$403.8 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:

	<u>30/09/2016</u>	<u>30/09/2015</u>
	<u>\$'000</u>	<u>\$'000</u>
At 1 January	98,306	82,430
Investment in joint venture during the period	-	107
Share of profits in joint ventures	11,248	12,627
Share of joint ventures' other comprehensive income	1,241	656
Dividends receivable	(2,012)	(2,731)
Release of provision for share in net liabilities of joint ventures	-	(2,409)
At 30 September	<u>108,783</u>	<u>90,680</u>

6. Finance Lease Receivables

	<u>30/09/2016</u>	<u>31/12/2015</u>
	<u>\$'000</u>	<u>\$'000</u>
Gross finance lease receivable		
At 1 January	81,325	85,518
Finance lease interest receivable	8,997	12,562
Finance lease instalments receivable	(12,578)	(16,755)
At 30 September / 31 December	<u>77,744</u>	<u>81,325</u>
Allowance for credit losses		
At 1 January	(9,494)	(9,856)
Release of credit losses	265	362
At 30 September / 31 December	<u>(9,229)</u>	<u>(9,494)</u>
Receivable net of provision	68,515	71,831
Less current finance lease receivables	(5,433)	(4,875)
Non-current finance lease receivables	<u>63,082</u>	<u>66,956</u>

PAO Sovcomflot

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

7. Trade and Other Receivables

	30/09/2016 \$'000	31/12/2015 \$'000
Non-current assets		
Financial assets		
Other receivables	85	104
Security deposits	-	13,190
Receivables under High Court judgement award	2,700	2,708
	<u>2,785</u>	<u>16,002</u>
Current assets		
Financial assets		
Amounts due from charterers	142,771	96,289
Allowance for credit losses	(3,624)	(5,166)
	<u>139,147</u>	<u>91,123</u>
Casualty and other claims	7,809	11,191
Agents' balances	2,221	2,606
Other receivables	16,742	21,135
Amounts due from joint ventures	498	491
Security deposits	13,003	-
Amounts due from lessee for finance leases	1,377	1,423
Accrued income	7,745	5,365
Non-financial assets		
Prepayments	18,023	11,385
Voyages in progress	18,100	23,809
Non-income based taxes receivable	11,871	6,077
	<u>236,536</u>	<u>174,605</u>

Security deposits relate to an amount held as security by the American Courts, including accrued interest and net of commission charged 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 was heard 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 was 27 August 2016. No appeal has been pursued by the charterers and the above Award is now final with steps being taken to enforce it and have the costs of the proceedings determined. The security deposit has been returned to the Group in October 2016.

8. Cash and Bank Deposits

	30/09/2016 \$'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	317,649	357,427
Retention accounts	(28,058)	(23,901)
Restricted deposits	-	(846)
Cash and cash equivalents	<u>289,591</u>	<u>332,680</u>

9. Non-Current Assets Held for Sale

	Property and other plant and equipment \$'000	Fleet \$'000	Total \$'000
At 1 January 2015	-	93,163	93,163
Transfer from fleet (Note 3)	-	6,188	6,188
Impairment provision	-	(7,755)	(7,755)
Reversal of impairment provision	-	1,150	1,150
Disposals in period	-	(73,018)	(73,018)
At 30 September 2015	<u>-</u>	<u>19,728</u>	<u>19,728</u>
At 1 January 2016	-	28,130	28,130
Transfer from other property plant and equipment	1,079	-	1,079
Transfer from investment property	6,887	-	6,887
Disposals in period	-	(28,130)	(28,130)
At 30 September 2016	<u>7,966</u>	<u>-</u>	<u>7,966</u>

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 September 2016.

During the period ended 30 September 2016, the Group classified as held for sale an exhibition centre in Sochi, Russia, held as investment property and other related plant and equipment. The exhibition centre and other plant and equipment were actively marketed for sale at a price approximate to their fair value.

PAO Sovcomflot

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

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

	30/09/2016 \$'000	31/12/2015 \$'000
Non-current liabilities		
Non-financial liabilities		
Employee benefit obligations	33,323	16,045
	<u>33,323</u>	<u>16,045</u>
Current liabilities		
Financial liabilities		
Trade payables	36,224	36,406
Other payables	26,052	46,384
Dividends payable	5,010	7,604
Accrued liabilities	40,168	37,535
Accrued interest	28,073	20,436
Non-financial liabilities		
Deferred revenue	13,993	23,319
Non-income based taxes payable	22,896	9,992
	<u>172,416</u>	<u>181,676</u>

12. Secured Bank Loans

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

	30/09/2016 \$'000	31/12/2015 \$'000
Repayable		
- within twelve months after the end of the reporting period	273,260	289,142
- between one to two years	323,119	238,866
- between two to three years	234,002	226,236
- between three to four years	320,749	359,061
- between four to five years	311,961	170,834
- more than five years	673,969	601,437
	<u>2,137,060</u>	<u>1,885,576</u>
Less current portion	(273,260)	(289,142)
Non-current balance	<u>1,863,800</u>	<u>1,596,434</u>

13. Finance Lease Liabilities

	30/09/2016 \$'000	31/12/2015 \$'000
Repayable		
- within twelve months after the end of the reporting period	93,036	10,120
- between one to two years	83,266	173,690
	<u>176,302</u>	<u>183,810</u>
Less current portion	(93,036)	(10,120)
Non-current balance	<u>83,266</u>	<u>173,690</u>

14. Other Loans

	30/09/2016 \$'000	31/12/2015 \$'000
\$800 million 5.375% Senior Notes due in 2017	139,877	799,089
\$750 million 5.375% Senior Notes due in 2023	736,181	-
Other loans from related party	-	93,387
	<u>876,058</u>	<u>892,476</u>
Less current portion	-	(16,984)
Non-current balance	<u>876,058</u>	<u>875,492</u>

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 September 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.

PAO Sovcomflot

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

15. Income Taxes

	30/09/2016 \$'000	30/09/2015 \$'000
Russian Federation profit tax	6,774	6,211
Overseas income tax expense	520	519
Current income tax expense	7,294	6,730
Deferred tax	5,308	11,696
Total income tax expense	12,602	18,426

16. Financial Risk Management

(a) Categories of financial assets and financial liabilities

	30/09/2016 \$'000	31/12/2015 \$'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships	481	8,050
Cash and bank deposits	327,649	367,427
Available-for-sale investments	1,012	1,012
Loans and other receivables	191,327	149,336
Loans to joint ventures	52,600	60,788
Finance lease receivables	68,515	71,831
Total financial assets	641,584	658,444
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	67,293	55,064
Secured bank loans	2,137,060	1,885,576
Finance lease liabilities	176,302	183,810
Other loans	876,058	892,476
Other liabilities measured at amortised cost	135,527	148,365
Total financial liabilities	3,392,240	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	
	30/09/2016 \$'000	31/12/2015 \$'000	30/09/2016 \$'000	31/12/2015 \$'000
Financial assets				
Loans to joint ventures	52,600	60,788	50,048	57,512
Finance lease receivables	68,515	71,831	68,515	71,831
Total financial assets	121,115	132,619	118,563	129,343
Financial liabilities				
Secured bank loans at fixed interest rates	327,762	115,743	344,354	115,924
Secured bank loans at floating interest rates	1,809,298	1,769,833	1,795,884	1,761,909
Other loans	876,058	892,476	926,237	929,588
Finance lease liabilities	176,302	183,810	178,587	177,828
Total financial liabilities	3,189,420	2,961,862	3,245,062	2,985,249

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.

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

The following table provides an analysis of financial instruments as at 30 September 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.

PAO Sovcomflot

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

16. Financial Risk Management (Continued)

Recurring fair value measurements recognised in the statement of financial position

At 30 September 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	481	-	481
	-	481	-	481
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	67,293	-	67,293
	-	67,293	-	67,293
At 31 December 2015				
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 September 2016 and 31 December 2015.

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

At 30 September 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Non-current assets held for sale	-	-	-	-
	-	-	-	-
At 31 December 2015				
Assets				
Non-current assets held for sale	28,130	-	-	28,130
	28,130	-	-	28,130

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

At 30 September 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Fair value of assets				
Loans to joint ventures	-	50,048	-	50,048
Finance lease receivables	-	68,515	-	68,515
	-	118,563	-	118,563
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	344,354	-	344,354
Secured bank loans at floating interest rates	-	1,795,884	-	1,795,884
Other loans	926,237	-	-	926,237
Finance lease liabilities	-	178,587	-	178,587
	926,237	2,318,825	-	3,245,062
At 31 December 2015				
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.

PAO Sovcomflot

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

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 was supposed to take place on 3-4 May 2017. However on 26 September 2016 the Group concluded a settlement agreement with the defendants pursuant to which a payment of \$15.0 million was made to the Group in October 2016. Accordingly, the appeal and related proceedings in respect of those defendants were discontinued. The settlement amount of \$15.0 million has been recognised in the income statement in October 2016.

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 damages said to have been 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. 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, also issued new proceedings to overcome that objection (if valid). Both the application and new proceedings were dealt with at the trial which took place in July 2016. Following the trial, three judgments were handed down on 26 August, 7 October and 27 October 2016 (the "FO Damages Judgments").

The net result of those judgments was that the Court concluded that the defendants' claims under the 2005 freezing order succeeded but their claims under the 2007 freezing order failed. In relation to the 2005 freezing order the Court awarded the defendants damages of \$59.8 million and interest on damages from December 2010 to 27 October 2016 of \$11.0 million. The Court also ordered the Group to pay 50% of the defendants' costs (assessed on a standard basis) of the defendants' damages claim, the above set aside application and the above new proceedings and to make an interim payment of such costs of £1.0 million (equivalent to \$1.3 million).

The Group applied to the trial judge for permission to appeal the FO Damages Judgments and for a stay of execution in respect of the payment of the above sums. The Judge refused both applications and thus the Group made the same applications to the Court of Appeal. On 10 November 2016 Gloster LJ in the Court of Appeal granted an interim stay of execution until determination of the application for permission of appeal. However, in the light of an objection by the defendants to Gloster LJ dealing with the application, due to a family connection between her and Andrew Popplewell QC (now Mr Justice Popplewell), the Group's previous Leading Counsel, that order was, on 14 November 2016, set aside and replaced by a temporary stay whilst the matter was referred to another Lord or Lady Justice to deal with.

Management is of the opinion that the Group will be granted leave to appeal the FO Damages Judgments and will more likely than not succeed in the appeal. The Group will defend its position vigorously. Accordingly, no provision has been made.

A total amount of \$5.2 million (30 September 2015 – \$3.3 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. The Group was required to make VAT payments, including penalties, of approximately RUR328 million (equivalent to \$5.2 million) which are included in trade and other receivables. Following clarification on the issue received from the Federal Russian tax authorities that the application of 0% VAT rate is indeed appropriate to such revenues, all existing enquiries by the Russian regional tax authorities will be stopped and consequently there is no further exposure for the Group. The Group has already filed its defence on the cases where VAT has already been paid with the Russian Arbitrazh Court and hearings are expected in December 2016. If the position of the Russian regional tax authorities in respect of the amount already paid is confirmed by the court a maximum amount of RUR154 million (equivalent to \$2.4 million) of the amount included in trade and other receivables is potentially recoverable from the charterers, parties to the time charter agreement concerned.

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 \$24.5 million). Russian customs have also requested the Group to pay RUR314 million of custom fees (equivalent to \$5.0 million) of which RUR284 million (equivalent to \$4.5 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. In addition, in October 2016 the courts have decided that customs illegally imposed the custom fee of RUR221 million (equivalent to \$3.5 million) and postponed the decision on custom fee of RUR93 million (equivalent \$1.5 million). The Group will continue defending its position in courts in Russia. The judgment of the Russian courts is expected by the end of March 2017.

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.

In February, August and September 2016, the Group drew down from a loan facility granted by a Russian State controlled financial institution, an amount of \$70.9 million, \$89.0 million and \$89.6 million respectively. Part of these funds were used 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.

PAO Sovcomflot

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

18. Related Party Transactions (Continued)

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)	
	30/09/2016 \$'000	30/09/2015 \$'000	30/09/2016 \$'000	31/12/2015 \$'000
<u>Transactions with Russian State controlled entities</u>				
Freight and hire of vessels	(188,059)	(161,624)	58,867	645
Financing costs on other loans	-	-	676	-
Other loans	-	-	-	(95,489)
Financing costs on secured bank loans	-	-	4,179	-
Secured bank loans	-	-	(251,285)	-
Finance leases payable	8,942	9,400	(176,302)	(183,810)
Payments to related shipyards for vessels under construction	-	-	104,000	104,000
Cash at bank	(4,732)	(2,099)	74,608	128,758
Disposal of associate	-	(5,402)	-	-
Finance leases receivable	(8,997)	(9,454)	79,121	82,748
Allowance for credit losses on finance lease receivables	(265)	(214)	(9,229)	(9,494)
Rental of investment property	-	(71)	-	-
<u>Transactions with Joint Ventures</u>				
Freight and hire of vessel	(6,790)	(6,765)	-	-
Other operating revenues	(2,402)	(2,395)	498	491
Loans due from joint ventures	(863)	(779)	54,981	63,081
<u>Compensation of Key Management Personnel</u>				
Short term benefits	7,561	9,433	(3,690)	(6,713)
Post-employment benefits	51	53	(13)	(6)
Long term service benefits	8,008	6,506	(16,637)	(8,578)
	15,620	15,992	(20,340)	(15,297)

19. Events After the Reporting Period

On 7 October 2016, the Group took delivery from a shipyard an ice-class shuttle tanker, the m/v Shturman Malygin.

The security deposits of \$13.0 million, included in trade and other receivables were returned to the Group in October 2016 (see also Note 7).

On 7 October 2016, the Group received \$15.0 million pursuant to a settlement agreement concluded on 26 September 2016 with some of the defendants in the Novoship (UK) Ltd claims (see also Note 17).

On 2 November 2016, the bareboat charterer of the 9 escort tug vessels under finance lease receivables in Note 6 has given notice of intention to exercise its option right to acquire the vessels according to the terms of the bareboat charter agreements at a price approximate to the carrying value of the vessels. The tug boats are expected to be sold by 31 December 2016.

20. Date of Issue

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 17 November 2016.