

**PAO SOVCOMFLOT**

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

**30 September 2018**

## PAO Sovcomflot

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## PAO Sovcomflot

**Consolidated Income Statement**  
**For the period ended 30 September 2018**  
**(unaudited)**

	Note	Nine months ended (unaudited)		Three months ended (unaudited)	
		30/09/2018 \$'000	30/09/2017 \$'000	30/09/2018 \$'000	30/09/2017 \$'000
<b>Freight and hire revenue</b>		1,106,499	1,060,682	396,384	350,457
Voyage expenses and commissions		<u>(332,503)</u>	<u>(274,688)</u>	<u>(133,737)</u>	<u>(95,238)</u>
<b>Time charter equivalent revenues</b>	2	<u>773,996</u>	<u>785,994</u>	<u>262,647</u>	<u>255,219</u>
<b>Direct operating expenses</b>					
Vessels' running costs		254,264	284,798	83,678	102,174
Charter hire payments		<u>22,070</u>	<u>22,514</u>	<u>7,876</u>	<u>8,883</u>
		<u>(276,334)</u>	<u>(307,312)</u>	<u>(91,554)</u>	<u>(111,057)</u>
<b>Net earnings from vessels' trading</b>		497,662	478,682	171,093	144,162
Other operating revenues		18,125	15,527	6,778	6,152
Other operating expenses		(9,288)	(8,936)	(3,332)	(3,825)
Depreciation, amortisation and impairment		(312,646)	(270,152)	(92,908)	(92,761)
General and administrative expenses		(83,252)	(91,092)	(25,048)	(28,716)
(Loss) / gain on sale of assets		(214)	18,088	1,131	10,990
Loss on sale of subsidiary		(1,462)	-	(1,462)	-
Allowance for credit losses		622	960	147	706
Share of (losses) / profits in equity accounted investments		<u>(175)</u>	<u>1,659</u>	<u>(423)</u>	<u>(1,773)</u>
<b>Operating profit</b>		<u>109,372</u>	<u>144,736</u>	<u>55,976</u>	<u>34,935</u>
<b>Other (expenses) / income</b>					
Financing costs		(149,539)	(144,684)	(50,032)	(48,036)
Interest income		6,189	7,622	1,526	1,412
Other non-operating expenses	17	(3,028)	(3,339)	(119)	(1,660)
Gain / (loss) on ineffective hedging instruments		175	(198)	(331)	(111)
Foreign exchange gains		9,733	11,899	1,752	3,313
Foreign exchange losses		<u>(19,096)</u>	<u>(11,930)</u>	<u>(4,797)</u>	<u>(3,909)</u>
<b>Net other expenses</b>		<u>(155,474)</u>	<u>(140,630)</u>	<u>(51,909)</u>	<u>(48,991)</u>
<b>(Loss) / profit before income taxes</b>		(46,102)	4,106	4,067	(14,056)
Income tax expense	4	<u>(11,354)</u>	<u>(10,899)</u>	<u>(3,752)</u>	<u>(7,924)</u>
<b>(Loss) / profit for the period</b>		<u>(57,456)</u>	<u>(6,793)</u>	<u>315</u>	<u>(21,980)</u>
<b>(Loss) / profit attributable to:</b>					
Owners of the parent		(54,023)	(6,265)	1,443	(20,548)
Non-controlling interests		<u>(3,433)</u>	<u>(528)</u>	<u>(1,128)</u>	<u>(1,432)</u>
		<u>(57,456)</u>	<u>(6,793)</u>	<u>315</u>	<u>(21,980)</u>
<b>Earnings per share</b>					
Basic (loss) / earnings per share for the period attributable to equity holders of the parent		<u>(\$0.027)</u>	<u>(\$0.003)</u>	<u>\$0.001</u>	<u>(\$0.010)</u>

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

## PAO Sovcomflot

**Consolidated Statement of Comprehensive Income**  
**For the period ended 30 September 2018**  
**(unaudited)**

Note	Nine months ended (unaudited)		Three months ended (unaudited)	
	30/09/2018 \$'000	30/09/2017 \$'000	30/09/2018 \$'000	30/09/2017 \$'000
<b>(Loss) / profit for the period</b>	<u>(57,456)</u>	<u>(6,793)</u>	<u>315</u>	<u>(21,980)</u>
<b>Other comprehensive income:</b>				
Share of associates' other comprehensive income	(17)	5	(4)	3
Share of joint ventures' other comprehensive income	7	6,977	1,591	2,133
Exchange gain on translation from functional currency to presentation currency	1,980	2,241	1,690	1,177
Reclassification adjustment relating to foreign investments disposed of during the period	1,400	-	1,400	-
Change in fair value of derivative financial instruments credited to other comprehensive income	8	29,983	7,021	5,912
<b>Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods</b>	<u>40,323</u>	<u>14,824</u>	<u>11,698</u>	<u>9,225</u>
Remeasurement gains / (losses) on employee benefit obligations	145	(182)	81	50
<b>Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods</b>	<u>145</u>	<u>(182)</u>	<u>81</u>	<u>50</u>
<b>Total other comprehensive income for the period, net of tax</b>	<u>40,468</u>	<u>14,642</u>	<u>11,779</u>	<u>9,275</u>
<b>Total comprehensive income for the period</b>	<u>(16,988)</u>	<u>7,849</u>	<u>12,094</u>	<u>(12,705)</u>
<b>Total comprehensive income attributable to:</b>				
Owners of the parent	(13,398)	8,310	13,181	(11,349)
Non-controlling interests	(3,590)	(461)	(1,087)	(1,356)
	<u>(16,988)</u>	<u>7,849</u>	<u>12,094</u>	<u>(12,705)</u>

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

## PAO Sovcomflot

**Consolidated Statement of Financial Position – 30 September 2018**  
(unaudited)

	Note	30/09/2018 (unaudited) \$'000	31/12/2017 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Fleet	5	6,188,393	6,291,344
Vessels under construction	6	179,944	81,837
Intangible assets		7,190	8,659
Other property, plant and equipment		44,329	49,323
Investment property		558	7,924
Investments in associates		120	132
Investments in joint ventures	7	129,880	123,117
Available-for-sale investments		521	523
Loans to joint ventures		64,537	55,511
Derivative financial instruments	8	42,726	35,909
Trade and other receivables	9	13,691	7,739
Deferred tax assets		9,638	8,162
Bank deposits	10	11,000	12,000
		<u>6,692,527</u>	<u>6,682,180</u>
<b>Current assets</b>			
Inventories		72,598	61,883
Derivative financial instruments	8	3,124	808
Trade and other receivables	9	118,740	146,922
Contract assets	1	27,559	-
Current tax receivable		5,514	6,487
Restricted cash	17	-	75,543
Cash and bank deposits	10	283,129	347,352
		<u>510,664</u>	<u>638,995</u>
Non-current assets held for sale	11	9,848	25,719
		<u>520,512</u>	<u>664,714</u>
<b>Total assets</b>		<u><u>7,213,039</u></u>	<u><u>7,346,894</u></u>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital		405,012	405,012
Reserves		2,816,339	2,860,208
<b>Equity attributable to owners of the parent</b>		<u>3,221,351</u>	<u>3,265,220</u>
<b>Non-controlling interests</b>		138,802	143,802
<b>Total equity</b>		<u>3,360,153</u>	<u>3,409,022</u>
<b>Non-current liabilities</b>			
Trade and other payables	13	22,883	28,413
Secured bank loans	14	2,277,176	2,262,821
Derivative financial instruments	8	7,568	12,812
Retirement benefit obligations		1,987	4,045
Other loans	15	901,561	902,412
Deferred tax liabilities		4,120	2,258
		<u>3,215,295</u>	<u>3,212,761</u>
<b>Current liabilities</b>			
Trade and other payables	13	275,277	285,574
Contract liabilities	1	771	-
Other loans	15	3,438	3,537
Secured bank loans	14	340,516	338,226
Current tax payable		763	4,890
Derivative financial instruments	8	16,256	17,370
Payable under high court judgement award	17	570	75,514
		<u>637,591</u>	<u>725,111</u>
<b>Total liabilities</b>		<u>3,852,886</u>	<u>3,937,872</u>
<b>Total equity and liabilities</b>		<u><u>7,213,039</u></u>	<u><u>7,346,894</u></u>

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

**PAO Sovcomflot**  
**Consolidated Statement of Changes in Equity**  
**For the period ended 30 September 2018**  
**(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
<b>At 1 January 2017</b>	<b>405,012</b>	<b>818,845</b>	<b>(834,490)</b>	<b>(43,568)</b>	<b>(46,435)</b>	<b>3,154,506</b>	<b>3,453,870</b>	<b>150,446</b>	<b>3,604,316</b>
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
Change in fair value of derivative financial instruments credited to other comprehensive income	-	-	-	7,253	-	-	7,253	-	7,253
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)
<b>At 30 September 2017 (unaudited)</b>	<b>405,012</b>	<b>818,845</b>	<b>(834,490)</b>	<b>(30,992)</b>	<b>(44,273)</b>	<b>3,041,173</b>	<b>3,355,275</b>	<b>149,926</b>	<b>3,505,201</b>
<b>At 1 January 2018</b>	<b>405,012</b>	<b>818,845</b>	<b>(834,490)</b>	<b>(17,299)</b>	<b>(44,367)</b>	<b>2,937,519</b>	<b>3,265,220</b>	<b>143,802</b>	<b>3,409,022</b>
Adjustment on initial application of IFRS 15 (net of tax) (Note 1)	-	-	-	-	-	(3,674)	(3,674)	(229)	(3,903)
<b>Adjusted balance at 1 January 2018</b>	<b>405,012</b>	<b>818,845</b>	<b>(834,490)</b>	<b>(17,299)</b>	<b>(44,367)</b>	<b>2,933,845</b>	<b>3,261,546</b>	<b>143,573</b>	<b>3,405,119</b>
Loss for the period	-	-	-	-	-	(54,023)	(54,023)	(3,433)	(57,456)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(17)	-	(17)	-	(17)
Share of joint ventures' other comprehensive income	-	-	-	6,977	-	-	6,977	-	6,977
Exchange gain / (loss) on translation from functional currency to presentation currency	-	-	-	-	2,300	-	2,300	(320)	1,980
Reclassification adjustment relating to investments disposed of during the period	-	-	-	-	1,252	-	1,252	148	1,400
Change in fair value of derivative financial instruments credited to other comprehensive income	-	-	-	29,983	-	-	29,983	-	29,983
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	130	130	15	145
Total comprehensive income	-	-	-	36,960	3,535	(53,893)	(13,398)	(3,590)	(16,988)
Dividends (Note 12)	-	-	-	-	-	(26,797)	(26,797)	(1,181)	(27,978)
<b>At 30 September 2018 (unaudited)</b>	<b>405,012</b>	<b>818,845</b>	<b>(834,490)</b>	<b>19,661</b>	<b>(40,832)</b>	<b>2,853,155</b>	<b>3,221,351</b>	<b>138,802</b>	<b>3,360,153</b>

**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

**Consolidated Statement of Cash Flows**  
**For the period ended 30 September 2018**  
**(unaudited)**

	Note	Nine months ended (unaudited)	
		30/09/2018 \$'000	30/09/2017 \$'000
<b>Operating Activities</b>			
Cash received from freight and hire of vessels		1,088,420	1,040,957
Other cash receipts		23,433	21,502
Cash payments for voyage and running costs		(609,255)	(562,275)
Other cash payments		(123,139)	(101,722)
Cash generated from operations		379,459	398,462
Interest received		4,292	6,521
Income tax paid		(14,785)	(28,880)
Net cash inflow from operating activities		<u>368,966</u>	<u>376,103</u>
<b>Investing Activities</b>			
Expenditure on fleet	5	(24,009)	(49,517)
Expenditure on vessels under construction		(293,885)	(435,341)
Interest capitalised		(3,588)	(3,339)
Expenditure on intangibles and other property, plant and equipment		(1,784)	(2,538)
Loan repayments from joint ventures		-	1,574
Loans issued to joint ventures		(7,593)	(3,570)
Proceeds from sale of subsidiary net of cash disposed		222	-
Proceeds from sale of vessels		33,489	-
Proceeds from sale of other property, plant and equipment		2,709	21,760
Capital element received on finance leases		-	220
Interest received on finance leases		-	446
Dividends received from equity accounted for investments		69	281
Bank term deposits	10	521	15,000
Restricted cash placed in deposit	10	-	(3,000)
Net cash outflow used in investing activities		<u>(293,849)</u>	<u>(458,024)</u>
<b>Financing Activities</b>			
Proceeds from borrowings		320,797	755,826
Repayment of borrowings		(291,733)	(368,724)
Financing costs		(4,907)	(10,407)
Repayment of finance lease liabilities		-	(176,817)
Repayment of liquidated damages		(4,664)	-
Restricted deposits	10	1,000	-
Funds in retention bank accounts	10	(2,546)	(2,073)
Interest paid on borrowings		(126,135)	(115,403)
Interest paid on finance leases		-	(4,917)
Dividends paid		(29,909)	(113,732)
Net cash outflow used in financing activities		<u>(138,097)</u>	<u>(36,247)</u>
<b>Decrease in Cash and Cash Equivalents</b>		(62,980)	(118,168)
<b>Cash and Cash Equivalents at 1 January</b>	10	321,334	432,792
Net foreign exchange difference		(3,268)	5,166
<b>Cash and Cash Equivalents at 30 September</b>	10	<u><u>255,086</u></u>	<u><u>319,790</u></u>

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 2018  
(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 134 vessels at the period end, comprising 111 tankers, 9 gas carriers, 10 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, 6 and 11.

**Basis of Preparation**

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 2017. Operating results for the nine-month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the year ending 31 December 2018.

**Currency translation**

For the purposes of these condensed consolidated financial statements, the exchange rates used for translating transaction amounts and monetary assets and liabilities are as follows:

	30/09/2018 Closing \$1	30/09/2018 Average \$1	31/12/2017 Closing \$1	30/09/2017 Average \$1
Russian Roubles	65.5906	61.4358	57.6002	58.3344
Pounds Sterling	0.7645	0.7407	0.7416	0.7850
Euro	0.8604	0.8377	0.8364	0.9003

**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 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. 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 2018, they do not have an impact on the condensed consolidated interim financial statements of the Group, except for IFRS 15 and IFRS 9.

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

IFRS 7 ("Financial Instruments: Disclosures") – "Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9".

IFRS 2 ("Share Based Payment") – "Classification and Measurement of Share-based Payment Transactions". The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

IAS 40 ("Investment Property") – "Amendments to clarify transfers of property to, or from investment property".

IFRIC 22 ("Foreign Currency Transactions and Advance Consideration") – Clarifies the accounting for transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency before the entity recognises the related asset, expense or income.

IAS 28 ("Investments in Associates and Joint Ventures") – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss; and
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

IFRS 15 ("Revenue from Contracts with Customers")

IFRS 15, effective as of 1 January 2018, was issued in May 2014 and amended in April 2016, with earlier adoption permitted. The Group adopted the new standard on the required effective date. The standard permits either a full retrospective or a modified retrospective approach for application.

The Group has applied IFRS 15 using the modified retrospective approach by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. The Group elected to apply the modified retrospective approach only to the contracts that were not completed at the date of initial application. The Group did not apply any practical expedient.

## PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)  
(unaudited)

## 1. Organisation, Basis of Preparation and Accounting Policies (Continued)

## Significant Accounting Policies (continued)

## IFRS 15 (“Revenue from Contracts with Customers”) (“continued”)

Therefore, comparative information has not been restated and continues to be reported under IAS 18 “Revenue”. The impact of changes is disclosed below.

1. For uncompleted voyages at period end, previously recognised voyage in progress amounts were derecognised;
2. Accrued income relating to amounts not invoiced yet in respect of seismic revenue was derecognised;
3. Costs incurred to obtain and to fulfil a contract, were recognised as an asset;
4. Contract assets and liabilities were recognised.

**Impact on the consolidated statement of financial position as at 30 September 2018:**

	As reported 30/09/2018 \$'000	Adjustments 30/09/2018 \$'000	Balances without adoption of IFRS 15 30/09/2018 \$'000	As reported 31/12/2017 \$'000
<b>Assets</b>				
<b>Non-current assets</b>	6,692,527	-	6,692,527	6,682,180
<b>Current assets</b>				
Voyages in progress	-	35,203	35,203	25,972
Contract acquisition and voyage fulfilment costs	2,656	(2,656)	-	-
Other trade and other receivables	113,296	-	113,296	116,865
Accrued income	2,788	479	3,267	4,085
Trade and other receivables	118,740	33,026	151,766	146,922
Contract assets	27,559	(27,559)	-	-
Other current assets	374,213	-	374,213	517,792
<b>Total current assets</b>	520,512	5,467	525,979	664,714
<b>Total assets</b>	7,213,039	5,467	7,218,506	7,346,894
<b>Equity and liabilities</b>				
<b>Capital and reserves</b>				
Share capital	405,012	-	405,012	405,012
Reserves	2,816,339	5,284	2,821,623	2,860,208
<b>Equity attributable to owners of the parent</b>	3,221,351	5,284	3,226,635	3,265,220
<b>Non-controlling interests</b>	138,802	183	138,985	143,802
<b>Total equity</b>	3,360,153	5,467	3,365,620	3,409,022
<b>Non-current liabilities</b>	3,215,295	-	3,215,295	3,212,761
Deferred revenue	-	771	771	-
Other trade and other payables	275,277	-	275,277	285,574
Contract liabilities	771	(771)	-	-
Other current liabilities	361,543	-	361,543	439,537
<b>Current liabilities</b>	637,591	-	637,591	725,111
<b>Total liabilities</b>	3,852,886	-	3,852,886	3,937,872
<b>Total equity and liabilities</b>	7,213,039	5,467	7,218,506	7,346,894

**Impact on the consolidated income statement for the period ended 30 September 2018:**

	As reported 30/09/2018 \$'000	Adjustments 30/09/2018 \$'000	Balances without adoption of IFRS 15 30/09/2018 \$'000	As reported 30/09/2017 \$'000
<b>Freight and hire revenue</b>	1,106,499	1,795	1,108,294	1,060,682
Voyage expenses and commissions	(332,503)	(231)	(332,734)	(274,688)
<b>Time charter equivalent revenues</b>	773,996	1,564	775,560	785,994
<b>Direct operating expenses</b>	(276,334)	-	(276,334)	(307,312)
<b>Net earnings from vessels' trading</b>	497,662	1,564	499,226	478,682
<b>Operating expenses</b>	(388,290)	-	(388,290)	(333,946)
<b>Operating profit</b>	109,372	1,564	110,936	144,736
<b>Net other expenses</b>	(155,474)	-	(155,474)	(140,630)
<b>(Loss) / profit before income taxes</b>	(46,102)	1,564	(44,538)	4,106
Income tax expense	(11,354)	-	(11,354)	(10,899)
<b>(Loss) / profit for the period</b>	(57,456)	1,564	(55,892)	(6,793)
<b>(Loss) / profit attributable to:</b>				
Owners of the parent	(54,023)	1,610	(52,413)	(6,265)
Non-controlling interests	(3,433)	(46)	(3,479)	(528)
	(57,456)	1,564	(55,892)	(6,793)
<b>Earnings per share</b>				
Basic (loss) / earnings per share for the period attributable to equity holders of the parent	(\$0.027)	\$0.001	(\$0.027)	(\$0.003)

There is no impact on the consolidated statement of cash flows.

## PAO Sovcomflot

**Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)**  
(unaudited)

**1. Organisation, Basis of Preparation and Accounting Policies (Continued)****Significant Accounting Policies (continued)**IFRS 9 (“Financial Instruments”)

IFRS 9 replaces IAS 39 Financial Instruments “Recognition and Measurement”, and all previous versions of IFRS 9. IFRS 9 is bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted the new standard on 1 January 2018, the required effective date, and not retrospectively, therefore it is not required to restate comparative information.

There is no material impact from the application of IFRS 9 on the income statement, on the statement of financial position and on the statement of cash flows.

## a) Classification and measurement

The Group continues measuring at fair value all financial assets currently held at fair value. Loans and trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group considers that the contractual cash flow characteristics of these instruments meet the criteria for amortised cost measurement under IFRS 9 therefore reclassification for these instruments is not required.

There is no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

## b) Impairment

IFRS 9 introduces a new impairment model that requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as it was the case under IAS 39. It applies to financial assets classified at amortised cost.

In relation to the loans due from joint ventures, the Group assessed whether, as at 1 January 2018, contractual cash flows from these loans are solely comprised of principal and interest and concluded that they should be measured at amortised cost as they are held within a business model with the objective to collect contractual cash flows that meet the Solely Payments of Principal and Interest (SPPI) criterion. To calculate the expected credit loss (“ECL”) on loans due from joint ventures, the Group applied the 12 month ECL model and the general approach and concluded that the ECL is not significant due to low probability of default and low loss given default.

For contract assets and trade and other receivables, the Group applied the standard’s simplified approach and calculated ECLs based on lifetime expected credit losses. The Group established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward looking factors specific to the receivables and the economic environment.

The adoption by the Group of ECL requirements for the period ended 30 September 2018 had an insignificant increase in allowance for credit losses.

## c) Hedge accounting

At the date of initial application the Group elected to continue applying IAS 39 hedge accounting for all its hedging relationships.

**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 2017.

## PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)  
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## 2. Time Charter Equivalent Revenues

	30/09/2018 \$'000	30/09/2017 \$'000
<b>Freight and hire revenue</b>		
Revenue from contracts with customers (freight) <sup>1</sup>	506,789	486,647
Hire <sup>2</sup>	599,710	574,035
	<u>1,106,499</u>	<u>1,060,682</u>
<b>Voyage expenses and commissions</b>		
Bunkers	(194,437)	(159,097)
Port costs	(102,880)	(103,608)
Commissions	(7,394)	(7,504)
Other voyage costs	(27,792)	(4,479)
	<u>(332,503)</u>	<u>(274,688)</u>
<b>Time charter equivalent revenues</b>	<u>773,996</u>	<u>785,994</u>

<sup>1</sup> The Group performed an assessment and concluded that contracts with customers do not include a lease element.

<sup>2</sup> The Group is assessing the implications of IFRS 16 "Leases" effective on 1 January 2019, including the assessment as to whether time charter contracts comprise a lease and a non-lease element.

Set out below is the disaggregation of the Group's revenue from contracts with customers by type of vessel:

	30/09/2018 \$'000	30/09/2017 \$'000
<b>Oil product segment</b>		
Handysize product tankers	15,632	14,781
MR2 product tankers	102,805	103,679
LR2 product tankers	60,946	56,599
	<u>179,383</u>	<u>175,059</u>
<b>Crude Oil segment</b>		
Aframax tankers	192,989	195,566
Suezmax tankers	85,993	88,672
	<u>278,982</u>	<u>284,238</u>
<b>Gas segment</b>		
LPG carriers	608	-
<b>Other segment</b>		
Panamax bulkers	727	1,694
Seismic vessels	47,089	25,656
	<u>47,816</u>	<u>27,350</u>
<b>Total revenue from contracts with customers</b>	<u>506,789</u>	<u>486,647</u>

## 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 2018

	Offshore \$'000	Gas \$'000	Crude Oil \$'000	Oil Product \$'000	Other \$'000	Total \$'000
<b>Freight and hire revenue</b>	323,760	137,277	370,743	220,765	53,954	1,106,499
Voyage expenses and commissions	(504)	(1,323)	(184,616)	(115,211)	(30,849)	(332,503)
<b>Time charter equivalent revenues</b>	323,256	135,954	186,127	105,554	23,105	773,996
<b>Direct operating expenses</b>						
Vessels' running costs	(53,009)	(23,005)	(94,215)	(68,309)	(15,726)	(254,264)
Charter hire payments	-	-	-	-	(22,070)	(22,070)
<b>Net earnings / (losses) from vessels' trading</b>	270,247	112,949	91,912	37,245	(14,691)	497,662
Vessels' depreciation	(89,572)	(26,923)	(73,354)	(38,836)	(4,157)	(232,842)
Vessels' drydock cost amortisation	(7,003)	(3,774)	(11,470)	(5,891)	(387)	(28,525)
Vessels' impairment provision	-	-	(22,100)	(23,786)	-	(45,886)
Loss on sale of vessels	-	-	(1,400)	-	-	(1,400)
Non-income based taxes	(4,571)	-	-	-	-	(4,571)
Net foreign exchange gains/ (losses)	363	-	-	(171)	(5,959)	(5,767)
<b>Segment operating profit / (loss)</b>	<u>169,464</u>	<u>82,252</u>	<u>(16,412)</u>	<u>(31,439)</u>	<u>(25,194)</u>	<u>178,671</u>
<b>Unallocated</b>						
General and administrative expenses						(78,681)
Financing costs						(149,539)
Other income and expenses (net)						6,951
Net foreign exchange losses						(3,504)
<b>Loss before income taxes</b>						<u>(46,102)</u>
<b>Carrying amount of fleet in operation</b>	<u>1,994,285</u>	<u>1,206,155</u>	<u>1,943,115</u>	<u>974,120</u>	<u>70,718</u>	<u>6,188,393</u>
<b>Carrying amount of non-current assets held for sale</b>	<u>-</u>	<u>-</u>	<u>9,848</u>	<u>-</u>	<u>-</u>	<u>9,848</u>
<b>Deadweight tonnage of fleet used in operations ('000)</b>	<u>1,339</u>	<u>552</u>	<u>7,224</u>	<u>2,449</u>	<u>156</u>	<u>11,720</u>

## PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)  
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## 3. Segment Information (Continued)

## Period ended 30 September 2017

	Offshore \$'000	Gas \$'000	Crude Oil \$'000	Oil Product \$'000	Other \$'000	Total \$'000
<b>Freight and hire revenue</b>	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)
<b>Time charter equivalent revenues</b>	274,597	118,724	244,945	120,898	26,830	785,994
<b>Direct operating expenses</b>						
Vessels' running costs	(48,788)	(23,725)	(124,644)	(70,224)	(17,417)	(284,798)
Charter hire payments	(3,401)	-	-	-	(19,113)	(22,514)
<b>Net earnings / (losses) from vessels' trading</b>	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
<b>Segment operating profit / (loss)</b>	131,153	65,023	23,363	2,288	(12,051)	209,776
<b>Unallocated</b>						
General and administrative expenses						(86,559)
Financing costs						(144,684)
Other income and expenses (net)						27,471
Net foreign exchange losses						(1,898)
<b>Profit before income taxes</b>						4,106
<b>Carrying amount of fleet in operation</b>	1,850,394	1,246,828	2,074,287	1,042,999	77,848	6,292,356
<b>Deadweight tonnage of fleet used in operations ('000)</b>	1,333	552	7,653	2,449	156	12,143

## 4. Income Taxes

	30/09/2018 \$'000	30/09/2017 \$'000
Russian Federation profit tax	11,270	9,321
Overseas income tax expense	327	1,262
Current income tax expense	11,597	10,583
Deferred tax	(243)	316
<b>Total income tax expense</b>	11,354	10,899

## PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)  
(unaudited)

## 5. Fleet

	Vessels \$'000	Drydock \$'000	Total Fleet \$'000
<b>Cost</b>			
<b>At 1 January 2017</b>	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
<b>At 30 September 2017</b>	<u>8,531,492</u>	<u>179,772</u>	<u>8,711,264</u>
<b>At 1 January 2018</b>	8,491,703	177,268	8,668,971
Expenditure in period	10,307	14,167	24,474
Transfer from vessels under construction (Note 6)	196,685	2,000	198,685
Transfer to non-current assets held for sale (Note 11)	(41,508)	-	(41,508)
Disposals in period	(45,304)	(573)	(45,877)
Write-off of fully amortised drydock cost	-	(23,759)	(23,759)
Exchange adjustment	(2,145)	(114)	(2,259)
<b>At 30 September 2018</b>	<u>8,609,738</u>	<u>168,989</u>	<u>8,778,727</u>
<b>Depreciation, amortisation and impairment</b>			
<b>At 1 January 2017</b>	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
<b>At 30 September 2017</b>	<u>2,326,470</u>	<u>92,438</u>	<u>2,418,908</u>
<b>At 1 January 2018</b>	2,283,525	94,102	2,377,627
Charge for the period	232,842	28,525	261,367
Impairment provision	45,886	-	45,886
Transfer to non-current assets held for sale (Note 11)	(31,660)	-	(31,660)
Disposals in period	(38,420)	(229)	(38,649)
Write-off of fully amortised drydock cost	-	(23,759)	(23,759)
Exchange adjustment	(407)	(71)	(478)
<b>At 30 September 2018</b>	<u>2,491,766</u>	<u>98,568</u>	<u>2,590,334</u>
<b>Net book value</b>			
At 30 September 2018	<u>6,117,972</u>	<u>70,421</u>	<u>6,188,393</u>
At 31 December 2017	<u>6,208,178</u>	<u>83,166</u>	<u>6,291,344</u>
		<b><u>30/09/2018</u></b>	<b><u>31/12/2017</u></b>
Market value (\$'000)		<u>5,109,500</u>	<u>5,157,750</u>
Current insured values (\$'000)		<u>6,721,889</u>	<u>6,652,398</u>
Total deadweight tonnage (dwt)		<u>11,608,011</u>	<u>11,713,915</u>

As at 30 September 2018, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss.

Results of the impairment review for the period ended 30 September 2018

Operating segment	CGU	Methodology	Applied pre tax discount rate %	Impairment losses \$'000	Recoverable amount \$'000
Crude oil segment	Aframax crude oil tankers (3 CGUs)	Value in use	6.30%	5,758	46,208
Crude oil segment	Aframax crude oil tankers (2 CGUs)	Fair value less cost of disposal (level 1)	n/a	13,194	17,323
Crude oil segment	Aframax crude oil tanker (1 CGU)	Fair value less cost of disposal (level 2)	n/a	3,148	7,075
Oil product segment	Handysize tanker (1 CGU)	Fair value less cost of disposal (level 2)	n/a	5,705	8,085
Oil product segment	Handysize tankers (11 CGUs)	Value in use	5.96%	18,081	213,214
				<u>45,886</u>	<u>291,905</u>

The impairment recognised in the period ended 30 September 2018 based on value in use for one aframax crude oil tanker and based on fair value less costs to sell for three aframax crude oil tankers and one handysize tanker resulted from management's decision to dispose of these vessels. The remaining impairments recognised based on value in use, for two aframax crude oil tankers and eleven handysize tankers, resulted from a change in estimate of operating revenues and operating expenses over the remaining life of the vessels.

The main inputs and assumptions used in performing the value in use calculations as at period end are consistent to those followed in the annual consolidated financial statements for the year ended 31 December 2017 for the vessels for which an impairment was provided for.

## PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)  
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## 6. Vessels Under Construction

	30/09/2018 \$'000	30/09/2017 \$'000
<b>At 1 January</b>	81,837	225,814
Expenditure in period	296,792	441,554
Transfer to fleet (Note 5)	(198,685)	(593,925)
<b>At 30 September</b>	<u>179,944</u>	<u>73,443</u>
Total deadweight tonnage (dwt)	<u>776,000</u>	<u>502,000</u>

The following vessels were delivered during the period:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Segment</u>	<u>DWT</u>	<u>Delivery Date</u>
Yevgeny Primakov <sup>1</sup>	MIB standby vessel	Offshore	3,110	26 January 2018
Gagarin Prospect	Ice-class LNG fuelled Aframax	Crude oil	103,128	30 July 2018

<sup>1</sup> delivered to charter on 23 March 2018

On 20 July 2018, the Group exercised an option for the construction of a 174,000 cubic metre LNG carrier. The vessel is scheduled for delivery in September 2020.

Vessels under construction at 30 September 2018 comprised five ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and two LNG carriers scheduled for delivery between October 2018 and September 2020 at a total contracted cost to the Group of \$765.7 million. As at 30 September 2018, \$167.1 million of the contracted costs had been paid for.

As at 30 September 2018, management carried out an assessment of whether there is any indication that the vessels under construction may have suffered an impairment loss in accordance with the Group's policy. The assessment did not result in any indication that vessels under construction may have suffered an impairment loss.

## 7. Investments in Joint Ventures

Investments in joint ventures are analysed as follows:

	30/09/2018 \$'000	30/09/2017 \$'000
<b>At 1 January</b>	123,117	114,761
Share of (losses) / profits in joint ventures	(214)	1,612
Share of joint ventures' other comprehensive income	6,977	5,325
Dividends receivable	-	(220)
<b>At 30 September</b>	<u>129,880</u>	<u>121,478</u>

## 8. Derivative Financial Instruments

	30/09/2018 \$'000	31/12/2017 \$'000
Non-current asset	42,726	35,909
Current asset	3,124	808
Non-current liability	(7,568)	(12,812)
Current liability	(16,256)	(17,370)
	<u>22,026</u>	<u>6,535</u>

On 26 January 2018, the Group entered into a twelve year Euro-USD cross currency interest rate swap transaction ("CCIRS") 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 \$102.5 million loan, in connection with the financing of one of the Group's vessels.

On 30 July 2018 and 27 September 2018, the Group entered into two seven year interest rate swap transactions with a financial institution, converting 3 month US LIBOR floating interest rates to fixed, to hedge the Group's future cash outflows resulting from the exposure to interest rate fluctuations associated with the interest payable on the two secured bank loan facilities of \$42.0 million each in connection with the financing of the Group's vessels.

The table below presents the effect of the Group's derivative financial instruments designated as cash flow hedges on the consolidated statement of other comprehensive income.

	IRS		CCIRS		Total	
	30/09/2018 \$'000	30/09/2017 \$'000	30/09/2018 \$'000	30/09/2017 \$'000	30/09/2018 \$'000	30/09/2017 \$'000
Amount recognised in hedging reserve	16,160	(9,024)	(16,684)	13,850	(524)	4,826
Reclassified from hedging reserve and debited to financing costs	7,466	14,590	9,424	2,512	16,890	17,102
Reclassified from hedging reserve and debited / (credited) to foreign exchange	-	-	13,617	(14,675)	13,617	(14,675)
<b>Total in other comprehensive income</b>	<u>23,626</u>	<u>5,566</u>	<u>6,357</u>	<u>1,687</u>	<u>29,983</u>	<u>7,253</u>

## PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)  
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## 9. Trade and Other Receivables

	30/09/2018 \$'000	31/12/2017 \$'000
<b>Non-current assets</b>		
<b>Financial assets</b>		
Other receivables	5,662	77
Receivables under High Court judgement award	2,700	2,700
Liquidated damages on vessels under construction receivable from shipyard	5,329	4,962
	<u>13,691</u>	<u>7,739</u>
<b>Current assets</b>		
<b>Financial assets</b>		
Amounts due from charterers	75,169	70,376
Allowance for credit losses	(2,806)	(3,469)
	<u>72,363</u>	<u>66,907</u>
Casualty and other claims	8,084	6,448
Agents' balances	2,550	3,242
Other receivables	10,897	17,192
Liquidated damages on vessels under construction receivable from shipyard	-	5,000
Amounts due from joint ventures	1,915	410
Accrued income	2,788	4,085
<b>Non-financial assets</b>		
Prepayments	10,365	11,216
Voyages in progress	-	25,972
Contract acquisition and voyage fulfilment costs	2,656	-
Non-income based taxes receivable	7,122	6,450
	<u>118,740</u>	<u>146,922</u>

## 10. Cash and Bank Deposits

	30/09/2018 \$'000	31/12/2017 \$'000
<b>Non-current assets</b>		
Bank deposits	11,000	12,000
Restricted deposits	(11,000)	(12,000)
Cash and cash equivalents	-	-
<b>Current assets</b>		
Cash and bank deposits	283,129	347,352
Bank deposits accessible on maturity	-	(521)
Retention accounts	(27,043)	(24,497)
Restricted deposits	(1,000)	(1,000)
Cash and cash equivalents	<u>255,086</u>	<u>321,334</u>

## 11. Non-Current Assets Held for Sale

	Property and other plant and equipment \$'000	Fleet \$'000	Total \$'000
<b>At 1 January 2017</b>	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)
<b>At 30 September 2017</b>	<u>8,603</u>	<u>-</u>	<u>8,603</u>
<b>At 1 January 2018</b>	-	25,719	25,719
Transfer from fleet (Note 5)	-	9,848	9,848
Transfer from other property plant and equipment	993	-	993
Transfer from investment property	6,642	-	6,642
Exchange adjustment	(426)	-	(426)
Disposals in period	(7,209)	(25,719)	(32,928)
<b>At 30 September 2018</b>	<u>-</u>	<u>9,848</u>	<u>9,848</u>

## PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)  
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## 11. Non-Current Assets Held for Sale (Continued)

The four crude oil Aframax tankers classified as non-current asset held for sale as at 31 December 2017, were disposed of and delivered to their buyers, one in February and three in March 2018.

In June 2018, the Group reassessed the classification of the exhibition centre in Sochi, Russia and of the other related plant and equipment ("Exhibition centre") and concluded that the sale is highly probable to be completed within one year from the date of classification. The property and other plant and equipment were actively marketed for sale at a price approximate to their fair value. On 21 August 2018, the Group entered into an agreement for the sale of the exhibition centre. The assets were sold and transferred to the new owner in September 2018, resulting in a profit of Roubles 75.2 million (equivalent to \$1.1 million). An amount of Roubles 550.0 million (equivalent to \$7.4 million) is outstanding as of the period end of which \$5.6 million is included in non-current trade and other receivables under other receivables.

During the period ended 30 September 2018, the Group classified as held for sale one crude oil Aframax tanker. The vessel was actively marketed for sale at a price approximate to its market value and consequently transferred to non-current assets held for sale. The vessel was disposed of and delivered to her buyer in October 2018 (see also Note 19).

## 12. Dividends

Dividends of Rouble 0.86 per share totalling Roubles 1,696.0 million, equivalent to \$26.8 million were declared on 29 June 2018 and paid on 10 July 2018 (2017 – 3.12 Rouble per share totalling Roubles 6,141.0 million equivalent to \$106.9 million).

## 13. Trade and Other Payables

	30/09/2018 \$'000	31/12/2017 \$'000
<b>Non-current liabilities</b>		
<b>Financial liabilities</b>		
Liquidated damages for late delivery of vessels payable to charterer	18,505	19,386
<b>Non-financial liabilities</b>		
Employee benefit obligations	4,378	9,027
	<u>22,883</u>	<u>28,413</u>
<b>Current liabilities</b>		
<b>Financial liabilities</b>		
Trade payables	82,045	59,020
Other payables	27,845	29,942
Payables to shipyards for vessels under construction	6,000	11,800
Liquidated damages for late delivery of vessels payable to charterer	1,824	4,119
Dividends payable	9,370	12,801
Accrued liabilities	42,653	41,522
Accrued interest	31,372	17,049
<b>Non-financial liabilities</b>		
Deferred hire revenue	43,586	50,874
Employee benefit obligations	7,655	35,785
Non-income based taxes payable	22,927	22,662
	<u>275,277</u>	<u>285,574</u>

## 14. Secured Bank Loans

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

	30/09/2018 \$'000	31/12/2017 \$'000
Repayable		
- within twelve months after the end of the reporting period	340,516	338,226
- between one to two years	413,097	472,511
- between two to three years	424,003	281,837
- between three to four years	244,930	306,796
- between four to five years	242,909	201,323
- more than five years	952,237	1,000,354
	<u>2,617,692</u>	<u>2,601,047</u>
Less current portion	(340,516)	(338,226)
Non-current balance	<u>2,277,176</u>	<u>2,262,821</u>

## 15. Other Loans

	30/09/2018 \$'000	31/12/2017 \$'000
\$900 million 5.375% Senior Notes due in 2023	892,966	891,801
Other loan from related party	12,033	14,148
	<u>904,999</u>	<u>905,949</u>
Less current portion	(3,438)	(3,537)
Non-current balance	<u>901,561</u>	<u>902,412</u>

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**Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)**  
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**16. Financial Risk Management**

## (a) Financial assets and financial liabilities

Set out below, is an overview of financial assets and financial liabilities, held by the Group as at period end:

	<b>30/09/2018</b>	<b>31/12/2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash and debt instruments at amortised cost</b>		
Loans and other receivables	112,288	111,023
Loans to joint ventures	64,537	55,511
Restricted cash (Note 17)	-	75,543
Cash and bank deposits	294,129	359,352
<b>Debt instruments at fair value through OCI</b>		
Derivative financial instruments in designated hedge accounting relationships	45,850	36,717
<b>Equity instruments at fair value through OCI</b>		
Available-for-sale investments	521	523
<b>Total financial assets</b>	<b>517,325</b>	<b>638,669</b>
<b>Financial liabilities at fair value through OCI</b>		
Derivative financial instruments in designated hedge accounting relationships	23,824	30,182
<b>Financial liabilities at amortised cost</b>		
Secured bank loans	2,617,692	2,601,047
Other loans	904,999	905,949
Other liabilities measured at amortised cost	219,614	195,639
<b>Total financial liabilities</b>	<b>3,766,129</b>	<b>3,732,817</b>

## (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:

	<b>Carrying Value</b>		<b>Fair Value</b>	
	<b>30/09/2018</b>	<b>31/12/2017</b>	<b>30/09/2018</b>	<b>31/12/2017</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>				
Loans to joint ventures	64,537	55,511	62,434	53,232
Liquidated damages on vessels under construction receivable from shipyard	5,329	9,962	5,329	9,962
<b>Total financial assets</b>	<b>69,866</b>	<b>65,473</b>	<b>67,763</b>	<b>63,194</b>
<b>Financial liabilities</b>				
Secured bank loans at fixed interest rates	728,552	765,028	756,189	792,895
Secured bank loans at floating interest rates	1,889,140	1,836,019	1,894,262	1,840,772
Other loans	904,999	905,949	884,293	947,328
Liquidated damages for late delivery of vessels payable to charterer	20,329	23,505	20,329	23,505
<b>Total financial liabilities</b>	<b>3,543,020</b>	<b>3,530,501</b>	<b>3,555,073</b>	<b>3,604,500</b>

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 currency rates, as adjusted for credit risk.

Derivatives are valued using valuation techniques with market observable inputs; they comprise interest rate swaps and cross currency interest rate swaps. 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.

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**Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)**  
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**16. Financial Risk Management (Continued)**

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

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 2018 and 31 December 2017 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

	<u>Level 1</u> <u>\$'000</u>	<u>Level 2</u> <u>\$'000</u>	<u>Level 3</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
<b>At 30 September 2018</b>				
<b>Assets</b>				
Derivative financial instruments in designated hedge accounting relationships	-	45,850	-	45,850
	-	45,850	-	45,850
<b>Liabilities</b>				
Derivative financial instruments in designated hedge accounting relationships	-	23,824	-	23,824
	-	23,824	-	23,824
<b>At 31 December 2017</b>				
<b>Assets</b>				
Derivative financial instruments in designated hedge accounting relationships	-	36,717	-	36,717
	-	36,717	-	36,717
<b>Liabilities</b>				
Derivative financial instruments in designated hedge accounting relationships	-	30,182	-	30,182
	-	30,182	-	30,182

There were no transfers between Level 1 and 2 during the periods ended 30 September 2018 and 31 December 2017.

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

	<u>Level 1</u> <u>\$'000</u>	<u>Level 2</u> <u>\$'000</u>	<u>Level 3</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
<b>At 30 September 2018</b>				
<b>Assets</b>				
Fleet	-	15,160	-	15,160
Non-current assets held for sale	9,848	-	-	9,848
	9,848	15,160	-	25,008
<b>At 31 December 2017</b>				
<b>Assets</b>				
Non-current assets held for sale	25,719	-	-	25,719
	25,719	-	-	25,719

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

	<u>Level 1</u> <u>\$'000</u>	<u>Level 2</u> <u>\$'000</u>	<u>Level 3</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
<b>At 30 September 2018</b>				
<b>Fair value of assets</b>				
Loans to joint ventures	-	62,434	-	62,434
Liquidated damages on vessels under construction receivable from shipyard	-	5,329	-	5,329
	-	67,763	-	67,763
<b>Fair value of liabilities</b>				
Secured bank loans at fixed interest rates	-	756,189	-	756,189
Secured bank loans at floating interest rates	-	1,894,262	-	1,894,262
Other loans	871,875	12,418	-	884,293
Liquidated damages for late delivery of vessels payable to charterer	-	20,329	-	20,329
	871,875	2,683,198	-	3,555,073

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Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)  
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## 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 (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>At 31 December 2017</b>				
<b>Fair value of assets</b>				
Loans to joint ventures	-	53,232	-	53,232
Liquidated damages on vessels under construction receivable from shipyard	-	9,962	-	9,962
	<u>-</u>	<u>63,194</u>	<u>-</u>	<u>63,194</u>
<b>Fair value of liabilities</b>				
Secured bank loans at fixed interest rates	-	792,895	-	792,895
Secured bank loans at floating interest rates	-	1,840,772	-	1,840,772
Other loans	932,625	14,703	-	947,328
Liquidated damages for late delivery of vessels payable to charterer	-	23,505	-	23,505
	<u>932,625</u>	<u>2,671,875</u>	<u>-</u>	<u>3,604,500</u>

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, 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. The Russian customs had requested the Group to pay RUR314 million of custom fees (equivalent to \$4.8 million) of which RUR284 million (equivalent to \$4.3 million) of the RUR314 million paid, were included in other receivables under trade and other receivables as of 31 December 2017.

The Group applied to the Courts and has recovered from Russian customs the total amount, previously paid, of RUR314 million, RUR221 million in July 2018 in relation to the first vessel and RUR93 million in September 2018 in relation to the second vessel.

Customs refused to pay interest of approximately RUR49.6 million (equivalent to \$0.8 million) on the RUR221 million. Accordingly the Group proceeded legally against customs and in October 2018 the Arbitrate Court found in favour of the Group. The Group has yet to receive this interest from Customs.

In October 2018, customs submitted a second appeal in relation to the second vessel which will be heard on 21 November 2018. The Group has also claimed from customs interest of approximately RUR22.7 million (equivalent \$0.3 million) on the RUR93 million and in October 2018 the Arbitrate Court accepted the claim of the Group. A court hearing is scheduled on 28 November 2018 in relation to this issue.

Resolution of both cases and payment by customs to the Group of total interest of approximately RUR72.3 million (equivalent \$1.1 million) is expected in the first quarter of 2019. No interest has not been recognised as at 30 September 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 19 December 2017 the Group applied to the Supreme Court for the permission to appeal. In the meantime, on 6 December 2017, the Court of Appeal ordered a stay of execution until such application to the Supreme Court had been determined. Total payments of \$73.6 million and £1.1 million were made into Court in 2016 and 2017. On 31 May 2018, the Supreme Court refused the Group permission to appeal and on 8 June 2018, following a consent order by the parties to the Fiona Litigation, the Court of Appeal ordered that the Courts Funds Office releases and pays the defendants the funds paid into Court. Consequently, funds paid into Court, together with interest earned thereon, previously recognised as restricted cash, were offset against amounts payable under the High Court judgement award.

A total amount of \$3.0 million (30 September 2017 – \$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.

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**Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2018 (Continued)**  
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**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)	
	30/09/2018 \$'000	30/09/2017 \$'000	30/09/2018 \$'000	31/12/2017 \$'000
<b>Transactions with Russian State controlled entities</b>				
Freight and hire of vessels	(326,730)	(142,607)	29,315	4,446
Voyage expenses and commissions	12,414	12,881	(2,679)	(1,819)
Other operating revenues	(206)	(1,832)	1	(2,379)
Other operating expenses	763	811	9	2
Other loans	401	293	(12,177)	(14,175)
Secured bank loans	36,764	31,308	(693,595)	(723,518)
Finance leases payable	-	4,304	-	-
Receivables from shipyard (liquidated damages for late delivery of vessels)	(366)	-	5,329	9,962
Payables to charterer (liquidated damages for late delivery of vessels)	1,487	588	(20,329)	(23,505)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	128,982	288,187
Cash at bank	(2,085)	(5,217)	76,570	144,289
Derivative financial instruments	23,822	(11,782)	12,171	20,976
<b>Transactions with Joint Ventures</b>				
Other operating revenues	(2,635)	(2,439)	1,915	410
Loans due from joint ventures	(1,530)	(969)	64,746	55,622
<b>Compensation of Key Management Personnel</b>				
Short term benefits	6,405	6,802	(2,243)	(2,506)
Post-employment benefits	47	54	(3)	(18)
Long term service benefits	1,450	4,995	(5,687)	(21,129)
	7,902	11,851	(7,933)	(23,653)

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

On 31 January 2018, the Group entered into a loan facility with a Russian State controlled financial institution totalling \$106.2 million, to finance the construction of the Arctic shuttle tanker referred to in Note 6, at an interest rate of 5.6% per annum repayable in 48 quarterly instalments, commencing three months after the delivery of the vessel by the shipyard. On 21 February 2018, the Group drew down an amount of \$11.8 million.

**19. Events After the Reporting Period**

On 2 October 2018, the Group took delivery of an ice-class LNG fuelled Aframax crude oil tanker, the m/v Lomonosov Prospect.

On 18 October 2018, the Group exercised an option for the construction of a 174,000 cubic metre LNG carrier. The vessel is scheduled for delivery in February 2021.

On 4 November 2018, the Group signed an agreement for the sale of one oil product tanker at a price approximate to her carrying value. The vessel is expected to be delivered to her new owners by the end of November 2018.

The crude oil Aframax tanker classified as held for sale as at 30 September 2018 (Note 11) was delivered to her new owners on 18 October 2018.

On 14 November 2018, the Group entered into a secured bank loan facility, totalling \$148.5 million, to finance the construction of one of the LNG carriers referred to in Note 6.

**20. Date of Issue**

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 15 November 2018.