

PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

PAO Sovcomflot

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Report of independent registered public accounting firm

The Board of Directors and Shareholders of PAO Sovcomflot

We have audited the accompanying consolidated statement of financial position of PAO Sovcomflot ("the Company") as of 31 December 2014 and the related consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PAO Sovcomflot at 31 December 2014 and the consolidated results of its operations and its cash flows for the year ended 31 December 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.



24 March 2015

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2014

	Note	2014 \$'000	2013 \$'000
		<u> </u>	<u> </u>
Freight and Hire revenue	6	1,387,366	1,262,816
Voyage expenses and commissions	7	<u>(343,390)</u>	<u>(390,167)</u>
Time charter equivalent revenues		<u>1,043,976</u>	<u>872,649</u>
Direct operating expenses			
Vessels' running costs	8	349,116	336,760
Charter hire payments	43	<u>52,675</u>	<u>46,032</u>
		<u>(401,791)</u>	<u>(382,792)</u>
Net earnings from vessels' trading		642,185	489,857
Other operating revenues	11	31,907	33,390
Other operating expenses	11	(24,553)	(25,551)
Depreciation, amortisation and impairment	9	(321,533)	(314,335)
General and administrative expenses	10	(104,010)	(107,757)
Gain on sale of assets		9,548	1,401
Allowance for credit losses		1,848	(4,614)
Release of provision		(52)	(382)
Share of profits in equity accounted investments	20	<u>12,874</u>	<u>9,629</u>
Operating profit		<u>248,214</u>	<u>81,638</u>
Other (expenses) / income			
Financing costs	13	(138,325)	(136,187)
Interest income		16,672	19,073
Other non-operating income	44	3,402	2,756
Other non-operating expenses	44	(8,620)	(10,558)
Gain on ineffective hedging instruments	23(a)	442	2,054
Gain on derivative financial instruments held for trading	23(b)	6,164	15,228
Foreign exchange differences		<u>(36,970)</u>	<u>(1,517)</u>
Net other expenses		<u>(157,235)</u>	<u>(109,151)</u>
Profit / (loss) before income taxes		90,979	(27,513)
Income tax expense	24	<u>(7,085)</u>	<u>(11,713)</u>
Profit / (loss) for the period		<u>83,894</u>	<u>(39,226)</u>
Profit / (loss) attributable to:			
Owners of the parent		80,058	(39,815)
Non-controlling interests		<u>3,836</u>	<u>589</u>
		<u>83,894</u>	<u>(39,226)</u>
Earnings per share			
Basic earnings per share for the period attributable to equity holders of the parent	25	<u>\$0.041</u>	<u>(\$0.020)</u>

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2014

	Note	2014 \$'000	2013 \$'000
Profit / (loss) for the period		83,894	(39,226)
Other comprehensive income:			
Share of associates' other comprehensive income		(84)	(15)
Share of joint ventures' other comprehensive income	20	2,703	23,344
Exchange differences on translation of foreign operations		(27,954)	(6,906)
Derivative financial instruments recycled and debited to the income statement	23(a)	20,081	19,246
Fair value movement of derivative financial instruments (debited) / credited to other comprehensive income	23(a)	(23,265)	17,137
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		(28,519)	52,806
Remeasurement gains / (losses) on retirement benefit obligations	38	1,252	(632)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		1,252	(632)
Total other comprehensive income for the period, net of tax		(27,267)	52,174
Total comprehensive income for the period		56,627	12,948
Total comprehensive income attributable to:			
Owners of the parent		55,819	13,162
Non-controlling interests		808	(214)
		56,627	12,948

PAO Sovcomflot

Consolidated Statement of Financial Position – 31 December 2014

	Note	2014 \$'000	2013 \$'000	2012 \$'000
Assets				
Non-current assets				
Fleet	15	5,278,983	5,206,150	5,047,029
Vessels under construction	16	237,250	244,584	447,321
Other property, plant and equipment	17	74,646	87,847	73,556
Investment property	18	10,341	16,973	3,723
Other assets under construction	19	-	11,992	23,254
Investments in associates		118	1,130	1,187
Investments in joint ventures	20	82,430	72,507	62,156
Available-for-sale investments		1,012	1,012	1,380
Loans to joint ventures	21	59,942	65,526	65,696
Finance lease receivables	22	71,469	78,908	89,137
Derivative financial instruments	23	7,438	10,356	108
Trade and other receivables	27	17,363	17,765	9,621
Deferred tax assets	24	3,575	2,228	3,213
		<u>5,844,567</u>	<u>5,816,978</u>	<u>5,827,381</u>
Current assets				
Inventories	26	45,825	64,719	70,487
Loans to joint ventures	21	4,750	4,750	4,803
Trade and other receivables	27	161,109	150,955	202,033
Finance lease receivables	22	4,193	3,656	3,124
Current tax receivable		593	2,017	2,951
Cash and bank deposits	28	284,516	281,540	308,453
		<u>500,986</u>	<u>507,637</u>	<u>591,851</u>
Non-current assets held for sale	29	93,163	74,252	17,824
		<u>594,149</u>	<u>581,889</u>	<u>609,675</u>
Total assets		<u><u>6,438,716</u></u>	<u><u>6,398,867</u></u>	<u><u>6,437,056</u></u>
Equity and liabilities				
Capital and reserves				
Share capital	30	405,012	405,012	405,012
Reserves		2,596,080	2,549,215	2,545,174
Equity attributable to owners of the parent		<u>3,001,092</u>	<u>2,954,227</u>	<u>2,950,186</u>
Non-controlling interests	33	156,389	157,045	158,869
Total equity		<u><u>3,157,481</u></u>	<u><u>3,111,272</u></u>	<u><u>3,109,055</u></u>
Non-current liabilities				
Secured bank loans	36	1,587,956	1,598,257	1,685,813
Finance lease liabilities	37	183,810	193,291	202,141
Derivative financial instruments	23	37,808	42,266	71,808
Retirement benefit obligations	38	3,390	7,405	9,183
Other loans	39	842,882	798,092	797,593
Provisions	34	3,244	6,354	26,796
Deferred tax liabilities	24	1,258	2,477	2,244
		<u>2,660,348</u>	<u>2,648,142</u>	<u>2,795,578</u>
Current liabilities				
Trade and other payables	35	190,265	237,420	193,002
Secured bank loans	36	394,652	363,259	276,394
Finance lease liabilities	37	9,481	8,850	19,547
Current tax payable		1,653	3,206	2,887
Derivative financial instruments	23	24,836	26,718	40,593
		<u>620,887</u>	<u>639,453</u>	<u>532,423</u>
Total equity and liabilities		<u><u>6,438,716</u></u>	<u><u>6,398,867</u></u>	<u><u>6,437,056</u></u>

Approved by the Executive Board and authorised for issue on 24 March 2015

*Signed*S.O. Frank
President and Chief Executive Officer*Signed*N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 31 December 2014

	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
	(Note 30)	(Note 30)	(Note 31)					(Note 33)	
At 1 January 2013	405,012	818,845	(834,490)	(141,046)	104	2,701,761	2,950,186	158,869	3,109,055
(Loss) / profit for the period	-	-	-	-	-	(39,815)	(39,815)	589	(39,226)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(15)	-	(15)	-	(15)
Share of joint ventures' other comprehensive income	-	-	-	23,344	-	-	23,344	-	23,344
Exchange differences on translation of foreign operations	-	-	-	-	(6,171)	-	(6,171)	(735)	(6,906)
Derivative financial instruments recycled and debited to the income statement	-	-	-	19,246	-	-	19,246	-	19,246
Fair value movement of derivative financial instruments credited to other comprehensive income	-	-	-	17,137	-	-	17,137	-	17,137
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(564)	(564)	(68)	(632)
Total comprehensive income	-	-	-	59,727	(6,186)	(40,379)	13,162	(214)	12,948
Dividends (Note 32)	-	-	-	-	-	(9,121)	(9,121)	(1,610)	(10,731)
At 31 December 2013	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	-	-	-	-	-	80,058	80,058	3,836	83,894
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(84)	-	(84)	-	(84)
Share of joint ventures' other comprehensive income	-	-	-	2,703	-	-	2,703	-	2,703
Exchange differences on translation of foreign operations	-	-	-	-	(24,792)	-	(24,792)	(3,162)	(27,954)
Derivative financial instruments recycled and debited to the income statement	-	-	-	20,081	-	-	20,081	-	20,081
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(23,265)	-	-	(23,265)	-	(23,265)
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	1,118	1,118	134	1,252
Total comprehensive income	-	-	-	(481)	(24,876)	81,176	55,819	808	56,627
Dividends (Note 32)	-	-	-	-	-	(8,954)	(8,954)	(1,464)	(10,418)
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

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.

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2014

	<u>Note</u>	<u>2014</u> <u>\$'000</u>	<u>2013</u> <u>\$'000</u>
Operating Activities			
Cash received from freight and hire of vessels		1,372,592	1,279,885
Other cash receipts		44,556	56,886
Cash payments for voyage and running costs		(749,611)	(741,872)
Other cash payments		(168,633)	(157,918)
Cash generated from operations	40	498,904	436,981
Interest received		2,455	7,170
Income tax paid		(10,259)	(9,447)
Net cash inflow from operating activities		<u>491,100</u>	<u>434,704</u>
Investing Activities			
Expenditure on fleet		(26,888)	(49,807)
Expenditure on vessels under construction		(492,434)	(287,683)
Expenditure on assets held for sale		(419)	(4,990)
Interest capitalised	16	(8,157)	(12,366)
Expenditure on other property, plant and equipment		(3,971)	(45,444)
Loan repayments from joint ventures		7,030	6,604
Loans issued to joint ventures		(1,020)	(5,865)
Proceeds from sale of vessels		123,298	50,814
Proceeds from sale of other property, plant and equipment		8,711	3,449
Advances for sale of assets		-	16,032
Capital element received on finance leases	22	4,108	4,897
Interest received on finance leases	22	17,593	22,158
Dividends received from joint ventures	20	2,531	2,112
Bank term deposits	28	391	(1,833)
Security deposits	28	-	10,400
Other receipts		285	39
Net cash outflow used in investing activities		<u>(368,942)</u>	<u>(291,483)</u>
Financing Activities			
Proceeds from borrowings		426,846	286,355
Repayment of borrowings		(361,824)	(284,740)
Financing costs		(7,269)	(6,518)
Repayment of finance lease liabilities		(9,098)	(19,806)
Restricted deposits	28	(400)	1,900
Funds in retention bank accounts	28	(2,062)	1,389
Interest paid on borrowings		(116,643)	(114,143)
Interest paid on finance leases		(13,141)	(13,868)
Dividends paid		(10,192)	(9,830)
Net cash outflow from financing activities		<u>(93,783)</u>	<u>(159,261)</u>
Increase / (decrease) in Cash and Cash Equivalents		28,375	(16,040)
Cash and Cash Equivalents at 1 January	28	256,750	271,807
Net foreign exchange difference		(27,470)	983
Cash and Cash Equivalents at 31 December	28	<u>257,655</u>	<u>256,750</u>

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2014

1. Organisation and Trading Activities

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. As a result of changes in the Russian Civil Code, that came into force on 1 September 2014, which abolished amongst others the concept of Open Joint-Stock Company (i.e. OAO) and introduced the concept of Public Companies (i.e. PAO), the Company introduced the relevant changes and amendments to its Articles and re-registered on 9 December 2014 changing its name from OAO Sovcomflot to PAO Sovcomflot.

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 130 vessels at the period end, comprising 116 tankers, 1 chartered in seismic vessel, 6 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 15, 16 and 29. In addition the Group through its subsidiaries owns 9 escort tug vessels which have been chartered out on bareboat charter to an associated undertaking (see Note 22).

Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are each owned and financed by individual wholly owned subsidiaries of the Group's intermediate holding companies, Fiona Trust and Holding Corporation ("Fiona"), Intrigue Shipping Inc. ("Intrigue"), Sovcomflot Bulk Shipping Inc. ("SBSI") and SCF Gas Carriers Limited ("SCF Gas").

Ship management services for the Group's vessels are provided by Sovcomflot's subsidiaries SCF Novoship Technical Management LLC, Unicom Management Services (Cyprus) Limited ("Unicom"), SCF Unicom Singapore Pte Ltd and Unicom Management Services (St. Petersburg) LLC.

A list of significant subsidiary companies is disclosed in Note 41 to these consolidated financial statements. The ultimate controlling party of PAO Sovcomflot is the Russian Federation.

2. Directors and Management

The corporate structure of PAO Sovcomflot comprises a Board of Directors which is responsible for strategic planning and management, policy decisions and overall supervision of the Group and an Executive Board which is responsible for the supervision of the most important operational matters, material investments, supervision of subsidiaries and procedures implementation of decisions of the Shareholders and Board of Directors by Group companies.

The Board of Directors and the Executive Board as at the date of approval of these consolidated financial statements are:

<u>Members of the Board of Directors</u>	<u>Initial date of appointment</u>	
I.I. Klebanov (Chairman)	3 November 2011	Senior State Counsellor of the Russian Federation, 1st Class
M.I. Poluboyarinov	30 June 2012	Member of the Board of Management and First Deputy Chairman of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
M.G. Manasov	29 June 2010	Entrepreneur
D.G. Moorhouse	29 June 2010	Chairman of the Non-Commercial Organisation London Maritime
A.G. Belova	30 June 2014	Professor of the National Research University Higher School of Economics
Ch.E. Ryan	30 June 2008	Chairman of UFG Asset Management
A.Y. Klyavin	30 June 2012	President of The National Chamber of Shipping
A. V. Sharonov	30 June 2014	Dean of Moscow School of Management "SKOLKOVO"
S.O. Frank	10 November 2004	President and Chief Executive Officer of PAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 30 June 2014. Mr Klebanov was re-elected Chairman on 9 September 2014.

<u>Members of the Executive Board</u>	<u>Date of appointment</u>	
S.O. Frank (Chairman)	4 October 2004	President and Chief Executive Officer of PAO Sovcomflot
E.N. Ambrosov	13 July 2009	Senior Executive Vice-President of PAO Sovcomflot, Chief Operating Officer
V.N. Emelianov	12 September 2011	Vice-President of PAO Sovcomflot, Chief Strategy Officer
N.L. Kolesnikov	19 July 2005	Executive Vice-President of PAO Sovcomflot, Chief Financial Officer
A.L. Kurtynin	20 September 2007	Vice-President of PAO Sovcomflot
C.B. Ludgate	22 February 2007	Managing Director of Sovcomflot (UK) Ltd
M.C. Orphanos	12 May 2010	Managing Director of Sovcomflot (Cyprus) Limited
A.V. Ostapenko	16 October 2012	Executive Vice-President of PAO Sovcomflot, Administrative Director
S.G. Popravko	19 July 2005	Managing Director of Unicom Management Services (Cyprus) Limited
I.V. Tonkovidov	14 January 2011	Executive Vice-President of PAO Sovcomflot, Technical Director
Y.A. Tsvetkov	14 December 2012	President of JSC Novoship

PAO Sovcomflot

**Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)**

3. Significant Accounting Policies

(a) Basis of preparation and accounting

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below.

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 principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. 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.

The financial statements are presented in U.S. Dollars, which is also the currency of the Group's primary economic environment and the functional currency of the Group's major subsidiaries.

The statement of financial position includes the 2012 comparative information provided on a voluntary and supplementary basis. The information provided has been included to assist the reader with their understanding of the financial statements and certain trends they contain.

Certain comparatives have been represented in order to be consistent with the current period's presentation.

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries as at 31 December 2014. Control is achieved when the Group:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in a change of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

PAO Sovcomflot

**Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)**

3. Significant Accounting Policies (Continued)**(c) Business combinations**

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred / assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations", are recognised at their fair values at the acquisition date.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 provided that they are controlled by the same party both before and after the business combination. These transactions are accounted for on a pooling of interests basis. The financial position, financial performance and cash flows of the combined Group are brought together as if the companies had always been a single entity.

The Group initiates and performs a review of all acquisition transactions during each period to consider the transaction to be either a business combination or an asset acquisition in accordance with IFRS 3. When the acquisition is not a business combination by its nature, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 "Intangible Assets") and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

(d) Segmental reporting

The Group consists of five reportable operating segments: crude oil transportation, oil product transportation, gas transportation, offshore development services and other. The segments are fully explained in Note 14.

The requirements of IFRS 8 "Operating Segments" on segment reporting are based on the information about the components of the entity that management uses to make decisions about operating matters. The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, which is defined as the Board of Directors of the Company, in order to allocate resources to the segment and assess its performance. The Group has only one geographical segment, because management considers the global market as a whole, and as the individual vessels are not limited to specific parts of the world. Furthermore, the internal management reporting does not provide such information.

The segment income statement comprises revenues and expenses directly attributable to the segment i.e. freight and hire revenue, voyage expenses and commissions, vessels' running costs and charter hire payments, vessels' drydock cost amortisation, vessels' depreciation, vessels' impairment provision and reversal thereof, gains or losses on sale of vessels and exchange differences. Non-current assets consist of the vessels used in the operation of each segment. Not allocated items primarily comprise assets and liabilities as well as revenues and expenses relating to the Group's administrative functions and investment activities, cash and bank balances, interest bearing debt, and income tax.

(e) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are included in these consolidated financial statements from the date on which the investee becomes an associate or a joint venture, using the equity method of accounting. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. Investments in associates and joint ventures are carried in the consolidated statement of financial position at cost and adjusted for by post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long term interests, that in substance form part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the investment is acquired.

(f) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (as defined in Note 3(e)), have rights to the assets and obligations for the liabilities relating to the arrangement.

The Group recognises in relation to its interest in a joint operation its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

The Group's share of the assets, liabilities, income and expenses of joint operations are recognised within the equivalent items in the consolidated financial statements on a line-by-line basis.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

3. Significant Accounting Policies (Continued)

(g) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non-current asset is classified as held for sale.

(h) Freight and Hire revenue

Freight and Hire revenue, which includes the Group's share of revenues arising under vessel pooling arrangements, represents vessel earnings during the period. Vessel earnings are measured at the fair value of the consideration received or receivable.

Freight revenues are earned for the carriage of cargo on behalf of the charterer from one or more locations of cargo loading to one or more locations of cargo discharge. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached, the Group is compensated for the additional time incurred in the form of demurrage revenue which is recognised when it can be measured reliably in accordance with the terms and conditions of the respective charter party agreements.

Hire revenues are earned for exclusive use of the services of the vessel by the charterer for an agreed period of time.

Time charter equivalent revenues describe the earnings of any charter contract once voyage expenses and commissions relating to the performance of the contract have been deducted from the gross revenues. The term is commonly used in the shipping industry to measure financial performance and to compare revenue generated from a voyage charter to revenue generated from a time charter.

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid by the Group. Vessels voyage and operating expenses are accounted for on an accrual basis.

Freight revenue is recognised rateably over the estimated length of each voyage. Profits arising from voyage charters in progress at the end of the financial reporting period are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. Full provision is made for any losses forecast on voyages in progress at the end of the financial reporting period.

In applying its revenue recognition method, management believes that the discharge to discharge port basis of calculating voyage results provides greater degree of accuracy than the load to load port basis. In the application of this policy, the Group recognises revenue only when (i) the amount of revenue can be measured reliably, (ii) it is probable that the economic benefits associated with the transaction will flow to the entity, (iii) the transactions stage of completion at the balance sheet date can be measured reliably and (iv) the costs incurred and the costs to complete the transaction can be measured reliably.

Revenues from time charters (hire revenues) are accounted for as operating leases and recognised on a straight line basis over the rental periods of such charters, as service is performed. Accrual is made for all hire receivable to the end of the financial reporting period in respect of time charters in progress. Any contractual rate changes over the contract term, to the extent they relate to the firm period of the contract, are taken into account when calculating the daily hire rate. Revenues from variable hire arrangements are recognised to the extent the variable amounts earned beyond an agreed fixed minimum hire are determinable at the reporting date and all other revenue recognition criteria are met. Revenues from time charters received in the period and relating to subsequent periods are deferred and recognised separately as deferred income in trade and other creditors.

A number of the Group's vessels participate in vessel pooling arrangements with third parties. Pool revenue is generated from each vessel participating, undertaking either voyage or time charters. The Group recognises all revenue (and voyage costs) earned by its vessels through participation in the pools under the specific voyage and time charters that the vessels undertake via their pool participation. Revenue and voyage costs arising under such charters are recognised in the same way as voyage charters and time charters as set out above.

All pool agreements in which the Group participates contain profit share clauses, under which the Group's vessels and the third parties' vessels net earnings (time charter equivalent) are shared. The pool measures net earnings based on the contractual rates, the duration of each voyage and, the relevant voyage costs recognised upon delivery of the services in accordance with the terms and conditions of the charter parties. The Group's share of the net earnings in the pools is dependent on the number of days the Group's vessels have been available for the pools in relation to the total available pool earning days during the period. These profit sharing arrangements may give rise to a liability to the third party or a receivable to the Group. These amounts are settled periodically.

The results of the profit sharing arrangements are recognised in full by the Group within freight and hire revenues assuming a reliable estimate can be made. Any adjustment remaining unsettled at the period end is either recognised in accrued income under current assets or accrued liabilities under current liabilities.

(i) Operating revenues and operating expense

Other operating revenues and other operating expense comprise income and directly related expenses from non-core non-vessel operating related activities, the towing and installation operations, rental operations derived from investment properties and the commercial and technical management of third party owned vessels.

Other operating revenues are measured at the fair value of the consideration received or receivable. Revenues from non-core vessel operating activities and revenues from the provision of commercial and technical management services are recognised by reference to the time of provision of the activities and services. Revenues from rental income from investment properties are accounted for on a straight line basis over the rental periods of such properties.

The Group uses the "percentage of completion method" to determine the appropriate amount of revenue related to the Group's joint operation to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred for the towing and installation operations up to the reporting date as a percentage of total estimated cost for each contract.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

3. Significant Accounting Policies (Continued)

(j) Interest income

Bank and other interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(k) Currency translation

Transactions and balances

Transactions during the period in currencies other than the functional currencies of the various Group entities have been translated into their functional currencies (mostly the U.S. Dollar) at rates ruling at the time of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in currencies other than the functional currencies are retranslated at the rates ruling at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group companies

The assets and liabilities of the Group's foreign operations are translated from their functional currency into U.S. Dollars at the rate of exchange ruling at the reporting date. Income and expenses are translated into U.S. Dollars at the average rate of exchange for the period unless exchange rates fluctuate significantly in which case they are translated, for significant transactions, at the exchange rate ruling at the date of the transaction, and, for other transactions, the average rate of exchange for shorter periods, depending on the fluctuation of the exchange rates.

Differences arising on retranslation of their opening net assets and results for the period are dealt with as movements in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation. They are expressed in the functional currency of the foreign operation and are translated at the rate of exchange ruling at the reporting date.

Exchange rates

For the purposes of these consolidated financial statements, the exchange rates used are as follows:

	2014 Closing \$1	2014 Average \$1	2013 Closing \$1	2013 Average \$1	2012 Closing \$1
Russian Roubles	56.2584	38.6475	32.7292	31.9063	30.3727
Pounds Sterling	0.6435	0.6071	0.6051	0.6398	0.6185
Euros	0.8232	0.7531	0.7251	0.7530	0.7579

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset (see also Note 3(r)). To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated using the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalises during a period does not exceed the amount of borrowing costs incurred during that period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(m) Leasing

Finance leases are leases which transfer substantially all the risks and benefits incidental to ownership of the leased item. Leases which do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Group as lessee - Finance and operating lease payables

Finance leases are recorded in the financial statements of the Group at the lower of fair value of the leased property and net present value of the minimum lease payments, each determined at the inception of the lease. The present value of the minimum lease payments is calculated by discounting the total minimum lease payments outstanding, at the date of the lease agreement, at the interest rate implicit in the lease. Finance costs are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Group as lessor - Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

3. Significant Accounting Policies (Continued)

(n) Retirement benefit costs

The Group operates a number of retirement benefit schemes for its shore-based staff and seafarers.

Defined contribution retirement benefit plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit retirement benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation.

Long-term service retirement benefit plans

The Group's net obligation in respect of long-term service retirement benefit plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method. The long-term service benefit obligation recognised in the statement of financial position represents the present value of the defined lump-sum benefit obligation.

The Group recognises all gains and losses arising from the remeasurement of both defined benefit retirement benefit plans and long-term service retirement benefit plans in other comprehensive income in the period in which they arise.

The discount rate used to calculate the present value is the yield, at the end of the financial reporting period, on government bonds that have maturity dates which approximate the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Past service cost is recognised immediately in profit or loss.

(o) Property, plant and equipment and depreciation

The Group's property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Cost comprises of the acquisition or construction cost of the asset and any costs directly attributable to the acquisition or construction up to the time that the asset is ready for its intended use. Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised as part of the cost of the asset.

Depreciation in respect of the Group's fleet is charged so as to write off the book value of the vessels, less an estimated residual value, on a straight line basis over the anticipated useful life of the vessels (from date of construction) which is as follows:

Oil, product and chemical tankers	25 years
LPG carriers	30 years
LNG carriers	35 years
Multi – purpose dry cargo vessels and bulk carriers	25 years
Ice breaking supply vessels	25 years

The residual value for each vessel is calculated by reference to its lightweight tonnage and the estimated price of steel per lightweight tonne. The price of steel per lightweight tonne used to calculate residual values as of the end of each reporting period was as follows:

	2014	2013	2012
	\$ per	\$ per	\$ per
	LWT	LWT	LWT
Oil, product and chemical tankers	495	445	425
LNG and LPG carriers	495	445	425
Multi-purpose dry cargo vessels and bulk carriers	465	415	400
Ice breaking supply vessels	495	445	425

Depreciation in respect of buildings and other property, plant and equipment is charged so as to write off their cost on a straight-line basis to its residual value over the anticipated useful lives of the assets concerned at a rate of between 2% and 5% and between 10% and 33% per annum, respectively. Land is not depreciated.

Leasehold improvements are included within other property, plant and equipment and are depreciated over the non-cancellable period of the operating lease to which they relate.

The residual value and useful life of each asset is reviewed at each financial period end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the income statement in the period of the change and future periods. An increase in the residual value of an asset will decrease the depreciation charge for the period and future periods and vice versa until the residual value is reassessed.

(p) Drydocking and special survey costs

The vessels are required to undergo planned drydockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an "Intermediate Survey") and the fifth annual inspection being the most comprehensive survey (a "Special Survey"). The inspection cycle resumes after each Special Survey. Vessels are typically required to undergo special surveys, which include inspection of underwater parts ("bottom survey"), every 60 months.

Drydocking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for bottom surveys and for repairs related to inspections. An in-water survey may be permitted in lieu of a drydocking for the intermediate survey, although the vessel must carry out a drydocking in conjunction with a special survey.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

3. Significant Accounting Policies (Continued)

(p) Drydocking and special survey costs (continued)

Drydocking and special survey costs, to the extent that they are incurred directly to meet regulatory requirements, are capitalised as a separate component of vessel cost and are amortised on a straight line basis over the estimated period to the next drydocking. These expenses are included in the depreciation, amortisation and impairment line in the consolidated income statement. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred.

Drydocking costs may include the costs associated but not limited to the service and replacements of main engine and propulsion machinery, boilers, engine room tanks, auxiliary machinery, various gears and systems of shaft seals, safety and navigation equipment, anchor and deck machinery, turbo chargers, steering gears, electrical equipment, controls and automated systems, cargo, fuel and ballast tanks and applying of antifouling and hull paint.

Where a vessel is acquired new, or constructed, a proportion of the cost of the vessel is allocated to the components expected to be replaced at the next drydocking based on the expected costs related to the first-coming drydocking, which is based on experience and past history of similar vessels.

For second hand vessels, the actual cost of the previous drydocking component is used, amortised to the date of acquisition, taking into account the drydocking cycle of the vessel. Where the actual cost of the previous drydocking is not known, the expected costs related to the first-coming drydocking, amortised to the date of acquisition is used as an indication of the cost of the previous drydocking component, which is again based on experience and past history of similar vessels.

(q) Investment property

Investment property is stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided on the same basis as for other property, plant and equipment as described in Note 3(o).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised. Transfers to, or from, investment property are made only when there is a change in use evidenced by end of owner-occupation, for a transfer from owner-occupied property to investment property, commencement of owner-occupation, for a transfer from investment property to owner occupied property and commencement of development with a view to sell, for a transfer from investment property to inventories.

(r) Assets under construction

Assets under construction are carried at cost, less any recognised impairment loss. Cost includes supervision fees and expenses, professional fees and capitalised borrowing costs.

Interest payable attributable to finance newbuildings under construction, is added to the cost of those newbuildings, until such time as the newbuildings are ready for their intended use and are delivered to the Group. Upon completion the assets are transferred to the appropriate class of property, plant and equipment.

(s) Impairment

At the end of each financial reporting period, the Group assesses whether there is any indication that its property, plant and equipment may have suffered an impairment loss. If any indication exists, the Group estimates the asset's recoverable amount.

The assessment of whether there is an indication that an asset is impaired is made with reference to trading results, predicted trading results, market rates, technical and regulatory changes and market values. If any such indication exists, the recoverable amount of the asset or cash generating unit (CGU) is estimated in order to determine the extent of any impairment loss.

The first step in this process is the determination of the lowest level at which largely independent cash flows are generated, starting from the individual asset level. A CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets. In identifying whether cash inflows from an asset or group of assets are largely independent, and therefore determining the level CGUs, the Group considers many factors including management's trading strategies, how management makes decisions about continuing or disposing of the assets, nature and terms of contractual arrangements and actual and predicted employment of the vessels. Based on the above, the Group has determined it has CGUs of varying sizes ranging from individual vessels to multiple vessels of the same class with similar or identical characteristics.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is determined as the amount at which assets may be disposed of on a willing seller, willing buyer basis, less directly associated costs of disposal. In estimating fair value, the Group considers recent market transactions for similar assets, and the views of reputable shipbrokers.

If the recoverable amount is less than the carrying amount of the asset or the CGU, the asset is considered impaired and an expense is recognised equal to the amount required to reduce the carrying amount of the vessel or the CGU to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior periods. Such reversal is recognised in the income statement.

(t) Inventories

Inventories are stated at the lower of cost or net realisable value and comprise bunkers (where applicable), luboils, victualing and slopchest stocks, other inventories and spares and consumables acquired on board bareboat chartered in vessels. Cost is calculated using the first in first out method. Other stores and spares relating to vessel operations are charged to running costs when purchased and no account is taken of stocks remaining on board at the end of the period.

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**Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)**

3. Significant Accounting Policies (Continued)**(u) Financial instruments**

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period, to its net carrying amount.

Trade receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance is made when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. A provision is made for outstanding demurrages based on prior years' experience. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the allowance is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

When a trade receivable is uncollectible, it is written off against the appropriate allowance account. Subsequent recoveries of amounts previously written off are credited against allowance of credit losses in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on deposit with banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated upon initial recognition as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Available-for-sale financial assets

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Unlisted and listed shares held by the Group are classified as being available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses on available-for-sale monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in profit or loss for the period. Investments in equity shares that are not traded in an active market and where fair value cannot be estimated on a reasonable basis are stated at cost less impairment losses.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Bank borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value (proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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**Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)**

3. Significant Accounting Policies (Continued)**(u) Financial instruments (continued)**Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the fair value proceeds received, net of direct issue costs.

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, eliminated, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements on its bank borrowings.

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group designates certain derivatives as hedges of interest rate risk on its bank borrowings. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised in other comprehensive income and any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss as a reclassification adjustment.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A derivative instrument that is not a designated and effective hedging instrument is required to be classified as held for trading under IAS 39 "Financial Instruments: Recognition and Measurement". IAS 1 "Presentation of Financial Statements" clarifies that such an instrument must be separated into current and non-current portions unless it is held primarily for trading in which case it is classified as current. Therefore, an entity separates such a derivative instrument into current and non-current portions based on an assessment of the facts and circumstances and classifies it accordingly.

- 1) When management holds a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond twelve months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item as discussed below in scenarios 2 and 3;
- 2) An embedded derivative that is not closely related to the host contract, which is required to be accounted for separately, is classified consistent with the cash flows of the host contract;
- 3) A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made; and it is applied to all designated and effective hedging instruments.

(v) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the Company and its subsidiaries are incorporated. Income taxes in respect of the Company are accounted for in accordance with Russian fiscal regulations. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

3. Significant Accounting Policies (Continued)

(v) Taxation (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability is recognised on unremitted earnings of subsidiaries incorporated in jurisdictions that do not have a double tax treaty with the Russian Federation to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the consideration transferred on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tonnage tax

Tonnage tax is payable by the Group in the countries of registration of its vessels by reference to the registered tonnage of each vessel. Tonnage tax is not a tax on income as defined by IAS 12 "Income Taxes" and is therefore included in general and administrative expenses under non-income based taxes.

(w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect of discounting is material.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements unless recovery is virtually certain but are disclosed when an inflow of economic benefits is only probable.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(x) Insurance claims

Amounts for insurance claims are recognised when amounts are virtually certain to be received, based on the management's judgement and estimates of independent adjusters as to the amount of the claims.

(y) Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit or loss for the period available to equity holders of the parent by the weighted average number of shares outstanding during the period.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

4. Adoption of New and Revised International Financial Reporting Standards

Amendments to IFRSs and the new Interpretations that are mandatorily effective for the current period

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2014. The nature and the impact of each new standard or amendment are described below:

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 "Impairment of Assets". In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period (See Note 15).

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

New and revised IFRSs in issue but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group's operations were in issue but not yet effective.

The effect from the application of IFRS 9 ("Financial Instruments") – "Classification and Measurement", IFRS 11 ("Joint Arrangements") – "Amendments regarding the accounting for acquisitions of an interest in a joint operation" and IFRS 15 ("Revenue from Contracts with Customers") has not yet been assessed.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements, other than changes to the disclosures required in the financial statements, except for IFRS 9 "Financial Instruments" issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014. The Group does not intend to adopt this standard before its effective date.

Annual Improvements to IFRSs 2010–2012 Cycle

"Annual Improvements to IFRSs 2010–2012 Cycle" is a collection of amendments to IFRSs in response to eight issues addressed during the 2010–2012 cycle for annual improvements to IFRSs. It includes the following amendments which are effective for annual periods beginning on or after 1 July 2014:

- 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"
- IAS 38 "Intangible Assets" – "Revaluation method – proportionate restatement of accumulated amortisation"

Annual Improvements to IFRSs 2011–2013 Cycle

"Annual Improvements to IFRSs 2011–2013 Cycle" is a collection of amendments to IFRSs in response to four issues addressed during the 2011–2013 cycle. It includes the following amendments which are effective for annual periods beginning on or after 1 July 2014:

- 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)"
- IAS 40 "Investment Property" – "Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property"

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" (when IFRS 9 will be applied – see below).

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

IFRS 9 ("Financial Instruments") – "Classification and Measurement". Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective for annual periods beginning on or after 1 January 2018).

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

- IFRS 9 will change the categories of financial assets to those that are carried at amortised cost and those that are carried at fair value. This will mainly affect the classification of the Group's available for sale financial assets and held to maturity investments.
- IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability.

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**Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)**

4. Adoption of New and Revised International Financial Reporting Standards (Continued)

New and revised IFRSs in issue but not yet effective (continued)

In particular for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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 expected to be relevant to the Group, since none of the entities of the Group have defined benefit plans with contributions from employees or third parties (effective for annual periods beginning on or after 1 July 2014).

IFRS 11 ("Joint Arrangements") – "Amendments regarding the accounting for acquisitions of an interest in a joint operation". Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11 (effective for annual periods beginning on or after 1 January 2016).

IFRS 15 ("Revenue from Contracts with Customers"). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after 1 January 2017).

IAS 16 ("Property plant and equipment") and IAS 38 ("Intangibles") – "Amendments to IAS 16 and IAS 38 to prohibit entities from using a revenue based depreciation method for items of property, plant and equipment". This amendment has no impact to the Group as the Group uses residual value calculated by reference to lightweight tonnage and the estimated price of steel per lightweight tonne of each vessel and for other property, plant and equipment does not use revenue-based methods to depreciate/amortise its non-current assets (effective for annual periods beginning on or after 1 January 2016).

IFRS 10 ("Consolidated Financial Statements") and IAS 28 ("Investments in Associates and Joint Ventures") – "Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture". This amendment has no impact to the Group as the Group did not make any sales or contribution of assets to its associates or joint ventures during the period (effective for annual periods beginning on or after 1 January 2016).

IFRS 10 ("Consolidated Financial Statements"), IFRS 12 ("Disclosure of Interests in Other Entities") and IAS 28 ("Investments in Associates and Joint Ventures") – "Amendments regarding the application of the consolidation exception by investment entities". This amendment has no impact to the Group as it is not an investment entity (effective for annual periods beginning on or after 1 January 2016).

IAS 1 ("Presentation of Financial Statements") – "Amendments resulting from the disclosure initiative". The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after 1 January 2016).

Annual Improvements to IFRSs 2012–2014 Cycle

The "September 2014 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to four standards. These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Group. It includes the following amendments:

- IFRS 5 "Non-current assets held for sale and Discontinued Operations"
- IFRS 7 "Financial Instruments: Disclosures"
- IAS 19 "Employee Benefits"
- IAS 34 "Interim Financial Reporting"

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)**5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

The preparation of financial statements requires management to make judgements, 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. The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the end of the reporting period that have the most significant effect on the amounts recognised in the financial statements.

Critical Accounting JudgementsClassification of charter agreements as either finance or operating leases

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed unless the provisions of the contract were changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a “substance over form” approach is used.

The value of assets held under finance leases are recognised in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. No conditional lease payments are included and the value can therefore be determined with relative certainty.

Investments in joint arrangements and associates

Judgement is exercised upon classification of an investment as a joint operation or a joint venture. This is determined by reference to the type of the joint arrangement and judgement is exercised on whether the Group has rights to the assets and obligations for the liabilities of that arrangement (joint operation) or if the Group has rights to the net assets of the arrangement (joint venture).

Investments in associates and joint ventures are recognised using the equity method of accounting. The classification of entities partly owned by other enterprises depends amongst other things on the individual conditions and clauses in shareholders' agreements and other contractual documents. The exercise of judgement as to the influence and level of control on these conditions and clauses in the agreements determines whether a particular entity should be accounted for as joint operation or under the equity method.

The Group consolidates its share of losses of associates and joint ventures to the extent that it is believed that the Group has a constructive obligation to do so. The determination of the presence of a constructive obligation requires the exercise of judgement, as invariably such an obligation is not contained within any legal agreement and may take the form of an implied commitment to, or an expectation of, a third party.

Determination of cash generating units for value in use calculations

For the purposes of its impairment testing the Group identifies each CGU which represents the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In determining the CGUs the Group considers various factors including management's trading strategies, nature and terms of contractual arrangements and actual and predicted employment of the vessels. The Group also considers other factors such as investment and discontinuance decisions, and how management monitors financial performance.

The determination as to whether the cash inflows of groups of vessels which form a CGU are largely dependent on each other requires judgement to be exercised in assessing all the available data and information noted above, particularly with reference to assumptions and judgements with regard to future planned and expected employment of the vessels within a CGU. Should these judgements be proven, through the passage of time, to be incorrect or subject to change or amendment in future periods it is possible that additional impairment charges may arise, or reversals of impairments may occur.

Key Sources of Estimation UncertaintyCarrying amount of vessels and vessels under construction

The carrying amount of vessels and vessels under construction may not represent their fair market value at any point in time. The market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. Management reviews vessels, including vessels under construction, for indicators of impairment whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable. Impairment testing requires an estimate of future cash flows over the period of expected use of the vessels and the choice of a suitable discount rate and an assessment of recoverable amount based on comparable market transactions. If actual results differ from the estimates and assumptions used in estimating future cash flows then this could result in potential impairment losses recognised in future periods. Additional information is disclosed in Note 15 to these financial statements.

Anticipated useful economic life of the fleet and the estimates of residual values

Depreciation of vessels is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Estimates of useful economic life of vessels are based on managements' experience by comparison to similar vessels in the industry. However, the actual life of a vessel may be different. Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel. Residual values are calculated by reference to the value of steel as of the end of each of the previous reporting dates, obtained from independent professional brokers. Changes to estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

Recoverability of finance lease receivable

The finance lease receivable is subject to an allowance for impairment as disclosed in Notes 22 and 27. In determining the required level of allowance for impairment, management has considered projections of estimating future cash flows expected to be received from the lessee. The cash flow projections are based on certain assumptions, judgements and estimates. Should these assumptions and judgements be proven to be inaccurate, additional impairment charges or reversal of previous impairment charges may arise.

Outcomes of legal claims

The Group has been pursuing a number of legal claims, referred to in Notes 44 and 45. Judgment is applied in estimating outcomes of these legal claims based on legal advice received. Should these judgments be proven to be inaccurate, additional charges or reversal of charges may arise. The majority of the claims received judgment in December 2010 and December 2012 and management has recognised assets and liabilities in relation to these judgments based on legal advice. The Group was unsuccessful on a number of claims in the December 2010 and December 2012 judgments and as a result it is possible that the Group will face further liabilities. In respect of the successful claim in the December 2012 judgement the Group is taking steps to locate and freeze assets of these defendants in order to enforce the judgment and it is probable that further assets will be recognised in the future. The Group's exposure in respect of these claims is disclosed in Notes 44 and 45.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

6. Freight and Hire Revenue

	2014 \$'000	2013 \$'000
Freight	570,774	572,936
Hire	816,592	689,880
	<u>1,387,366</u>	<u>1,262,816</u>

7. Voyage Expenses and Commissions

	2014 \$'000	2013 \$'000
Bunkers	206,655	241,039
Port costs	102,028	118,630
Commissions	24,060	21,714
Other voyage costs	10,647	8,784
	<u>343,390</u>	<u>390,167</u>

8. Vessels' Running Costs

	2014 \$'000	2013 \$'000
Crew costs	205,999	207,335
Technical costs	97,301	84,096
Insurance costs	23,847	24,812
Lubricating oils	14,070	14,810
Other costs	7,899	5,707
	<u>349,116</u>	<u>336,760</u>

9. Depreciation, Amortisation and Impairment

	2014 \$'000	2013 \$'000
Vessels' depreciation (Note 15)	231,961	226,444
Vessels' drydock cost amortisation (Note 15)	39,793	37,643
Vessels' impairment provision (Note 15 and Note 29)	42,758	44,331
Vessels' reversal of impairment provision (Note 15 and Note 29)	(823)	(956)
Other depreciation (Note 17)	7,844	6,873
	<u>321,533</u>	<u>314,335</u>

10. General and Administrative Expenses

	2014 \$'000	2013 \$'000
Administration expenses	84,055	84,422
Non-income based taxes	18,141	19,006
Business development costs	548	3,232
Bank charges and fees	1,266	1,097
	<u>104,010</u>	<u>107,757</u>

Administration expenses are analysed as follows:

	2014 \$'000	2013 \$'000
Overseas office costs and other general expenses	34,989	35,221
Head office costs	25,434	23,917
Russian office costs	18,282	20,209
Legal and professional	2,964	2,705
Audit and accountancy	2,386	2,370
	<u>84,055</u>	<u>84,422</u>

Non-income based taxes are analysed as follows:

	2014 \$'000	2013 \$'000
Russian Federation taxes		
- Irrecoverable value added tax	9,319	10,095
- Payroll taxes	5,031	5,099
- Property tax	572	576
Overseas taxes		
- Payroll taxes	2,155	2,062
- Tonnage tax	1,064	1,174
Non-income based taxes	<u>18,141</u>	<u>19,006</u>

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

11. Other Operating Revenues and Expenses

	2014	2013
	\$'000	\$'000
Other operating revenues	31,907	33,390
Cost of sales		
- Wages and salaries	(4,533)	(5,570)
- Payroll taxes	(1,380)	(1,635)
- Other cost of sales	(13,987)	(13,585)
Administrative expenses	(2,130)	(2,426)
Other expenses	(1,403)	(1,477)
Investment property depreciation (Note 18)	(1,120)	(858)
Other operating expenses	(24,553)	(25,551)
Net other operating income	7,354	7,839

Other operating revenues comprise income from non-core non-vessel operating activities, rental income derived from investment properties (Note 18) and income from the commercial and technical management of vessels belonging to joint ventures and third party owners performed by the Group.

12. Employee Costs

Employee costs recorded within Vessels' Running Costs, General and Administrative Expenses and Other Operating Revenues and Expenses, are analysed as follows:

	2014	2013
	\$'000	\$'000
Seafarers		
- Wages and salaries	159,657	159,718
- Payroll taxes	1,853	842
- Defined contribution pension plans	1,717	1,353
- Long-term service defined benefit plans	37	169
	163,264	162,082
Shore based staff		
- Wages and salaries	64,014	62,299
- Payroll taxes	8,990	9,094
- Defined contribution pension plans	1,563	1,530
- Long-term service defined benefit plans	131	101
	74,698	73,024
Total employee costs	237,962	235,106

Compensation of key management personnel

The remuneration of directors and other members of key management recognised as an expense during the period was as follows:

	2014	2013
	\$'000	\$'000
- Short term benefits	12,292	9,527
- Post employment benefits	83	72
- Long term service benefits	50	42
	12,425	9,641

13. Financing costs

	2014	2013
	\$'000	\$'000
Interest on secured bank loans	45,197	39,789
Interest on interest rate swaps	33,112	38,411
Interest on other loans	38,903	36,672
Interest on finance lease liabilities	13,109	13,806
Other interest	5,298	4,377
Other financing costs	2,706	3,132
	138,325	136,187

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

14. 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 as follows:

- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2014 the Group's fleet in this segment consisted of 60 crude oil carriers (2013 – 61).
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2014, the Group's fleet in this segment consisted of 43 petroleum product carriers, (2013 – 48), including 19 chemical and oil carriers (2013 – 20) and 2 asphalt and bitumen carriers (2013 – 3). Oil product tankers owned through joint ventures are disclosed in Note 20.
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2014, this segment's fleet consisted of 2 LNG carriers (2013 – 2) and 4 LPG carriers (2013 – 4). LNG carriers owned through joint ventures are disclosed in Note 20.
- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. This segment also provides additional services to offshore development facilities, such as logistical support and the management of floating storage and offloading units ("FSOs"). As of 31 December 2014, this segment's fleet consisted of 13 shuttle tankers (2013 – 13) and 4 ice breaking supply vessels (2013 – 4).
- Other (<10% of revenue). This segment comprises multi-purpose and bulk cargo carriers, primarily for the transportation of coal, and seismic vessels. As of 31 December 2014, this segment's fleet consisted of 3 bulk carriers (2013 – 3) and 1 chartered in seismic vessel (2013 – 1). This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

Management monitors the performance of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss directly attributable to vessels. However Group financing (including finance costs and finance income), general and administrative expenses and income taxes are managed on a Group basis and are not allocated to operating segments. No operating segments have been aggregated to form the above 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 December 2014

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and Hire revenue	630,899	330,513	85,679	224,062	116,213	1,387,366
Voyage expenses and commissions	(209,805)	(117,058)	(2,453)	(1,644)	(12,430)	(343,390)
Time charter equivalent revenues	421,094	213,455	83,226	222,418	103,783	1,043,976
Direct operating expenses						
Vessels' running costs	(153,668)	(111,570)	(18,135)	(44,936)	(20,807)	(349,116)
Charter hire payments	-	-	-	-	(52,675)	(52,675)
Net earnings from vessels' trading	267,426	101,885	65,091	177,482	30,301	642,185
Vessels' depreciation	(107,038)	(51,586)	(13,201)	(56,537)	(3,599)	(231,961)
Vessels' drydock cost amortisation	(19,469)	(11,001)	(2,990)	(5,003)	(1,330)	(39,793)
Vessels' impairment provision (net)	-	(35,555)	-	-	(6,380)	(41,935)
Gain / (loss) on sale of vessels	4,728	(510)	(420)	-	-	3,798
Foreign exchange differences	-	46	-	(831)	(31,009)	(31,794)
Segment operating profit	<u>145,647</u>	<u>3,279</u>	<u>48,480</u>	<u>115,111</u>	<u>(12,017)</u>	<u>300,500</u>
Unallocated						
General and administrative expenses						(104,010)
Financing costs						(138,325)
Other income and expenses						37,990
Foreign exchange differences						(5,176)
Profit before income taxes						<u>90,979</u>
Carrying amount of fleet in operation	<u>2,437,633</u>	<u>991,198</u>	<u>587,753</u>	<u>1,178,542</u>	<u>83,857</u>	<u>5,278,983</u>
Carrying amount of non-current assets held for sale	<u>-</u>	<u>93,163</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,163</u>
Deadweight tonnage of fleet used in operations ('000)	<u>7,811</u>	<u>2,146</u>	<u>284</u>	<u>1,196</u>	<u>222</u>	<u>11,659</u>

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14. Segment Information (Continued)

Period ended 31 December 2013

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and Hire revenue	603,674	335,844	48,695	207,655	66,948	1,262,816
Voyage expenses and commissions	(259,778)	(120,174)	(409)	(704)	(9,102)	(390,167)
Time charter equivalent revenues	343,896	215,670	48,286	206,951	57,846	872,649
Direct operating expenses						
Vessels' running costs	(140,072)	(127,235)	(11,971)	(40,631)	(16,851)	(336,760)
Charter hire payments	-	-	-	-	(46,032)	(46,032)
Net earnings from vessels' trading	203,824	88,435	36,315	166,320	(5,037)	489,857
Vessels' depreciation	(106,408)	(56,185)	(6,048)	(54,202)	(3,601)	(226,444)
Vessels' drydock cost amortisation	(16,656)	(11,530)	(3,070)	(5,127)	(1,260)	(37,643)
Vessels' impairment provision (net)	-	(43,375)	-	-	-	(43,375)
Loss on sale of vessels	-	(558)	-	-	-	(558)
Foreign exchange differences	-	(33)	-	(154)	(1,431)	(1,618)
Segment operating profit / (loss)	<u>80,760</u>	<u>(23,246)</u>	<u>27,197</u>	<u>106,837</u>	<u>(11,329)</u>	<u>180,219</u>
Unallocated						
General and administrative expenses						(107,757)
Financing costs						(136,187)
Other income and expenses						36,111
Foreign exchange differences						101
Loss before income taxes						<u>(27,513)</u>
Carrying amount of fleet in operation	<u>2,519,853</u>	<u>1,155,359</u>	<u>198,964</u>	<u>1,236,808</u>	<u>95,166</u>	<u>5,206,150</u>
Carrying amount of non-current assets held for sale	<u>-</u>	<u>49,360</u>	<u>9,100</u>	<u>-</u>	<u>-</u>	<u>58,460</u>
Deadweight tonnage of fleet used in operations ('000)	<u>7,808</u>	<u>2,298</u>	<u>180</u>	<u>1,196</u>	<u>222</u>	<u>11,704</u>

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15. Fleet

	<u>Vessels</u> <u>\$'000</u>	<u>Drydock</u> <u>\$'000</u>	<u>Total Fleet</u> <u>\$'000</u>
Cost			
At 1 January 2013	6,469,332	151,006	6,620,338
Expenditure in period	7,434	42,535	49,969
Transfer from vessels under construction (Note 16)	492,604	10,182	502,786
Transfer to non-current assets held for sale (Note 29)	(298,167)	(12,211)	(310,378)
Write-off of fully amortised drydock cost	-	(35,674)	(35,674)
At 31 December 2013	6,671,203	155,838	6,827,041
Expenditure in period	3,831	23,291	27,122
Transfer from vessels under construction (Note 16)	500,498	10,470	510,968
Transfer to non-current assets held for sale (Note 29)	(273,599)	(7,255)	(280,854)
Disposals in period	(89,082)	(2,636)	(91,718)
Write-off of fully amortised drydock cost	-	(20,054)	(20,054)
At 31 December 2014	6,812,851	159,654	6,972,505
Depreciation, amortisation and impairment			
At 1 January 2013	1,501,149	72,160	1,573,309
Charge for the period	226,444	37,643	264,087
Impairment provision	36,567	-	36,567
Reversal of impairment provision of fleet	(666)	-	(666)
Transfer to non-current assets held for sale (Note 29)	(208,160)	(8,572)	(216,732)
Write-off of fully amortised drydock cost	-	(35,674)	(35,674)
At 31 December 2013	1,555,334	65,557	1,620,891
Charge for the period	231,961	39,793	271,754
Impairment provision	30,254	-	30,254
Transfer to non-current assets held for sale (Note 29)	(176,951)	(4,766)	(181,717)
Eliminated on disposal	(25,448)	(2,158)	(27,606)
Write-off of fully amortised drydock cost	-	(20,054)	(20,054)
At 31 December 2014	1,615,150	78,372	1,693,522
Net book value			
At 31 December 2014	5,197,701	81,282	5,278,983
At 31 December 2013	5,115,869	90,281	5,206,150
At 31 December 2012	4,968,183	78,846	5,047,029
	2014	2013	2012
Market value (\$'000)	4,777,500	4,355,000	4,011,562
Current insured values (\$'000)	5,856,922	5,587,372	6,113,276
Total deadweight tonnage (dwt)	11,390,550	11,497,966	11,187,685

Summary of fleet at period end:

<u>Type of vessel</u>	<u>Number of vessels</u>		<u>Dwt'000</u>		<u>Carrying value \$ million</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Oil tankers	73	74	8,990	8,987	3,296	3,418
Product carriers	32	41	1,881	2,136	991	1,155
LNG and LPG carriers	6	5	284	139	588	199
Bulk carriers	3	3	219	219	84	95
Ice breaking supply vessels	4	4	17	17	320	339
	118	127	11,391	11,498	5,279	5,206
Vessels held for sale (Note 29)	11	8	265	203	93	58
	129	135	11,656	11,701	5,372	5,264

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15. Fleet (Continued)

As at the period end management carried out an impairment review of the carrying amounts of the fleet, in accordance with the Group's policy (Note 3(s)), assessing the recoverable amount of the vessels, which is the higher of their fair value less costs to sell, as assessed by management at the period end and supported by independent professional valuations, and their value in use.

On comparing the recoverable amount with the carrying value the review led to a recognition of an impairment provision of \$17.6 million based on fair value less costs to sell and \$12.7 million based on value in use. In determining value in use for these vessels, the cash flows were discounted at a rate of 6.29% pre-tax. The impairment recognised in the period resulted from management's decision to dispose of nine Oil Product vessels and a Bulk carrier. The nine Oil Product vessels satisfied the criteria of being classified as held for sale at period end and as such were reclassified in the statement of financial position (Note 29). Four of the nine Oil Product vessels were impaired to their value in use before being classified as held for sale as this materially exceeded their fair value less costs to sell.

During the period ended 31 December 2013, \$11.1 million of the total impairment provision of \$36.6 million was based on fair value less costs to sell and \$25.5 million on value in use. The provision based on fair value was the result of management's decision to dispose of six Oil Product vessels. Of the provision based on value in use, \$11.6 million was due to increase in discount rates used in respect of three Oil Product vessels and \$13.9 million resulted from management's decision to dispose three Oil Product vessels as their value in use materially exceeded their fair value less costs to sell. The reversal of impairment provision of \$0.7 million was based on fair value less costs to sell.

The recoverable amount on which the above impairment was based is presented in the table below. All of the vessels impaired represent individual CGUs. The recoverable amount calculated for each vessel based on fair value less costs sell is level 2 of fair value hierarchy.

	Based on value in use \$'000	Based on fair value less costs to sell \$'000	Total \$'000
At 31 December 2014			
Recoverable amount on which impairment was based			
Oil Product segment	38,769	50,126	88,895
Other segment	-	7,920	7,920
	<u>38,769</u>	<u>58,046</u>	<u>96,815</u>
At 31 December 2013			
Recoverable amount on which impairment was based			
Oil Product segment	<u>81,353</u>	<u>47,038</u>	<u>128,391</u>
Recoverable amount on which reversal of impairment was based			
Oil Product segment	<u>-</u>	<u>17,313</u>	<u>17,313</u>

Value in use calculations involve estimating the discounted future cash flows, which require judgements concerning long-term forecasts of future revenues and costs related to the vessels to be made by management as well as judgements about the discount rate used in the calculations. These forecasts are uncertain as they require assumptions to be made regarding demand for products and services, future market conditions and future technological developments. Value in use calculations are mainly sensitive to the freight rates and discount rates applied in the calculations. Significant and unanticipated changes in these assumptions could result in a material impairment provision in a future period.

The main assumptions used in performing the value in use calculations as at period end are as follows:

- Contracted hire rates, for vessels on time charter, until the expiry of the current agreements;
- Freight rate estimates in the years 2015 to 2017 based on Baltic Exchange Forward Freight Assessments for the relevant route that applies to each vessel, or where Baltic Exchange Forward Freight Assessments are not available for the relevant route, publically available market forecasts. These are adjusted for any premium/discount earned by each vessel on the relevant route compared to the historic average without any inflationary increase;
- Freight rate estimates after 2017 based on the historical ten year earnings averages for each type of vessel, obtained from independent brokers' research as adjusted for any premium/discount earned by each vessel on the relevant route compared to the historical average without any inflationary increase;
- Operating expenses based on the Group's operating budget approved by the Group for 2015 and increasing at a rate of 3% (2013 – 3%) per annum for the first five years thereafter (up to 2020);
- The technical element of the operating expenses increasing at a rate of 3% per annum from year six for the remaining useful economic life of the vessels reflecting increase in technical expenses due to the aging of the vessels;
- Annual utilisation for each vessel of 363 days less any scheduled estimated drydocking period based on the Group's approved drydock plan and thereafter 363 days less the maximum number of days in drydock based on the previously approved plan;
- Use of the vessels until the end of their useful economic life, unless the vessels are sold or planned to be sold; and
- Discount rates between 6.29% to 7.93% pre-tax (2013 – 6.71% to 8.34% pre-tax), depending on the remaining useful economic life of each vessel and the area it trades.

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15. Fleet (Continued)

The following sensitivity analysis has been performed by management as at the period end, all other things being equal:

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of \$11.1 million (2013 – \$55.2 million); and
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of \$2.9 million (2013 – \$13.5 million).

During the period ended 31 December 2014 management have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to decrease the depreciation charge by \$3.8 million (2013 – decrease of \$2.8 million).

Included in the Group's fleet are 2 vessels (2013 – 2) held under finance leases with an aggregate carrying value of \$199.9 million (2013 – \$209.2 million). The depreciation charge in the period in respect of these vessels amounted to \$8.6 million (2013 – \$8.9 million) (see also Note 37).

16. Vessels Under Construction

	2014 \$'000	2013 \$'000
At 1 January	244,584	447,321
Expenditure in period	503,634	300,049
Transfer to fleet (Note 15)	(510,968)	(502,786)
At 31 December	<u>237,250</u>	<u>244,584</u>
Total deadweight tonnage (dwt)	<u>423,200</u>	<u>698,800</u>

Vessels under construction at 1 January 2014 comprised one VLCC and four LNG carriers scheduled for delivery between January 2014 and April 2015 at a total contracted cost to the Group of \$881.9 million.

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>
Velikiy Novgorod	LNG carrier	Gas	93,486	29 January 2014
SCF Shanghai	VLCC	Crude	320,701	25 February 2014
Pskov	LNG carrier	Gas	93,152	29 August 2014

During the period ended 31 December 2014, the Group signed agreements for the construction of a 172,600 cubic metre ice breaking LNG carrier, one multifunctional ice breaking supply ("MIB") vessel, three MIB standby vessels and three Arctic shuttle tankers at a total contracted cost of \$1,278.9 million. The vessels are scheduled for delivery in June 2016, between June 2016 and March 2017 and between June 2016 and October 2016 respectively (see also Note 46). The LNG carrier is backed with a time charter contract of 29 years firm period, with two five year extension options attached in favour of the charterer. The charter arrangements for the other vessels are described in Note 46.

Vessels under construction at 31 December 2014 comprised two LNG carriers, one ice breaking LNG carrier, one MIB supply vessel, three MIB standby vessels and three Arctic shuttle tankers scheduled for delivery between January 2015 and March 2017 at a total contracted cost to the Group of \$1,677.4 million. As at 31 December 2014, \$213.9 million of the contracted costs had been paid for.

In accordance with the terms of the shipbuilding contracts, in the event of termination of the new building contracts due to the Group's default, the shipyard has the right to retain all instalments paid up to the date of termination, in order to recover their losses and damages, as well as to retain the full benefit and property of the vessel constructed. Any proceeds from the sale of the vessel by the shipyard after satisfaction of the shipyard's losses, damages and costs of sale shall belong to the Group.

Included in expenditure in the period is an amount of \$9.0 million (2013 – \$12.1 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)). The interest capitalised includes interest on general borrowings of \$6.6 million (2013 – \$10.8 million) capitalised using a weighted average interest rate of 4.5% per annum (2013 – 4.5% per annum).

As at 31 December 2014 management carried out an impairment review of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(s)). The review did not lead to any recognition of impairment provision as there was no indication for impairment.

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Notes to the Consolidated Financial Statements – 31 December 2014
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17. Other Property, Plant and Equipment

	Land and buildings \$'000	Miscellaneous \$'000	Total \$'000
Cost			
At 1 January 2013	77,523	51,300	128,823
Additions in period	877	7,867	8,744
Transfer from other assets under construction (Note 19)	872	13,571	14,443
Disposals in period	(335)	(1,067)	(1,402)
Exchange adjustment	(2,250)	(1,994)	(4,244)
At 31 December 2013	76,687	69,677	146,364
Additions in period	77	2,340	2,417
Transfer from other assets under construction (Note 19)	7,395	2,417	9,812
Transferred to investment property (Note 18)	(2,385)	-	(2,385)
Disposals in period	(476)	(1,144)	(1,620)
Exchange adjustment	(13,879)	(18,655)	(32,534)
At 31 December 2014	67,419	54,635	122,054
Depreciation			
At 1 January 2013	21,543	33,724	55,267
Charge for the period	1,646	5,227	6,873
Disposals in period	(203)	(873)	(1,076)
Exchange adjustment	(1,320)	(1,227)	(2,547)
At 31 December 2013	21,666	36,851	58,517
Charge for the period	1,714	6,130	7,844
Transferred to investment property (Note 18)	(1,826)	-	(1,826)
Disposals in period	(159)	(772)	(931)
Exchange adjustment	(8,021)	(8,175)	(16,196)
At 31 December 2014	13,374	34,034	47,408
Net book value			
At 31 December 2014	54,045	20,601	74,646
At 31 December 2013	55,021	32,826	87,847
At 31 December 2012	55,980	17,576	73,556

Buildings comprise offices in Moscow, St. Petersburg, Novorossiysk, Limassol and Sochi as well as a cruise terminal in Sochi. Miscellaneous category comprises a yacht marina, office equipment, motor vehicles, fixtures and fittings and leasehold improvements of leased premises.

18. Investment Property

	2014 \$'000	2013 \$'000
Cost		
At 1 January	33,364	19,689
Transfer from other property, plant and equipment (Note 17)	2,385	-
Transferred from assets under construction (Note 19)	167	14,166
Disposals in period	(384)	(190)
Exchange adjustment	(7,383)	(301)
At 31 December	28,149	33,364
Depreciation		
At 1 January	16,391	15,966
Charge for the period (Note 11)	1,120	858
Transfer from other property, plant and equipment (Note 17)	1,826	-
Disposals in period	(134)	(190)
Exchange adjustment	(1,395)	(243)
At 31 December	17,808	16,391
Net book value		
At 31 December	10,341	16,973
Rental income from investment property	3,322	2,570
Direct operating expenses of investment property	782	873

Investment property comprises buildings in Moscow, Novorossiysk and Sochi with a fair value, based on valuations performed by independent qualified valuers as at 31 December 2014, equivalent to \$31.5 million (2013 – equivalent to \$44.2 million).

19. Other Assets Under Construction

	2014 \$'000	2013 \$'000
At 1 January	11,992	23,254
Expenditure in the period	1,554	36,700
Transfer to other property, plant and equipment (Note 17)	(9,812)	(14,443)
Transfer to investment property (Note 18)	(167)	(14,166)
Transfer to non-current assets held for sale (Note 29)	-	(15,792)
Disposals in period	-	(1,418)
Exchange adjustment	(3,567)	(2,143)
At 31 December	-	11,992

During the period ended 31 December 2014, the Group completed the construction of a cruise terminal in Sochi and certain outstanding works on the yacht marina which were subsequently transferred to other property, plant and equipment (Note 17).

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20. Investments in Joint Ventures

	2014 \$'000	2013 \$'000
At 1 January	72,507	62,156
Share of profits in joint ventures	12,861	9,561
Share of joint ventures' other comprehensive income	2,703	23,344
Dividends received	(2,531)	(2,112)
Release of provision for share in net liabilities of joint ventures	(3,110)	(20,442)
At 31 December	<u>82,430</u>	<u>72,507</u>

As at period end, the Group had interests in the following active joint ventures:

Name of entity	Percentage holding			Country of Incorporation	Principal Activity
	2014	2013	2012		
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Eastern Supply Vessels Limited ¹	50.0%	50.0%	50.0%	Russia	Ship chartering and subchartering services
SSV Sakhalin Offshore Limited ¹	50.0%	50.0%	50.0%	Cyprus	Ship chartering and subchartering services
SCF Swire Offshore Pte Limited ¹	50.0%	50.0%	50.0%	Singapore	Ship management
Anubis Shipholding Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Limited ²	51.0%	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc ²	51.0%	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies

¹ Effective ownership 33.3%

² All key business decisions require joint approval by the shareholders

The Group through its joint ventures owns and operates 4 LNG carriers (2013 – 4) and 9 Panamax oil product tankers (LR1) (2013 – 9). The Group also operates through its joint ventures 3 ice breaking supply vessels (2013 – 3), one of which it directly owns.

The joint ventures entered into time charter agreements, with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2014 \$'000	2013 \$'000
Within one year	131,578	138,041
After one year but not more than five years	531,387	528,311
More than five years	755,725	881,601
	<u>1,418,690</u>	<u>1,547,953</u>

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20. Investments in Joint Ventures (Continued)

Summarised financial information in respect of the Group's joint ventures is set out below:

At 31 December 2014	LNG East West \$'000	LNG North South \$'000	NYK-SCF LNG 1 \$'000	NYK-SCF LNG 2 \$'000	SCF ST joint ventures \$'000	Other \$'000	Total \$'000
Total non-current assets	147,416	151,891	155,709	156,319	391,417	4,726	1,007,478
Total current assets	20,785	19,327	15,241	24,682	43,592	16,987	140,614
Total non-current liabilities	(143,898)	(160,839)	(139,584)	(150,664)	(276,188)	(193)	(871,366)
Total current liabilities	(11,390)	(16,866)	(19,086)	(18,078)	(42,336)	(15,260)	(123,016)
Net assets / (liabilities) of the joint venture	<u>12,913</u>	<u>(6,487)</u>	<u>12,280</u>	<u>12,259</u>	<u>116,485</u>	<u>6,260</u>	<u>153,710</u>
Group's share in net assets of the joint venture	4,842	-	6,140	6,130	59,407	2,090	78,609
Long term interests in the joint venture	-	-	-	-	2,644	1,177	3,821
Carrying amount of the investment in joint venture	<u>4,842</u>	<u>-</u>	<u>6,140</u>	<u>6,130</u>	<u>62,051</u>	<u>3,267</u>	<u>82,430</u>
Provision for share in net liabilities of joint venture	<u>-</u>	<u>(3,244)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,244)</u>
Cash and cash equivalents	<u>20,766</u>	<u>19,325</u>	<u>15,155</u>	<u>19,310</u>	<u>11,419</u>	<u>9,896</u>	<u>95,871</u>
Current financial liabilities	<u>(10,289)</u>	<u>(14,808)</u>	<u>(14,219)</u>	<u>(15,171)</u>	<u>(27,556)</u>	<u>(3,531)</u>	<u>(85,574)</u>
Non-current financial liabilities	<u>(143,898)</u>	<u>(160,841)</u>	<u>(139,584)</u>	<u>(150,664)</u>	<u>(276,188)</u>	<u>-</u>	<u>(871,175)</u>
Revenues	<u>23,909</u>	<u>24,462</u>	<u>23,024</u>	<u>23,024</u>	<u>106,668</u>	<u>39,855</u>	<u>240,942</u>
Depreciation, amortisation and impairment	<u>(5,828)</u>	<u>(5,815)</u>	<u>(5,869)</u>	<u>(5,887)</u>	<u>(18,033)</u>	<u>(978)</u>	<u>(42,410)</u>
Interest income	<u>27</u>	<u>28</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>-</u>	<u>62</u>
Interest expense	<u>(8,131)</u>	<u>(7,953)</u>	<u>(7,009)</u>	<u>(7,369)</u>	<u>(12,453)</u>	<u>-</u>	<u>(42,915)</u>
Income tax	<u>(317)</u>	<u>(324)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(465)</u>	<u>(1,106)</u>
Joint ventures' profits for the period	<u>5,056</u>	<u>5,389</u>	<u>6,324</u>	<u>6,008</u>	<u>2,385</u>	<u>2,668</u>	<u>27,830</u>
Group's share of joint ventures' profits for the period recognised	<u>1,896</u>	<u>2,695</u>	<u>3,162</u>	<u>3,004</u>	<u>1,216</u>	<u>888</u>	<u>12,861</u>
Joint ventures' other comprehensive income for the period	<u>429</u>	<u>830</u>	<u>3,032</u>	<u>1,506</u>	<u>(279)</u>	<u>-</u>	<u>5,518</u>
Group's share of joint ventures' other comprehensive income for the period recognised	<u>161</u>	<u>415</u>	<u>1,516</u>	<u>753</u>	<u>(142)</u>	<u>-</u>	<u>2,703</u>
Joint ventures' total comprehensive income for the period	<u>5,485</u>	<u>6,219</u>	<u>9,356</u>	<u>7,514</u>	<u>2,106</u>	<u>2,668</u>	<u>33,348</u>
Group's share of joint ventures' total comprehensive income for the period recognised	<u>2,057</u>	<u>3,110</u>	<u>4,678</u>	<u>3,757</u>	<u>1,074</u>	<u>888</u>	<u>15,564</u>

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20. Investments in Joint Ventures (Continued)

Summarised financial information in respect of the Group's joint ventures is set out below:

At 31 December 2013	LNG East West \$'000	LNG North South \$'000	NYK-SCF LNG 1 \$'000	NYK-SCF LNG 2 \$'000	SCF ST joint ventures \$'000	Other \$'000	Total \$'000
Total non-current assets	153,244	157,706	161,578	162,206	409,419	4,829	1,048,982
Total current assets	19,108	23,326	13,934	21,150	35,139	15,254	127,911
Total non-current liabilities	(148,139)	(174,987)	(149,194)	(160,112)	(291,051)	-	(923,483)
Total current liabilities	(11,635)	(18,753)	(23,394)	(18,498)	(39,124)	(14,687)	(126,091)
Net assets / (liabilities) of the joint venture	<u>12,578</u>	<u>(12,708)</u>	<u>2,924</u>	<u>4,746</u>	<u>114,383</u>	<u>5,396</u>	<u>127,319</u>
Group's share in net assets of the joint venture	4,717	-	1,462	2,373	58,335	1,799	68,686
Long term interests in the joint venture	-	-	-	-	2,644	1,177	3,821
Carrying amount of the investment in joint venture	<u>4,717</u>	<u>-</u>	<u>1,462</u>	<u>2,373</u>	<u>60,979</u>	<u>2,976</u>	<u>72,507</u>
Provision for share in net liabilities of joint venture	<u>-</u>	<u>(6,354)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,354)</u>
Cash and cash equivalents	<u>19,083</u>	<u>23,305</u>	<u>13,907</u>	<u>16,435</u>	<u>9,396</u>	<u>8,382</u>	<u>90,508</u>
Current financial liabilities	<u>(10,248)</u>	<u>(16,128)</u>	<u>(15,453)</u>	<u>(16,523)</u>	<u>(29,700)</u>	<u>(3,531)</u>	<u>(91,583)</u>
Non-current financial liabilities	<u>(148,139)</u>	<u>(174,987)</u>	<u>(149,194)</u>	<u>(160,112)</u>	<u>(291,051)</u>	<u>-</u>	<u>(923,483)</u>
Revenues	<u>24,382</u>	<u>25,060</u>	<u>22,939</u>	<u>22,939</u>	<u>100,207</u>	<u>39,961</u>	<u>235,488</u>
Depreciation, amortisation and impairment	<u>(5,833)</u>	<u>(5,823)</u>	<u>(5,913)</u>	<u>(5,915)</u>	<u>(18,568)</u>	<u>(806)</u>	<u>(42,858)</u>
Interest income	<u>27</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>60</u>
Interest expense	<u>(8,303)</u>	<u>(8,326)</u>	<u>(7,460)</u>	<u>(7,782)</u>	<u>(13,211)</u>	<u>-</u>	<u>(45,082)</u>
Income tax	<u>(323)</u>	<u>(329)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,013)</u>	<u>(1,665)</u>
Joint ventures' profits / (losses) for the period	<u>5,488</u>	<u>5,379</u>	<u>6,146</u>	<u>5,681</u>	<u>(3,604)</u>	<u>2,213</u>	<u>21,303</u>
Group's share of joint ventures' profits / (losses) for the period recognised	<u>2,058</u>	<u>2,690</u>	<u>3,073</u>	<u>2,841</u>	<u>(1,838)</u>	<u>737</u>	<u>9,561</u>
Joint ventures' other comprehensive income for the period	<u>12,810</u>	<u>11,609</u>	<u>8,840</u>	<u>10,734</u>	<u>5,781</u>	<u>-</u>	<u>49,774</u>
Group's share of joint ventures' other comprehensive income for the period recognised	<u>4,804</u>	<u>5,805</u>	<u>4,420</u>	<u>5,367</u>	<u>2,948</u>	<u>-</u>	<u>23,344</u>
Joint ventures' total comprehensive income for the period	<u>18,298</u>	<u>16,988</u>	<u>14,986</u>	<u>16,415</u>	<u>2,177</u>	<u>2,213</u>	<u>71,077</u>
Group's share of joint ventures' total comprehensive income for the period recognised	<u>6,862</u>	<u>8,495</u>	<u>7,493</u>	<u>8,208</u>	<u>1,110</u>	<u>737</u>	<u>32,905</u>

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21. Loans to Joint Ventures

	2014 \$'000	2013 \$'000	2012 \$'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	44,380	50,984	57,389
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	20,312	19,292	13,110
	64,692	70,276	70,499
Less current portion (current assets)	(4,750)	(4,750)	(4,803)
Non-current portion (non-current assets)	59,942	65,526	65,696
	1,066	1,157	910
Interest income during the period on loans due from joint ventures	1,607	1,004	394

The loans to joint ventures are unsecured and mature between February 2016 to January 2025.

22. Finance Lease Receivables

	2014 \$'000	2013 \$'000	2012 \$'000
Gross finance lease receivable			
At 1 January	89,136	92,261	94,859
Finance lease interest receivable	13,137	13,631	14,203
Finance lease instalments received	(16,755)	(16,756)	(16,801)
At 31 December	85,518	89,136	92,261
Allowance for credit losses			
At 1 January	(6,572)	-	-
Allowance for credit losses	(3,284)	(6,572)	-
At 31 December	(9,856)	(6,572)	-
Receivable net of provision	75,662	82,564	92,261
Less current finance lease receivables (current assets)	(4,193)	(3,656)	(3,124)
Non-current finance lease receivables (non-current assets)	71,469	78,908	89,137

The minimum lease instalments and their corresponding present value is analysed as follows:

	Minimum lease instalments		Present value of minimum lease instalments	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Within one year	16,755	16,755	4,193	3,656
After one year but not more than five years	67,067	67,067	24,657	21,215
More than five years	69,901	89,940	46,812	57,693
	153,723	173,762	75,662	82,564
Less unearned income	(78,061)	(91,198)	-	-
Present value of minimum lease instalments	75,662	82,564	75,662	82,564

Finance lease receivables comprise nine Escort tugs chartered out on fifteen year bareboat charters to JSC Rosneftflot (a Group associate) commencing on delivery of the tugs by the shipyards, at effective interest rates ranging from 11.96% to 18.39% per annum.

The charter hires are receivable monthly in arrears at daily rates ranging from \$3,411 to \$7,083 through to expiration of the charters. The charterer has the option to acquire the tugs on any hire payment date through to the expiration of the charter, provided that the charterer has fulfilled all obligations under the bareboat charter agreements, at predetermined prices. Upon expiration of the charters in fifteen years from the commencement date, legal ownership of the tugs will be transferred to the charterer at a nominal amount.

Amounts invoiced but outstanding as at the period end are disclosed separately under trade and other receivables in Note 27.

23. Derivative Financial Instruments

The use of financial derivatives is governed by the Group's policies approved by the executive board, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy.

Derivative financial instruments are classified in the statement of financial position as follows:

	2014 \$'000	2013 \$'000	2012 \$'000
Non-current asset	7,438	10,356	108
Non-current liability	(37,808)	(42,266)	(71,808)
Current liability	(24,836)	(26,718)	(40,593)
	(55,206)	(58,628)	(112,293)

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23. Derivative Financial Instruments (Continued)

(a) Hedging instruments

	2014	2013
	\$'000	\$'000
At 1 January		
Recycled during the period and credited to the income statement	52,464	90,901
Fair value movement during the period recognised in other comprehensive income	(20,081)	(19,246)
Fair value movement during the period credited to the income statement	23,265	(17,137)
	<u>(442)</u>	<u>(2,054)</u>
At 31 December	<u>55,206</u>	<u>52,464</u>

The Group entered into interest rate swap (“IRS”) agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. As of 31 December 2014 the Group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to U.S. Dollar three and six month LIBOR as follows:

U.S. Dollar LIBOR compared to fixed rate	Notional amount 2014 \$'000	Notional amount 2013 \$'000	Fixed interest rate	Expiry date
Three month	34,500	40,500	1.59%	24 August 2015
Three month	32,200	37,800	2.02%	22 July 2017
Three month	23,760	25,740	4.47%	12 December 2016
Three month	279,225	303,375	5.76%	1 March 2021
Six month	66,667	73,333	1.63%	21 December 2024
Three month	250,000	300,000	0.89%	12 December 2019
Three month	17,464	18,712	2.02%	13 August 2020
Three month	17,464	18,712	2.01%	13 August 2020
Three month	39,282	-	2.07%	31 December 2020
Three month	150,099	-	2.44%	29 January 2024
Three month	154,974	-	2.27%	29 August 2024
	<u>1,065,635</u>	<u>818,172</u>		

(b) Classified at fair value through profit or loss

	2014	2013
	\$'000	\$'000
At 1 January		
Fair value movement during the period credited to the income statement	6,164	21,392
	<u>(6,164)</u>	<u>(15,228)</u>
At 31 December	<u>-</u>	<u>6,164</u>

All derivative financial instruments classified at fair value through profit or loss at 31 December 2013 were interest rate financial instruments and were recorded in the statement of financial position as current liabilities.

24. Income Taxes

	2014	2013
	\$'000	\$'000
Russian Federation profit tax	9,565	9,240
Overseas income tax expense	565	1,272
Current income tax expense	10,130	10,512
Deferred tax	(3,045)	1,201
Total income tax expense	<u>7,085</u>	<u>11,713</u>

Under the laws of the countries of incorporation and / or vessel registration, a limited number of vessel owning and operating subsidiaries are subject to tax on international shipping income. Management is of the opinion that the Group is fully compliant with the respective tax regime of the countries of incorporation of the vessel owning companies and / or vessel registration.

Russian Federation profits tax is payable in Roubles at a tax rate of 20% (2013 – 20%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxes are also payable on the results of the Group's overseas management and agency and broking subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

On 24 November 2014 Federal Law No. 376-FZ of the Russian Federation, effective 1 January 2015, concerning the introduction of amendments to part one and two of the Tax Code of the Russian Federation (regarding the taxation of profit of Controlled Foreign Companies and tax residence of Foreign Companies in Russia) was enacted. Based on the current wording and interpretation of the Law, a number of subsidiaries of the Group will be taxable on their undistributed profits generated after 1 January 2015, as adjusted for under the Russian Tax Code, provided that such profits are not distributed as dividends until 31 December of the year following the period when the profits are generated.

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24. Income Taxes (Continued)

The income tax expense for the period is reconciled to the expected tax expense based on the Russian Federation tax rate as follows:

	2014 \$'000	2013 \$'000
Profit / (loss) before income taxes	90,979	(27,513)
Income tax expense / (benefit) using Russian Federation income tax rate of 20%	18,196	(5,503)
Difference in tax rates in other jurisdictions	20,578	23,508
Profits subject to tonnage tax	(32,501)	(16,209)
Tax effect on intercompany dividends	(1,172)	4,899
Non-deductible expenses and non-taxable income	(109)	1,382
Difference in tax rate of dividends received from other investments	(33)	-
Unrecognised tax losses during the period	2,283	3,629
Adjustments in respect of current income tax of previous years	(157)	7
Income tax expense	7,085	11,713

Deferred Tax

	Opening balance \$'000	(Charged) / released to income \$'000	Exchange differences \$'000	Closing balance \$'000
<u>At 31 December 2014</u>				
Deferred tax assets	2,228	1,963	(616)	3,575
Deferred tax liabilities	(2,477)	1,082	137	(1,258)
	(249)	3,045	(479)	2,317
<u>At 31 December 2013</u>				
Deferred tax assets	3,213	(913)	(72)	2,228
Deferred tax liabilities	(2,244)	(288)	55	(2,477)
	969	(1,201)	(17)	(249)

Deferred tax relates to the following:

	Opening balance \$'000	(Charged) / released to income \$'000	Exchange differences \$'000	Closing balance \$'000
<u>At 31 December 2014</u>				
Fleet	380	693	(514)	559
Drydock	(680)	183	227	(270)
Unused tax losses carried forward	531	140	(64)	607
Accounts receivable	(382)	44	140	(198)
Accounts payable	2,352	(209)	(499)	1,644
Bank loans	(34)	38	-	4
Gains on disposal of assets reinvested	(585)	22	-	(563)
Unremitted earnings of Russian subsidiaries	(1,800)	1,800	-	-
Other	(31)	334	231	534
	(249)	3,045	(479)	2,317
<u>At 31 December 2013</u>				
Fleet	(40)	496	(76)	380
Drydock	(159)	(546)	25	(680)
Unused tax losses carried forward	810	(212)	(67)	531
Accounts receivable	(846)	415	49	(382)
Accounts payable	2,041	341	(30)	2,352
Bank loans	(48)	14	-	(34)
Gains on disposal of assets reinvested	(723)	106	32	(585)
Unremitted earnings of Russian subsidiaries	-	(1,846)	46	(1,800)
Other	(66)	31	4	(31)
	969	(1,201)	(17)	(249)

The Group has tax losses which arose in Russia and in Spain of \$20.6 million and \$11.4 million respectively (2013 – \$15.7 million in Russia and \$9.0 million in Spain), for which a deferred tax asset has not been recognised, that are available for offsetting for 10 and 18 years respectively against future taxable profits of the companies in which they arose.

At 31 December 2014, there were unrecognised deferred tax liabilities of \$112.1 million (2013 – \$105.5 million) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. The Group has the ability and intends to reinvest undistributed earnings of subsidiaries. There is no tax impact on the unremitted earnings of joint ventures or associates. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to \$2,606.6 million (2013 – \$2,207.6 million).

There are no income tax consequences attached to the payment of dividends by the Group to its shareholder.

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25. Earnings Per Share

	2014 \$'000	2013 \$'000
Net profit / (loss) attributable to equity holders of the parent for basic earnings	80,058	(39,815)
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic earnings per share for the period attributable to holders of the parent	\$0.041	(\$0.020)

26. Inventories

	2014 \$'000	2013 \$'000	2012 \$'000
Bunkers	24,305	39,060	47,359
Lubricants	17,454	18,479	17,596
Victualling and slopchest	2,026	1,882	1,801
Spare parts and consumables	1,195	3,254	1,242
Other	845	2,044	2,489
	<u>45,825</u>	<u>64,719</u>	<u>70,487</u>

The amounts expensed during the period are disclosed in Note 7, Voyage Expenses and Commissions, and Note 8, Vessels' Running Costs.

27. Trade and Other Receivables

	2014 \$'000	2013 \$'000	2012 \$'000
Non-current assets			
Other receivables	180	587	9,621
Security deposits	17,183	17,178	-
	<u>17,363</u>	<u>17,765</u>	<u>9,621</u>
Current assets			
Amounts due from charterers	82,272	62,831	57,671
Allowance for credit losses	(4,214)	(4,135)	(5,435)
	78,058	58,696	52,236
Casualty and other claims	3,887	5,761	7,996
Agents' balances	4,807	2,767	2,648
Other receivables	24,736	25,298	24,531
Amounts due from joint ventures and associates	280	1,170	522
Security deposits	6,060	9,789	33,103
Amounts due from lessee for finance leases	1,869	1,662	1,165
Receivables under High Court judgement award	2,708	2,708	9,321
Prepayments	17,315	15,541	18,023
Voyages in progress	16,359	22,952	18,674
Accrued income	5,030	4,611	33,814
	<u>161,109</u>	<u>150,955</u>	<u>202,033</u>

Amounts due from charterers represent amounts receivable from charterers of vessels owned or leased by the Group in respect of voyage charters, time charters, and contracts of affreightment.

Freight from voyage charters and contracts of affreightment is receivable upon discharge of the vessel and hire from time charters is receivable monthly in advance over the duration of the time charter voyage or as per any other contractual arrangement with the charterer. Trade receivables are non-interest bearing. The estimated irrecoverable amounts due from charterers are provided for based on management's past experience.

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2014, \$48.7 million (2013 – \$20.1 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2014, charterers with a carrying amount of \$29.4 million (2013 – \$38.6 million) are past due at the reporting date. The Group has not provided for these receivables as there has not been a significant change in credit quality and the amounts outstanding are still considered recoverable. The Group does not hold any collateral over these balances.

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27. Trade and Other Receivables (Continued)

The ageing analysis of these past due receivables is as follows:

	2014 \$'000	2013 \$'000	2012 \$'000
Up to one month	15,009	27,462	18,270
One to two months	5,460	3,586	9,524
Two to three months	2,592	2,030	3,416
Three to four months	100	383	261
More than four months	6,213	5,097	2,447
	<u>29,374</u>	<u>38,558</u>	<u>33,918</u>

Movement in the allowance for credit losses in respect of charterers balances:

	2014 \$'000	2013 \$'000	2012 \$'000
At 1 January	4,135	5,435	4,975
Amounts written off during the period	(102)	(1,059)	(242)
Amounts recovered during the period and recognised in the income statement	(3)	(533)	(439)
Increase in allowance recognised in the income statement	184	270	1,129
Exchange adjustment	-	22	12
At 31 December	<u>4,214</u>	<u>4,135</u>	<u>5,435</u>

Security deposits comprised the following:

- an amount of \$10.1 million (2013 – \$13.8 million) representing securities placed to the Court's Funds Office to cover potential legal costs of the defendants connected with the claims described in Note 44 of which \$4.0 million were classified as non-current as at 31 December 2014; and
- an amount, including accrued interest, of \$13.2 million (2013 – \$13.2 million) held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, classified as non-current asset as at 31 December 2014 (see also Note 44).

Amounts due from the associated company lessee for finance leases of \$0.5 million (2013 – \$5.4 million) were past due at the reporting date of which \$0.1 million were provided for as of 31 December 2014 (2013 – \$5.2 million on overdue balances and current receivable).

The voyages in progress contain residual prepaid and accrued income and costs relating to the Group's policy of applying a rateable approach to the recognition of voyage charter results at each period end.

28. Cash and Bank Deposits

	2014 \$'000	2013 \$'000	2012 \$'000
Cash and bank deposits	284,516	281,540	308,453
Bank deposits accessible on maturity	(1,442)	(1,833)	-
Retention accounts	(16,919)	(14,857)	(16,246)
Security deposits held as counter security for claims	-	-	(10,400)
Restricted deposits	(8,500)	(8,100)	(10,000)
Cash and cash equivalents	<u>257,655</u>	<u>256,750</u>	<u>271,807</u>

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 36. These funds are accumulated to cover future loan principal and interest repayments. Restricted deposits represent additional security for the purposes of certain secured loan agreements.

Under the terms of the agreements, two subsidiaries of the Group have to maintain freely available bank balances and cash in the amount of not less than \$35.0 million each. In addition under the terms of the agreements, one of the two subsidiaries has to maintain minimum liquidity of the higher of \$50.0 million and 7.5% of total debt and at least 50% of the minimum liquidity has to be maintained in cash and cash equivalents. The amount of cash and cash equivalents that had to be maintained under the terms of the agreements as at 31 December 2014 were \$57.5 million (2013 – \$61.9 million) and \$35.0 million (2013 – \$35.0 million) respectively.

Cash balances of \$8.8 million held on current accounts, blocked and not accessible for the immediate future, have been provided for and are included in line allowance for credit losses in the income statement for the period ended 31 December 2013.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and in bank as stated above.

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29. Non-Current Assets Held for Sale

	Building \$'000	Fleet \$'000	Total \$'000
At 1 January 2013	-	17,824	17,824
Transfer from fleet (Note 15)	-	93,646	93,646
Transfer from assets under construction (Note 19)	15,792	-	15,792
Expenditure in period	-	4,990	4,990
Impairment provision	-	(7,764)	(7,764)
Reversal of impairment provision	-	290	290
Disposals in period	-	(50,526)	(50,526)
At 31 December 2013	15,792	58,460	74,252
Transfer from fleet (Note 15)	-	99,137	99,137
Expenditure in period	-	419	419
Impairment provision	-	(12,504)	(12,504)
Reversal of impairment provision	-	823	823
Exchange adjustment	(777)	-	(777)
Disposals in period	(15,015)	(53,172)	(68,187)
At 31 December 2014	-	93,163	93,163

As at 31 December 2013, non-current assets held for sale, comprised fleet consisting of one asphalt chemical tanker, three chemical oil product tankers, one handysize product tanker, two MR product tankers and an LNG carrier, and a building.

During the period the Group disposed of the building and all but two of the three chemical oil product tankers held for sale as at 31 December 2013.

In addition, during the period ended 31 December 2014 the Group made a decision to sell two asphalt chemical tankers, three chemical oil product tankers, four MR product tankers and one LNG carrier. These vessels were actively marketed for sale at a price approximate to their market values and consequently transferred to non-current assets held for sale. The LNG carrier was sold during the period.

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.

30. Share Capital

	2014 \$'000	2013 \$'000	2012 \$'000
Authorised 2,247,653,953 shares (2012 - 1,966,697,210 shares) of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012	405,012
Share premium arising from issue of shares in exchange for shares in JSC Novoship in 2007 (Note 31)	818,845	818,845	818,845

31. Group Reconstruction Reserve

	2014 \$'000	2013 \$'000	2012 \$'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in JSC Novoship in 2007	(843,450)	(843,450)	(843,450)
	(834,490)	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in JSC Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 Roubles (\$1.40071) per share (see also Note 30), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of JSC Novoship has been accounted for on a pooling of interests basis.

32. Dividends

Dividends of Rouble 0.15 per share totalling Roubles 300.0 million, equivalent to \$9.0 million were declared on 30 June 2014 and paid on 15 July 2014 (2013 – 0.15 Rouble per share totalling Roubles 300.0 million, equivalent to \$9.1 million).

33. Non-Controlling Interests

	Currency reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 January 2013	(109)	158,978	158,869
Profit for the period	-	589	589
Other comprehensive income	(735)	(68)	(803)
Dividends	-	(1,610)	(1,610)
At 31 December 2013	(844)	157,889	157,045
Profit for the period	-	3,836	3,836
Other comprehensive income	(3,162)	134	(3,028)
Dividends	-	(1,464)	(1,464)
At 31 December 2014	(4,006)	160,395	156,389

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34. Provisions

	2014 \$'000	2013 \$'000
At 1 January	6,354	26,796
Reductions resulting from remeasurement	(3,110)	(20,442)
At 31 December	<u>3,244</u>	<u>6,354</u>

The Group has legal obligations arising out of its investments relating to guarantees given for its joint ventures. The Group has severally guaranteed to the hedging banks the performance of all the obligations and liabilities under the swap agreements entered into by the LNG carrier owning companies listed in Note 20, limited to its percentage holding in the equity share capital of these companies.

35. Trade and Other Payables

	2014 \$'000	2013 \$'000	2012 \$'000
Trade payables	61,924	89,390	49,454
Other payables	44,199	60,342	42,940
Dividends payable	1,235	1,912	1,893
Accrued liabilities	41,763	43,336	59,221
Deferred income	24,072	27,102	24,475
Accrued interest	17,072	15,338	15,019
	<u>190,265</u>	<u>237,420</u>	<u>193,002</u>

36. Secured Bank Loans

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

	2014 \$'000	2013 \$'000	2012 \$'000
Repayable			
- within twelve months after the end of the reporting period	394,652	363,259	276,394
- between one to two years	297,782	364,323	259,817
- between two to three years	242,370	225,937	350,265
- between three to four years	240,886	219,372	249,887
- between four to five years	270,927	187,848	196,166
- more than five years	535,991	600,777	629,678
	<u>1,982,608</u>	<u>1,961,516</u>	<u>1,962,207</u>
Less current portion (current liabilities)	(394,652)	(363,259)	(276,394)
Long-term balance (non-current liabilities)	<u>1,587,956</u>	<u>1,598,257</u>	<u>1,685,813</u>

The interest rates applicable for the secured bank loans during the period are as follows:

Contractual interest rates	Interest rate		Outstanding loans gross of direct issue costs		Maturity
	2014	2013	2014 \$'000	2013 \$'000	
Floating rate loans between 0.68%-3.00% per annum	Libor+1.93% ¹	Libor+1.81% ¹	1,852,645	1,803,380	Between August 2015 - December 2024
Fixed rate	4.75%	4.75%	18,000	22,800	July 2018
Fixed rate	5.19%	5.19%	24,121	29,961	July 2019
Fixed rate	5.50% ²	5.50% ²	32,875	44,103	July 2018
Fixed rate	4.15%	4.15%	70,000	76,667	April 2025
			<u>1,997,641</u>	<u>1,976,911</u>	

¹ Weighted average margin for the period

² In accordance with the loan agreement the secured bank loan is fixed at 4.75% per annum plus margins of 0.50% or 0.75% depending on the employment of the vessels mortgaged.

The Group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on Group vessels with an aggregate carrying value at 31 December 2014 of \$4,100.3 million (2013 – \$4,018.5 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 16 and pledges of shares in certain of the vessel owning companies.

The Group is subject to a number of covenants in relation to its borrowing facilities which if breached could result in its loans becoming immediately repayable. As at the period end the Group was not in default of any of its bank loan covenants.

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37. Finance Lease Liabilities

	2014 \$'000	2013 \$'000	2012 \$'000
Repayable			
- within twelve months after the end of the reporting period	9,481	8,850	19,547
- between one to two years	10,120	9,481	8,850
- between two to three years	173,690	10,120	9,481
- between three to four years	-	173,690	10,120
- between four to five years	-	-	173,690
	<u>193,291</u>	<u>202,141</u>	<u>221,688</u>
Less current portion (current liabilities)	<u>(9,481)</u>	<u>(8,850)</u>	<u>(19,547)</u>
Long-term balance (non-current liabilities)	<u>183,810</u>	<u>193,291</u>	<u>202,141</u>

On 7 September and 16 November 2010 the Group sold and leased back, under bareboat charter, two of its vessels, for an aggregate consideration of \$230.0 million at effective interest rates of 6.52% per annum.

The charter hires are payable monthly in advance at monthly rates of \$926,652 per vessel expiring in September and November 2017 respectively. On expiration of the bareboat charter agreements, the Group has an obligation to repurchase the vessels from the lessors for an aggregate consideration of \$165.6 million. The Group has the right to re-purchase the vessels at any time during the bareboat charter period at predetermined prices.

38. Retirement Benefit Obligations

	2014 \$'000	2013 \$'000	2012 \$'000
Post retirement pension benefit plans	2,036	4,978	5,199
Long-term service retirement benefit plans	1,354	2,427	3,984
Total obligations	<u>3,390</u>	<u>7,405</u>	<u>9,183</u>

A subsidiary of the Group operates two defined benefit retirement plans, a post retirement pension benefit plan and a long-term service retirement benefit plan for its seafarers and shore based staff.

Post retirement service benefit plans stipulate payment of a fixed amount of monthly pension for all retired employees who have completed a specified period of service with the subsidiary. The pension is paid over the life of the pensioners. In addition, the subsidiary has a long-term service retirement benefit plan stipulating payment of a lump sum to employees who have completed a specified period of service upon their retirement. All defined benefit plans are unfunded. The plans do not have any assets.

On 31 December 2013 the subsidiary introduced a defined contribution pension plan for its seafarers, guaranteed by an insurance company (effective 1 January 2014), in line with the pension plan of the Group for its seafarers and amended the long-term service retirement benefit plan policy for its seafarers. The change resulted in curtailment of the plan and a release of \$1.8 million defined benefit obligation to profit or loss in 2013.

Changes in the present value of the defined obligations under post retirement benefit plans are as follows:

	2014 \$'000	2013 \$'000	2012 \$'000
Defined benefit obligation at 1 January	4,978	5,199	5,596
Interest cost	317	386	475
Benefits paid	(555)	(655)	(781)
Exchange adjustment	(1,689)	(355)	317
Re-measurement of (gains) / losses recognised in other comprehensive income	(1,015)	403	(408)
Defined benefit obligation at 31 December	<u>2,036</u>	<u>4,978</u>	<u>5,199</u>

Changes in the present value of the defined obligations under long-term service retirement benefit plans are as follows:

	2014 \$'000	2013 \$'000	2012 \$'000
Defined benefit obligation at 1 January	2,427	3,984	4,011
Current service costs	58	153	173
Interest cost	110	117	157
Benefits paid	(565)	(183)	(209)
Exchange adjustment	(439)	(60)	48
Re-measurement of (gains) / losses recognised in other comprehensive income	(237)	229	(196)
Gain on curtailment	-	(1,813)	-
Defined benefit obligation at 31 December	<u>1,354</u>	<u>2,427</u>	<u>3,984</u>

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38. Retirement Benefit Obligations (Continued)

The amounts recognised in the income statement and other comprehensive income during the period are as follows:

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Current service cost	-	-	58	153	58	153
Interest cost	317	386	110	117	427	503
Gain on curtailment	-	-	-	(1,813)	-	(1,813)
Exchange adjustment (Released) / charged in the income statement	(1,689)	(355)	(439)	(60)	(2,128)	(415)
	<u>(1,372)</u>	<u>31</u>	<u>(271)</u>	<u>(1,603)</u>	<u>(1,643)</u>	<u>(1,572)</u>
Experience adjustments on obligation	(423)	174	(1)	61	(424)	235
Actuarial changes arising from changes in demographic assumptions	10	118	4	440	14	558
Actuarial changes arising from changes in financial assumptions	(602)	111	(240)	(272)	(842)	(161)
Re-measurement (gains) / losses recognised in other comprehensive income	<u>(1,015)</u>	<u>403</u>	<u>(237)</u>	<u>229</u>	<u>(1,252)</u>	<u>632</u>

The principal actuarial assumptions used in measurement of the defined benefit obligations at the end of the reporting period are as follows:

	2014	2013
Discount rate for cash flows in Russian Roubles	13.49%	7.50%
Discount rate for cash flows in US Dollars	0.68%	3.00%
Future salary increases in Russian Roubles	7.00%	5.00%
Future salary increases in US Dollars	-	-
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 60	17	17
Life expectancy in years of a female pensioner retiring at the age of 55	26	26
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	5.9	7.7
The average duration of the defined benefit plan obligation for long-term service retirement pension benefit plans	3.7	4.8

The Group expects to make benefit payments of \$0.6 million (2013 – \$0.8 million) in respect of the defined benefit plans in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2014 and 31 December 2013 is as shown below:

	2014 (Decrease) / increase in net defined benefit obligation		2013 (Decrease) / increase in net defined benefit obligation	
	50 bps increase \$'000	50 bps decrease \$'000	50 bps increase \$'000	50 bps decrease \$'000
Discount rate	(63)	65	(261)	282
Future salary increases	19	(16)	113	(41)
	<u>100 bps increase \$'000</u>	<u>100 bps decrease \$'000</u>	<u>100 bps increase \$'000</u>	<u>100 bps decrease \$'000</u>
Future pension cost increases	82	-	254	-
	<u>Increase by 1 year \$'000</u>	<u>Decrease by 1 year \$'000</u>	<u>Increase by 1 year \$'000</u>	<u>Decrease by 1 year \$'000</u>
Life expectancy of male pensioners	56	(64)	177	(190)
Life expectancy of female pensioners	24	(27)	81	(87)

39. Other Loans

	2014 \$'000	2013 \$'000	2012 \$'000
5.375% Senior Notes	798,591	798,092	797,593
Other loans from related party	44,291	-	-
	<u>842,882</u>	<u>798,092</u>	<u>797,593</u>

On 27 October 2010, the Group, through its subsidiary SCF Capital Limited, issued Senior Notes (the "Notes") of \$800 million, redeemable at par value, maturing on 27 October 2017. The Notes are unsecured and guaranteed by Sovcomflot. The Notes are included above net of amortised financing costs. There are no equity conversion rights or options attached to the Notes.

Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011. Interest charged during the period amounted to \$43.0 million (2013 – \$43.0 million) of which \$4.1 million (2013 – \$6.3 million) were capitalised on vessels under construction.

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39. Other Loans (Continued)

In July 2014 the Group entered into three unsecured subordinated loan facilities with a Russian State controlled entity totalling \$86.2 million at an interest rate of 11% per annum, repayable in quarterly instalments. The loan facilities were entered into in connection with time charter agreements signed with the above party for the chartering out by the Group of three Arctic shuttle tankers currently under construction (Note 16). The loans are repayable over twelve years, commencing on the delivery of each vessel to charter and maturing on the expiration of the firm period of each time charter mentioned above. Interest accrued during the period to delivery of the vessels is capitalised as part of the loan. Under the agreements the Group has the right to repay the loan in part or in full at any time before maturity. Interest charged during the period and capitalised in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)) amounted to \$2.2 million (see also Note 47).

40. Cash Generated From Operations

	2014 \$'000	2013 \$'000
Profit / (loss) for the period before income taxes	90,979	(27,513)
Gain on curtailment of long-term service retirement benefit plans	-	(1,813)
Share of profits in equity accounted investments	(12,874)	(9,629)
Depreciation, amortisation and impairment	321,533	314,335
Investment property depreciation	1,120	858
Gain on sale of assets	(9,548)	(1,401)
Interest expenses and financing costs	138,325	136,187
Interest income	(16,672)	(19,073)
Gain on derivative financial instruments held for trading	(6,164)	(15,228)
Gain on ineffective hedging instruments	(442)	(2,054)
Foreign exchange differences	36,970	1,517
Change in allowance for credit losses	(1,848)	(4,227)
Operating cash flows before movements in working capital	541,379	371,959
Decrease in inventories	18,894	5,768
(Increase) / decrease in trade and other receivables	(13,476)	30,403
(Decrease) / increase in trade and other payables	(47,893)	28,851
Cash generated from operations	<u>498,904</u>	<u>436,981</u>

41. Significant Subsidiary Companies

At 31 December 2014, the Group had 124 single vessel owning and operating subsidiaries (2013 – 126) incorporated in Liberia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of Incorporation	Percentage Holding	Principal Activity
JSC Novoship	Russia	89.32%	Shipowning and operating and ship management
Fiona Trust and Holding Corporation and its subsidiaries	Liberia	100%	Vessel owning and operation
Intrigue Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Marpetrol, S.A. and its subsidiaries	Spain	100%	Vessel owning and operation
Sovcomflot Varandey LLC	Russia	100%	Ship operation
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Novoship Technical Management LLC	Russia	100%	Ship management
Unicom Management Services (Cyprus) Limited	Cyprus	100%	Ship management
Unicom Management Services (St. Petersburg) LLC	Russia	100%	Ship management
SCF Unicom Singapore Pte Ltd	Singapore	100%	Ship management
SCF Capital Limited	Ireland	100%	Financing
SCF Arctic LLC and its subsidiaries	Russia	100%	Holding company of four vessel operating companies
SCF Overseas Management Company Limited	Dubai, United Arab Emirates	100%	Management services and supervision of operations

The share capital of Novoship comprises voting ordinary shares and non-voting preference shares. Ownership of the shares is analysed as follows:

	At 31 December 2014			At 31 December 2013		
	Ordinary shares %	Preference shares %	Total shares %	Ordinary shares %	Preference shares %	Total shares %
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.28	-	89.32	98.28	-	89.32
Non-controlling shareholders	1.72	100.00	10.68	1.72	100.00	10.68
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently Sovcomflot holds an effective interest in Novoship of 89.32% as at period end (2013 – 89.32%).

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41. Significant Subsidiary Companies (Continued)

Consolidated financial information of JSC Novoship that has material non-controlling interests is provided below. This information is based on amounts before intercompany eliminations.

	2014	2013
	\$'000	\$'000
Summarised statement of financial position:		
Total non-current assets	1,647,262	1,756,519
Total current assets	162,057	209,878
Total non-current liabilities	(129,070)	(287,502)
Total current liabilities	(216,131)	(208,638)
Net assets at period end	<u>1,464,118</u>	<u>1,470,257</u>
Cash and cash equivalents	<u>99,826</u>	<u>117,646</u>
Current financial liabilities	<u>184,111</u>	<u>152,487</u>
Non-current financial liabilities	<u>124,919</u>	<u>279,030</u>
Summarised income statement:		
Revenues	<u>386,819</u>	<u>368,406</u>
Depreciation, amortisation and impairment	<u>(89,435)</u>	<u>(89,868)</u>
Interest income	<u>3,398</u>	<u>3,239</u>
Interest expense	<u>(12,891)</u>	<u>(22,642)</u>
Income tax	<u>(1,613)</u>	<u>(7,024)</u>
Profit for the period	<u>35,914</u>	<u>5,512</u>
Other comprehensive income for the period	<u>(28,350)</u>	<u>(7,512)</u>
Total comprehensive income for the period	<u>7,564</u>	<u>(2,000)</u>
Summarised cash flows:		
Operating activities	146,859	119,044
Investing activities	(8,867)	(66,924)
Financing activities	<u>(142,799)</u>	<u>(56,009)</u>
Net decrease in cash and cash equivalents	<u>(4,807)</u>	<u>(3,889)</u>

42. Financial Risk Management

(a) Capital management

The capital structure of the Group consists of net debt and equity. The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders;
- to enhance the ability of the Group to invest in future projects by sustaining a strong financial position and high borrowings capacity;
- to provide an adequate return to its shareholder; and
- to maintain and improve the Group's credit rating.

The Group reviews its capital structure and the capital structure of its subsidiaries on a quarterly basis. As part of this review, management makes adjustments to it in the light of changes in economic conditions and the risk characteristics relating to the Group's activities. In order to maintain or adjust its capital structure, the Group may repay existing secured term loans and revolving credit facilities, sell assets to reduce debt, inject additional capital into its subsidiaries or adjust the amount of dividends paid to its shareholder. Management believes that such an approach provides an efficient capital structure and an appropriate level of financial flexibility.

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the excess or deficit of the market value of the fleet over/under its carrying amount ("total adjusted capital"). Net debt is calculated as the total of secured bank loans, finance lease liabilities and, other loans disclosed in Notes 36, 37 and 39 of the financial statements respectively, less cash and bank deposits (Note 28). Total equity comprises all components of equity.

Certain of the Group's debt agreements, at subsidiary level, contain loan-to-value clauses, which could require the Group, at its option, to post additional collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings under each of such agreements decrease below their current valuations. In addition, the financing agreements impose operating restrictions and establish minimum financial covenants, including limitations on the amount of total borrowings and secured debt and provide for acceleration of payment under certain circumstances, including failure to satisfy certain financial covenants. Failure to comply with any of the covenants in the financing agreements could also result in a default under those agreements and under other agreements containing cross-default provisions.

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42. Financial Risk Management (Continued)

(a) Capital management (continued)

During 2014 the Group's overall strategy remained unchanged from 2013. The net debt ratio at 31 December 2014 and at 31 December 2013 and the net adjusted debt ratio of the Group were as follows:

	2014 \$'000	2013 \$'000
Secured bank loans (Note 36)	1,982,608	1,961,516
Finance lease liabilities (Note 37)	193,291	202,141
Other loans (Note 39)	842,882	798,092
Less: cash and bank deposits (Note 28)	<u>(284,516)</u>	<u>(281,540)</u>
Net debt	<u>2,734,265</u>	<u>2,680,209</u>
Total equity	<u>3,157,481</u>	<u>3,111,272</u>
Total capital	<u>5,891,746</u>	<u>5,791,481</u>
Net debt ratio	<u>46.4%</u>	<u>46.3%</u>
Total capital	5,891,746	5,791,481
Deficit of market value of fleet over carrying value	<u>(501,483)</u>	<u>(851,150)</u>
Total adjusted capital	<u>5,390,263</u>	<u>4,940,331</u>
Net adjusted debt ratio	<u>50.7%</u>	<u>54.3%</u>

(b) Categories of financial assets and financial liabilities

	2014 \$'000	2013 \$'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships (Note 23a)	7,438	10,356
Cash and bank deposits (Note 28)	284,516	281,540
Available-for-sale investments	1,012	1,012
Loans and other receivables	136,874	124,558
Loans to joint ventures	64,692	70,276
Finance lease receivables (Note 22)	<u>75,662</u>	<u>82,564</u>
Total financial assets	<u>570,194</u>	<u>570,306</u>
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships (Note 23a)	62,644	62,820
Derivative financial instruments classified at fair value through profit or loss (Note 23b)	-	6,164
Secured bank loans (Note 36)	1,982,608	1,961,516
Finance lease liabilities (Note 37)	193,291	202,141
Other loans (Note 39)	842,882	798,092
Other liabilities measured at amortised cost	<u>156,428</u>	<u>207,737</u>
Total financial liabilities	<u>3,237,853</u>	<u>3,238,470</u>

(c) 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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial assets				
Loans to joint ventures	64,692	70,276	61,347	66,132
Finance lease receivables	75,662	82,564	75,662	82,564
Total financial assets	<u>140,354</u>	<u>152,840</u>	<u>137,009</u>	<u>148,696</u>
Financial liabilities				
Secured bank loans at fixed interest rates	144,091	172,418	145,658	172,560
Secured bank loans at floating interest rates	1,838,517	1,789,098	1,826,076	1,790,908
Other loans	842,882	798,092	716,778	807,072
Finance lease liabilities	193,291	202,141	183,508	193,153
Total financial liabilities	<u>3,018,781</u>	<u>2,961,749</u>	<u>2,872,020</u>	<u>2,963,693</u>

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.

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42. Financial Risk Management (Continued)

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

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

The following table provides an analysis of financial instruments as at 31 December 2014 and 31 December 2013 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 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
At 31 December 2013				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	10,356	-	10,356
	-	10,356	-	10,356
Liabilities				
Derivative financial instruments classified at fair value through profit or loss	-	6,164	-	6,164
Derivative financial instruments in designated hedge accounting relationships	-	62,820	-	62,820
	-	68,984	-	68,984

There were no transfers between Level 1 and 2 during the periods ended 31 December 2014 and 31 December 2013.

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

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
At 31 December 2013				
Assets				
Fleet	-	17,313	-	17,313
Non-current assets held for sale	-	49,360	-	49,360
	-	66,673	-	66,673

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

At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Investment property	-	31,518	-	31,518
Loans to joint ventures	-	61,347	-	61,347
Finance lease receivables	-	75,662	-	75,662
	-	168,527	-	168,527
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
At 31 December 2013				
Assets				
Investment property	-	44,214	-	44,214
Loans to joint ventures	-	66,132	-	66,132
Finance lease receivables	-	82,564	-	82,564
	-	192,910	-	192,910
Liabilities				
Secured bank loans at fixed interest rates	-	172,560	-	172,560
Secured bank loans at floating interest rates	-	1,790,908	-	1,790,908
Other loans	807,072	-	-	807,072
Finance lease liabilities	-	193,153	-	193,153
	807,072	2,156,621	-	2,963,693

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Notes to the Consolidated Financial Statements – 31 December 2014
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42. Financial Risk Management (Continued)

(d) Financial risk factors

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices, devaluation of the Russian Rouble and significant increase of the interest rates, as well as economic sanctions imposed on Russia by several countries.

The Group seeks to minimise potential adverse effects on the Group's financial performance by employing a sufficiently robust risk financial strategy to withstand prolonged adverse conditions in significant risk factors such as down-cycles in freight rates or unfavourable conditions in the financial markets.

The Group's results and cash flows are influenced by the success of the Group in managing these risk factors as detailed below.

Market riskForeign currency risk

The Group's economic environment is the international shipping market. This market utilises the U.S. Dollar as its functional currency. The majority of the Group's revenues and most of the operating expenses are in U.S. Dollars. Exposure to transaction risk arises because certain voyage expenses, vessel operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Sterling Pound. The Group has not entered into any hedging contracts to protect against currency fluctuations but may seek to hedge this currency fluctuation risk in the future.

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. There is a risk that currency exposure arising from the net assets of the Group's foreign operations will have a negative effect on the Group's cash flows. The Group has not entered into any forward contracts to hedge against this translation risk.

The carrying amounts of the Group's most significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Euro (EUR)	10,526	16,447	25,406	30,327
Russian Roubles (RUR)	29,190	35,314	47,348	38,286
Sterling Pounds (GBP)	9,682	14,407	27,755	22,488
Others	1,755	4,226	559	1,757

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December increased by 10%, save as to the exchange rate between the U.S. Dollar and Russian Rouble which has been increased by 29%, (2013 - 10%) with all other variables held constant, the effect would be to decrease the monetary liabilities and assets, with a corresponding increase / decrease in profit (2013 – decrease / increase in loss) as shown below:

	Liabilities		Assets	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Euro (EUR)	957	1,495	2,309	2,757
Russian Roubles (RUR)	6,562	3,210	10,664	3,481
Sterling Pounds (GBP)	880	1,310	2,523	2,045
Others	160	383	51	159

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December decreased by 10%, save as to the exchange rate between the U.S. Dollar and Russian Rouble which has been decreased by 29%, (2013 - 10%) with all other variables held constant, the effect would be to increase the monetary liabilities and assets, with a corresponding decrease / increase in profit (2013 – increase / decrease in loss) as shown below:

	Liabilities		Assets	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Euro (EUR)	1,170	1,827	2,823	3,370
Russian Roubles (RUR)	11,923	3,924	19,340	4,254
Sterling Pounds (GBP)	1,075	1,601	3,084	2,499
Others	195	468	62	196

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

42. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Market risk (continued)Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During 2014 and 2013 all of the Group's borrowings were denominated in U.S. Dollars.

The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 23 of these financial statements.

The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at period end was as follows:

	2014 \$'000	2013 \$'000
Total floating rate borrowings gross of direct issue costs (Note 36)	1,852,645	1,803,380
Notional amount of floating to fixed rate swaps qualifying under IAS 32 / IAS39 (Note 23(a))	<u>(1,065,635)</u>	<u>(818,172)</u>
Net exposure to interest fluctuations under IAS 32 / IAS 39	787,010	985,208
Less notional amount of interest rate financial instruments held for trading	<u>-</u>	<u>(305,000)</u>
Net exposure to interest rate fluctuations	<u>787,010</u>	<u>680,208</u>
% of floating rate borrowings exposed to interest rate fluctuations	<u>42.5%</u>	<u>37.7%</u>

The effect on the Group of changes in interest rates is as follows:

Sensitivity of interest rates	2014		2013	
	100 bps increase \$'000	25 bps decrease \$'000	100 bps increase \$'000	25 bps decrease \$'000
<i>Change in fair value of hedging instruments</i>				
- Increase / (decrease) in other comprehensive income for the period	<u>43,111</u>	<u>(10,851)</u>	<u>32,592</u>	<u>(8,175)</u>
- Increase / (decrease) in profit or loss for the period	<u>986</u>	<u>(252)</u>	<u>1,197</u>	<u>(301)</u>
Change in fair value of derivative financial instruments held for trading through profit or loss: decrease in profit or loss for the period	<u>-</u>	<u>-</u>	<u>786</u>	<u>(52)</u>
Increase / (decrease) in interest expense for the period excluding interest capitalised	<u>7,718</u>	<u>(1,929)</u>	<u>5,724</u>	<u>(1,545)</u>

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 66.7% (2013 – 66.0%) of the vessels' total trading days were on time charter representing 78.2% (2013 – 79.0%) of time charter equivalent revenues of which 5.3% of time charter equivalent revenues were from floating rate time charters (2013 – 3.6%). As at 31 December 2014, 64.1% (2013 – 65.0%) of the vessels were on time charter.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from derivative financial instruments and deposits with financial institutions as well as exposure to charterers, including receivables and committed transactions.

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2014, amounts due from charterers included two charterers (2013 – two) with a balance of freight and hire due representing 27.2% and 11.9% of total amounts due (2013 – 17.8% and 13.6%). Management believes that there is no further credit provision required in excess of the allowance for credit losses. In addition, no charterer individually represents more than 10% of total freight and hire revenue for the period ended 31 December 2014 and 31 December 2013.

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with four banks (2013 – two) representing 18.4%, 14.0%, 11.5% and 10.9% (2013 – 18.8% and 12.8%) of total deposits of \$282.9 million (2013 – \$279.9 million).

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

42. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset and arises because of the possibility that the Group could be required to pay its liabilities earlier than expected.

Management has built an appropriate liquidity risk assessment framework for the purposes of short, medium and long-term funding and liquidity management requirements. Due to the dynamic nature of the shipping industry, the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve revolving credit facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Below is a table summarising additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk:

	Credit facilities \$'000	Drawn down \$'000	Available \$'000
<u>At 31 December 2014</u>			
Secured bank loans	699,750	(382,554)	317,196
Secured revolving credit facilities	446,058	(329,208)	116,850
Other loans	86,160	(43,080)	43,080
	<u>1,231,968</u>	<u>(754,842)</u>	<u>477,126</u>
<u>At 31 December 2013</u>			
Secured bank loans	603,575	(247,175)	356,400
Secured revolving credit facilities	508,010	(341,160)	166,850
	<u>1,111,585</u>	<u>(588,335)</u>	<u>523,250</u>

Availability of secured revolving credit facilities is subject to compliance with the relevant loan to value covenants of each of the facilities based on the market value of the vessels used as collateral. The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<u>At 31 December 2014</u>				
Trade and other payables	136,112	-	3,244	139,356
Minimum lease payments under finance leases	9,718	184,195	-	193,913
Secured bank loans	398,107	1,061,209	538,325	1,997,641
Other loans	-	805,304	47,745	853,049
Interest payable on derivative instruments	25,320	26,640	3,965	55,925
Interest payable on secured loans	48,360	186,001	58,884	293,245
Interest payable on other loans	43,597	107,497	23,891	174,985
Interest payable on finance leases	12,522	20,324	-	32,846
	<u>673,736</u>	<u>2,391,170</u>	<u>676,054</u>	<u>3,740,960</u>
<u>At 31 December 2013</u>				
Trade and other payables	186,045	-	6,354	192,399
Minimum lease payments under finance leases	9,098	193,913	-	203,011
Secured bank loans	366,698	1,006,863	603,350	1,976,911
Other loans	-	800,000	-	800,000
Interest payable on derivative instruments	27,961	46,337	15,587	89,885
Interest payable on secured loans	44,992	143,296	41,533	229,821
Interest payable on other loans	43,597	130,911	-	174,508
Interest payable on finance leases	13,142	32,846	-	45,988
	<u>691,533</u>	<u>2,354,166</u>	<u>666,824</u>	<u>3,712,523</u>

43. Operating Lease Arrangements

The Group as Lessee

The Group has the following non-cancellable operating lease commitments in respect of vessels and buildings in Novorossiysk, London, Madrid, Moscow, Dubai and Singapore:

	Vessels		Buildings	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Within one year	26,112	25,384	4,842	5,244
After one year but not more than five years	16,055	41,352	16,914	18,369
More than five years	-	-	34,894	54,671
	<u>42,167</u>	<u>66,736</u>	<u>56,650</u>	<u>78,284</u>
Expensed during the period	<u>52,675</u>	<u>46,032</u>	<u>4,777</u>	<u>4,733</u>

The Group charters in a seismic vessel with extension options attached to the bareboat charter contract of five periods of 2 years each plus an additional period of 6 months and purchase options starting from the end of 2014 and thereafter for each subsequent year up to the end of the optional period as described above. The firm period of the lease on the vessel has a remaining life of 2 years. One of the leases of the buildings expires in 9 years and another in 46 years. The remaining leases for buildings have a life of between 1 and 3 years with various optional periods attached. There are no restrictions placed upon the Group by entering into these leases.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)

43. Operating Lease Arrangements (Continued)

The Group as Lessor

	Buildings	
	2014	2013
	\$'000	\$'000
Within one year	1,619	4,450
After one year but not more than five years	6,966	11,403
More than five years	12,735	25,106
	<u>21,320</u>	<u>40,959</u>
Income during the period	<u>3,449</u>	<u>2,918</u>

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's surplus offices and on shore based facilities in Moscow, Novorossiysk and Sochi including leased in facilities. The leases expire within one year and 12 years respectively.

44. Contingent Liabilities and Commitments

Contracted revenues and guarantees

The Group through its subsidiaries entered into time charter agreements and in one case a bareboat charter agreement, with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2014	2013
	\$'000	\$'000
Within one year	578,460	555,647
After one year but not more than five years	1,875,508	1,526,362
More than five years	4,663,567	2,157,705
	<u>7,117,535</u>	<u>4,239,714</u>

The time charters referred to above include various charterers' purchase, termination and extension options.

The Group obtained guarantees from a State controlled entity in respect of the performance of the obligations by its subsidiary as charterer under two time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the State controlled entity.

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 16, and in respect of the construction and development facilities of the port of Sochi, is summarised as follows:

	Less than 1 year \$'000	1 to 5 years \$'000	Total \$'000
<u>At 31 December 2014</u>			
Newbuilding contracts	587,940	875,495	1,463,435
Capital commitments on other property, plant and equipment	267	-	267
	<u>588,207</u>	<u>875,495</u>	<u>1,463,702</u>
<u>At 31 December 2013</u>			
Newbuilding contracts	504,682	159,363	664,045
Construction and development costs for Sochi	2,552	-	2,552
	<u>507,234</u>	<u>159,363</u>	<u>666,597</u>

Contingent liabilities

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions traditionally utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Generally, in most jurisdictions the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction.

Management believes that the Group's shipping and holding companies are subject to taxation in their respective countries of incorporation in full compliance with local tax legislation. However, the concept of permanent establishment and tax residency for legal entities introduced by domestic and international law is subject to interpretation. As a result, there is a risk that the taxation authorities of certain jurisdictions may attempt to subject the Group's earnings to income taxes. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions.

During 2005 through to 2009, the Group's newly appointed management filed claims in London for losses arising out of various transactions that had taken place during 2000 through to 2004. The trial for the claims filed commenced at the High Court in London in October 2009 and concluded in mid-2010. The Group was successful on a number of claims, and unsuccessful on a number of others.

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Notes to the Consolidated Financial Statements – 31 December 2014
(Continued)**44. Contingent Liabilities and Commitments (Continued)**

Some of the defendants have made an application for an inquiry into damages caused by the freezing orders made against them in the course of the London proceedings. That application was heard on 28 July 2014 and judgement was handed down on 3 October 2014. The judge ordered that the defendants were entitled to pursue a claim for any recoverable damages suffered by virtue of the freezing orders that were granted against them in 2005 and 2007 in the Fiona litigation. On 12 December 2014 the defendants served their points of claim in respect of any recoverable damages on four different bases claiming between approximately \$73.5 million and \$224.6 million. Given the unsatisfactory nature and brevity of the points of claim the Group has served a detailed request for further information in relation to the points of claim to seek clarification in respect of a host of points arising from the document to which the defendants responded on 6 February 2015. They also served a draft amended points of claim on 12 February 2015 seeking to increase the primary claim from \$224.6 million to \$391.4 million. The Group served its defence on 12 March 2015. Management is of the opinion that the defendants will more likely than not fail in their claim against the Group. The Group will defend its position vigorously. Accordingly, no provision has been made.

An amount, including accrued interest, of \$13.2 million is held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, as a result of a claim advanced by the charterers of the vessel at the time, relating to the grounding of the vessel in the Suez canal in November 2004. The claim is in arbitration although currently stayed pending the determination of a number of preliminary issues. Management is of the opinion that the claim is without merit and the Group will defend its position vigorously. Accordingly no provision has been made against this amount which is included in the line security deposits in non-current trade and other receivables.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK filed claims in London in December 2006 and joined further defendants. The claims, which relate to a number of charters entered into between 2002 and 2004, were in the region of \$172.0 million plus interest. The trial for the claims filed commenced at the Commercial Court in London on 16 May 2012 and concluded on 5 July 2012. Judgment was handed down on 14 December 2012. The Group was successful in all claims and was awarded principal of approximately \$169.4 million plus interest, up to the date of judgment, payable at 3-month \$ LIBOR plus 2.5% at quarterly rests and costs on an indemnity basis.

Some of the defendants were granted permission to appeal against the judgment allowing the recovery of approximately \$108.5 million plus pre-judgment interest of \$45.4 million. The Court of Appeal heard the appeal in June 2014 and issued its Judgment in July 2014. The Group succeeded in confirming the trial judge's findings of fact and the defendants' liability to pay \$0.4 million. That sum, together with interest, totalling \$0.7 million was received by the Group in August 2014. Although the Group also established that a remedy for an account of profits is available for a dishonest assistant to a breach of trust the Court allowed the appeal and refused that remedy on grounds of causation and proportionality. The claimants sought leave to appeal to the Supreme Court these findings on causation and proportionality, however, that application was refused on 10 November 2014.

In addition, the Group provided security of \$4.0 million in Court to fortify cross-undertakings in damages in respect of \$90 million of security provided by the defendants to the claim. After their successful appeal the defendants indicated an intention to pursue a claim in damages and as a result the Group might face liability of up to or in excess of the \$4.0 million secured.

A total amount of \$8.6 million (2013 – \$10.6 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.

Details of the Group's obligations under finance leases are disclosed in Note 37.

45. Contingent Assets

In relation to the December 2012 judgment referred to in note 44, the Group has received in prior periods approximately \$8.9 million of the principal amount awarded out of approximately \$60.9 million from other defendants who have not appealed or whose application for leave to appeal was refused, and under separate actions, including those both related to the claims before the English Court but brought in other jurisdictions and those arising from separate transactions and against different defendants. The Group is taking steps to locate and freeze assets of these defendants (see also Note 47).

46. Related Party Transactions

Note 41 provides information about the Group's structure, including details of its subsidiaries. In addition the below are material transactions entered during the financial reporting period which are not mentioned in any of the preceding notes.

- (i) Included in vessels under construction (Note 16) are four newbuildings with a total contracted cost of \$520.0 million placed on order in June 2014 from a Russian State controlled shipyard. As at 31 December 2014 the total contracted cost of \$492.4 million was outstanding in respect of the shipbuilding agreements.
- (ii) In June 2014 the Group signed time charter agreements with a Russian State controlled entity for the chartering out of one MIB supply vessel and three MIB standby vessels, for which construction contracts have been entered into (Note 16), for a firm period of 20 years, with five one year extension options attached in favour of the charterer, with aggregate hire receivable over the firm period of \$1,772.9 million. The time charter agreements will commence upon delivery of the vessels by the shipyards. Scheduled deliveries are between June 2016 and March 2017.
- (iii) The Group signed time charter agreements with a Russian State controlled entity, for the chartering out of three Arctic shuttle tankers currently under construction (Note 16) for a firm period of 12 years with thirteen one year extension options attached in favour of the charterer with aggregate receivables of \$1,087.2 million over the firm period. The vessels are expected to be delivered to the Group between June 2016 and October 2016.

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(Continued)

46. Related Party Transactions (Continued)

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)	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Transactions with Russian State owned entities				
Freight and Hire of vessels	(124,241)	(78,236)	1,368	1,839
Other loans	-	-	(45,252)	-
Finance leases payable	13,109	13,692	(193,291)	(202,141)
Cash at bank	(1,426)	(1,391)	50,742	44,432
Transactions with Associates				
Finance leases receivable	(13,140)	(13,795)	87,442	95,973
Allowance for credit losses on finance lease receivables	(1,836)	(4,061)	(9,911)	(11,747)
Rental of investment property	(437)	(518)	31	-
Transactions with Joint Ventures				
Freight and Hire of vessel	(9,045)	(9,045)	-	-
Other operating revenues (management fees, accounting and treasury fees)	(3,541)	(3,149)	249	1,170
Loans due from joint ventures	(1,066)	(1,157)	66,299	71,280

47. Events After the Reporting Period

On 2 January 2015 the Group took delivery from a shipyard an LNG carrier, the m/v SCF Melampus. In connection with the delivery of the vessel, the Group entered into a 10 year interest rate swap, at a fixed rate of 1.98% per annum compared to U.S. Dollar three month LIBOR to hedge 100% of the Group's cash flow exposure arising from interest rate fluctuations in respect of the \$159.4 million loan facility.

In January 2015, the Group drew down, from available credit facilities granted by a related party as disclosed in Note 39, an amount of \$43.1 million to finance the second shipyard instalment of three Arctic Shuttle tankers under construction (Note 16).

On 12 March 2015 the Central Bank of the Russian Federation registered the prospectus of the Company for the issue and public offering of 280,956,743 shares.

On 13 March 2015 the Group received \$25.6 million from defendants as partial recovery under the judgment of the claims referred to in Note 45.