

PAO SOVCOMFLOT

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2015

PAO Sovcomflot

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Condensed Consolidated Income Statement
For the period ended 30 September 2015

		Nine months ended		Three months ended		Year ended
		30/09/2015	30/09/2014	30/09/2015	30/09/2014	2014
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Freight and hire revenue		1,143,490	1,059,225	388,608	384,064	1,387,366
Voyage expenses and commissions		(196,893)	(263,656)	(59,578)	(79,176)	(343,390)
Time charter equivalent revenues		<u>946,597</u>	<u>795,569</u>	<u>329,030</u>	<u>304,888</u>	<u>1,043,976</u>
Direct operating expenses						
Vessels' running costs		256,211	262,251	84,387	93,368	349,116
Charter hire payments		45,605	45,832	19,043	27,267	52,675
		<u>(301,816)</u>	<u>(308,083)</u>	<u>(103,430)</u>	<u>(120,635)</u>	<u>(401,791)</u>
Net earnings from vessels' trading		644,781	487,486	225,600	184,253	642,185
Other operating revenues		16,706	26,114	6,591	10,058	31,907
Other operating expenses		(8,125)	(19,837)	(2,391)	(7,850)	(24,553)
Depreciation, amortisation and impairment		(223,026)	(220,104)	(73,638)	(76,362)	(321,533)
General and administrative expenses		(76,915)	(76,190)	(25,755)	(24,680)	(104,010)
Gain on sale of assets		9,235	10,645	936	81	9,904
Gain / (loss) on sale of investments		4,675	(363)	-	(363)	(356)
Allowance for credit losses		(180)	1,659	(304)	471	1,848
Provisions		-	(52)	-	-	(52)
Share of profits in equity accounted investments		12,665	8,338	4,840	3,638	12,874
Operating profit		<u>379,816</u>	<u>217,696</u>	<u>135,879</u>	<u>89,246</u>	<u>248,214</u>
Other (expenses) / income						
Financing costs		(105,012)	(104,460)	(35,243)	(33,746)	(138,325)
Interest income		12,663	12,528	3,982	4,476	16,672
Other non-operating income	17	40,559	3,346	-	3,314	3,402
Other non-operating expenses	17	(3,349)	(6,482)	(1,035)	(2,152)	(8,620)
Gain / (loss) on ineffective hedging instruments		203	454	(138)	344	442
Gain on derivative financial instruments held for trading		-	5,679	-	482	6,164
Foreign exchange differences		(8,580)	(12,345)	(7,983)	(13,627)	(36,970)
Net other expenses		<u>(63,516)</u>	<u>(101,280)</u>	<u>(40,417)</u>	<u>(40,909)</u>	<u>(157,235)</u>
Profit before income taxes		316,300	116,416	95,462	48,337	90,979
Income tax expense	15	(18,426)	(7,363)	(13,894)	(2,885)	(7,085)
Profit for the period		<u>297,874</u>	<u>109,053</u>	<u>81,568</u>	<u>45,452</u>	<u>83,894</u>
Profit attributable to:						
Owners of the parent		285,234	105,610	79,960	45,129	80,058
Non-controlling interests		12,640	3,443	1,608	323	3,836
		<u>297,874</u>	<u>109,053</u>	<u>81,568</u>	<u>45,452</u>	<u>83,894</u>
Earnings per share						
Basic earnings per share for the period attributable to equity holders of the parent		<u>\$0.145</u>	<u>\$0.054</u>	<u>\$0.041</u>	<u>\$0.023</u>	<u>\$0.041</u>

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

PAO Sovcomflot

Condensed Consolidated Statement of Comprehensive Income
For the period ended 30 September 2015

		Nine months ended		Three months ended		Year ended
		30/09/2015	30/09/2014	30/09/2015	30/09/2014	2014
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Profit for the period		297,874	109,053	81,568	45,452	83,894
Other comprehensive income:						
Share of associates' other comprehensive income		(17)	(39)	(20)	(31)	(84)
Share of joint ventures' other comprehensive income	5	656	3,748	(2,118)	4,153	2,703
Exchange differences on translation of foreign operations		(7,811)	(11,806)	(5,523)	(9,474)	(27,954)
Reclassification adjustment relating to foreign investments disposed of during the period		1,834	-	-	-	-
Derivative financial instruments recycled and debited to the income statement		20,261	16,357	5,268	4,513	20,081
Fair value movement of derivative financial instruments (debited) / credited to other comprehensive income		(30,656)	(11,901)	(25,114)	3,794	(23,265)
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		(15,733)	(3,641)	(27,507)	2,955	(28,519)
Remeasurement (losses) / gains on retirement benefit obligations		(170)	725	(3)	60	1,252
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(170)	725	(3)	60	1,252
Total other comprehensive income for the period, net of tax		(15,903)	(2,916)	(27,510)	3,015	(27,267)
Total comprehensive income for the period		281,971	106,137	54,058	48,467	56,627
Total comprehensive income attributable to:						
Owners of the parent		269,831	103,940	53,201	49,202	55,819
Non-controlling interests		12,140	2,197	857	(735)	808
		281,971	106,137	54,058	48,467	56,627

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

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Condensed Consolidated Statement of Financial Position – 30 September 2015

	Note	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Assets				
Non-current assets				
Fleet	3	5,475,485	5,440,743	5,278,983
Vessels under construction	4	319,593	229,655	237,250
Other property, plant and equipment		66,435	79,168	74,646
Investment property		8,820	13,201	10,341
Other assets under construction		-	8,893	-
Investments in associates		118	185	118
Investments in joint ventures	5	90,680	79,216	82,430
Available-for-sale investments		1,012	1,012	1,012
Loans to joint ventures		53,217	60,708	59,942
Finance lease receivables	6	68,102	72,462	71,469
Derivative financial instruments		2,834	13,584	7,438
Trade and other receivables	7	17,323	17,563	17,363
Deferred tax assets		4,086	3,426	3,575
Cash and bank deposits	8	10,000	7,000	12,315
		<u>6,117,705</u>	<u>6,026,816</u>	<u>5,856,882</u>
Current assets				
Inventories		41,913	61,142	45,825
Loans to joint ventures		7,750	6,280	4,750
Trade and other receivables	7	185,110	207,599	161,351
Finance lease receivables	6	4,697	4,040	4,193
Current tax receivable		1,286	1,276	593
Cash and bank deposits	8	416,973	301,520	272,201
		<u>657,729</u>	<u>581,857</u>	<u>488,913</u>
Non-current assets held for sale	9	19,728	31,767	93,163
		<u>677,457</u>	<u>613,624</u>	<u>582,076</u>
Total assets		<u><u>6,795,162</u></u>	<u><u>6,640,440</u></u>	<u><u>6,438,958</u></u>
Equity and liabilities				
Capital and reserves				
Share capital		405,012	405,012	405,012
Reserves		<u>2,845,368</u>	<u>2,644,201</u>	<u>2,596,080</u>
Equity attributable to owners of the parent		<u>3,250,380</u>	<u>3,049,213</u>	<u>3,001,092</u>
Non-controlling interests		<u>167,174</u>	<u>157,778</u>	<u>156,389</u>
Total equity		<u><u>3,417,554</u></u>	<u><u>3,206,991</u></u>	<u><u>3,157,481</u></u>
Non-current liabilities				
Secured bank loans	12	1,713,900	1,632,884	1,587,956
Finance lease liabilities	13	176,302	186,250	183,810
Derivative financial instruments		42,118	35,881	37,808
Employee benefit obligations		16,327	5,135	3,390
Other loans	14	936,431	841,545	842,882
Provisions		835	3,543	3,244
Deferred tax liabilities		<u>13,585</u>	<u>5,215</u>	<u>1,258</u>
		<u>2,899,498</u>	<u>2,710,453</u>	<u>2,660,348</u>
Current liabilities				
Trade and other payables	11	179,848	255,101	190,507
Secured bank loans	12	261,835	432,093	394,652
Finance lease liabilities	13	9,948	9,320	9,481
Current tax payable		365	740	1,653
Derivative financial instruments		<u>26,114</u>	<u>25,742</u>	<u>24,836</u>
		<u>478,110</u>	<u>722,996</u>	<u>621,129</u>
Total equity and liabilities		<u><u>6,795,162</u></u>	<u><u>6,640,440</u></u>	<u><u>6,438,958</u></u>

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

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Condensed Consolidated Statement of Changes in Equity
For the period ended 30 September 2015

	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 2014	405,012	818,845	(834,490)	(81,319)	(6,082)	2,652,261	2,954,227	157,045	3,111,272
Profit for the period	-	-	-	-	-	105,610	105,610	3,443	109,053
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(39)	-	(39)	-	(39)
Share of joint ventures' other comprehensive income	-	-	-	3,748	-	-	3,748	-	3,748
Exchange differences on translation of foreign operations	-	-	-	-	(10,483)	-	(10,483)	(1,323)	(11,806)
Derivative financial instruments recycled and debited to the income statement	-	-	-	16,357	-	-	16,357	-	16,357
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(11,901)	-	-	(11,901)	-	(11,901)
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	648	648	77	725
Total comprehensive income	-	-	-	8,204	(10,522)	106,258	103,940	2,197	106,137
Dividends (Note 10)	-	-	-	-	-	(8,954)	(8,954)	(1,464)	(10,418)
At 30 September 2014	405,012	818,845	(834,490)	(73,115)	(16,604)	2,749,565	3,049,213	157,778	3,206,991
Loss / (profit) for the period	-	-	-	-	-	(25,552)	(25,552)	393	(25,159)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(45)	-	(45)	-	(45)
Share of joint ventures' other comprehensive income	-	-	-	(1,045)	-	-	(1,045)	-	(1,045)
Exchange differences on translation of foreign operations	-	-	-	-	(14,309)	-	(14,309)	(1,839)	(16,148)
Derivative financial instruments recycled and debited to the income statement	-	-	-	3,724	-	-	3,724	-	3,724
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(11,364)	-	-	(11,364)	-	(11,364)
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	470	470	57	527
Total comprehensive income	-	-	-	(8,685)	(14,354)	(25,082)	(48,121)	(1,389)	(49,510)
At 31 December 2014	405,012	818,845	(834,490)	(81,800)	(30,958)	2,724,483	3,001,092	156,389	3,157,481
Profit for the period	-	-	-	-	-	285,234	285,234	12,640	297,874
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(17)	-	(17)	-	(17)
Share of joint ventures' other comprehensive income	-	-	-	670	(14)	-	656	-	656
Exchange differences on translation of foreign operations	-	-	-	-	(7,229)	-	(7,229)	(582)	(7,811)
Reclassification adjustment relating to foreign investments disposed of during the period	-	-	-	-	1,734	-	1,734	100	1,834
Derivative financial instruments recycled and debited to the income statement	-	-	-	20,261	-	-	20,261	-	20,261
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(30,656)	-	-	(30,656)	-	(30,656)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(152)	(152)	(18)	(170)
Total comprehensive income	-	-	-	(9,725)	(5,526)	285,082	269,831	12,140	281,971
Dividends (Note 10)	-	-	-	-	-	(20,543)	(20,543)	(1,355)	(21,898)
At 30 September 2015	405,012	818,845	(834,490)	(91,525)	(36,484)	2,989,022	3,250,380	167,174	3,417,554

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 financial statements.

PAO Sovcomflot

Condensed Consolidated Statement of Cash Flows
For the period ended 30 September 2015

		Nine months ended		Year ended
	Note	30/09/2015	30/09/2014	31/12/2014
		\$'000	\$'000	\$'000
Operating Activities				
Cash received from freight and hire of vessels		1,113,419	997,300	1,372,592
Other cash receipts		60,192	34,645	44,556
Cash payments for voyage and running costs		(497,470)	(571,369)	(749,611)
Other cash payments		(99,311)	(113,740)	(168,633)
Cash generated from operations		576,830	346,836	498,904
Interest received		2,457	1,821	2,455
Income tax paid		(8,711)	(7,892)	(10,259)
Net cash inflow from operating activities		570,576	340,765	491,100
Investing Activities				
Expenditure on fleet		(30,973)	(20,499)	(26,888)
Expenditure on vessels under construction		(485,808)	(457,805)	(492,434)
Expenditure on assets held for sale		-	(438)	(419)
Interest capitalised		(4,362)	(5,286)	(6,945)
Expenditure on other property, plant and equipment		(2,121)	(2,949)	(3,971)
Investment in joint venture		(107)	-	-
Loan repayments from joint ventures		3,978	4,617	7,030
Loans issued to joint ventures		-	(1,020)	(1,020)
Proceeds from sale of investments net of cash disposed		7,532	-	-
Proceeds from sale of vessels		108,113	113,619	123,298
Proceeds from sale of other property, plant and equipment		9,580	7,311	8,711
Capital element received on finance leases		3,051	3,069	4,108
Interest received on finance leases		10,028	13,590	17,593
Dividends received from equity accounted for investments	5	772	2,531	2,531
Bank term deposits	8	(1,632)	1,452	391
Other receipts		-	285	285
Net cash outflow used in investing activities		(381,949)	(341,523)	(367,730)
Financing Activities				
Proceeds from borrowings		493,081	393,830	425,634
Repayment of borrowings		(412,399)	(246,536)	(361,824)
Financing costs		(6,714)	(6,501)	(7,269)
Repayment of finance lease liabilities		(7,220)	(6,759)	(9,098)
Restricted deposits	8	1,039	1,100	(4,215)
Funds in retention bank accounts	8	(10,728)	(3,393)	(2,062)
Interest paid on borrowings		(76,527)	(75,476)	(116,643)
Interest paid on finance leases		(9,459)	(9,921)	(13,141)
Dividends paid		(21,858)	(10,174)	(10,192)
Net cash (outflow) / inflow from financing activities		(50,785)	36,170	(98,810)
Increase in Cash and Cash Equivalents		137,842	35,412	24,560
Cash and Cash Equivalents at 1 January	8	253,840	256,750	256,750
Net foreign exchange difference		(6,706)	(9,273)	(27,470)
Cash and Cash Equivalents at 30 September / 31 December	8	384,976	282,889	253,840

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

PAO Sovcomflot

Notes to the Condensed Consolidated Financial Statements – 30 September 2015

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 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 122 vessels at the period end, comprising 106 tankers, 1 chartered in seismic vessel, 8 gas carriers, 3 bulk carriers and 4 ice breaking supply vessels. For major changes in the period in relation to the fleet see also Notes 3, 4 and 9. In addition the Group through its subsidiaries owns 9 escort tug vessels which have been chartered out on bareboat charter to a former associate undertaking (see Note 6).

Statement of compliance

The condensed consolidated 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 2014.

Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. 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 2015, they do not have an impact on the condensed consolidated financial statements of the Group.

IAS 19 ("Employee Benefits") - These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment is not relevant to the Group, since none of the entities of the Group have defined benefit plans with contributions from employees or third parties.

Annual Improvements to IFRSs 2010–2012 Cycle

These improvements are effective from annual periods beginning on or after 1 July 2014 and the Group has applied these amendments for the first time in the current period. None of these amendments however impact the Group. They include:

- IFRS 2 "Share-Based Payment" – "Definition of vesting condition";
- IFRS 3 "Business Combinations" – "Accounting for contingent consideration in a business combination";
- IFRS 8 "Operating Segments" – "Aggregation of operating segments";
- IFRS 8 "Operating Segments" – "Reconciliation of the total of the reportable segments' assets to the entity's assets";
- IFRS 13 "Fair Value Measurement: Short-term receivables and payables";
- IAS 16 "Property, Plant and Equipment" – "Revaluation method—proportionate restatement of accumulated depreciation";
- IAS 24 "Related Party Disclosures" – "Key management personnel"; and
- IAS 38 "Intangible Assets" – "Revaluation method – proportionate restatement of accumulated amortisation".

Annual Improvements to IFRSs 2011–2013 Cycle

These improvements are effective from annual periods beginning on or after 1 July 2014 and the Group has applied these amendments for the first time in the current period. None of these amendments however impact the Group. They include:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards" – "Meaning of 'effective IFRSs'";
- IFRS 3 "Business Combinations" – "Scope exceptions for joint ventures";
- IFRS 13 "Fair Value Measurement" – "Scope of paragraph 52 (portfolio exception)"; and
- IAS 40 "Investment Property" – "Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property".

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 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 2014.

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Notes to the Condensed Consolidated Financial Statements – 30 September 2015
(Continued)

2. Segment Information

For management purposes, the Group is organised into business units (operating segments) based on the main types of activities and has five reportable operating segments. Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Period ended 30 September 2015

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and hire revenue	524,117	249,765	100,837	170,547	98,224	1,143,490
Voyage expenses and commissions	(121,636)	(62,316)	(302)	(944)	(11,695)	(196,893)
Time charter equivalent revenues	402,481	187,449	100,535	169,603	86,529	946,597
Direct operating expenses						
Vessels' running costs	(115,971)	(73,350)	(15,708)	(36,575)	(14,607)	(256,211)
Charter hire payments	-	-	-	-	(45,605)	(45,605)
Net earnings from vessels' trading	286,510	114,099	84,827	133,028	26,317	644,781
Vessels' depreciation	(85,289)	(34,628)	(18,876)	(43,335)	(2,138)	(184,266)
Vessels' drydock cost amortisation	(13,766)	(4,510)	(3,540)	(3,795)	(605)	(26,216)
Vessels' impairment provision (net)	-	(5,368)	-	-	(2,734)	(8,102)
Gain / (loss) on sale of vessels	2,531	(1,792)	-	-	-	739
Foreign exchange differences	-	229	-	(24)	(5,227)	(5,022)
Segment operating profit	<u>189,986</u>	<u>68,030</u>	<u>62,411</u>	<u>85,874</u>	<u>15,613</u>	<u>421,914</u>
Unallocated						
General and administrative expenses						(76,915)
Financing costs						(105,012)
Other income and expenses						79,871
Foreign exchange differences						(3,558)
Profit before income taxes						<u>316,300</u>
Carrying amount of fleet in operation	<u>2,320,023</u>	<u>953,911</u>	<u>982,326</u>	<u>1,145,795</u>	<u>73,430</u>	<u>5,475,485</u>
Carrying amount of non-current assets held for sale	<u>-</u>	<u>14,778</u>	<u>-</u>	<u>-</u>	<u>4,950</u>	<u>19,728</u>
Deadweight tonnage of fleet used in operations ('000)	<u>7,651</u>	<u>1,903</u>	<u>471</u>	<u>1,196</u>	<u>222</u>	<u>11,443</u>

Period ended 30 September 2014

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and hire revenue	478,588	249,281	61,660	166,203	103,493	1,059,225
Voyage expenses and commissions	(161,614)	(91,165)	(1,698)	(515)	(8,664)	(263,656)
Time charter equivalent revenues	316,974	158,116	59,962	165,688	94,829	795,569
Direct operating expenses						
Vessels' running costs	(115,632)	(85,763)	(13,008)	(32,816)	(15,032)	(262,251)
Charter hire payments	-	-	-	-	(45,832)	(45,832)
Net earnings from vessels' trading	201,342	72,353	46,954	132,872	33,965	487,486
Vessels' depreciation	(80,765)	(38,829)	(8,981)	(42,363)	(2,705)	(173,643)
Vessels' drydock cost amortisation	(14,081)	(8,611)	(2,279)	(3,705)	(995)	(29,671)
Vessels' impairment provision (net)	-	(10,623)	-	-	-	(10,623)
Gain / (loss) on sale of vessels	4,728	(185)	(71)	-	-	4,472
Foreign exchange differences	-	43	-	58	(9,403)	(9,302)
Segment operating profit	<u>111,224</u>	<u>14,148</u>	<u>35,623</u>	<u>86,862</u>	<u>20,862</u>	<u>268,719</u>
Unallocated						
General and administrative expenses						(76,190)
Financing costs						(104,460)
Other income and expenses						31,390
Foreign exchange differences						(3,043)
Profit before income taxes						<u>116,416</u>
Carrying amount of fleet in operation	<u>2,463,447</u>	<u>1,100,495</u>	<u>592,354</u>	<u>1,192,980</u>	<u>91,467</u>	<u>5,440,743</u>
Carrying amount of non-current assets held for sale	<u>-</u>	<u>22,497</u>	<u>9,270</u>	<u>-</u>	<u>-</u>	<u>31,767</u>
Deadweight tonnage of fleet used in operations ('000)	<u>7,811</u>	<u>2,145</u>	<u>325</u>	<u>1,196</u>	<u>228</u>	<u>11,705</u>

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3. Fleet

	Vessels \$'000	Drydock \$'000	Total Fleet \$'000
Cost			
At 1 January 2014	6,671,203	155,838	6,827,041
Expenditure in period	2,885	15,879	18,764
Transfer from vessels under construction (Note 4)	500,174	10,470	510,644
Transfer to non-current assets held for sale (Note 9)	(54,457)	(3,409)	(57,866)
Disposals in period	(89,082)	(2,636)	(91,718)
Write-off of fully amortised drydock cost	-	(16,170)	(16,170)
At 30 September 2014	7,030,723	159,972	7,190,695
Expenditure in period	946	7,412	8,358
Transfer from vessels under construction (Note 4)	324	-	324
Transfer to non-current assets held for sale (Note 9)	(252,074)	(3,846)	(255,920)
Write-off of fully amortised drydock cost	-	(3,884)	(3,884)
At 31 December 2014	6,779,919	159,654	6,939,573
Expenditure in period	649	29,451	30,100
Transfer from vessels under construction (Note 4)	408,832	8,000	416,832
Transfer to non-current assets held for sale (Note 9)	(18,864)	(1,602)	(20,466)
Disposals in period	(54,832)	(1,791)	(56,623)
Write-off of fully amortised drydock cost	-	(28,391)	(28,391)
At 30 September 2015	<u>7,115,704</u>	<u>165,321</u>	<u>7,281,025</u>
Depreciation, amortisation and impairment			
At 1 January 2014	1,555,334	65,557	1,620,891
Charge for the period	173,643	29,671	203,314
Impairment provision	2,280	-	2,280
Transfer to non-current assets held for sale (Note 9)	(30,153)	(2,604)	(32,757)
Eliminated on disposal	(25,448)	(2,158)	(27,606)
Write-off of fully amortised drydock cost	-	(16,170)	(16,170)
At 30 September 2014	1,675,656	74,296	1,749,952
Charge for the period	58,318	10,122	68,440
Impairment provision	27,974	-	27,974
Transfer to non-current assets held for sale (Note 9)	(179,730)	(2,162)	(181,892)
Write-off of fully amortised drydock cost	-	(3,884)	(3,884)
At 31 December 2014	1,582,218	78,372	1,660,590
Charge for the period	184,266	26,216	210,482
Impairment provision	1,497	-	1,497
Transfer to non-current assets held for sale (Note 9)	(12,788)	(1,490)	(14,278)
Eliminated on disposal	(23,330)	(1,030)	(24,360)
Write-off of fully amortised drydock cost	-	(28,391)	(28,391)
At 30 September 2015	<u>1,731,863</u>	<u>73,677</u>	<u>1,805,540</u>
Net book value			
At 30 September 2015	<u>5,383,841</u>	<u>91,644</u>	<u>5,475,485</u>
At 30 September 2014	<u>5,355,067</u>	<u>85,676</u>	<u>5,440,743</u>
At 31 December 2014	<u>5,197,701</u>	<u>81,282</u>	<u>5,278,983</u>
	30/09/2015	30/09/2014	31/12/2014
Market value (\$'000)	<u>5,147,750</u>	<u>4,861,500</u>	<u>4,777,500</u>
Current insured values (\$'000)	<u>5,853,711</u>	<u>5,980,372</u>	<u>5,856,922</u>
Total deadweight tonnage (dwt)	<u>11,349,242</u>	<u>11,634,590</u>	<u>11,390,550</u>

Included in the Group's fleet are 2 vessels (2014 – 2) held under finance leases with an aggregate carrying value as at 30 September 2015 of \$198.0 million (31 December 2014 – \$199.9 million).

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4. Vessels Under Construction

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
At 1 January	237,250	244,584	244,584
Expenditure in period	499,175	495,715	503,634
Transfer to fleet (Note 3)	(416,832)	(510,644)	(510,968)
At 30 September / 31 December	319,593	229,655	237,250
Total deadweight tonnage (dwt)	233,800	423,200	423,200

Vessels delivered during the period comprised the following:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Segment</u>	<u>DWT</u>	<u>Delivery Date</u>
SCF Melampus	LNG carrier	Gas	93,508	3 January 2015
SCF Mitre	LNG carrier	Gas	93,586	23 April 2015

Vessels under construction at 30 September 2015 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel, three MIB standby vessels and three Arctic shuttle tankers scheduled for delivery between June 2016 and June 2017 at a total contracted cost to the Group of \$1,279.0 million. As at 30 September 2015, \$296.8 million of the contracted costs had been paid for.

5. Joint Ventures

Investments in joint ventures are analysed as follows:

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
At 1 January	82,430	72,507	72,507
Investment in joint venture during the period	107	-	-
Share of profits in joint ventures	12,627	8,303	12,861
Share of joint ventures' other comprehensive income	656	3,748	2,703
Dividends receivable	(2,731)	(2,531)	(2,531)
Release of provision for share in net liabilities of joint ventures	(2,409)	(2,811)	(3,110)
At 30 September / 31 December	90,680	79,216	82,430

6. Finance Lease Receivables

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Gross finance lease receivable			
At 1 January	85,518	89,136	89,136
Finance lease interest receivable	9,454	9,876	13,137
Finance lease instalments receivable	(12,531)	(12,531)	(16,755)
At 30 September / 31 December	82,441	86,481	85,518
Allowance for credit losses			
At 1 January	(9,856)	(6,572)	(6,572)
Release of / (allowance for) credit losses	214	(3,407)	(3,284)
At 30 September / 31 December	(9,642)	(9,979)	(9,856)
Receivable net of provision	72,799	76,502	75,662
Less current finance lease receivables	(4,697)	(4,040)	(4,193)
Non-current finance lease receivables	68,102	72,462	71,469

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Notes to the Condensed Consolidated Financial Statements – 30 September 2015
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7. Trade and Other Receivables

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Non-current assets			
Other receivables	134	380	180
Security deposits	17,189	17,183	17,183
	<u>17,323</u>	<u>17,563</u>	<u>17,363</u>
Current assets			
Amounts due from charterers	90,058	122,884	82,272
Allowance for credit losses	(4,658)	(4,009)	(4,214)
	<u>85,400</u>	<u>118,875</u>	<u>78,058</u>
Casualty and other claims	11,453	2,154	3,887
Agents' balances	3,030	5,002	4,807
Other receivables	21,875	20,061	24,736
Amounts due from joint ventures	2,441	1,140	280
Security deposits	379	9,348	6,060
Amounts due from lessee for finance leases	1,377	2,685	1,869
Receivables under High Court judgement award	2,708	2,708	2,708
Prepayments	15,219	15,114	17,315
Voyages in progress	17,934	13,088	16,601
Accrued income	23,294	17,424	5,030
	<u>185,110</u>	<u>207,599</u>	<u>161,351</u>

8. Cash and Bank Deposits

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Non-current assets			
Cash and bank deposits	10,000	7,000	12,315
Restricted deposits	(10,000)	(7,000)	(12,315)
Cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>
Current assets			
Cash and bank deposits	416,973	301,520	272,201
Bank deposits accessible on maturity	(3,074)	(381)	(1,442)
Retention accounts	(27,647)	(18,250)	(16,919)
Restricted deposits	(1,276)	-	-
Cash and cash equivalents	<u>384,976</u>	<u>282,889</u>	<u>253,840</u>

9. Non-Current Assets Held for Sale

	Building \$'000	Fleet \$'000	Total \$'000
At 1 January 2014	15,792	58,460	74,252
Transfer from fleet (Note 3)	-	25,109	25,109
Expenditure in period	-	419	419
Impairment provision	-	(9,166)	(9,166)
Reversal of impairment provision	-	823	823
Exchange adjustment	(777)	-	(777)
Disposals in period	(15,015)	(43,878)	(58,893)
At 30 September 2014	-	31,767	31,767
Transfer from fleet (Note 3)	-	74,028	74,028
Impairment provision	-	(3,338)	(3,338)
Disposals in period	-	(9,294)	(9,294)
At 31 December 2014	-	93,163	93,163
Transfer from fleet (Note 3)	-	6,188	6,188
Impairment provision	-	(7,755)	(7,755)
Reversal of impairment provision	-	1,150	1,150
Disposals in period	-	(73,018)	(73,018)
At 30 September 2015	<u>-</u>	<u>19,728</u>	<u>19,728</u>

As at 31 December 2014, non-current assets held for sale, comprised five chemical oil product tankers, two asphalt chemical tankers and four MR product tankers.

During the period ended 30 September 2015 the Group disposed of three chemical oil product tankers and all of the asphalt chemical tankers and MR product tankers held for sale at 31 December 2014.

In addition, during the period ended 30 September 2015 the Group classified one of its bulk carriers as held for sale. The vessel is actively marketed for sale at a price approximate to its fair value (see also Note 19).

10. Dividends

Dividends of Rouble 0.57 per share totalling Roubles 1,126.0 million, equivalent to \$20.5 million were declared on 29 June 2015 and paid on 13 July 2015 (2014 – 0.15 Rouble per share totalling Roubles 300.0 million, equivalent to \$9.0 million).

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11. Trade and Other Payables

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Trade payables	55,272	82,736	61,924
Other payables	35,295	83,402	44,441
Dividends payable	1,065	1,780	1,235
Accrued liabilities	33,722	42,088	41,763
Deferred income	21,389	15,531	24,072
Accrued interest	33,105	29,564	17,072
	<u>179,848</u>	<u>255,101</u>	<u>190,507</u>

12. Secured Bank Loans

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

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Repayable			
- within twelve months after the end of the reporting period	261,835	432,093	394,652
- between one to two years	325,892	294,312	297,782
- between two to three years	287,778	259,233	242,370
- between three to four years	177,480	234,666	240,886
- between four to five years	228,944	134,245	270,927
- more than five years	693,806	710,428	535,991
	<u>1,975,735</u>	<u>2,064,977</u>	<u>1,982,608</u>
Less current portion	(261,835)	(432,093)	(394,652)
Non-current balance	<u>1,713,900</u>	<u>1,632,884</u>	<u>1,587,956</u>

13. Finance Lease Liabilities

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Repayable			
- within twelve months after the end of the reporting period	9,948	9,320	9,481
- between one to two years	93,036	9,948	10,120
- between two to three years	83,266	93,036	173,690
- between three to four years	-	83,266	-
	<u>186,250</u>	<u>195,570</u>	<u>193,291</u>
Less current portion	(9,948)	(9,320)	(9,481)
Non-current balance	<u>176,302</u>	<u>186,250</u>	<u>183,810</u>

14. Other Loans

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
5.375% Senior Notes	798,963	798,465	798,591
Other loans from related party	137,468	43,080	44,291
	<u>936,431</u>	<u>841,545</u>	<u>842,882</u>

15. Income Taxes

	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Russian Federation profit tax	6,211	6,003	9,565
Overseas income tax expense	519	204	565
Current income tax expense	6,730	6,207	10,130
Deferred tax	11,696	1,156	(3,045)
Total income tax expense	<u>18,426</u>	<u>7,363</u>	<u>7,085</u>

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16. Financial Risk Management

(a) Categories of financial assets and financial liabilities

	30/09/2015 \$'000	31/12/2014 \$'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships	2,834	7,438
Cash and bank deposits (Note 8)	426,973	284,516
Available-for-sale investments	1,012	1,012
Loans and other receivables	161,188	136,874
Loans to joint ventures	60,967	64,692
Finance lease receivables (Note 6)	72,799	75,662
Total financial assets	725,773	570,194
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	68,232	62,644
Secured bank loans (Note 12)	1,975,735	1,982,608
Finance lease liabilities (Note 13)	186,250	193,291
Other loans (Note 14)	936,431	842,882
Other liabilities measured at amortised cost	146,129	156,670
Total financial liabilities	3,312,777	3,238,095

(b) Fair value of financial assets and financial liabilities

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	30/09/2015 \$'000	31/12/2014 \$'000	30/09/2015 \$'000	31/12/2014 \$'000
Financial assets				
Loans to joint ventures	60,967	64,692	58,241	61,347
Finance lease receivables	72,799	75,662	72,799	75,662
Total financial assets	133,766	140,354	131,040	137,009
Financial liabilities				
Secured bank loans at fixed interest rates	124,465	144,091	125,718	145,658
Secured bank loans at floating interest rates	1,851,270	1,838,517	1,831,126	1,826,076
Other loans	936,431	842,882	984,251	716,778
Finance lease liabilities	186,250	193,291	180,111	183,508
Total financial liabilities	3,098,416	3,018,781	3,121,206	2,872,020

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

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

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

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

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

The following table provides an analysis of financial instruments as at 30 September 2015 and 31 December 2014 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

At 30 September 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	2,834	-	2,834
	-	2,834	-	2,834
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	68,232	-	68,232
	-	68,232	-	68,232

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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 (continued)

At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	7,438	-	7,438
		7,438		7,438
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	62,644	-	62,644
	-	62,644	-	62,644

There were no transfers between Level 1 and 2 during the periods ended 30 September 2015 and 31 December 2014.

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

At 30 September 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Non-current assets held for sale	-	19,728	-	19,728
	-	19,728	-	19,728
At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Fleet	-	7,920	-	7,920
Non-current assets held for sale	-	93,163	-	93,163
	-	101,083	-	101,083

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

At 30 September 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Loans to joint ventures	-	58,241	-	58,241
Finance lease receivables	-	72,799	-	72,799
	-	131,040	-	131,040
Liabilities				
Secured bank loans at fixed interest rates	-	125,718	-	125,718
Secured bank loans at floating interest rates	-	1,831,126	-	1,831,126
Other loans	779,000	205,251	-	984,251
Finance lease liabilities	-	180,111	-	180,111
	779,000	2,342,206	-	3,121,206
At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Loans to joint ventures	-	61,347	-	61,347
Finance lease receivables	-	75,662	-	75,662
	-	137,009	-	137,009
Liabilities				
Secured bank loans at fixed interest rates	-	145,658	-	145,658
Secured bank loans at floating interest rates	-	1,826,076	-	1,826,076
Other loans	648,520	68,258	-	716,778
Finance lease liabilities	-	183,508	-	183,508
	648,520	2,223,500	-	2,872,020

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.

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17. Contingent Assets and Liabilities

On 13 March 2015 the Group received \$25.6 million from one of the defendants in the Novoship (UK) Ltd claims as partial recovery under the December 2012 judgment. On 15 April 2015 the High Court in London construed a settlement agreement concluded with this defendant in September 2013 so that it restricts the Group's ability to recover more than the settlement sum of \$40.0 million. On 21 April 2015 the Group received a further \$15.0 million from this defendant, following the judgment of 15 April 2015. The Group is seeking leave to appeal that judgment.

In relation to the Novoship (UK) Ltd claims which received judgment in December 2012, in prior periods, the Group provided security of \$4.0 million in Court to fortify cross-undertakings in damages in respect of \$90.0 million of security provided by the defendants during the claim. The Defendants indicated an intention to pursue a claim in damages and as a result the Group may face liability of up to or in excess of the \$4.0 million secured. No claim has yet been filed.

On 12 December 2014 some of the defendants in the 2010 London proceeding served their Points of Claim in respect of recovery of damages caused by the freezing orders made against them in the course of the London proceedings. They have subsequently amended their Points of Claim increasing the primary claim from \$224.6 million to \$387.6 million. The trial of this claim has been fixed to commence on 4 July 2016 and last for two weeks. However, in the light of certain recent disclosure from the defendants, the Group have issued an application to reverse the decision permitting the defendants to pursue the damages claim on the basis that the Court was misled by the defendants at the permission hearing on 28 July 2014. That application is fixed to be heard between 8 and 10 February 2016. In any event, management is of the opinion that the defendants will more likely than not fail in their claim against the Group even if permitted to proceed with it. The Group will defend its position vigorously. Accordingly, no provision has been made.

A total amount of \$3.3 million (2014 – \$8.6 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 Group enters into related party transactions with other Russian State owned and State controlled organisations in the normal course of business. There were no new, other than the below, related party transactions than the ones presented in the audited consolidated financial statements of the Group for the period ended 31 December 2014.

During the period ended 30 September 2015 the Group drew down, from available credit facilities granted by a related party as disclosed in Note 14, an amount of \$86.2 million to finance the shipyard instalments of three Arctic shuttle tankers under construction (Note 4).

In addition during the period ended 30 September 2015 the Group introduced a long-term incentive plan for a selected number of shore based employees and seafarers. The charge to profit in respect of key management personnel is disclosed in the table below.

The following table provides the total amount of transactions that have been entered into with related parties in the financial reporting period and outstanding balances as at the period end.

	Income Statement (income) / expense			Statement of Financial Position asset / (liability)		
	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000	30/09/2015 \$'000	30/09/2014 \$'000	31/12/2014 \$'000
Transactions with Russian State owned entities						
Freight and hire of vessels	(161,624)	(83,714)	(124,241)	1,059	184	1,368
Other loans	-	-	-	(140,383)	(44,015)	(45,252)
Finance leases payable	9,400	9,862	13,109	(186,250)	(195,570)	(193,291)
Cash at bank	(2,099)	(1,002)	(1,426)	61,133	48,040	50,742
Disposal of associate	(5,402)	-	-	-	-	-
Transactions with Associates¹						
Finance leases receivable	(9,454)	(9,907)	(13,140)	83,818	89,166	87,442
Allowance for credit losses on finance lease receivables	(214)	(1,713)	(1,836)	(9,642)	(9,979)	(9,911)
Rental of investment property	(71)	(354)	(437)	-	42	31
Transactions with Joint Ventures						
Freight and hire of vessel	(6,765)	(6,765)	(9,045)	-	-	-
Other operating revenues (Management fees, accounting and treasury fees)	(2,395)	(2,392)	(3,541)	461	1,098	249
Loans due from joint ventures	(779)	(804)	(1,066)	63,100	68,450	66,299
Transactions with Key Management Personnel						
Employee benefit obligations	6,581	-	-	(6,581)	-	-

¹ The associate was disposed of in June 2015

19. Events After the Reporting Period

On 5 October 2015, the Group signed an agreement for the sale of the bulk carrier classified as held for sale as at 30 September 2015, for scrapping. The vessel was delivered to her buyers on 10 November 2015.

20. Date of Issue

These condensed consolidated financial statements were approved by the Executive Board and authorised for issue on 16 November 2015.