PAO SOVCOMFLOT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

30 September 2017

PAO Sovcomflot

Contents

PAO Sovcomflot

Condensed Consolidated Income Statement
For the period ended 30 September 2017
(unaudited)

	Note	Nine months ended (unaudited) 30/09/2017 $'000	30/09/2016 $'000	Three months ended (unaudited) 30/09/2017 $'000	30/09/2016 $'000
Freight and hire revenue		1,060,682	1,039,364	350,457	359,104
Voyage expenses and commissions		(274,688)	(174,085)	(95,238)	(70,191)
Time charter equivalent revenues	2	785,994	865,279	255,219	288,913
Direct operating expenses					
Vessels' running costs		284,798	231,415	102,174	81,603
Charter hire payments		22,514	16,398	8,883	10,045
		(307,312)	(247,813)	(111,057)	(91,648)
Net earnings from vessels' trading		478,682	617,466	144,162	197,265
Other operating revenues		15,527	14,586	6,152	5,524
Other operating expenses		(8,936)	(6,645)	(3,825)	(2,283)
Depreciation, amortisation and impairment		(270,152)	(226,733)	(92,761)	(78,301)
General and administrative expenses		(91,092)	(86,364)	(28,716)	(29,857)
Profit / (loss) on sale of assets		18,088	(562)	10,990	(133)
Allowance for credit losses		960	107	706	(700)
Share of profits / (losses) in equity accounted investments		1,659	11,287	(1,773)	769
Operating profit		144,736	323,142	34,935	92,284
Other (expenses) / income					
Financing costs		(144,684)	(121,576)	(48,036)	(35,596)
Interest income		7,622	14,882	1,412	3,822
Other non-operating expenses	17	(3,339)	(5,166)	(1,660)	(1,420)
(Loss) / gain on ineffective hedging instruments	8	(198)	396	(111)	341
Foreign exchange gains		11,899	28,194	3,313	2,449
Foreign exchange losses		(11,930)	(9,217)	(3,909)	(1,152)
Net other expenses		(140,630)	(92,487)	(48,991)	(31,556)
Profit / (loss) before income taxes		4,106	230,655	(14,056)	60,728
Income tax expense	4	(10,899)	(12,602)	(7,924)	(8,667)
(Loss) / profit for the period		(6,793)	218,053	(21,980)	52,061
(Loss) / profit attributable to:					
Owners of the parent		(6,265)	210,314	(20,548)	51,192
Non-controlling interests		(528)	7,739	(1,432)	869
		(6,793)	218,053	(21,980)	52,061
Earnings per share					
Basic earnings per share for the period attributable to equity holders of the parent		($0.003)	$0.107	($0.010)	$0.026

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 2017
(unaudited)

	Note	Nine months ended (unaudited) 30/09/2017 $'000	Nine months ended (unaudited) 30/09/2016 $'000	Three months ended (unaudited) 30/09/2017 $'000	Three months ended (unaudited) 30/09/2016 $'000
(Loss) / profit for the period		(6,793)	218,053	(21,980)	52,061
Other comprehensive income:					
Share of associates' other comprehensive income		5	19	3	3
Share of joint ventures' other comprehensive income	7	5,325	1,241	2,133	3,750
Exchange gain / (loss) on translation from functional currency to presentation currency		2,241	(1,703)	1,177	(478)
Derivative financial instruments reclassified and debited to the income statement		368	19,568	(1,023)	4,722
Fair value movement of derivative financial instruments credited / (debited) to other comprehensive income	8	6,885	(39,762)	6,935	6,001
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		14,824	(20,637)	9,225	13,998
Remeasurement (losses) / gain on employee benefit obligations		(182)	(313)	50	(36)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(182)	(313)	50	(36)
Total other comprehensive income for the period, net of tax		14,642	(20,950)	9,275	13,962
Total comprehensive income for the period		7,849	197,103	(12,705)	66,023
Total comprehensive income attributable to:					
Owners of the parent		8,310	189,285	(11,349)	65,153
Non-controlling interests		(461)	7,818	(1,356)	870
		7,849	197,103	(12,705)	66,023

PAO Sovcomflot

Condensed Consolidated Statement of Financial Position – 30 September 2017 (unaudited)

	Note	30/09/2017 (unaudited) $'000	31/12/2016 $'000
Assets			
Non-current assets			
Fleet	5	6,292,356	5,895,365
Vessels under construction	6	73,443	225,814
Intangible assets		8,796	3,961
Other property, plant and equipment		48,238	58,746
Investment property		734	864
Investments in associates		141	131
Investments in joint ventures	7	121,478	114,761
Available-for-sale investments		521	760
Loans to joint ventures		53,103	45,574
Derivative financial instruments	8	25,460	7,146
Trade and other receivables	9	2,774	2,783
Deferred tax assets		9,180	4,663
Bank deposits	10	9,000	10,000
		6,645,224	6,370,568
Current assets			
Inventories		63,777	53,368
Loans to joint ventures		-	4,750
Derivative financial instruments	8	510	373
Trade and other receivables	9	201,483	173,022
Current tax receivable		8,482	4,089
Restricted cash		72,486	72,079
Cash and bank deposits	10	348,709	470,638
		695,447	778,319
Non-current assets held for sale	11	8,603	8,360
		704,050	786,679
Total assets		7,349,274	7,157,247
Equity and liabilities			
Capital and reserves			
Share capital		405,012	405,012
Reserves		2,950,263	3,048,858
Equity attributable to owners of the parent		3,355,275	3,453,870
Non-controlling interests		149,926	150,446
Total equity		3,505,201	3,604,316
Non-current liabilities			
Trade and other payables	13	24,555	37,504
Secured bank loans	14	2,216,220	1,903,365
Derivative financial instruments	8	17,369	21,624
Retirement benefit obligations		3,725	3,419
Other loans	15	903,616	737,076
Deferred tax liabilities		5,652	858
		3,171,137	2,703,846
Current liabilities			
Trade and other payables	13	290,818	214,784
Other loans	15	3,490	139,896
Secured bank loans	14	360,848	290,460
Finance lease liabilities		-	173,690
Current tax payable		905	14,809
Derivative financial instruments	8	16,875	15,446
		672,936	849,085
Total liabilities		3,844,073	3,552,931
Total equity and liabilities		7,349,274	7,157,247

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 2017
(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 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 translation from functional currency to presentation currency	-	-	-	-	(1,815)	-	(1,815)	112	(1,703)
Derivative financial instruments reclassified 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 12)	-	-	-	-	-	(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**
At 1 January 2017	**405,012**	**818,845**	**(834,490)**	**(43,568)**	**(46,435)**	**3,154,506**	**3,453,870**	**150,446**	**3,604,316**
Loss for the period	-	-	-	-	-	(6,265)	(6,265)	(528)	(6,793)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	5	-	5	-	5
Share of joint ventures' other comprehensive income	-	-	-	5,323	2	-	5,325	-	5,325
Exchange gain on translation from functional currency to presentation currency	-	-	-	-	2,155	-	2,155	86	2,241
Derivative financial instruments reclassified and debited to the income statement	-	-	-	368	-	-	368	-	368
Fair value movement of derivative financial instruments credited to other comprehensive income	-	-	-	6,885	-	-	6,885	-	6,885
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(163)	(163)	(19)	(182)
Total comprehensive income	-	-	-	12,576	2,162	(6,428)	8,310	(461)	7,849
Dividends (Note 12)	-	-	-	-	-	(106,905)	(106,905)	(59)	(106,964)
At 30 September 2017 (unaudited)	**405,012**	**818,845**	**(834,490)**	**(30,992)**	**(44,273)**	**3,041,173**	**3,355,275**	**149,926**	**3,505,201**

Notes

Hedging reserve: The hedging reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date 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 2017
(unaudited)

	Note	Nine months ended (unaudited) 30/09/2017 $'000	30/09/2016 $'000
Operating Activities			
Cash received from freight and hire of vessels		1,040,957	985,185
Other cash receipts		22,168	13,710
Cash payments for voyage and running costs		(562,275)	(418,333)
Other cash payments		(101,722)	(79,273)
Cash generated from operations		399,128	501,289
Interest received		6,521	5,581
Income tax paid		(28,880)	(7,090)
Net cash inflow from operating activities		376,769	499,780
Investing Activities			
Expenditure on fleet	5	(49,517)	(20,556)
Fleet acquisitions in the period		-	(347,220)
Expenditure on vessels under construction		(435,341)	(234,024)
Interest capitalised		(3,339)	(16,533)
Expenditure on intangibles and other property, plant and equipment		(2,538)	(2,495)
Loan repayments from joint ventures		1,574	8,502
Loans issued to joint ventures		(3,570)	-
Proceeds from sale of vessels		-	28,172
Proceeds from sale of other property, plant and equipment		21,760	272
Capital element received on finance leases		-	3,550
Interest received on finance leases		-	9,074
Dividends received from equity accounted for investments		281	2,023
Bank term deposits	10	15,000	-
Restricted cash placed in deposit	10	(3,000)	-
Restricted cash released		-	4,000
Net cash outflow used in investing activities		(458,690)	(565,235)
Financing Activities			
Proceeds from borrowings		755,826	1,372,593
Repayment of borrowings		(368,724)	(1,113,188)
Financing costs		(10,407)	(41,927)
Repayment of finance lease liabilities		(3,421)	(7,679)
Repurchase of vessels previously sold and leased back	18	(173,396)	-
Restricted deposits	10	-	846
Funds in retention bank accounts	10	(2,073)	(4,157)
Interest paid on borrowings		(115,403)	(79,568)
Interest paid on finance leases		(4,917)	(9,002)
Dividends paid		(113,732)	(98,148)
Acquisition of non-controlling interests		-	(59)
Net cash (outflow used in) / inflow from financing activities		(36,247)	19,711
Decrease in Cash and Cash Equivalents		(118,168)	(45,744)
Cash and Cash Equivalents at 1 January	10	432,792	332,680
Net foreign exchange difference		5,166	2,655
Cash and Cash Equivalents at 30 September	10	319,790	289,591

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

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2017 (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 136 vessels at the period end, comprising 115 tankers, 9 gas carriers, 8 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet see also Notes 5 and 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 2016. Certain items of the 30 September 2016 condensed consolidated statement of cash flows have been reclassified to conform to the 31 December 2016 presentation. Operating results for the nine-month period ended 30 September 2017 are not necessarily indicative of the results that may be expected for the year ending 31 December 2017.

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 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. 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 is described below. Although these new standards and amendments apply for the first time in 2017, they do not have an impact on the condensed consolidated interim financial statements of the Group.

IAS 7 ("Statement of Cash flows") – "Amendments resulting from the disclosure initiative" The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed consolidated interim financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

IAS 12 ("Income Taxes") – Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The Group applied the amendments retrospectively. However the application has no effect on the Group's financial position and performance.

Annual Improvements to IFRSs 2014–2016 Cycle

The "December 2016 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to two standards. Amendments to IFRS 12 "Disclosures of Interests in Other Entities" – "Clarifying scope" are effective from 1 January 2017. The amendments clarify the disclosure requirements in IFRS 12 in respect of an entity's interest in a subsidiary, joint venture or an associate that is classified as held for sale. The amendment has no impact on the condensed consolidated interim financial statements as the Group has no such entity as classified for sale.

Seasonality of Operations

Some of the Group's operations may sometimes be affected by seasonal variations in demand and, therefore, in charter rates. This seasonality may result in quarter-to-quarter volatility in the results of operations of the conventional tankers operating in the crude oil and oil product segments. Tanker markets are typically stronger in the winter months. As a result, revenues have historically been weaker during the three months ended 30 June and 30 September, and stronger in the three months ended 31 March and 31 December.

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 2016.

2. Time Charter Equivalent Revenues

	30/09/2017 $'000	30/09/2016 $'000
Freight and hire revenue		
Freight	460,991	395,053
Hire	599,691	644,311
	1,060,682	1,039,364
Voyage expenses and commissions		
Bunkers	(159,097)	(81,644)
Port costs	(103,608)	(79,192)
Commissions	(7,504)	(8,480)
Other voyage costs	(4,479)	(4,769)
	(274,688)	(174,085)
Time charter equivalent revenues	785,994	865,279

PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2017 (Continued) (unaudited)

3. 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 2017

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	275,038	119,905	415,166	217,611	32,962	1,060,682
Voyage expenses and commissions	(441)	(1,181)	(170,221)	(96,713)	(6,132)	(274,688)
Time charter equivalent revenues	274,597	118,724	244,945	120,898	26,830	785,994
Direct operating expenses						
Vessels' running costs	(48,788)	(23,725)	(124,644)	(70,224)	(17,417)	(284,798)
Charter hire payments	(3,401)	-	-	-	(19,113)	(22,514)
Net earnings / (losses) from vessels' trading	222,408	94,999	120,301	50,674	(9,700)	478,682
Vessels' depreciation	(80,647)	(25,636)	(84,023)	(42,123)	(3,245)	(235,674)
Vessels' drydock cost amortisation	(6,579)	(4,340)	(12,915)	(6,120)	(612)	(30,566)
Non-income based taxes	(4,533)	-	-	-	-	(4,533)
Net foreign exchange gains / (losses)	504	-	-	(143)	1,506	1,867
Segment operating profit / (loss)	131,153	65,023	23,363	2,288	(12,051)	209,776
Unallocated						
General and administrative expenses						(86,559)
Financing costs						(144,684)
Other income and expenses (net)						27,471
Net foreign exchange losses						(1,898)
Profit before income taxes						4,106
Carrying amount of fleet in operation	1,850,394	1,246,828	2,074,287	1,042,999	77,848	6,292,356
Deadweight tonnage of fleet used in operations ('000)	1,333	552	7,653	2,449	156	12,143

Period ended 30 September 2016

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	176,778	108,327	478,064	204,723	71,472	1,039,364
Voyage expenses and commissions	(684)	(990)	(110,973)	(55,874)	(5,564)	(174,085)
Time charter equivalent revenues	176,094	107,337	367,091	148,849	65,908	865,279
Direct operating expenses						
Vessels' running costs	(34,674)	(20,521)	(101,959)	(57,850)	(16,411)	(231,415)
Charter hire payments	-	-	-	(170)	(16,228)	(16,398)
Net earnings from vessels' trading	141,420	86,816	265,132	90,829	33,269	617,466
Vessels' depreciation	(45,737)	(21,374)	(89,805)	(37,472)	(1,947)	(196,335)
Vessels' drydock cost amortisation	(4,406)	(3,896)	(12,968)	(4,795)	(525)	(26,590)
Loss on sale of vessels	-	-	(159)	(254)	-	(413)
Non-income based taxes	(4,102)	-	-	-	-	(4,102)
Net foreign exchange (losses) / gains	(45)	-	-	743	3,748	4,446
Segment operating profit	87,130	61,546	162,200	49,051	34,545	394,472
Unallocated						
General and administrative expenses						(82,262)
Financing costs						(121,576)
Other income and expenses (net)						25,490
Net foreign exchange gains						14,531
Profit before income taxes						230,655
Carrying amount of fleet in operation	1,369,456	949,132	2,209,845	1,094,622	63,621	5,686,676
Deadweight tonnage of fleet used in operations ('000)	1,243	472	7,653	2,449	157	11,974

4. Income Taxes

	30/09/2017 $'000	30/09/2016 $'000
Russian Federation profit tax	9,321	6,774
Overseas income tax expense	1,262	520
Current income tax expense	10,583	7,294
Deferred tax	316	5,308
Total income tax expense	10,899	12,602

5. Fleet

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
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 6)	154,475	1,500	155,975
Write-off of fully amortised drydock cost	-	(3,159)	(3,159)
At 30 September 2016	7,580,182	173,828	7,754,010
At 1 January 2017	7,898,931	177,658	8,076,589
Expenditure in period	43,879	23,134	67,013
Transfer from vessels under construction (Note 6)	586,425	7,500	593,925
Transfer from other fixed assets	2,257	-	2,257
Write-off of fully amortised drydock cost	-	(28,560)	(28,560)
Exchange adjustment	-	40	40
At 30 September 2017	8,531,492	179,772	8,711,264
Depreciation, amortisation and impairment			
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	1,976,034	91,300	2,067,334
At 1 January 2017	2,090,796	90,428	2,181,224
Charge for the period	235,674	30,566	266,240
Write-off of fully amortised drydock cost	-	(28,560)	(28,560)
Exchange adjustment	-	4	4
At 30 September 2017	2,326,470	92,438	2,418,908
Net book value			
At 30 September 2017	6,205,022	87,334	6,292,356
At 31 December 2016	5,808,135	87,230	5,895,365

	30/09/2017	31/12/2016
Market value ($'000)	5,119,250	4,491,000
Current insured values ($'000)	6,571,558	6,492,276
Total deadweight tonnage (dwt)	12,136,737	12,049,977

As at 30 September 2017, 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.

During the period ended 30 September 2017 the Group repurchased two vessels held under finance leases, see Note 18 (2016 – 2 vessels held under finance leases).

Expenditure in period, under vessels, includes an amount of $28.9 million (2016 – $8.5 million) of modifications relating to legislative requirements and other capital expenditure of which an amount of $18.6 million (2016 – $8.5 million) have not yet been completed/delivered as of the end of the reporting period. In addition, included in expenditure in period are $15.9 million worth of seismic equipment installed on board one of the Group's chartered in seismic vessels. This equipment was acquired through a deferred consideration arrangement (Note 18).

6. Vessels Under Construction

	30/09/2017 $'000	30/09/2016 $'000
At 1 January	225,814	368,453
Expenditure in period	441,554	227,952
Transfer to fleet (Note 5)	(593,925)	(155,975)
At 30 September	73,443	440,430
Total deadweight tonnage (dwt)	502,000	173,000

The following vessels were delivered during the period:

Vessel Name	Vessel Type	Segment	DWT	Delivery Date
Gennadiy Nevelskoy [1]	Multifunctional ice breaking ("MIB") supply vessel	Offshore	3,259	2 March 2017
Christophe de Margerie	Ice breaking LNG carrier	Gas	80,182	27 March 2017
Stepan Makarov [2]	MIB standby vessel	Offshore	3,319	15 June 2017

[1] delivered to charter on 18 April 2017

[2] delivered to charter on 5 August 2017

6. **Vessels Under Construction (Continued)**

On 3 February 2017, the Group entered into shipbuilding contracts with a shipyard to construct four LNG fuelled Aframax crude oil tankers at a total contracted cost of $240.0 million. In addition, on 21 July 2017, the Group signed an agreement for the construction of an Arctic shuttle tanker at a contracted cost of $116.4 million. The shuttle tanker is backed with a time charter agreement with a Russian State controlled entity for a 12 years' firm period with various extension option attached in favour of the charterer. The aggregate hire receivable over the firm period of the charter is $273.3 million.

Vessels under construction at 30 September 2017 comprised two MIB standby vessels, four LNG fuelled Aframax crude oil tankers and one Arctic shuttle tanker scheduled for delivery between October 2017 and October 2019 at a total contracted cost to the Group of $580.1 million of which $223.7 million related to contracts with related parties. As at 30 September 2017, $74.7 million of the contracted costs had been paid for, of which $50.7 million to related parties.

7. **Investments in Joint Ventures**

Investments in joint ventures are analysed as follows:

	30/09/2017 $'000	30/09/2016 $'000
At 1 January	114,761	98,306
Share of profits in joint ventures	1,612	11,248
Share of joint ventures' other comprehensive income	5,325	1,241
Dividends receivable	(220)	(2,012)
At 30 September	121,478	108,783

8. **Derivative Financial Instruments**

	30/09/2017 $'000	31/12/2016 $'000
Non-current asset	25,460	7,146
Current asset	510	373
Non-current liability	(17,369)	(21,624)
Current liability	(16,875)	(15,446)
	(8,274)	(29,551)

Hedging instruments

	30/09/2017 $'000	30/09/2016 $'000
At 1 January	29,551	47,014
Recycled during the period and credited to the income statement	(14,590)	(19,568)
Fair value movement during the period recognised in other comprehensive income	(6,885)	39,762
Fair value movement during the period debited / (credited) to the income statement	198	(396)
At 30 September	8,274	66,812

On 2 March and 15 June 2017, the Group entered into two twelve year Euro-USD cross currency swap transactions with a Russian State controlled financial institution to hedge the Group's cash flow exposure arising from currency and interest rate fluctuations in respect of Euro equivalent of $89.5 million and $85.1 million loans respectively, in connection with the financing of two of the Group's vessels.

9. **Trade and Other Receivables**

	30/09/2017 $'000	31/12/2016 $'000
Non-current assets		
Financial assets		
Other receivables	74	83
Receivables under High Court judgement award	2,700	2,700
	2,774	2,783
Current assets		
Financial assets		
Amounts due from charterers	87,886	75,279
Allowance for credit losses	(3,023)	(3,520)
	84,863	71,759
Casualty and other claims	4,342	6,945
Agents' balances	3,186	2,756
Other receivables	19,644	24,031
Liquidated damages on vessels under construction receivable from shipyard	30,040	11,800
Amounts due from joint ventures	799	473
Amounts due from lessee for finance leases	-	764
Accrued income	17,441	3,426
Non-financial assets		
Prepayments	12,370	20,302
Voyages in progress	22,148	25,295
Non-income based taxes receivable	6,650	5,471
	201,483	173,022

10. Cash and Bank Deposits

	30/09/2017 $'000	31/12/2016 $'000
Non-current assets		
Bank deposits	9,000	10,000
Restricted deposits	(9,000)	(10,000)
Cash and cash equivalents	-	-
Current assets		
Cash and bank deposits	348,709	470,638
Bank deposits accessible on maturity	-	(15,000)
Retention accounts	(24,919)	(22,846)
Restricted deposits	(4,000)	-
Cash and cash equivalents	319,790	432,792

11. Non-Current Assets Held for Sale

	Property and other plant and equipment $'000	Fleet $'000	Total $'000
At 1 January 2016	-	28,130	28,130
Transfer from investment property	6,887	-	6,887
Transfer from other property plant and equipment	1,079	-	1,079
Disposals in period	-	(28,130)	(28,130)
At 30 September 2016	7,966	-	7,966
At 1 January 2017	8,360	-	8,360
Transfer from other property plant and equipment	6,720	-	6,720
Exchange adjustment	372	-	372
Disposals in period	(6,849)	-	(6,849)
At 30 September 2017	8,603	-	8,603

On 23 January 2017, the Group sold the international hall building of the port of Sochi, Russia, classified as non-current asset held for sale as at 31 December 2016.

During the period ended 30 September 2017, the Group classified as held for sale two office buildings, one in Limassol, Cyprus, and one in Sochi, Russia. The buildings were actively marketed for sale at a price approximate to their market value. On 26 July 2017 and 1 September 2017, the office buildings in Sochi and in Limassol, respectively, were sold. The office building in Limassol was sold and leased back to the Group under a five year lease agreement with total non-cancellable operating lease commitments of $4.3 million. The Group has an option to renew the lease for an additional five year period.

12. Dividends

Dividends of Rouble 3.12 per share totalling Roubles 6,141.0 million, equivalent to $106.9 million were declared on 16 June 2017 and paid on 27 June 2017 (2016 – 3.04 Rouble per share totalling Roubles 5,972.7 million equivalent to $92.9 million).

13. Trade and Other Payables

	30/09/2017 $'000	31/12/2016 $'000
Non-current liabilities		
Financial liabilities		
Liquidated damages for late delivery of vessels payable to charterer	14,879	1,119
Non-financial liabilities		
Employee benefit obligations	9,676	36,385
	24,555	37,504
Current liabilities		
Financial liabilities		
Trade payables	67,793	40,465
Other payables	32,546	39,653
Liquidated damages for late delivery of vessels payable to charterer	19,154	11,800
Dividends payable	9,450	15,986
Accrued liabilities	43,380	46,292
Accrued interest	28,680	17,299
Non-financial liabilities		
Deferred revenue	33,272	29,985
Employee benefit obligations	37,298	-
Non-income based taxes payable	19,245	13,304
	290,818	214,784

14. Secured Bank Loans

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

	30/09/2017 $'000	31/12/2016 $'000
Repayable		
- within twelve months after the end of the reporting period	360,848	290,460
- between one to two years	290,376	309,162
- between two to three years	377,253	390,830
- between three to four years	362,994	227,658
- between four to five years	203,036	246,686
- more than five years	982,561	729,029
	2,577,068	2,193,825
Less current portion	(360,848)	(290,460)
Non-current balance	2,216,220	1,903,365

15. Other Loans

	30/09/2017 $'000	31/12/2016 $'000
$800 million 5.375% Senior Notes due in 2017	-	139,896
$900 million 5.375% Senior Notes due in 2023	891,400	737,076
Other loan from related party (Note 18)	15,706	-
	907,106	876,972
Less current portion	(3,490)	(139,896)
Non-current balance	903,616	737,076

On 10 April 2017, the Group, through its subsidiary SCF Capital Designated Activity Company ("SCF Capital"), issued $150.0 million of Senior Notes, at a price of $102.768 per $100.000 par value, redeemable at par value, maturing on 16 June 2023 which were consolidated and form single series with the $750 million 5.375% Senior Notes due in 2023. The Notes are unsecured and guaranteed by Sovcomflot. Interest accrues at 5.375% from 16 June 2017 and is payable semi-annually in arrears on 16 June and 16 December of each year, commencing on 16 June 2017. There are no equity conversion rights or options attached to the Notes. The premium of $4.2 million arising from the issue is capitalised and amortised over the period to maturity of the Notes.

On 15 May 2017 the Group redeemed the balance outstanding of $139.955 million of the $800 million 5.375% Senior Notes maturing in October 2017 at an applicable premium of $16.79 per $1,000 principal amount. The total redemption price, consisting of the principal amount of such Notes, the applicable premium, and the interest accrued, in aggregate equal to $1,019.48 per $1,000 principal amount of such Notes, resulting in a total payment of $142.7 million. The premium of $2.4 million paid on redemption, has been expensed in the income statement and is included in the line financing costs.

16. Financial Risk Management

(a) Categories of financial assets and financial liabilities

	30/09/2017 $'000	31/12/2016 $'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships	25,970	7,519
Restricted cash (Note 17)	72,486	72,079
Cash and bank deposits	357,709	480,638
Available-for-sale investments	521	760
Loans and other receivables	163,089	124,737
Loans to joint ventures	53,103	50,324
Total financial assets	672,878	736,057
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	34,244	37,070
Secured bank loans	2,577,068	2,193,825
Finance lease liabilities	-	173,690
Other loans	907,106	876,972
Other liabilities measured at amortised cost	215,882	172,614
Total financial liabilities	3,734,300	3,454,171

(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	
	30/09/2017 $'000	31/12/2016 $'000	30/09/2017 $'000	31/12/2016 $'000
Financial assets				
Loans to joint ventures	53,103	50,324	50,022	48,256
Total financial assets	53,103	50,324	50,022	48,256
Financial liabilities				
Secured bank loans at fixed interest rates	783,188	400,469	800,386	409,306
Secured bank loans at floating interest rates	1,793,880	1,793,356	1,786,691	1,794,306
Other loans	907,106	876,972	952,208	903,829
Finance lease liabilities	-	173,690	-	175,974
Total financial liabilities	3,484,174	3,244,487	3,539,285	3,283,415

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 following methods and assumptions were used to estimate the fair values:

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 and currency swaps, are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest and foreign exchange rates.

Derivatives are valued using valuation techniques with market observable inputs; they are mainly interest rate swaps and two cross currency swap transactions. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves. All interest rate swaps are fully cash collateralised, thereby mitigating both the counterparty and the Group's non-performance risk.

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 2017 and 31 December 2016 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

Recurring fair value measurements recognised in the statement of financial position

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 September 2017				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	25,970	-	25,970
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	34,244	-	34,244
At 31 December 2016				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	7,519	-	7,519
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	37,070	-	37,070

There were no transfers between Level 1 and 2 during the periods ended 30 September 2017 and 31 December 2016.

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 September 2017				
Assets				
Fleet	-	-	-	-
At 31 December 2016				
Assets				
Fleet	-	52,470	-	52,470

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 September 2017				
Fair value of assets				
Loans to joint ventures	-	50,022	-	50,022
	-	50,022	-	50,022
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	800,386	-	800,386
Secured bank loans at floating interest rates	-	1,786,691	-	1,786,691
Other loans	936,000	16,208	-	952,208
	936,000	2,603,285	-	3,539,285
At 31 December 2016				
Fair value of assets				
Loans to joint ventures	-	48,256	-	48,256
	-	48,256	-	48,256
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	409,306		409,306
Secured bank loans at floating interest rates	-	1,794,306	-	1,794,306
Other loans	903,829	-	-	903,829
Finance lease liabilities	-	175,974	-	175,974
	903,829	2,379,586	-	3,283,415

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 2015 and 2016 the Russian tax authorities challenged application of 0% value added tax ("VAT") rate charged by the Group's Russian subsidiaries on hire revenues earned from vessels time-chartered out and employed on international trade, requiring the subsidiaries to apply 18% VAT rate on hire revenue. Following clarification on the issue received from the Federal Russian tax authorities that the application of 0% VAT rate is appropriate, all enquiries have been stopped and the remaining balance of approximately RUR149 million (equivalent to $2.5 million), has been received in July 2017.

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. Russian customs had requested the Group to pay RUR314 million of custom fees (equivalent to $5.4 million) of which RUR284 million (equivalent to $4.9 million) of the RUR314 million paid, are included in other receivables under trade and other receivables. In October 2016 the courts have decided that customs illegally imposed the custom fee of RUR221 million (equivalent to $3.8 million) for the first vessel; such decision was confirmed by an appeal court in February 2017. Customs have submitted a further appeal and in June 2017 the higher appeal court overturned the previous decisions of the court's and confirmed correctness of the customs office claim. The case has been submitted by the Group to the Supreme Court in August 2017 and it is currently under the Supreme Courts review. Courts have postponed the decision on the balance of the custom fee of RUR93 million (equivalent $1.6 million) relating to the second vessel pending outcome of the first case but the court proceedings will recommence in January 2018. The Group will continue defending its position in courts in Russia. The final judgment of the Russian courts for both cases and return of the RUR314 million paid is expected by the end of 2018.

In relation to the Novoship (UK) Ltd claims which received judgment in December 2012, some of the defendants in the unsuccessful 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 for damages.

In relation to the Fiona Litigation, on 24 November 2016, the Court of Appeal granted the Group permission to appeal on certain limited grounds concerned primarily with the failure of the defendants to seek permission to use the funds, put up by way of security pursuant to the 2005 freezing orders, to fund their intended newbuilding programme. The Court of Appeal also ordered a stay pending the outcome of the appeal conditional on the Group paying the judgment sum of $70.8 million (comprising damages of $59.8 million and interest on damages from December 2010 to 27 October 2016 of $11.0 million) and the payment on account of £1.0 million (equivalent to $1.2 million), of 50% of the defendants' costs of £3.0 million (assessed on a standard basis) in relation to this claim, into Court. Those sums have been paid into Court in December 2016 and the hearing of the Group's appeal took place on 4 October 2017. Judgment is expected prior to the year end. The Group had previously been advised by its legal counsel that it was only possible, but not probable, that the defendants will succeed. Accordingly, no provision has been made as of 30 September 2017. Following the appeal hearing of 4 October 2017, the Group has been advised by its legal counsel that it is probable that the Group will not succeed.

A total amount of $3.3 million (30 September 2016 – $5.2 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.

18. Related Party Transactions

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)	
	30/09/2017 $'000	30/09/2016 $'000	30/09/2017 $'000	31/12/2016 $'000
Transactions with Russian State controlled entities				
Freight and hire of vessels	(239,606)	(188,059)	7,176	7,617
Other operating revenues	(1,715)	-	4,908	(2,379)
Other loans	293	-	(15,999)	-
Secured bank loans	31,308	-	(737,326)	(336,242)
Finance leases payable	4,304	8,942	-	(173,690)
Receivables from shipyard (liquidated damages for late delivery of vessels)	-	-	30,040	11,800
Payables to charterer (liquidated damages for late delivery of vessels)	-	-	(34,033)	(12,919)
Payments to related shipyards for vessels under construction	-	-	50,740	104,000
Cash at bank	(5,217)	(4,732)	121,292	205,896
Finance leases receivable	-	(8,997)	-	764
Allowance for credit losses on finance lease receivables	-	(265)	-	-
Transactions with Joint Ventures				
Freight and hire of vessel	-	(6,790)	-	-
Other operating revenues	(2,439)	(2,402)	799	473
Loans due from joint ventures	(969)	(863)	53,228	50,324
Compensation of Key Management Personnel				
Short term benefits	6,802	7,561	(2,787)	(3,599)
Post-employment benefits	54	51	(19)	(10)
Long term service benefits	4,995	8,008	(23,182)	(18,203)
	11,851	15,620	(25,988)	(21,812)

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

On 24 March 2017 and on 4 May 2017, the Group fully drew down from a loan facility granted by a Russian State controlled financial institution, a total amount of $253.7 million to finance the construction and delivery of the ice breaking LNG carrier referred to in Note 6.

On 12 April 2017, the Group exercised its right under bareboat charter agreements to repurchase the two vessels sold and leased back in 2010 from a related party, classified as fleet as of 31 December 2016 (see Note 5), at a total price of $173.4 million. The Group had the obligation to repurchase the two vessels on expiration of the bareboat charter agreements in September and November 2017. Legal ownership was transferred to the Group on 15 May 2017 and 22 May 2017. The acquisition was financed by credit facility with a Russian State controlled financial institution, drawn down on the date of transfer of ownership, at an interest rate of 5.7% per annum repayable in 38 quarterly equal instalments, with a balloon payment of 36.0% of the amount drawn down under the facility in March 2027. Under the facility the Group has the option to extend maturity for a further 5 years at an interest rate to be agreed should the option be exercised.

On 19 April 2017, the Group, entered into an agreement to purchase seismic equipment ("Purchase Agreement") for a total consideration of €14.8 million equivalent to $15.9 million. A payment equal to 10% of the consideration was made on 16 May 2017 and the remaining 90% of the consideration ("deferred consideration") will be paid in nine equal semi-annual instalments commencing on 15 December 2017 with final payment on 15 December 2021. The deferred consideration carries interest at six month EURIBOR plus 4% margin per annum (Note 15). On the same date a consent and assignment agreement was signed between the Group, the seller of the equipment and a subsidiary of a Russian State controlled financial institution (the "Bank") to assign all present and future rights, title and interest in and to the Purchase Agreement to the Bank. The equipment and title over the equipment was delivered to the Group on 12 May 2017.

19. Events After the Reporting Period

On 25 October 2017, the Group entered into shipbuilding contracts with a shipyard for the construction of two LNG fuelled Aframax crude oil tankers of 114,000 dwt each at a total contracted cost of $120.0 million scheduled for delivery in March and April 2019.

On 27 October 2017, the Group took delivery from a Russian State controlled shipyard a multifunctional ice breaking standby vessel the m/v Fedor Ushakov. Effective on the same date, the Group entered into a twelve year Euro-USD cross currency swap transaction with a Russian State controlled financial institution to hedge the Group's cash flow exposure arising from currency and interest rate fluctuations in respect of a Euro equivalent of $95.8 million loan in connection with the financing of the vessel.

20. Date of Issue

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 14 November 2017.