

PAO SOVCOMFLOT

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

31 March 2021

PAO Sovcomflot

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PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 March 2021
(unaudited)

	Note	Three months ended (unaudited)	
		31/03/2021 \$'000	31/03/2020 \$'000
Revenue	2	362,856	493,299
Voyage expenses and commissions		<u>(87,794)</u>	<u>(103,840)</u>
Time charter equivalent revenues	2	<u>275,062</u>	<u>389,459</u>
Direct operating expenses			
Vessels' running costs		<u>85,287</u>	<u>84,044</u>
		<u>(85,287)</u>	<u>(84,044)</u>
Net earnings from vessels' trading		189,775	305,415
Other operating revenues		5,657	5,095
Other operating expenses		(3,543)	(3,017)
Depreciation, amortisation and impairment		(101,942)	(99,626)
General and administrative expenses		(20,895)	(24,207)
Loss on sale of non-current assets		(82)	(413)
Gain on lease modification	16	1,933	-
Allowance for expected credit losses		(2,057)	(490)
Share of (losses) / profits in investments in joint ventures and associates	7	<u>(12,870)</u>	<u>7,172</u>
Operating profit		<u>55,976</u>	<u>189,929</u>
Other (expenses) / income			
Financing costs		(42,372)	(49,895)
Interest income		3,362	2,887
Other non-operating expenses		(1,581)	(360)
Hedge ineffectiveness		(107)	106
Foreign exchange gains		3,308	10,036
Foreign exchange losses		<u>(10,552)</u>	<u>(28,561)</u>
Net other expenses		<u>(47,942)</u>	<u>(65,787)</u>
Profit before income taxes		8,034	124,142
Income tax expense	4	<u>(9,705)</u>	<u>(8,075)</u>
(Loss) / profit for the period		<u>(1,671)</u>	<u>116,067</u>
(Loss) / profit attributable to:			
Shareholders of PAO Sovcomflot		135	113,171
Non-controlling interests		<u>(1,806)</u>	<u>2,896</u>
		<u>(1,671)</u>	<u>116,067</u>
Earnings per share			
Basic and diluted profit per share for the period attributable to shareholders of PAO Sovcomflot		<u>\$0.000</u>	<u>\$0.058</u>

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

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 March 2021
(unaudited)

	Note	Three months ended (unaudited)	
		31/03/2021 \$'000	31/03/2020 \$'000
(Loss) / profit for the period		(1,671)	116,067
Other comprehensive income:			
<i>Items to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Share of associates' other comprehensive income		(3)	(25)
Share of joint ventures' other comprehensive income	7	2,424	(3,818)
Exchange gain / (loss) on translation from functional currency to presentation currency		915	(7,449)
Net gain / (loss) on derivative financial instruments credited / (debited) to other comprehensive income	8	29,780	(46,679)
		<u>33,116</u>	<u>(57,971)</u>
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains on retirement benefit obligations		187	104
		<u>187</u>	<u>104</u>
Other comprehensive income for the period, net of tax		<u>33,303</u>	<u>(57,867)</u>
Total comprehensive income for the period		<u>31,632</u>	<u>58,200</u>
Total comprehensive income attributable to:			
Shareholders of PAO Sovcomflot		33,390	55,214
Non-controlling interests		(1,758)	2,986
		<u>31,632</u>	<u>58,200</u>

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

PAO Sovcomflot

Consolidated Statement of Financial Position – 31 March 2021
(unaudited)

	Note	31/03/2021 (unaudited) \$'000	31/12/2020 \$'000
Assets			
Non-current assets			
Fleet	5	6,267,765	6,176,675
Right of use assets	16	21,027	27,568
Vessels under construction	6	130,924	177,810
Intangible assets		2,761	2,926
Other property, plant and equipment		38,042	38,612
Investment property		3,404	3,523
Other non-current assets		2,376	1,883
Investments in associates		113	111
Investments in joint ventures	7	195,994	164,908
Equity instruments at fair value through profit or loss		252	360
Loans to joint ventures		10,800	52,162
Derivative financial instruments	8	16,198	10,266
Trade and other receivables	9	9,650	10,002
Deferred tax assets		4,009	5,231
Bank deposits	10	12,500	12,500
		<u>6,715,815</u>	<u>6,684,537</u>
Current assets			
Inventories		63,982	44,228
Loans to joint ventures		2,530	2,000
Trade and other receivables	9	90,066	78,109
Prepayments and other current assets	9	15,953	14,820
Contract assets	9	20,178	26,697
Current tax receivable		6,981	8,302
Bank deposits	10	17,560	18,263
Cash and cash equivalents	10	803,340	849,446
		<u>1,020,590</u>	<u>1,041,865</u>
Non-current assets held for sale	11	7,920	16,685
		<u>1,028,510</u>	<u>1,058,550</u>
Total assets		<u><u>7,744,325</u></u>	<u><u>7,743,087</u></u>
Equity and liabilities			
Equity			
Share capital		410,252	410,252
Reserves		3,605,269	3,571,879
Equity attributable to shareholders of PAO Sovcomflot		<u>4,015,521</u>	<u>3,982,131</u>
Non-controlling interests		<u>114,508</u>	<u>116,266</u>
Total equity		<u>4,130,029</u>	<u>4,098,397</u>
Non-current liabilities			
Trade and other payables	13	15,113	15,485
Other non-current liabilities	13	14,148	12,878
Secured bank loans	14	2,068,531	2,049,293
Other loans	15	895,970	895,585
Lease liabilities	16	18,553	27,656
Derivative financial instruments	8	28,765	42,233
Retirement benefit obligations		2,059	2,324
Deferred tax liabilities		2,363	1,024
		<u>3,045,502</u>	<u>3,046,478</u>
Current liabilities			
Trade and other payables	13	181,829	185,503
Other current liabilities	13	50,377	71,872
Contract liabilities		8,904	17,746
Secured bank loans	14	286,761	282,075
Other loans	15	3,473	3,631
Lease liabilities	16	13,239	13,955
Current tax payable		559	137
Derivative financial instruments	8	23,252	20,799
Provisions		400	2,494
		<u>568,794</u>	<u>598,212</u>
Total liabilities		<u>3,614,296</u>	<u>3,644,690</u>
Total equity and liabilities		<u><u>7,744,325</u></u>	<u><u>7,743,087</u></u>

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

PAO Sovcomflot
Consolidated Statement of Changes in Equity
For the period ended 31 March 2021
(unaudited)

	Share capital \$'000	Share premium \$'000	Treasury shares \$'000	Group reconstruction reserve \$'000	Hedging reserve \$'000	Currency reserve \$'000	Retained earnings \$'000	Equity attributable to shareholders of PAO Sovcomflot \$'000	Non- controlling interests \$'000	Total \$'000
At 1 January 2020	405,012	818,845	-	(834,490)	(32,062)	(46,457)	3,062,024	3,372,872	131,709	3,504,581
Profit for the period	-	-	-	-	-	-	113,171	113,171	2,896	116,067
Other comprehensive income										
Share of associates' other comprehensive income	-	-	-	-	-	(25)	-	(25)	-	(25)
Share of joint ventures' other comprehensive income	-	-	-	-	(3,818)	-	-	(3,818)	-	(3,818)
Exchange (loss) / gain on translation from functional currency to presentation currency	-	-	-	-	-	(7,528)	-	(7,528)	79	(7,449)
Net loss on derivative financial instruments debited to other comprehensive income	-	-	-	-	(46,679)	-	-	(46,679)	-	(46,679)
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	-	93	93	11	104
Total comprehensive income	-	-	-	-	(50,497)	(7,553)	113,264	55,214	2,986	58,200
At 31 March 2020 (unaudited)	405,012	818,845	-	(834,490)	(82,559)	(54,010)	3,175,288	3,428,086	134,695	3,562,781
At 1 January 2021	410,252	1,342,803	(48,428)	(834,490)	(68,442)	(52,033)	3,232,469	3,982,131	116,266	4,098,397
Profit / (loss) for the period	-	-	-	-	-	-	135	135	(1,806)	(1,671)
Other comprehensive income										
Share of associates' other comprehensive income	-	-	-	-	-	(3)	-	(3)	-	(3)
Share of joint ventures' other comprehensive income	-	-	-	-	2,424	-	-	2,424	-	2,424
Exchange gain on translation from functional currency to presentation currency	-	-	-	-	-	887	-	887	28	915
Net gain on derivative financial instruments credited to other comprehensive income	-	-	-	-	29,780	-	-	29,780	-	29,780
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	-	167	167	20	187
Total comprehensive income	-	-	-	-	32,204	884	302	33,390	(1,758)	31,632
At 31 March 2021 (unaudited)	410,252	1,342,803	(48,428)	(834,490)	(36,238)	(51,149)	3,232,771	4,015,521	114,508	4,130,029

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 31 March 2021
(unaudited)

	Note	Three months ended (unaudited)	
		31/03/2021 \$'000	31/03/2020 \$'000
Operating Activities			
Cash received from vessels' operations		321,070	507,712
Other cash receipts		4,815	2,910
Cash payments for voyage and running costs		(189,781)	(175,491)
Other cash payments		(30,811)	(35,153)
Cash generated from operations		105,293	299,978
Interest received		3,090	2,273
Income tax paid		(5,633)	(4,838)
Net cash from operating activities		102,750	297,413
Investing Activities			
Expenditure on fleet	5	(12,097)	(9,621)
Expenditure on vessels under construction	6	(131,629)	(139,268)
Interest capitalised	6	(246)	(1,031)
Expenditure on other non-current assets		(634)	(211)
Equity contributions in joint ventures	7	(2,684)	-
Loan repayments by joint ventures		2,144	9,369
Proceeds from sale of vessels	11	8,050	38,256
Proceeds from sale of other property, plant and equipment		-	19
Return of bank term deposits	10	460	115
Net cash used in investing activities		(136,636)	(102,372)
Financing Activities			
Proceeds from borrowings		104,844	122,306
Repayment of borrowings		(69,484)	(79,712)
Financing costs		(589)	(977)
Repayment of lease liabilities	16	(3,392)	(3,110)
Repayment of liquidated damages		(481)	(442)
Release / (placement) of funds in retention bank accounts	10	243	(273)
Interest paid on borrowings		(27,172)	(33,334)
Interest paid on lease liabilities	16	(1,322)	(1,561)
Interest paid on liquidated damages		(261)	(308)
Dividends paid to non-controlling interests		(8,643)	(4,102)
Net cash used in financing activities		(6,257)	(1,513)
(Decrease) / increase in Cash and Cash Equivalents		(40,143)	193,528
Cash and Cash Equivalents at 1 January	10	849,446	374,821
Net foreign exchange difference		(5,963)	(34,360)
Cash and Cash Equivalents at 31 March	10	803,340	533,989

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

PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 31 March 2021
(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. Following an initial public offering of the Company’s ordinary shares and listing on the Moscow Stock Exchange in October 2020, the Russian Federation holds 82.81% of the issued shares of the Company and remains the ultimate controlling party of 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 Gashheka 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 132 vessels at the period end, comprising 55 crude oil carriers, 35 oil product carriers, 17 shuttle tankers, 12 gas carriers, 10 ice breaking supply vessels, 2 dry bulk carriers and 1 chartered in seismic research vessel. 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 2020 which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Operating results for the three-month period ended 31 March 2021 are not necessarily indicative of the results that may be expected for the year ending 31 December 2021.

Presentation currency and currency translation

These condensed consolidated interim 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 major and majority of the Group’s subsidiaries. For the purposes of these financial statements, the exchange rates used for translating significant transaction amounts and significant monetary assets and liabilities are as follows:

	31/03/2021 Closing \$1	31/03/2021 Average \$1	31/12/2020 Closing \$1	31/03/2020 Average \$1
Russian Roubles	75.7023	74.3414	73.8757	66.3818
Pounds Sterling	0.7268	0.7253	0.7384	0.7807
Euro	0.8517	0.8288	0.8147	0.9064

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 2020, except for the adoption of new standards and interpretations effective as of 1 January 2021. 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 amendments that were effective as of 1 January 2021 and are relevant to the Group’s operations is described below:

IFRS 7 (“Financial Instruments: Disclosures”), IFRS 9 (“Financial Instruments”), IAS 39 (“Financial Instruments: Recognition and Measurement”), IFRS 4 (“Insurance contracts”) and IFRS 16 (“Leases”) – “Amendments regarding replacement issues in the context of the IBOR reform – Phase 2”. The amendments address issues that affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to: changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and hedge accounting.

Whenever the replacement occurs, the Group expects to apply the amendments related to hedge accounting. However, there is uncertainty about when and how replacement may occur. The Group has engaged in discussions with its lenders to amend the U.S. Dollar LIBOR secured bank loan agreements so that the reference benchmark interest rate will change to SOFR, which will be further aligned with the corresponding Group’s hedging instruments.

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, albeit the normal seasonality was affected by Covid driven restrictions that continued to depress demand for crude oil, oil products and natural gas.

Use of Estimates and Judgements

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 2020.

Coronavirus (COVID-19)

The spread of COVID-19 and the measures taken to contain or mitigate it have had dramatic adverse consequences for the global economy, as well as regional and national economies. The continued spread of COVID-19 has led to supply chain destabilisation, facility closures, workforce disruption and volatility in the global economy, and its full impact is impossible to predict. The Group remains focussed on the safety and well-being of its staff, the ability to perform crew changes, lockdowns and delays in ports and at shipyards.

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Notes to the Condensed Consolidated Interim Financial Statements – 31 March 2021 (Continued)
(unaudited)

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

Coronavirus (COVID-19) (continued)

The extent to which COVID-19 may impact the Group will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, further actions to contain the virus or treat its impact, including the speed of roll-out of vaccines and their effectiveness, and the duration, timing and severity of the impact on global financial markets and the condition of the Russian economy, all of which are still highly uncertain and cannot be predicted.

2. Time Charter Equivalent Revenues

	31/03/2021 \$'000	31/03/2020 \$'000
Revenue		
Lease revenue from time charters	161,656	178,872
Service revenue from time charters	73,685	72,869
Total revenue from time charters	235,341	251,741
Service revenue from voyage charters	125,797	221,212
Service revenue from marine services	1,718	20,346
	<u>362,856</u>	<u>493,299</u>
Voyage expenses and commissions		
Bunkers	(46,008)	(64,392)
Port costs	(36,368)	(30,421)
Commissions	(1,833)	(3,161)
Seismic exploration and data processing	(598)	(2,169)
Other voyage costs	(2,987)	(3,697)
	<u>(87,794)</u>	<u>(103,840)</u>
Time charter equivalent revenues	<u>275,062</u>	<u>389,459</u>

Disaggregation of the Group's revenue from contracts with customers:

Period ended 31 March 2021

Segment	Service revenue				Lease revenue from time charters \$'000	Revenue \$'000
	Voyage charters \$'000	Time charters \$'000	Marine services \$'000	Total \$'000		
Offshore services	-	32,526	-	32,526	84,955	117,481
Gas transportation	-	21,800	-	21,800	43,672	65,472
Crude oil transportation	86,679	10,444	-	97,123	22,776	119,899
Oil products transportation	39,118	7,960	-	47,078	8,987	56,065
Other	-	955	1,718	2,673	1,266	3,939
Revenue from vessel operations	<u>125,797</u>	<u>73,685</u>	<u>1,718</u>	201,200	<u>161,656</u>	<u>362,856</u>
Other operating revenues from contracts with customers						
Other operating revenues				4,351		
Total revenue from contracts with customers				<u>205,551</u>		

Period ended 31 March 2020

Segment	Service revenue				Lease revenue from time charters \$'000	Revenue \$'000
	Voyage charters \$'000	Time charters \$'000	Marine services \$'000	Total \$'000		
Offshore services	1,478	35,088	-	36,566	87,217	123,783
Gas transportation	-	10,509	-	10,509	39,036	49,545
Crude oil transportation	133,910	19,748	-	153,658	43,704	197,362
Oil products transportation	85,824	6,548	-	92,372	7,317	99,689
Other	-	976	20,346	21,322	1,598	22,920
Revenue from vessel operations	<u>221,212</u>	<u>72,869</u>	<u>20,346</u>	314,427	<u>178,872</u>	<u>493,299</u>
Other operating revenues from contracts with customers						
Other operating revenues				3,836		
Total revenue from contracts with customers				<u>318,263</u>		

PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 31 March 2021 (Continued)
(unaudited)

3. Segment Information

For management purposes, the Group's operations are split between two core businesses: industrial and conventional shipping. These businesses are each divided into two segments, with the industrial business comprising the offshore services and gas transportation segments, and conventional shipping comprising the crude oil transportation and oil products transportation segments. Activities not falling within either of the Group's two core businesses are represented by the other segment. Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Period ended 31 March 2021

	Offshore \$'000	Gas \$'000	Crude Oil \$'000	Oil Product \$'000	Other \$'000	Total \$'000
Revenue	117,481	65,472	119,899	56,065	3,939	362,856
Voyage expenses and commissions	(154)	(60)	(61,614)	(24,268)	(1,698)	(87,794)
Time charter equivalent revenues	117,327	65,412	58,285	31,797	2,241	275,062
Direct operating expenses						
Vessels' running costs	(19,307)	(11,637)	(31,772)	(18,873)	(3,698)	(85,287)
Net earnings from vessels' trading	98,020	53,775	26,513	12,924	(1,457)	189,775
Other operating revenues	372	-	-	-	-	372
Other operating expenses	(317)	-	-	-	-	(317)
Vessels' depreciation	(34,725)	(12,119)	(27,912)	(12,303)	(934)	(87,993)
Vessels' drydock cost amortisation	(2,573)	(2,522)	(3,033)	(1,805)	(67)	(10,000)
Vessels' impairment provision	-	-	-	(900)	-	(900)
Right of use assets' depreciation	-	-	-	-	(1,302)	(1,302)
Loss on sale of vessels	-	-	-	(80)	-	(80)
Gain on lease modification	-	-	-	-	1,933	1,933
Allowance for expected credit losses	-	(2,023)	(50)	16	-	(2,057)
Share of profits / (losses) in investments in joint ventures	-	4,987	-	(17,862)	-	(12,875)
Net foreign exchange losses	(223)	-	-	-	(187)	(410)
Segment operating profit / (loss)	<u>60,554</u>	<u>42,098</u>	<u>(4,482)</u>	<u>(20,010)</u>	<u>(2,014)</u>	<u>76,146</u>
Unallocated						
General and administrative expenses						(20,895)
Financing costs						(42,372)
Other income and expenses (net)						1,989
Net foreign exchange losses						(6,834)
Profit before income taxes						<u>8,034</u>
Carrying amount of fleet in operation including right of use assets	<u>1,821,921</u>	<u>1,649,483</u>	<u>1,962,724</u>	<u>779,548</u>	<u>60,670</u>	<u>6,274,346</u>
Carrying amount of non-current assets held for sale	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,920</u>	<u>-</u>	<u>7,920</u>
Deadweight tonnage of fleet used in operations ('000)	<u>1,376</u>	<u>848</u>	<u>7,216</u>	<u>2,095</u>	<u>152</u>	<u>11,687</u>

Period ended 31 March 2020

	Offshore \$'000	Gas \$'000	Crude Oil \$'000	Oil Product \$'000	Other \$'000	Total \$'000
Revenue	123,783	49,545	197,362	99,689	22,920	493,299
Voyage expenses and commissions	(599)	(75)	(57,517)	(37,535)	(8,114)	(103,840)
Time charter equivalent revenues	123,184	49,470	139,845	62,154	14,806	389,459
Direct operating expenses						
Vessels' running costs	(18,736)	(9,982)	(31,750)	(19,147)	(4,429)	(84,044)
Net earnings from vessels' trading	104,448	39,488	108,095	43,007	10,377	305,415
Other operating revenues	609	-	-	-	-	609
Other operating expenses	(499)	-	-	-	-	(499)
Vessels' depreciation	(34,157)	(9,698)	(26,734)	(12,299)	(1,392)	(84,280)
Vessels' drydock cost amortisation	(2,535)	(1,358)	(3,022)	(1,738)	(68)	(8,721)
Vessels' impairment provision	-	-	(598)	-	-	(598)
Right of use assets' depreciation	-	-	-	-	(4,102)	(4,102)
Loss on sale of vessels	-	-	(432)	-	-	(432)
Allowance for expected credit losses	-	(1)	(81)	(582)	174	(490)
Share of profits in investments in joint ventures	-	4,118	-	3,034	-	7,152
Net foreign exchange losses	(3,883)	-	-	-	(1,125)	(5,008)
Segment operating profit	<u>63,983</u>	<u>32,549</u>	<u>77,228</u>	<u>31,422</u>	<u>3,864</u>	<u>209,046</u>
Unallocated						
General and administrative expenses						(24,207)
Financing costs						(49,895)
Other income and expenses (net)						2,715
Net foreign exchange losses						(13,517)
Profit before income taxes						<u>124,142</u>
Carrying amount of fleet in operation including right of use assets	<u>1,998,192</u>	<u>1,337,478</u>	<u>1,995,028</u>	<u>826,112</u>	<u>83,724</u>	<u>6,240,534</u>
Carrying amount of non-current assets held for sale	<u>-</u>	<u>-</u>	<u>12,737</u>	<u>19,489</u>	<u>-</u>	<u>32,226</u>
Deadweight tonnage of fleet used in operations ('000)	<u>1,593</u>	<u>662</u>	<u>7,106</u>	<u>2,143</u>	<u>156</u>	<u>11,660</u>

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4. Income Taxes

	31/03/2021 \$'000	31/03/2020 \$'000
Current income tax expense	7,214	8,571
Deferred tax expense / (income)	2,491	(496)
Total income tax expense	9,705	8,075

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 2020	8,673,606	162,769	8,836,375
Expenditure in period	7,790	3,520	11,310
Transfer from vessels under construction (Note 6)	172,277	6,050	178,327
Write-off of fully amortised drydock cost	-	(4,242)	(4,242)
At 31 March 2020	8,853,673	168,097	9,021,770
At 1 January 2021	9,071,486	172,306	9,243,792
Expenditure in period	5,922	4,474	10,396
Transfer from vessels under construction (Note 6)	172,693	6,050	178,743
Write-off of fully amortised drydock cost	-	(4,599)	(4,599)
Exchange adjustment	(55)	-	(55)
At 31 March 2021	9,250,046	178,231	9,428,277
Depreciation, amortisation and impairment			
At 1 January 2020	2,631,268	83,373	2,714,641
Charge for the period	84,280	8,721	93,001
Write-off of fully amortised drydock cost	-	(4,242)	(4,242)
At 31 March 2020	2,715,548	87,852	2,803,400
At 1 January 2021	2,991,084	76,033	3,067,117
Charge for the period	87,993	10,000	97,993
Write-off of fully amortised drydock cost	-	(4,599)	(4,599)
Exchange adjustment	1	-	1
At 31 March 2021	3,079,078	81,434	3,160,512
Net book value			
At 31 March 2021	6,170,968	96,797	6,267,765
At 31 December 2020	6,080,402	96,273	6,176,675
		31/03/2021	31/12/2020
Market value (\$'000)		5,472,100	5,390,000
Current insured values (\$'000)		7,107,331	6,907,331
Total deadweight tonnage (dwt)		11,637,201	11,544,231

6. Vessels Under Construction

	31/03/2021 \$'000	31/03/2020 \$'000
At 1 January	177,810	179,579
Expenditure in period	131,857	140,237
Transfer to fleet (Note 5)	(178,743)	(178,327)
At 31 March	130,924	141,489
Total deadweight tonnage (dwt)	595,102	373,800

The following vessel was delivered during the period:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Segment</u>	<u>DWT</u>	<u>Delivery Date</u>
SCF Timmerman	LNG carrier	Gas	92,970	15 January 2021

On 8 January 2021, the Group entered into a shipbuilding contract for the construction of one 174,000 cubic metre LNG carrier at a total contracted cost of \$182.8 million. The vessel is backed up by a time charter agreement for a firm period of 5 years, with a two year extension option attached in favour of the charterer. The Group has also entered into an option agreement with the shipyard for up to two additional LNG carriers at the same construction cost. Each of the optional vessels are backed up by a time charter agreement, exercisable at the option of the charterer.

Vessels under construction at 31 March 2021 comprised two aframax crude oil shuttle tankers, three ice-breaking LNG carriers and one LNG carrier scheduled for delivery between February 2022 and August 2023 at a total contracted cost to the Group of \$1,213.8 million. As at 31 March 2021, \$129.3 million of these contracted costs had been paid for.

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7. Investments in Joint Ventures

	31/03/2021	31/03/2020
	<u>\$'000</u>	<u>\$'000</u>
At 1 January	164,908	152,255
Loans receivable from joint ventures converted to equity	38,853	-
Equity contributions during the period	2,684	-
Share of (losses) / profits in joint ventures	(12,875)	7,152
Share of joint ventures' other comprehensive income	2,424	(3,818)
Currency retranslation difference	-	(21)
At 31 March	<u>195,994</u>	<u>155,568</u>

On 28 January 2021, the Group contributed \$2.6 million to equity of one of its joint ventures. On 1 February 2021, loans to the same joint venture of \$39.3 million, including interest capitalised, were contributed to equity at their carrying value of \$38.9 million, net of expected credit losses.

8. Derivative Financial Instruments

	Interest Rate Swaps ("IRS")		Cross Currency Interest Rate Swaps ("CCIRS")		Total	
	31/03/2021	31/12/2020	31/03/2021	31/12/2020	31/03/2021	31/12/2020
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Non-current asset	9,247	74	6,951	10,192	16,198	10,266
Non-current liability	(21,040)	(35,503)	(7,725)	(6,730)	(28,765)	(42,233)
Current liability	(15,616)	(14,744)	(7,636)	(6,055)	(23,252)	(20,799)

During the period ended 31 March 2021, the Group entered into a seven year interest rate swap transaction to hedge the Group's future cash outflows resulting from the exposure to interest rate fluctuations associated with the interest payable on a loan facility of \$148.5 million in connection with the financing of a Group's vessel, by converting 3-month U.S. Dollar LIBOR floating interest rate payable on the loan to fixed.

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 for the three months ended as indicated below.

	IRS		CCIRS		Total	
	31/03/2021	31/03/2020	31/03/2021	31/03/2020	31/03/2021	31/03/2020
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Amount recognised in hedging reserve	16,764	(39,821)	(8,003)	(17,153)	8,761	(56,974)
Reclassified from hedging reserve and debited to financing costs	6,000	2,690	2,693	3,090	8,693	5,780
Reclassified from hedging reserve and debited to foreign exchange	-	-	12,326	4,515	12,326	4,515
Total in other comprehensive income	<u>22,764</u>	<u>(37,131)</u>	<u>7,016</u>	<u>(9,548)</u>	<u>29,780</u>	<u>(46,679)</u>

9. Receivables and Other Assets

Trade and other receivables

	31/03/2021	31/12/2020
	<u>\$'000</u>	<u>\$'000</u>
Non-current assets		
Other receivables	186	695
Receivables under High Court judgement award	2,700	2,700
Liquidated damages receivable from shipyard	6,764	6,607
	<u>9,650</u>	<u>10,002</u>
Current assets		
Amounts due from charterers	62,275	46,102
Allowance for credit losses	(5,938)	(4,069)
	<u>56,337</u>	<u>42,033</u>
Casualty and other claims	15,923	21,387
Agents' balances	2,611	2,843
Other receivables	11,766	9,590
Amounts due from joint ventures	615	907
Accrued income	2,814	1,349
	<u>90,066</u>	<u>78,109</u>
<i>Prepayments and other current assets</i>		
	<u>31/03/2021</u>	<u>31/12/2020</u>
	<u>\$'000</u>	<u>\$'000</u>
Prepayments	11,621	10,320
Contract acquisition and voyage fulfilment costs	2,024	1,750
Non-income based taxes receivable	2,308	2,750
	<u>15,953</u>	<u>14,820</u>

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9. Receivables and Other Assets (Continued)

<i>Contract assets</i>	31/03/2021	31/12/2020
	\$'000	\$'000
Contract assets	<u>20,178</u>	<u>26,697</u>

Contract assets vary from period to period and depend on the number of ongoing contracts with customers at the period end, the stage of progress towards satisfaction of a performance obligation and the level of service revenue associated with each contract.

10. Cash and Bank Deposits

	31/03/2021	31/12/2020
	\$'000	\$'000
Non-current assets		
Restricted deposits	<u>12,500</u>	<u>12,500</u>
Bank deposits	<u>12,500</u>	<u>12,500</u>
Current assets		
Bank deposits accessible on maturity	-	460
Retention accounts	<u>17,560</u>	<u>17,803</u>
Bank deposits	<u>17,560</u>	<u>18,263</u>
Cash and cash equivalents	<u>803,340</u>	<u>849,446</u>
Cash and bank deposits	<u>820,900</u>	<u>867,709</u>

11. Non-Current Assets Held for Sale

	31/03/2021	31/03/2020
	\$'000	\$'000
At 1 January	16,685	69,061
Impairment provision	(900)	(598)
Disposals in period	<u>(7,865)</u>	<u>(36,237)</u>
At 31 March	<u>7,920</u>	<u>32,226</u>

One of the MR chemical oil product tankers classified as held for sale as at 31 December 2020 was disposed of and delivered to her new owners in February 2021. As at 31 March 2021, non-current assets held for sale, comprised one MR chemical oil product tanker. The vessel was actively marketed for sale at a price approximate to its market value and its sale is still highly probable.

12. Dividends

No dividends were paid or declared to the shareholders of PAO Sovcomflot during the period ended 31 March 2021 and 31 March 2020.

13. Payables and Other Liabilities

<i>Trade and other payables</i>	31/03/2021	31/12/2020
	\$'000	\$'000
Non-current liabilities		
Liquidated damages for late delivery of vessels payable to charterer	<u>15,113</u>	<u>15,485</u>
	<u>15,113</u>	<u>15,485</u>
Current liabilities		
Trade payables	57,699	49,504
Other payables	38,406	49,792
Liquidated damages for late delivery of vessels payable to charterer	2,157	2,113
Dividends payable to non-controlling interests	9,160	18,160
Accrued liabilities	48,433	51,945
Interest payable	<u>25,974</u>	<u>13,989</u>
	<u>181,829</u>	<u>185,503</u>
<i>Other liabilities</i>		
	31/03/2021	31/12/2020
	\$'000	\$'000
Non-current liabilities		
Employee benefit obligations	8,163	6,776
Deferred lease revenue	5,985	6,102
	<u>14,148</u>	<u>12,878</u>
Current liabilities		
Deferred lease revenue	27,770	49,355
Non-income based taxes payable	<u>22,607</u>	<u>22,517</u>
	<u>50,377</u>	<u>71,872</u>

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14. Secured Bank Loans

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

	31/03/2021 \$'000	31/12/2020 \$'000
Within twelve months after the end of the reporting period	286,761	282,075
Between one to two years	309,973	313,263
Between two to three years	355,131	304,965
Between three to four years	312,465	319,418
Between four to five years	336,252	351,702
More than five years	754,710	759,945
	<u>2,355,292</u>	<u>2,331,368</u>
Less current portion	(286,761)	(282,075)
Non-current balance	<u>2,068,531</u>	<u>2,049,293</u>

15. Other Loans

	31/03/2021 \$'000	31/12/2020 \$'000
\$900 million 5.375% Senior Notes due in 2023	895,970	895,585
Other loan from related party	3,473	3,631
	<u>899,443</u>	<u>899,216</u>
Less current portion	(3,473)	(3,631)
Non-current balance	<u>895,970</u>	<u>895,585</u>

On 26 April 2021, the Group refinanced \$401.6 million of the \$900 million 5.375% Senior Notes due in 2023 through an issue of \$430 million of Senior Notes due in 2028 (see Note 19).

16. Leases

Set out below are the carrying amounts of right of use assets recognised and the movements during the period:

	Fleet \$'000	Land and buildings \$'000	Miscellaneous \$'000	Total right of use assets \$'000
At 1 January 2020	28,600	15,605	1,690	45,895
Lease modification	(2,333)	(14)	622	(1,725)
Depreciation charge for the period	(4,102)	(956)	(18)	(5,076)
Exchange differences	(1)	(410)	(424)	(835)
At 31 March 2020	<u>22,164</u>	<u>14,225</u>	<u>1,870</u>	<u>38,259</u>
At 1 January 2021	14,390	11,730	1,448	27,568
Lease modification	(4,320)	81	4	(4,235)
Lease termination	-	(9)	-	(9)
Depreciation charge for the period	(1,302)	(960)	(16)	(2,278)
Exchange differences	-	16	(35)	(19)
At 31 March 2021	<u>8,768</u>	<u>10,858</u>	<u>1,401</u>	<u>21,027</u>

In March 2021, the Group agreed with the lessor of the chartered-in seismic research vessel to reduce the charter period by one year, to November 2022, with extension options in favour of the Group. The lease modification (shortening of the lease term) has been accounted for as a reduction in the carrying value of the right of use asset (fleet) and the lease liability by \$3.8 million and \$5.7 million, respectively. The resultant gain on lease modification of \$1.9 million has been recognised in the income statement.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	31/03/2021 \$'000	31/03/2020 \$'000
At 1 January	41,611	60,300
Lease modification	(5,636)	(1,725)
Accretion of interest	767	1,654
Payment of lease instalments	(4,714)	(4,671)
Lease termination	(10)	-
Exchange differences	(226)	(2,094)
At 31 March	<u>31,792</u>	<u>53,464</u>
Less current portion	<u>(13,239)</u>	<u>(17,241)</u>
Non-current balance	<u>18,553</u>	<u>36,223</u>

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17. Financial Assets and Financial Liabilities

(a) Categories of financial assets and financial liabilities

	31/03/2021 \$'000	31/12/2020 \$'000
Cash and debt instruments at amortised cost		
Trade and other receivables	99,716	88,111
Loans to joint ventures	13,330	54,162
Cash and bank deposits	833,400	880,209
Financial assets at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships	16,198	10,266
Equity instruments at fair value through profit or loss		
Investments in non-listed companies	252	360
Total financial assets	<u>962,896</u>	<u>1,033,108</u>
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships	52,017	63,032
Financial liabilities at amortised cost		
Secured bank loans	2,355,292	2,331,368
Other loans	899,443	899,216
Lease liabilities	31,792	41,611
Trade and other payables	196,942	200,988
Total financial liabilities	<u>3,535,486</u>	<u>3,536,215</u>

(b) Fair value of financial assets and financial liabilities

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

	Carrying Value		Fair value hierarchy	Fair Value	
	31/03/2021 \$'000	31/12/2020 \$'000		31/03/2021 \$'000	31/12/2020 \$'000
Financial assets					
Loans to joint ventures	13,330	54,162	Level 2	12,470	53,492
Total financial assets	<u>13,330</u>	<u>54,162</u>		<u>12,470</u>	<u>53,492</u>
Financial liabilities					
Secured bank loans at fixed interest rates	654,494	670,211	Level 2	657,094	673,221
Secured bank loans at floating interest rates	1,700,798	1,661,157	Level 2	1,662,824	1,625,283
Other loans (Senior Notes due in 2023)	895,970	895,585	Level 1	948,375	958,500
Other loans	3,473	3,631	Level 2	3,492	3,660
Total financial liabilities	<u>3,254,735</u>	<u>3,230,584</u>		<u>3,271,785</u>	<u>3,260,664</u>

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

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

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

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

The fair values of derivative instruments 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, the Group's non-performance risk, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves.

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

The following table provides an analysis of financial instruments as at 31 March 2021 and 31 December 2020 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 of financial instruments recognised in the statement of financial position

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 March 2021				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	16,198	-	16,198
	-	16,198	-	16,198
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	52,017	-	52,017
	-	52,017	-	52,017

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17. Financial Assets and Financial Liabilities (Continued)

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

Recurring fair value measurements of financial instruments recognised in the statement of financial position (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 December 2020				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	10,266	-	10,266
	-	10,266	-	10,266
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	63,032	-	63,032
	-	63,032	-	63,032

There were no transfers between Level 1 and 2 during the periods ended 31 March 2021 and 31 December 2020.

18. Related Party Transactions

The ultimate controlling party of PAO Sovcomflot is the Russian Federation. Any transactions with Russian State controlled entities are disclosed as transactions with related parties.

There were no material related party transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes. The Group's cross currency derivative financial instruments with a Russian State controlled financial institution are presented in Note 8 to these condensed consolidated interim financial statements.

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

	Consolidated Income Statement (income) / expense		Consolidated Statement of Financial Position asset / (liability)	
	31/03/2021 \$'000	31/03/2020 \$'000	31/03/2021 \$'000	31/12/2020 \$'000
Transactions with Russian State controlled entities				
Revenue ¹	(106,366)	(120,069)	(12,070)	(21,965)
Voyage expenses and commissions	6,897	10,439	(1,715)	(2,064)
Other operating revenues	(2,219)	(1,630)	(1,738)	(1,604)
Other loans	34	66	(3,514)	(3,637)
Secured bank loans	10,783	12,005	(634,311)	(650,525)
Lease liabilities	256	255	(7,548)	(7,785)
Receivables from shipyard (liquidated damages for late delivery of vessels)	(157)	(144)	6,764	6,607
Payables to charterer (liquidated damages for late delivery of vessels)	414	448	(17,270)	(17,598)
Cash at bank	(3,056)	(1,340)	536,037	583,233
Transactions with Joint Ventures				
Other operating revenues	(1,068)	(819)	615	907
Loans due from joint ventures	(115)	(476)	13,336	54,197
Compensation of Key Management Personnel				
Short-term benefits	1,698	2,132	(4,537)	(3,723)
Post-employment benefits	20	18	(4)	(4)
Long-term service benefits	287	141	(1,825)	(1,805)
	2,005	2,291	(6,366)	(5,532)

¹Statement of Financial Position includes deferred lease revenues and contract liabilities.

19. Events After the Reporting Period

On 12 April 2021, S&P Global Ratings Europe Limited and Fitch Ratings CIS Ltd, upgraded PAO Sovcomflot's credit rating to investment-grade level of BBB- with stable outlook.

On 26 April 2021, the Group, through its subsidiary SCF Capital Designated Activity Company ("SCF Capital"), issued \$430 million of Senior Notes (the "New Notes"), redeemable at par value, maturing on 26 April 2028. The New Notes are unsecured and guaranteed by Sovcomflot. Interest accrues at 3.85% from 26 April 2021 and is payable semi-annually in arrears on 26 April and 26 October of each year, commencing on 26 October 2021. There are no equity conversion rights or options attached to the New Notes. The New Notes were used to partly refinance the \$900 million 5.375% Senior Notes (the "Old Notes") due in 2023. A total amount of \$401,573 thousand of the Old Notes was tendered back to the company at a price of \$107.125 per \$100 par value. Of the \$28.6 million premium paid on the tendered bonds, \$19.4 million will be expensed to profit or loss, and will be included in financing costs in the income statement for the three months period ending 30 June 2021, together with \$1.7 million of unamortised financing costs relating to Old Notes tendered but not refinanced with New Notes. The balance of \$9.2 million relating to refinancing of the Old Notes with New Notes has been netted off against the proceeds raised from the New Notes. The refinancing of the Old Notes with the New Notes represents loan modification with an estimated gain on modification of \$3.6 million, to be recognised in the income statement in the three months period ending 30 June 2021.

PAO Sovcomflot**Notes to the Condensed Consolidated Interim Financial Statements – 31 March 2021 (Continued)**
(unaudited)**19. Events After the Reporting Period (Continued)**

In April 2021, the Group signed addendums to two secured bank loan agreements, with two Russian State controlled financial institutions, with an outstanding balances of \$218.7 million and \$191.7 million, gross of direct issue costs, reducing the fixed interest rate payable on these loans by 0.7% and 0.5% respectively. The amendments to these loan agreements represent loan modifications with an estimated gain on modification of \$9.3 million, to be recognised in the income statement in the three months period ending 30 June 2021.

20. Date of Issue

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 18 May 2021.