

PAO SOVCOMFLOT

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

30 September 2019

PAO Sovcomflot

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Consolidated Income Statement
For the period ended 30 September 2019
(unaudited)

	Note	Nine months ended (unaudited)		Three months ended (unaudited)	
		30/09/2019	30/09/2018	30/09/2019	30/09/2018
		\$'000	\$'000	\$'000	\$'000
Revenue	2	1,246,775	1,106,499	418,773	396,384
Voyage expenses and commissions		<u>(343,895)</u>	<u>(332,503)</u>	<u>(124,893)</u>	<u>(133,737)</u>
Time charter equivalent revenues	2	<u>902,880</u>	<u>773,996</u>	<u>293,880</u>	<u>262,647</u>
Direct operating expenses					
Vessels' running costs		266,291	254,264	94,844	83,678
Charter hire payments	1	<u>10,175</u>	<u>22,070</u>	<u>3,009</u>	<u>7,876</u>
		<u>(276,466)</u>	<u>(276,334)</u>	<u>(97,853)</u>	<u>(91,554)</u>
Net earnings from vessels' trading		626,414	497,662	196,027	171,093
Other operating revenues		19,170	17,703	5,479	6,778
Other operating expenses		(11,753)	(9,288)	(1,904)	(3,332)
Depreciation, amortisation and impairment		(289,048)	(312,646)	(97,476)	(92,908)
General and administrative expenses		(80,809)	(83,252)	(26,271)	(25,048)
(Loss) / gain on sale of assets		(169)	(214)	(33)	1,131
Loss on sale of subsidiary		-	(1,462)	-	(1,462)
Allowance for credit losses		187	622	228	147
Share of profits / (losses) in equity accounted investments		<u>8,635</u>	<u>(175)</u>	<u>3,106</u>	<u>(423)</u>
Operating profit		<u>272,627</u>	<u>108,950</u>	<u>79,156</u>	<u>55,976</u>
Other (expenses) / income					
Financing costs		(154,971)	(149,539)	(51,401)	(50,032)
Interest income		7,927	6,189	2,414	1,526
Other non-operating expenses		(1,444)	(3,028)	(338)	(119)
(Loss) / gain on hedge ineffectiveness		(163)	175	113	(331)
Gain on extinguishment of dividend liability		3,861	422	-	-
Foreign exchange gains		15,932	9,825	504	1,844
Foreign exchange losses		<u>(6,972)</u>	<u>(19,096)</u>	<u>(52)</u>	<u>(4,797)</u>
Net other expenses		<u>(135,830)</u>	<u>(155,052)</u>	<u>(48,760)</u>	<u>(51,909)</u>
Profit / (loss) before income taxes		136,797	(46,102)	30,396	4,067
Income tax expense	4	<u>(19,901)</u>	<u>(11,354)</u>	<u>(4,463)</u>	<u>(3,752)</u>
Profit / (loss) for the period		<u>116,896</u>	<u>(57,456)</u>	<u>25,933</u>	<u>315</u>
Profit / (loss) attributable to:					
Owners of the parent		116,314	(54,023)	26,271	1,443
Non-controlling interests		<u>582</u>	<u>(3,433)</u>	<u>(338)</u>	<u>(1,128)</u>
		<u>116,896</u>	<u>(57,456)</u>	<u>25,933</u>	<u>315</u>
Earnings per share					
Basic profit / (loss) per share for the period attributable to equity holders of the parent		<u>\$0.059</u>	<u>(\$0.027)</u>	<u>\$0.013</u>	<u>\$0.001</u>

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

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Consolidated Statement of Comprehensive Income
For the period ended 30 September 2019
(unaudited)

Note	Nine months ended (unaudited)		Three months ended (unaudited)	
	30/09/2019 \$'000	30/09/2018 \$'000	30/09/2019 \$'000	30/09/2018 \$'000
Profit / (loss) for the period	116,896	(57,456)	25,933	315
Other comprehensive income:				
Share of associates' other comprehensive income	8	(17)	(3)	(4)
Share of joint ventures' other comprehensive income	7	2,139	1,127	1,591
Exchange (loss) / gain on translation from functional currency to presentation currency	(1,930)	1,980	(75)	1,690
Reclassification adjustment relating to foreign subsidiary disposed of during the period	-	1,400	-	1,400
Net (loss) / gain on derivative financial instruments (debited) / credited to other comprehensive income	8	(41,304)	(9,214)	7,021
Other comprehensive income for the period, net of tax, to be reclassified to profit or loss in subsequent periods	(41,087)	40,323	(8,165)	11,698
Remeasurement (losses) / gains on retirement benefit obligations	(112)	145	(14)	81
Other comprehensive income for the period, net of tax, not to be reclassified to profit or loss in subsequent periods	(112)	145	(14)	81
Total other comprehensive income for the period, net of tax	(41,199)	40,468	(8,179)	11,779
Total comprehensive income for the period	75,697	(16,988)	17,754	12,094
Total comprehensive income attributable to:				
Owners of the parent	75,092	(13,398)	18,014	13,181
Non-controlling interests	605	(3,590)	(260)	(1,087)
	75,697	(16,988)	17,754	12,094

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

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**Consolidated Statement of Financial Position – 30 September 2019
(unaudited)**

	Note	30/09/2019 (unaudited) \$'000	31/12/2018 \$'000
Assets			
Non-current assets			
Fleet	5	6,277,477	6,165,663
Right of use assets	1	45,799	-
Vessels under construction	6	160,668	135,890
Intangible assets		5,873	6,772
Other property, plant and equipment		41,830	43,240
Investment property		5,152	545
Investments in associates		119	99
Investments in joint ventures	7	143,479	132,926
Equity instruments at fair value through profit or loss		48	754
Loans to joint ventures		66,914	66,069
Derivative financial instruments	8	2,380	20,899
Trade and other receivables	9	8,562	13,670
Deferred tax assets		4,395	4,089
Bank deposits	10	15,500	11,000
		<u>6,778,196</u>	<u>6,601,616</u>
Current assets			
Inventories		53,232	67,452
Loans to joint ventures		2,250	-
Derivative financial instruments	8	632	3,783
Trade and other receivables	9	105,978	108,210
Contract assets		18,383	31,020
Current tax receivable		5,622	4,032
Cash and bank deposits	10	325,210	296,433
		<u>511,307</u>	<u>510,930</u>
Non-current assets held for sale	11	18,832	29,700
		<u>530,139</u>	<u>540,630</u>
Total assets		<u>7,308,335</u>	<u>7,142,246</u>
Equity and liabilities			
Capital and reserves			
Share capital		405,012	405,012
Reserves		2,850,775	2,808,596
Equity attributable to owners of the parent		<u>3,255,787</u>	<u>3,213,608</u>
Non-controlling interests		<u>135,366</u>	<u>136,455</u>
Total equity		<u>3,391,153</u>	<u>3,350,063</u>
Non-current liabilities			
Trade and other payables	13	21,950	24,777
Secured bank loans	14	2,274,869	2,261,672
Lease liabilities	15	43,941	-
Derivative financial instruments	8	44,980	14,071
Retirement benefit obligations		2,459	2,293
Other loans	16	898,201	899,312
Deferred tax liabilities		10,702	3,823
		<u>3,297,102</u>	<u>3,205,948</u>
Current liabilities			
Trade and other payables	13	254,515	236,173
Contract liabilities		10,758	16,086
Other loans	16	3,229	3,384
Secured bank loans	14	317,256	313,842
Lease liabilities	15	15,040	-
Current tax payable		622	1,124
Derivative financial instruments	8	18,660	15,626
		<u>620,080</u>	<u>586,235</u>
Total liabilities		<u>3,917,182</u>	<u>3,792,183</u>
Total equity and liabilities		<u>7,308,335</u>	<u>7,142,246</u>

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

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Consolidated Statement of Changes in Equity
For the period ended 30 September 2019
(unaudited)

	Share capital \$'000	Share premium \$'000	Reconstruction reserve \$'000	Hedging reserve \$'000	Currency reserve \$'000	Retained earnings \$'000	Attributable to owners of the parent \$'000	Non- controlling interests \$'000	Total \$'000
At 1 January 2018	405,012	818,845	(834,490)	(17,299)	(44,367)	2,934,656	3,262,357	143,573	3,405,930
Loss for the period	-	-	-	-	-	(54,023)	(54,023)	(3,433)	(57,456)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(17)	-	(17)	-	(17)
Share of joint ventures' other comprehensive income	-	-	-	6,977	-	-	6,977	-	6,977
Exchange gain / (loss) on translation from functional currency to presentation currency	-	-	-	-	2,300	-	2,300	(320)	1,980
Reclassification adjustment relating to investment disposed of during the period	-	-	-	-	1,252	-	1,252	148	1,400
Net gain on derivative financial instruments credited to other comprehensive income	-	-	-	29,983	-	-	29,983	-	29,983
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	130	130	15	145
Total comprehensive income	-	-	-	36,960	3,535	(53,893)	(13,398)	(3,590)	(16,988)
Dividends (Note 12)	-	-	-	-	-	(26,797)	(26,797)	(1,181)	(27,978)
At 30 September 2018 (unaudited)	405,012	818,845	(834,490)	19,661	(40,832)	2,853,966	3,222,162	138,802	3,360,964
At 1 January 2019	405,012	818,845	(834,490)	(2,359)	(39,027)	2,865,627	3,213,608	136,455	3,350,063
Adjustment on initial application of IFRS 16 (net of tax) (Note 1)	-	-	-	-	(7,849)	(2,520)	(10,369)	-	(10,369)
Adjusted balance at 1 January 2019	405,012	818,845	(834,490)	(2,359)	(46,876)	2,863,107	3,203,239	136,455	3,339,694
Profit for the period	-	-	-	-	-	116,314	116,314	582	116,896
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	8	-	8	-	8
Share of joint ventures' other comprehensive income	-	-	-	2,139	-	-	2,139	-	2,139
Exchange (loss) / gain on translation from functional currency to presentation currency	-	-	-	-	(1,965)	-	(1,965)	35	(1,930)
Net loss on derivative financial instruments debited to other comprehensive income	-	-	-	(41,304)	-	-	(41,304)	-	(41,304)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(100)	(100)	(12)	(112)
Total comprehensive income	-	-	-	(39,165)	(1,957)	116,214	75,092	605	75,697
Effect of intragroup financing	-	-	-	-	-	404	404	(404)	-
Dividends (Note 12)	-	-	-	-	-	(22,948)	(22,948)	(1,290)	(24,238)
At 30 September 2019 (unaudited)	405,012	818,845	(834,490)	(41,524)	(48,833)	2,956,777	3,255,787	135,366	3,391,153

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

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 30 September 2019
(unaudited)

	Note	Nine months ended (unaudited)	
		30/09/2019 \$'000	30/09/2018 \$'000
Operating Activities			
Cash received from vessels' operations		1,253,762	1,088,420
Other cash receipts		19,269	23,433
Cash payments for voyage and running costs		(602,497)	(609,255)
Other cash payments		(86,576)	(123,139)
Cash generated from operations		583,958	379,459
Interest received		5,062	4,292
Income tax paid		(14,666)	(14,785)
Net cash inflow from operating activities		574,354	368,966
Investing Activities			
Expenditure on fleet	5	(63,779)	(24,009)
Expenditure on vessels under construction		(334,327)	(293,885)
Interest capitalised		(2,724)	(3,588)
Expenditure on intangibles and other property, plant and equipment		(1,215)	(1,784)
Loans issued to joint ventures		(1,122)	(7,593)
Proceeds from sale of subsidiary net of cash disposed		-	222
Proceeds from dissolution and disposal of investments		1,221	-
Proceeds from sale of vessels		8,942	33,489
Proceeds from sale of other property, plant and equipment		1,571	2,709
Dividends received from equity accounted for investments		124	69
Bank term deposits	10	(24)	521
Net cash outflow used in investing activities		(391,333)	(293,849)
Financing Activities			
Proceeds from borrowings		289,197	320,797
Repayment of borrowings		(258,529)	(291,733)
Financing costs		(5,222)	(4,907)
Repayment of lease liabilities		(18,090)	-
Repayment of liquidated damages		(956)	(3,544)
Restricted deposits under loan agreements	10	(3,500)	1,000
Funds in retention bank accounts	10	2,731	(2,546)
Interest paid on borrowings		(131,004)	(126,135)
Interest paid on lease liabilities		(5,557)	-
Interest paid on liquidated damages		(1,560)	(1,120)
Dividends paid		(24,667)	(29,909)
Net cash outflow used in financing activities		(157,157)	(138,097)
Increase / (decrease) in Cash and Cash Equivalents		25,864	(62,980)
Cash and Cash Equivalents at 1 January	10	267,571	321,334
Net foreign exchange difference		6,620	(3,268)
Cash and Cash Equivalents at 30 September	10	300,055	255,086

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

PAO Sovcomflot

**Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2019
(unaudited)**

1. Organisation, Basis of Preparation and Accounting Policies

PAO Sovcomflot (“Sovcomflot” or “the Company”) is a public joint stock company organised under the laws of the Russian Federation and was initially registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The Company’s registered office address is 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation.

The Company, through its subsidiaries (the “Group”), is engaged in ship owning and operating on a world-wide basis with a fleet of 134 vessels at the period end, comprising 111 tankers, 9 gas carriers, 10 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet, see also Notes 5, 6 and 11.

Basis of Preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standard (IFRS) - IAS 34 “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2018. Operating results for the nine-month period ended 30 September 2019 are not necessarily indicative of the results that may be expected for the year ending 31 December 2019.

Currency translation

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

	30/09/2019	30/09/2019	31/12/2018	30/09/2018
	Closing	Average	Closing	Average
	\$1	\$1	\$1	\$1
Russian Roubles	64.4156	65.0789	69.4706	61.4358
Pounds Sterling	0.8134	0.7861	0.7869	0.7407
Euro	0.9161	0.8897	0.8743	0.8377

Significant Accounting Policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and impact of each new standard or amendment is described below:

IFRS 9 (“Financial Instruments”) – “Amendments for prepayment features with negative compensation and modifications of financial liabilities”. Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

IAS 19 (“Employee benefits”) – The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income. These amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

IAS 28 (“Investments in Associates and Joint Ventures”) – “Amendments in relation to long term interests in associates and joint ventures”. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures. These amendments had no material impact on the consolidated financial statements of the Group.

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Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2019 (Continued)
(unaudited)

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

Significant Accounting Policies (continued)

IFRIC 23 (“Uncertainty over Income Tax Treatment”) – The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

Annual Improvements to IFRSs 2015–2017 Cycle

The “December 2017 Annual Improvements to IFRSs” is a collection of amendments to IFRSs in response to four standards. It includes the following amendments which, other than an insignificant impact relating to the amendment to IAS 23, did not have an impact on the consolidated financial statements of the Group:

- IFRS 3 – Business Combinations (re-measurement of previously held interest);
- IFRS 11 – Joint Arrangements (re-measurement of previously held interest);
- IAS 12 – Income Taxes (income tax consequences on dividends); and
- IAS 23 – Borrowing Costs (borrowing costs eligible for capitalisation).

IFRS 16 (“Leases”) – IFRS 16 was issued in January 2016 and it replaces IAS 17 (“Leases”), IFRIC 4 (“Determining whether an Arrangement contains a Lease”), SIC-15 (“Operating Leases-Incentives”) and SIC-27 (“Evaluating the Substance of Transactions Involving the Legal Form of a Lease”).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the commencement of the lease and a lease liability representing its obligation to make lease payments. As a consequence, a lessee recognises depreciation of the right of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right of use asset.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Therefore, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The standard permits either a full retrospective or a modified retrospective approach for application. The Group adopted IFRS 16 using the modified retrospective approach, which requires recognition of the cumulative effect of initial application at the date of the initial application i.e. 1 January 2019. The Group elected to apply the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Group did not elect to use the recognition exemptions for lease contracts longer than twelve months that, on the date of transition, had a remaining lease term of 12 months or less.

a) Nature of the effect of adoption of IFRS 16

Leases previously accounted for as operating leases

The Group recognised right of use assets, investment property and lease liabilities for those leases previously classified as operating leases. The right of use assets were recognised equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised with the exception of one leased in vessel for which the carrying amount of right of use asset was recognised as if the standard had been applied since the commencement date of the lease. Lease liabilities were recognised equal to the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from the measurement of the right of use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right of use assets of \$52.9 million (net of impairment of right of use asset as at the date of initial application of \$2.1 million) and investment property of \$4.7 million were recognised and presented separately in the statement of financial position;
- Lease liabilities of \$69.4 million were recognised;
- Prepayments of \$0.8 million and trade and other payables of \$2.2 million were derecognised;
- The net effect of these adjustments of \$10.4 million had been charged to reserves.

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Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2019 (Continued)
(unaudited)

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

Significant Accounting Policies (continued)

IFRS 16 ("Leases") (continued)

a) Nature of the effect of adoption of IFRS 16 (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<u>\$'000</u>
Operating lease commitments as at 31 December 2018	122,005
Discounted operating lease commitments at 1 January 2019 (weighted average incremental borrowing rate of 12.7%)	73,080
Less:	
Commitments relating to short-term leases	(3,991)
Other commitments in lease contracts	(1,977)
Add:	
Commitments for optional extension periods not included as at 31 December 2018	<u>2,291</u>
Lease liabilities as at 1 January 2019	<u><u>69,403</u></u>

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment testing in the same manner as other non-financial assets. Right of use assets that meet the definition of investment property under IAS40 are classified as investment property.

Accounting for drydocking and special survey costs of chartered in vessels

At initial recognition, the cost of the right of use asset for the chartered in vessels includes the estimated cost of planned drydockings for replacement of certain components and major repairs and maintenance of other components during the lease term. The capitalised drydocking and special survey costs are amortised on a straight line basis over the lease term. The corresponding provision is recorded at present value and is remeasured at each period end. The changes in the carrying amount of the provision resulting from the remeasurement are recognised in correspondence with relevant right of use asset.

Before transition to IFRS 16, provision was made for that proportion of future drydocking and special survey costs estimated to have arisen as a result of the operations during the period. Any difference between the provision and the actual cost of the drydock was expensed to profit or loss.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option, reasonably certain to be exercised by the Group, and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Group does not have any leases of low-value assets. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Subleasing

The Group enters into arrangements to sublease an underlying asset to a third party, as an intermediate lessor, while it retains the primary obligation under the original lease. In these arrangements, the Group acts as both the lessee and lessor of the same underlying asset. The Group accounts for the head lease and the sublease as two separate contracts by reference to the right of use asset arising from the head lease. All of the Group's subleases are operating leases.

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Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2019 (Continued)
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1. Organisation, Basis of Preparation and Accounting Policies (Continued)

Significant Accounting Policies (continued)

IFRS 16 ("Leases") (continued)

b) Summary of new accounting policies (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional periods. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

c) Amounts recognised in the statement of financial position, profit or loss and statement of other comprehensive income

Set out below, are the carrying amounts of the Group's right of use assets and lease liabilities (including lease liabilities in respect of leased in assets included in investment property) and the movements during the period:

	Fleet \$'000	Land and buildings \$'000	Miscellaneous \$'000	Total right of use assets \$'000	Lease liabilities \$'000
As at 1 January 2019	31,552	19,143	2,248	52,943	69,403
Lease modification	6,748	9	-	6,757	6,757
Additions in period	-	73	18	91	91
Depreciation expense	(13,514)	(2,866)	(74)	(16,454)	-
Interest expense	-	-	-	-	5,959
Lease payments	-	-	-	-	(23,647)
Exchange differences	2,274	20	168	2,462	418
As at 30 September 2019	<u>27,060</u>	<u>16,379</u>	<u>2,360</u>	<u>45,799</u>	<u>58,981</u>

The Group recognised expense and made payment in respect of short-term leases of \$10.2 million and \$9.2 million respectively for the nine months ended 30 September 2019. As at 30 September 2019, the lease commitments for short-term leases were insignificant.

The effect of the adoption of IFRS 16 as at 30 September 2019 and 1 January 2019 is as follows:

Impact on the consolidated statement of financial position:

	Amounts prepared under			Amounts prepared under		
	IFRS 16 30/09/2019 \$'000	IAS 17 30/09/2019 \$'000	Effect 30/09/2019 \$'000	IFRS 16 01/01/2019 \$'000	IAS 17 01/01/2019 \$'000	Effect 01/01/2019 \$'000
Assets						
Non-current assets						
Right of use assets	45,799	-	45,799	52,943	-	52,943
Investment property	5,152	271	4,881	5,231	545	4,686
Deferred tax asset	4,395	4,262	133	4,089	4,089	-
Total non-current assets	<u>6,778,196</u>	<u>6,727,383</u>	<u>50,813</u>	<u>6,659,245</u>	<u>6,601,616</u>	<u>57,629</u>
Current assets						
Trade and other receivables	105,978	107,519	(1,541)	107,435	108,210	(775)
Total current assets	<u>530,139</u>	<u>531,680</u>	<u>(1,541)</u>	<u>539,855</u>	<u>540,630</u>	<u>(775)</u>
Total assets	<u>7,308,335</u>	<u>7,259,063</u>	<u>49,272</u>	<u>7,199,100</u>	<u>7,142,246</u>	<u>56,854</u>
Equity and liabilities						
Capital and reserves						
Reserves	2,850,775	2,859,360	(8,585)	2,798,227	2,808,596	(10,369)
Equity attributable to owners of the parent	3,255,787	3,264,372	(8,585)	3,203,239	3,213,608	(10,369)
Non-controlling interests	135,366	135,378	(12)	136,455	136,455	-
Total equity	<u>3,391,153</u>	<u>3,399,750</u>	<u>(8,597)</u>	<u>3,339,694</u>	<u>3,350,063</u>	<u>(10,369)</u>
Non-current liabilities						
Lease liabilities	43,941	-	43,941	52,850	-	52,850
Trade and other payables	21,950	20,062	1,888	27,206	24,777	2,429
Total non-current liabilities	<u>3,297,102</u>	<u>3,251,273</u>	<u>45,829</u>	<u>3,261,227</u>	<u>3,205,948</u>	<u>55,279</u>
Current liabilities						
Lease liabilities	15,040	-	15,040	16,553	-	16,553
Trade and other payables	254,515	257,515	(3,000)	231,564	236,173	(4,609)
Total current liabilities	<u>620,080</u>	<u>608,040</u>	<u>12,040</u>	<u>598,179</u>	<u>586,235</u>	<u>11,944</u>
Total liabilities	<u>3,917,182</u>	<u>3,859,313</u>	<u>57,869</u>	<u>3,859,406</u>	<u>3,792,183</u>	<u>67,223</u>
Total equity and liabilities	<u>7,308,335</u>	<u>7,259,063</u>	<u>49,272</u>	<u>7,199,100</u>	<u>7,142,246</u>	<u>56,854</u>

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Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2019 (Continued)
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1. Organisation, Basis of Preparation and Accounting Policies (Continued)

Significant Accounting Policies (continued)

IFRS 16 (“Leases”) (continued)

c) Amounts recognised in the statement of financial position, profit or loss and statement of other comprehensive income (continued)

Impact on the consolidated income statement:

	Amounts prepared under IFRS 16 30/09/2019 \$'000	IAS 17 30/09/2019 \$'000	Effect 30/09/2019 \$'000	IAS 17 30/09/2018 \$'000
Voyage expenses and commissions	(343,895)	(341,795)	(2,100)	(332,503)
Time charter equivalent revenues	902,880	904,980	(2,100)	773,996
Direct operating expenses				
Vessels' running costs	266,291	266,906	(615)	254,264
Charter hire payments	10,175	29,463	(19,288)	22,070
	<u>(276,466)</u>	<u>(296,369)</u>	<u>19,903</u>	<u>(276,334)</u>
Net earnings from vessels' trading	626,414	608,611	17,803	497,662
Operating expenses				
Other operating expenses	(11,753)	(11,605)	(148)	(9,288)
Depreciation, amortisation and impairment	(289,048)	(272,594)	(16,454)	(312,646)
General and administrative expenses	(80,809)	(84,889)	4,080	(83,252)
Operating profit	272,627	267,346	5,281	108,950
Other (expenses) / income				
Financing costs	(154,971)	(148,938)	(6,033)	(149,539)
Foreign exchange gains	15,932	12,691	3,241	9,825
Foreign exchange losses	(6,972)	(6,972)	-	(19,096)
Net other expenses	(135,830)	(133,038)	(2,792)	(155,052)
Profit / (loss) before income taxes	136,797	134,308	2,489	(46,102)
Income tax expense	(19,901)	(20,034)	133	(11,354)
Profit / (loss) for the period	116,896	114,274	2,622	(57,456)

Impact on the consolidated statement of comprehensive income:

	Amounts prepared under IFRS 16 30/09/2019 \$'000	IAS 17 30/09/2019 \$'000	Effect 30/09/2019 \$'000	IAS 17 30/09/2018 \$'000
Profit / (loss) for the period	116,896	114,274	2,622	(57,456)
Other comprehensive income:				
Exchange (loss) / gain on translation from functional currency to presentation currency	(1,930)	(1,080)	(850)	1,980
Other comprehensive income for the period, net of tax, to be reclassified to profit or loss in subsequent periods	(41,087)	(40,237)	(850)	40,323
Total other comprehensive income for the period, net of tax	(41,199)	(40,349)	(850)	40,468
Total comprehensive income for the period	75,697	73,925	1,772	(16,988)

Seasonality of Operations

Some of the Group's operations may sometimes be affected by seasonal variations in demand and, therefore, in charter rates. This seasonality may result in quarter-to-quarter volatility in the results of operations of the conventional tankers operating in the crude oil and oil product segments. Tanker markets are typically stronger in the winter months. As a result, revenues have historically been weaker during the three months ended 30 June and 30 September and stronger in the three months ended 31 March and 31 December.

Changes in Estimates

The preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. All critical accounting judgements and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2018 except for a change in the functional currency of SCF GEO LLC and its subsidiary, from the Russian Rouble to the US dollar, due to an increase in exposure to US dollar economic environment.

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Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2019 (Continued)
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2. Time Charter Equivalent Revenues

Revenue	30/09/2019 \$'000	30/09/2018 \$'000
Lease revenue from time charters	440,956	414,428
Service revenue from time charters	332,710	232,371
Total revenue from time charters	773,666	646,799
Service revenue from voyage charters	473,109	459,700
	<u>1,246,775</u>	<u>1,106,499</u>
Voyage expenses and commissions		
Bunkers	(187,410)	(194,437)
Port costs	(84,393)	(102,880)
Commissions	(7,260)	(7,394)
Seismic exploration and data processing	(61,697)	(18,424)
Other voyage costs	(3,135)	(9,368)
	<u>(343,895)</u>	<u>(332,503)</u>
Time charter equivalent revenues	<u>902,880</u>	<u>773,996</u>

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

Segment	Service revenue			Lease revenue from time charters	Revenue 30/09/2019 \$'000
	Voyage charters	Time charters	Total	30/09/2019	
	30/09/2019 \$'000	30/09/2019 \$'000	30/09/2019 \$'000	30/09/2019 \$'000	
Offshore development services	1,250	94,153	95,403	238,379	333,782
Gas transportation	-	29,431	29,431	105,152	134,583
Crude oil transportation	277,981	54,864	332,845	81,164	414,009
Oil products transportation	193,264	13,032	206,296	12,418	218,714
Other	614	141,230	141,844	3,843	145,687
Revenue from vessel operations	<u>473,109</u>	<u>332,710</u>	805,819	<u>440,956</u>	<u>1,246,775</u>
Other operating revenues from contracts with customers					
Other operating revenues			14,729		
Total revenue from contracts with customers			<u>820,548</u>		

Segment	Service revenue			Lease revenue from time charters	Revenue 30/09/2018 \$'000
	Voyage charters	Time charters	Total	30/09/2018	
	30/09/2018 \$'000	30/09/2018 \$'000	30/09/2018 \$'000	30/09/2018 \$'000	
Offshore development services	-	90,153	90,153	233,607	323,760
Gas transportation	608	27,907	28,515	108,762	137,277
Crude oil transportation	278,981	42,694	321,675	49,068	370,743
Oil products transportation	179,383	21,790	201,173	19,592	220,765
Other	728	49,827	50,555	3,399	53,954
Revenue from vessel operations	<u>459,700</u>	<u>232,371</u>	692,071	<u>414,428</u>	<u>1,106,499</u>
Other operating revenues from contracts with customers					
Other operating revenues			11,373		
Total revenue from contracts with customers			<u>703,444</u>		

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Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2019 (Continued)
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3. Segment Information

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

Period ended 30 September 2019

	Offshore \$'000	Gas \$'000	Crude Oil \$'000	Oil Product \$'000	Other \$'000	Total \$'000
Revenue	333,782	134,583	414,009	218,714	145,687	1,246,775
Voyage expenses and commissions	(1,107)	(896)	(160,493)	(105,093)	(76,306)	(343,895)
Time charter equivalent revenues	332,675	133,687	253,516	113,621	69,381	902,880
Direct operating expenses						
Vessels' running costs	(62,585)	(25,836)	(92,114)	(69,631)	(16,125)	(266,291)
Charter hire payments	-	-	-	-	(10,175)	(10,175)
Net earnings from vessels' trading	270,090	107,851	161,402	43,990	43,081	626,414
Vessels' depreciation	(92,807)	(26,962)	(79,462)	(35,970)	(4,364)	(239,565)
Vessels' drydock cost amortisation	(7,482)	(3,580)	(9,553)	(4,743)	(353)	(25,711)
Vessels' impairment provision	-	-	-	(2,935)	-	(2,935)
Right of use assets' depreciation	-	-	-	-	(13,514)	(13,514)
Loss on sale of vessels	-	-	-	(235)	-	(235)
Non-income based taxes	(4,287)	-	-	-	-	(4,287)
Net foreign exchange (losses) / gains	(1,563)	-	-	-	1,147	(416)
Segment operating profit	163,951	77,309	72,387	107	25,997	339,751
Unallocated						
General and administrative expenses						(76,522)
Financing costs						(154,971)
Other income and expenses (net)						19,163
Net foreign exchange gains						9,376
Profit before income taxes						136,797
Carrying amount of fleet in operation including right of use assets	2,069,232	1,180,704	2,113,073	849,912	91,616	6,304,537
Carrying amount of non-current assets held for sale	-	-	-	18,598	-	18,598
Deadweight tonnage of fleet used in operations ('000)	1,593	569	7,424	2,143	156	11,885

Period ended 30 September 2018

	Offshore \$'000	Gas \$'000	Crude Oil \$'000	Oil Product \$'000	Other \$'000	Total \$'000
Revenue	323,760	137,277	370,743	220,765	53,954	1,106,499
Voyage expenses and commissions	(504)	(1,323)	(184,616)	(115,211)	(30,849)	(332,503)
Time charter equivalent revenues	323,256	135,954	186,127	105,554	23,105	773,996
Direct operating expenses						
Vessels' running costs	(53,009)	(23,005)	(94,215)	(68,309)	(15,726)	(254,264)
Charter hire payments	-	-	-	-	(22,070)	(22,070)
Net earnings / (losses) from vessels' trading	270,247	112,949	91,912	37,245	(14,691)	497,662
Vessels' depreciation	(89,572)	(26,923)	(73,354)	(38,836)	(4,157)	(232,842)
Vessels' drydock cost amortisation	(7,003)	(3,774)	(11,470)	(5,891)	(387)	(28,525)
Vessels' impairment provision	-	-	(22,100)	(23,786)	-	(45,886)
Loss on sale of vessels	-	-	(1,400)	-	-	(1,400)
Non-income based taxes	(4,571)	-	-	-	-	(4,571)
Net foreign exchange gains / (losses)	363	-	-	(171)	(5,959)	(5,767)
Segment operating profit / (loss)	169,464	82,252	(16,412)	(31,439)	(25,194)	178,671
Unallocated						
General and administrative expenses						(78,681)
Financing costs						(149,539)
Other income and expenses (net)						6,951
Net foreign exchange losses						(3,504)
Loss before income taxes						(46,102)
Carrying amount of fleet in operation	1,994,285	1,206,155	1,943,115	974,120	70,718	6,188,393
Carrying amount of non-current assets held for sale	-	-	9,848	-	-	9,848
Deadweight tonnage of fleet used in operations ('000)	1,344	569	7,284	2,447	156	11,800

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4. Income Taxes

	30/09/2019 \$'000	30/09/2018 \$'000
Russian Federation profit tax	12,641	11,270
Overseas income tax expense	598	327
Current income tax expense	13,239	11,597
Deferred tax	6,662	(243)
Total income tax expense	19,901	11,354

The increase in income tax expense in the period relates to recognition of deferred tax liability on intercompany dividends.

5. Fleet

	Vessels \$'000	Drydock \$'000	Total Fleet \$'000
Cost			
At 1 January 2018	8,491,703	177,268	8,668,971
Expenditure in period	10,307	14,167	24,474
Transfer from vessels under construction (Note 6)	196,685	2,000	198,685
Transfer to non-current assets held for sale (Note 11)	(41,508)	-	(41,508)
Disposals in period	(45,304)	(573)	(45,877)
Write-off of fully amortised drydock cost	-	(23,759)	(23,759)
Exchange adjustment	(2,145)	(114)	(2,259)
At 30 September 2018	8,609,738	168,989	8,778,727
At 1 January 2019	8,483,615	157,642	8,641,257
Expenditure in period	29,842	33,810	63,652
Transfer from vessels under construction (Note 6)	308,208	4,500	312,708
Write-off of fully amortised drydock cost	-	(27,534)	(27,534)
Exchange adjustment	1,069	57	1,126
At 30 September 2019	8,822,734	168,475	8,991,209
Depreciation, amortisation and impairment			
At 1 January 2018	2,283,525	94,102	2,377,627
Charge for the period	232,842	28,525	261,367
Impairment provision	45,886	-	45,886
Transfer to non-current assets held for sale (Note 11)	(31,660)	-	(31,660)
Disposals in period	(38,420)	(229)	(38,649)
Write-off of fully amortised drydock cost	-	(23,759)	(23,759)
Exchange adjustment	(407)	(71)	(478)
At 30 September 2018	2,491,766	98,568	2,590,334
At 1 January 2019	2,391,321	84,273	2,475,594
Charge for the period	239,565	25,711	265,276
Write-off of fully amortised drydock cost	-	(27,534)	(27,534)
Exchange adjustment	349	47	396
At 30 September 2019	2,631,235	82,497	2,713,732
Net book value			
At 30 September 2019	6,191,499	85,978	6,277,477
At 31 December 2018	6,092,294	73,369	6,165,663
		30/09/2019	31/12/2018
Market value (\$'000)		5,597,000	5,264,000
Current insured values (\$'000)		7,102,835	6,747,835
Total deadweight tonnage (dwt)		11,783,157	11,402,508

As at 30 September 2019, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss in accordance with the Group's policy. The assessment did not result in any such indication.

6. Vessels Under Construction

	30/09/2019 \$'000	30/09/2018 \$'000
At 1 January	135,890	81,837
Expenditure in period	337,486	296,792
Transfer to fleet (Note 5)	(312,708)	(198,685)
At 30 September	160,668	179,944
Total deadweight tonnage (dwt)	246,000	776,000

The following vessels were delivered during the period:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Segment</u>	<u>DWT</u>	<u>Delivery Date</u>
Korolev Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,232	20 February 2019
Vernadsky Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,310	26 March 2019
Samuel Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,095	30 April 2019
Mikhail Lazarev ¹	Ice-class shuttle tanker	Offshore	41,012	30 September 2019

¹ Delivered to charter on 27 October 2019

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6. Vessels Under Construction (Continued)

Vessels under construction at 30 September 2019 comprised three LNG carriers scheduled for delivery between February 2020 and December 2020 at a total contracted cost to the Group of \$523.9 million. As at 30 September 2019, \$157.2 million of these contracted costs had been paid for.

As at 30 September 2019, management carried out an assessment of whether there is any indication that the vessels under construction may have suffered an impairment loss in accordance with the Group's policy. The assessment did not result in any such indication.

7. Investments in Joint Ventures

	30/09/2019	30/09/2018
	\$'000	\$'000
At 1 January		
Dissolution of joint ventures	132,926	123,117
Share of profits / (losses) in joint ventures	(185)	-
Share of joint ventures' other comprehensive income	8,599	(214)
	2,139	6,977
At 30 September	<u>143,479</u>	<u>129,880</u>

8. Derivative Financial Instruments

	Interest Rate Swaps ("IRS")		Cross Currency Interest Rate Swaps ("CCIRS")		Total	
	30/09/2019	31/12/2018	30/09/2019	31/12/2018	30/09/2019	31/12/2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-current asset	119	6,694	2,261	14,205	2,380	20,899
Current asset	632	3,783	-	-	632	3,783
Non-current liability	(25,145)	(8,268)	(19,835)	(5,803)	(44,980)	(14,071)
Current liability	(7,749)	(5,171)	(10,911)	(10,455)	(18,660)	(15,626)

On 20 February 2019, 26 March 2019 and 30 April 2019, the Group entered into three seven-year interest rate swap transactions with a financial institution, converting 3-month US LIBOR floating interest rates to fixed. The swaps hedge the Group's future cash outflows resulting from the exposure to interest rate fluctuations associated with the interest payable on the three secured bank loan facilities of \$42.0 million each, in connection with the financing of the Group's vessels.

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

	IRS		CCIRS		Total	
	30/09/2019	30/09/2018	30/09/2019	30/09/2018	30/09/2019	30/09/2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Amount recognised in hedging reserve	(30,691)	16,160	(36,621)	(16,684)	(67,312)	(524)
Reclassified from hedging reserve and debited to financing costs	1,352	7,466	9,946	9,424	11,298	16,890
Reclassified from hedging reserve and debited to foreign exchange	-	-	14,710	13,617	14,710	13,617
Total in other comprehensive income	<u>(29,339)</u>	<u>23,626</u>	<u>(11,965)</u>	<u>6,357</u>	<u>(41,304)</u>	<u>29,983</u>

9. Trade and Other Receivables

	30/09/2019	31/12/2018
	\$'000	\$'000
Non-current assets		
Financial assets		
Other receivables	-	5,511
Receivables under High Court judgement award	2,700	2,700
Liquidated damages on vessels under construction receivable from shipyard	5,862	5,459
	<u>8,562</u>	<u>13,670</u>
Current assets		
Financial assets		
Amounts due from charterers	66,581	67,142
Allowance for credit losses	(2,354)	(2,500)
	<u>64,227</u>	<u>64,642</u>
Casualty and other claims	6,812	5,841
Agents' balances	1,918	2,710
Other receivables	14,118	10,455
Amounts due from joint ventures	757	761
Accrued income	1,320	5,556
Non-financial assets		
Prepayments	7,022	8,951
Contract acquisition and voyage fulfilment costs	1,822	2,502
Non-income based taxes receivable	7,982	6,792
	<u>105,978</u>	<u>108,210</u>

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Notes to the Condensed Consolidated Interim Financial Statements – 30 September 2019 (Continued)
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10. Cash and Bank Deposits

	30/09/2019 \$'000	31/12/2018 \$'000
Non-current assets		
Bank deposits	15,500	11,000
Restricted deposits	(15,500)	(11,000)
Cash and cash equivalents	-	-
Current assets		
Cash and bank deposits	325,210	296,433
Bank deposits accessible on maturity	(528)	(504)
Retention accounts	(24,627)	(27,358)
Restricted deposits	-	(1,000)
Cash and cash equivalents	300,055	267,571

11. Non-Current Assets Held for Sale

	Property and other plant and equipment \$'000	Fleet \$'000	Total \$'000
At 1 January 2018	-	25,719	25,719
Transfer from fleet (Note 5)	-	9,848	9,848
Transfer from investment property	6,642	-	6,642
Transfer from other property plant and equipment	993	-	993
Exchange adjustment	(426)	-	(426)
Disposals in period	(7,209)	(25,719)	(32,928)
At 30 September 2018	-	9,848	9,848
At 1 January 2019	-	29,700	29,700
Transfer from other property plant and equipment	234	-	234
Expenditure in period	-	653	653
Impairment provision	-	(2,935)	(2,935)
Disposals in period	-	(8,820)	(8,820)
At 30 September 2019	234	18,598	18,832

One of the three chemical oil product tankers classified as non-current asset held for sale as at 31 December 2018, was disposed of and delivered to her new owner in May 2019.

During the period ended 30 September 2019, the Group classified as held for sale land and buildings in Novorossiysk held as investment property, as well as other related property and equipment. The land and buildings and other property and equipment were actively marketed for sale at a price approximate to their fair value. These assets were sold in October 2019 (see also Note 20).

12. Dividends

Dividends of Rouble 0.73 per share totalling Roubles 1,434.8 million, equivalent to \$22.9 million were declared on 26 June 2019 and paid on 8 July 2019 (2018 – 0.86 Rouble per share totalling Roubles 1,696.0 million equivalent to \$26.8 million).

13. Trade and Other Payables

	30/09/2019 \$'000	31/12/2018 \$'000
Non-current liabilities		
Financial liabilities		
Liquidated damages for late delivery of vessels payable to charterer	16,991	18,203
Non-financial liabilities		
Employee benefit obligations	540	5,207
Provisions for drydocking	4,419	1,367
	21,950	24,777
Current liabilities		
Financial liabilities		
Trade payables	65,490	59,064
Other payables	35,556	33,527
Liquidated damages for late delivery of vessels payable to charterer	1,906	1,800
Dividends payable	6,846	10,742
Accrued liabilities	52,238	45,972
Accrued interest	29,753	19,330
Non-financial liabilities		
Deferred lease revenue	32,821	37,981
Employee benefit obligations	7,522	8,703
Non-income based taxes payable	22,383	19,054
	254,515	236,173

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14. Secured Bank Loans

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

	30/09/2019 \$'000	31/12/2018 \$'000
Repayable		
- within twelve months after the end of the reporting period	317,256	313,842
- between one to two years	479,183	362,009
- between two to three years	291,649	382,540
- between three to four years	289,800	274,021
- between four to five years	300,578	264,461
- more than five years	913,659	978,641
	<u>2,592,125</u>	<u>2,575,514</u>
Less current portion	(317,256)	(313,842)
Non-current balance	<u>2,274,869</u>	<u>2,261,672</u>

15. Lease liabilities

	30/09/2019 \$'000	31/12/2018 \$'000
Repayable		
- within twelve months after the end of the reporting period	15,040	-
- between one to two years	13,963	-
- between two to three years	15,456	-
- between three to four years	5,478	-
- between four to five years	699	-
- more than five years	8,345	-
	<u>58,981</u>	<u>-</u>
Less current portion	(15,040)	-
Non-current balance	<u>43,941</u>	<u>-</u>

16. Other Loans

	30/09/2019 \$'000	31/12/2018 \$'000
\$900 million 5.375% Senior Notes due in 2023	893,357	892,545
Other loan from related party	8,073	10,151
	<u>901,430</u>	<u>902,696</u>
Less current portion	(3,229)	(3,384)
Non-current balance	<u>898,201</u>	<u>899,312</u>

17. Financial Risk Management

(a) Financial assets and financial liabilities

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

	30/09/2019 \$'000	31/12/2018 \$'000
Cash and debt instruments at amortised cost		
Loans and other receivables	97,714	103,635
Loans to joint ventures	69,164	66,069
Cash and bank deposits	340,710	307,433
Financial assets at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships	3,012	24,682
Equity instruments at fair value through profit or loss		
Investments in non-listed companies	48	754
Total financial assets	<u>510,648</u>	<u>502,573</u>
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships	63,640	29,697
Financial liabilities at amortised cost		
Secured bank loans	2,592,125	2,575,514
Lease liabilities	58,981	-
Other loans	901,430	902,696
Other liabilities measured at amortised cost	208,780	188,638
Total financial liabilities	<u>3,824,956</u>	<u>3,696,545</u>

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17. Financial Risk Management (Continued)

(b) Fair value of financial assets and financial liabilities

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

	Carrying Value		Fair value hierarchy	Fair Value	
	30/09/2019 \$'000	31/12/2018 \$'000		30/09/2019 \$'000	31/12/2018 \$'000
Financial assets					
Loans to joint ventures	69,164	66,069	Level 2	67,373	64,127
Liquidated damages on vessels under construction receivable from shipyard	5,862	5,459	Level 2	5,862	5,459
Total financial assets	75,026	71,528		73,235	69,586
Financial liabilities					
Secured bank loans at fixed interest rates	758,666	711,274	Level 2	785,714	737,091
Secured bank loans at floating interest rates	1,833,459	1,864,240	Level 2	1,840,221	1,867,212
Other loans (Senior Notes due in 2023)	893,357	892,545	Level 1	951,750	873,000
Other loans	8,073	10,151	Level 2	8,256	10,468
Liquidated damages for late delivery of vessels payable to charterer	18,897	20,003	Level 2	18,897	20,003
Total financial liabilities	3,512,452	3,498,213		3,604,838	3,507,774

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

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

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

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

The fair values of derivative instruments, including interest rate swaps and currency swaps, are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest and currency rates, as adjusted for credit risk. Derivatives are valued using valuation techniques with market observable inputs; they comprise interest rate swaps and cross currency interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves. All interest rate swaps are fully cash collateralised, thereby mitigating both the counterparty and the Group's non-performance risk.

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

The following table provides an analysis of financial instruments as at 30 September 2019 and 31 December 2018 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

Recurring fair value measurements recognised in the statement of financial position

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 30 September 2019				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	3,012	-	3,012
	-	3,012	-	3,012
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	63,640	-	63,640
	-	63,640	-	63,640
At 31 December 2018				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	24,682	-	24,682
	-	24,682	-	24,682
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	29,697	-	29,697
	-	29,697	-	29,697

There were no transfers between Level 1 and 2 during the periods ended 30 September 2019 and 31 December 2018.

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17. Financial Risk Management (Continued)

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

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

	<u>Level 1</u> <u>\$'000</u>	<u>Level 2</u> <u>\$'000</u>	<u>Level 3</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
At 30 September 2019				
Assets				
Non-current assets held for sale	-	18,598	-	18,598
	-	18,598	-	18,598
At 31 December 2018				
Assets				
Non-current assets held for sale	-	29,700	-	29,700
	-	29,700	-	29,700

18. Contingent Liabilities

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

19. Related Party Transactions

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

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	30/09/2019	30/09/2018	30/09/2019	31/12/2018
	\$'000	\$'000	\$'000	\$'000
<u>Transactions with Russian State controlled entities</u>				
Revenue ¹	(313,680)	(326,730)	(9,794)	(21,684)
Voyage expenses and commissions	28,271	12,414	(9,652)	(3,080)
Administration expenses (pension contributions)	73	1,601	(9)	-
Other operating revenues	(5,306)	(2,379)	46	(1,948)
Other operating expenses	1,984	763	(259)	-
Other loans	281	401	(8,168)	(10,168)
Secured bank loans	33,853	36,764	(731,368)	(679,730)
Lease liabilities	758	-	(7,549)	-
Receivables from shipyard (liquidated damages for late delivery of vessels)	(403)	(366)	5,862	5,459
Payables to charterer (liquidated damages for late delivery of vessels)	1,410	1,487	(18,897)	(20,003)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	-	105,529
Cash at bank	(1,815)	(2,085)	136,159	111,343
Derivative financial instruments	24,562	23,822	(30,179)	(3,841)
<u>Transactions with Joint Ventures</u>				
Other operating revenues	(2,511)	(2,635)	757	761
Loans due from joint ventures	(2,007)	(1,530)	69,383	66,253
<u>Compensation of Key Management Personnel</u>				
Short-term benefits	6,984	6,405	(3,269)	(2,583)
Post-employment benefits	48	47	(4)	(3)
Long-term service benefits	1174	1,450	(3,708)	(6,498)
Termination benefits	259	-	-	-
	8,465	7,902	(6,981)	(9,084)

¹Statement of Financial Position includes deferred revenues and contract liabilities

20. Events After the Reporting Period

On 17 October 2019, the Group entered into an agreement to sell land and buildings in Novorossiysk and other related property and equipment, classified as non-current asset held for sale as at 30 September 2019, at an estimated gain on disposal of \$6.4 million. The sale was completed on 31 October 2019.

21. Date of Issue

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 14 November 2019.