PAO SOVCOMFLOT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

PAO Sovcomflot

Contents

PAO Sovcomflot

Consolidated Income Statement
For the period ended 30 June 2018
(unaudited)

		Six months ended (unaudited)		Three months ended (unaudited)	
	Note	30/06/2018 $'000	30/06/2017 $'000	30/06/2018 $'000	30/06/2017 $'000
Freight and hire revenue		710,115	710,225	364,747	349,072
Voyage expenses and commissions		(198,766)	(179,450)	(102,281)	(92,711)
Time charter equivalent revenues	2	511,349	530,775	262,466	256,361
Direct operating expenses					
Vessels' running costs		170,586	182,624	84,114	96,021
Charter hire payments		14,194	13,631	7,525	8,124
		(184,780)	(196,255)	(91,639)	(104,145)
Net earnings from vessels' trading		326,569	334,520	170,827	152,216
Other operating revenues		11,347	9,375	5,640	4,929
Other operating expenses		(5,956)	(5,111)	(3,286)	(2,780)
Depreciation, amortisation and impairment		(219,738)	(177,391)	(126,344)	(89,520)
General and administrative expenses		(58,204)	(62,376)	(28,187)	(31,483)
(Loss) / gain on sale of assets		(1,345)	7,098	(1,169)	(69)
Allowance for credit losses		475	254	233	270
Share of profits / (losses) in equity accounted investments		248	3,432	(1,219)	842
Operating profit		53,396	109,801	16,495	34,405
Other (expenses) / income					
Financing costs		(99,507)	(96,648)	(50,357)	(54,757)
Interest income		4,663	6,210	1,895	3,485
Other non-operating expenses	17	(2,909)	(1,679)	(1,843)	(602)
Gain / (loss) on ineffective hedging instruments		506	(87)	185	(306)
Foreign exchange gains		7,981	8,586	5,731	1,800
Foreign exchange losses		(14,299)	(8,021)	(11,410)	(6,445)
Net other expenses		(103,565)	(91,639)	(55,799)	(56,825)
(Loss) / profit before income taxes		(50,169)	18,162	(39,304)	(22,420)
Income tax expense	4	(7,602)	(2,975)	(2,390)	(2,310)
(Loss) / profit for the period		(57,771)	15,187	(41,694)	(24,730)
(Loss) / profit attributable to:					
Owners of the parent		(55,466)	14,283	(40,300)	(24,564)
Non-controlling interests		(2,305)	904	(1,394)	(166)
		(57,771)	15,187	(41,694)	(24,730)
Earnings per share					
Basic (loss) / earnings per share for the period attributable to equity holders of the parent		($0.028)	$0.007	($0.020)	($0.012)

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 30 June 2018
(unaudited)

		Six months ended (unaudited)		Three months ended (unaudited)	
	Note	**30/06/2018 $'000**	**30/06/2017 $'000**	**30/06/2018 $'000**	**30/06/2017 $'000**
(Loss) / profit for the period		(57,771)	15,187	(41,694)	(24,730)
Other comprehensive income:					
Share of associates' other comprehensive income		(13)	2	(14)	(8)
Share of joint ventures' other comprehensive income	7	5,386	3,192	1,982	913
Exchange gain / (loss) on translation from functional currency to presentation currency		290	1,064	(74)	(529)
Change in fair value of derivative financial instruments credited / (debited) to other comprehensive income	8	22,962	1,341	6,707	(1,717)
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		28,625	5,599	8,601	(1,341)
Remeasurement gains / (losses) on employee benefit obligations		64	(232)	88	(163)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		64	(232)	88	(163)
Total other comprehensive income for the period, net of tax		28,689	5,367	8,689	(1,504)
Total comprehensive income for the period		(29,082)	20,554	(33,005)	(26,234)
Total comprehensive income attributable to:					
Owners of the parent		(26,579)	19,659	(31,425)	(26,061)
Non-controlling interests		(2,503)	895	(1,580)	(173)
		(29,082)	20,554	(33,005)	(26,234)

PAO Sovcomflot

Consolidated Statement of Financial Position – 30 June 2018 (unaudited)

	Note	30/06/2018 (unaudited) $'000	31/12/2017 $'000
Assets			
Non-current assets			
Fleet	5	6,220,945	6,291,344
Vessels under construction	6	136,223	81,837
Intangible assets		7,623	8,659
Other property, plant and equipment		44,658	49,323
Investment property		572	7,924
Investments in associates		116	132
Investments in joint ventures	7	128,720	123,117
Available-for-sale investments		521	523
Loans to joint ventures		60,880	55,511
Derivative financial instruments	8	39,437	35,909
Trade and other receivables	9	7,968	7,739
Deferred tax assets		10,411	8,162
Bank deposits	10	12,000	12,000
		6,670,074	6,682,180
Current assets			
Inventories		69,164	61,883
Derivative financial instruments	8	2,999	808
Trade and other receivables	9	107,441	146,922
Contract assets	1	20,207	-
Current tax receivable		6,764	6,487
Restricted cash	17	-	75,543
Cash and bank deposits	10	331,005	347,352
		537,580	638,995
Non-current assets held for sale	11	7,635	25,719
		545,215	664,714
Total assets		7,215,289	7,346,894
Equity and liabilities			
Capital and reserves			
Share capital		405,012	405,012
Reserves		2,803,158	2,860,208
Equity attributable to owners of the parent		3,208,170	3,265,220
Non-controlling interests		139,889	143,802
Total equity		3,348,059	3,409,022
Non-current liabilities			
Trade and other payables	13	22,664	28,413
Secured bank loans	14	2,244,464	2,262,821
Derivative financial instruments	8	10,355	12,812
Retirement benefit obligations		2,161	4,045
Other loans	15	901,170	902,412
Deferred tax liabilities		3,305	2,258
		3,184,119	3,212,761
Current liabilities			
Trade and other payables	13	310,384	285,574
Contract liabilities	1	8,123	-
Other loans	15	3,441	3,537
Secured bank loans	14	341,382	338,226
Current tax payable		1,234	4,890
Derivative financial instruments	8	16,399	17,370
Payable under high court judgement award	17	2,148	75,514
		683,111	725,111
Total liabilities		3,867,230	3,937,872
Total equity and liabilities		7,215,289	7,346,894

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 30 June 2018
(unaudited)

	Share capital $'000	Share premium $'000	Reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
At 1 January 2017	**405,012**	**818,845**	**(834,490)**	**(43,568)**	**(46,435)**	**3,154,506**	**3,453,870**	**150,446**	**3,604,316**
Profit for the period	-	-	-	-	-	14,283	14,283	904	15,187
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	2	-	2	-	2
Share of joint ventures' other comprehensive income	-	-	-	3,190	2	-	3,192	-	3,192
Exchange gain on translation from functional currency to presentation currency	-	-	-	-	1,049	-	1,049	15	1,064
Change in fair value of derivative financial instruments credited to other comprehensive income	-	-	-	1,341	-	-	1,341	-	1,341
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(208)	(208)	(24)	(232)
Total comprehensive income	-	-	-	4,531	1,053	14,075	19,659	895	20,554
Dividends (Note 12)	-	-	-	-	-	(106,905)	(106,905)	(59)	(106,964)
At 30 June 2017 (unaudited)	**405,012**	**818,845**	**(834,490)**	**(39,037)**	**(45,382)**	**3,061,676**	**3,366,624**	**151,282**	**3,517,906**
At 1 January 2018	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,937,519**	**3,265,220**	**143,802**	**3,409,022**
Adjustment on initial application of IFRS 15 (net of tax) (Note 1)	-	-	-	-	-	(3,674)	(3,674)	(229)	(3,903)
Adjusted balance at 1 January 2018	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,933,845**	**3,261,546**	**143,573**	**3,405,119**
Loss for the period	-	-	-	-	-	(55,466)	(55,466)	(2,305)	(57,771)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(13)	-	(13)	-	(13)
Share of joint ventures' other comprehensive income	-	-	-	5,386	-	-	5,386	-	5,386
Exchange gain / (loss) on translation from functional currency to presentation currency	-	-	-	-	495	-	495	(205)	290
Change in fair value of derivative financial instruments credited to other comprehensive income	-	-	-	22,962	-	-	22,962	-	22,962
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	57	57	7	64
Total comprehensive income	-	-	-	28,348	482	(55,409)	(26,579)	(2,503)	(29,082)
Dividends (Note 12)	-	-	-	-	-	(26,797)	(26,797)	(1,181)	(27,978)
At 30 June 2018 (unaudited)	**405,012**	**818,845**	**(834,490)**	**11,049**	**(43,885)**	**2,851,639**	**3,208,170**	**139,889**	**3,348,059**

Notes

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

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

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 30 June 2018
(unaudited)

	Note	Six months ended (unaudited)	
		30/06/2018 $'000	30/06/2017 $'000
Operating Activities			
Cash received from freight and hire of vessels		716,948	711,730
Other cash receipts		12,110	16,013
Cash payments for voyage and running costs		(376,832)	(362,706)
Other cash payments		(66,804)	(66,097)
Cash generated from operations		285,422	298,940
Interest received		3,191	5,755
Income tax paid		(13,237)	(24,351)
Net cash inflow from operating activities		275,376	280,344
Investing Activities			
Expenditure on fleet	5	(15,325)	(30,760)
Expenditure on vessels under construction		(196,429)	(432,609)
Interest capitalised		(2,121)	(2,530)
Expenditure on intangibles and other property, plant and equipment		(735)	(2,034)
Loan repayments from joint ventures		-	1,574
Loans issued to joint ventures		(4,482)	(1,530)
Proceeds from sale of vessels		33,489	-
Proceeds from sale of other property, plant and equipment		146	3,980
Capital element received on finance leases		-	220
Interest received on finance leases		-	446
Dividends received from equity accounted for investments		35	245
Bank term deposits	10	521	12,000
Net cash outflow used in investing activities		(184,901)	(450,998)
Financing Activities			
Proceeds from borrowings		206,797	755,826
Repayment of borrowings		(209,814)	(293,713)
Financing costs		(2,081)	(9,150)
Repayment of finance lease liabilities		-	(176,817)
Repayment of liquidated damages		(3,780)	-
Restricted deposits	10	1,000	-
Funds in retention bank accounts	10	(4,263)	(1,465)
Interest paid on borrowings		(90,971)	(81,453)
Interest paid on finance leases		-	(4,917)
Dividends paid		(2,108)	(113,603)
Net cash (outflow) / inflow from financing activities		(105,220)	74,708
Decrease in Cash and Cash Equivalents		(14,745)	(95,946)
Cash and Cash Equivalents at 1 January	10	321,334	432,792
Net foreign exchange difference		(4,344)	3,291
Cash and Cash Equivalents at 30 June	10	302,245	340,137

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 133 vessels at the period end, comprising 110 tankers, 9 gas carriers, 10 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet see also Notes 5, 6 and 11.

Statement of Compliance

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standard (IFRS) - IAS 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2017. Operating results for the six-month period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the year ending 31 December 2018.

Significant Accounting Policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature of each new standard or amendment is described below. Although these new standards and amendments apply for the first time in 2018, they do not have an impact on the condensed consolidated interim financial statements of the Group, except for IFRS 15 and IFRS 9.

IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception".

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

IFRS 2 ("Share Based Payment") – "Classification and Measurement of Share-based Payment Transactions". The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

IAS 40 ("Investment Property") – "Amendments to clarify transfers of property to, or from investment property".

IFRIC 22 ("Foreign Currency Transactions and Advance Consideration"). Clarifies the accounting for transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency before the entity recognises the related asset, expense or income.

IAS 28 ("Investments in Associates and Joint Ventures") – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss; and
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

IFRS 15 ("Revenue from Contracts with Customers")

IFRS 15, effective as of 1 January 2018, was issued in May 2014 and amended in April 2016, with earlier adoption permitted. The Group adopted the new standard on the required effective date. The standard permits either a full retrospective or a modified retrospective approach for application.

The Group has applied IFRS 15 using the modified retrospective approach by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. The Group elected to apply the modified retrospective approach only to the contracts that were not completed at the date of initial application. The Group did not apply any practical expedient.

Therefore, comparative information has not been restated and continues to be reported under IAS 18 "Revenue". The impact of changes is disclosed below.

PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 June 2018 (Continued) (unaudited)

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

Significant Accounting Policies (continued)

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

1. For uncompleted voyages at period end, previously recognised voyage in progress amounts were derecognised;
2. Accrued income relating to amounts not invoiced yet in respect of seismic revenue was derecognised;
3. Costs incurred to obtain and to fulfil a contract, were recognised as an asset;
4. Contract assets and liabilities were recognised based on IFRS 15.

Impact on the consolidated statement of financial position as at 30 June 2018:

	As reported 30/06/2018 $'000	Adjustments 30/06/2018 $'000	Balances without adoption of IFRS 15 30/06/2018 $'000	As reported 31/12/2017 $'000
Assets				
Non-current assets	6,670,074	-	6,670,074	6,682,180
Current assets				
Voyages in progress	-	25,688	25,688	25,972
Contract acquisition and voyage fulfilment costs	3,204	(3,204)	-	-
Other trade and other receivables	103,318	-	103,318	116,865
Accrued income	919	2,355	3,274	4,085
Trade and other receivables	107,441	24,839	132,280	146,922
Contract assets	20,207	(20,207)	-	-
Other current assets	417,567	-	417,567	517,792
Total current assets	545,215	4,632	549,847	664,714
Total assets	7,215,289	4,632	7,219,921	7,346,894
Equity and liabilities				
Capital and reserves				
Share capital	405,012	-	405,012	405,012
Reserves	2,803,158	4,449	2,807,607	2,860,208
Equity attributable to owners of the parent	3,208,170	4,449	3,212,619	3,265,220
Non-controlling interests	139,889	183	140,072	143,802
Total equity	3,348,059	4,632	3,352,691	3,409,022
Non-current liabilities	3,184,119	-	3,184,119	3,212,761
Deferred revenue	-	8,123	8,123	-
Other trade and other payables	310,384	-	310,384	285,574
Contract liabilities	8,123	(8,123)	-	-
Other current liabilities	364,604	-	364,604	439,537
Current liabilities	683,111	-	683,111	725,111
Total liabilities	3,867,230	-	3,867,230	3,937,872
Total equity and liabilities	7,215,289	4,632	7,219,921	7,346,894

Impact on the consolidated income statement for the period ended 30 June 2018:

	As reported 30/06/2018 $'000	Adjustments 30/06/2018 $'000	Balances without adoption of IFRS 15 30/06/2018 $'000	As reported 30/06/2017 $'000
Freight and hire revenue	710,115	2,047	712,162	710,225
Voyage expenses and commissions	(198,766)	(1,318)	(200,084)	(179,450)
Time charter equivalent revenues	511,349	729	512,078	530,775
Direct operating expenses	(184,780)	-	(184,780)	(196,255)
Net earnings from vessels' trading	326,569	729	327,298	334,520
Operating expenses	(273,173)	-	(273,173)	(224,719)
Operating profit	53,396	729	54,125	109,801
Net other expenses	(103,565)	-	(103,565)	(91,639)
(Loss) / profit before income taxes	(50,169)	729	(49,440)	18,162
Income tax expense	(7,602)	-	(7,602)	(2,975)
(Loss) / profit for the period	(57,771)	729	(57,042)	15,187
(Loss) / profit attributable to:				
Owners of the parent	(55,466)	775	(54,691)	14,283
Non-controlling interests	(2,305)	(46)	(2,351)	904
	(57,771)	729	(57,042)	15,187
Earnings per share				
Basic (loss) / earnings per share for the period attributable to equity holders of the parent	($0.028)	$0.000	($0.028)	$0.007

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

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

Significant Accounting Policies (continued)

IFRS 9 ("Financial Instruments")

IFRS 9 replaces IAS 39 Financial Instruments "Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 is bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted the new standard on 1 January 2018, the required effective date, and not retrospectively, therefore it is not required to restate comparative information.

There is no material impact from the application of IFRS 9 on the income statement, on the statement of financial position and on the statement of cash flows.

a) Classification and measurement

The Group continues measuring at fair value all financial assets currently held at fair value. Loans and trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group considers that the contractual cash flow characteristics of those instruments meet the criteria for amortised cost measurement under IFRS 9 therefore reclassification for these instruments is not required.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

b) Impairment

IFRS 9 introduces a new impairment model that requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as it was the case under IAS 39. It applies to financial assets classified at amortised cost.

In relation to the loans due from joint ventures, the Group assessed whether, as at 1 January 2018, contractual cash flows from these loans are solely comprised of principal and interest and concluded that they should be measured at amortised cost as they are held within a business model with the objective to collect contractual cash flows that meet the Solely Payments of Principal and Interest (SPPI) criterion. To calculate the expected credit loss ("ECL") on loans due from joint ventures, the Group applied the 12 month ECL model and the general approach and concluded that the ECL is not significant due to low probability of default and low loss given default.

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

The adoption by the Group of ECL requirements for the period ended 30 June 2018 had an insignificant increase in allowance.

c) Hedge accounting

At the date of initial application the Group elected to continue applying IAS 39 hedge accounting for all its hedging relationships.

Seasonality of Operations

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

Changes in Estimates

The preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. All critical accounting judgements and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2017.

2. Time Charter Equivalent Revenues

	30/06/2018 $'000	30/06/2017 $'000
Freight and hire revenue		
Revenue from contracts with customers (freight) [1]	306,328	324,658
Hire [2]	403,787	385,567
	710,115	710,225
Voyage expenses and commissions		
Bunkers	(120,051)	(104,658)
Port costs	(69,295)	(66,233)
Commissions	(4,825)	(5,176)
Other voyage costs	(4,595)	(3,383)
	(198,766)	(179,450)
Time charter equivalent revenues	511,349	530,775

[1] The Group performed an assessment and concluded that contracts with customers do not include a lease element.

[2] The Group is assessing the implications of IFRS 16 "Leases" effective on 1 January 2019, including the assessment as to whether time charter contracts comprise a non-lease element.

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

	30/06/2018 $'000	30/06/2017 $'000
Oil product segment		
Handysize product tankers	10,935	9,134
MR2 product tankers	60,249	68,985
LR2 product tankers	40,573	38,167
	111,757	116,286
Crude Oil segment		
Aframax tankers	122,952	139,885
Suezmax tankers	55,873	63,184
	178,825	203,069
Gas segment		
LPG carriers	608	-
Other segment		
Panamax bulkers	727	1,694
Seismic vessels	14,411	3,609
	15,138	5,303
Total revenue from contracts with customers	306,328	324,658

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 June 2018

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	212,442	91,118	243,419	144,255	18,881	710,115
Voyage expenses and commissions	(374)	(923)	(119,647)	(72,169)	(5,653)	(198,766)
Time charter equivalent revenues	212,068	90,195	123,772	72,086	13,228	511,349
Direct operating expenses						
Vessels' running costs	(33,953)	(15,403)	(64,248)	(46,532)	(10,450)	(170,586)
Charter hire payments	-	-	-	-	(14,194)	(14,194)
Net earnings / (losses) from vessels' trading	178,115	74,792	59,524	25,554	(11,416)	326,569
Vessels' depreciation	(58,875)	(17,827)	(48,502)	(25,976)	(2,808)	(153,988)
Vessels' drydock cost amortisation	(4,663)	(2,635)	(7,827)	(4,013)	(258)	(19,396)
Vessels' impairment provision	-	-	(20,778)	(21,411)	-	(42,189)
Loss on sale of vessels	-	-	(1,435)	-	-	(1,435)
Non-income based taxes	(3,031)	-	-	-	-	(3,031)
Net foreign exchange losses	(448)	-	-	(129)	(3,736)	(4,313)
Segment operating profit / (loss)	111,098	54,330	(19,018)	(25,975)	(18,218)	102,217
Unallocated						
General and administrative expenses						(55,173)
Financing costs						(99,507)
Other income and expenses (net)						4,299
Net foreign exchange losses						(2,005)
Loss before income taxes						(50,169)
Carrying amount of fleet in operation	2,027,360	1,215,448	1,919,355	986,025	72,757	6,220,945
Deadweight tonnage of fleet used in operations ('000)	1,339	552	7,121	2,449	156	11,617

PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 June 2018 (Continued)
(unaudited)

3. **Segment Information (Continued)**

Period ended 30 June 2017

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	181,195	77,275	295,467	147,467	8,821	710,225
Voyage expenses and commissions	(288)	(873)	(113,120)	(62,267)	(2,902)	(179,450)
Time charter equivalent revenues	180,907	76,402	182,347	85,200	5,919	530,775
Direct operating expenses						
Vessels' running costs	(30,701)	(15,367)	(79,844)	(46,703)	(10,009)	(182,624)
Charter hire payments	(3,401)	-	-	-	(10,230)	(13,631)
Net earnings / (losses) from vessels' trading	146,805	61,035	102,503	38,497	(14,320)	334,520
Vessels' depreciation	(52,563)	(16,285)	(56,082)	(27,910)	(1,759)	(154,599)
Vessels' drydock cost amortisation	(4,400)	(2,842)	(8,579)	(4,036)	(408)	(20,265)
Non-income based taxes	(2,992)	-	-	-	-	(2,992)
Net foreign exchange (losses) / gains	(543)	-	-	136	(1,407)	(1,814)
Segment operating profit / (loss)	86,307	41,908	37,842	6,687	(17,894)	154,850
Unallocated						
General and administrative expenses						(59,384)
Financing costs						(96,648)
Other income and expenses (net)						16,965
Net foreign exchange gains						2,379
Profit before income taxes						18,162
Carrying amount of fleet in operation	1,875,117	1,257,225	2,094,990	1,055,952	79,191	6,362,475
Deadweight tonnage of fleet used in operations ('000)	1,333	552	7,653	2,449	156	12,143

4. **Income Taxes**

	30/06/2018 $'000	30/06/2017 $'000
Russian Federation profit tax	9,082	7,227
Overseas income tax expense	222	709
Current income tax expense	9,304	7,936
Deferred tax	(1,702)	(4,961)
Total income tax expense	7,602	2,975

The increase in income tax expense in the period relates to expansion of operations in Russia and taxation on intercompany dividends.

5. Fleet

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2017	7,898,931	177,658	8,076,589
Expenditure in period	34,739	12,058	46,797
Transfer from vessels under construction (Note 6)	585,399	7,500	592,899
Transfer from other fixed assets	2,257	-	2,257
Write-off of fully amortised drydock cost	-	(12,507)	(12,507)
Exchange adjustment	-	24	24
At 30 June 2017	8,521,326	184,733	8,706,059
At 1 January 2018	8,491,703	177,268	8,668,971
Expenditure in period	7,416	8,763	16,179
Transfer from vessels under construction (Note 6)	136,438	1,000	137,438
Disposals in period	(45,304)	(573)	(45,877)
Write-off of fully amortised drydock cost	-	(16,714)	(16,714)
Exchange adjustment	(1,447)	(77)	(1,524)
At 30 June 2018	8,588,806	169,667	8,758,473
Depreciation, amortisation and impairment			
At 1 January 2017	2,090,796	90,428	2,181,224
Charge for the period	154,599	20,265	174,864
Write-off of fully amortised drydock cost	-	(12,507)	(12,507)
Exchange adjustment	-	3	3
At 30 June 2017	2,245,395	98,189	2,343,584
At 1 January 2018	2,283,525	94,102	2,377,627
Charge for the period	153,988	19,396	173,384
Impairment provision	42,189	-	42,189
Disposals in period	(38,420)	(229)	(38,649)
Write-off of fully amortised drydock cost	-	(16,714)	(16,714)
Exchange adjustment	(262)	(47)	(309)
At 30 June 2018	2,441,020	96,508	2,537,528
Net book value			
At 30 June 2018	6,147,786	73,159	6,220,945
At 31 December 2017	6,208,178	83,166	6,291,344

	30/06/2018	31/12/2017
Market value ($'000)	5,122,500	5,157,750
Current insured values ($'000)	6,679,774	6,652,398
Total deadweight tonnage (dwt)	11,611,332	11,713,915

As at 30 June 2018, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss.

Results of the impairment review for the period ended 30 June 2018

Operating segment	CGU	Methodology	Applied pre tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tankers (4 CGUs)	Value in use	5.92%	7,584	55,392
Crude oil segment	Aframax crude oil tankers (2 CGUs)	Fair value less cost of disposal (level 1)	n/a	13,194	17,323
Oil product segment	Handysize tankers (12 CGUs)	Value in use	5.96%	21,411	223,783
				42,189	296,498

The impairment recognised in the period ended 30 June 2018 based on value in use ("VIU") for two aframax crude oil tankers and fair value less costs of disposal for two aframax crude oil tankers resulted from management's decision to dispose of these vessels. Impairment recognised in the period, based on value in use, for two aframax crude oil tankers and twelve handysize tankers, resulted from a change in estimate of operating revenues and operating expenses over the remaining life of the vessels.

The main inputs and assumptions used in performing the value in use calculations as at period end are consistent to those followed in the annual consolidated financial statements for the year ended 31 December 2017.

The following sensitivity analysis has been performed by management as at the period end, for cash generating units ("CGUs") where the recoverable amount exceeded the carrying amount and for which the recoverable amount was estimated based on VIU, all other things being equal:

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of $183.3 million;
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $34.8 million; and
- A decrease in the growth rate of freight rates by 1% per annum would result in an additional impairment provision to fleet of $43.3 million.

6. Vessels Under Construction

	30/06/2018 $'000	30/06/2017 $'000
At 1 January	81,837	225,814
Expenditure in period	191,824	434,088
Transfer to fleet (Note 5)	(137,438)	(592,899)
At 30 June	136,223	67,003
Total deadweight tonnage (dwt)	808,000	460,000

The following vessel was delivered during the period:

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

[1] delivered to charter on 23 March 2018

Vessels under construction at 30 June 2018 comprised six ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and one LNG carrier scheduled for delivery between July 2018 and February 2020 at a total contracted cost to the Group of $651.0 million. As at 30 June 2018, $131.1 million of the contracted costs had been paid for.

As at 30 June 2018, 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 indication that vessels under construction may have suffered an impairment loss.

7. Investments in Joint Ventures

Investments in joint ventures are analysed as follows:

	30/06/2018 $'000	30/06/2017 $'000
At 1 January	123,117	114,761
Share of profits in joint ventures	217	3,404
Share of joint ventures' other comprehensive income	5,386	3,192
Dividends receivable	-	(184)
At 30 June	128,720	121,173

8. Derivative Financial Instruments

	30/06/2018 $'000	31/12/2017 $'000
Non-current asset	39,437	35,909
Current asset	2,999	808
Non-current liability	(10,355)	(12,812)
Current liability	(16,399)	(17,370)
	15,682	6,535

On 26 January 2018, the Group entered into a twelve year Euro-USD cross currency interest rate swap transaction ("CCIRS") with a Russian State controlled financial institution to hedge the Group's cash flow exposure arising from currency and interest rate fluctuations in respect of Euro equivalent of $102.5 million loan, in connection with the financing of one of the Group's vessels.

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

	IRS		CCIRS		Total	
	30/06/2018 $'000	30/06/2017 $'000	30/06/2018 $'000	30/06/2017 $'000	30/06/2018 $'000	30/06/2017 $'000
Amount recognised in hedging reserve	13,471	(16,228)	(15,561)	7,535	(2,090)	(8,693)
Reclassified from hedging reserve and debited to finance costs	5,752	17,815	5,900	862	11,652	18,677
Reclassified from hedging reserve and debited / (credited) to foreign exchange	-	-	13,400	(8,643)	13,400	(8,643)
Total in other comprehensive income	19,223	1,587	3,739	(246)	22,962	1,341

9. Trade and Other Receivables

	30/06/2018 $'000	31/12/2017 $'000
Non-current assets		
Financial assets		
Other receivables	65	77
Receivables under High Court judgement award	2,700	2,700
Liquidated damages on vessels under construction receivable from shipyard	5,203	4,962
	7,968	7,739
Current assets		
Financial assets		
Amounts due from charterers	62,876	70,376
Allowance for credit losses	(2,883)	(3,469)
	59,993	66,907
Casualty and other claims	7,711	6,448
Agents' balances	2,103	3,242
Other receivables	13,766	17,192
Liquidated damages on vessels under construction receivable from shipyard	-	5,000
Amounts due from joint ventures	1,521	410
Accrued income	919	4,085
Non-financial assets		
Prepayments	10,124	11,216
Voyages in progress	-	25,972
Contract acquisition and voyage fulfilment costs	3,204	-
Non-income based taxes receivable	8,100	6,450
	107,441	146,922

10. Cash and Bank Deposits

	30/06/2018 $'000	31/12/2017 $'000
Non-current assets		
Bank deposits	12,000	12,000
Restricted deposits	(12,000)	(12,000)
Cash and cash equivalents	-	-
Current assets		
Cash and bank deposits	331,005	347,352
Bank deposits accessible on maturity	-	(521)
Retention accounts	(28,760)	(24,497)
Restricted deposits	-	(1,000)
Cash and cash equivalents	302,245	321,334

11. Non-Current Assets Held for Sale

	Property and other plant and equipment $'000	Fleet $'000	Total $'000
At 1 January 2017	8,360	-	8,360
Transfer from other property plant and equipment	6,720	-	6,720
Exchange adjustment	238	-	238
Disposals in period	(129)	-	(129)
At 30 June 2017	15,189	-	15,189
At 1 January 2018	-	25,719	25,719
Transfer from other property plant and equipment	993	-	993
Transfer from investment property	6,642	-	6,642
Disposals in period	-	(25,719)	(25,719)
At 30 June 2018	7,635	-	7,635

The four crude oil Aframax tankers classified as non-current asset held for sale as at 31 December 2017, were disposed of and delivered to their buyers, one in February and three in March 2018.

During the period ended 30 June 2018, the Group reassessed the classification of the exhibition centre in Sochi, Russia and of the other related plant and equipment and concluded that the sale is highly probable to be completed within one year from the date of classification. The property and other plant and equipment were actively marketed for sale at a price approximate to their fair value. Given the above the Group classified the exhibition centre and other plant and equipment as held for sale (see also Note 19).

12. Dividends

Dividends of Rouble 0.86 per share totalling Roubles 1,696.0 million, equivalent to $26.8 million were declared on 29 June 2018 and paid on 10 July 2018 (2017 – 3.12 Rouble per share totalling Roubles 6,141.0 million equivalent to $106.9 million).

13. Trade and Other Payables

	30/06/2018 $'000	31/12/2017 $'000
Non-current liabilities		
Financial liabilities		
Liquidated damages for late delivery of vessels payable to charterer	18,803	19,386
Non-financial liabilities		
Employee benefit obligations	3,861	9,027
	22,664	28,413
Current liabilities		
Financial liabilities		
Trade payables	72,565	59,020
Other payables	33,080	29,942
Payables to shipyards for vessels under construction	-	11,800
Liquidated damages for late delivery of vessels payable to charterer	1,915	4,119
Dividends payable	37,623	12,801
Accrued liabilities	38,714	41,522
Accrued interest	19,444	17,049
Non-financial liabilities		
Deferred hire revenue	40,371	50,874
Employee benefit obligations	43,699	35,785
Non-income based taxes payable	22,973	22,662
	310,384	285,574

14. Secured Bank Loans

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

	30/06/2018 $'000	31/12/2017 $'000
Repayable		
- within twelve months after the end of the reporting period	341,382	338,226
- between one to two years	421,373	472,511
- between two to three years	408,109	281,837
- between three to four years	199,376	306,796
- between four to five years	226,542	201,323
- more than five years	989,064	1,000,354
	2,585,846	2,601,047
Less current portion	(341,382)	(338,226)
Non-current balance	2,244,464	2,262,821

15. Other Loans

	30/06/2018 $'000	31/12/2017 $'000
$900 million 5.375% Senior Notes due in 2023	892,568	891,801
Other loan from related party	12,043	14,148
	904,611	905,949
Less current portion	(3,441)	(3,537)
Non-current balance	901,170	902,412

16. 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:

	30/06/2018 $'000	31/12/2017 $'000
Cash and debt instruments at amortised cost		
Loans and other receivables	93,981	111,023
Loans to joint ventures	60,880	55,511
Restricted cash (Note 17)	-	75,543
Cash and bank deposits	343,005	359,352
Debt instruments at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships	42,436	36,717
Equity instruments at fair value through OCI		
Available-for-sale investments	521	523
Total financial assets	540,823	638,669
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships	26,754	30,182
Financial liabilities at amortised cost		
Secured bank loans	2,585,846	2,601,047
Other loans	904,611	905,949
Other liabilities measured at amortised cost	222,144	195,639
Total financial liabilities	3,739,355	3,732,817

16. **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 those with carrying amounts that are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	30/06/2018 $'000	31/12/2017 $'000	30/06/2018 $'000	31/12/2017 $'000
Financial assets				
Loans to joint ventures	60,880	55,511	58,636	53,232
Liquidated damages on vessels under construction receivable from shipyard	5,203	9,962	5,203	9,962
Total financial assets	66,083	65,473	63,839	63,194
Financial liabilities				
Secured bank loans at fixed interest rates	742,738	765,028	776,343	792,895
Secured bank loans at floating interest rates	1,843,108	1,836,019	1,859,195	1,840,772
Other loans	904,611	905,949	914,766	947,328
Liquidated damages for late delivery of vessels payable to charterer	20,718	23,505	20,718	23,505
Total financial liabilities	3,511,175	3,530,501	3,571,022	3,604,500

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

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

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

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

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

Derivatives are valued using valuation techniques with market observable inputs; they are mainly interest rate swaps and 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.

<u>Fair value measurements of financial instruments recognised in the statement of financial position</u>

The following table provides an analysis of financial instruments as at 30 June 2018 and 31 December 2017 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

<u>Recurring fair value measurements recognised in the statement of financial position</u>

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 June 2018				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	42,436	-	42,436
	-	42,436	-	42,436
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	26,754	-	26,754
	-	26,754	-	26,754
At 31 December 2017				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	36,717	-	36,717
	-	36,717	-	36,717
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	30,182	-	30,182
	-	30,182	-	30,182

There were no transfers between Level 1 and 2 during the periods ended 30 June 2018 and 31 December 2017.

16. **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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 June 2018				
Assets				
Fleet	10,088	-	-	10,088
	10,088	-	-	10,088
At 31 December 2017				
Assets				
Non-current assets held for sale	25,719	-	-	25,719
	25,719	-	-	25,719

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 June 2018				
Fair value of assets				
Loans to joint ventures	-	58,636	-	58,636
Liquidated damages on vessels under construction receivable from shipyard	-	5,203	-	5,203
	-	63,839	-	63,839
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	776,343	-	776,343
Secured bank loans at floating interest rates	-	1,859,195	-	1,859,195
Other loans	902,250	12,516	-	914,766
Liquidated damages for late delivery of vessels payable to charterer	-	20,718	-	20,718
	902,250	2,668,772	-	3,571,022
At 31 December 2017				
Fair value of assets				
Loans to joint ventures	-	53,232	-	53,232
Liquidated damages on vessels under construction receivable from shipyard	-	9,962	-	9,962
	-	63,194	-	63,194
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	792,895		792,895
Secured bank loans at floating interest rates	-	1,840,772	-	1,840,772
Other loans	932,625	14,703	-	947,328
Liquidated damages for late delivery of vessels payable to charterer	-	23,505	-	23,505
	932,625	2,671,875	-	3,604,500

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

17. Contingent Assets and Liabilities

In 2015, the Russian customs alleged that one of the Group's Russian subsidiaries had breached the customs' regulations in respect of two of its vessels on the basis that it had not obtained the permission of customs prior to chartering out the vessels on time charter. The Russian customs had requested the Group to pay RUR314 million of custom fees (equivalent to $5.0 million) of which RUR284 million (equivalent to $4.5 million) of the RUR314 million paid, are included in other receivables under trade and other receivables. In October 2016 the courts had decided that customs illegally imposed the custom fee of RUR221 million (equivalent to $3.5 million) for the first vessel; such decision was confirmed by an appeal court in February 2017. Russian customs submitted a further appeal and, in June 2017, the higher appeal court overturned the previous decisions of the court's and confirmed correctness of the customs office claim. The case had been submitted by the Group to the Supreme Court in August 2017 and, in February 2018, the Supreme Courts found in favour of the Group, ratifying the initial decision of the courts. The customs office returned the custom fee of RUR221 million in July 2018 but refused to pay interest of approximately RUR49.6 million (equivalent to $0.8 million) on that amount. Such interest has not been recognised as at 30 June 2018.

The courts had postponed the decision on the balance of the custom fee of RUR93 million (equivalent $1.5 million) relating to the second vessel pending the outcome of the first case, and in April 2018 the courts concluded that customs illegally imposed the custom fee for the second vessel as well. In June 2018, the customs appealed the decision of the court but in August 2018 the appeal court rejected the customs' appeal.

The return of the custom fee on the second vessel of RUR93 million and interest thereon, and interest of RUR49.6 million on the custom fee returned for the first vessel is expected by the end of 2018.

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

In relation to the Fiona Litigation, on 19 December 2017 the Group applied to the Supreme Court for the permission to appeal. In the meantime, on 6 December 2017, the Court of Appeal ordered a stay of execution until such application to the Supreme Court had been determined. Total payments of $73.6 million and £1.1 million were made into Court in 2016 and 2017. On 31 May 2018, the Supreme Court refused the Group permission to appeal and on 8 June 2018, following a consent order by the parties to the Fiona Litigation, the Court of Appeal ordered that the Courts Funds Office releases and pays the defendants the funds paid into Court. Consequently, funds paid into Court, together with interest earned thereon, previously recognised as restricted cash, were offset against amounts payable under the High Court judgement award.

A total amount of $2.9 million (30 June 2017 – $1.7 million), relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims, has been expensed in the income statement and is included in the line other non-operating expenses.

18. Related Party Transactions

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

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	30/06/2018 $'000	30/06/2017 $'000	30/06/2018 $'000	31/12/2017 $'000
Transactions with Russian State controlled entities				
Freight and hire of vessels	(199,941)	(142,607)	10,747	4,446
Voyage expenses and commissions	7,117	6,391	(2,245)	(1,819)
Other operating revenues	(180)	(1,152)	(8)	(2,379)
Other operating expenses	550	549	17	2
Other loans	278	128	(12,064)	(14,175)
Secured bank loans	24,620	18,172	(707,456)	(723,518)
Finance leases payable	-	4,304	-	-
Receivables from shipyard (liquidated damages for late delivery of vessels)	(240)	-	5,203	9,962
Payables to charterer (liquidated damages for late delivery of vessels)	992	-	(20,718)	(23,505)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	130,591	288,187
Cash at bank	(1,777)	(4,894)	121,219	144,289
Derivative financial instruments	20,120	(7,720)	10,394	20,976
Transactions with Joint Ventures				
Other operating revenues	(1,854)	(1,628)	1,521	410
Loans due from joint ventures	(934)	(616)	61,038	55,622
Compensation of Key Management Personnel				
Short term benefits	4,378	4,663	(2,086)	(2,506)
Post-employment benefits	31	37	(13)	(18)
Long term service benefits	950	4,836	(22,032)	(21,129)
	5,359	9,536	(24,131)	(23,653)

The below are material transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes.

On 31 January 2018, the Group entered into a loan facility with a Russian State controlled financial institution totalling $106.2 million, to finance the construction of the Arctic shuttle tanker referred to in Note 6, at an interest rate of 5.6% per annum repayable in 48 quarterly instalments, commencing three months after the delivery of the vessel by the shipyard. On 21 February 2018, the Group drew down an amount of $11.8 million.

19. Events After the Reporting Period

On 20 July 2018, the Group exercised an option for the construction of a 174,000 cubic metre LNG carrier. The vessel is scheduled for delivery in September 2020.

On 30 July 2018, the Group took delivery of an ice-class LNG fuelled Aframax crude oil tanker, the m/v Gagarin Prospect. Effective on the same date, the Group entered into a seven year USD interest rate swap transaction with a financial institution to hedge the Group's cash flow exposure arising from interest rate fluctuations in respect of a $42.0 million secured bank loan facility in connection with the financing of the vessel.

On 17 August 2018, the Group signed an agreement for the sale of one Aframax crude oil tanker at a price approximate to her carrying value. The vessel is expected to be delivered to her new owners in October 2018.

On 21 August 2018, the Group entered into an agreement for the sale of the exhibition centre in Sochi, Russia, and of the other related plant and equipment, all held for sale as at 30 June 2018 (Note 11). The Group expects to realise a profit on disposal of the assets of Roubles 130.8 million (equivalent to $2.1 million at period end exchange rates). Transfer of ownership of the property is expected within third quarter 2018.

20. Date of Issue

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 28 August 2018.