PAO SOVCOMFLOT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

31 March 2018

PAO Sovcomflot

Contents

PAO Sovcomflot

Condensed Consolidated Income Statement
For the period ended 31 March 2018
(unaudited)

	Note	Three months ended (unaudited) 31/03/2018 $'000	Three months ended (unaudited) 31/03/2017 $'000
Freight and hire revenue		345,368	361,153
Voyage expenses and commissions		(96,485)	(86,739)
Time charter equivalent revenues	2	248,883	274,414
Direct operating expenses			
Vessels' running costs		86,472	86,603
Charter hire payments		6,669	5,507
		(93,141)	(92,110)
Net earnings from vessels' trading		155,742	182,304
Other operating revenues		5,707	4,446
Other operating expenses		(2,670)	(2,331)
Depreciation, amortisation and impairment		(93,394)	(87,871)
General and administrative expenses		(30,017)	(30,893)
(Loss) / gain on sale of assets		(176)	7,167
Allowance for credit losses		242	(16)
Share of profits in equity accounted investments		1,467	2,590
Operating profit		36,901	75,396
Other (expenses) / income			
Financing costs		(49,150)	(41,891)
Interest income		2,768	2,725
Other non-operating expenses	17	(1,066)	(1,077)
Gain on ineffective hedging instruments		321	219
Foreign exchange gains		2,250	6,786
Foreign exchange losses		(2,889)	(1,576)
Net other expenses		(47,766)	(34,814)
(Loss) / profit before income taxes		(10,865)	40,582
Income tax expense	4	(5,212)	(665)
(Loss) / profit for the period		(16,077)	39,917
(Loss) / profit attributable to:			
Owners of the parent		(15,166)	38,847
Non-controlling interests		(911)	1,070
		(16,077)	39,917
Earnings per share			
Basic (loss) / earnings per share for the period attributable to equity holders of the parent		($0.008)	$0.020

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

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Condensed Consolidated Statement of Comprehensive Income
For the period ended 31 March 2018
(unaudited)

	Note	Three months ended (unaudited) 31/03/2018 $'000	31/03/2017 $'000
(Loss) / profit for the period		(16,077)	39,917
Other comprehensive income:			
Share of associates' other comprehensive income		1	10
Share of joint ventures' other comprehensive income	7	3,404	2,279
Exchange gain on translation from functional currency to presentation currency		364	1,593
Change in fair value of derivative financial instruments credited to other comprehensive income	8	16,255	3,058
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		20,024	6,940
Remeasurement losses on employee benefit obligations		(24)	(69)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(24)	(69)
Total other comprehensive income for the period, net of tax		20,000	6,871
Total comprehensive income for the period		3,923	46,788
Total comprehensive income attributable to:			
Owners of the parent		4,846	45,720
Non-controlling interests		(923)	1,068
		3,923	46,788

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Condensed Consolidated Statement of Financial Position – 31 March 2018 (unaudited)

	Note	31/03/2018 (unaudited) $'000	31/12/2017 $'000
Assets			
Non-current assets			
Fleet	5	6,343,581	6,291,344
Vessels under construction	6	109,751	81,837
Intangible assets		8,310	8,659
Other property, plant and equipment		48,598	49,323
Investment property		7,909	7,924
Investments in associates		150	132
Investments in joint ventures	7	127,971	123,117
Available-for-sale investments		523	523
Loans to joint ventures		58,488	55,511
Derivative financial instruments	8	61,749	35,909
Trade and other receivables	9	7,852	7,739
Deferred tax assets		9,060	8,162
Bank deposits	10	12,000	12,000
		6,795,942	6,682,180
Current assets			
Inventories		64,405	61,883
Derivative financial instruments	8	2,509	808
Trade and other receivables	9	99,909	146,922
Contract assets		18,080	-
Current tax receivable		5,650	6,487
Restricted cash		75,775	75,543
Cash and bank deposits	10	360,218	347,352
		626,546	638,995
Non-current assets held for sale	11	-	25,719
		626,546	664,714
Total assets		7,422,488	7,346,894
Equity and liabilities			
Capital and reserves			
Share capital		405,012	405,012
Reserves		2,861,619	2,860,208
Equity attributable to owners of the parent		3,266,631	3,265,220
Non-controlling interests		142,679	143,802
Total equity		3,409,310	3,409,022
Non-current liabilities			
Trade and other payables	13	29,186	28,413
Secured bank loans	14	2,313,295	2,262,821
Derivative financial instruments	8	16,250	12,812
Retirement benefit obligations		4,286	4,045
Other loans	15	903,118	902,412
Deferred tax liabilities		2,543	2,258
		3,268,678	3,212,761
Current liabilities			
Trade and other payables	13	292,497	285,574
Other loans	15	3,645	3,537
Secured bank loans	14	353,172	338,226
Current tax payable		2,997	4,890
Derivative financial instruments	8	15,854	17,370
Payable under high court judgement award	17	76,335	75,514
		744,500	725,111
Total liabilities		4,013,178	3,937,872
Total equity and liabilities		7,422,488	7,346,894

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

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Condensed Consolidated Statement of Changes in Equity
For the period ended 31 March 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
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
Change in fair value movement of derivative financial instruments credited to other comprehensive income	-	-	-	3,058	-	-	3,058	-	3,058
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**
At 1 January 2018	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,937,519**	**3,265,220**	**143,802**	**3,409,022**
Adjustment on initial application of IFRS 15 (net of tax)	-	-	-	-	-	(3,435)	(3,435)	(200)	(3,635)
Adjusted balance at 1 January 2018	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,934,084**	**3,261,785**	**143,602**	**3,405,387**
Loss for the period	-	-	-	-	-	(15,166)	(15,166)	(911)	(16,077)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	1	-	1	-	1
Share of joint ventures' other comprehensive income	-	-	-	3,404	-	-	3,404	-	3,404
Exchange gain / (loss) on translation from functional currency to presentation currency	-	-	-	-	373	-	373	(9)	364
Change in fair value movement of derivative financial instruments credited to other comprehensive income	-	-	-	16,255	-	-	16,255	-	16,255
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(21)	(21)	(3)	(24)
Total comprehensive income	-	-	-	19,659	374	(15,187)	4,846	(923)	3,923
At 31 March 2018 (unaudited)	**405,012**	**818,845**	**(834,490)**	**2,360**	**(43,993)**	**2,918,897**	**3,266,631**	**142,679**	**3,409,310**

Notes

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

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

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Condensed Consolidated Statement of Cash Flows
For the period ended 31 March 2018
(unaudited)

	Note	Three months ended (unaudited) 31/03/2018 $'000	31/03/2017 $'000
Operating Activities			
Cash received from freight and hire of vessels		343,799	353,438
Other cash receipts		10,178	4,600
Cash payments for voyage and running costs		(193,150)	(176,995)
Other cash payments		(42,731)	(27,296)
Cash generated from operations		118,096	153,747
Interest received		2,140	1,047
Income tax paid		(6,840)	(20,477)
Net cash inflow from operating activities		113,396	134,317
Investing Activities			
Expenditure on fleet	5	(5,471)	(10,330)
Expenditure on vessels under construction		(137,146)	(323,838)
Repayment of liquidated damages		(2,517)	-
Interest capitalised		(895)	(1,655)
Expenditure on intangibles and other property, plant and equipment		(180)	(251)
Loan repayments from joint ventures		-	282
Loans issued to joint ventures		(2,550)	-
Proceeds from sale of vessels		26,892	-
Proceeds from sale of other property, plant and equipment		-	5,140
Dividends received from equity accounted for investments		-	185
Bank term deposits	10	521	(98,443)
Net cash outflow used in investing activities		(121,346)	(428,910)
Financing Activities			
Proceeds from borrowings		174,010	311,287
Repayment of borrowings		(116,441)	(81,965)
Financing costs		(1,727)	(7,047)
Repayment of finance lease liabilities		-	(2,741)
Funds in retention bank accounts	10	(2,387)	(58)
Interest paid on borrowings		(32,844)	(24,765)
Interest paid on finance leases		-	(2,819)
Dividends paid		(2,159)	(6,673)
Net cash inflow from financing activities		18,452	185,219
Increase / (decrease) in Cash and Cash Equivalents		10,502	(109,374)
Cash and Cash Equivalents at 1 January	10	321,334	432,792
Net foreign exchange difference		498	10,000
Cash and Cash Equivalents at 31 March	10	332,334	333,418

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.

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

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 was issued in May 2014 and amended in April 2016, (effective as of 1st January 2018), 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. Therefore comparative information has not been restated and continues to be reported under IAS 18 "Revenue". The impact of changes is disclosed below.

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Notes to the Condensed Consolidated Interim Financial Statements – 31 March 2018 (Continued) (unaudited)

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

Significant Accounting Policies (continued)

IFRS 15 ("Revenue from Contracts with Customers") (continued)

The following tables summarise the impacts of adopting IFRS15 on the Group's consolidated financial statements for the period ended 31 March 2018.

Impact on the consolidated statement of financial position as at 31 March 2018:

	As reported 31/03/2018 $'000	Adjustments 31/03/2018 $'000	Balances without adoption of IFRS 15 31/03/2018 $'000
Assets			
Non-current assets	6,795,942	-	6,795,942
Current assets			
Voyage in progress	-	24,255	24,255
Deferred voyage costs	3,024	(3,024)	-
Other trade and other receivables	96,885	-	96,885
Trade and other receivables	99,909	21,231	121,140
Contract assets	18,080	(18,080)	-
Other current assets	508,557	-	508,557
Total current assets	626,546	3,151	629,697
Total assets	7,422,488	3,151	7,425,639
Equity and liabilities			
Capital and reserves			
Share capital	405,012	-	405,012
Reserves	2,861,619	2,992	2,864,611
Equity attributable to owners of the parent	3,266,631	2,992	3,269,623
Non-controlling interests	142,679	159	142,838
Total equity	3,409,310	3,151	3,412,461
Non-current liabilities	3,268,678	-	3,268,678
Current liabilities	744,500	-	744,500
Total liabilities	4,013,178	-	4,013,178
Total equity and liabilities	7,422,488	3,151	7,425,639

Impact on the consolidated income statement for the period ended 31 March 2018:

	As reported 31/03/2018 $'000	Adjustments 31/03/2018 $'000	Balances without adoption of IFRS 15 31/03/2018 $'000	As reported 31/03/2017 $'000
Freight and hire revenue	345,368	76	345,444	361,153
Voyage expenses and commissions	(96,485)	(560)	(97,045)	(86,739)
Time charter equivalent revenues	248,883	(484)	248,399	274,414
Direct operating expenses	(93,141)	-	(93,141)	(92,110)
Net earnings from vessels' trading	155,742	(484)	155,258	182,304
Operating expenses	(118,841)	-	(118,841)	(106,908)
Operating profit	36,901	(484)	36,417	75,396
Net other expenses	(47,766)	-	(47,766)	(34,814)
(Loss) / profit before income taxes	(10,865)	(484)	(11,349)	40,582
Income tax expense	(5,212)	-	(5,212)	(665)
(Loss) / profit for the period	(16,077)	(484)	(16,561)	39,917
(Loss) / profit attributable to:				
Owners of the parent	(15,166)	(443)	(15,609)	38,847
Non-controlling interests	(911)	(41)	(952)	1,070
	(16,077)	(484)	(16,561)	39,917
Earnings per share				
Basic (loss) / earnings per share for the period attributable to equity holders of the parent	($0.008)	$0.000	($0.008)	$0.020

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

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 as well as 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 those instruments meet the criteria for amortised cost measurement under IFRS 9 therefore reclassification for these instruments is not required.

There will be 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.

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

The adoption by the Group of ECL requirements for the period ended 31 March 2018 had a very insignificant increase in allowance.

c) Hedge accounting

The Group applied hedge accounting prospectively. At the date of initial application all of the Group’s existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 had no impact on Group’s financial statements.

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.

2. Time Charter Equivalent Revenues

	31/03/2018 $'000	31/03/2017 $'000
Freight and hire revenue		
Revenue from contracts with customers (freight)	141,607	169,612
Hire	203,761	191,541
	345,368	361,153
Voyage expenses and commissions		
Bunkers	(59,320)	(51,137)
Port costs	(32,883)	(30,870)
Commissions	(2,447)	(2,656)
Other voyage costs	(1,835)	(2,076)
	(96,485)	(86,739)
Time charter equivalent revenues	248,883	274,414

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

	31/03/2018 $'000	31/03/2017 $'000
Oil Product segment		
Handysize product tankers	5,891	3,964
MR2 product tankers	25,482	37,093
LR2 product tankers	19,074	19,045
	50,447	60,102
Crude Oil segment		
Aframax tankers	64,853	73,564
Suezmax tankers	25,698	34,675
	90,551	108,239
Gas segment		
LPG carriers	609	-
	609	-
Other segments		
Panamax bulkers	-	1,271
Total freight revenue	141,607	169,612

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 2018

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	104,414	45,344	122,830	70,079	2,701	345,368
Voyage expenses and commissions	(235)	(585)	(60,460)	(33,521)	(1,684)	(96,485)
Time charter equivalent revenues	104,179	44,759	62,370	36,558	1,017	248,883
Direct operating expenses						
Vessels' running costs	(14,930)	(7,702)	(33,436)	(25,035)	(5,369)	(86,472)
Charter hire payments	-	-	-	-	(6,669)	(6,669)
Net earnings / (losses) from vessels' trading	89,249	37,057	28,934	11,523	(11,021)	155,742
Vessels' depreciation	(28,777)	(8,901)	(24,538)	(13,056)	(1,434)	(76,706)
Vessels' drydock cost amortisation	(2,348)	(1,427)	(3,914)	(2,082)	(127)	(9,898)
Vessels' impairment provision (net)	-	-	(2,900)	(2,550)	-	(5,450)
Loss on sale of vessels	-	-	(257)	-	-	(257)
Non-income based taxes	(1,507)	-	-	-	-	(1,507)
Net foreign exchange (losses) / gains	(164)	-	-	(10)	342	168
Segment operating profit / (loss)	56,453	26,729	(2,675)	(6,175)	(12,240)	62,092
Unallocated						
General and administrative expenses						(28,510)
Financing costs						(49,150)
Other income and expenses (net)						5,510
Net foreign exchange losses						(807)
Loss before income taxes						(10,865)
Carrying amount of fleet in operation	2,056,698	1,226,219	1,970,760	1,014,330	75,574	6,343,581
Deadweight tonnage of fleet used in operations ('000)	1,339	552	7,227	2,449	156	11,723

3. **Segment Information (Continued)**

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

4. **Income Taxes**

	31/03/2018 $'000	31/03/2017 $'000
Russian Federation profit tax	5,683	3,258
Overseas income tax expense	100	73
Current income tax expense	5,783	3,331
Deferred tax	(571)	(2,666)
Total income tax expense	5,212	665

5. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
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
At 1 January 2018	8,491,703	177,268	8,668,971
Expenditure in period	2,637	2,971	5,608
Transfer from vessels under construction (Note 6)	137,589	1,000	138,589
Write-off of fully amortised drydock cost	-	(4,463)	(4,463)
Exchange adjustment	101	6	107
At 31 March 2018	8,632,030	176,782	8,808,812
Depreciation, amortisation and impairment			
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
At 1 January 2018	2,283,525	94,102	2,377,627
Charge for the period	76,706	9,898	86,604
Impairment provision	5,450	-	5,450
Write-off of fully amortised drydock cost	-	(4,463)	(4,463)
Exchange adjustment	8	5	13
At 31 March 2018	2,365,689	99,542	2,465,231
Net book value			
At 31 March 2018	6,266,341	77,240	6,343,581
At 31 December 2017	6,208,178	83,166	6,291,344

	31/03/2018	31/12/2017
Market value ($'000)	5,191,250	5,157,750
Current insured values ($'000)	6,785,398	6,652,398
Total deadweight tonnage (dwt)	11,717,024	11,713,915

As at 31 March 2018, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss.

The impairment recognised in the period ended 31 March 2018, based on fair value less costs of disposal of $2.9 million for one Aframax crude oil tanker, resulted from management's decision to dispose of this vessel. Impairment recognised in the period, based on value in use of $2.6 million for four Handysize ice class tankers, resulted from a change in estimate of operating revenues over the remaining life of the vessels.

6. **Vessels Under Construction**

	31/03/2018 $'000	31/03/2017 $'000
At 1 January	81,837	225,814
Expenditure in period	166,503	319,901
Transfer to fleet (Note 5)	(138,589)	(466,042)
At 31 March	109,751	79,673
Total deadweight tonnage (dwt)	808,000	462,000

The following vessel was delivered during the period:

Vessel Name	Vessel Type	Segment	DWT	Delivery Date
Yevgeny Primakov[1]	MIB standby vessel	Offshore	3,110	26 January 2018

[1] delivered to charter on 23 March 2018

Vessels under construction at 31 March 2018 comprised six ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and one LNG carrier scheduled for delivery between July 2018 and February 2020 at a total contracted cost to the Group of $651.0 million. As at 31 March 2018, $83.6 million of the contracted costs had been paid for.

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7. Investments in Joint Ventures

Investments in joint ventures are analysed as follows:

	31/03/2018 $'000	31/03/2017 $'000
At 1 January	123,117	114,761
Share of profits in joint ventures	1,450	2,578
Share of joint ventures' other comprehensive income	3,404	2,279
Dividends receivable	-	(185)
At 31 March	127,971	119,433

8. Derivative Financial Instruments

	31/03/2018 $'000	31/12/2017 $'000
Non-current asset	61,749	35,909
Current asset	2,509	808
Non-current liability	(16,250)	(12,812)
Current liability	(15,854)	(17,370)
	32,154	6,535

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.

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

	IRS		CCIRS		Total	
	31/03/2018 $'000	31/03/2017 $'000	31/03/2018 $'000	31/03/2017 $'000	31/03/2018 $'000	31/03/2017 $'000
Amount recognised in hedging reserve	10,302	(1,855)	7,982	(95)	18,284	(1,950)
Reclassified from hedging reserve and debited to finance costs	3,845	6,368	3,171	-	7,016	6,368
Reclassified from hedging reserve and credited to foreign exchange	-	-	(9,045)	(1,360)	(9,045)	(1,360)
Total in other comprehensive income	14,147	4,513	2,108	(1,455)	16,255	3,058

9. Trade and Other Receivables

	31/03/2018 $'000	31/12/2017 $'000
Non-current assets		
Financial assets		
Other receivables	71	77
Receivables under High Court judgement award	2,700	2,700
Liquidated damages on vessels under construction receivable from shipyard	5,081	4,962
	7,852	7,739
Current assets		
Financial assets		
Amounts due from charterers	53,293	70,376
Allowance for credit losses	(3,194)	(3,469)
	50,099	66,907
Casualty and other claims	8,143	6,448
Agents' balances	2,525	3,242
Other receivables	13,726	17,192
Liquidated damages on vessels under construction receivable from shipyard	-	5,000
Amounts due from joint ventures	984	410
Accrued income	4,627	4,085
Non-financial assets		
Prepayments	11,873	11,216
Voyage in progress	-	25,972
Deferred voyage costs	3,024	-
Non-income based taxes receivable	4,908	6,450
	99,909	146,922

10. Cash and Bank Deposits

	31/03/2018 $'000	31/12/2017 $'000
Non-current assets		
Bank deposits	12,000	12,000
Restricted deposits	(12,000)	(12,000)
Cash and cash equivalents	-	-
Current assets		
Cash and bank deposits	360,218	347,352
Bank deposits accessible on maturity	-	(521)
Retention accounts	(26,884)	(24,497)
Restricted deposits	(1,000)	(1,000)
Cash and cash equivalents	332,334	321,334

11. Non-Current Assets Held for Sale

	Property and other plant and equipment $'000	Fleet $'000	Total $'000
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
At 1 January 2018	-	25,719	25,719
Disposals in period	-	(25,719)	(25,719)
At 31 March 2018	-	-	-

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.

12. Dividends

No dividends were paid or declared during the period ended 31 March 2018 and 31 March 2017.

13. Trade and Other Payables

	31/03/2018 $'000	31/12/2017 $'000
Non-current liabilities		
Financial liabilities		
Liquidated damages for late delivery of vessels payable to charterer	19,097	19,386
Non-financial liabilities		
Employee benefit obligations	10,089	9,027
	29,186	28,413
Current liabilities		
Financial liabilities		
Trade payables	60,551	59,020
Other payables	32,966	29,942
Payables to shipyards for vessels under construction	23,462	11,800
Liquidated damages for late delivery of vessels payable to charterer	2,010	4,119
Dividends payable	10,740	12,801
Accrued liabilities	47,876	41,522
Accrued interest	30,558	17,049
Non-financial liabilities		
Deferred revenue	30,698	50,874
Employee benefit obligations	35,885	35,785
Non-income based taxes payable	17,750	22,662
	292,496	285,574

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14. Secured Bank Loans

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

	31/03/2018 $'000	31/12/2017 $'000
Repayable		
- within twelve months after the end of the reporting period	353,172	338,226
- between one to two years	434,677	472,511
- between two to three years	418,843	281,837
- between three to four years	196,743	306,796
- between four to five years	224,850	201,323
- more than five years	1,038,182	1,000,354
	2,666,467	2,601,047
Less current portion	(353,172)	(338,226)
Non-current balance	2,313,295	2,262,821

15. Other Loans

	31/03/2018 $'000	31/12/2017 $'000
$900 million 5.375% Senior Notes due in 2023	892,182	891,801
Other loan from related party	14,581	14,148
	906,763	905,949
Less current portion	(3,645)	(3,537)
Non-current balance	903,118	902,412

16. Financial Risk Management

(a) Categories of financial assets and financial liabilities

	31/03/2018 $'000	31/12/2017 $'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships	64,258	36,717
Restricted cash (Note 17)	75,775	75,543
Cash and bank deposits	372,218	359,352
Available-for-sale investments	523	523
Loans and other receivables	87,956	111,023
Loans to joint ventures	58,488	55,511
Total financial assets	659,218	638,669
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	32,104	30,182
Secured bank loans	2,666,467	2,601,047
Other loans	906,763	905,949
Other liabilities measured at amortised cost	227,260	195,639
Total financial liabilities	3,832,594	3,732,817

(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	
	31/03/2018 $'000	31/12/2017 $'000	31/03/2018 $'000	31/12/2017 $'000
Financial assets				
Loans to joint ventures	58,488	55,511	56,313	53,232
Liquidated damages on vessels under construction receivable from shipyard	5,081	9,962	5,081	9,962
Total financial assets	63,569	65,473	61,394	63,194
Financial liabilities				
Secured bank loans at fixed interest rates	760,656	765,028	788,086	792,895
Secured bank loans at floating interest rates	1,905,811	1,836,019	1,901,986	1,840,772
Other loans	906,763	905,949	931,409	947,328
Liquidated damages for late delivery of vessels payable to charterer	21,107	23,505	21,107	23,505
Total financial liabilities	3,594,337	3,530,501	3,642,588	3,604,500

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

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

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within Level 1) from observable current market transactions and dealer quotes for similar instruments.

The fair values of derivative instruments, including interest rate swaps and currency swaps, are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest and currency rates, as adjusted for credit risk.

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

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

The following table provides an analysis of financial instruments as at 31 March 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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 March 2018				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	64,258	-	64,258
	-	64,258	-	64,258
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	32,104	-	32,104
	-	32,104	-	32,104
At 31 December 2017				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	36,717	-	36,717
	-	36,717	-	36,717
Liabilities				
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 31 March 2018 and 31 December 2017.

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 2018				
Assets				
Fleet	-	7,236	-	7,236
	-	7,236	-	7,236
At 31 December 2017				
Assets				
Non-current assets held for sale	25,719	-	-	25,719
	25,719	-	-	25,719

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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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 March 2018				
Fair value of assets				
Loans to joint ventures	-	56,313	-	56,313
Liquidated damages on vessels under construction receivable from shipyard	-	5,081	-	5,081
	-	61,394	-	61,394
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	788,086	-	788,086
Secured bank loans at floating interest rates	-	1,901,986	-	1,901,986
Other loans	916,317	15,092	-	931,409
Liquidated damages for late delivery of vessels payable to charterer	-	21,107	-	21,107
	916,317	2,726,271	-	3,642,588
At 31 December 2017				
Fair value of assets				
Loans to joint ventures	-	53,232	-	53,232
Liquidated damages on vessels under construction receivable from shipyard	-	9,962	-	9,962
	-	63,194	-	63,194
Fair value of liabilities				
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
	932,625	2,671,875	-	3,604,500

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 $5.5 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 in June 2017 the higher appeal court overturned the previous decisions of the courts and confirmed correctness of the customs office claim. The case had been submitted by the Group to the Supreme Court in August 2017 and on 28 February 2018 the Supreme Courts found in favour of the Group, ratifying the initial decision of the courts. The courts had postponed the decision on the balance of the custom fee of RUR93 million (equivalent $1.6 million) relating to the second vessel pending outcome of the first case and in April 2018 the courts concluded that customs illegally imposed the custom fee for the second vessel as well. The return of the RUR314 million paid is expected by the end of 2018.

In relation to the Novoship (UK) Ltd claims which received judgment in December 2012, some of the defendants in the unsuccessful claims have indicated an intention to pursue the Group for damages in respect of $90.0 million of security provided during the litigation. No claim has yet been filed for damages.

In relation to the Fiona Litigation, on 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 has been determined. Total payments of $73.6 million and £1.1 million were made into Court in 2016 and 2017. The decision of the Supreme Court is awaited.

A total amount of $1.1 million (31 March 2017 – $1.0 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)	
	31/03/2018 $'000	31/03/2017 $'000	31/03/2018 $'000	31/12/2017 $'000
Transactions with Russian State controlled entities				
Freight and hire of vessels	(91,403)	(67,718)	3,255	4,446
Voyage expenses and commissions	225	-	(113)	(461)
Other operating revenues	(106)	(542)	125	(2,379)
Other operating expenses	288	252	2	2
Other loans	147	-	(14,754)	(14,175)
Secured bank loans	12,411	6,480	(721,383)	(723,518)
Finance leases payable	-	2,809	-	-
Receivables from shipyard (liquidated damages for late delivery of vessels)	-	-	5,081	9,962
Payables to charterer (liquidated damages for late delivery of vessels)	-	-	(21,107)	(23,505)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	105,452	288,187
Cash at bank	(929)	(2,249)	118,584	144,289
Derivative financial instruments	12,214	1,667	32,127	20,976
Transactions with Joint Ventures				
Other operating revenues	(826)	(789)	984	410
Loans due from joint ventures	(458)	(295)	58,634	55,622
Compensation of Key Management Personnel				
Short term benefits	2,127	2,409	(3,575)	(2,506)
Post-employment benefits	14	20	(15)	(18)
Long term service benefits	508	2,969	(21,640)	(21,129)
	2,649	5,398	(25,230)	(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 5 April 2018, the Group entered into a secured bank loan facility totalling $252.0 million, to finance the construction of six ice-class LNG fuelled Aframax crude oil tankers referred to in Note 6. The loan bears interest at three month US Dollar LIBOR plus 1.90% margin per annum and it is repayable in 28 equal consecutive quarterly instalments, commencing three months after the delivery date of each vessel by the shipyard, with a balloon of $134.4 million payable together with the final instalment.

On 12 April 2018, the Group signed an agreement for the sale of one Aframax crude oil tanker, which was delivered to her new owners on 10 May 2018.

On 15 May 2018, the Group entered into a secured bank loan facility totalling $31.0 million divided into two tranches of $18.0 million and $13.0 million maturing in June 2025 and in June 2023, respectively. The loan bears interest at three month US Dollar LIBOR plus 1.90% margin per annum.

20. **Date of Issue**

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 18 May 2018.