**PAO SOVCOMFLOT**

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

**31 March 2017**

**PAO Sovcomflot**

## Contents

**PAO Sovcomflot**

**Condensed Consolidated Income Statement**
**For the period ended 31 March 2017**
**(unaudited)**

| | Note | Three months ended (unaudited) 31/03/2017 $'000 | 31/03/2016 $'000 |
|---|---|---|---|
| **Freight and hire revenue** | | 361,153 | 341,542 |
| Voyage expenses and commissions | | (86,739) | (50,735) |
| **Time charter equivalent revenues** | 2 | 274,414 | 290,807 |
| | | | |
| **Direct operating expenses** | | | |
| Vessels' running costs | | 86,603 | 74,281 |
| Charter hire payments | | 5,507 | 2,176 |
| | | (92,110) | (76,457) |
| **Net earnings from vessels' trading** | | 182,304 | 214,350 |
| Other operating revenues | | 4,446 | 4,196 |
| Other operating expenses | | (2,331) | (1,872) |
| Depreciation, amortisation and impairment | | (87,871) | (74,125) |
| General and administrative expenses | | (30,893) | (26,880) |
| Profit / (loss) on sale of assets | | 7,167 | (334) |
| Allowance for credit losses | | (16) | (136) |
| Share of profits in equity accounted investments | | 2,590 | 6,585 |
| **Operating profit** | | 75,396 | 121,784 |
| | | | |
| **Other (expenses) / income** | | | |
| Financing costs | | (41,891) | (34,110) |
| Interest income | | 2,725 | 5,355 |
| Other non-operating expenses | 17 | (1,077) | (1,536) |
| Gain / (loss) on ineffective hedging instruments | 8 | 219 | (6) |
| Foreign exchange gains | | 6,786 | 18,777 |
| Foreign exchange losses | | (1,576) | (6,587) |
| **Net other expenses** | | (34,814) | (18,107) |
| | | | |
| **Profit before income taxes** | | 40,582 | 103,677 |
| Income tax expense | 4 | (665) | (571) |
| **Profit for the period** | | 39,917 | 103,106 |
| | | | |
| **Profit attributable to:** | | | |
| Owners of the parent | | 38,847 | 98,803 |
| Non-controlling interests | | 1,070 | 4,303 |
| | | 39,917 | 103,106 |
| | | | |
| **Earnings per share** | | | |
| Basic earnings per share for the period attributable to equity holders of the parent | | $0.020 | $0.050 |

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 31 March 2017**
**(unaudited)**

| | Note | Three months ended (unaudited) 31/03/2017 $'000 | 31/03/2016 $'000 |
|---|---|---|---|
| **Profit for the period** | | 39,917 | 103,106 |
| **Other comprehensive income:** | | | |
| Share of associates' other comprehensive income | | 10 | 9 |
| Share of joint ventures' other comprehensive income | 7 | 2,279 | (4,107) |
| Exchange gain / (loss) on translation from functional currency to presentation currency | | 1,593 | (408) |
| Derivative financial instruments reclassified and debited to the income statement | | 5,007 | 9,454 |
| Fair value movement of derivative financial instruments debited to other comprehensive income | 8 | (1,949) | (32,564) |
| **Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods** | | 6,940 | (27,616) |
| Remeasurement losses on employee benefit obligations | | (69) | (137) |
| **Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods** | | (69) | (137) |
| **Total other comprehensive income for the period, net of tax** | | 6,871 | (27,753) |
| **Total comprehensive income for the period** | | 46,788 | 75,353 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | | 45,720 | 71,001 |
| Non-controlling interests | | 1,068 | 4,352 |
| | | 46,788 | 75,353 |

**PAO Sovcomflot**

**Condensed Consolidated Statement of Financial Position – 31 March 2017 (unaudited)**

| | Note | 31/03/2017 (unaudited) $'000 | 31/12/2016 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Fleet | 5 | 6,285,185 | 5,895,365 |
| Vessels under construction | 6 | 79,673 | 225,814 |
| Intangible assets | | 3,707 | 3,961 |
| Other property, plant and equipment | | 58,961 | 58,746 |
| Investment property | | 746 | 864 |
| Investments in associates | | 153 | 131 |
| Investments in joint ventures | 7 | 119,433 | 114,761 |
| Available-for-sale investments | | 760 | 760 |
| Loans to joint ventures | | 45,563 | 45,574 |
| Derivative financial instruments | 8 | 15,190 | 7,146 |
| Trade and other receivables | 9 | 2,788 | 2,783 |
| Deferred tax assets | | 7,383 | 4,663 |
| Bank deposits | 10 | 10,000 | 10,000 |
| | | 6,629,542 | 6,370,568 |
| **Current assets** | | | |
| Inventories | | 61,700 | 53,368 |
| Loans to joint ventures | | 4,750 | 4,750 |
| Derivative financial instruments | 8 | 492 | 373 |
| Trade and other receivables | 9 | 186,775 | 173,022 |
| Current tax receivable | | 7,116 | 4,089 |
| Restricted cash | | 72,091 | 72,079 |
| Cash and bank deposits | 10 | 469,765 | 470,638 |
| | | 802,689 | 778,319 |
| Non-current assets held for sale | 11 | 8,853 | 8,360 |
| | | 811,542 | 786,679 |
| **Total assets** | | 7,441,084 | 7,157,247 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | | 405,012 | 405,012 |
| Reserves | | 3,094,578 | 3,048,858 |
| **Equity attributable to owners of the parent** | | 3,499,590 | 3,453,870 |
| **Non-controlling interests** | | 151,514 | 150,446 |
| **Total equity** | | 3,651,104 | 3,604,316 |
| **Non-current liabilities** | | | |
| Trade and other payables | 13 | 50,614 | 37,504 |
| Secured bank loans | 14 | 2,115,017 | 1,903,365 |
| Derivative financial instruments | 8 | 23,817 | 21,624 |
| Retirement benefit obligations | | 3,759 | 3,419 |
| Other loans | 15 | 737,562 | 737,076 |
| Deferred tax liabilities | | 666 | 858 |
| | | 2,931,435 | 2,703,846 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 226,976 | 214,784 |
| Other loans | 15 | 139,913 | 139,896 |
| Secured bank loans | 14 | 303,186 | 290,460 |
| Finance lease liabilities | | 171,002 | 173,690 |
| Current tax payable | | 690 | 14,809 |
| Derivative financial instruments | 8 | 16,778 | 15,446 |
| | | 858,545 | 849,085 |
| **Total liabilities** | | 3,789,980 | 3,552,931 |
| **Total equity and liabilities** | | 7,441,084 | 7,157,247 |

**PAO Sovcomflot**

**Condensed Consolidated Statement of Changes in Equity**
**For the period ended 31 March 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 | - | - | - | - | - | 98,803 | 98,803 | 4,303 | 103,106 |
| Other comprehensive income | | | | | | | | | |
| Share of associates' other comprehensive income | - | - | - | - | 9 | - | 9 | - | 9 |
| Share of joint ventures' other comprehensive income | - | - | - | (4,113) | 6 | - | (4,107) | - | (4,107) |
| Exchange (loss) / gain on translation from functional currency to presentation currency | - | - | - | - | (471) | - | (471) | 63 | (408) |
| Derivative financial instruments reclassified and debited to the income statement | - | - | - | 9,454 | - | - | 9,454 | - | 9,454 |
| Fair value movement of derivative financial instruments debited to other comprehensive income | - | - | - | (32,564) | - | - | (32,564) | - | (32,564) |
| Remeasurement losses on retirement benefit obligations | - | - | - | - | - | (123) | (123) | (14) | (137) |
| Total comprehensive income | - | - | - | (27,223) | (456) | 98,680 | 71,001 | 4,352 | 75,353 |
| Effect of acquisition of non-controlling interests in PAO Novoship | - | - | - | - | (16) | 503 | 487 | (546) | (59) |
| **At 31 March 2016 (unaudited)** | **405,012** | **818,845** | **(834,490)** | **(95,493)** | **(45,014)** | **3,143,687** | **3,392,547** | **163,728** | **3,556,275** |
| **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** |
| Profit for the period | - | - | - | - | - | 38,847 | 38,847 | 1,070 | 39,917 |
| Other comprehensive income | | | | | | | | | |
| Share of associates' other comprehensive income | - | - | - | - | 10 | - | 10 | - | 10 |
| Share of joint ventures' other comprehensive income | - | - | - | 2,276 | 3 | - | 2,279 | - | 2,279 |
| Exchange gain on translation from functional currency to presentation currency | - | - | - | - | 1,588 | - | 1,588 | 5 | 1,593 |
| Derivative financial instruments reclassified and debited to the income statement | - | - | - | 5,007 | - | - | 5,007 | - | 5,007 |
| Fair value movement of derivative financial instruments debited to other comprehensive income | - | - | - | (1,949) | - | - | (1,949) | - | (1,949) |
| Remeasurement losses on retirement benefit obligations | - | - | - | - | - | (62) | (62) | (7) | (69) |
| Total comprehensive income | - | - | - | 5,334 | 1,601 | 38,785 | 45,720 | 1,068 | 46,788 |
| **At 31 March 2017 (unaudited)** | **405,012** | **818,845** | **(834,490)** | **(38,234)** | **(44,834)** | **3,193,291** | **3,499,590** | **151,514** | **3,651,104** |

**Notes**

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

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

**PAO Sovcomflot**

**Condensed Consolidated Statement of Cash Flows**
**For the period ended 31 March 2017**
**(unaudited)**

| | Note | Three months ended (unaudited) 31/03/2017 $'000 | 31/03/2016 $'000 |
|---|---|---|---|
| **Operating Activities** | | | |
| Cash received from freight and hire of vessels | | 353,438 | 359,503 |
| Other cash receipts | | 4,600 | 2,631 |
| Cash payments for voyage and running costs | | (176,995) | (122,057) |
| Other cash payments | | (27,296) | (32,418) |
| Cash generated from operations | | 153,747 | 207,659 |
| Interest received | | 1,047 | 1,031 |
| Income tax paid | | (20,477) | (4,796) |
| Net cash inflow from operating activities | | 134,317 | 203,894 |
| **Investing Activities** | | | |
| Expenditure on fleet | | (10,330) | (5,674) |
| Expenditure on vessels under construction | | (323,838) | (48,032) |
| Interest capitalised | | (1,655) | (11,521) |
| Expenditure on intangibles and other property, plant and equipment | | (251) | (928) |
| Loan repayments from joint ventures | | 282 | 1,100 |
| Proceeds from sale of vessels | | - | 28,172 |
| Proceeds from sale of other property, plant and equipment | | 5,140 | 16 |
| Capital element received on finance leases | | - | 1,131 |
| Interest received on finance leases | | - | 3,045 |
| Dividends received from equity accounted for investments | | 185 | - |
| Bank term deposits | 10 | (98,443) | (60,644) |
| Restricted cash released | | - | 4,000 |
| Net cash outflow used in investing activities | | (428,910) | (89,335) |
| **Financing Activities** | | | |
| Proceeds from borrowings | | 311,287 | 139,531 |
| Repayment of borrowings | | (81,965) | (211,358) |
| Financing costs | | (7,047) | (4,439) |
| Repayment of finance lease liabilities | | (2,741) | (2,539) |
| Restricted deposits | 10 | - | 846 |
| Funds in retention bank accounts | 10 | (58) | (1,807) |
| Interest paid on borrowings | | (24,765) | (17,826) |
| Interest paid on finance leases | | (2,819) | (3,021) |
| Dividends paid | | (6,673) | (3,550) |
| Acquisition of non-controlling interests | | - | (59) |
| Net cash inflow from / (outflow used in) financing activities | | 185,219 | (104,222) |
| **(Decrease) / increase in Cash and Cash Equivalents** | | (109,374) | 10,337 |
| **Cash and Cash Equivalents at 1 January** | 10 | 432,792 | 332,680 |
| Net foreign exchange difference | | 10,000 | 6,150 |
| **Cash and Cash Equivalents at 31 March** | 10 | 333,418 | 349,167 |

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

**PAO Sovcomflot**

**Notes to the Condensed Consolidated Interim Financial Statements – 31 March 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 135 vessels at the period end, comprising 115 tankers, 9 gas carriers, 8 ice breaking supply vessels (including 1 chartered in), 2 bulk carriers and 1 chartered in seismic vessel. 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 31 March 2016 condensed consolidated statement of cash flows have been reclassified to conform to the 31 December 2016 presentation. Operating results for the three-month period ended 31 March 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**

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

**Changes in Estimates**

The preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. All critical accounting judgements and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2016.

## 2. Time Charter Equivalent Revenues

| | 31/03/2017 $'000 | 31/03/2016 $'000 |
|---|---|---|
| **Freight and hire revenue** | | |
| Freight | 169,612 | 138,156 |
| Hire | 191,541 | 203,386 |
| | 361,153 | 341,542 |
| **Voyage expenses and commissions** | | |
| Bunkers | (51,137) | (22,050) |
| Port costs | (30,870) | (24,201) |
| Commissions | (2,656) | (3,085) |
| Other voyage costs | (2,076) | (1,399) |
| | (86,739) | (50,735) |
| **Time charter equivalent revenues** | 274,414 | 290,807 |

**PAO Sovcomflot**

**Notes to the Condensed Consolidated Interim Financial Statements – 31 March 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 31 March 2017**

| | Offshore $'000 | Gas $'000 | Crude Oil $'000 | Oil Product $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Freight and hire revenue** | 87,786 | 33,456 | 158,972 | 77,058 | 3,881 | 361,153 |
| Voyage expenses and commissions | (98) | (427) | (53,967) | (30,631) | (1,616) | (86,739) |
| **Time charter equivalent revenues** | 87,688 | 33,029 | 105,005 | 46,427 | 2,265 | 274,414 |
| **Direct operating expenses** | | | | | | |
| Vessels' running costs | (14,460) | (7,218) | (37,816) | (23,534) | (3,575) | (86,603) |
| Charter hire payments | (1,943) | - | - | - | (3,564) | (5,507) |
| **Net earnings from vessels' trading** | 71,285 | 25,811 | 67,189 | 22,893 | (4,874) | 182,304 |
| Vessels' depreciation | (25,793) | (7,114) | (28,892) | (14,096) | (630) | (76,525) |
| Vessels' drydock cost amortisation | (2,196) | (1,260) | (4,420) | (1,998) | (202) | (10,076) |
| Non-income based taxes | (1,507) | - | - | - | - | (1,507) |
| Net foreign exchange (losses) / gains | (516) | - | - | 189 | 196 | (131) |
| **Segment operating profit / (loss)** | 41,273 | 17,437 | 33,877 | 6,988 | (5,510) | 94,065 |
| **Unallocated** | | | | | | |
| General and administrative expenses | | | | | | (29,386) |
| Financing costs | | | | | | (41,891) |
| Other income and expenses (net) | | | | | | 12,453 |
| Net foreign exchange gains | | | | | | 5,341 |
| **Profit before income taxes** | | | | | | 40,582 |
| **Carrying amount of fleet in operation** | 1,770,589 | 1,267,460 | 2,114,519 | 1,070,596 | 62,021 | 6,285,185 |
| **Deadweight tonnage of fleet used in operations ('000)** | 1,331 | 552 | 7,653 | 2,449 | 152 | 12,137 |

**Period ended 31 March 2016**

| | Offshore $'000 | Gas $'000 | Crude Oil $'000 | Oil Product $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Freight and hire revenue** | 58,962 | 36,358 | 174,395 | 70,755 | 1,072 | 341,542 |
| Voyage expenses and commissions | (65) | (134) | (35,350) | (14,356) | (830) | (50,735) |
| **Time charter equivalent revenues** | 58,897 | 36,224 | 139,045 | 56,399 | 242 | 290,807 |
| **Direct operating expenses** | | | | | | |
| Vessels' running costs | (10,765) | (6,336) | (34,745) | (19,249) | (3,186) | (74,281) |
| Charter hire payments | - | - | - | - | (2,176) | (2,176) |
| **Net earnings from vessels' trading** | 48,132 | 29,888 | 104,300 | 37,150 | (5,120) | 214,350 |
| Vessels' depreciation | (14,819) | (7,095) | (29,418) | (12,071) | (642) | (64,045) |
| Vessels' drydock cost amortisation | (1,423) | (1,289) | (4,445) | (1,549) | (139) | (8,845) |
| Loss on sale of vessels | - | - | (135) | (208) | - | (343) |
| Non-income based taxes | (1,400) | - | - | - | - | (1,400) |
| Net foreign exchange gains / (losses) | 18 | - | - | (20) | 1,559 | 1,557 |
| **Segment operating profit / (loss)** | 30,508 | 21,504 | 70,302 | 23,302 | (4,342) | 141,274 |
| **Unallocated** | | | | | | |
| General and administrative expenses | | | | | | (25,480) |
| Financing costs | | | | | | (34,110) |
| Other income and expenses (net) | | | | | | 11,360 |
| Net foreign exchange gains | | | | | | 10,633 |
| **Profit before income taxes** | | | | | | 103,677 |
| **Carrying amount of fleet in operation** | 1,114,054 | 965,490 | 2,241,874 | 930,773 | 65,470 | 5,317,661 |
| **Deadweight tonnage of fleet used in operations ('000)** | 1,193 | 472 | 7,548 | 1,881 | 153 | 11,247 |

## 4. Income Taxes

| | 31/03/2017 $'000 | 31/03/2016 $'000 |
|---|---|---|
| Russian Federation profit tax | 3,258 | 2,186 |
| Overseas income tax expense | 73 | 95 |
| Current income tax expense | 3,331 | 2,281 |
| Deferred tax | (2,666) | (1,710) |
| **Total income tax expense** | 665 | 571 |

## 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 | 740 | 1,269 | 2,009 |
| **At 31 March 2016** | 7,071,918 | 166,201 | 7,238,119 |
| **At 1 January 2017** | 7,898,931 | 177,658 | 8,076,589 |
| Expenditure in period | 4,465 | 5,865 | 10,330 |
| Transfer from vessels under construction (Note 6) | 459,542 | 6,500 | 466,042 |
| Write-off of fully amortised drydock cost | - | (5,221) | (5,221) |
| Exchange adjustment | - | 67 | 67 |
| **At 31 March 2017** | 8,362,938 | 184,869 | 8,547,807 |
| **Depreciation, amortisation and impairment** | | | |
| **At 1 January 2016** | 1,779,699 | 67,869 | 1,847,568 |
| Charge for the period | 64,045 | 8,845 | 72,890 |
| **At 31 March 2016** | 1,843,744 | 76,714 | 1,920,458 |
| **At 1 January 2017** | 2,090,796 | 90,428 | 2,181,224 |
| Charge for the period | 76,525 | 10,076 | 86,601 |
| Write-off of fully amortised drydock cost | - | (5,221) | (5,221) |
| Exchange adjustment | - | 18 | 18 |
| **At 31 March 2017** | 2,167,321 | 95,301 | 2,262,622 |
| **Net book value** | | | |
| At 31 March 2017 | 6,195,617 | 89,568 | 6,285,185 |
| At 31 December 2016 | 5,808,135 | 87,230 | 5,895,365 |

| | 31/03/2017 | 31/12/2016 |
|---|---|---|
| Market value ($'000) | 4,716,500 | 4,491,000 |
| Current insured values ($'000) | 6,974,276 | 6,492,276 |
| Total deadweight tonnage (dwt) | 12,133,418 | 12,049,977 |

As at 31 March 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.

Included in the Group's fleet are 2 vessels (2016 – 2) held under finance leases with an aggregate carrying value as at 31 March 2017 of $182.6 million (31 December 2016 – $185.1 million).

## 6. Vessels Under Construction

| | 31/03/2017 $'000 | 31/03/2016 $'000 |
|---|---|---|
| **At 1 January** | 225,814 | 368,453 |
| Expenditure in period | 319,901 | 36,617 |
| Transfer to fleet (Note 5) | (466,042) | - |
| **At 31 March** | 79,673 | 405,070 |
| Total deadweight tonnage (dwt) | 462,000 | 215,000 |

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 | LNG | 80,182 | 27 March 2017 |

[1] delivered to charter on 18 April 2017

On 3 February 2017, the Group entered into shipbuilding contracts with a shipyard to construct four Aframax crude oil tankers at a total contracted cost of $240.0 million. Vessels under construction at 31 March 2017 comprised three MIB standby vessels and four Aframax crude oil tankers scheduled for delivery between May 2017 and February 2019 at a total contracted cost to the Group of $622.0 million of which $382.0 million related to contracts with related parties. As at 31 March 2017, $76.4 million of the contracted costs had been paid for to related parties.

## 7. Investments in Joint Ventures

Investments in joint ventures are analysed as follows:

| | 31/03/2017 $'000 | 31/03/2016 $'000 |
|---|---|---|
| **At 1 January** | 114,761 | 98,306 |
| Share of profits in joint ventures | 2,578 | 6,580 |
| Share of joint ventures' other comprehensive income | 2,279 | (4,107) |
| Dividends receivable | (185) | - |
| **At 31 March** | 119,433 | 100,779 |

## 8. Derivative Financial Instruments

| | 31/03/2017 $'000 | 31/12/2016 $'000 |
|---|---|---|
| Non-current asset | 15,190 | 7,146 |
| Current asset | 492 | 373 |
| Non-current liability | (23,817) | (21,624) |
| Current liability | (16,778) | (15,446) |
| | (24,913) | (29,551) |

Hedging instruments

| | 31/03/2017 $'000 | 31/03/2016 $'000 |
|---|---|---|
| **At 1 January** | 29,551 | 47,014 |
| Recycled during the period and credited to the income statement | (6,368) | (9,454) |
| Fair value movement during the period recognised in other comprehensive income | 1,949 | 32,564 |
| Fair value movement during the period (credited) / debited to the income statement | (219) | 6 |
| **At 31 March** | 24,913 | 70,130 |

On 2 March 2017, 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 $89.5 million loan in connection with the financing of one of the Group's vessels.

## 9. Trade and Other Receivables

| | 31/03/2017 $'000 | 31/12/2016 $'000 |
|---|---|---|
| **Non-current assets** | | |
| ***Financial assets*** | | |
| Other receivables | 88 | 83 |
| Receivables under High Court judgement award | 2,700 | 2,700 |
| | 2,788 | 2,783 |
| **Current assets** | | |
| ***Financial assets*** | | |
| Amounts due from charterers | 78,761 | 75,279 |
| Allowance for credit losses | (3,243) | (3,520) |
| | 75,518 | 71,759 |
| Casualty and other claims | 3,026 | 6,945 |
| Agents' balances | 2,482 | 2,756 |
| Other receivables | 26,241 | 24,031 |
| Liquidated damages on vessels under construction receivable from shipyard | 22,000 | 11,800 |
| Amounts due from joint ventures | 822 | 473 |
| Amounts due from lessee for finance leases | - | 764 |
| Accrued income | 2,854 | 3,426 |
| ***Non-financial assets*** | | |
| Prepayments | 19,345 | 20,302 |
| Voyages in progress | 27,397 | 25,295 |
| Non-income based taxes receivable | 7,090 | 5,471 |
| | 186,775 | 173,022 |

## 10. Cash and Bank Deposits

| | 31/03/2017 $'000 | 31/12/2016 $'000 |
|---|---|---|
| **Non-current assets** | | |
| Bank deposits | 10,000 | 10,000 |
| Restricted deposits | (10,000) | (10,000) |
| Cash and cash equivalents | - | - |
| **Current assets** | | |
| Cash and bank deposits | 469,765 | 470,638 |
| Bank deposits accessible on maturity | (113,443) | (15,000) |
| Retention accounts | (22,904) | (22,846) |
| Cash and cash equivalents | 333,418 | 432,792 |

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**Notes to the Condensed Consolidated Interim Financial Statements – 31 March 2017 (Continued)
(unaudited)**

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 |
| Disposals in period | - | (28,130) | (28,130) |
| **At 31 March 2016** | - | - | - |
| **At 1 January 2017** | 8,360 | - | 8,360 |
| Exchange adjustment | 622 | - | 622 |
| Disposals in period | (129) | - | (129) |
| **At 31 March 2017** | 8,853 | - | 8,853 |

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 realising a gain on disposal of $1.4 million.

12. **Dividends**

No dividends were paid or declared during the period ended 31 March 2017 and 31 March 2016.

13. **Trade and Other Payables**

| | 31/03/2017 $’000 | 31/12/2016 $’000 |
|---|---|---|
| **Non-current liabilities** | | |
| ***Financial liabilities*** | | |
| Liquidated damages for late delivery of vessels payable to charterer | 8,302 | 1,119 |
| ***Non-financial liabilities*** | | |
| Employee benefit obligations | 42,312 | 36,385 |
| | 50,614 | 37,504 |
| **Current liabilities** | | |
| ***Financial liabilities*** | | |
| Trade payables | 54,504 | 46,032 |
| Other payables | 30,262 | 34,086 |
| Liquidated damages for late delivery of vessels payable to charterer | 9,225 | 11,800 |
| Dividends payable | 10,180 | 15,986 |
| Accrued liabilities | 47,318 | 46,292 |
| Accrued interest | 29,300 | 17,299 |
| ***Non-financial liabilities*** | | |
| Deferred revenue | 27,575 | 29,985 |
| Non-income based taxes payable | 18,612 | 13,304 |
| | 226,976 | 214,784 |

14. **Secured Bank Loans**

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

| | 31/03/2017 $’000 | 31/12/2016 $’000 |
|---|---|---|
| Repayable | | |
| - within twelve months after the end of the reporting period | 303,186 | 290,460 |
| - between one to two years | 306,051 | 309,162 |
| - between two to three years | 402,248 | 390,830 |
| - between three to four years | 370,733 | 227,658 |
| - between four to five years | 138,525 | 246,686 |
| - more than five years | 897,460 | 729,029 |
| | 2,418,203 | 2,193,825 |
| Less current portion | (303,186) | (290,460) |
| Non-current balance | 2,115,017 | 1,903,365 |

15. **Other Loans**

| | 31/03/2017 $’000 | 31/12/2016 $’000 |
|---|---|---|
| $800 million 5.375% Senior Notes due in 2017 (see Note 19) | 139,913 | 139,896 |
| $750 million 5.375% Senior Notes due in 2023 | 737,562 | 737,076 |
| | 877,475 | 876,972 |
| Less current portion | (139,913) | (139,896) |
| Non-current balance | 737,562 | 737,076 |

16. **Financial Risk Management**

(a) Categories of financial assets and financial liabilities

| | 31/03/2017 $'000 | 31/12/2016 $'000 |
|---|---|---|
| **Financial assets** | | |
| Derivative financial instruments in designated hedge accounting relationships | 15,682 | 7,519 |
| Restricted cash (Note 17) | 72,091 | 72,079 |
| Cash and bank deposits | 479,765 | 480,638 |
| Available-for-sale investments | 760 | 760 |
| Loans and other receivables | 135,731 | 124,737 |
| Loans to joint ventures | 50,313 | 50,324 |
| **Total financial assets** | 754,342 | 736,057 |
| **Financial liabilities** | | |
| Derivative financial instruments in designated hedge accounting relationships | 40,595 | 37,070 |
| Secured bank loans | 2,418,203 | 2,193,825 |
| Finance lease liabilities | 171,002 | 173,690 |
| Other loans | 877,475 | 876,972 |
| Other liabilities measured at amortised cost | 189,091 | 172,614 |
| **Total financial liabilities** | 3,696,366 | 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 | |
|---|---|---|---|---|
| | 31/03/2017 $'000 | 31/12/2016 $'000 | 31/03/2017 $'000 | 31/12/2016 $'000 |
| **Financial assets** | | | | |
| Loans to joint ventures | 50,313 | 50,324 | 48,542 | 48,256 |
| **Total financial assets** | 50,313 | 50,324 | 48,542 | 48,256 |
| **Financial liabilities** | | | | |
| Secured bank loans at fixed interest rates | 610,011 | 400,469 | 628,966 | 409,306 |
| Secured bank loans at floating interest rates | 1,808,192 | 1,793,356 | 1,805,710 | 1,794,306 |
| Other loans | 877,475 | 876,972 | 917,363 | 903,829 |
| Finance lease liabilities | 171,002 | 173,690 | 172,121 | 175,974 |
| **Total financial liabilities** | 3,466,680 | 3,244,487 | 3,524,160 | 3,283,415 |

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 a cross currency swap transaction. 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 31 March 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.

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

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

Recurring fair value measurements recognised in the statement of financial position

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **At 31 March 2017** | | | | |
| **Assets** | | | | |
| Derivative financial instruments in designated hedge accounting relationships | - | 15,682 | - | 15,682 |
| **Liabilities** | | | | |
| Derivative financial instruments in designated hedge accounting relationships | - | 40,595 | - | 40,595 |
| **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 31 March 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 31 March 2017** | | | | |
| **Assets** | | | | |
| Fleet | - | - | - | - |
| **At 31 December 2016** | | | | |
| **Assets** | | | | |
| Fleet | - | 52,470 | - | 52,470 |

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 31 March 2017** | | | | |
| **Fair value of assets** | | | | |
| Loans to joint ventures | - | 48,542 | - | 48,542 |
| | - | 48,542 | - | 48,542 |
| **Fair value of liabilities** | | | | |
| Secured bank loans at fixed interest rates | - | 628,966 | - | 628,966 |
| Secured bank loans at floating interest rates | - | 1,805,710 | - | 1,805,710 |
| Other loans | 917,363 | - | - | 917,363 |
| Finance lease liabilities | - | 172,121 | - | 172,121 |
| | 917,363 | 2,606,797 | - | 3,524,160 |
| **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 $2.6 million), currently included in trade and other receivables, is expected to be received in the second quarter of 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 $5.6 million) of which RUR284 million (equivalent to $5.0 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 $3.9 million) for the first vessel; such decision was confirmed by an appeal court in February 2017. Customs have submitted a further appeal and the case is expected to be resolved by the end of second quarter 2017. Courts have postponed the decision on the balance of the custom fee of RUR93 million (equivalent $1.7 million) relating to the second vessel but it is likely that the court proceedings will recommence in the third quarter of 2017. 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 2017.

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 is fixed for one day; either 4 or 5 October 2017. The Group has been advised by its legal counsel that it is only possible, but not probable, that the defendants will succeed. The Group will defend its position vigorously. Accordingly, no provision has been made.

A total amount of $1.0 million (31 March 2016 – $1.5 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) | |
|---|---|---|---|---|
| | 31/03/2017 $'000 | 31/03/2016 $'000 | 31/03/2017 $'000 | 31/12/2016 $'000 |
| **Transactions with Russian State controlled entities** | | | | |
| Freight and hire of vessels | (67,718) | (34,570) | 998 | 7,617 |
| Other operating revenues | (542) | - | - | - |
| Secured bank loans | 6,480 | - | (553,354) | (336,242) |
| Finance leases payable | 2,809 | 3,012 | (171,002) | (173,690) |
| Receivables from shipyard (liquidated damages for late delivery of vessels) | - | - | 22,000 | 11,800 |
| Payables to charterer (liquidated damages for late delivery of vessels) | - | - | (17,527) | (12,919) |
| Payments to related shipyards for vessels under construction | - | - | 76,400 | 104,000 |
| Cash at bank | (2,249) | (1,903) | 198,282 | 205,896 |
| Finance leases receivable | - | (3,032) | - | 764 |
| Allowance for credit losses on finance lease receivables | - | (57) | - | - |
| **Transactions with Joint Ventures** | | | | |
| Freight and hire of vessel | - | (2,255) | - | - |
| Other operating revenues | (789) | (749) | 822 | 473 |
| Loans due from joint ventures | (295) | (294) | 50,313 | 50,324 |
| **Compensation of Key Management Personnel** | | | | |
| Short term benefits | 2,409 | 1,969 | (5,276) | (3,599) |
| Post-employment benefits | 20 | 18 | (17) | (10) |
| Long term service benefits | 2,969 | 2,922 | (21,209) | (18,203) |
| | 5,398 | 4,909 | (26,502) | (21,812) |

## 18. Related Party Transactions (Continued)

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

On 16 March 2017, the Group entered into a $174.0 million credit facility with a Russian State controlled financial institution, 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 (see Note 19).

On 24 March 2017, the Group drew down from a loan facility granted by a Russian State controlled financial institution, an amount of $221.8 million to finance the construction and delivery of the ice breaking LNG carrier referred to in Note 6.

## 19. Events After the Reporting Period

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 disclosed in Note 15. 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 will be capitalised and amortised over the period to maturity of the Notes.

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 March 2017 (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 of the first vessel was transferred to the Group on 15 May 2017. An amount of $87.4 million was drawn down on 15 May 2017 to finance the acquisition of the first vessel (see Note 18). Legal ownership of the second vessel will be transferred on 22 May 2017. Corresponding finance lease liabilities recognised on the statement of financial position will be settled on transfer of ownership.

On 13 April 2017, the Group entered into an agreement for the bareboat chartering in of a seismic vessel for a fixed period of five years and six months with total commitments over the bareboat charter period of approximately $70.1 million. The vessel was delivered to the Group on 21 April 2017.

On 19 April 2017, the Group, entered into an agreement to purchase seismic equipment ("Purchase Agreement") for a total consideration of €14.8 million. An up-front payment of 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. On the same date a consent and assignment agreement was signed between the Group, the Seller 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.

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 (Note 15) 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.

## 20. Date of Issue

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 19 May 2017.