SCF Capital Designated Activity Company

(incorporated with limited liability under the laws of Ireland)

US$ 150,000,000 5.375% Senior Notes Due 2023

(to be consolidated and form a single series with the US$ 750,000,000 5.375% Senior Notes Due 2023)

Guaranteed by PAO "Sovcomflot"

(incorporated with limited liability under the laws of the Russian Federation)

Issue Price of the Further Notes: 102.768%

(plus interest accrued from, and including, December 16, 2016, to, but excluding, the Closing Date)

The US$ 150,000,000 5.375% Senior Notes due 2023 (the "**Further Notes**") are issued by SCF Capital Designated Activity Company (the "**Issuer**") and guaranteed by PAO "Sovcomflot" ("**Sovcomflot**" or the "**Guarantor**"). The Further Notes are to be consolidated with and form a single series on and as of the Closing Date (as defined below) with the US$ 750,000,000 5.375% Senior Notes Due 2023 issued on June 16, 2016 (the "**Original Notes**" and together with Further Notes, the "**Notes**"). Interest on the Further Notes shall accrue from and including the Closing Date, and will be payable semi-annually in arrear on December 16 and June 16 of each year, commencing on June 16, 2017. Additionally, on June 16, 2017 the Issuer shall pay the Noteholders the interest that shall be deemed to have accrued on the Further Notes in respect of the period from and including December 16, 2016 to and excluding the Closing Date. The Original Notes are, and the Further Notes will be, equal in right of payment with all of the Issuer's existing and unsubordinated indebtedness and will rank senior to all of the Issuer's existing and future indebtedness that is subordinated in right of payment to the Notes. The Original Notes are, and the Further Notes will be, subordinated in right of payment to all of the Issuer's future secured indebtedness and the existing and future secured indebtedness of the Guarantor and its subsidiaries to the extent of the value realized of the assets securing such indebtedness. The Original Notes are, and the Further Notes will be, constituted by, and have and will have the benefit of, the trust deed dated June 16, 2016 (the "**Existing Trust Deed**"), between the Issuer, the Guarantor and Citicorp Trustee Company Limited (the "**Trustee**"), which Trust Deed will be supplemented in respect of the Further Notes on or about the Closing Date (the Existing Trust Deed, as so supplemented, the "**Trust Deed**"). The Guarantor unconditionally and irrevocably has guaranteed (in respect of the Original Notes) or will guarantee (in respect of the Further Notes) payment when due of all amounts payable by the Issuer under the Trust Deed and in respect of the Notes issued by the Issuer pursuant to clause 5.1 of the Trust Deed (the "**Guarantee**").

Investing in the Notes involves risks. See "*Risk Factors*" starting on page 3 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

Payments on the Notes are made free and clear of any withholding taxes imposed by the laws of Ireland or the Russian Federation to the extent described in "*Terms and Conditions of the Notes and the Guarantee*" herein ("**Terms and Conditions of the Notes**"). The Issuer may redeem the Notes in whole, but not in part, if the Issuer is required to withhold tax in respect of payments of principal and interest in respect of the Notes, or the Guarantor is required to withhold tax in respect of payments under the Guarantee, in Ireland or the Russian Federation as a result of a change in law, all as more fully set out in Condition 7(c) (Redemption for tax reasons) of the Terms and Conditions of the Notes. Unless previously purchased and cancelled or redeemed, the Notes mature on June 16, 2023.

The Notes and the Guarantee have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or any state securities laws and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Original Notes were and the Further Notes may be offered and sold (i) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on the exemption from registration provided by Rule 144A (the "**Original Rule 144A Notes**" and the "**Further Rule 144A Notes**", respectively; the Original Rule 144A Notes and the Further Rule 144A Notes are collectively referred to as the "**Rule 144A Notes**") and (ii) in offshore transactions outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") (the "**Existing Regulation S Notes**" and the "**Further Regulation S Notes**", respectively; the Existing Regulation S Notes and the Further Regulation S Notes are collectively referred to as the "**Regulation S Notes**").

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange Plc (the "**Irish Stock Exchange**") for the Further Notes to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. There is no assurance that a trading market in the Notes will develop or be maintained. The Original Notes have been admitted to the Official List and trading on the Main Securities Market.

The Notes are rated Ba2 by Moody's Investors Service Ltd ("**Moody's**"), BB by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and BB by Fitch Ratings Limited ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Moody's, S&P and Fitch are established in the European Union and are registered under the Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**").

The Existing Regulation S Notes are and the Further Regulation S Notes will be represented by beneficial interests in an unrestricted global Note (the "**Existing Regulation S Global Note**" and the "**Further Regulation S Global Note**", respectively; the Existing Regulation S Global Note and the Further Regulation S Global Note are collectively referred to as the "**Regulation S Global Notes**") in registered form, without interest coupons attached, which in respect of the Further Regulation S Notes will be registered in the name of Citibank Europe Plc on or about April 10, 2017 (the "**Closing Date**"), as common depositary (or a nominee thereof) for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream Luxembourg**"). The Original Rule 144A Notes are and the Further Rule 144A Notes will be represented by beneficial interests in a restricted global Note (the "**Existing Rule 144A Global Note**" and the "**Further Rule 144A Global Note**", respectively; the Existing Rule 144A Global Note and the Further Rule 144A Global Note are collectively referred to as the "**Rule 144A Global Notes**"; the Rule 144A Global Notes together with the Regulation S Global Notes are collectively referred to as the "**Global Notes**") in registered form, without interest coupons attached, which in respect of the Further Rule 144A Notes will be deposited on or about the Closing Date with Citibank N.A., London Branch as custodian for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). The Global Notes will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive, fully-registered form, without interest coupons, in denominations of US$ 200,000 and integral multiples of US$ 1,000 in excess thereof. See "*Summary of Provisions relating to the Notes in Global Form.*" Interests in the Rule 144A Global Note will be subject to certain restrictions on transfer. See "*Transfer Restrictions.*" Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream Luxembourg and their participants. It is expected that delivery of the Further Rule 144A Global Note and Further Regulation S Global Note will be made on or about the Closing Date. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

Joint Global Coordinators & Joint Lead Managers and Bookrunners

Citigroup **J.P. Morgan**

Joint Lead Managers and Bookrunners

ING **Sberbank CIB** **VTB Capital**

The date of this Prospectus is April 6, 2017.

You should rely only on the information contained in this Prospectus. None of the Issuer, Sovcomflot and the Joint Lead Managers has authorized anyone to provide you with different information, and you should not rely on any such information. None of the Issuer, Sovcomflot and the Joint Lead Managers is making an offer of these securities in any jurisdiction where such an offer is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive, as implemented in Ireland by the Prospectus (Directive 2003/711/EC) Regulation 2005 (the "**Prospectus Regulation**") and, for the purpose of giving information with regard to the Group, the Notes and the Guarantee, which, according to the particular nature of the Issuer, Sovcomflot, the Group, the Notes and the Guarantee, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, Sovcomflot and the Group and the rights attaching to the Notes and the Guarantee. The Issuer and Sovcomflot each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and Sovcomflot (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.

No person is authorized to give any information or to make any representation in connection with the offer or sale of the Notes other than as contained in this Prospectus, and any information or representation not so contained must not be relied upon as having been authorized by the Issuer, Sovcomflot, the Trustee or any Joint Lead Manager (as defined in "*Subscription and Sale*"). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or Sovcomflot or the Group since the date hereof or that there has been no adverse change in the financial position of the Issuer or Sovcomflot or the Group since the date hereof or that the information contained in it is correct as of any time subsequent to the date on which it is supplied. No representation or warranty, express or implied, is made by any Joint Lead Manager or the Trustee as to the accuracy or completeness of such information. None of the Joint Lead Managers or the Trustee accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer, Sovcomflot, the Notes or the Guarantee. Each of the Joint Lead Managers and the Trustee accordingly disclaims all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

This Prospectus does not constitute an offer to sell, or a solicitation to subscribe for or purchase, by or on behalf of the Issuer, Sovcomflot, any Joint Lead Manager or any other person, any of the Notes in any jurisdiction where it is unlawful for such person to make such offer or solicitation. The distribution of this Prospectus and the offer and sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Issuer, Sovcomflot and the Joint Lead Managers to inform themselves about and to observe such restrictions. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorized or is unlawful. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "*Subscription and Sale*."

No action is being taken to permit a public offering of the Notes or the distribution of this Prospectus (in any form) in any jurisdiction where action would be required for such purposes.

The contents of this Prospectus should not be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal adviser, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Notes.

In connection with the offering of the Notes, the Joint Lead Managers and any of their affiliates, acting as investors for their own accounts, may purchase Notes and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Notes and other securities of the Issuer or Sovcomflot or related investments in connection with the offering of the Notes or otherwise. Accordingly, references in this Prospectus to the Notes being issued, offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or acquisition, placing or dealing by, the Joint Lead Managers and any of their affiliates acting as investors for their own accounts. The Joint Lead Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Recipients of this Prospectus are authorized to use it solely for the purpose of considering an investment in the Notes and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Notes.

None of the Issuer, Sovcomflot, the Joint Lead Managers or the Trustee is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser.

The Joint Lead Managers and their respective affiliates may have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders and Sovcomflot).

Prior to making any decision as to whether to invest in the Notes, prospective investors should read this Prospectus. In making an investment decision, prospective investors must rely upon their own examination of the Issuer, the Group and Sovcomflot and the terms of this Prospectus, including the risks involved.

If investors are in any doubt about the contents of this Prospectus, investors should consult a stockbroker, bank manager, solicitor, accountant or other financial adviser.

The Prospectus has been filed and approved by the Central Bank as required by the Prospectus Regulations. The Prospectus approved by the Central Bank will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

NOTICE TO U.S. INVESTORS

THE NOTES AND THE GUARANTEE HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND BY THE MANAGERS THROUGH THEIR RESPECTIVE REGISTERED BROKER-DEALER AFFILIATES INSIDE THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A ("QIBs") IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (SEE *"SUBSCRIPTION AND SALE"*). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY RULE 144A NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

NOTICE TO RUSSIAN INVESTORS

This Prospectus or information contained therein is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in the Russian Federation to or for the benefit of any Russian person or entity, and does not constitute an advertisement of offering of any securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not 'qualified investors' within the meaning of Article 51.2 of the Federal Law No. 39-FZ 'On the Securities Market' dated April 22, 1996, as amended ("**Russian QIs**") and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law.

STABILIZATION

In connection with the issue of the Further Notes, Citigroup Global Markets Limited (the "**Stabilizing Manager**") or any person acting on behalf of the Stabilizing Manager may over-allot Further Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail.

However, there is no assurance that the Stabilizing Manager (or any persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Further Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Further Notes and 60 days after the date of the allotment of the Further Notes. Any stabilization action or over-allotment shall be conducted in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER DATA

The audited consolidated financial statements of the Group as of and for the fiscal years ended December 31, 2016, December 31, 2015 and December 31, 2014 included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board, and have been audited by Ernst & Young LLC, the Group's independent registered public accounting firm, who are members of the self-regulatory organization of auditors "Russian Union of Auditors" (Association).

Financial Statements of the Issuer

The audited financial statements of the Issuer, SCF Capital Designated Activity Company (formerly SCF Capital Limited), as at and for the years ended December 31, 2015 and 2014 together with the audit reports thereon, as issued by Ernst & Young Chartered Accountants, the auditors of the Issuer, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland, shall be deemed to be incorporated in, and to form part of, this prospectus. Such financial statements are available online at the following locations:

- Audited financial statements of SCF Capital Designated Activity Company as of and for the year ended December 31, 2015: http://www.ise.ie/debt_documents/SCF%20Financial%20Statements%2031%20December%202015(23908399_1)_9f40a503-bc2b-4529-9ded-40cd3ca3e14e.PDF

- Audited financial statements of SCF Capital Designated Activity Company as of and for the year ended December 31, 2014: http://www.ise.ie/debt_documents/FS%20-%20SCF%20Capital%202014(20815756_1)_8203ed3e-9ce5-44da-a109-1c63f8df615d.pdf.

Financial Statements of the Guarantor

In this Prospectus, the Group uses the following metrics in the analysis of its business and financial position, which the Group considers to constitute Alternative Performance Measures as defined in the European Securities and Markets Authority Guidelines. For further information, see "*Selected Consolidated Financial and Operating Information*".

"**EBITDA**" represents earnings before interest, taxes, depreciation, amortization and impairment.

"**Adjusted EBITDA**" represents EBITDA before other non-operating expenses, other non-operating income, gain/(loss) on derivative financial instruments held for trading, gain/(loss) on ineffective hedging instruments, loss on sale of subsidiaries, foreign exchange gains/(losses), gain/(loss) on sale of assets, gain/(loss) on sale of equity-accounted investments, other operating revenues, other operating expenses, plus finance lease interest receivable. This Prospectus presents Adjusted EBITDA because the Group considers this as an important supplemental measure of its operating performance and believes it is frequently used by securities analysts, as well as investors and other interested parties in the evaluation of companies in the Group's industry. Adjusted EBITDA as a measure of performance provides more comparable information as it solely represents the earnings generated from the Group's core operating performance across time. Items that are not considered to be part of the Group's core operations are adjusted enhancing the comparability and usefulness of the measure in comparing earnings generation from operations across time and industry data. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's operating results as reported under IFRS. One of these limitations is that Adjusted EBITDA does not reflect the impact of financing costs, impact of income taxes, depreciation and amortization, other operating results and exchange costs.

Other companies in the Group's industry may calculate Adjusted EBITDA differently or may use it for different purposes to manage their business, limiting its usefulness as a comparative measure. The Group relies primarily on its IFRS operating results and uses Adjusted EBITDA as a supplemental analytical tool. See "*Summary Consolidated Financial Information*" and the Group's consolidated financial statements included elsewhere in this Prospectus. Adjusted EBITDA is a measure of the Group's operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of the Group's operating performance under IFRS and should not be considered as an alternative to profit, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of the Group's liquidity or ability to generate cash flow to service its indebtedness. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business.

"**Ratio of net debt/capitalization**" is the ratio of net debt to capitalization. The capital structure of the Group consists of net debt and total equity. The ratio of net debt to capitalization as a measure represents the Group's financial leverage and the Group's capital structure, calculated as the Group's net debt divided by its total capitalization. Net debt includes total secured bank loans, other loans and finance lease liabilities after deducting cash and bank deposits and restricted cash. Total capitalization comprises the Group's net debt and shareholders' equity, which includes share capital, share premium, accumulated reserves attributable to owners of the parent and non-controlling interests. The Group reviews its capital structure by applying the ratio of net debt to capitalization in combination with other measures and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the Group's activities. The ratio of net debt to capitalization is considered to be a useful measure as it highlights the extent to which the Group's operations are financed through debt or equity, highlighting the Group's financial position, credit position and borrowing capacity.

"**Time-charter-equivalent revenues**" means freight and hire revenues derived from any charter contract less voyages expenses and commissions relating to the performance of such contract. A vessel's "freight and hire revenue" is derived from freight, which is paid by a charterer to the vessel for the carriage of the cargo from one or more locations of cargo loading to one or more locations of cargo discharge, or from hire, which is paid by a charterer to the vessel for exclusive use of its services for an agreed period of time. Since shipping companies have varying degrees of time charters, spot charters and other types of service contracts, management of the Group ("**Management**") believes that it is difficult to compare shipping companies on the basis of freight and hire revenue. Instead, time-charter-equivalent revenues provides a more comparable basis, eliminating differences due solely to varying contract mixes of the companies being compared.

The Group relies primarily on its IFRS consolidated financial statements and uses Alternative Performance Measures only supplementally. The Alternative Performance Measures are not defined by, or presented in accordance with, IFRS. However, the Group believes that these measures provide useful supplementary information to Management to assess the Group's financial performance. The Alternative Performance Measures as presented in this Prospectus may not be comparable to similarly titled measures of performance presented by other companies. Such measures are not measurements of the Group's operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Group's liquidity. Prospective investors are advised to review the Alternative Performance Measures in conjunction with the Group's audited consolidated financial statements and accompanying notes, which are included in this Prospectus.

In this Prospectus:

- "**Sovcomflot**" and the "**Guarantor**" refers only to PAO "Sovcomflot," a public joint-stock company organized under the laws of the Russian Federation;

- "**SCF Capital Designated Activity Company**" and the "**Issuer**" refer only to SCF Capital Designated Activity Company, a company incorporated in Ireland with limited liability and an indirect wholly owned subsidiary of Sovcomflot; and

- the "**Group**" refers, collectively, to Sovcomflot and its subsidiaries, including SCF Capital Designated Activity Company.

Market data used in this Prospectus under the headings "*Summary Consolidated Financial Information*," "*Risk Factors*," "*Operating and Financial Review*," "*Industry Overview*" and "*Business*" have been extracted from official, industry and internal sources and other sources the Group believes to be reliable. This Prospectus also sets forth certain statistics from industry sources and other sources the Group believes to be reliable. Sources of such information, data and statistics include Russian federal authorities; the United States Energy Information Administration ("**EIA**"); International Energy Agency ("**IEA**"); International Monetary Fund ("**IMF**"); Clarksons Research Services Limited ("**Clarksons Research**"); BP Statistical Review of World Energy ("**BP Statistical Review**"); BP Energy Outlook 2017 and Oil & Gas Journal (Worldwide Look At Reserves And Production 2016) and all such sources have been named throughout this Prospectus. Such information, data and statistics have been accurately reproduced, and, as far as the Group is aware and are able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. However, the official data published by Russian federal authorities may be substantially less complete or researched than those of more developed countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

In this Prospectus, all references to "RUR" and "ruble" are to the currency of the Russian Federation, all references to "EUR" and "euro" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community, all references to "GBP" and "pound sterling"

are to the currency of the United Kingdom and all references to "US$," "$," "U.S. dollar" and "dollar" are to the currency of the United States.

In this Prospectus, all references to:

- "**EU**" are to the European Union and its member states as of the date of this Prospectus;
- "**Russia**" are to the Russian Federation;
- "**UK**" are to the United Kingdom; and
- "**U.S.**" are to the United States.

Certain amounts and percentages that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the mathematical aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% when aggregated.

EXCHANGE RATE INFORMATION

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rates for U.S. dollars, expressed in rubles per U.S. dollar, based on the official exchange rates quoted by the Central Bank of Russia; in U.S. dollars per pound sterling, based on the official exchange rates quoted by the Bank of England; and in U.S. dollars per euro, based on the official exchange rates quoted by the European Central Bank. Fluctuations in these exchange rates in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Group's consolidated financial statements and other information presented in this Prospectus.

	RUR per US$			
Year ended December 31,	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate[(1)]**	**Period end**
2012	34.04	28.95	30.97	30.37
2013	33.47	29.93	31.98	32.73
2014	67.79	32.66	39.34	56.26
2015	72.88	49.18	62.01	72.88
2016	83.59	60.27	66.35	60.66

	RUR per US$			
	High Exchange Rate	**Low Exchange Rate**	**Average Exchange Rate[(1)]**	**Period end**
January 2017	60.32	59.15	59.63	60.16
February 2017	60.31	56.77	58.54	57.94
March 2017	59.22	56.38	58.01	56.38
April 2017 (through April 6)	56.56	55.89	56.14	55.89

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods and on each business day for which the Central Bank of Russia quotes the U.S. dollar to ruble exchange rate for the relevant monthly period.

On April 6, 2017, the exchange rate quoted by the Central Bank of Russia between the ruble and the U.S. dollar was RUR 55.89 to US$ 1.00.

	US$ per GBP			
Year ended December 31,	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate[(1)]**	**Period end**
2012	1.6270	1.5285	1.5922	1.6168
2013	1.6528	1.4831	1.5660	1.6528
2014	1.7169	1.5522	1.6466	1.5608
2015	1.5884	1.4642	1.5258	1.4819
2016	1.4798	1.2133	1.3542	1.2303

	US$ per GBP			
	High Exchange Rate	**Low Exchange Rate**	**Average Exchange Rate[(1)]**	**Period end**
January 2017	1.2605	1.2065	1.2351	1.2589
February 2017	1.2647	1.2429	1.2490	1.2445
March 2017	1.2570	1.2150	1.2348	1.2507
April 2017 (through April 4, 2017)	1.2483	1.2448	1.2466	1.2448

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods and on each business day for which the Bank of England quotes the U.S. dollar to pound sterling exchange rate for the relevant monthly period.

On April 4, 2017, the exchange rate quoted by the Bank of England between the U.S. dollar and the pound sterling was US$ 1.2448 to GBP 1.00.

Year ended December 31,	US$ per EUR			
	High Exchange Rate	Low Exchange Rate	Average Exchange Rate[(1)]	Period end
2012	1.3454	1.2089	1.2927	1.3194
2013	1.3814	1.2768	1.3308	1.3791
2014	1.3953	1.2141	1.3211	1.2141
2015	1.2043	1.0052	1.1046	1.0887
2016	1.1517	1.0376	1.1067	1.0560

	US$ per EUR			
	High Exchange Rate	Low Exchange Rate	Average Exchange Rate[(1)]	Period end
January 2017	1.0810	1.0385	1.0635	1.0810
February 2017	1.0806	1.0537	1.0646	1.0625
March 2017	1.0889	1.0514	1.0684	1.0691
April 2017 (through April 4, 2017)	1.0661	1.0651	1.0656	1.0651

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods and on each business day for which the European Central Bank quotes the U.S. dollar to euro exchange rate for the relevant monthly period.

On April 4, 2017, the exchange rate quoted by the European Central Bank between the U.S. dollar and the euro was US$ 1.0651 to EUR 1.00.

No representation is made that the amounts referred to in this Prospectus could have been or could be converted into any other currency at the above exchange rates, at any other rate or at all. In particular, the ruble is generally not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to distort their values relative to the ruble.

FORWARD-LOOKING STATEMENTS

This Prospectus includes statements that are, or may be deemed to be, "forward-looking statements." These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "forecasts," "plans," "projects," "anticipates," "expects," "intends," "may," "will," "could" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, business prospects, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's business, results of operations, financial position, liquidity, prospects, growth, strategies and the shipping industry.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, financial position and liquidity, and the development of the markets and the industries in which the Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this Prospectus. In addition, even if the Group's results of operations, financial position and liquidity, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation:

- materially adverse changes in political, economic or industry conditions globally, in Russia or in the markets served by the Group;
- changes in the supply and demand for and the price of shipping services, including charter rates and vessel values;
- changes in the costs of the materials required for the Group's services and equipment;
- changes in the Group's operating costs, including the costs of energy and transportation, crewing costs, drydocking costs and the costs of insurance;
- changes in the Group's capital expenditure requirements, including those relating to the Group's potential environmental liabilities, or the ability of the Group to fund its capital expenditure requirements through borrowing or otherwise;
- the Group's ability to successfully implement any of its business strategies;
- the punctual delivery of and availability of financing for the Group's newbuilding vessels;
- the Group's ability to obtain or extend the terms of the licenses necessary for the operation of the Group's business;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting the Group's operations and the costs associated with complying with these developments or changes;
- fluctuations in inflation, interest rates and exchange rates;
- the ability of the Group's customers to honor their existing vessel charter contracts;
- the Group's ability to meet its debt obligations on a timely basis and compliance with covenants under its existing credit facilities;
- the Group's ability to realize anticipated future revenues already subject to customer contracts;
- availability of funds and the sufficiency of operating cash flows to provide corporate liquidity;
- future growth prospects;
- other factors discussed in "*Risk Factors*," "*Business*," "*Operating and Financial Review*" and "*Industry Overview*"; and

- the Group's success in accurately identifying future risks to its business and managing the risks of the aforementioned factors.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statement in this Prospectus reflects the Group's current view with respect to future events and is subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial position, liquidity, prospects, growth, strategies and the shipping industry. Investors should specifically consider the factors identified in this Prospectus, which could cause actual results to differ before making an investment decision. Subject to the applicable disclosure and listing rules, the Group undertakes no obligation to publicly release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in the Group's expectations or to reflect events or circumstances that occur after the date of this Prospectus.

AVAILABLE INFORMATION

Each of the Issuer and Sovcomflot have agreed that, for so long as any of the Notes are 'restricted securities' within the meaning of Rule l44(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities and Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

This Prospectus is being furnished by the Issuer and Sovcomflot in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of Further Notes described herein. The information contained in this Prospectus has been provided by the Issuer, Sovcomflot and other sources identified herein. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Further Notes offered hereby, is prohibited. Each potential investor in the Further Notes, by accepting delivery of this Prospectus, agrees to the foregoing.

ENFORCEABILITY OF JUDGMENTS

The Issuer is a private designated activity company incorporated under the laws of Ireland. Sovcomflot is a public joint-stock company incorporated under the laws of the Russian Federation. Substantially all of the assets of the Issuer and most of the assets of Sovcomflot are located outside the United States and the United Kingdom. In addition, all of the directors of the Issuer and most of the directors and officers of Sovcomflot named in this Prospectus reside outside the United States and the United Kingdom, and a substantial part of the assets of such persons are located outside the United States and the United Kingdom.

Each of the Issuer and Sovcomflot has appointed an agent for service of process in England, however, it may not be possible for investors to effect service of process within the United States or the United Kingdom upon any of the Issuer or Sovcomflot or their respective directors and officers or to enforce against any of them court judgments obtained in United States and English courts.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon the United States securities laws or upon English laws.

Final judgments rendered by a court in any jurisdiction outside the Russian Federation will be generally recognized and enforced by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in the Russian Federation that provides for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain jurisdictions (including the United States and the United Kingdom), and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognized by a Russian court on the basis of reciprocity if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognized and enforced English court judgments on these grounds, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognize and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognized and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognize or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy.

The Notes and the Guarantee are governed by English law and provide for disputes, controversies and causes of action brought by parties thereto against the Issuer or Sovcomflot to be settled by arbitration in accordance with the Rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"). The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognize and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

However, it may be difficult to enforce arbitral awards in the Russian Federation owing to:

- the limited experience of the Russian courts in international commercial transactions and enforcement of foreign arbitral awards; and

- political resistance to the enforcement of awards against Russian companies in favor of foreign investors.

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on

the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation. Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the relevant documents and any non-contractual obligations arising out of or in connection with them may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies.

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OVERVIEW OF THE OFFERING

The following overview contains basic information about the Further Notes and the Guarantee and is not intended to be complete. For a more complete understanding of the Further Notes and the Guarantee, please refer to the section of this Prospectus entitled "Terms and Conditions of the Notes and the Guarantee."

Issuer.....	SCF Capital Designated Activity Company, a designated activity company incorporated under the laws of Ireland with its registered office at Pinnacle 2, East Point Business Park, Dublin 3, Ireland.
Guarantor.....	PAO "Sovcomflot", a company incorporated under the laws of the Russian Federation with its registered office at 3, Lit. A, Moika River Embankment, Saint Petersburg, 191186, Russian Federation.
Notes Offered	US$ 150,000,000 aggregate principal amount of 5.375% Senior Notes due 2023 to be consolidated and form a single series with the US$ 750,000,000 5.375% Senior Notes Due 2023 issued by the Issuer and guaranteed by the Guarantor.
Issue Price.....	102.768% of the principal amount of the Further Notes plus interest accrued from, and including, December 16, 2016, to, but excluding, the Closing Date.
Closing Date	April 10, 2017.
Maturity Date.....	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on June 16, 2023.
Interest Rate.....	The Further Notes bear interest at the rate of 5.375% per annum payable in equal installments semi-annually in arrear on December 16 and June 16 in each year, commencing on December 16, 2016 for the Original Notes and 16 June 2017 for the Further Notes. For the avoidance of doubt, holders of Further Notes will receive on 16 June 2017 an amount representing interest on the Further Notes in respect of the period from and including December 16, 2016 to but excluding the Closing Date that shall be deemed to have accrued for that period, together with any interest accrued from the Closing Date to (but excluding) 16 June 2017.
Use of Proceeds	Net proceeds from the offering, after deducting commissions and expenses related to the offering and the accrued interest paid to the Issuer, will be used for the repayment of existing indebtedness of the Group in an amount of up to approximately US$153,300,000. For more information, see "*Use of Proceeds.*"
Form.....	The Original Notes are and Further Notes will be in registered form, without interest coupons attached, in denominations of US$ 200,000 or multiples of US$ 1,000 in excess thereof. The Further Notes will be issued in the form of a Further Regulation S Global Note and a Further Rule 144A Global Note, each in registered form without interest coupons. The Further Regulation S Global Note will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream Luxembourg. The Further Rule 144A Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Further Regulation S Global Note and the Further Rule 144A Global Note will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances. . The Further Notes will become fungible with the Original Notes on the Closing Date.
Ranking.....	The Notes constitute unsubordinated and (subject to Condition 4 of the Terms and Conditions of the Notes) unsecured senior obligations of the Issuer which rank *pari passu* and without any preference among themselves. Subject to Condition 4 of the Terms and Conditions of the Notes, each of the Issuer and the Guarantor shall ensure that at all times the claims of the holders of the Notes (the "**Noteholders**") against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law. The Notes are subordinated in right of payment to all of the Issuer's future secured indebtedness and the existing and future secured indebtedness of the Guarantor and its subsidiaries to the extent of the value realized of the assets securing such indebtedness. As of December 31, 2016, the Group had consolidated secured bank loans of US$ 2,193.8 million, secured by assets with an aggregate carrying value of US$ 4,370.4 million.
Guarantee.....	The payment, when due, of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed has the benefit of unconditional and irrevocable

guarantee of the Guarantor, as further described in Condition 2(a) of the Terms and Conditions of the Notes.

Negative Pledge ..... The Noteholders will have the benefit of a negative pledge granted by the Issuer and the Guarantor, as more fully described in the Terms and Conditions of the Notes.

Covenants ..... The Terms and Conditions of the Notes contain covenants in respect of mergers, asset disposals and the payment of taxes. In addition, the Notes contain a non-petition covenant relating to the Issuer. For more information, see "*Terms and Conditions of the Notes*."

Tax Redemption ..... The Issuer may redeem the Notes, in whole but not in part, at their principal amount, plus accrued interest, in the event of certain changes in taxation in Ireland or Russia.

Optional Redemption by the Issuer ..... The Issuer may, at any time prior to the Maturity Date and upon notice to the Noteholders, redeem the Notes in whole, by paying the principal amount, plus accrued interest, together with the applicable premium. For more information, see "*Terms and Conditions of the Notes.*"

Optional Redemption by the Noteholders upon a Change of Control ..... Upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) the Notes may be redeemed at the option of a Noteholder at 100% of their principal amount, together with the accrued and unpaid interest and additional amounts (if any) all as more fully described in the Terms and Conditions of the Notes.

Listing of Notes ..... Application has been made to list the Further Notes on the Official List of the Irish Stock Exchange and for the Further Notes to be admitted to trading on the Main Securities Market. The Original Notes have been admitted to the Official List and to trading on the Main Securities Market.

Ownership Restrictions ..... None of Euroclear, Clearstream Luxembourg or DTC will monitor compliance with any transfer or ownership restrictions.

Transfer Restrictions ..... The Notes and the Guarantee have not been and will not be registered under the Securities Act. You may offer to sell the Notes only in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with all applicable laws of any relevant jurisdiction. See "*Transfer Restrictions.*"

Trustee ..... Citicorp Trustee Company Limited.

Principal Paying Agent and Transfer Agent ..... Citibank, N.A., London Branch.

Registrar ..... Citigroup Global Markets Deutschland AG.

Governing Law and Arbitration ... The Notes and the Trust Deed (including the Guarantee) shall be governed by and construed in accordance with English law and contain provisions for arbitration in London, England.

Selling Restrictions ..... United States, United Kingdom, Russian Federation, Ireland, Italy and any other jurisdiction relevant to the Offering. See "*Subscription and Sale.*"

Ratings ..... The Notes are rated Ba2 by Moody's, BB by S&P and BB by Fitch. Moody's, S&P and Fitch are established in the European Union and are registered under the CRA Regulation.

Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. Similar ratings on different types of notes do not necessarily mean the same thing. Credit ratings primarily relate to default risk of the Issuer and do not relate to the liquidity of the Notes or consider whether there is a market for the Notes. Any change in the credit rating of the Notes or of Sovcomflot could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analyzed independently from any other rating.

Investment Considerations ..... An investment in the Notes involves a high degree of risk. See "*Risk Factors.*"

Security Identification .....

	ISIN	Common Code	CUSIP
Rule 144A Notes	US78403LAB80	143352056	78403LAB8
Regulation S Notes	XS1433454243	143345424	—

RISK FACTORS

An investment in the Notes involves risks. You should carefully consider all of the information in this Prospectus, including the following risk factors, before deciding to invest in the Notes. The actual occurrence of any of the following events could have a material adverse effect on the Group's business, financial condition, prospects and results of operations, which may adversely affect the Issuer's ability to make payments and fulfill its other obligations under the Notes and Sovcomflot's ability to fulfill its obligations under the Guarantee.

Most of these factors are contingencies that may or may not occur, and the Group is not in a position to express a view on the likelihood of any such contingency occurring. The risks described below are not exhaustive and are only those that Management believes are material, but these may not be the only risks and uncertainties that the Group faces. Additional risks that are not currently known or that are currently deemed immaterial may also have a material adverse effect on the Group's business, financial condition, prospects and results of operations or result in other events that could lead to a diminution of the Issuer's ability to fulfill its obligations. You could therefore lose a substantial portion or all of your investment in the Notes. Consequently, an investment in the Notes should only be considered by persons who can assume such risks.

Risks Relating to the Group's Industry

The tanker industry and the Group's business are subject to strong cyclical variations.

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply and demand for tanker capacity, and the Group's ability to employ its vessels profitably will depend upon, among other things, economic conditions in the tanker market. For example, from 1990 to 2017, average tanker earnings have been volatile and experienced downturns, *inter alia*, from 2005 to 2007, and in 2009 and 2011, according to Clarksons Research. In 2016, the energy transportation market came under renewed pressure, with average tanker earnings falling to US$ 17,917 per day from US$ 31,036 per day in 2015. The oil tanker sector, to which the Group has the largest spot market exposure, experienced a cyclical high point in 2015, but has been trending downwards in 2016 and early 2017 towards the average since 2009, according to Clarksons Research. The demand for tanker capacity is influenced by a number of different factors, including the supply and demand for crude oil and oil products and transportation thereof, regional availability of refining capacity, global and regional economic conditions, the distance oil and oil products are to be moved by sea and changes in seaborne and other transportation patterns. Similarly, the supply of tanker capacity is influenced by a number of different factors, including the number of newbuilding deliveries, the scrapping rate of older vessels, conversion of tankers to other uses, the number of vessels that are out of service and environmental concerns and regulations. These and other factors affecting the supply and demand for tanker capacity may continue to cause significant volatility in charter rates and the volume of crude oil and oil products transported by sea.

If the tanker market is depressed, the consequent decrease in charter rates could have an adverse impact on the Group's earnings and available cash flow, particularly with respect to the Group's tankers that are chartered on the spot market, which are more exposed to volatility in charter rates and which accounted for 21.9%, 30.3% and 25.2% of the Group's time-charter-equivalent revenues during 2014, 2015 and the year ended December 31, 2016, respectively.

The cyclical nature of the tanker industry has caused, and may continue to cause, significant fluctuations in the Group's revenue and profitability and may also cause significant fluctuations in the Group's cash flow and the value of the Group's vessels, impacting in particular those vessels that are exposed to the spot market at times of cycle weakness. Many of the factors influencing the supply and demand for tanker capacity are outside the Group's control, and the nature, timing and degree of changes in industry conditions are unpredictable. Further decreases in the demand for transportation of oil over longer distances or increases in the supply of tankers could lead to significantly lower freight rates, reduced volume or both, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

A prolonged decrease in the price of oil and related commodities may affect demand for the Group's services, leading to a reduction in the Group's operating margins and a negative impact on the Group's business, financial condition and results of operations.

From its peak in mid-2014, the price of internationally traded Brent took a sharp fall, from approximately US$ 112/bbl in June 2014 to approximately US$ 32/bbl in January 2016, according to the IEA. This drop can be traced to a number of factors: increased production from unconventional supply methods such as fracking; weakening global demand; a shift in the policy of the Organization of the Petroleum Exporting Countries ("**OPEC**") away from price targeting; the unwinding of certain geopolitical risks; and the return of Iran to the international oil market following the partial lifting of sanctions in January 2016. Since January 2016, the price of internationally traded Brent oil has generally been increasing and reached approximately US$ 56/bbl in January 2017, according to IEA. Among other things, this

increase may result from the recently improving global demand for oil and the November 2016 OPEC agreement to cut oil production. However, the oil price may remain volatile.

The Group obtains almost all of its business from customers in the oil, gas and petrochemicals industries, including shipping of products, and the provision of supply ships for oil rigs. As a result, the Group's revenues are highly dependent on sustained demand for its services from these industries. The drop in the price of oil between mid-2014 and early 2016 stimulated oil trade in the medium term, and the IEA estimates that world oil demand increased by 1.9% in 2015, the fastest rate of growth since 2010, and by 1.7% in 2016.

However, a prolonged period of low oil prices may have a significant negative effect on the revenues of many of the Group's customers, and may lead to a decline in such customers' operations or ability to pay for the Group's services and a decrease in the volume of oil, gas and petrochemicals produced or supplied by them. Such a decline could result in decreased demand for the Group's vessels, and may cause customers to default on the Group's current contracts and charters. Furthermore, the Group may be unable to re-charter its vessels at a commercially acceptable rate. A sustained low-oil-price environment may impact negatively on the upstream projects in respect of which the Group provides transportation and related services, with postponement, cancellation or scale-backs preventing these projects from being fully implemented. A decline in the volume of services requested by the Group's customers, their default on the Group's contracts with them or a significant slowdown in the implementation of the Group's projects could have a material adverse effect on the Group's business, financial condition and results of operations.

Overcapacity in the tanker industry may increase in the future.

Tanker capacity is a decisive factor affecting charter rates and, therefore, the Group's profitability. If the number of new tanker vessels delivered exceeds the number of vessels being recycled, global tanker capacity will increase. Unless demand for vessel capacity increases correspondingly, freight rates could materially decline and the value of the Group's vessels could be adversely affected, which would substantially impact the Group's ability to obtain financing. Going forward, the balance between supply and demand for tanker vessels will depend on potential new vessel orders, scrapping activity, and the growth of demand for tanker shipping. If demand falls, charter rates may decrease, which could adversely affect the Group's freight and hire revenue on vessels that are engaged on the spot market. See "*—Time-charter rates for vessels may fluctuate substantially over time and may be lower when the Group is attempting to recharter its vessels*." Capacity changes are based on various assumptions and estimates made by the industry and individual companies with respect to market growth and the future development of demand for shipments of oil and oil products by sea. If these assumptions and estimates prove to be incorrect and/or if overcapacity in the tanker industry increases, it could have an adverse impact on the industry and the Group's business, financial condition, prospects and results of operations. The Group will continue to monitor the supply and demand situation carefully, and will take investment and divestment decisions based on all available information and market projections.

A deterioration in global economic conditions could materially adversely affect the Group's business, financial condition and results of operations.

Volumes of world seaborne trade have increased in recent years, in particular with seaborne crude oil and oil products trade increasing significantly in 2015 and in 2016 as a result of the low oil price stimulating oil trade. However, there is considerable uncertainty regarding the world economy and the oil price. See "*—A prolonged decrease in the price of oil and related commodities may affect demand for the Group's services, leading to a reduction in the Group's operating margins and a negative impact on the Group's business, financial condition and results of operations*." Although many countries are showing signs of renewed growth, there remains considerable instability in the world economy. In particular, on June 23, 2016, the United Kingdom held a referendum in which voters approved the United Kingdom's exit from the European Union, commonly referred to as "Brexit". The announcement of Brexit immediately caused and is expected to continue to cause political uncertainty, significant volatility in global stock markets and currency exchange rate fluctuations. In addition, political, economic and market uncertainty in Europe may also increase in anticipation of, and following, general elections due to be held in 2017 in a number of EU member states, including France and Germany. Further, the administration of U.S. President Donald Trump, which came to power in January 2017, is expected to implement new policies in a number of areas, including finance, taxation, international trade and international diplomatic relations. It is difficult to predict the economic and political impact of the implementation of such new policies, although there is a risk that they could cause uncertainty in the international markets. Instability in the world economy could trigger a new economic downturn and result in a tightening in the credit markets, a low level of liquidity in financial markets and volatility in credit and equity markets. Such circumstances would negatively impact on the Group's business and financial condition in ways that the Group is unable to predict and may also lead to a decline in customers' operations or ability to pay for the Group's services. This, in turn, could result in decreased demand for the Group's vessels, and may cause customers to default on the Group's current contracts and charters. A decline in the amount of services requested by the customers or their default on the Group's contracts with them could have a material adverse effect on the Group's business, financial condition and results of operations.

Environmental accidents, such as oil or fuel spills, expose tanker operators to significant potential environmental costs and liabilities.

The operation of any oceangoing vessel carries with it an inherent risk of maritime disasters or other events that may cause severe environmental damage to the areas in which such vessels operate (see "*—Shipping companies are exposed to the risk of losses from maritime disasters, mechanical failures and other similar events that may disrupt their operations.*"). In particular, the cargoes carried in energy shipping operations are extremely hazardous to the environment and may spread in the water to distant areas and coastlines, and spills of any such cargo may be very difficult and costly to clean up. Any such environmental accidents could also give rise to statutory claims, including clean-up and remediation claims, and claims from third parties, such as fishermen, hotel operators or other persons or entities whose businesses are negatively affected by any such accident. As a result, environmental mishaps, such as spills of oil or fuel may expose the Group to potential costs that far exceed the value of the cargoes carried and the ships on which they are transported. There can be no assurance that such an environmental accident will not occur or that its insurance will provide sufficient coverage for any resulting costs and liabilities. The occurrence of such an event therefore could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Shipping companies are exposed to the risk of losses from maritime disasters, mechanical failures and other similar events that may disrupt their operations.

Shipping companies can suffer significant losses if a vessel is lost, subject to an accident or its operations are otherwise disrupted. The operation of vessels has inherent risks, including: maritime disasters; mechanical malfunction, failure or loss of the vessels or their equipment; human error; inclement weather; war, piracy and terrorist attacks that could damage the Group's vessels, impose security-related costs and liabilities, prohibit the use of certain ports or decrease world trade generally; and business interruptions due to social or political instability, including hostilities, labor strikes, port and canal closings and boycotts. In particular, the Group operates a portion of its business in the Arctic region, where the harsh weather and ice-water conditions increase the risk of accidents, such as striking an iceberg, ice compression or business disruptions due to weather. The occurrence of one or more of these risks could lead to a number of adverse effects on the Group, including death or injury to persons, pollution or loss of property; delays in the delivery of shipments; loss of revenues from, or termination of, charter contracts; claims from third parties; governmental fines, penalties or restrictions on conducting the Group's business; higher insurance rates; and damage to the Group's reputation and customer relationships generally.

In particular, Management considers the Group's safety and performance record to be critical to its business reputation. The major oil and gas companies that are the principal customers of the Group increasingly prefer modern vessels operated by ship management companies with a reputation for safety and environmental compliance. Any incident involving the Group's vessels that results in material environmental damage or pollution could harm the Group's reputation accordingly and decrease demand for the Group's services. The occurrence of any one or more of these events could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The tanker industry and the Group's operating results are subject to seasonal fluctuations.

The Group operates in markets that have historically exhibited seasonal variations in demand and, therefore, in charter rates. This seasonality may result in quarter-to-quarter volatility in the Group's results of operations. Demand in the tanker markets has historically tended to be relatively lower in the period from May to August and higher in the period from December to February, as a result of increased oil consumption in the northern hemisphere. In addition, unpredictable weather patterns in the period from December to February tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities during the same period. Further, demand for the Group's ice-class vessels, and the rates its customers are willing to pay for utilizing these vessels, increased during the same period. As a result, the Group's revenues have historically been weaker during the fiscal quarters ended June 30 and September 30 and stronger in the Group's fiscal quarters ended March 31 and December 31. Should market fluctuations be greater than expected, this could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group operates in a highly fragmented and competitive industry.

The shipping industry (including the energy shipping businesses) is highly fragmented with many global, regional and local shippers, owners and operators of vessels. The industry is characterized by intense competition. Competition among energy carriers is based on, among other things, scheduling, price, vessel availability, size, age and condition of the vessel, relationships with customers and others and the quality, experience and reputation of the ship operator. With the current degree of fragmentation and overlap among carriers in the market, any of the Group's many competitors may choose to establish themselves on the same routes as the Group's established routes and attempt to undercut the Group's charter rates on those voyages.

The Group's primary competitors are independent and state-owned, ocean-going energy carriers worldwide. Tanker companies also face competition from non-seaborne methods for transporting oil and oil products, such as companies that own and operate pipelines. These competitors may be able to devote greater resources to the development, promotion and employment of their businesses than the Group. Competition may increase in some or all of the Group's principal markets and may have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Competition from more technically advanced vessels could reduce the Group's charter hire income and the value of the Group's vessels

The charter hire rates of a vessel, along with its value and operational life, are determined by factors such as efficiency, operational flexibility, and physical life. Efficiency is determined by vessel speed, fuel economy, and speed of loading and unloading. Flexibility is related to the ability to enter harbors, compatibility with docking facilities, and ease of passage through canals and straits. Physical life includes the original design and construction, together with ongoing maintenance and the impact of the stress of operations. If new vessels are developed that are more efficient or flexible, or have longer physical lives than the Group's vessels, competition from these more technologically advanced vessels could adversely affect the charter rates the Group receives for its vessels following the termination of their current charters, and could also have a negative impact on resale value. As a result, the Group's business, financial condition, prospects and results of operations could be materially adversely affected.

Time-charter rates for vessels may fluctuate substantially over time and may be lower when the Group is attempting to recharter its vessels.

The Group's ability to recharter its vessels following the expiration (or termination before the expiration date) of existing time-charter contracts, as well as the rates payable upon any such renewal or replacement charters, will depend upon, among other things, the state of the market at the time of such renewal or replacement charter. The energy shipping industry is highly competitive and has experienced significant fluctuations in charter rates based on, among other things, the demand for oil, oil products, gas and vessels. In particular, a substantial or extended decline in demand for oil and oil products could materially adversely affect the Group's ability to re-charter its vessels at acceptable rates or to acquire and profitably operate new vessels. See "*—The tanker industry and the Group's business are subject to strong cyclical variations*" and "*—A prolonged decrease in the price of oil and related commodities may affect demand for the Group's services, leading to a reduction in the Group's operating margins and a negative impact on the Group's business, financial condition and results of operations.*" For example, overcapacity of crude oil tankers or other vessels may reduce, tanker charter rates significantly. See "*—Overcapacity in the tanker industry may continue or increase in the future.*"

As of December 31, 2016, all but one of the Group's conventional tanker time-charter contracts expire within the next three years. If the Group were to attempt to replace or renew its long-term charters when the tanker market is depressed, it could require the Group to redeploy its vessels at less favorable time-charter rates or subject the Group's vessels to the spot market until charter rates recover, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations. Prolonged periods of low charter hire rates or low vessel utilization could also have a material adverse effect on the value of the Group's assets.

Changes in the tanker spot market may result in significant fluctuations in the utilization of the Group's vessels and the Group's profitability.

In 2014, 2015 and 2016, the Group derived 21.9%, 30.3% and 25.2%, respectively, of its time-charter-equivalent revenues from Group vessels that are chartered on the spot market. These vessels include conventional crude oil tankers and product carriers operating on the spot tanker market or contracts of affreightment priced on a spot-market basis. Part of the Group's conventional Aframax and Suezmax tanker fleets and the Group's large and medium product tanker fleets are among the vessels that operate on the spot market. Given the Group's activity on the spot-charter market, declining spot rates in a given period generally will result in corresponding declines in the Group's operating results for that period.

The spot-charter market is highly volatile and fluctuates based upon tanker and oil supply and demand. See "*—Risks relating to the Group's Industry—A deterioration in global economic conditions could materially adversely affect the Group's business, financial condition and results of operations.*" The profitable and successful operation of the Group's vessels on the spot market depends upon, among other things, obtaining profitable spot-charter rates and minimizing, to the extent possible, time spent by vessels waiting for new charters and traveling in ballast condition to pick up cargo. Future spot rates may not be sufficient to enable the Group's vessels trading on the spot tanker market to operate profitably or to provide sufficient cash flow to service the Group's debt obligations, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group operates in an industry that is subject to extensive regulation that may require the Group to incur substantial costs in meeting existing and future regulatory requirements or limit the Group's ability to do business.

The shipping industry is highly regulated, and the Group's operations are affected by extensive and evolving environmental protection laws and other regulations in the form of numerous international, regional, national and local laws, regulations, treaties and conventions that are in force where the Group's vessels operate. See "*Regulatory Overview.*" Such laws and regulations impose significant requirements on the Group, many of which are designed to promote health and safety, as well as to reduce the risk of oil spills and other pollution. These requirements include, among others, obligations relating to air emission, maintenance and inspection of the Group's vessels; development and implementation of emergency procedures; and acquisition of adequate insurance coverage. Moreover, Management believes that the heightened environmental, quality and security concerns of national and international regulators, insurance underwriters and the Group's customers will lead to additional regulatory requirements, including enhanced security and inspection requirements on vessels. Management expects to incur substantial expenses in continuing to comply with such current and future laws and regulations, including expenses for ship modifications and changes in operating procedures.

In particular, seaborne vessels such as the Group's are required to operate within the rules and regulations adopted by the International Maritime Organization ("**IMO**"), an agency of the United Nations, as well as the environmental protection laws, health and safety regulations and other marine protection laws in each of the jurisdictions in which the Group's vessels operate. See "*Regulatory Overview—International Maritime Organization.*" Since the International Safety Management Code became effective in 1998, shipping companies and individual vessels have been required to establish safety systems and have them certified by standardization bodies. In complying with current and future IMO rules and regulations, the Group may be required to incur additional costs in meeting new maintenance and inspection requirements, including ship modifications and changes in operating procedures; in developing contingency arrangements for potential contamination by vessels; and in obtaining, maintaining or renewing insurance coverage. Because such laws and regulations are often revised, the Group is unable to predict the timing or extent of the long-term costs of compliance.

Furthermore, the Group is required to comply with extensive environmental regulation from the IMO and other bodies. Future changes are expected, in particular regarding greenhouse gas emissions under the Kyoto Protocol and the European Union emissions trading regime (see "*Regulatory Overview—Greenhouse Gas Emissions—Climate Change*").

The requirements of these laws and regulations can affect the resale value or useful lives of the Group's vessels, require ship modifications, a reduction in cargo capacity, or operational changes or restrictions, lead to increased cost or decreased availability of insurance coverage for environmental matters, limit access to certain jurisdictional waters or result in the denial of access to, or detention in, certain ports. The Group could also face substantial liability for penalties, fines, damages, cleanup obligations and remediation costs associated with hazardous substance spills or other discharges into the environment involving the Group's vessels, as well as misconduct or incidents of non-compliance by the Group's crewmembers under environmental laws and regulations. See "*—Shipping companies are exposed to the risk of losses from maritime disasters, mechanical failures and other similar events that may disrupt their operations.*" The Group could also become subject to personal injury and property damage claims relating to the release of, or exposure to, hazardous materials associated with the Group's operations. Moreover, failure to comply with applicable laws and regulations may result in criminal sanctions or the suspension or termination of the Group's operations, including, in certain instances, seizure or detention of the Group's vessels. The occurrence of any one or more of these events could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly.

The hull and machinery of every commercial tanker must be classed by a classification society authorized by its country of registry. All of the Group's vessels are certified as being 'in-class' by Bureau Veritas ("**BV**"), DNV GL Group ("**DNV GL**"), Lloyd's Register, American Bureau of Shipping or the Russian Maritime Register of Shipping. These classification societies are members of the International Association of Classification Societies. The classification societies certify that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the vessel's country of registry and the Safety of Life at Sea Convention. Each classification society typically issues over 20 different certificates for each vessel. The certificates that are essential for trading include the international loadline, safety construction, international oil pollution prevention, safety equipment and safety radio certificates. See "*Regulatory Overview—Inspection by Classification Societies.*"

A vessel must undergo scheduled surveys, annual surveys, intermediate surveys, drydocking surveys and special surveys and is sometimes subject to other surveys and inspections that are required pursuant to the regulations and requirements of the vessel's country of registry. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. The Group's vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Vessels are

typically required to undergo special surveys, which include inspection of underwater parts, every 60 months; vessels over 15 years old are required to undergo drydocks twice during each 60-month period.

If any vessel does not maintain her class or fails any annual survey, intermediate survey, drydocking survey, special survey or other surveys performed by her classification society, that vessel may be unable to trade between ports and will be unemployable, and the Group may be required to incur substantial costs to meet these survey requirements. The failure to maintain a vessel's class or the failure of a vessel survey could also cause the Group to be in violation of the Group's insurance policies, and may allow the insurer to decline coverage. Such inability to trade between ports or violations of the Group's insurance policies could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt the Group's business.

International shipping is subject to various security and customs inspections and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of contents of the Group's vessels; delays in the loading, offloading or delivery of the products carried by the Group's vessels; and the levying of fines and other penalties against the Group. See "*Business—Legal Proceedings—Russian tax – and customs-related disputes.*" It is possible that changes to inspection procedures could impose material additional financial and legal obligations on the Group. Furthermore, changes to inspection procedures could also impose additional costs and obligations on the Group's customers and may, in certain cases, render the shipment of certain types of cargo impractical or unprofitable. Any such changes or developments may have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Acts of piracy on ocean-going vessels may adversely affect the Group's business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world like the South China Sea, West Africa and in the Gulf of Aden off the coast of Somalia. On May 5, 2010, the Group's vessel, '*Moscow University'*, was captured by pirates off the coast of Somalia, carrying 23 crewmembers and approximately 86,000 tons of crude oil. The vessel was recaptured by Russian special forces the following day. A further pirate attack on a Group vessel could lead to, among other things, bodily injury or loss of life or vessel or other property damage. Such an attack could also increase the Group's onboard security costs to the extent the Group chooses to take additional security measures onboard its vessels, such as hiring onboard security guards or installing or renovating 'safe rooms' onboard the Group's vessels. The areas in which pirate attacks occur more regularly are considered by the Group's insurers to be 'areas of perceived enhanced risk,' and are included in the Joint War Committee Hull, War, Strikes, Terrorism and Related Perils Listed Areas as of December 31, 2016. These designations require a vessel operator to pay higher premiums in order to maintain its insurance coverage while operating in these areas, and the crew of ships may refuse to enter such areas and demand repatriation, which could increase the Group's insurance or other costs. The occurrence of an act of piracy involving one or more of the Group's vessels could have a material adverse impact on the Group's business, financial condition, prospects and results of operations.

Terrorist attacks, increased hostilities or war could lead to economic instability and disrupt the Group's business.

Terrorist attacks, such as those that occurred in Nice in July 2016, in Brussels in March 2016, in Paris in November 2015, on the MV Limburg tanker in the Gulf of Aden in October 2002 and in the United States in September 2001, and the current conflicts in Syria and the Middle East in general, continue to cause uncertainty in the world financial markets and may affect the Group's business, financial condition, prospects and results of operations. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in Europe, the United States, Russia or elsewhere, which may contribute further to economic instability. In addition, oil facilities, shipyards, vessels, pipelines and oil and gas fields could be targets of future terrorist attacks. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operating costs, including insurance costs, and the inability to transport oil and oil products to or from certain locations. Terrorist attacks and war or other events beyond the Group's control that have an adverse effect on the production, transportation or distribution of oil and oil products could entitle the Group's customers to terminate the Group's charter contracts, which would have an adverse effect on the Group's business, financial condition, prospects and results of operations.

Maritime claimants could arrest the Group's vessels, which could interrupt the Group's cash flow.

Crewmembers, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel (and, in some jurisdictions, any vessel owned or controlled by the same owner) for unsatisfied debts, claims or damages, even when protection and indemnity insurance is available to cover any such debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through

foreclosure proceedings. The arrest or attachment of one or more of the Group's vessels could interrupt the Group's cash flow and require the Group to pay large sums of funds to have the arrest or attachment lifted. Any such arrest or attachment of one or more of the Group's vessels could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group is exposed to risks inherent in operating internationally and in politically unstable regions, including the risk of breaching international sanctions and anti-bribery/anti-corruption laws.

The Group transports oil products and other cargoes across a wide variety of national jurisdictions, and is accordingly exposed to the risk of business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts, changes in tax rates or policies and the potential for government expropriation of the Group's vessels. Several of the countries in which the Group operates have inadequate legal systems and law enforcement mechanisms, which may expose the Group to a number of uncertainties and which, in particular, may result in the arrest or detention of the Group's vessels, cargo claims, and claims by the customs, tax, port and other authorities in the countries in which the Group operates.

In addition, in some countries in which the Group operates, certain business practices may exist that are prohibited by laws and regulations applicable to the Group, including anti-corruption laws. Although the Group has put in place what it considers strict anti-bribery and anti-corruption policies and procedures requiring compliance with these laws and measures designed to facilitate such compliance, the Group's employees and third-party contractors may take actions in violation of applicable laws or the Group's policies. Any such violation, even if prohibited by the Group's policies, could have a material adverse effect on the Group's business and reputation.

Furthermore, sanctions imposed on certain countries, companies or individuals by individual countries such as the United States, or by international and regional bodies such as the United Nations and European Union could in the future materially adversely affect the Group's ability to trade with those sanctioned countries and companies/individuals affected by such sanctions. See "*—Risks Relating to Russia—Although no Group entity is currently a sanctioned person, the sanctions imposed by the United States and the European Union in relation to the current political and economic crisis in Ukraine, and that crisis itself, may have a material adverse effect on the Group's business, liquidity and financial condition.*" Any of the above factors could have a material adverse effect on the Group's reputation, business, financial condition, prospects and results of operations.

Risks Relating to The Group's Business

The Russian Federation, whose interests may not coincide with those of the Noteholders, controls the Group and has a substantial degree of influence over the Group's operations.

The Russian Federation controls the Group's operations through its share ownership in Sovcomflot and its representation on the board of directors ("**Board of Directors**") of Sovcomflot. The Russian Federation currently owns 100% of Sovcomflot's ordinary voting shares and manages this stake through the Federal Agency for the Management of State Property ("**Rosimushchestvo**"). All nine members of the Board of Directors, including Sovcomflot's CEO, were nominated and appointed by the government of the Russian Federation (the "**Russian Government**"). In addition to its shareholdings and Board appointees, the Russian Federation may also exercise substantial influence over the Group's operations through its regulatory, taxation and legislative powers. Owing to these factors, the Russian Federation could cause the Group to take actions that may not coincide with the interests of the Noteholders. For example, on April 18, 2016, the Russian Government adopted a resolution aimed at setting the amount of dividends for 2015 payable by state-owned companies at 50% of their net profit (See "*Share Capital and Dividends—Dividends*"). The requirement of the Russian Government to a dividend in excess of the amount budgeted by the Group may have a significant impact on the Group's available cashflow and capital expenditure.

Governments could order the requisition of the Group's vessels during a period of war or emergency without adequate compensation.

A government could order the requisition of or seize one or more of the Group's vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes its owner. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions for title or for hire occur during periods of war or emergency. There can be no assurance that governments will not requisition one or more of the Group's vessels, and any such requisition may have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group's reliance on a relatively small number of key customers for a relatively large portion of its revenues exposes it to the risk of customer defection or non-payment.

The Group derives a significant portion of its revenues from a relatively small group of national and international oil and gas companies. In 2016, the Group's largest customer accounted for 14.4% of the Group's time-charter-equivalent revenues, and the Group's 10 largest customers accounted for 69.3% of the Group's time-charter-equivalent revenues over the same period. If one or more of the Group's key customers were to breach or terminate their charter contracts or renegotiate or renew them on terms less favorable than those currently in effect, or if any such customer decreases the amount of business it transacts with the Group, it could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Furthermore, the relatively low oil price currently prevailing, despite an increase in the oil price from January 2016, puts pressure on the profitability margins of the Group's core energy clients. Such clients may suffer continued pressure if a low oil price is sustained for a long period, and may be unable to fulfill their contracts, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations. See "*—Risks relating to the Group's industry—A prolonged decrease in the price of oil and related commodities may affect demand for the Group's services, leading to a reduction in the Group's operating margins and a negative impact on the Group's business, financial condition and results of operations.*"

Rising marine bunker fuel prices may adversely affect the Group's profitability.

Fuel accounts for a significant portion of the Group's operating costs, and the Group is sensitive to changes in the price of marine bunker fuel. In 2016, marine bunker fuel accounted for 49.7% of the Group's voyage expenses and commissions. The price and supply of marine bunker fuel is unpredictable and fluctuates based on events outside the Group's control, including economic and geopolitical developments, supply and demand for oil and gas, actions by the OPEC and other oil and gas producers, war and unrest in oil-producing countries and regions, regional production patterns and environmental concerns. A significant or sustained increase in the price of marine bunker fuel, including as result of a decrease in supply, could increase the Group's voyage expenses and have an adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group's indebtedness, together with the imposition of international sanctions on some Russian banks, may affect the Group's ability to obtain financing and refinance existing debt, and may result in increased interest payments and reduced flexibility in pursuing other business opportunities.

Historically, on average, the majority of the acquisition and construction price for the Group's vessels has been funded by borrowings, including borrowings to fund progress payments on newbuildings that the Group purchases. As of December 31, 2016, the Group's short-term debt and long-term debt amounted to US$ 604.0 million and US$ 2,640.4 million, respectively. See "*Capitalization*" and notes 36, 37 and 39 to the Group's consolidated financial statements for the year ended December 31, 2016. As of December 31, 2016, the Group's ratio of net debt to total capitalization was 42.8%. The Group may incur further indebtedness in the future as it grows its fleet. The Group's indebtedness could restrict the Group's operations. Among other things, the Group's indebtedness may:

- limit the Group's ability to pay dividends;
- limit the Group's ability to incur or guarantee indebtedness or otherwise obtain additional financing for working capital, capital expenditures, acquisitions of vessels or other strategic acquisitions and general corporate purposes;
- require the Group to dedicate all or a substantial portion of the Group's cash flow to service the Group's debt, which would reduce funds available for other business purposes, such as capital expenditures, investments or acquisitions;
- limit the Group's flexibility in planning for or reacting to changes in the markets in which the Group competes, such as engaging in strategic acquisitions or disposing of assets;
- place the Group at a competitive disadvantage relative to the Group's competitors with less indebtedness;
- render the Group more vulnerable to general adverse economic and industry conditions; and
- make it more difficult for the Group to satisfy its financial obligations, including the Notes, or to refinance maturing indebtedness.

Although the Group itself is not subject to any economic sanctions, United States and European Union sanctions imposed in response to events in the Ukraine may limit the Group's access to funding, from both Russian and Western sources. See *"—Risks Relating to Russia—Although no Group entity is currently a sanctioned person, the sanctions imposed by the United States and the European Union in relation to the current political and economic crisis in Ukraine, and that crisis itself, may have a material adverse effect on the Group's business, liquidity and financial condition.*" More generally, although the deterioration of economic conditions in Russia since 2014 appears to be easing, such deterioration has led to the failure or bailout of some Russian banks and to significant liquidity constraints for others. These factors could negatively impact the Group's ability to obtain financing, or significantly increase the costs of such financing.

The Group may not be able to implement its business strategy successfully or manage its growth effectively.

The Group's future strategy is described in this Prospectus in "*Business Overview—Strategy*." The future growth of the Group is dependent on its ability to implement its business strategy successfully, which is in turn dependent on a variety of factors, many of which are beyond the Group's control. The Group's strategy is primarily focused on maintaining the Group's position as a leading provider of seaborne energy transportation worldwide. The success of this strategy will depend on a number of factors, including the Group's ability to:

- maintain or develop new and existing customer relationships;
- maintain the quality and diversity of the fleet;
- develop as a national offshore upstream services provider;
- obtain financing for its planned newbuildings and acquisitions;
- successfully integrate and employ newbuildings and acquisitions; and
- identify and act on new market opportunities.

The Group's failure to execute its business strategy or to manage its growth effectively could materially adversely affect the Group's business, financial condition and results of operations. In addition, there can be no assurance that even if the Group successfully implements the Group's strategy, it would result in an improvement of the Group's results of operations. Furthermore, the Group's strategy exposes it to risks that may harm its business, financial condition and operating risks. The Group may decide to alter or discontinue aspects of the Group's business strategy and may adopt alternative or additional strategies in response to the Group's operating environment or competitive situation or factors or events beyond the Group's control.

The Group is exposed to the risk of delays or defaults by shipyards.

The Group regularly contracts with shipyards to acquire newbuildings. Any such newbuilding projects would be subject to the risk of delay or defaults by shipyards caused by, among other things, unforeseen quality or engineering problems, work stoppages, weather interference, unanticipated cost increases, delays in receipt of necessary equipment, inability to obtain the requisite permits or approvals and other factors that are beyond the Group's control. Moreover, the Group is required to deploy substantial sums in the form of down payments and progress payments during the construction of newbuildings, but the Group does not derive any revenue from such vessels until after their delivery. There can be no assurance that the Group's current or future newbuildings will be completed on schedule or at all. In accordance with industry practice, in the event any such shipyards are unable or unwilling to deliver the vessels on time or at all, the Group may not have substantial remedies. Failure to construct or deliver vessels by the shipyards or any significant delays could delay the redeployment of any prepaid amounts toward other uses or diminish the Group's future net income and cash flows.

The Group is subject to risks relating to the non-renewal of charter contracts.

The majority of time-charter contracts under which the Group's vessels operate are for a fixed term (mostly for a term of between one and three years), and are subject to extension at the option of the Group's customers. The likelihood of these contracts being extended may be negatively affected by reductions in oil field reserves, oil price movements and general economic and prevailing freight market conditions. Any potential redeployment may not be under long-term contracts, which may affect the stability of the Group's business and operating results. If the Group is unable to promptly redeploy any affected vessels at favorable or profitable rates, or at all, it may have a material adverse effect on the Group's business, financial condition, prospects and operating results. See "*— Risks Relating to the Group's*

Business — Time-charter rates for vessels may fluctuate substantially over time and may be lower when the Group is attempting to recharter its vessels".

Fluctuations in the market value of the Group's vessels may materially and adversely affect the Group's results of operations and the Group's ability to obtain additional financing.

The market value of vessels fluctuates depending upon a number of factors, including general economic and market conditions affecting the industry, demand for vessel capacity, the number, type, age and size of vessels in the world fleet, the price of newbuildings (which is affected by availability of shipyard berths and financing), the level of vessel scrapping, the impact of any port congestion on fleet productivity, the cost of other modes of transportation and swings in the historically cyclical shipping industry. Declining vessel values could make it more difficult for the Group to raise cash by mortgaging vessels and could have a material adverse effect on the Group's liquidity. Declining vessel values could also lead to a breach of loan covenants by the Group's subsidiaries that are borrowers or guarantors under the borrowing facilities for the refinancing of the relevant vessels, which could give rise to events of default under these facilities. The market value of the Group's vessels represented 76.2% of their carrying value as at December 31, 2016. If the market value of the Group's vessels declines, the Group may also be required to recognize impairment losses, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

A significant portion of the Group's fleet consists of ice-class vessels, which generally have higher operating costs than conventional tankers and may be difficult to redeploy in non-ice conditions.

50.0% of the Group's vessels are ice-class vessels. Ice-class ships are specialized vessels that are generally constructed with more steel than conventional tankers to be able to withstand harsh weather and ice-water conditions safely. Such vessels typically also have more powerful engines than conventional tankers in order to navigate in ice-water conditions and to propel the heavier vessels effectively. As a result of such a design, ice-class vessels typically have higher voyage operating costs than conventional tankers, particularly due to significantly higher levels of fuel consumption. As a result, such ice-class vessels are less profitable than conventional tankers in markets or regions without ice-water conditions, and there can be no assurance that the Group will not be required to redeploy ice-class vessels at unfavorable rates. Additionally, the Group's customers may terminate certain of the Group's time-charter contracts prior to their expiration under specified circumstances. Any idle time prior to the commencement of a new contract or the Group's inability to redeploy the vessels at acceptable rates may have an adverse effect on the Group's business, financial condition, prospects and operating results.

The aging of the fleet may result in increased operating costs in the future, which could adversely affect the Group's business, financial condition and operating results

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Accordingly, the Group will incur increased costs as the age of its fleet increases. Newer vessels benefit from gradual improvements in engine technology and other features, meaning that older vessels tend to be less fuel efficient and more costly to maintain. Higher cargo insurance rates for older vessels make such vessels less desirable to charterers. Furthermore, governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to the Group's vessels and may restrict the type of activities in which the Group's vessels may engage. The Group's fleet of 146 owned and chartered-in vessels (excluding newbuildings), including 13 vessels jointly owned with third parties, had an average age of 9.3 years as at December 31, 2016. According to Clarksons Research, the fleet of oil tankers (to which the Group has the largest exposure) owned by the five largest owner groups (in terms of DWT) had an average age of 9.7 years as at March 1, 2017. Should future market conditions be insufficient to justify the expenditures outlined above, or enable the Group to operate its vessels profitably, this may have an adverse effect on the Group's business, financial condition, prospects and operating results.

The Group is exposed to interest rate risk.

The Group is exposed to interest rate movements through its variable-rate financing arrangements, for instance, movements in the London Inter-Bank Offered Rate ("**LIBOR**") or the yield curve (market interest rates at different maturities) impact the market value of the Group's bank loans and the interest that the Group pays on such loans. As of December 31, 2016, the Group's total variable-rate borrowings, gross of direct issue costs, amounted to US$ 1,807.0 million (55.2% of the Group's total borrowings), of which US$ 1,066.1 million are hedged by interest rate swaps. As a result, the Group is sensitive to changes in interest rates. If interest rates had been 100 basis points higher (or lower) and all other variables kept constant, the Group's total interest expense in the year ended December 31, 2016 would have increased (or decreased) by approximately US$ 5.6 million. See "*Operating and Financial Review—Liquidity and Capital Resources.*" Interest rates are sensitive to numerous factors outside the Group's control including, but not limited to, government and central bank monetary policy in the jurisdictions in which the Group operates. An increase in interest rates could also cause the Group's interest obligations to increase and could have an adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group uses interest rate derivative instruments to manage interest rate exposure, such as swap contracts. As of December 31, 2016, the Group had an outstanding nominal amount of interest rate derivatives of US$ 1,066.1 million, compared to US$ 1,221.8 million as of December 31, 2015. The Group cannot make any assurance, however, that it will continue such hedging or that current or future hedging will sufficiently protect the Group from the adverse effects of interest rate movement. In addition, the Group potentially foregoes benefits that might result from fluctuations in interest rates by engaging in derivative contracts. For example, when the Group enters into interest rate swap agreements with third parties with respect to the Group's bank loans, Management seeks to fix the interest payable by the Group under such loans, which may be higher than the interest the Group would have achieved in the absence of such agreements if interest rates decline. Additionally, the Group is exposed to credit risk in the event of the failure of counterparties to meet their obligations under these arrangements. The potential risk is the cost of replacement at current market prices of these transactions in the event of defaults by counterparties, and the impact of such a default may have an adverse effect on the Group's results of operations. Any factors affecting the Group's hedging strategies could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group is exposed to exchange rate risks.

The Group's financial statements are presented in U.S. dollars, which is also the currency in which a majority of the Group's contracts are denominated, and the functional currency of the Group's major subsidiaries. The Group generates 93% of the time-charter-equivalent revenues in U.S. dollars, but incurs some of its expenses, liabilities and capital expenditures in other currencies, primarily the ruble, the pound sterling and the euro. As a result, exchange rate fluctuations could adversely affect the Group's financial condition and results of operations. In particular, the Group's operating margins are generally adversely affected by appreciation of the ruble, the pound sterling and the euro against the U.S. dollar, as this causes the Group's expenses to increase relative to the Group's freight and hire revenue, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Potential increases in tonnage taxes on the Group's vessels could increase the costs of the Group's operations.

The Group's vessels are currently registered under the flags of Cyprus, Liberia, Malta, Singapore and Russia. These jurisdictions, except Russia, impose taxes based on the tonnage capacity of each of the vessels registered under their flag. The tonnage taxes imposed by these countries could increase, which could cause the costs of the Group's operations to increase.

The Group's insurance may not be sufficient to cover losses incurred by the Group.

The operation of oil and oil product tankers, LNG and LPG carriers and other vessels is inherently risky. See "*—Risks relating to the Group's Industry—Shipping companies are exposed to the risk of losses from maritime disasters, mechanical failures and other similar events that may disrupt their operations*." Although the Group carries hull and machinery, war risks, protection and indemnity and other insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, the Group does not generally carry insurance on the Group's vessels covering the loss of earnings resulting from vessel off-hire time based on its cost compared to the Group's off-hire experience. Any significant off-hire time of the Group's vessels could harm the Group's business, financial condition, prospects and operating results. Any claims relating to the Group's operations covered by insurance would be subject to deductibles, and, since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of the Group's insurance coverage is maintained through mutual protection and indemnity associations, and, as a member of such associations, the Group may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

The Group's insurance policies do not cover risks arising from the damage caused by wear and tear and the damage caused by willful misconduct of ship's crewmembers and office managers. The Group has not purchased the type of insurance covering loss of earnings due to delay or detention caused by political unrest, labor strikes, arrest, crew desertion, crew illness, infectious diseases, stowaways, drug seizure and the inability to load or discharge cargo, all of which are considered as trading risks.

In recent years, insurance companies have increased premiums for certain types of insurance in the shipping industry. The Group's insurance contains certain standard deductibles, limitations and exclusions, including limitations and exclusions with respect to certain losses arising from acts of war, terrorism, malicious acts, nuclear forces and willful misconduct or fraud. In addition, in the event that claims are asserted against the Group, the Group's vessels could be subject to attachment or other judicial processes, and insurers are not required to provide a letter of guarantee in case of arrest, attachment or detention of a vessel.

The Group may be unable to procure adequate insurance coverage at commercially reasonable rates in the future, particularly for operating in harsh weather and ice-water conditions. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance

against risks of environmental damage or pollution. In addition, the Group's insurance may be voidable by the insurers as a result of certain of the Group's actions, such as the Group's ships failing to maintain certification with applicable maritime self-regulatory organizations. Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more expensive or impractical for the Group to obtain or maintain. In addition, the insurance that may be available may be significantly more expensive than the Group's existing coverage. Any uninsured or underinsured loss could adversely affect the Group's business, financial condition, prospects and results of operations.

Growth of the Group's fleet and operations may strain the Group's existing systems and management resources.

The Group's growth has placed and will continue to place significant demands on the Group's management, operational and financial resources. As the Group expands its operations, the Group must effectively manage and monitor operations, control costs and maintain quality and control in geographically dispersed markets. The Group's future growth and financial performance will also depend on the Group's ability to identify new markets and achieve acceptance by new customers; effectively compete in new markets; identify and engage in suitable joint venture arrangements and acquisitions; recruit, train, manage and motivate employees to support expanded operations; continue to improve customer support, financial controls and information systems; and take advantage of economies of scale which may result from operation of a large global fleet of vessels.

These efforts may not be successful and may not occur in a timely or efficient manner. Failure to effectively manage the Group's growth and the system and procedural transitions required by expansion in a cost-effective manner could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group is dependent on attracting and retaining qualified personnel at reasonable cost.

The Group may be unable to attract and retain key management personnel, crewmembers and other key employees, which would negatively affect the effectiveness of the Group's management, financial condition and results of operations. The Group's management makes key decisions to maximize the Group's revenue and earnings in a highly volatile and cyclical industry, and the Group's success will depend, in part, on the Group's ability to hire and retain key members of the Group's management team. The loss of any one or more of these individuals could adversely affect the Group's business, financial condition, prospects or results of operations. In crewing the Group's vessels, the Group requires technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crewmembers is intense. If crew costs increase and the Group is unable to increase the Group's charter rates to customers to compensate for any crew cost increases, the Group's financial condition and results of operations may be adversely affected. Difficulty in hiring and retaining qualified personnel and crewmembers could also adversely affect the Group's results of operations.

Labor disruptions could adversely affect the Group's operations.

Most of the Group's seafarers belong to unions, and the Group has a collective bargaining agreement with the Seafarer's Union of Russia, an affiliate of the International Transport Workers' Federation (the "**ITF**") that governs the Group's employment of seafarers serving on a substantial portion of the Group's vessels. The terms of this agreement generally govern the wages paid to the Group's crew, minimum living conditions onboard the Group's vessels, as well as other benefits and conditions of the seafarers' employment. This agreement is subject to customary renegotiation, and the Group may also become subject to additional collective bargaining agreements in the future. The Group has never suffered from work stoppages as a result of labor disruptions, and Management believes the Group's relationships with the ITF and other trade unions are good. However, if the Group's relations with its seafarers, the ITF or other trade unions deteriorate, or if the Group's employees or unions decide to strike or stop work for any other reason, the Group may be unable to operate its vessels, which could result in loss of revenues, increased costs and decreased cash flows. Further, the Group's collective bargaining agreements govern the wages paid by the Group to its seafaring employees, and there can be no assurance that future renegotiations will lead to wage levels acceptable to the Group. Any labor disruptions or significant increase in wages could harm the Group's operations and could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group relies on information technology systems and other operating systems to conduct its business, and disruption, failure or security breaches of these systems could adversely affect its business and results of operations.

In common with most shipping businesses, the Group employs information technology ("**IT**") systems to communicate with its vessels and conduct its business. Such systems are vulnerable to disruption by, among other things, viruses and cyber-attacks, which could result in decreased performance, remediation costs, transaction errors, loss of data, including confidential or proprietary data, processing inefficiencies, downtime, litigation and the loss of suppliers or clients. In order to mitigate against the above, the Group maintains accepted security measures and technology, and relies on market-standard virus control systems. However, such measures may not be sufficient to prevent damage or disruption to the Group's systems caused by circumstances beyond its control, such as catastrophic events, power outages, natural

disasters, computer system or network failures, computer viruses, cyber-attacks or other malicious software programs. A significant or prolonged disruption or failure in the Group's IT systems could have a material adverse effect on the Group's business operations, financial performance and financial condition.

Shareholder liability under Russian legislation could cause the Group to become liable for the obligations of its subsidiaries.

Russian legislation provides that a company ("**effective parent**"), being able to determine decisions of another company ("**effective subsidiary**"), bears joint and several responsibility for transactions entered into by the effective subsidiary in carrying out instructions of the effective parent, or upon approval of the effective parent. This rule does not apply (i) if the relevant transaction is approved by the effective parent on the general meeting of shareholders of the effective subsidiary, or (ii) if the relevant transaction is approved by a governing body of the effective parent, provided that such approval is required under the charter of the effective subsidiary and/or the effective parent. Shareholders of the effective subsidiary may claim for damages incurred by the effective subsidiary as a result of the action or inaction of the effective parent. In addition, the effective parent is secondarily liable for the effective subsidiary's debts if the effective subsidiary becomes insolvent (bankrupt) as a result of the action or inaction of the effective parent. If Sovcomflot as the effective parent is found liable for the debts of its effective subsidiaries, this could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Risks relating to Russia

The Russian Federation is subject to greater risks than more developed markets.

Prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and fully appreciate the significance of the risks involved in investing in emerging markets.

Investors should be aware that emerging markets such as in Russia are subject to greater risk than more developed markets, including in some cases greater economic, political and social, and legal and legislative risks. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

Although no Group entity is currently a sanctioned person, certain sanctions imposed by the United States and the European Union in relation to the current political and economic crisis in Ukraine, and that crisis itself, may have a material adverse effect on the Group's business, liquidity and financial condition

In connection with the dispute between Russia and Ukraine regarding the status of Crimea and Sevastopol and the ongoing political and military unrest in Ukraine, the United States and the European Union (among others) have imposed sanctions on certain Russian and Ukrainian persons and entities. The prohibitions generally apply to nationals of the countries imposing sanctions or any action taken within the territory of those countries, but may, particularly in the case of United States sanctions, have extraterritorial effect on transactions with a direct or indirect connection to the jurisdiction.

Starting from March 2014, the United States introduced sanctions against Russian and Ukrainian entities, senior officials, politicians, businessmen and other persons perceived to have been involved in the crisis in Ukraine, blocking all of their property within the United States, denying them entry into the United States and effectively foreclosing them from using the United States economic and financial system.

In March 2014, the United States also imposed 'sectoral sanctions' on entities in certain sectors of the Russian economy. Currently, such sectors include defense and related materials, financial services, and energy. The relevant sectoral sanctions currently provide for restrictions on new debt or equity transactions for designated entities in the financial sector, restrictions on new debt transactions for designated entities in the energy sector, restrictions on new debt transactions for designated entities in the defense sector, and restrictions on the provision of goods, services, or technology in support of Russian Arctic offshore, deepwater, or shale projects with the potential to produce oil. The United States has also significantly tightened export controls on the provision of U.S.-origin goods that may be used in the Russian defense or energy sectors.

In addition, in December 2014, the United States introduced sanctions barring transactions involving Crimea within U.S. jurisdictions and the U.S. Congress gave the U.S. President authority to introduce 'secondary sanctions' against non-U.S. companies engaged in certain activities in support of Russian Arctic offshore, deepwater, or shale oil projects, certain financial transactions in support of such projects or of U.S.-sanctioned Russian or Ukrainian persons, or

certain Russian arms sales. Pursuant to secondary sanctions, non-U.S. companies engaged in targeted conduct, even entirely outside U.S. jurisdiction, may themselves become the subject of U.S. sanctions.

The future scope of the United States' Ukraine-related sanctions remains uncertain and politically controversial.

The European Union's sanctions generally have a similar effect to the U.S. sanctions and involve travel restrictions and the freezing in the European Union of funds and economic resources of the designated persons, as well as export restrictions with respect to equipment and technology for Arctic, deepwater and shale oil projects, and the prohibition on provision of direct or indirect financing to the designated persons.

In June 2014, the European Union imposed a general ban on the import of goods originating in Crimea/Sevastopol, followed by trade and investment restrictions prohibiting certain new infrastructure investments, investments in the oil, gas and mineral resources industries in Crimea/Sevastopol and the provision of technical assistance or financial services in connection with such investments. Further, in December 2014, the European Union introduced a ban on investments in real estate and businesses in Crimea and Sevastopol, on the export of a wide range of goods and technology to Crimean companies or for use in Crimea, and on services related to tourism activities in Crimea and Sevastopol.

In July 2014, the European Union imposed a ban on transactions with transferable securities and money market instruments with a maturity exceeding 90 days issued after August 1, 2014 by the largest Russian financial institutions including Sberbank, VTB Bank, Gazprombank, Vnesheconombank and Rosselkhozbank and their affiliates, subsequently lowering the threshold to 30 days for instruments issued after September 12, 2014. In September 2014, the European Union imposed an additional ban on transactions in transferable securities and money market instruments with a maturity exceeding 30 days, issued after September 12, 2014 by six Russian defense and energy companies, including OPK Oboronprom, United Aircraft Corporation, Uralvagonzavod, Rosneft, Transneft and Gazprom Neft and their controlled affiliates outside the European Union. Furthermore, the European Union imposed a ban on the provision of new loans (either directly or indirectly) with a maturity exceeding 30 days to the aforementioned Russian entities and their affiliates after September 12, 2014.

In August–September 2014, the European Union imposed restrictions on the transfer of certain technologies for the oil and gas industry in Russia and certain goods and services for deep-water, Arctic or shale oil projects in Russia.

In the course of 2016, the European Council announced that sanctions against Russia will be extended to: (i) July 31, 2017 with respect to sectoral sanctions; (ii) June 23, 2017 with respect to the import, trade and investment restrictions affecting Crimea/Sevastopol; and (iii) September 15, 2017 with respect to individual asset freezes and travel restrictions.

No individual or entity within the Group has been designated for sanctions under the law of the United States or the European Union. The Group can give no assurance that any member of the Group, or individuals holding positions in the Group, will not be affected by future sanctions designations. For example, proposals have been put forward to cut off Russia from the international SWIFT payment system, which would significantly disrupt the ability of Russian banks to supply ordinary banking services and have a substantial impact on cross-border trade. U.S. law provides that persons that 'have materially assisted, sponsored or provided financial, material or technological support for, or goods or services to or in support of' any targeted person or activity may be designated for sanctions. The Group, like a large number of Russian companies, has commercial relationships with entities that are subject to U.S. and EU sanctions. If U.S. sanctions were imposed on persons or entities collectively owning 50% or more of any group entity, such sanctions would also apply to the entity and its subsidiaries. If the Group becomes subject to U.S. or European Union sanctions, either as a result of the above, or through the targeting of a broader segment of the Russian economy, in particular state-owned enterprises, such sanctions will likely have a material adverse impact on the Group's business, financial condition, results of operations or prospects. For example, the Group might become unable to deal with persons or entities bound by the relevant sanctions, including international financial institutions and rating agencies, transact in U.S. dollars, raise funds from international capital markets, acquire equipment from international suppliers, or access the Group's assets held abroad. Moreover, investors in the Notes may be restricted in their ability to sell, transfer or otherwise deal in or receive interest payments with respect to the Notes because the investor is subject to the jurisdiction of an applicable sanctions regime, which could make such Notes partially or completely illiquid and have a material adverse effect on their market value.

Most of the Group's entities are neither U.S. persons nor E.U. persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to United States and/or European Union jurisdiction. However, the United States takes a broad view with respect to its sanctions jurisdiction, and there can be no assurance that compliance issues under applicable United States and/or European Union sanctions laws and regulations will not arise with respect to the Group or its personnel.

The sanctions imposed by the United States and the European Union in connection with the Ukrainian crisis so far have had an adverse effect on the Russian economy, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. The governments of the United States and certain European Union Member States, as well as certain E.U. officials have linked the maintenance and imposition of sanctions against Russia to the implementation of the Minsk II peace plan of February 2015. They indicated that they may strengthen sanctions should tensions in Ukraine escalate, or consider rolling back sanctions should significant progress be made towards the full implementation of the Minsk II peace plan.

Further confrontation in Ukraine and any escalation of related tensions between Russia and the United States and/or the European Union, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy, particularly levels of disposable income, consumer spending and consumer confidence, as well as the ability of Russian banks to sustain required liquidity levels and comply with their financial obligations. These impacts could be more severe than those experienced to date. In particular, should either the United States or the European Union expand their respective sanctions to affect the Group or the Group's existing or future clients, suppliers or other counterparties, a large sector of the Russian economy or otherwise, such an expansion could result in a materially adverse impact on the Group. This could result in the suspension or potential curtailment of business operations between the Group and the designated persons and substantial legal and other compliance costs and risks on the Group's business operations, particularly those dependent on international financing or imported equipment. All of the above could have a material adverse impact on the Group's business, financial condition, results of operations or prospects.

Changes in Government policy and other Government actions could adversely affect the value of investments in the Russian Federation, including the Notes.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which had a negative effect on Russia's business and investment climate. The political situation has stabilized since 2000 and, during the presidency of Vladimir Putin, central authority was restored which made the political and economic situation in Russia more conducive to investment.

Although the Russian political system and the relationship between the Russian President, Government and the State Duma currently appear to be stable, future political instability could result from declines in the overall economic situation, and shifts in governmental policy and regulation in Russia could disrupt or reverse political, economic and regulatory reforms. Future changes in the Russian Government, major policy shifts or lack of consensus could lead to political instability, which could have a material adverse effect on the value of investments relating to Russia, including the value of the Notes.

Economic instability in Russia could have an adverse effect on the Group's business.

The Russian economy has been subject to abrupt downturns in the past, for example, as a result of the Russian Federation's default on ruble-denominated securities in 1998, which resulted in severe ruble devaluation, increased inflation, a decline in the prices of Russian debt and equity securities and the near collapse of the Russian banking sector. More recently, while the Russian Government's anti-crisis measures softened the impact of the 2008 global financial and economic crisis on the Russian economy, Russian GDP growth has since slowed considerably, recording negative GDP growth of 2.8% in 2015, according to Rosstat. This slowdown is the result of an array of factors, including negative investor sentiment arising from the disturbances in eastern Ukraine, international sanctions imposed on Russian companies and individuals, substantial depreciation of the ruble against major world currencies and the precipitous drop in oil prices. See "*—Risks Relating to Russia—Although no Group entity is currently a sanctioned person, the sanctions imposed by the United States and the European Union in relation to the current political and economic crisis in Ukraine, and that crisis itself, may have a material adverse effect on the Group's business, liquidity and financial condition.*" In the course of 2016, along with increasing oil prices, the Russian economy displayed some signs of recovery, with the contraction in GDP growth dropping to 0.2%, according to Rosstat. However, the economic situation remains unstable, and negative investor sentiment may continue to negatively affect the Russian economy.

The Russian Federation has, in the past, limited the amount of export sales of crude oil by Russian producers by limiting the share of crude oil that may be transported for export and requiring them to sell a portion of the hard currency proceeds from exports. The Russian Federation also determined the amounts of crude oil for delivery for state needs and to certain customers, such as the military, agricultural concerns and remote regions, which may have taken priority over sales in the ordinary course of business. Actions such as these could adversely affect the demand for the Group's crude oil transportation services from the Group's customers, which could in turn have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Furthermore, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in mid-2008. Since then, the prices of certain of these commodities have experienced significant decreases, particularly the average price of crude oil. Despite the increase in oil prices since early 2016, oil prices remain relatively low, as compared to historic levels. See "*—Risks Relating to the Group's Industry—A prolonged decrease in the price of oil and related commodities may affect demand for the Group's services, leading to a reduction in the Group's operating margins and a negative impact on the Group's business, financial condition and results of operations.*" A sustained depression in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy and lead to worsening economic conditions within Russia. This, in turn, may disrupt the Group's ability to conduct its business effectively, which could have a material adverse effect on its business, financial condition, prospects and results of operations.

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime established by the 1993 Federal Constitution, the Civil Code, other federal laws and decrees, orders and regulations issued by the Russian President, the Russian Government and other state authorities, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap with or contradict one another, or have substantial gaps. The relatively recent nature of much Russian legislation and the rapid evolution of the Russian legal system impact the enforceability of certain laws and can result in ambiguities, inconsistencies in legal interpretations and other anomalies.

Russia is a civil law jurisdiction, and, as such, judicial precedents have no formal binding effect on subsequent decisions. Among the risks of the current Russian legal system are: certain inconsistencies among federal, regional and local laws and regulations; limited availability of judicial and administrative guidance on interpreting Russian legislation; gaps in the regulatory structure due to delay or absence of implementing legislation; limited judicial personnel with the ability to interpret developing Russian legislation, particularly business and corporate law (especially in lower courts); the possibility that certain judges may be susceptible to economic, political or nationalistic influences; a certain degree of discretion on the part of state authorities; bankruptcy procedures that are insufficiently developed and potentially subject to abuse; and the difficulty in enforcing court judgments in practice (especially foreign court judgments and arbitral awards). These risks, many of which do not exist to the same extent in countries with more developed market economies, could affect the Group's ability to enforce its legal rights in Russia or to defend against claims by others in Russia and could affect the ability of Noteholders to obtain effective redress in Russian courts.

The Russian taxation system is relatively underdeveloped

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. Nonetheless, there have been several instances when such laws have been introduced and applied retroactively.

Despite the Russian Government having taken steps to reduce the overall tax burden in recent years in line with its objectives, there is a possibility that the Russian Federation could impose arbitrary or onerous taxes and penalties in the future.

These conditions complicate tax planning and related business decisions. Such uncertainties could potentially expose the Group to significant fines and penalties and potentially severe enforcement measures despite its best efforts at compliance and could result in a greater than expected tax burden. This, in turn, could have a material adverse effect on the Group's business, results of operations and financial condition or prospects.

Tax audits or inspections may result in additional costs to the Group, in particular, if the relevant tax authorities conclude that the Group did not satisfy its tax obligations in any given year. Such audits or inspections may also impose additional burdens on the Group by diverting the attention of Management.

Based on the provisions of the Tax Code of the Russian Federation (the "**Russian Tax Code**"), the tax rate for corporate profits tax rate is 20% and the general rate of VAT is 18%. In addition, new Russian transfer pricing legislation that has been in force since January 1, 2012 may result in additional costs to the Group.

In October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued a ruling concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax.

The ruling provides that where the true economic intent of business operations is inconsistent with the manner in which they have been taken into account for tax purposes, a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little practice for distinguishing between lawful tax optimization and tax avoidance or evasion. The tax authorities have actively sought to apply this ruling of the Supreme Arbitrazh Court when challenging tax positions taken by taxpayers in court and are anticipated to expand this trend in the future. Although the intention of this ruling was to combat tax abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court.

As a result of these rules, it is possible that, despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures against the Group.

Recent developments show that the Russian tax authorities are scrutinizing various tax planning and mitigation techniques used by taxpayers, including international tax planning. In particular, in amendments to the Russian Tax Code which came into force on January 1, 2015, the Russian Federation introduced 'controlled foreign company' (or CFC) rules, the concept of 'tax residency for legal entities' and a 'beneficial ownership' concept. The Russian Federation is in the process of implementing international tax information exchange agreements (including country-by-country reporting standards developed by the OECD).

The new tax law provides for a number of incentives for shipping companies. In the meantime, such incentives are still ambiguous and may be subject to arbitrary interpretation by the Russian tax authorities. It is currently unclear how the Russian tax authorities will interpret and apply the new tax provisions and what the impact on the Group will be. It cannot be excluded that the Group might be subject to additional tax liabilities as a result of the application of such changes to transactions carried out by the Group.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that the Group will not become subject to additional tax exposures.

The evolving tax conditions described above create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including Management's resources. Furthermore, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations, financial condition, its ability to service its payment obligations under the Guarantee and the Issuer's ability to make payments under, or the trading price of, the Notes.

Risks Relating to the Notes

The Issuer's ability to fulfill its obligations under the Notes is dependent on the Group.

The Issuer is an indirect wholly owned subsidiary of Sovcomflot and will use the net proceeds from the issuance of the Further Notes for the repayment of existing indebtedness of the Group. For more information, see "*Use of Proceeds.*" The Issuer has insufficient net assets, other than amounts due to it from the Group in respect of any intra-Group loans, to meet its obligations to pay interest and other amounts payable in respect of the Notes. The Issuer would, therefore, in the absence of other funding sources, have to rely on the Group providing sufficient funds to meet such obligations.

The Group's assets are held in subsidiaries to which Noteholders have no direct recourse, and the Group has a significant amount of secured indebtedness in such subsidiaries.

Sovcomflot is a holding company, and Sovcomflot's subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. Under the terms of the Notes, Noteholders have no direct recourse against the assets of such subsidiaries, nor to any of the sub-holding companies of such subsidiaries, such as SCF Tankers Limited (formerly known as Fiona Trust and Holding Corporation until April 15, 2016) ("**SCF Tankers**") or Intrigue Shipping Limited ("**Intrigue**"), which guarantee the obligations under the indebtedness of such subsidiaries. Furthermore, such subsidiaries have incurred material indebtedness in order to finance their operating assets, and as a result, other creditors hold direct claims against such subsidiaries that will have a claim against such subsidiaries that ranks before that of the

Noteholders. In the event of a bankruptcy, liquidation or reorganization of such a Group subsidiary, holders of that subsidiary's indebtedness, and trade and other creditors of that subsidiary, will have a claim to the assets of the subsidiary, together with any guarantee provided by SCF Tankers or Intrigue. Such a claim would rank prior to the interest of Sovcomflot (to whom Noteholders will have recourse under the Notes) in those assets, except to the extent that the Group is recognized as a creditor of any such subsidiary through inter-Group claims or loans.

Moreover, the Notes are unsecured and therefore will rank behind any secured debt that the Group or its subsidiaries maintain or may incur, to the extent of the value realized from the assets securing the debt. In the event of a bankruptcy or similar proceeding involving Sovcomflot or a Group subsidiary, the assets that serve as collateral will be available to satisfy the obligations under any secured debt before any payments are made on the Notes. As of December 31, 2016, the Group's total outstanding secured indebtedness, gross of direct issue costs, under its existing bank loans was US$ 2,212.4 million, secured by assets with a total carrying value of US$ 4,370.4 million.

In addition, the ability of the Group's subsidiaries to generate sufficient cash flow from operations or distribute funds or assets to allow the Group to make scheduled payments on its debt obligations, including guarantee payments with respect to the Notes, may be restricted by, among other things, restrictions under the Group's debt facilities, applicable corporate and limited liability company laws of the jurisdictions of the Group's subsidiaries' incorporation or organization, and other laws and regulations, and will also depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside the Group's control.

The Group has a significant amount of indebtedness, which could have an adverse impact on the Group's ability to fulfill its obligations under the Notes and the Guarantee.

As of December 31, 2016, the Group's outstanding secured bank loans totaled US$ 2,193.8 million (including the current portion of US$ 290.5 million), with maturities ranging from 2017 to 2028. In particular, US$ 41.3 million of these bank loans (1.9% of the Group's outstanding secured bank loans as of December 31, 2016) are expected to mature by December 31, 2017. The Group's ability to make scheduled payments of interest and principal under its indebtedness, including the Notes will depend upon, among other things, its future financial and operating performance and its ability to refinance its debt, which will be affected by prevailing economic conditions as well as financial, business, regulatory and other factors, many of which are beyond its control. In particular, United States and European Union sanctions imposed in response to events in the Ukraine may limit the Group's access to funding, from both Russian and Western sources. See "*—Risks Relating to Russia—Although no Group entity is currently a sanctioned person, the sanctions imposed by the United States and the European Union in relation to the current political and economic crisis in Ukraine, and that crisis itself, may have a material adverse effect on the Group's business, liquidity and financial condition.*" The Group cannot make assurances that it will be able to repay or refinance all its loans upon maturity or that any such refinancings will be on favorable terms for the Group. See "*—Risks Relating to the Group's Business—The Group's indebtedness, together with the imposition of international sanctions on some Russian banks, may affect the Group's ability to obtain refinancing, and may result in increased interest payments and reduced flexibility in pursuing other business opportunities*." If the Group's operating income is not sufficient to service its current or future indebtedness, the Group will be forced to take action such as reducing or delaying its business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing its debt or seeking additional equity capital. The Group may not be able to effect any of these remedies on satisfactory terms, or at all.

International sanctions relating to the crisis in Ukraine could adversely impact the trading market for the Notes.

In response to the ongoing situation in Ukraine, the United States and the European Union introduced sanctions against certain Russian companies and individuals in 2014 and 2015, the majority of which are still in force. These sanctions could affect the trading market for the Notes, or have a material adverse effect on the rights of Noteholders, particularly if such sanctions were strengthened in future. See "*—Risks Relating to Russia—Although no Group entity is currently a sanctioned person, the sanctions imposed by the United States and the European Union in relation to the current political and economic crisis in Ukraine, and that crisis itself, may have a material adverse effect on the Group's business, liquidity and financial condition.*" In particular, should the Group's current or future clients, suppliers or other counterparties become subject to or be directly impacted by such sanctions, this could result in certain Noteholders being forced to sell the Notes in order to comply with internal rules on investments, or with applicable laws and regulations. Potential Noteholders may be deterred from buying the Notes for the same reason. This would adversely affect the market value of the Notes, and could result in reduced liquidity in the trading market for the Notes. Secondly, the United States and European Union may expand the so-called 'sectoral sanctions' to include sectors in which the Group operates. In such circumstances, clearing systems, brokers, stock exchanges and other market participants may refuse to facilitate dealing in the Notes. As a result, certain Noteholders may be prevented from continuing to hold the Notes, and potential Noteholders may be unable to buy them. This would result in reduced liquidity and a lower market value for the Notes.

Potential partial privatization of Sovcomflot may adversely affect the price of the Notes

While the Russian Federation currently owns 100% of Sovcomflot's ordinary voting shares, the Russian Government has previously stated that it intends to partially privatize Sovcomflot in the future. Definitive decisions as to any such potential privatization, and the timing thereof, remain subject to governmental approvals (see "*Share Capital and Dividends"* and "*Business Overview—Status as a Strategic Enterprise*").

100% ownership by the Russian Government may, in certain cases, have a positive impact on the demand for debt capital markets instruments by certain investors, including due to the inclusion of such instruments in 'quasi-sovereign' emerging market bond indices. As a result, any potential privatization of Sovcomflot, if and when it occurs, may, in turn, adversely affect the liquidity and the price of the Notes.

The Notes may not have an active trading market, which may have an adverse impact on the value of the Notes.

There may not be an existing market for the Further Notes at the time they are issued. Although it is expected that the Further Notes will be admitted to trading on the Irish Stock Exchange on or after the Closing Date, there may be little or no secondary market for the Notes. Even if a secondary market for the Notes develops, it may not provide significant liquidity, and it is expected that transaction costs in any secondary market would be high. As a result, the difference between bid and ask prices for the Notes in any secondary market could be substantial, and the value of the Notes could be adversely affected. There can be no assurance that a liquid market will develop for the Notes or that Noteholders will be able to sell their Notes, or that Noteholders will be able to sell their Notes for a price that reflects their value. Moreover, the Group has made public its intention to seek an initial public offering (IPO), subject to market conditions, which could impact the Notes' credit ratings as well as their eligibility for certain broadly followed indices, which in turn could affect demand for the Notes in the secondary market.

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's and its competitors' operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes or other securities and other factors. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could adversely affect the price of the Notes without regard to the Group's business, financial condition, prospects or results of operations.

In particular, the markets for emerging market debt have been subject to disruptions on account of the global financial crisis that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on holders of the Notes.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited.

The Original Notes were, and, except in limited circumstances, the Further Notes will be, issued only in global form with interests therein held through the facilities of Euroclear, Clearstream Luxembourg and DTC. Ownership of beneficial interests in the Original Notes are, and in the Further Notes will be, shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear, Clearstream Luxembourg and DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream Luxembourg and DTC can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream Luxembourg or DTC systems may be impaired.

The Notes are subject to restrictions on transfer.

The Original Notes were, and the Further Notes are, being offered and sold in the United States in reliance on Rule 144A (the "**Rule 144A Offering**") to purchasers who are QIBs. Each purchaser of Notes pursuant to the Rule 144A Offering will be deemed to have represented to the Issuer that it is a QIB or acting on behalf of a person reasonably believed to be a QIB.

Payments under the Guarantee may be subject to Russian withholding tax

Payments made by the Guarantor to non-resident Noteholders relating to interest on the Notes following enforcement of the Guarantee are likely to be characterized as Russian-source income. Accordingly, there is a risk that such payments may be subject to withholding tax at a rate of 20% in the event that a payment under the Guarantee is made to a non-resident Noteholder that is a legal entity or organization which in each case is not organized under Russian law and which holds the Notes otherwise than through a permanent establishment in Russia. In the event that a payment under the Guarantee is made to a non-resident individual Noteholder, there is a risk that such payment may be subject to withholding tax at a rate of 30%. The Group cannot offer any assurance that such withholding tax would not be imposed on the full amount of the payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "*Tax Consideration—Certain Russian Tax Considerations*."

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which the Guarantor would be obliged to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), the Guarantor is required to increase the payments as necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is currently unclear whether the provisions obliging the Guarantor to gross up payments will be enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by the Guarantor will be subject to reduction by the Russian income tax at a rate of 20% (or 30% in respect of Individual Non-Resident Noteholders). See "*Tax Considerations—Certain Russian Tax Considerations.*"

Payments under the Notes may be subject to Russian withholding tax.

Payments under the Notes may be subject to Russian withholding tax if (i) the Issuer is treated as a tax resident of the Russian Federation or (ii) Russia is considered to be the Issuer's place of permanent establishment as a result of the Issuer's activities. In these cases, payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognized by Russian tax authorities as subject to Russian withholding tax at a rate of 20% (or 30% in respect of non-resident individuals). However, the Issuer currently expects that all criteria will be met for the Issuer to be exempt from tax residence in Russia and the Issuer's activities will not create a permanent establishment for the Issuer in Russia.

In addition, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organization under the 'quoted bonds' issued in accordance with the legislation of the foreign jurisdiction (this exemption is also applicable to foreign organizations recognized either as Russian tax residents, or as having their place of permanent establishment in Russia).

For the purpose of the Russian Tax Code, 'quoted bonds' means bonds and other debt obligations (1) which passed the listing procedure and/or (2) which were admitted to circulation on one or more foreign stock exchanges and/or (3) the rights to which are recorded by a foreign depositary-clearing organization, provided that such foreign stock exchanges and depositary-clearing organizations are specified on the list of foreign financial intermediaries (the "**List**"). The List, which became effective on December 30, 2012, includes the Irish Stock Exchange (as a recognized foreign stock exchange) and Euroclear, Clearstream and the Depository Trust & Clearing Corporation ("**DTCC**") (as recognized foreign depositary-clearing organizations). While Clearstream and DTCC are mentioned in the List, the List does not explicitly mention Clearstream Luxembourg or DTC. According to the shareholding structure of Clearstream and DTCC groups, Clearstream Luxembourg and DTC are member entities of the Clearstream and DTCC groups respectively, and, therefore, Clearstream Luxembourg and DTC are parts of Clearstream and DTCC respectively. However, there is a residual risk that the Russian tax authorities may apply a formalistic approach and take a position that Clearstream Luxembourg and DTC are not included in the List based on the fact that they are not explicitly mentioned in the List.

Criteria (1) and (2) should be satisfied as the Original Notes are, and the Further Notes will be, listed on the Irish Stock Exchange. The Notes should satisfy criterion (3) because the rights to the Original Notes are, and the rights to the Further Notes will be, held in Euroclear and Clearstream Luxembourg and/or DTC, which, for the purposes of the Russian Tax Code, should mean that the rights to the Notes are 'recorded' with one of the above foreign depositary-clearing organizations. According to the Russian Tax Code, in order to be treated as 'quoted bonds', fulfilment of any one of the above criteria is sufficient. Therefore, the Notes should be recognized as 'quoted bonds' for purposes of the Russian Tax Code.

Based on the above, the Issuer should be released from the obligation to withhold the Russian withholding tax from interest payments made to the Noteholders under the Notes provided that the Notes continue to be recognized as 'quoted bonds' for the purposes of the Russian Tax Code as outlined above.

Assuming that the Group companies, to which the Issuer will advance loans out of the proceeds of each respective issuance of the Notes, are not Russian tax residents and their activities are not leading to the creation of a permanent establishment by them in Russia for the purpose of the Russian Tax Code, no Russian withholding tax should be imposed on the interest payments made by such Group companies to the Issuer. Should this assumption prove incorrect, the Group companies should still be released from the obligation to withhold the Russian withholding tax from interest payments made by such Group companies to the Issuer based on the above assumption for the 'quoted bonds' and other applicable provisions of Russian tax law.

Noteholders may not be adequately protected against corporate restructurings or highly leveraged transactions.

The terms of the Notes do not contain provisions that would afford Noteholders protection in the event of a decline in the Group's credit quality resulting from highly leveraged or other similar transactions in which the Group may engage. The Group is also not limited in the amount of other indebtedness or other liabilities that it may incur or securities that it may issue. Noteholders do not have the right to require the Group to repurchase or redeem the Notes in the event of many types of highly leveraged transactions.

Noteholders may face difficulties in enforcing their rights under Sovcomflot's Guarantee or the Notes.

Sovcomflot and most of its subsidiaries are incorporated outside the United States and the United Kingdom, and Noteholders do not have the right to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes, save for lodging a claim in any liquidation proceedings of the Issuer that are initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

Further, the enforceability of the Guarantee issued in connection with the Notes may be subject to numerous legal defenses, some of which could be based upon the structure utilized in this offering. See "*Enforceability of Judgments.*"

The international nature of the Group's operations may make the outcome of any bankruptcy proceedings difficult to predict, and the special bankruptcy and insolvency regime applicable to Sovcomflot in the Russian Federation is generally more protective to the debtor compared to the regime governing the bankruptcy of ordinary business entities.

Sovcomflot is incorporated under the laws of the Russian Federation and the Group's subsidiaries are incorporated under the laws of the Russian Federation, England, Dubai, Cyprus, Liberia, Malta, Panama, Spain and certain other countries, and the Group conducts operations in countries around the world. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving Sovcomflot or any of its subsidiaries, bankruptcy laws of various jurisdictions could apply. This may make the outcome of any bankruptcy proceedings difficult to predict.

In addition, Sovcomflot is on the Russian Federation's list of strategic enterprises, which, among other things, sets out a special bankruptcy and insolvency regime applicable to Sovcomflot, which is generally more protective to the debtor compared to the regime governing the bankruptcy of ordinary business entities. See "*Business Overview—Status as a Strategic Enterprise.*"

The Issuer is subject to risks relating to the location of its center of main interest ("COMI"), the appointment of examiners and the claims of preferred creditors under Irish law.

COMI

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its COMI is in Ireland and, consequently, that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the "**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of May 29, 2000 on insolvency proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if 'factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect.' As the Issuer has its registered office in Ireland, the majority of its directors are tax resident in Ireland, it is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it is asked to make that decision. If the Issuer's COMI is not in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland is, or is likely to be, unable to pay its debts, an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014. The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions by or on behalf of the company after his appointment, and, in certain circumstances, a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish court when (i) a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favor of the proposals, (ii) the relevant Irish court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and (iii) the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer.

If an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of the Issuer rank behind other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes).

OVERVIEW OF THE GROUP

This overview should be understood as an introduction to the Prospectus and highlights information presented in greater detail elsewhere in this Prospectus. This overview is not complete and does not contain all the information you should consider before investing in the Notes. You should carefully read this entire Prospectus before investing, including "Risk Factors," "Business" and the historical financial statements. Every decision to invest in the Notes should be based on an assessment of the entire Prospectus. See "Operating and Financial Review" for information regarding the financial statements, exchange rates and other matters.

Overview

The Group is the largest shipping company in Russia and owns and operates one of the largest modern tanker fleets in the world according to Clarksons Research. As a fully integrated shipowner and manager, the Group is able to provide complex high-end shipping services to the world's leading oil and gas companies for the worldwide transportation of crude oil, oil products and liquefied gas (LNG and LPG), as well as servicing offshore upstream oil and gas installations and equipment. The Group enjoys a reputation for providing services in harsh-weather environments and ice-water conditions with fleet vessels, management systems and personnel specialized in operating in such conditions. A substantial portion of the Group's fleet consists of vessels with ice-class notations, spread across each of the Group's operating sectors. These vessels, which are designed to operate in and withstand harsh weather and ice-water conditions and are customized to their operating sector, operate primarily along the harsh-environment trade routes of the Baltic, Russian and Canadian Arctic and sub-Arctic regions and the northern Far East of Russia. As of December 31, 2016, the Group's fleet consisted of 146 owned and chartered-in vessels of 13.0 million total DWT (13 of which are jointly owned with third parties), including 73 ice-class vessels (50% of the Group's fleet), and the Group operated nine offices worldwide. According to Clarksons Research, the Group is the largest owner of ice-class tankers in the world based on DWT as of March 1, 2017. The Group is also the second largest oil tanker owner in the world by number of vessels, and the largest Russian oil tanker owner by DWT capacity according to Clarksons Research. For the year ended December 31, 2016, the Group generated time-charter-equivalent revenues of US$ 1,142.2 million and Adjusted EBITDA of US$ 706.5 million.

Sovcomflot is currently wholly owned by the Russian Federation and, in 2009, was included on the Russian Federation's list of strategic enterprises and organizations that share a privileged legal status under certain Russian laws (See "*Business Overview—Status as a Strategic Enterprise*"). Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Federation, the Group has an important role in the development of Russia's energy sector, both as the leading energy shipping group in Russia and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's operations to be, in effect, a seaborne extension of the Russian pipeline infrastructure, which positions the Group to benefit from servicing Russian hydrocarbon exports. According to Clarksons Research, Russia was the third-largest crude oil producing country in the world in 2016, and the second largest producer of natural gas in the world in 2016. See "*Industry Overview—The Russian Oil and Gas Sector.*" Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of those oil and gas reserves that are exported by sea.

Since 2005, the Group has expanded significantly through organic fleet growth, acquisitions and contributions to its charter capital, and has grown from a mid-size tanker company to a global leader in energy shipping, providing complex marine logistical solutions. Further, the Group's fleet has more than tripled in DWT capacity and freight and hire revenue since 2005. As of December 31, 2016, the Group had five additional newbuildings under construction, which were expected for delivery in 2017. Two of these newbuildings were delivered to the Group in March 2017. A significant portion of the Group's growth resulted from the acquisition, in December 2007, of an effective 66.5% interest (subsequently increased to an effective 89.5% interest) in PAO Novoship ("**Novoship**") from the Russian Federation. See "*Business Overview—History and Development.*" The rationale for this consolidation was to create a fully integrated Russian shipping company that could compete effectively in both Russian and international shipping markets with a large, high-quality and modern fleet equipped with the latest technology to enable the provision of the broad range of services required by its customers. The Group has significantly broadened the range and capabilities of its vessels and services by entering new market segments in the energy industry, such as the transportation of LNG and LPG; owning and operating shuttle tankers and ice-breaking supply vessels to and from offshore exploration, production and transshipment facilities; all with a focus on providing services in the harsh weather and ice-water conditions in the Baltic, Arctic and Far Eastern regions of Russia. Management believes that this operational expertise should place the Group in a leading position to expand the range of transport and logistics services that it provides to its clients both in Russia and internationally.

The Group's customers include major international oil and gas groups such as BP plc ("**BP**"), Chevron Corporation ("**Chevron**"), ExxonMobil Corporation ("**ExxonMobil**"), Royal Dutch Shell plc ("**Shell**") and Total S.A. ("**Total**"), as well as major Russian oil and gas companies, such as PAO Gazprom ("**Gazprom**"), PAO Lukoil ("**Lukoil**") and PAO Rosneft Oil Company ("**Rosneft**"). In 2016, the portion of the Group's time-charter-equivalent

revenues derived from Russian clients was approximately 41.0%. The Group's customers also include other national oil and gas companies, such as Petrochina Company Limited ("**Petrochina**"), Repsol YPF ("**Repsol**") and Statoil ASA ("**Statoil**"); and international commodity trading houses, such as Glencore International AG ("**Glencore**"), Gunvor International B.V. ("**Gunvor**"), Trafigura Limted ("**Trafigura**") and Vitol Group ("**Vitol**"). Management believes that customers partner with the Group for logistically complex projects due to the Group's extensive operating capabilities, diverse service offering, high-quality fleet, reputation for first-class customer service and financial stability.

The following table shows revenues derived from the Group's major clients as a percentage of time-charter-equivalent revenues in 2016:

Customer	% Time-charter-equivalent revenues
Royal Dutch Shell Group	14.36
Gazprom Group	14.29
Exxon Neftegaz	7.67
PDVSA Group	7.26
Lukoil Group	6.86
Sakhalin Energy Investment Company Limited(1)	4.08
Glencore Group	3.95
Trafigura Group	3.76
Statoil Group	3.64
Total Group	3.39
Vitol Group	3.02
Petrochina Group	2.96
Chevron Group	2.80
Others	21.96
TOTAL	100.0

(1) 51% owned by Gazprom, but operates on the basis of a production-sharing agreement.

The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time charters from a variety of customer groups. Management considers the Group's fleet deployment to be well balanced, with 74.8% of its time-charter-equivalent revenues for the year ended December 31, 2016, 69.7% for the year ended December 31, 2015, and 78.1% for the year ended December 31, 2014 from time charters. As of December 31, 2016, the Group had total future contracted charter-hire revenues of US$ 7.6 billion, including US$ 4.6 billion under contracts whose remaining terms exceeded five years in duration. In addition as of December 31, 2016, the Group's share in the total future contracted charter-hire revenues of the Group's joint ventures were US$ 0.4 billion including US$ 0.2 billion under contracts whose remaining terms exceeded five years in duration (accounted as share of profits in equity-accounted investments). Management believes that this vessel employment mix provides stable revenues and operating cash flows, as well as flexibility in scheduling the deployment of its vessels. Further, Management places great importance on security of income and counterparty creditworthiness with guidelines in place under its chartering risk-management policies to ensure that the Group's income is not overly reliant upon a limited number counterparties. For the year ended December 31, 2016, no single client group accounted for more than 10% of Group time-charter-equivalent revenues, with the exception of Shell and Gazprom, which accounted for 14.36% and 14.29%, respectively.

The Group's operations are organized into five business segments:

- *Crude oil transportation.* This segment transports mainly crude oil for the Group's customers worldwide. As of December 31, 2016, the Group's fleet in this segment consisted of 59 crude oil carriers, representing a total capacity of 7.7 million DWT, and this business segment generated US$ 477.4 million (41.8%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016.

- *Oil products transportation.* This segment transports mainly refined petroleum and other oil products for the Group's customers worldwide. As of December 31, 2016, the Group's fleet in this segment consisted of 40 petroleum product carriers, representing a total capacity of 2.4 million DWT, and this business segment generated US$ 193.3 million (16.9%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016. The Group also operates in this segment 9 petroleum product carriers jointly owned with third parties representing a total capacity of 0.7 million DWT.

- *Gas transportation.* This segment primarily transports LNG and LPG. As of December 31, 2016, the Group's fleet in this segment consisted of four LNG carriers and four LPG carriers, representing a total

capacity of 0.5 million DWT and generated US$ 140.6 million (12.3%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016. The Group also operates four LNG carriers in this segment, jointly owned with third parties, representing a total capacity of 0.3 million DWT.

- *Offshore development services.* This segment contains the Group's shuttle tankers and specialized supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. The Group's supply vessels are dedicated to continuously providing supplies to dedicated offshore facilities. This segment also provides additional services to offshore development facilities, such as the management of floating storage and offloading units ("**FSOs**"), and logistical support. As of December 31, 2016, this segment's fleet consisted of sixteen shuttle tankers with a total capacity of 1.3 million DWT, as well as seven ice-breaking supply vessels, and generated US$ 250.9 million (22.0%) of the Group's time-charter-equivalent revenues.

- *Other marine services.* As of December 31, 2016, this segment's fleet consisted of two dry cargo carriers with a total capacity of 150,000 DWT and one chartered-in seismic vessel, and generated US$ 79.8 million (7.0%) of the Group's time-charter-equivalent revenues.

Summary of the Group's Fleet

The table below sets forth an overview of the Group's vessels as of December 31, 2016, broken down by business segment:

Ship Name	Owned[(1)]	Chartered-in	Newbuilding	Total	Average Age[(2)]
Crude oil tankers	59	-	-	59	10.3
Oil product carriers	49	-	-	49	8.2
LNG and LPG carriers	12	-	1	17	5.4
Shuttle tankers	16	-	-	16	9.1
Ice-breaking platform supply/standby vessels	6	1	4	11	9.2
Bulkers	2	-	-	2	4.0
Seismic research vessels	-	1	-	1	5.3
TOTAL	144	2	5	151	9.3

(1) Includes fully owned vessels, vessels owned through joint ventures and vessels shown as finance leases in the balance sheet.

(2) Average age includes fully owned vessels, vessels owned through joint ventures and chartered-in vessels and is weighted based on the DWT of such vessels.

Key Competitive Strengths

Management believes that the Group has a number of competitive strengths that have enabled it to expand significantly over the last several years and that these strengths will continue to provide it with competitive advantages in the future. The Group's key competitive strengths are summarized below.

- *Global leader across market segments.* The Group is the largest shipping company in Russia in terms of fleet size based on DWT capacity. According to Clarksons Research, the Group was, as of March 1, 2017: the second largest oil tanker owner in the world based on number of vessels in its fleet; the eighth largest oil tanker owner in the world based on DWT capacity; the largest owner of ice-class oil tankers based on DWT capacity; the largest owner of crude Aframax tankers based on DWT capacity; and the eighth largest owner of crude Suezmax tankers in the world based on DWT capacity. The Group is also among the largest owners and operators worldwide of MR product carriers and is the largest operator of Arctic shuttle tankers and the third-largest shuttle tanker owner worldwide (in terms of DWT and vessel numbers). Management believes the Group's position as a market leader in these segments enhances its reputation, which, together with the scale, diversity and quality of the Group's operations, provides it with further opportunities to retain and increase its market positions. Unlike the single-product energy shipping companies that make up a large portion of the Group's competitors, the Group's business is diversified across a number of energy-related shipping sectors. Management believes this renders the Group better able to expand its existing client relationships and withstand adverse market trends affecting particular sectors. Moreover, the Group is the largest Russian owner of LNG carriers and the second largest ice-class LNG owner worldwide based on number of vessels as of March 1, 2017 according to Clarksons Research.

- *Modern and diverse fleet enabling a broad product offering.* The Group operates one of the youngest and most modern fleets in the world among major tanker owners with a weighted average age of 9.3 years as of

December 31, 2016, compared to a weighted average fleet age of approximately 11 years for the world fleet over 5,000 DWT, according to Clarksons Research. In addition, all of the Group's tankers are double-hulled. Management believes that operating a modern fleet of double-hulled tankers gives the Group an important competitive advantage relative to other operators, particularly in view of increasingly stringent regulatory, port and customer requirements. The Group's fleet includes conventional and ice-class crude oil, oil products, LNG and LPG carriers, specialized shuttle tankers, supply vessels and seismic vessels. The diversity of the Group's fleet, combined with its broad technological and operational expertise enables the Group to offer to customers a comprehensive range of tailored and high-quality energy transportation services.

- *Balanced mix of contract terms with strong portfolio of long-term fixed rate contracts.* The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of its time-charter-equivalent revenues from fixed-rate time charters. Management considers the Group's fleet deployment to be well balanced, with 74.8% of its time-charter-equivalent revenues for the year ended December 31, 2016, 69.7% for the year ended December 31, 2015, and 78.1% for the year ended December 31, 2014 from time charters. As of December 31, 2016, the Group had total future contracted charter-hire revenues of US$ 7.6 billion, including US$ 4.6 billion under contracts whose remaining terms exceeded five years in duration. In addition as of December 31, 2016, the Group's share in the total future contracted charter-hire revenues of the Group's joint ventures were US$ 0.4 billion including US$ 0.2 billion under contracts whose remaining terms exceeded five years in duration (accounted as share of profits in equity-accounted investments). Time charters provide predictability of cash flows and reduce fluctuations in revenues. At the same time, contracts of affreightment reduce unnecessary waiting times for cargoes and increase fleet utilization, and spot charters provide flexibility for ship scheduling while exposing the Group to market rate fluctuations.

- *Well positioned to serve the large Russian energy export market.* According to the EIA, Russia holds the largest natural gas reserves in the world and has significant oil reserves. In addition, the Russian Federation is committed to maintaining its pivotal role in the global oil and gas industry. A scenario by the IEA places Russian natural gas production at more than 700 cubic meters by the end of 2040, and crude oil production is expected to remain stable. Management estimates that the Group carried approximately 16% of Russian seaborne exports of hydrocarbons in 2016 and lifted a significant portion of crude oil produced from offshore production platforms along the Russian coasts. As a result, the Group is the leading seaborne exporter of Russian hydrocarbons. Management believes the Group is well positioned to maintain its leading position in servicing seaborne trade in hydrocarbons in Russia and to capture a significant portion of future growth in this market.

- *Strong, long-term relationships with high-credit-quality customers.* The Group has developed strong relationships with a broad and diverse list of major Russian and international oil, energy and utility groups, such as BP, Chevron, ExxonMobil, Gazprom, Lukoil, Petrochina, Phillips66, Rosneft, Shell, Statoil and Total. The Group attributes the strength and longevity of its customer relationships, and the opportunity to partner with these high-credit-quality customers on many long-term, logistically complex projects, to the diversity and depth of the Group's service offering, the Group's reputation for consistent delivery of high-quality services and the Group's financial stability. The Group often provides services on a sector-specific basis, but for its largest customers, the Group is able to provide services across a number of sectors.

- *Focus on harsh-environment operations in the offshore sector*. The Group has focused its development in the offshore sector exclusively on providing services and vessels that are designed to operate in harsh environments and ice-water conditions. The vessels and their operation are specifically designed for the upstream installations and equipment which the vessels support. These vessels are essential assets integral to the operation of the upstream installations for which they were designed and constructed, and are often irreplaceable at short notice. Accordingly, charter contracts for these vessels tend to be for longer durations with fewer termination provisions for cause than is customary in the conventional offshore support vessel industry. The skill-sets imbedded within the Group's naval architecture team, the crews at sea and ship management ashore provide an integral part of the services provided beyond the vessels themselves. Management believes that this represents a significant barrier to competition entry.

- *Strong management team focused on operational excellence.* The Group has a highly experienced management team that focuses on operational excellence and emphasis on high-quality, cost-efficient operations and safety. Management believes the Group benefits from higher quality control over the commercial and technical management of its vessels due to its in-house operational expertise. Moreover, the Group's safety strategy focuses on in-house training, development and retention of the most highly qualified seamen, primarily from Russian state maritime academies. As a result, Management believes the

Group is an industry leader in safety management and environmental standards and in developing and implementing technical innovations in the energy transportation industry to promote safety and efficiency.

- *Strong and sustainable financial profile.* The Group has maintained a credit rating from Moody's since July 2005 and is currently rated Ba1 with a stable outlook by Moody's, BB+ with a stable outlook by S&P, and BB with a stable outlook by Fitch. The Group generates substantial cash flow from its operations and has strong access to liquidity, as well as a conservative total debt-to-capitalization ratio. As of December 31, 2016, the Group had total cash and bank deposits of US$ 480.6 million, aggregate undrawn revolving credit facilities of US$ 40.0 million and a ratio of net debt to total capitalization of 42.8%. The Group's high liquidity and relatively low leverage ratio provide the Group with capacity for additional financing to obtain new vessels. See "*Operating and Financial Review—Liquidity and Capital Resources*" and "*Selected Consolidated Financial and Operating Information.*"

Group Strategy

On November 19, 2014, the Board of Directors of Sovcomflot approved the Group's long-term development program for 2014–2020. Sovcomflot's Board of Directors and Management have developed this strategic plan in line with programs and strategies that have been published by the Russian Government. The Group's development program sets forth the following strategies, which Management continues to monitor, develop and implement on an ongoing basis:

- *Maintain the leading position in exporting Russian hydrocarbons.* Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Government (see "*Business Overview—Status as a Strategic Enterprise*"), the Group has an important role in the development of Russia's energy sector. Management considers the Group's operations to be, in effect, a seaborne extension of the Russian pipeline infrastructure, and Management estimates that the Group carried approximately 16% of Russian seaborne exports of hydrocarbons in 2016 and lifted a significant portion of crude oil produced from offshore production platforms along the Russian coasts. As a result, the Group is the largest carrier of seaborne hydrocarbon exports from Russia. The Group's strategy is to leverage its leading position to increase its market share in servicing Russian offshore upstream projects and exporting Russian hydrocarbons.

- *Develop as an integrated offshore upstream services provider with a specific focus on operating in the harsh environment and ice conditions of the Arctic and sub-Arctic areas*. The Group currently operates a technologically advanced fleet that is able to serve large-scale integrated industrial projects, primarily in the Arctic and sub-Arctic areas. These projects require highly specialized vessels and specifically trained crew, which provide significant barriers to entry to potential competitors, as well as premium charter rates compared to traditional tanker and offshore market segments. In addition, the cost, risk and potential delay associated with switching such specialist service providers may often deter customers from doing so. As the largest owner worldwide of ice-class tankers and a diversified energy shipping company, Management aims to leverage the Group's integrated expertise to gain market share in the Russian market for offshore oil and gas development. In the year ended December 31, 2016, industrial projects accounted for 35.7% of the Group's time-charter-equivalent revenues, as compared to 64.3% accounted for by conventional shipping services. The Group aims to increase the share of industrial projects in the revenue mix to 50% by year-end 2020.

- *Maintain the Group's status as a 'preferred carrier' for oil and gas majors by focusing on a diverse and high-quality service offering*. The Group was the second largest oil tanker owner in the world based on the number of vessels as of March 1, 2017, according to Clarksons Research, and Management aims to maintain the Group's status as a preferred carrier for both Russian and international oil and gas majors. Management aims to leverage the Group's large, modern and technologically advanced fleet, together with its integrated services to meet the varying and complex needs of international oil and gas companies. These companies increasingly require younger vessels, such as the Group's, in order to meet heightened safety and emissions standards. Moreover, Management intends to leverage the Group's integrated services offering to expand its existing relationships with Russian and international oil and gas companies. Finally, Management intends to maintain and enhance the Group's reputation as a leader in safety management, which Management believes will continue to increase the Group's attractiveness to Russian and international oil and gas companies.

- *Strengthen the Group's market positions by renewing and selectively expanding its fleet*. Management intends to expand the number and types of vessels the Group operates in its core segments over the next several years, while maintaining its conservative financial profile. In Russia, Management believes that maintaining the size of the Group's ice-class fleet will allow the Group to retain its leading position in the Russian energy export market. Moreover, Management expects to invest in additional highly specialized

shuttle tankers, LNG carriers and supply vessels, designed to operate in the harsh environment and ice-water conditions of the Arctic and Far Eastern regions of Russia, that can be used in the Group's integrated offshore services. Management believes these investments will allow the Group to maintain and strengthen its market positions in Russia. In addition, Management plans to invest in renewal of the Group's tanker fleet to maintain its market position with international oil and gas companies and to comply with tightening regulatory requirements.

- *Focus the Group's investment policy on the needs of core Russian and international oil and gas clients.* The Group's investment program has been designed to focus on the changing needs of the Group's core customers, with a particular emphasis on long-term industrial projects that can deliver recurring and predictable cash flows, particularly in the Baltic, Arctic and Far Eastern regions of Russia, where the Group has competitive advantages. Management intends to remain consistent as regards the size of its annual investments in the coming years, particularly in order to grow its offshore development and LNG transportation services and renew its crude oil and oil products tanker fleet.

Organizational Structure and Corporate Information

Sovcomflot is a holding company, and Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are each owned and financed by individual wholly owned subsidiaries (the "**vessel holding companies**") of the Group's intermediate holding companies, Intrigue, SCF Gas Carriers Limited ("**SCF Gas Carriers**"), SCF Supply Vessels Limited ("**SCF Supply Vessels**") and SCF Tankers. Ship management services for the Group's vessels are primarily provided by Sovcomflot's subsidiaries SCF Management Services (Dubai) Ltd. for international flag vessels and SCF Management Services (St. Petersburg) for Russian-flag ships.

Sovcomflot is a public joint-stock company organized under the laws of the Russian Federation, including Federal Law No. 208-FZ 'On Joint Stock Companies,' dated December 26, 1995, as amended (the "**Russian Joint Stock Companies Law**"), with the main state registration number 1027739028712, and was originally incorporated in 1988. Sovcomflot's registered office is located at 3, Lit. A, Moika River Embankment, Saint-Petersburg, 191186, Russian Federation and the telephone number of its registered office is +7 (812) 385 94 10.

The Issuer, SCF Capital Designated Activity Company, was incorporated in Ireland (as SCF Capital Limited) on August 16, 2010, with registered number 487769 initially as a private company with limited liability under the Companies Acts 1963-2009 and was subsequently converted to a designated activity company under the Company Act 2014 of Ireland. The registered office of the Issuer is Pinnacle 2, East Point Business Park, Dublin 3, Ireland and its telephone number + 353 1 680 6000. The Issuer is a wholly owned subsidiary of SCF Overseas Holding Limited, which is a wholly owned subsidiary of Sovcomflot. The Issuer is organized as a special purpose company and was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to advance loans to Group companies. Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of debt securities.

Risk Factors

Investing in the Notes involves risks. See "*Risk Factors*" for a discussion of certain factors that should be considered in connection with an investment in the Notes.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The summary consolidated financial information as of and for the fiscal years ended December 31, 2016, December 31, 2015, and December 31, 2014 has been derived from the Group's audited consolidated financial statements included in this Prospectus. The audited consolidated financial statements of the Group as of and for the fiscal years ended December 31, 2016, December 31, 2015 and December 31, 2014 included in this Prospectus have been prepared in accordance with IFRS, which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board, and have been audited by Ernst & Young LLC, the Group's independent registered public accounting firm, who are members of the self-regulatory organization of auditors "Russian Union of Auditors" (Association).

The summary financial and operating information set forth below should be read in conjunction with "*Operating and Financial Review*" included elsewhere in this Prospectus and Sovcomflot's financial statements and the notes to those financial statements included in this Prospectus. Due to certain reclassifications in the Group's financial statements for the year ended December 31, 2015, the comparative figures for the year 2014 have been adjusted in order to be consistent with the presentation for 2015. This is fully explained in note 4 to the financial statements for the year ended December 31, 2015.

Summary Consolidated Income Statement

	Year Ended December 31,		
	2016	**2015**	**2014**
	(in thousands of U.S. dollars)		
Freight and hire revenue	1,388,127	1,483,002	1,377,880[(1)]
Voyage expenses and commissions	(245,941)	(242,916)	(333,904)
Time-charter-equivalent revenues	1,142,186	1,240,086	1,043,976
Direct operating expenses			
Vessels' running costs	(318,293)	(338,745)	(349,116)
Charter hire payments	(25,791)	(52,812)	(52,675)
	(344,084)	(391,557)	(401,791)
Net earnings from vessels' trading	798,102	848,529	642,185
Other operating revenues	18,036	20,215	31,907
Other operating expenses	(9,443)	(10,814)	(24,605)
Depreciation, amortization and impairment	(355,790)	(312,871)	(321,533)
General and administrative expenses	(115,645)	(105,914)	(104,010)
(Loss)/gain on sale of assets	(483)	9,895	9,904
Loss on sale of subsidiary	-	(727)	-
Gain/(loss) on sale of equity-accounted investments	-	5,402	(356)
Allowance for credit losses	84	(782)	1,848
Share of profits in equity-accounted investments	12,939	15,765	12,874
Operating profit	347,800	468,698	248,214
Other (expenses)/income			
Financing costs	(162,664)	(140,492)	(138,325)
Interest income	18,303	16,749	16,672
Other non-operating income	15,000	40,559	3,402
Other non-operating expenses	(4,930)	(4,868)	(8,620)
Gain on ineffective hedging instruments	1,032	683	442
Gain on derivative financial instruments held for trading	-	-	6,164
Foreign exchange gains	29,078	17,212	21,026
Foreign exchange losses	(10,142)	(26,765)	(57,996)
Net other expenses	(114,323)	(96,922)	(157,235)
Profit before income taxes	233,477	371,776	90,979
Income tax expense	(26,684)	(17,304)	(7,085)
Profit for the period	206,793	354,472	83,894
Profit attributable to:			
Owners of the parent	202,490	339,461	80,058
Non-controlling interests	4,303	15,011	3,836
	206,793	354,472	83,894

(1) In order to be consistent with the presentation for 2015, address commissions of US$ 9.5 million for the year ended December 31, 2014 were reclassified from voyage costs and commissions to be presented as a reduction in freight and hire revenue. This is fully disclosed in note 4(a) to the Group's audited consolidated financial statements for the year ended December 31, 2015.

Summary Consolidated Statements of Financial Position

	As of December 31,		
	2016	**2015**	**2014**
	(in thousands of U.S. dollars)		
Assets			
Non-current assets			
Fleet	5,895,365	5,388,542	5,278,983
Vessels under construction	225,814	368,453	237,250
Other property, plant and equipment	58,746	60,284	70,657
Intangible assets	3,961	4,668	3,989
Investment property	864	7,468	10,341
Investments in associates	131	104	118
Investments in joint ventures	114,761	98,306	82,430
Available-for-sale investments	760	1,012	1,012
Loans to joint ventures	45,574	52,468	59,942
Finance lease receivables	-	66,956	71,469
Derivative financial instruments	7,146	8,050	7,438
Trade and other receivables	2,783	2,812	180
Deferred tax assets	4,663	7,387	3,575
Restricted cash	-	13,190	17,183
Bank deposits	10,000	10,000	12,315
	6,370,568	6,089,700	5,856,882
Current assets			
Inventories	53,368	37,568	45,825
Loans to joint ventures	4,750	8,320	4,750
Derivative financial instruments	373	-	-
Trade and other receivables	173,022	174,605	149,112
Finance lease receivables	-	4,875	4,193
Current tax receivable	4,089	888	593
Restricted cash	72,079	-	6,060
Cash and bank deposits	470,638	357,427	272,201
	778,319	583,683	482,734
Non-current assets held for sale	8,360	28,130	93,163
	786,679	611,813	575,897
Total assets	7,157,247	6,701,513	6,432,779
Equity and liabilities			
Capital and reserves			
Share capital	405,012	405,012	405,012
Reserves	3,048,858	2,916,047	2,596,080
Equity attributable to the owners of the parent	3,453,870	3,321,059	3,001,092
Non-controlling interest	150,446	159,922	156,389
Total equity	3,604,316	3,480,981	3,157,481
Non-current liabilities			
Trade and other payables	37,504	16,045	330
Secured bank loans	1,903,365	1,596,434	1,587,956
Finance lease liabilities	-	173,690	183,810
Derivative financial instruments	21,624	32,135	37,808
Retirement benefit obligations	3,419	3,067	3,390
Other loans	737,076	875,492	842,882
Provisions	-	-	3,244
Deferred tax liabilities	858	776	1,258
	2,703,846	2,697,639	2,660,678
Current liabilities			
Trade and other payables	214,784	181,676	183,998
Other loans	139,896	16,984	-
Secured bank loans	290,460	289,142	394,652
Finance lease liabilities	173,690	10,120	9,481

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Current tax payable	14,809	2,042	1,653
Derivative financial instruments	15,446	22,929	24,836
	849,085	522,893	614,620
Total liabilities	3,552,931	3,220,532	3,275,298
Total equity and liabilities	7,157,247	6,701,513	6,432,779

Summary Consolidated Cash Flow Statements

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Net cash inflow from operating activities	743,918	735,703	491,100
Net cash outflow used in investing activities	(677,558)	(412,861)	(368,942)
Net cash inflow/(outflow) from financing activities	27,364	(229,626)	(97,598)

Other Financial and Operating Data

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Secured bank loans	2,193,825	1,885,576	1,982,608
Finance lease liabilities	173,690	183,810	193,291
Other loans	876,972	892,476	842,882
Less: cash and bank deposits	(480,638)	(367,427)	(284,516)
Less: restricted cash	(72,079)	(13,190)	(23,243)
Net debt	2,691,770	2,581,245	2,711,022

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
EBITDA[(1)]	733,628	808,390	534,165
Adjusted EBITDA[(1)]	706,455	780,055	575,938
Ratio of net debt/capitalization[(2)]	42.8%	42.6%	46.2%
Total voyage days for fleet[(3)]	44,113	45,006	47,064
Total time-charter days for fleet	26,094	29,443	31,563
Total spot market days for fleet	18,019	15,563	15,501

(1) EBITDA represents earnings before interest, taxes, depreciation, amortization and impairment. Adjusted EBITDA represents EBITDA before other non-operating expenses, other non-operating income, gain/(loss) on derivative financial instruments held for trading, gain/(loss) on ineffective hedging instruments, loss on sale of subsidiaries, foreign exchange gains/(losses), gain/(loss) on sale of equity-accounted investments, other operating revenues, other operating expenses, plus finance lease interest receivable.

EBITDA and Adjusted EBITDA are used as supplemental financial measures by Management and by external users of the Group's financial statements, such as investors, as discussed below:

— *Financial and operating performance*. EBITDA and Adjusted EBITDA assist Management and security holders by increasing the comparability of the Group's fundamental performance from period to period and against the fundamental performance of other companies in the Group's industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. Management believes that including EBITDA and Adjusted EBITDA as a financial and operating measure benefits security holders in (a) selecting between investing in the Group and other investment alternatives and (b) monitoring the Group's ongoing financial and operational strength and health in assessing the Group's ability to meet its debt obligations and whether to hold the Group's securities.

— *Liquidity.* EBITDA and Adjusted EBITDA allow Management to assess the ability of assets to generate cash sufficient to service debt, pay dividends and undertake capital expenditures. By eliminating the cash flow effect resulting from the Group's existing capitalization and other items that may vary significantly from period to period, EBITDA and Adjusted EBITDA provide a consistent measure of the Group's ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) the Group's capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of the Group's dividend policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits security holders to assess the fundamental ability of the Group's business to generate cash sufficient to meet cash needs, including repayments under debt instruments.

EBITDA and Adjusted EBITDA are not determined in accordance with IFRS or any other generally accepted accounting principles and should not be considered as an alternative to profit for the period, operating profit, profit from vessels' operations or any other measure of financial performance or liquidity presented in accordance with IFRS. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect profit for the period and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies. See "*Presentation of Financial and Other Data*."

The following table reconciles the Group's historical consolidated EBITDA and Adjusted EBITDA to profit for the period:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Reconciliation of EBITDA and Adjusted EBITDA to profit for the period			
Profit/(loss) for the period	206,793	354,472	83,894
Income tax expense	26,684	17,304	7,085
Financing costs net of interest income	144,361	123,743	121,653
Depreciation, amortization and impairment	355,790	312,871	321,533
EBITDA	733,628	808,390	534,165
Other non-operating income	(15,000)	(40,559)	(3,402)
Other non-operating expenses	4,930	4,868	8,620
Gain on ineffective hedging instruments	(1,032)	(683)	(442)
(Gain)/loss on derivative financial instruments	-	-	(6,164)
Loss on sale of subsidiary	-	727	-
Foreign exchange gains	(29,078)	(17,212)	(21,026)
Foreign exchange losses	10,142	26,765	57,996
(Gain)/loss on sale of equity-accounted investments	-	(5,402)	356
Finance lease interest receivable	11,458	12,562	13,137
Other operating revenues	(18,036)	(20,215)	(31,907)
Other operating expenses	9,443	10,814	24,605
Adjusted EBITDA	706,455	780,055	575,938

(2) Net debt includes total secured bank loans, other loans and finance lease liabilities after deducting cash and bank deposits and restricted cash. Capitalization is the sum of net debt and total equity.

Ratio of net debt/capitalization is the ratio of net debt to capitalization. The capital structure of the Group consists of net debt and total equity. The ratio of net debt to capitalization as a measure represents the Group's financial leverage and the Group's capital structure, calculated as the Group's net debt divided by its total capitalization. Net debt includes total secured bank loans, other loans and finance lease liabilities after deducting cash and bank deposits and restricted cash. Total capitalization comprises the Group's net debt and shareholders' equity, which includes share capital, share premium, accumulated reserves attributable to owners of the parent and non-controlling interests. The Group reviews its capital structure by applying the ratio of net debt to capitalization in combination with other measures and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the Group's activities. The ratio of net debt to capitalization is considered to be a useful measure as it highlights the extent to which the Group's operations are financed through debt or equity, highlighting the Group's financial position, credit position and borrowing capacity

The following table reconciles the Group's ratio of net debt/capitalization to IFRS line items:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Reconciliation of the Group's ratio of net debt/capitalization			
Secured bank loans	2,193,825	1,885,576	1,982,608
Finance lease liabilities	173,690	183,810	193,291
Other loans	876,972	892,476	842,882
Less: cash and bank deposits	(480,638)	(367,427)	(284,516)
Less: restricted cash	(72,079)	(13,190)	(23,243)
Net debt	2,691,770	2,581,245	2,711,022
Total equity	3,604,316	3,480,981	3,157,481
Total capitalization	6,296,086	6,062,226	5,868,503
Ratio of net debt/capitalization	42.8%	42.6%	46.2%

(3) Total voyage days for fleet are the total days the Group's vessels were in the Group's possession for the relevant period, net of off-hire days associated with major repairs, drydockings or special or intermediate surveys.

USE OF PROCEEDS

The gross proceeds from the offering of the Further Notes (including accrued interest in respect of the period from December 16, 2016 to the Closing Date) are expected to be US$ 156,705,125 before deducting commissions and expenses related to the offering, which are estimated to be approximately US$ 1,000,000. Net proceeds from the offering, after deducting commissions and expenses related to the offering and the accrued interest paid to the Issuer, will be used for the repayment of existing indebtedness of the Group in an amount of up to approximately US$153,300,000. No individual or entity within the Group has been designated for sanctions under the law of the United States or the European Union, and the proceeds of the offering of Further Notes shall not be, directly or indirectly, used to fund any activities of or business with any person that, at the time of such funding, is the subject or the target of EU or U.S. sanctions.

CAPITALIZATION

The following table shows the Group's capitalization as of December 31, 2016, on an actual basis. These figures have been prepared in a manner consistent with the Group's accounting practices. You should read this table together with the Group's financial statements and the notes to those financial statements included in this Prospectus, "*Operating and Financial Review—Liquidity and Capital Resources*". Except as set forth below in relation to the receipt of the net proceeds of the Further Notes, there have been no material changes to the Group's capitalization since December 31, 2016.

	As of December 31, 2016 [(1)]
	(in thousands of U.S. dollars)
Current debt	
Secured bank loans	290,460
Finance lease liabilities	173,690
5.375% Senior Notes due 2017	139,896
Total current debt	604,046
Non-current debt	
Secured bank loans	1,903,365
Finance lease liabilities	-
5.375% Senior Notes due 2017	-
5.375% Senior Notes due 2023	737,076
Total non-current debt	2,640,441
Total debt	3,244,487
Less cash and bank deposits	480,638
Less restricted cash	72,079
Net debt	2,691,770
Equity	
Share capital	405,012
Reserves	3,048,858
Equity attributable to the owners of the parent	3,453,870
Non-controlling interest	150,446
Total equity	3,604,316
Total capitalization	6,296,086

(1) The Group expects to receive net proceeds from the offering of the Further Notes of approximately U.S.$155,705,125, including interest accrued (taking into account the estimated total commissions and expenses payable in relation to the offering of the Further Notes and the admission to trading of the Further Notes, which are expected to be approximately US$1,000,000).

INDUSTRY OVERVIEW

The information and data contained in this Prospectus relating to the international shipping industry that have been provided by, and are attributed to, Clarksons Research are taken from Clarksons Research's database and other sources. Clarksons Research has advised that: (a) some information in Clarksons Research's database is derived from estimates or subjective judgements; (b) the information in the databases of other maritime data collection agencies may differ from the information in Clarksons Research's database; (c) while Clarksons Research has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures.

The global shipping industry provides a crucial worldwide connection between nations and regions through reliable, cost-effective international trade, and the industry has facilitated the expansion of economic globalization and interdependence for centuries. The shipping industry incorporates the transportation of any unitized seaborne cargo, which may include a broad range of wet and dry bulk products, such as coal, iron ore, grain, crude oil or its refined products, liquefied gases, containerized finished goods, automobiles and livestock. While the scope of cargo is diverse, the key benefit of the shipping industry has been its ability to provide efficient transportation services that are technically and economically advantageous relative to alternative modes of transportation by land or air.

The Group is engaged principally in providing seaborne transportation services to the global energy industry, encompassing the following sectors: crude oil shipping, oil products shipping, LNG shipping, LPG shipping and dry bulk shipping with an emphasis on the seaborne carriage of coal. In addition to these sectors, the Group provides infrastructure and logistical services to the energy industry through its terminal operations services, its shuttle tanker operations and offshore support and seismic vessel operations.

The freight and hire rates in the international shipping industry are determined and influenced by a variety of supply and demand factors, and, while there is significant overlap between the sectors in which the Group operates, each sector has its own supply and demand drivers and underlying supply and demand fundamentals. Generally, Management believes the primary determinants for freight and hire rates in the sectors in which the Group operates include: (1) the demand for cargo to be transported, (2) the supply of appropriate vessels that are available to ship specified cargoes, (3) seasonality in the demand for cargo transportation services, particularly within hydrocarbon industries, (4) international relations between nation states and (5) short-term influences, such as those caused by weather patterns.

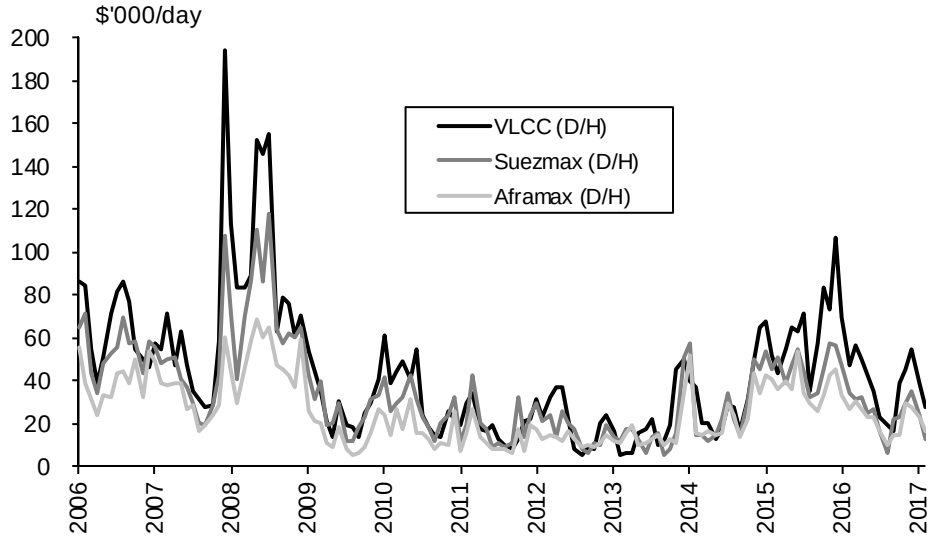
This section should be read in conjunction with the description of the Group's business and activities in each of these sectors contained in "*Business*."

Crude Oil Shipping

Introduction

Crude oil tankers transport crude oil or, where capable, certain refined crude oil products between oil production locations or reservoirs and oil consumption locations, typically in refineries or storage facilities. Customers in this sector include integrated oil companies, specialized oil companies, oil traders, refineries, government agencies and storage facility operators. Crude oil transportation is contracted predominantly in the form of spot charters, which provide transport for a specific cargo from a load port to a discharge port, time charters, where the charterer operates the vessel for a designated period of time, or contracts of affreightment where a shipowner agrees to carry a series of cargo parcels for a fixed price. The pricing of crude oil transportation occurs in a highly competitive global charter market for tankers and is conducted between the vessel owners or operators and the parties contracting for the carriage of cargo, typically known as charterers. The contracting in this sector can occur either directly between charterers and vessel operators or through the use of market intermediaries. Freight and hire rates for crude oil shipping vessels trading under spot charters are very sensitive to oil production trends and oil prices as well as the demand for and supply of tankers, and rates are consequently volatile and tend to be somewhat seasonal. In 2015, average annual spot earnings in the VLCC, Suezmax and Aframax sectors were the highest since 2008, although average spot earnings were weaker across 2016, with crude Aframax average spot earnings having declined by 39% year on year in 2016, albeit still 17% above the average between 2009 and the end of 2016. The following chart and table set forth the global average spot time-charter-equivalent earnings for VLCC, Suezmax and Aframax vessels in this sector over the last ten years:

Historical Nominal Tanker Spot Earnings (Modern Vessels)



Note: Average time-charter-equivalent earnings (TCE) are calculated by Clarksons Research using the assumptions for VLCC, Suezmax and Aframax tankers described in Shipping Intelligence Weekly. Data to February 2017. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time. Source: Clarkson Research, March 2017.

	Historical Crude Tanker Rates (Nominal)			
	Average Spot Rates (TCE)		One Year Timecharter	
US$/day	Suezmax	Aframax	Suezmax	Aframax
2016	27,260	22,885	27,229	21,491
2017 (YTD)	18,224	19,343	21,375	17,297
February 2017	12,869	16,231	20,750	16,875
5-Year Avg	26,567	22,598	24,039	18,660
5-Year Peak	57,662	53,728	40,875	30,000
5-Year Trough	5,331	8,878	15,246	13,000
10-Year Avg	31,965	23,776	28,571	21,309
15-Year Avg	37,933	28,577	30,910	23,516

Source: Clarksons Research, March 2017.

(1): Data to February 2017. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time.

(2): Average spot rates are calculated by Clarksons Research using the assumptions for Suezmax and Aframax tankers described in Shipping Intelligence Weekly.

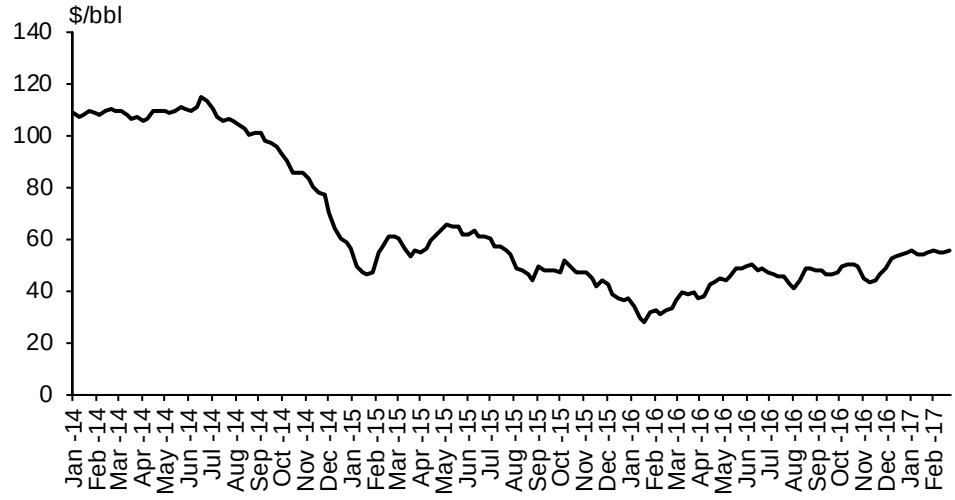
(3): 5-year figures are based on March 2012 to February 2017 end-month data. 10-year figures are based on March 2007 to February 2017 end-month data. 15-year figures are based on March 2007 to February 2017 end-month data. Basis monthly observations.

Demand

The demand for crude oil transportation services is driven by a combination of factors, including the global supply and demand for oil and the location and accessibility of oil production supplies relative to the principal locations for discharging such oil. The measure of demand for crude oil shipping services is commonly expressed in "ton-miles," which is the product of the volume of crude oil (in metric tons) to be transported in seagoing vessels and the distance over which such crude oil is to be transported. Macroeconomic forces, both globally and regionally, have a significant impact upon world oil consumption and, consequently, upon the volume of oil to be transported by sea. Moreover, the average distance that oil transported by sea travels is primarily affected by seaborne trading and distribution patterns, which are influenced by the location of oil production, as well as the optimum distribution of such oil into refineries and other distribution channels. As a result, seaborne trading patterns heavily influence the ton-mile dynamic of crude oil shipping demand, and such patterns are in turn determined by a combination of economic and geographic considerations, seasonal variations, environmental influences, exceptional climatic conditions, geopolitical events, competition from alternative energy sources and the development of new regions of crude oil production. According to Clarksons Research, the ton-mile demand of crude oil is estimated to have grown at a compound annual growth rate of 0.9% between 2006 and 2016, compared with an estimated compound annual growth rate in the volume of oil produced of 0.3% over the same period. Following the financial crisis of 2008 and a

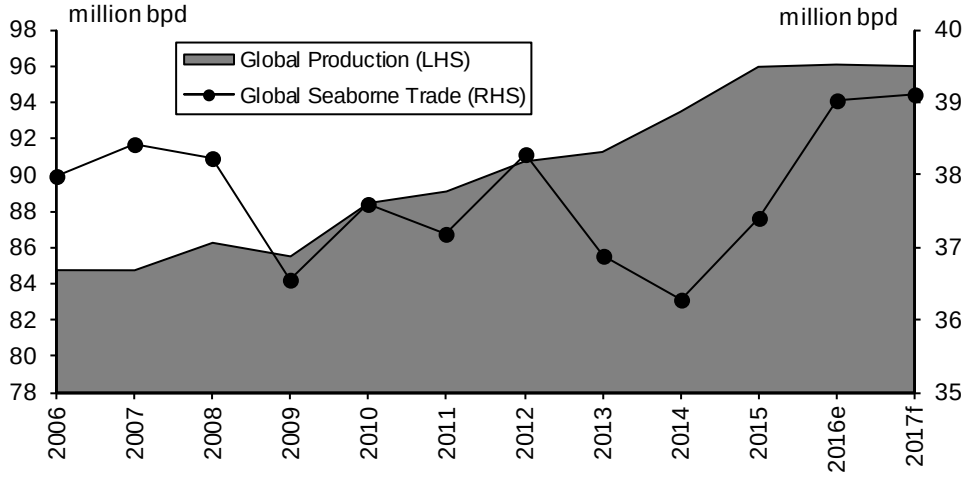
notable contraction in trade in 2009, trade has recovered and exceeded pre-2008 levels. In 2016, crude oil trade grew by an estimated 4.4% according to Clarksons Research, the fastest rate of growth since 2004. The following charts illustrate the recent developments of the oil price and of global seaborne movements of crude oil over the last ten years:

Weekly Brent Crude Oil Spot Price



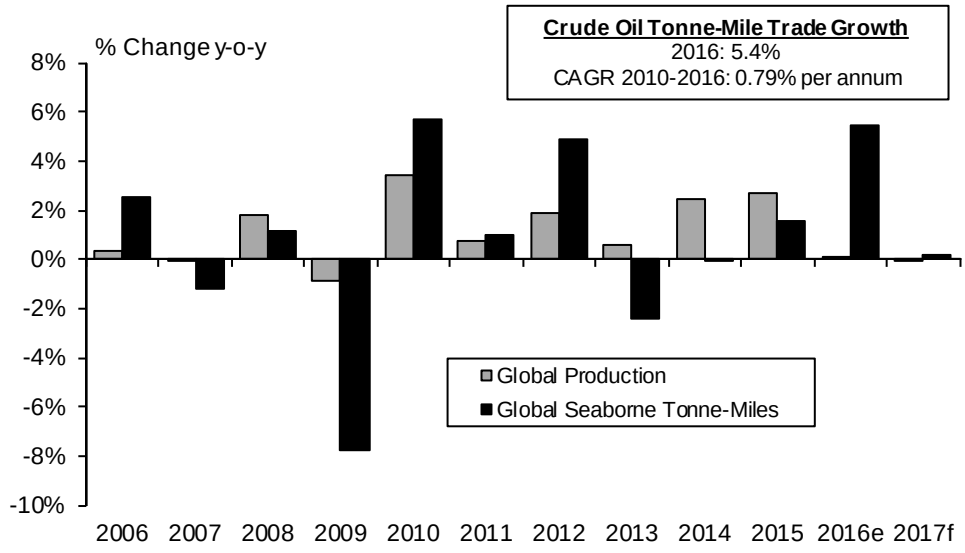
Source: EIA, March 2017.

Global Crude Oil Production and Seaborne Trade



Source: Clarksons Research, March 2017.

Global Crude Oil Production and Seaborne Trade Growth



Source: Clarksons Research, March 2017.

Supply

The global supply of crude oil tankers increases as newbuildings are delivered into the world fleet and decreases with the removal of older vessels by demolition or otherwise. Vessels can also be removed from the world fleet as a result of casualties or the conversion of vessels to alternative uses, such as dry bulk carriers or FSOs or floating production, storage and offloading units ("**FPSOs**"). The short-term supply of such vessels is also affected by other factors, such as the temporary decommissioning of vessels from cargo service ("laying-up"), the number of vessels engaged in storage contracts, awaiting repairs or drydocked.

Permanent removal of a vessel from the world fleet can take place within a relatively short time frame, typically within three months. The construction of a newbuilding crude oil tanker, however, typically requires between 18 months and three years from contract signing to delivery of the vessel by the shipyard, depending on the schedule of the relevant shipyard's order-book. Converting crude oil tankers to alternative uses, such as the transportation of "clean" oil products, usually requires approximately 12 months.

The global crude oil shipping fleet is generally divided into three main vessel types that are distinguished principally by vessel size and carrying capacity. These main types are:

- Very large crude carriers ("**VLCC**"): These vessels are generally between 200,000 DWT and 320,000 DWT in size and have carrying capacities of approximately two million barrels or more of crude oil. Vessels in excess of 320,000 DWT are commonly referred to as Ultra-Large Crude Carriers. According to Clarksons Research, VLCCs carry approximately 50% of the global volume of crude oil transported by sea, and these vessels principally operate on long-haul voyages where the economies of scale of these vessels provide the charterer with the lowest transportation costs per barrel of oil. Port and terminal size and other geographical factors, such as channel depth and air draft limitations, restrict the range of places where VLCCs may trade, with the principal VLCC routes being from the Middle East to Asia, Europe, and the United States, as well as from West Africa and the Caribbean to Asia. It is common for VLCCs to carry exclusively crude oil, though occasionally storage or trade specific contracts are undertaken for refined products.

- Suezmax tankers: These vessels are generally between 125,000 DWT and 199,999 DWT in size and have carrying capacities of approximately one million barrels of crude oil. Suezmax tankers are utilized on medium- and long-haul voyages where economies of scale provide the charterer with lower transportation costs per barrel of crude oil and where geographical or other restrictions prevent the use of VLCCs. The principal Suezmax routes are from West Africa to Europe, India and the United States, from the Black Sea to the Mediterranean, intra-Mediterranean voyages and from the Middle East to Southeast Asia and China. Suezmax vessels predominantly carry crude oil though occasionally storage or trade specific contracts are undertaken for refined products. By definition, Suezmax tankers are of the largest size and draft able to transit the Suez Canal fully loaded.

- Aframax tankers: These vessels are generally between 85,000 DWT and 124,999 DWT in size and have carrying capacities of between 600,000 and 750,000 barrels of crude oil. Aframax tankers are utilized on medium- and short-haul voyages to serve ports and other locations that are unable to accommodate larger vessels. The principal Aframax routes are from the Baltic Sea, North Sea and Black Sea to Europe, intra-Mediterranean voyages, from the Caribbean and Mexico to the United States, from Indonesia to Asia and Australasia, from the Middle East to Africa, India and Southeast Asia and from the Russian Far East to Asia and the West coast of the United States. In addition to crude oil, Aframax tankers often transport refined oil products, principally for long-haul contracts from the Atlantic to Asia, from Asia and the Middle East to the Atlantic and for specific storage contracts. Generally, Aframax tankers that transport both crude oil and refined oil products are restricted to carrying "dirty" refined products, such as fuel oil, vacuum gas oil, carbon black feedstock and low sulfur waxy residue. However, certain Aframax tankers are purpose built for carrying "clean" refined oil products and have their cargo tanks coated to facilitate cleaning and to meet the petroleum industry's strict criteria on possible contamination between cargoes. These purpose built Aframax tankers are termed as Long Range Product Tanker Size 2 ("**LR2**") vessels. Although these vessels can carry crude oil or "dirty" refined oil products, they typically carry "clean" refined oil products exclusively, and their primary use has been the transportation of naphtha from the Middle East to Japan. Aframax tankers are named after the Average Freight Rate Assessment tanker rate system developed by Shell Oil in 1954. They are the largest ship under that classification system.

World Tanker Fleet By Vessel Size (above 5,000 DWT)

Class	Size (DWT)	Fleet		Average Age (Years)	% Double Hull (by DWT)	% Single Hull (by DWT)	% DS/DB/SS (by DWT)	% DH fleet 20 years + (by DWT)
		Number	m. DWT					
ULCC/VLCC	200,000 & above	709	218.0	9.1	100.0%	0.0%	0.0%	100.0%
Suezmax	125,000-199,999	504	78.5	9.8	99.8%	0.0%	0.2%	97.1%
Aframax (Uncoated)	85,000-124,999	655	70.9	11.1	99.9%	0.0%	0.1%	98.4%
Total Crude	**85,000 & above**	**1,868**	**367.4**	**9.2**	**99.9%**	**0.0%**	**0.1%**	**98.8%**
Aframax (Coated)	85,000-124,999	321	35.0	7.4	99.5%	0.0%	0.5%	88.5%
Panamax (Coated)	54,999-84,999	348	25.5	8.6	99.7%	0.0%	0.3%	83.7%
MR	40,000-54,999	1,467	70.1	8.3	99.5%	0.0%	0.5%	91.7%
Handysize	25,000-39,999	458	16.6	11.7	95.4%	0.0%	4.6%	60.3%
Total Products	**25,000-124,999**	**2,594**	**147.2**	**8.5**	**99.0%**	**0.0%**	**1.0%**	**83.7%**
Total	**5,000 & above**	**8,288**	**576.3**	**9.2**	**99.1%**	**0.0%**	**0.9%**	**86.1%**

Source: Clarksons Research, March 2017.

Note (1): Total includes all tankers above 5,000 DWT only.

Note (2): DS/DB/SS = Double Sided/Double Bottomed/Second Skin; D/H = Double Hull.

Note (3): The product tanker fleet is classified as coated tankers above 54,999 DWT plus coated, uncoated, IMO III only below 55,000 DWT. In addition IMO II tankers above 25,000 DWT with an average tank size larger than 3,000 cbm, or, where average tank size is unknown, where number of tanks < 16 (for vessels of 25,000 DWT to 39,999 DWT), where number of tanks < 18 (for vessels of 40,000 DWT to 54,999 DWT) and where number of tanks < 30 (for vessels of 55,000 DWT to 84,999 DWT), are included.

World Tanker Orderbook By Vessel Size (above 5,000 DWT)

Class	Size (DWT)	Orderbook		% of Total	% of Total	% of Fleet On Order for Delivery (by DWT)				
		Number	m. DWT	Orderbook	Fleet	2017	2018	2019	2020+	Total
ULCC/VLCC	200,000 & above	86	26.6	38%	12%	5%	7%	0%	0%	12%
Suezmax	125,000-199,999	79	12.4	18%	16%	12%	4%	0%	0%	16%
Aframax (Uncoated)	85,000-124,999	89	10.1	14%	14%	6%	6%	1%	1%	14%
Total Crude	**85,000 & above**	**254**	**49.1**	**70%**	**13%**	**7%**	**6%**	**1%**	**0%**	**13%**
Aframax (Coated)	85,000-124,999	44	5.0	7%	14%	9%	4%	2%	0%	14%
Panamax (Coated)	54,999-84,999	46	3.4	5%	13%	8%	4%	0%	1%	13%
MR	40,000-54,999	121	6.0	9%	9%	4%	2%	2%	0%	9%
Handysize	25,000-39,999	16	0.6	1%	3%	3%	0%	0%	0%	3%
Total Products	**25,000-124,999**	**227**	**15.0**	**21%**	**10%**	**6%**	**2%**	**1%**	**0%**	**10%**
Total	**5,000 & above**	**790**	**70.5**	**100%**	**12%**	**6%**	**5%**	**1%**	**0%**	**12%**

Source: Clarksons Research, March 2017.

Note (1): Total includes all tankers, including coated vessels.

Note (2): The product tanker fleet is classified as coated tankers above 54,999 DWT plus coated, uncoated, IMO III only below 55,000 DWT. In addition IMO II tankers above 25,000 DWT with an average tank size larger than 3,000 cbm, or, where average tank size is unknown, where number of tanks < 16 (for vessels of 25,000 DWT to 39,999 DWT), where number of tanks < 18 (for vessels of 40,000 DWT to 54,999 DWT) and where number of tanks < 30 (for vessels of 55,000 DWT to 84,999 DWT), are included.

Industry Trends

The following trends have shaped the crude oil shipping industry, and Management expects them to continue to shape the industry in the coming years by affecting the supply and demand, as well as the freight and hire rates for crude oil shipping vessels.

- Increasing world crude oil consumption. The IEA estimates that world oil demand increased by 1.7% in 2016, continuing the trend of oil demand growth stimulated by the weak oil prices. It is expected that the growing world population, increased car ownership and air-conditioning usage, particularly in India, China and other non-OECD Asian nations will account for a significant portion of this increased demand. The IEA forecasts that oil demand will increase by a compound average growth rate of 1.3% per year from 2016 to 2022.
- Growth of the seaborne oil trade. In 2016, Clarksons Research estimates that global seaborne crude trade increased by 4.4%. Growth in world oil consumption is expected to occur in countries and regions that are not located near oil pipelines or local crude oil production sources, or where local production is unlikely to be sufficient to meet demand, either currently or in the future. As a result of increased demand in such countries or regions, it is probable that demand for tanker capacity will increase in terms of both the volume of crude oil transported and the average distance traveled per ton of crude oil, which is expected to have a positive effect on demand in terms of ton-miles. For instance, the growth in Chinese and Indian seaborne crude imports in recent years, including on routes such as Venezuela to China, Brazil to China, and Angola to China has supported the growth of crude oil ton-mile trade. Meanwhile, the rise of US crude oil production since 2009 has limited growth of long-haul crude oil imports to the US. However, there has been a strong increase in oil products exports from the US, which has been a boost for seaborne products trade. More recently, changes in the oil price and crude oil production levels in major crude oil importing and exporting nations led changes in global seaborne crude oil trade patterns. In 2016, the fall in US crude oil production supported a growth in US seaborne crude oil imports. In late 2016, OPEC and some non-OPEC crude oil producers agreed to reduce their crude oil production levels starting in January 2017. Although there are questions regarding the potential level of compliance with the stated crude oil production cuts, initial data suggests that several nations are complying with the crude oil production cuts. This has led to an increase in crude oil prices during the first two months of 2017, and may limit overall growth of seaborne crude oil trade in 2017. Clarksons Research forecasts that the volume of crude oil transported by sea will increase by 0.2% in 2017 and crude oil ton-mile trade will also increase by 0.2% in 2017.
- Increased standards for vessel specification and operation. In recent years, charterers have begun to impose strict criteria on the quality of vessels used to transport seaborne oil, as well as operating and manning standards. Furthermore European, U.S., and Chinese legislative and regulatory bodies have implemented or are in the process of implementing stricter criteria on the emissions from vessel engines. These developing governmental requirements and charterer criteria have tended to have an adverse effect on older and less efficient vessels. These trends could restrict the supply of vessels

available to charterers in the future as older vessels are removed from service, requiring vessel owners and operators to maintain more modern fleets.

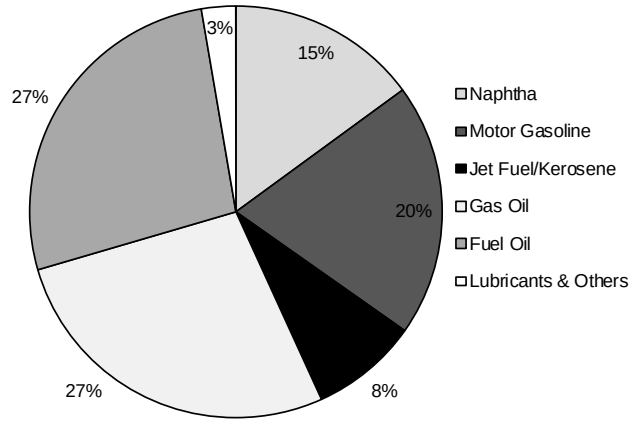
- Capacity development of the crude oil tanker fleet. In the years 2013 to 2015, crude oil tanker fleet growth was limited, which helped to support an improved market in 2015. In 2015, the fleet of crude oil tankers of 85,000 DWT and above grew by 2.2% year-on-year and in 2013 to 2015 annual fleet growth averaged 1.4%. However, in 2016 the rate of fleet growth increased and the fleet of crude tankers of 85,000 DWT and above grew by 6.0% year-on-year. Furthermore, vessels have been trading at slower speeds since 2008, which has effectively absorbed some capacity. However, crude oil tanker fleet growth may increase, according to Clarksons Research, 254 crude oil tankers of 85,000 DWT and above were on order as of February 2017, and vessels equivalent to approximately 7% of the world's crude oil tanker fleet of 85,000 DWT and above is expected to be delivered by the end of 2017. Clarksons Research estimates suggest that 29% of tankers of 10,000 DWT and above scheduled for delivery in 2016 were not delivered. Some of the non-delivery was a result of delays, either through mutual agreement or through shipyard problems, whilst some was due to vessel cancellations. Vessel non-delivery is likely to remain an issue going forward and will continue to moderate fleet growth.

Oil Products Shipping

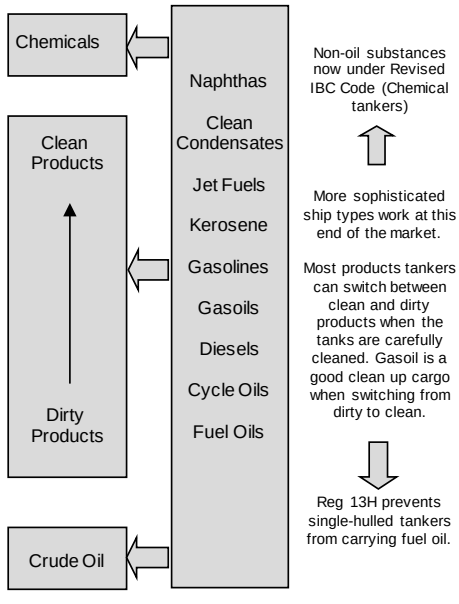
Introduction

Oil products tankers are able to transport a variety of liquids, but the construction of the cargo tanks and piping systems onboard these vessels makes them most suitable for carrying refined crude oil products. In particular, purpose-built oil products tankers have specially coated tanks that facilitate cleaning of their tanks to prevent cargo contamination. Oil products tankers generally transport oil products from refineries or storage facilities to places of consumption or to other storage facilities for onward transportation by land or pipeline. Charterers include integrated oil companies, specialized refiners, oil traders, end consumers, government agencies and storage facility operators. The oil products that are transported are varied, and each oil product has its own particular properties and requirements for being transported by vessels. In general, oil products can be divided into two categories. 'Dirty' or 'black' products, such as fuel oil, vacuum gas oil and carbon black feedstock require heating to lower the viscosity of the cargo during transport, but dirty products require minimal tank or line preparation as contamination of the oil product is not a crucial consideration. However, 'clean' oil products, such as gasoline, diesel, naphtha and jet fuel have varying standards for the cleanliness of a vessel's tanks and lines, as these products are very sensitive to contamination.

2015 Seaborne Oil Products Trade By Type (bpd)



Products Tanker Market



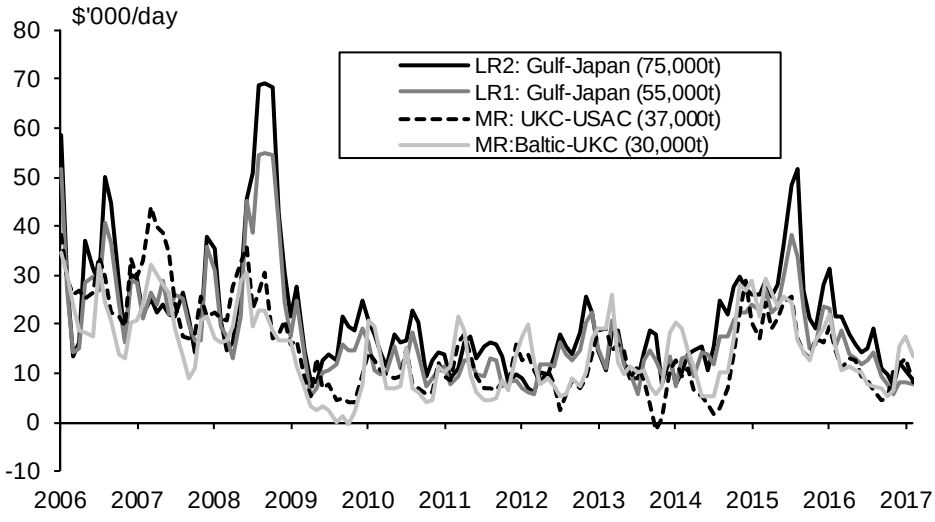
Source: Clarksons Research, March 2017.

Oil products transportation is contracted predominantly in the form of spot charters, time charters or contracts of affreightment, similar to crude oil transportation contracts. The pricing of oil products transportation

occurs in a highly competitive global charter market for tankers and is conducted between the vessel owners or operators and the charterers. The contracting in this sector can occur either directly between charterers and vessel operators or through the use of market intermediaries.

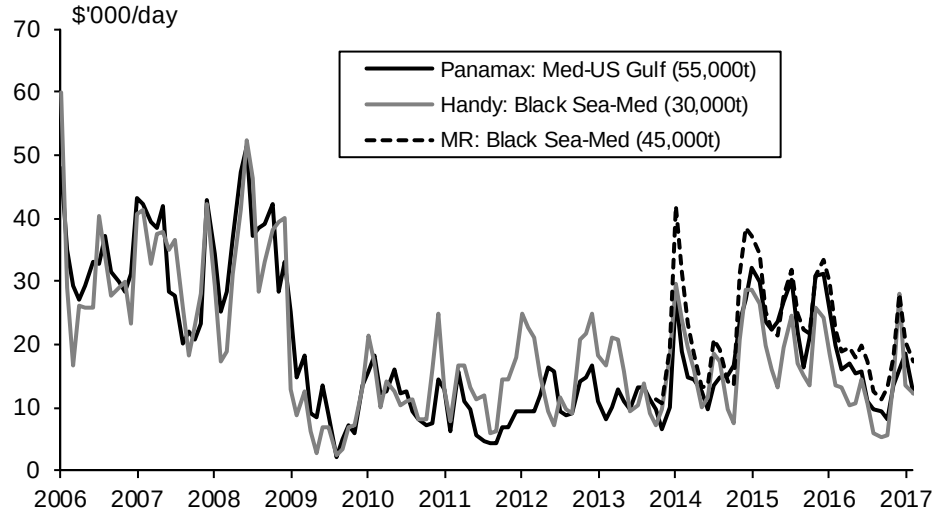
Freight and hire rates for oil products vessels trading under spot charters are very sensitive to the fluctuating demand for and supply of tankers, and rates are consequently volatile. Rates are also strongly affected by seasonal fluctuations in demand from end consumers, such as the U.S. summer gasoline demand season and the U.S. winter heating oil season. The following chart and table set forth the average spot time-charter-equivalent earnings for LR2, LR1, MR2 and MR1 product tanker vessels in this sector over the last ten years:

Historical Nominal Clean Product Spot Earnings (Modern Vessels)



Note: Average time-charter-equivalent earnings (TCE) are calculated by Clarksons Research using the assumptions for product tankers described in Shipping Intelligence Weekly. Data to February 2017. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time. Source: Clarksons Research, March 2017.

Historical Nominal Dirty Product Spot Earnings (Modern Vessels)



Note: Average time-charter-equivalent earnings (TCE) are calculated by Clarksons Research using the assumptions for product tankers described in Shipping Intelligence Weekly. Data to February 2017. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time. Source: Clarksons Research, March 2017.

	Historical Product Tanker Rates (Nominal)						
	Average Spot Rates (TCE)				One Year Timecharter Rates		
US$/day	LR2: Gulf-Japan (75,000t)	LR1: Gulf-Japan (55,000t)	MR: UKC-USAC (37,000t)	MR: Gulf-India (30,000t)	Products (74,000 DWT D/H)	Products (47-48,000 DWT D/H)	Products (37,000 DWT D/H)
2016	16,434	12,856	10,571	11,463	18,127	15,078	13,995
2017 (YTD)	9,497	8,065	10,551	10,261	17,297	12,688	11,531
Feb-2017	8,449	7,800	8,028	9,410	12,750	12,500	11,375
5 Year Avg	18,655	15,820	11,892	17,886	17,110	15,019	13,783
5 Year Peak	51,595	38,392	28,953	32,573	28,750	20,250	17,625
5 Year Trough	6,314	5,602	-1,395	7,215	12,500	12,063	11,375
10 Year Avg	20,152	17,105	13,891	19,519	19,179	16,460	14,964
15 Year Avg	24,735	20,770	17,361	21,983	21,118	17,781	16,303

Source: Clarksons Research, March 2017.

(1): Data to February 2017. There is no guarantee that current rates are sustainable and rates may increase or decrease significantly over short periods of time.

(2): Average spot rates are calculated by Clarksons Research using the assumptions for product tankers described in Shipping Intelligence Weekly.

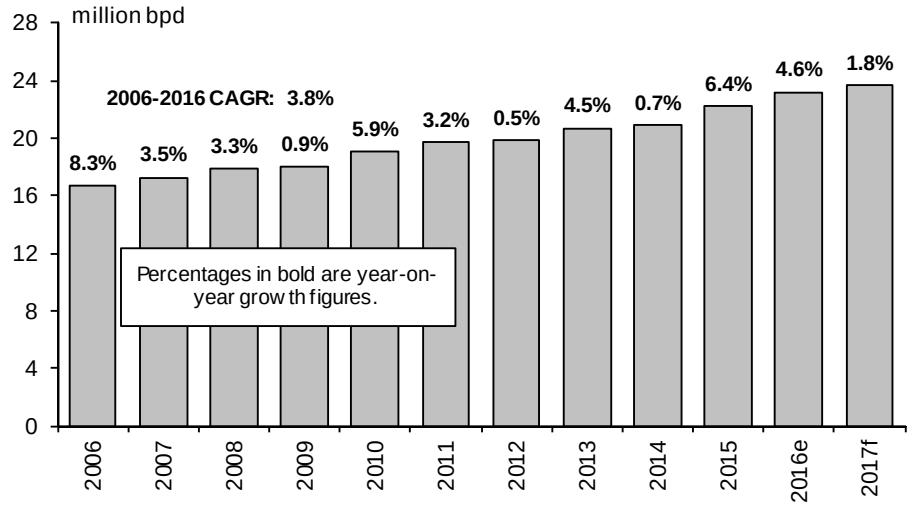
(3): 5-year figures are based on March 2012 to February 2017 end-month data. 10-year figures are based on March 2007 to February 2017 end-month data. 15-year figures are based on March 2002 to February 2017 end-month data. Basis: monthly observations.

Demand

The demand for oil products transportation services is driven by a combination of factors, including the global supply and demand for oil products and the location and accessibility of oil products supplies relative to the principal locations for discharging such oil products. Macroeconomic forces, both globally and regionally, have a significant impact upon world oil products consumption and, consequently, upon the volume of oil products to be transported by sea. In addition, the average travel distance of oil products transported by sea is primarily affected by seaborne trading and distribution patterns, which are influenced by the locations where oil products are refined, as well as the optimum distribution of such oil into other refineries and distribution channels. As a result, seaborne trading patterns heavily influence the ton-mile dynamic of oil products shipping demand, and such patterns are in turn determined by a combination of economic and geographic considerations, seasonal variations, environmental influences, exceptional climatic conditions and geopolitical events. In particular, seasonal and exceptional weather, ambient temperature cycles and geological events significantly affect the demand for certain oil products.

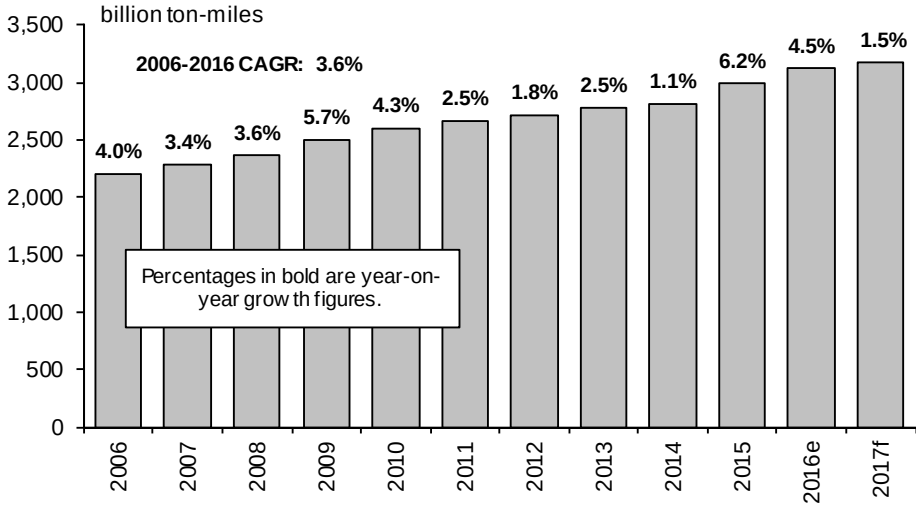
Recently, countries and regions that have historically only produced and exported crude oil have constructed refining facilities to extract greater revenues from the crude oil value chain and for other structural, economic and strategic reasons. As a result of this shift, oil products are increasingly transported over greater distances by sea after being refined, which has increased demand for oil products shipping both in terms of volumes and distance. According to Clarksons Research, oil products ton-mile trade is estimated to have grown at a compound annual growth rate of 3.6% between 2006 and 2016, compared with an estimated compound annual growth rate in the volume of oil produced of 1.2% over the same period. The following charts illustrate the development of global seaborne movements of oil products over the last ten years, as well as major seaborne trade routes in 2016:

Global Oil Products Seaborne Trade



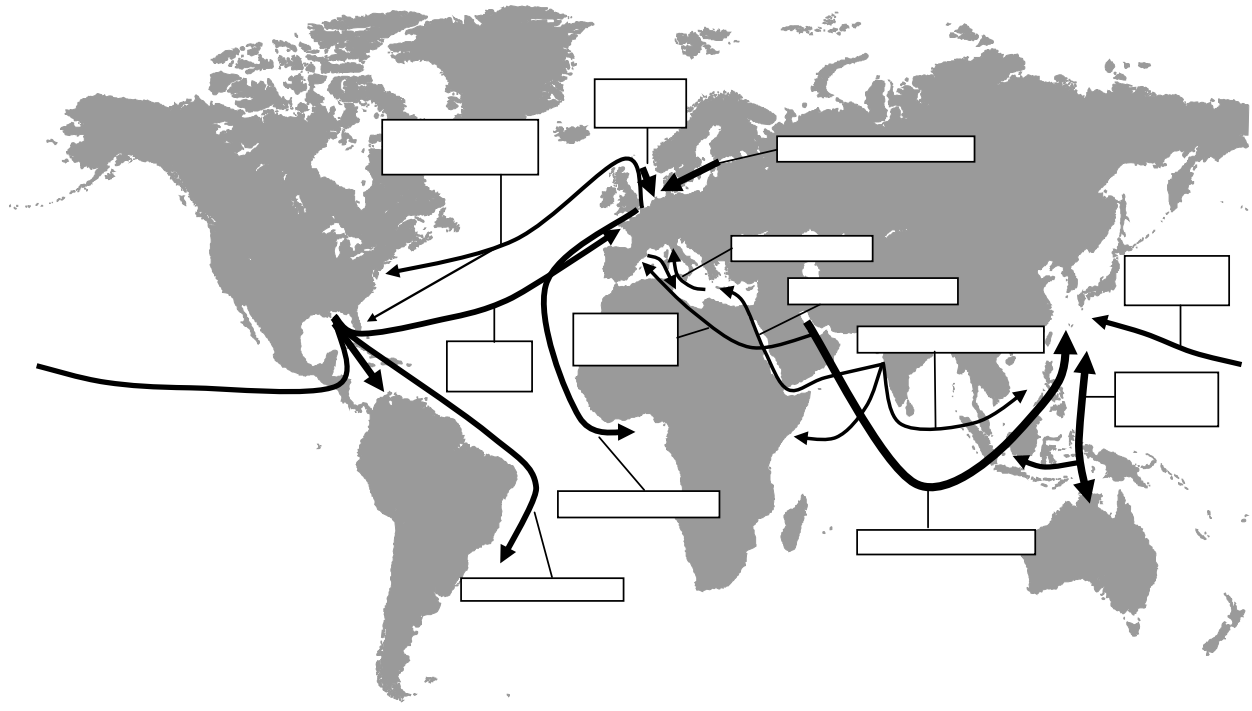
Source: Clarksons Research, March 2017.

Global Oil Products Seaborne Trade (Ton-Miles)



Source: Clarksons Research, March 2017.

Major Seaborne Oil Products Trade Routes In 2015



Source: Clarksons Research, March 2017.

Supply

The global supply of oil products tankers increases as a result of the construction and delivery of newbuildings to the world fleet and decreases as a result of the removal of older vessels by demolition or otherwise. Vessels can also be removed from the world fleet as a result of vessel loss. The short-term supply of such vessels is also affected by other factors, such as the temporary laying-up of vessels, as well as the number of vessels engaged in storage contracts, awaiting repairs or drydocked. Further, although oil products tankers are capable of transporting crude oil, dirty oil products and clean oil products, the transportation of dirty products or crude oil requires significant cleaning operations, which can decrease the number of ships immediately available to carry clean refined products.

Permanent removal of a vessel from the world fleet can take place within a relatively short time frame, typically within three months. The construction of a newbuilding oil products tanker, however, typically requires between 18 months and three years from contract signing to delivery of the vessel by the shipyard, depending on the schedule of the relevant shipyard's order-book.

The global oil products shipping fleet is generally divided into four main vessel types that are distinguished principally by vessel size and carrying capacity. These main types are:

- Long range product tankers 2 ("**LR2**"): These vessels are generally between 85,000 DWT and 124,999 DWT in size and have cubic carrying capacities of approximately 75,000 metric tons of naphtha. Historically, LR2s were primarily used to carry naphtha from the Middle East to Japan. In recent years, with the expansion of refinery capacity in the Middle East, India and other oil producing regions, the Group has noticed greater trade route diversity for LR2s. Currently, LR2s are typically used to provide economies of scale for the movement of "clean" oil products from regions East of the Suez canal to destinations in the Atlantic, although this trade pattern is subject to reversal, depending on the pricing of the relevant oil products. Port and terminal size, and other geographical factors can restrict the locations where LR2 vessels may trade. Moreover, LR2s typically carry exclusively clean oil products due in part to the high cleanliness standards required to transport clean oil products, which make it uneconomical to switch regularly between clean and dirty or crude trading. There are no

restrictions for LR2s to transport crude oil or dirty oil products, and some LR2s are engaged in these trades for a variety of reasons.

- Long range product tankers 1 ("**LR1**"): These vessels are generally between 55,000 DWT and 84,999 DWT in size and have cubic carrying capacities of approximately 55,000 metric tons of naphtha. LR1 tankers are utilized on medium- and long-haul voyages to transport both clean and dirty oil products where economies of scale provide charterers lower transportation costs but where geographic or other restrictions prevent the use of LR2s. Any switching between transport of clean oil products and dirty oil products occurs infrequently due to the costs of preparing the vessel's tanks and lines for clean products after carrying dirty products. The principal trade routes for LR1s are from Europe to the West Atlantic, especially the United States, and from the Middle East and India to Asia and Europe.

- Medium range product tankers ("**MR**"): These vessels are generally between 40,000 DWT and 54,999 DWT in size and have cubic carrying capacities of approximately between 30,000 and 40,000 metric tons of gasoline and gas oil. MR tankers are utilized on short-, medium- and long-haul voyages transporting either clean or dirty oil products. With the correct classification, certain MRs also transport bio-liquids, such as palm and cereal oils. The dimensions of MR vessels, as well as the construction of their tanks and lines, provide significant trading flexibility in terms of the number and types of ports to which the vessels can call and in terms of the broad range of cargoes that they are capable of transporting. The principal trade routes for MR vessels are from Europe to the West Atlantic, from Europe to West Africa, from the Gulf of Mexico to the East and West coasts of the United States and South America, from South America to the East coast of the United States, from South America to Europe, intra-Asia voyages and from the Middle East to the Indian Ocean and Asia.

- Handysize product tankers: These vessels are generally between 10,000 DWT and 39,999 DWT in size and generally have cubic carrying capacities of between around 5,000 metric tonnes and 25,000 metric tonnes of gasoline and gas oil. Handysize tankers are generally utilised on short-haul voyages transporting either clean or dirty oil products. With the correct classification, certain Handysize tankers also transport bio-liquids, such as palm and cereal oils. The relatively smaller size of Handysize tankers compared to other vessel types means that they are typically deployed on intra-regional routes, with vessels of below 25,000 DWT commonly utilised on coastal and intra-regional trade routes.

Industry Trends

The following trends have shaped the oil products shipping industry, and Management expects them to continue to shape the industry in the coming years by affecting the supply, demand and the freight and hire rates for oil products shipping vessels.

- Increasing world oil products consumption. Oil products are a critical component of global economic activity, industrialization and industrial production. The growing demand for transportation and from the petrochemical industry, particularly in developing countries, will support the continued growth in oil product consumption. Between 2006 and 2016 seaborne oil products trade has grown at compound average growth rate of 3.8% according to Clarksons Research. Current estimates for trade growth in 2017 are 1.8% for oil products trade growth. Factors impacting continued growth of the products trade include continued global economic development and associated oil demand, oil price trends, potential growth of global refinery capacity and associated export potential, and the continued growth of import demand from regions with limited local refinery capacity.

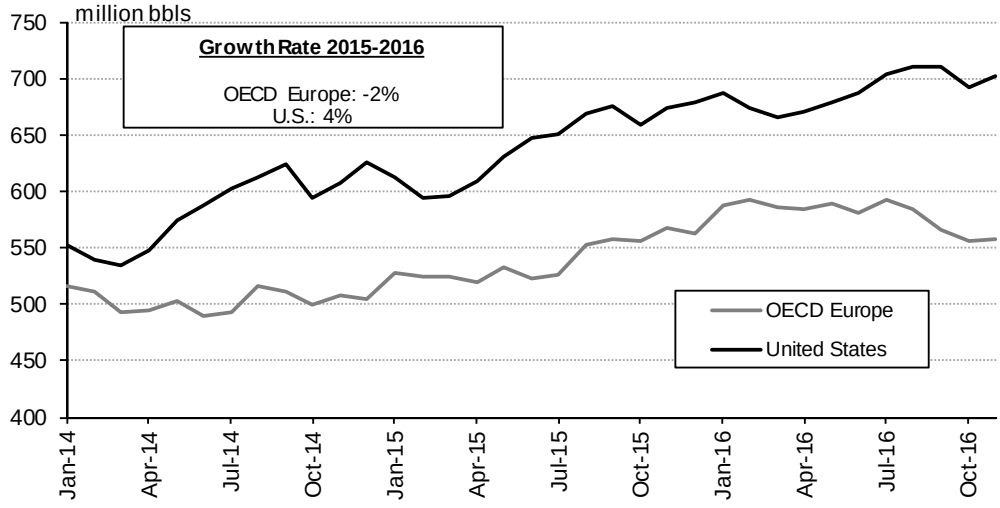
- Shift in location of refinery capacity. In recent years, the expansion of Indian and Middle Eastern refinery capacity, which has commonly taken the form of large-scale export oriented refineries such as the Jamnagar complex in India and the Yasref plant in Saudi Arabia, has supported long-haul oil products trade to both Asia and Europe. Such developments partly supported global seaborne oil products ton-mile trade increasing by an estimated 4.5% in 2016.

- Lower oil prices. Growth in global oil products demand has been underpinned by the correction in global oil prices. The price of internationally traded Brent has fallen from US$ 114/bbl in June 2014 to US$ 29/bbl in the first week of January 2016. Although prices have risen since, to US$ 55/bbl in the last week of February, the price of crude oil currently remains significantly lower than recent highs. This has in turn lowered the price of oil products, which has supported greater consumption and inventory building. The low oil prices have also given a boost to crude oil trade, which has had some associated impact on the product tanker market. The fall in oil price has also reduced ship fuel and lubricant costs, providing benefits to tanker owners.

- Inventory building. The fall in oil prices in the second half of 2014 supported some increased stockpiling, notably, but not limited to, the OECD. For example, stockpiles in Europe and the US have increased significantly. However, in the second half of 2016 oil products stockpiles stopped increasing

by such a significant rate. IEA data indicates that US oil products inventories were 4% higher year on year in November 2016, whilst OECD European oil products inventories were 2% lower year on year in November 2016.

Regional Oil Products Inventories



Source: IEA, March 2017.

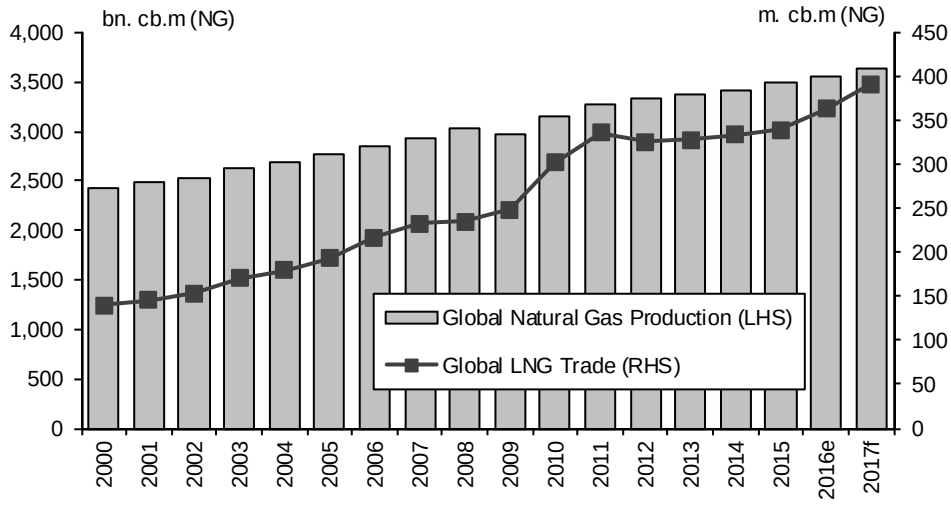
- Increased standards for vessel specification and operation. In recent years, charterers have begun to impose strict criteria on the quality of vessels used to transport seaborne oil products, as well as on the standards of operation and manning of those vessels. Furthermore European, U.S., and Chinese legislative and regulatory bodies have implemented or are in the process of implementing stricter criteria on the emissions from vessel engines. These developing governmental requirements and charterer criteria have tended to have an adverse effect on older and less efficient vessels. These trends could restrict the supply of vessels available to charterers in the future as older vessels are removed from service, requiring vessel owners and operators to maintain more modern fleets.
- Stimulus to refinery activity from low crude oil prices. The fall in crude oil prices from the second half of 2014 has lowered feedstock costs for oil refining companies, which in turn has supported an increase in refinery throughput across a number of regions, including Europe and North America. The increase in oil refinery activity has helped to boost seaborne oil products trade across a range of trade routes, as has increased end-user demand and inventory building. However, in 2016, refinery activity did not increase by as much as in previous years, partly due to closures in some OECD nations and a more limited stimulus from the low crude oil price. In the longer term it is still expected that refinery operations in the OECD, including Europe, will come under pressure from weaker profit margins, whilst refinery capacity in the Middle East and Asia is likely to expand further.

LNG Shipping

Introduction

LNG carriers are highly specialized vessels for the transportation of LNG at a loaded temperature of minus 163 degrees Celsius, which reduces the commodity from its natural gaseous state to a liquefied state representing 1/600th of its gaseous volume. According to the BP Statistical Review of World Energy (June 2016), natural gas accounted for approximately 24% of world energy consumption in 2015 and, after oil and coal, represents the third-largest known global energy source. In a similar fashion to crude oil reserves, natural gas reserves are very unevenly distributed. Despite this, production and consumption have historically been relatively closely aligned, limiting the need for long distance trading. In recent years, however, LNG has increasingly become commoditized and is now traded around the world. The majority of natural gas (approximately 70% of consumption in 2014) is still produced and consumed within the same country, according to the BP Statistical Review of World Energy (June 2016). Where a need for trade exists, this has largely been served via gas pipelines. However, the level of local reserves with proximity to demand have been depleted in recent years, and political and security concerns over long pipelines crossing multiple international borders have led to a rapid growth in natural gas traded as LNG. Between 2000 and 2015, the global trade of LNG increased at a compound annual growth rate of 6.4% per year, compared to a compound annual growth rate of 4.3% per year for gas traded by pipeline.

Natural Gas Production and Trade



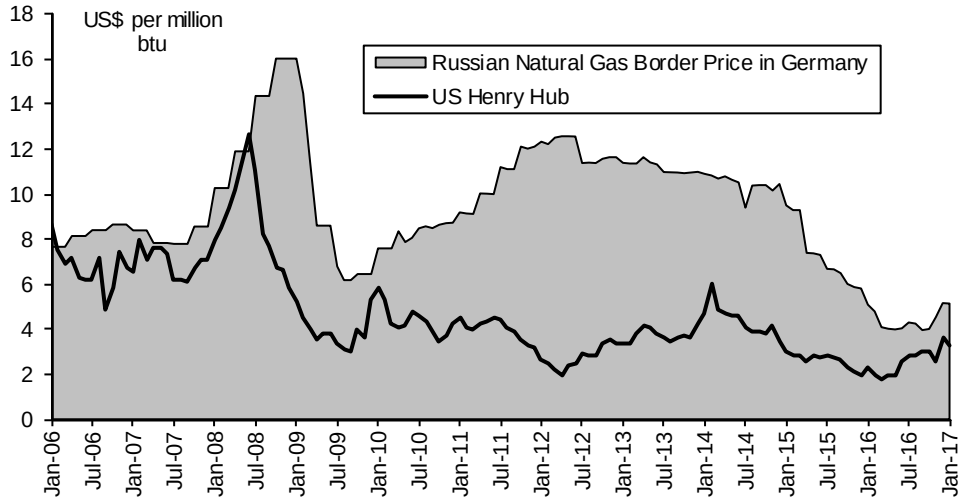
Source: Clarksons Research, March 2017.

LNG is used principally in the generation of power and electricity and is consumed either by specific consumers or is entered into a gas distribution pipeline network. The LNG industry has been categorized historically by high capital costs resulting from the development of production facilities, discharge facilities and vessels capable of transporting LNG. All three components of these high capital costs have historically been inextricably linked to each other, providing an integrated project capable of producing, liquefying, transporting, receiving and regasifying the natural gas over the lifetime of a particular plant. As a result, LNG shipping is generally categorized by time charters of long duration that perform dedicated transport services to either the production or receiving facilities.

Demand

The demand for LNG transportation services is driven by a combination of factors, including the global supply and demand for LNG and the location and accessibility of LNG relative to the principal locations for discharging LNG. Macroeconomic forces, both globally and regionally, have a significant impact upon world LNG consumption and, consequently, upon the volume of LNG to be transported by sea. Moreover, the average travel distance of LNG transported by sea is primarily affected by seaborne trading and distribution patterns, which are influenced by the locations of LNG production, as well as the optimum distribution of such LNG into distribution channels. As a result, seaborne trading patterns heavily influence the ton-mile dynamic of LNG shipping demand, and such patterns are in turn determined by a combination of economic and geographic considerations, seasonal variations, environmental influences, exceptional climatic conditions and geopolitical events. In particular, seasonal and exceptional weather, ambient temperature cycles and geological events significantly affect the demand for LNG. Moreover, the demand for LNG is generally closely linked to the direct demands of retail consumers and is more sensitive to changes in the prices of alternative energy sources, such as coal, hydro, nuclear, petroleum and natural gas transported by pipeline.

Natural Gas Prices



Source: EIA, IMF, March 2017.

Supply

The global supply of LNG carriers increases as a result of the construction and delivery of newbuildings to the world fleet and decreases with the removal of older vessels by demolition or otherwise. The short-term supply of such vessels is also affected by other factors, such as the temporary laying-up of vessels, as well as the number of vessels engaged in storage contracts, awaiting repairs, drydocked.

Permanent removal of a vessel from the world fleet can take place within a relatively short time frame, typically within three months. The construction of a newbuilding LNG carrier, however, typically requires between 18 months and three years from contract signing to delivery of the vessel by the shipyard, depending on the schedule of the relevant shipyard's order-book. The number of shipyards that are capable and willing to construct LNG carriers is limited, and during periods of intense contract ordering, the ability to construct an LNG carrier within a near-term time frame can become restricted.

The global LNG carrier fleet is generally divided into vessel types that are distinguished principally by vessel size and containment system. These main types are:

- Vessels with carrying capacity between 100,000 and 175,000 cubic meters. These vessels account for approximately 81% of the world fleet based on vessel numbers as of February 1, 2017, according to Clarksons Research. Older generation vessels typically have a cubic carrying capacity close to 120,000 cubic meters, and the younger vessels typically have higher carrying capacity of approximately 140,000 cubic meters or more. These vessels, although often designed for specific load and discharge facilities, are generally capable of calling at most LNG facilities worldwide.

- Vessels with carrying capacity less than 100,000 cubic meters. These vessels tend to be facility-specific vessels or older generation LNG carriers that are dedicated to short voyages, such as intra-Mediterranean, or to servicing specific ports that cannot accommodate larger vessels.

- Q-Flex and Q-Max Vessels. These vessels were designed and purpose-built for Qatari export LNG projects between 2007 and 2010 with the intention of trading between Qatar, on the one hand, and the United States and the United Kingdom, on the other. These vessels are designed to maximize the economies of scale over the intended long-haul voyages. Other discharge facilities in Korea, Japan and Europe are making structural changes to their receiving facilities to enable the berthing and discharge of these vessels. These vessels are driven by regular diesel engines with an on-board reliquefaction plant to recycle the natural boil off from the LNG cargo back into the cargo tanks.

World LNG Fleet And Orderbook By Vessel Size

Size (cb.m)	Fleet		% share of	Average	% Over 20	Orderbook		
	Number	m. cb.m	cb.m	Age (Years)	Years	No.	m. cb.m	% of fleet
175,000 & above	51	11.4	16.2%	7.0	0%	21	3.8	33.0%
100,000-174,999	387	57.7	82.2%	9.9	13%	92	15.7	27.2%
< 100,000	41	1.1	1.6%	15.1	34%	11	0.2	20.5%
Total	479	70.2	100.0%	9.7	11%	124	19.7	28.0%

Source: Clarksons Research, March 2017.

Industry Trends

The following trends have shaped the LNG shipping industry, and Management expects them to continue to shape the industry in the coming years by affecting the supply, demand and the freight and hire rates for LNG carriers.

- Increasing world LNG production. Since 2008, US shale gas production has driven a sharp increase in global gas production. Alongside this, LNG export capacity in the US is scheduled to grow substantially, as a concentration of new plants are expected to open over the next five years. Furthermore, this has been complimented by firm growth in traditional LNG exporters in the Middle East and Australia. Looking ahead, according to the BP Energy Outlook 2017, natural gas consumption will increase by a compound annual growth rate of 1.6% per year from 2015 to 2035. The growing world population and continued industrialization of global economies to account for a significant portion of this increase in demand. Moreover, new LNG production in Australia and the US provide geographic diversity for sourcing LNG that permits cost competition and reduces the consumer's reliance on pipeline source natural gas from a restricted number of third party nations. At the end of 2016, there was an estimated 341.4 million tonnes per annum of LNG liquefaction capacity, and as of March 2017, there was an estimated 106.9 million tonnes per annum of LNG liquefaction capacity under construction. However, expansion of LNG production capacity may be subject to delay or cancellation.

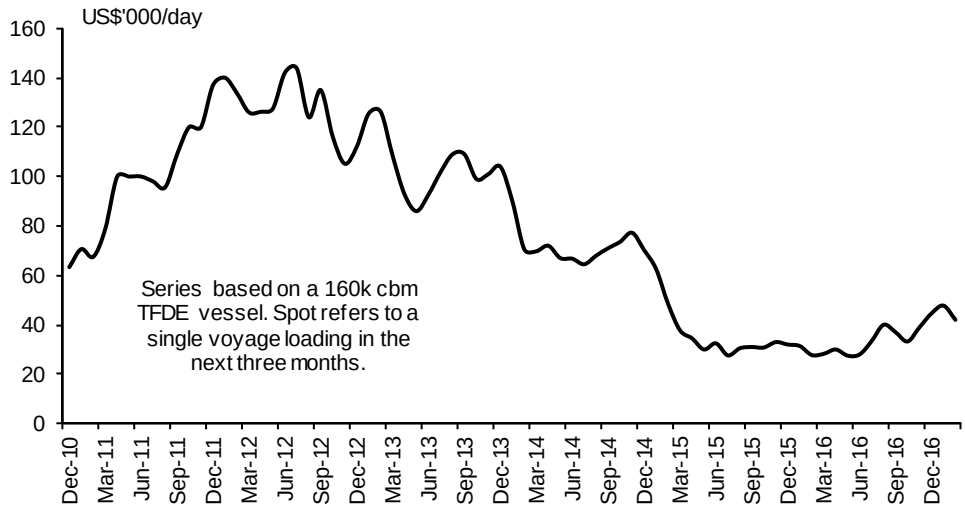
- Expansion of the Panama Canal. The expanded locks of the Panama Canal were opened in June 2016. The larger dimensions of the locks mean that 403 LNG carriers in the fleet will be able to transit the expanded Panama Canal. 30 LNG carriers in the fleet are able to transit the smaller locks of the Panama Canal.

- Large reserves of natural gas. According to the BP Statistical Review of World Energy (June 2016), proved natural gas reserves were approximately 186.9 trillion cubic meters at the end of 2015, with a far higher reserves-to-production ratio than crude oil.

- Natural gas as premium energy resource to alternatives. Natural gas is cheaper to produce energy from than crude oil. Natural gas has cleaner emissions than coal and does not have the same upfront and retirement costs as nuclear electricity generation. Furthermore, natural gas remains more economically viable than renewable energy sources and can provide greater consistency of energy production than hydro energy.

- Emergence of the LNG spot market. The LNG spot market, which has continued to expand over the last ten years, and the ability to transport natural gas in vessels is expected to provide the natural gas industry with a resource of greater flexibility that can respond more quickly to immediate or seasonal demand changes for energy generation than had been available when natural gas was transported through pipelines or dedicated LNG transport chains. The impact for shipping will be the creation of a greater diversity in the range of loading and discharging facilities used by LNG carriers, which is expected to increase the demand, in terms of ton-miles, for the transportation of LNG by sea.

LNG Carrier Spot Freight Rate



Source: Clarksons Research, March 2017.

Shuttle Tankers

Shuttle tankers are specialized vessels designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries, and are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from offshore oil field installations. Shuttle tankers, which were developed as an alternative to pipelines, operate primarily from offshore oil fields located in deep water and are dedicated in their employment to servicing either one or a collection of geographically proximate oil field installations. Shuttle tankers are typically chartered under time charters or contracts of affreightment for long periods or for the life of the relevant oil field.

Shuttle tankers are significantly different from conventional crude oil tankers, since they are primarily used in regions with harsher climates that require robust maneuvering capabilities, the ability to operate independently in all weather conditions, sophisticated bow loading systems and specialized crews. The workload for the crew onboard and for shore-based personnel for offshore operations is higher for shuttle tankers compared to conventional shipping, given the shorter voyage lengths and the additional complexity of offshore loading operations. Maneuvering and the safe handling of shuttle tankers in close proximity to offshore installations, operating the loading and dynamic positioning systems and complying with additional offshore regulations and practices require highly skilled crew. Tailor-made training, including extensive simulator training, is an integral part of the shuttle tanker business. In addition to the normal maritime certificates for deck officers, a shuttle tanker dynamic positioning operator must qualify for a dedicated dynamic positioning certificate. If a shuttle tanker is operating in cold weather conditions for extended periods of time it may necessary for a shuttle tanker to have ice-class capabilities, as of March 2017 there were 19 ice-class shuttle tankers in the world fleet.

Shuttle tankers form an integrated part of an offshore field development project and a critical part of the logistics chain of such a field. As a result, cooperation between the shuttle tanker operator and the field operator is necessarily much closer than in the case of the conventional tanker business, and there are usually long-term contractual arrangements between the field operator and the shuttle tanker owner to lift the production volume from an offshore oil field installation.

Regional Shuttle Tanker Deployment

Region	Number of Vessels
Asia Pacific	5
Middle East & Indian Ocean	1
North America	6
North West Europe	33
South & Central America	34
West Africa	2
Other/Unknown	7
Total	**88**

Source: Clarksons Research, March 2017.

LPG Shipping

LPG carriers are principally employed in the transport of propane and butane as well as other petrochemical gases such as vinyl chloride monomer and ammonia. Propane and butane can be produced in association with crude oil, as well as through the refining of crude oil. Furthermore, propane and butane may be used as a petrochemical feedstock and demand for their use as such is often dependent on the pricing compared to naphtha. Other petrochemical gases are used in the production of a wide range of products including plastics and fertilizers. The LPG fleet can be categorized by the vessel's method of containment, with approximately 27% of LPG carriers in the world fleet having fully refrigerated tanks, as of February 1, 2017. Clarksons Research estimates that between 2006 and 2016, seaborne LPG trade (liquefied propane and butane) grew at a compound annual growth rate of 4.8% per annum.

Offshore Support and Seismic Vessels

Platform Supply Vessels (PSVs) are part of the Offshore Support Vessels fleet. Their primary function is to support offshore rigs and platforms through the delivery of materials from onshore locations. The PSV fleet is typically differentiated by capacity, either in DWT or deck area. The largest PSVs are commonly located in 'harsh' and deepwater environments such as the North Sea or deepwater US Gulf of Mexico. Due to a growing need for the support of operations in colder climates, 129 PSVs in the fleet have ice-breaking capabilities, as of March 1, 2017. The majority of ice-class PSVs are currently deployed in the North Sea. Emergency Rescue and Recovery Vessels (ERRVs) are part of the Rescue & Salvage sector and respond to emergency situations on offshore structures. This includes providing search and rescue missions for vessels and personnel in distress, coordinating evacuations and acting as safe areas for individuals to receive emergency medical treatment. The majority of ERRVs are deployed in Northwest Europe. Seismic vessels usually work on behalf of oil companies to locate petroleum reserves and acquire data using seismic streamers which are towed behind the vessel. The number of streamers is dependent on the size of the survey area and the type of data (2D or 3D). A key driver of the offshore support and seismic vessel markets is the oil price and the current low oil prices have resulted in weak market conditions across the global markets.

Dry Bulk Shipping

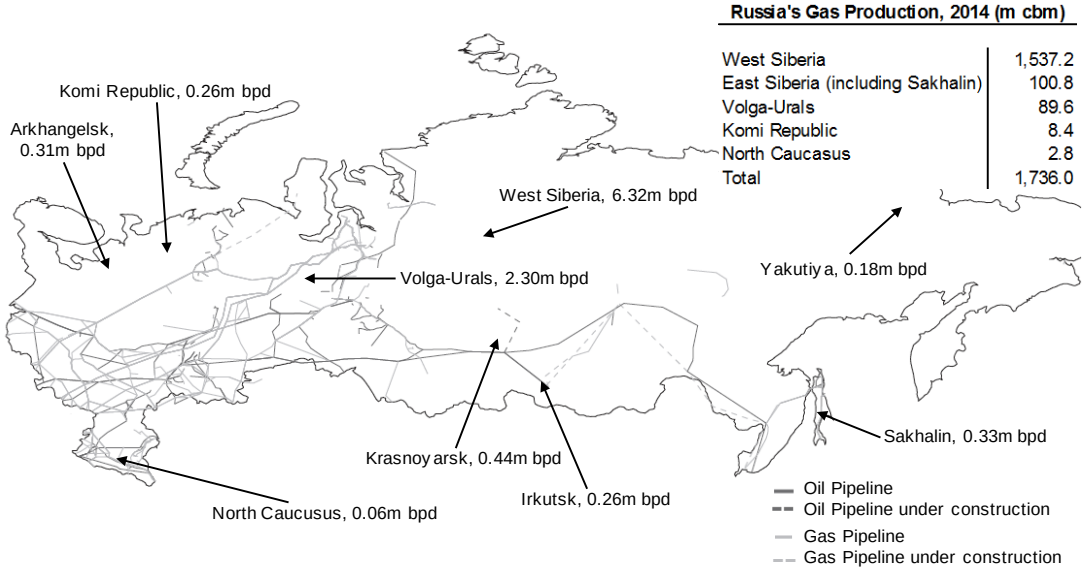
Dry bulk cargo is used in many basic industries and in construction and can be divided into major bulk commodities and minor bulk commodities. Major bulk commodities include iron ore, coal, grain, bauxite/alumina and phosphate rock. Minor bulk commodities cover a wide variety of commodities that are typically transported in smaller quantities, such as forest products, iron and steel products, fertilizers, agricultural products, non-ferrous ores, minerals and petroleum coke, cement, other construction materials and salt. Dry bulk cargo is shipped in large quantities and can be easily stowed in a single hold with little risk of cargo damage. Transportation of major and minor bulks requires different carrier types, and the bulk carrier fleet is generally divided into four major vessel types based on carrying capacity: Capesize, Panamax, Handymax and Handysize. The global dry bulk sector is currently characterized by vessel oversupply and low freight rates. The Group's involvement in this sector comprises the development and support of the export of coal from the Russian Federation on its vessels.

The Russian Oil and Gas Sector

Historically, the oil and gas sector has been a major component of the Russian economy and this remains the case, even given the weaker energy price environment. Russia's oil and gas sector has proved relatively resilient

to the current low energy prices and US and EU sanctions, and, according to the EIA, revenue generated from the oil and gas sector funded 43% of the Russian federal budget in 2015, partly due to the weak energy price environment. Russia agreed to work with other OPEC and other major non-OPEC producers to support oil prices in December 2016. Under the terms of the deal, Russia is earmarked to cut crude oil production by 300,000 bpd in the first half of 2017.

The current situation aside, the country still has further oil and gas production and export potential: according to the Oil & Gas Journal (Worldwide Look At Reserves And Production 2016), Russia's proven conventional oil reserves stood at approximately 80 billion barrels at the start of 2017, while proven natural gas reserves stood at approximately 47 trillion cubic metres. There may be further unproven oil and gas resources in areas such as the Arctic and according to the EIA, Russia may have substantial shale oil and gas potential. Given its strategic importance, the Russian government takes an active role in managing the oil and gas industry, and it owns majority stakes in the largest players, Rosneft and Gazprom, as well as the bulk of the pipeline and shipping infrastructure. Russia is currently seeking to diversify its oil and gas production and export capacity eastwards, in order to tap into growing energy demand in developing Asian economies, and partly because of European plans to reduce dependence on Russian oil and especially gas imports. The map below illustrates the various regions where Russian oil and gas production sites or reserves are located:



Source: Clarksons Research/EIA, March 2017.

Note: Regional oil and gas production figures basis 2014 data. Oil production figures given in million barrels per day (m bpd), gas production figures given in million cubic metres annually (m cbm).

Oil Production

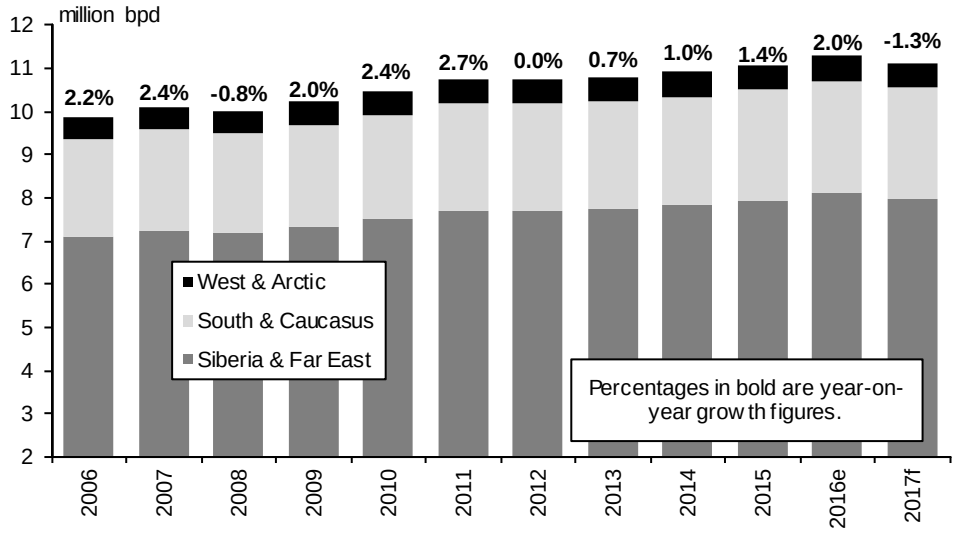
In 2016, Russian oil (and lease condensate) production stood at an estimated 11.3m bpd, equivalent to over 12% of global oil production making it the world's third-largest oil producer, behind the US and Saudi Arabia. As recently as 2013, Russia was the world's largest oil producer, but growth of US unconventional oil production and Saudi Arabian attempts to maximize production since the fall of the oil price have meant that oil production from these two countries exceeded that of Russia in 2016. According to Clarksons Research an estimated 4% of Russian oil production in 2016 was offshore. In large part, Russian offshore crude oil production is from fields in the Arctic, where the 120,000 bpd Prirazlomnoye field, which is located in a water depth of 20 metres in the Pechora Sea, started production in 2013. Fields in the Black Sea and Caspian Sea also contribute to Russian offshore oil production, with the 160,000 bpd Vladimir Filanovsky field having begun production in October 2016.

Traditionally the majority of Russian (and Soviet) production was located in the Volga-Urals region; production has since shifted eastwards to West Siberia, which accounted for approximately 60% of Russian oil production in 2016. Two West Siberian fields, Samotlor and Priobskoye, account for a combined 14% of Russian total oil production. Many of the mature fields in these regions increasingly require enhanced oil recovery and redevelopment work to prevent or limit production decline.

In recent years, the Russian government has been encouraging Russian oil companies to expand their operations in East Siberia, wherein proven oil reserves are still largely untapped and where significant exploration potential remains. The East Siberia-Pacific Pipeline (for transporting crude oil) was brought onstream from

2009-2012, and several further spur lines have been proposed in order to open up the region to further investment into oil production. The main export market for this production is likely to be Asia, in particular China. The graph below shows estimated Russian oil production, split by region:

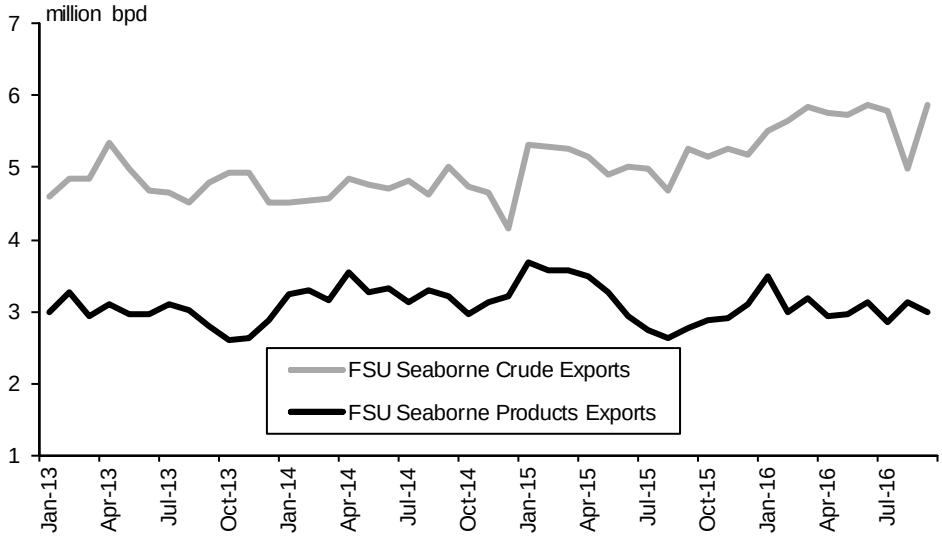
Production of Russian Crude Oil by Region



Source: Clarksons Research, March 2017.

Russia exports significant volumes of crude oil and refined oil products, accounting for the majority of seaborne exports crude oil and oil products from the Former Soviet Union. In 2015, total Former Soviet Union crude oil exports amounted to 6.4 million bpd, according to the IEA. Of this, 5.1 million bpd were seaborne exports, an increase of 9% year on year according to the IEA. According to IEA data the Former Soviet Union exported a total of 3.1 million bpd of refined oil products, 4% lower than 2014 export levels.

Former Soviet Union Crude Oil And Oil Products Exports



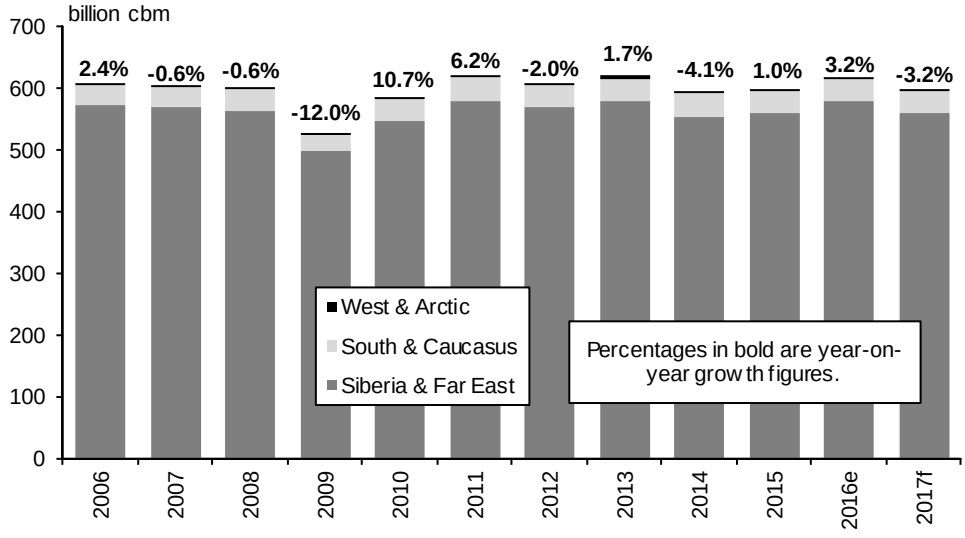
Source: IEA, March 2017.

Gas Production

In 2016, Russian total marketed natural gas production stood at an estimated 619bn cubic metres, according to Clarksons Research, accounting for 17% of global marketed natural gas production, making the country the world's second largest producer of natural gas, after the US but ahead of Iran and Qatar, in third and fourth place respectively. According to Clarksons Research, approximately 4% of Russian gas production is offshore.

Historically, gas production in Russia has followed a similar pattern to oil production, with production being concentrated first in the Volga-Urals region before shifting to West Siberia. Several giant gas fields, including Urengoy account for a significant proportion of West Siberian gas production. The graph below shows estimated Russian gas production, split by region:

Production of Russian Natural Gas by Region



Source: Clarksons Research, March 2017.

As with oil production, efforts are being made to increase gas production in East Siberia. In particular, Russia has initiated the so-called 'Power of Siberia' pipeline project to connect East Siberian gas fields like Chayodinsk and Kovytka to the Chinese distribution system. The first stage of the project is scheduled to come onstream in 2019.

Russia is also seeking to expand its natural gas export capacity via LNG projects. As of March 1st, Russia's only operating LNG project is Sakhalin LNG (9.6 mtpa). The Yamal LNG (16.5 mtpa) project is scheduled to commence operations in the fourth quarter of 2017. There are a further three Russian LNG projects that have been proposed: Baltic LNG (10 mtpa), Vladivostok LNG (10 mtpa) and Pechora LNG (2.6 mtpa). However, these proposed LNG projects may be subject to potential delays and cancellations.

BUSINESS

Overview

The Group is the largest shipping company in Russia and owns and operates one of the largest modern tanker fleets in the world according to Clarksons Research. As a fully integrated shipowner and manager, the Group is able to provide complex high-end shipping services to the world's leading oil and gas companies for the worldwide transportation of crude oil, oil products and liquefied gas (LNG and LPG), as well as servicing offshore upstream oil and gas installations and equipment. The Group enjoys a reputation for providing services in harsh-weather environments and ice-water conditions with fleet vessels, management systems and personnel specialized in operating in such conditions. A substantial portion of the Group's fleet consists of vessels with ice-class notations, spread across each of the Group's operating sectors. These vessels, which are designed to operate in and withstand harsh weather and ice-water conditions and are customized to their operating sector, operate primarily along the harsh-environment trade routes of the Baltic, Russian and Canadian Arctic and sub-Arctic regions and the northern Far East of Russia. As of December 31, 2016, the Group's fleet consisted of 146 owned and chartered-in vessels of 13.0 million total DWT (13 of which are jointly owned with third parties), including 73 ice-class vessels (50% of the Group's fleet), and the Group operated nine offices worldwide. According to Clarksons Research, the Group is the largest owner of ice-class tankers in the world based on DWT as of March 1, 2017. The Group is also the second largest oil tanker owner in the world by number of vessels, and the largest Russian oil tanker owner by DWT capacity according to Clarksons Research. For the year ended December 31, 2016, the Group generated time-charter-equivalent revenues of US$ 1,142.2 million and Adjusted EBITDA of US$ 706.5 million.

Sovcomflot is currently wholly owned by the Russian Federation and, in 2009, was included on the Russian Federation's list of strategic enterprises and organizations that share a privileged legal status under certain Russian laws. See "*—Status as a Strategic Enterprise.*" Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Federation, the Group has an important role in the development of Russia's energy sector, both as the leading energy shipping group in Russia and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's operations to be, in effect, a seaborne extension of the Russian pipeline infrastructure, which positions the Group to benefit from servicing Russian hydrocarbon exports. According to Clarksons Research, Russia was the third-largest crude oil producing country in the world in 2016, and the second largest producer of natural gas in the world in 2016. See "*Industry Overview—The Russian Oil and Gas Sector.*" Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of those oil and gas reserves that are exported by sea.

Since 2005, the Group has expanded significantly through organic fleet growth, acquisitions and contributions to its charter capital, and has grown from a mid-size tanker company to a global leader in energy shipping, providing complex marine logistical solutions. Further, the Group's fleet has more than tripled in DWT capacity and freight and hire revenue since 2005. As of December 31, 2016, the Group had five additional newbuildings under construction, which were expected for delivery in 2017. Two of these newbuildings were delivered to the Group in March 2017. A significant portion of the Group's growth resulted from the acquisition, in December 2007, of an effective 66.5% interest (subsequently increased to an effective 89.5% interest) in Novoship from the Russian Federation. See "*—History and Development.*" The rationale for this consolidation was to create a fully integrated Russian shipping company that could compete effectively in both Russian and international shipping markets with a large, high-quality and modern fleet equipped with the latest technology to enable the provision of the broad range of services required by its customers. The Group has significantly broadened the range and capabilities of its vessels and services by entering new market segments in the energy industry, such as the transportation of LNG and LPG; owning and operating shuttle tankers and ice-breaking supply vessels to and from offshore exploration, production and transshipment facilities; all with a focus on providing services in the harsh weather and ice-water conditions in the Baltic, Arctic and Far Eastern regions of Russia. Management believes that this operational expertise should place the Group in a leading position to expand the range of transport and logistics services that it provides to its clients both in Russia and internationally.

The Group's customers include major international oil and gas groups such as BP, Chevron, ExxonMobil Corporation, Shell and Total, as well as major Russian oil and gas companies, such as Gazprom, Lukoil and Rosneft. In 2016, the portion of the Group's time-charter-equivalent revenues derived from Russian clients was approximately 41.0%. The Group's customers also include other national oil and gas companies, such as Repsol, and Statoil; and international commodity trading houses, such as Glencore, Gunvor, Trafigura and Vitol. Management believes that customers partner with the Group for logistically complex projects due to the Group's extensive operating capabilities, diverse service offering, high-quality fleet, reputation for first-class customer service and financial stability.

The following table shows revenues derived from the Group's major clients as a percentage of time-charter-equivalent revenues in 2016:

Customer	% Time-charter-equivalent revenues
Royal Dutch Shell Group	14.36
Gazprom Group	14.29
Exxon Neftegaz	7.67
PDVSA Group	7.26
Lukoil Group	6.86
Sakhalin Energy Investment Company Limited[(1)]	4.08
Glencore Group	3.95
Trafigura Group	3.76
Statoil Group	3.64
Total Group	3.39
Vitol Group	3.02
Petrochina Group	2.96
Chevron Group	2.80
Others	21.96
TOTAL	100.00

(1) 51% owned by Gazprom, but operates on the basis of a production-sharing agreement.

The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time charters from a variety of customer groups. Management considers the Group's fleet deployment to be well balanced, with 74.8% of its time-charter-equivalent revenues for year ended December 31, 2016, 69.7% for the year ended December 31, 2015, and 78.1% for the year ended December 31, 2014 from time charters. As of December 31, 2016, the Group had total future contracted charter-hire revenues of US$ 7.6 billion, including US$ 4.6 billion under contracts whose remaining terms exceeded five years in duration. In addition as of December 31, 2016, the Group's share in the total future contracted charter-hire revenues of the Group's joint ventures were US$ 0.4 billion including US$ 0.2 billion under contracts whose remaining terms exceeded five years in duration (accounted as share of profits in equity-accounted investments). Management believes that this vessel employment mix provides stable revenues and operating cash flows, as well as flexibility in scheduling the deployment of its vessels. Further, Management places great importance on security of income and counterparty creditworthiness with guidelines in place under its chartering risk-management policies to ensure that the Group's income is not overly reliant upon a limited number counterparties. For the year ended December 31, 2016, no single client group accounted for more than 10% of Group time-charter-equivalent revenues, with the exception of Shell and Gazprom, which accounted for 14.36% and 14.29%, respectively.

The Group's operations are organized into five business segments:

- *Crude oil transportation.* This segment transports mainly crude oil for the Group's customers worldwide. As of December 31, 2016, the Group's fleet in this segment consisted of 59 crude oil carriers, representing a total capacity of 7.7 million DWT, and this business segment generated US$ 477.4 million (41.8%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016.

- *Oil products transportation.* This segment transports mainly refined petroleum and other oil products for the Group's customers worldwide. As of December 31, 2016, the Group's fleet in this segment consisted of 40 petroleum product carriers, representing a total capacity of 2.4 million DWT, and this business segment generated US$ 193.3 million (16.9%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016. The Group also operates in this segment nine petroleum product carriers jointly owned with third parties representing a total capacity of 0.7 million DWT.

- *Gas transportation.* This segment primarily transports LNG and LPG. As of December 31, 2016, the Group's fleet in this segment consisted of four LNG carriers and four LPG carriers, representing a total capacity of 0.5 million DWT and generated US$ 140.6 million (12.3%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016. The Group also operates four LNG carriers in this segment, jointly owned with third parties, representing a total capacity of 0.3 million DWT.

- *Offshore development services.* This segment contains the Group's shuttle tankers and specialized supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. The Group's supply vessels are dedicated to continuously providing supplies to dedicated offshore facilities. This segment also provides additional services to offshore development facilities, such as the management of FSOs, and logistical support. As of December 31, 2016, this segment's fleet consisted of sixteen shuttle tankers with a total capacity of 1.3 million DWT, as well as seven ice breaking supply vessels, and generated US$ 250.9 million (22.0%) of the Group's time-charter-equivalent revenues.

- *Other marine services.* As of December 31, 2016, this segment's fleet consisted of two dry cargo carriers with a total capacity of 149,000 DWT and one chartered-in seismic vessel, and generated US$ 79.8 million (7.0%) of the Group's time-charter-equivalent revenues.

Sovcomflot is a public joint-stock company organized under the laws of the Russian Federation, including the Russian Joint-Stock Companies Law, with the main state registration number 1027739028712, and was originally incorporated in 1988. Sovcomflot's registered office is located at 3, Lit. A, Moika River Embankment, Saint-Petersburg, 191186, Russian Federation, and the telephone number of its registered office is +7 (812) 385 94 10.

Key Competitive Strengths

Management believes that the Group has a number of competitive strengths that have enabled it to expand significantly over the last several years, and that these strengths will continue to provide it with competitive advantages in the future. The Group's key competitive strengths are summarized below.

Global leader across market segments.

The Group is a diversified seaborne energy transportation company that provides services to its customers in different market segments around the world. The Group is a leader in crude oil, oil products and gas transportation, as well as offshore development services. The Group is the largest shipping company in Russia in terms of fleet size based on DWT capacity and, according to Clarksons Research, the Group was, as of March 1, 2017, the second largest oil tanker owner in the world based on number of vessels in its fleet, the eighth-largest oil tanker owner in the world based on DWT capacity, the largest owner of ice-class oil tankers based on DWT capacity, the largest owner of crude Aframax tankers based on DWT capacity and the eighth-largest owner of crude Suezmax tankers in the world based on DWT capacity. The Group is also among the largest owners and operators worldwide of MR product carriers and is the largest operator of Arctic shuttle tankers and the third-largest shuttle tanker owner worldwide (in terms of DWT and vessel numbers). Management believes the Group's position as a market leader in these segments enhances its reputation, which, together with the scale, diversity and quality of the Group's operations, provides it with further opportunities to retain and increase its market positions.

Unlike the single-product shipping companies that make up a large proportion of the Group's publicly quoted competitors, the Group's business is diversified across the crude oil, oil products and gas transportation market segments and the offshore development services and other marine services market segments. The unifying factors for the Group's operations are energy shipping and a focus on harsh-environment operations, rather than ship size or carrying capacity. Management believes this renders the Group better able to expand its existing client relationships and better withstand adverse market trends affecting particular vessel sectors.

Moreover, the Group is the largest Russian owner of LNG carriers and one of the largest ice-class LNG owners worldwide based on number of vessels as of March 1, 2017, according to Clarksons Research. The Group is the only Russian company experienced in operating and overseeing the construction of LNG carriers and, as a result, Management believes the Group is well positioned to maintain and increase its market share of LNG transportation from key Russian gas exploration and development projects.

Modern and diverse fleet enabling a broad product offering.

The Group operates one of the youngest and most modern fleets in the world among major tanker owners with a weighted average age of 9.3 years as of December 31, 2016, compared to a weighted average fleet age of approximately 11 years for the world fleet over 5,000 DWT, according to Clarksons Research. In addition, all of the Group's tankers are double-hulled. Management believes that operating a modern fleet of double-hulled tankers gives the Group an important competitive advantage relative to other operators, particularly in view of increasingly stringent regulatory, port and customer requirements. Younger fleets are more fuel efficient and are better able to meet the environmental standards required of the Group across the various jurisdictions in which it operates without requiring major overhauls. This decreases the Group's expenditures on ship repairs and reduces off-hire periods for

repairs, thus increasing the Group's fleet utilization. In addition, major oil companies are under increasing pressure to rely exclusively on double-hulled tankers, even before operators are required to modernize their fleets under environmental regulations. As a result, such customers may be more inclined to use the services of an operator, such as the Group, whose fleet consists of younger, exclusively double-hulled vessels.

The Group's fleet includes conventional and ice-class crude oil, oil products, LNG and LPG carriers, specialized shuttle tankers, supply vessels and seismic vessels. Onboard this diverse group of vessels, the Group develops and implements innovative technologies to increase the safety of its operations and living standards for crew, increase the fuel efficiency of its vessels, seek to comply with existing and prospective environmental standards and reduce the operating and maintenance costs of its vessels. Examples of such innovations include redundant hull coatings to protect the underwater portion of the vessels' hulls, low sulfur fuel supply systems, ballast water treatment systems, emissions control systems, systems for monitoring and controlling the vessels' energy consumption and comprehensive 'winterization' packages, which are designed to make vessel operation and crew living as safe and efficient as possible in the extremely harsh ice-water conditions of the Baltic, Arctic and Far Eastern regions of Russia. Management believes that the diversity of the Group's fleet, combined with its broad technological and operational expertise enables the Group to offer to customers a comprehensive range of tailored and high-quality energy transportation services.

Balanced mix of contract terms with strong portfolio of long-term fixed rate contracts.

The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of time-charter-equivalent revenues from fixed-rate time charters. Management considers the Group's fleet deployment to be well-balanced, with 74.8% of its time-charter-equivalent revenues for the year ended December 31, 2016, 69.7% for the year ended December 31, 2015, and 78.1% for the year ended December 31, 2014 from time charters. As of December 31, 2016, the Group had total future contracted charter-hire revenues of US$ 7.6 billion, including US$ 4.6 billion under contracts whose remaining terms exceeded five years in duration. In addition as of December 31, 2016, the Group's share in the total future contracted charter-hire revenues of the Group's joint ventures were US$ 0.4 billion including US$ 0.2 billion under contracts whose remaining terms exceeded five years in duration (accounted as share of profits in equity-accounted investments). Moreover, all of the Group's LNG carriers and supply vessels are employed on long-term fixed-rate time charters. Contracts with fixed pricing provide predictability of cash flows and reduce fluctuations in revenues. In addition, contracts of affreightment, even at variable prices, allow the Group to reduce unnecessary time waiting for cargoes, which enhances fleet utilization. At the same time, the Group's voyage charters on the spot market provide flexibility for ship scheduling and enable the Group to benefit from upturns, and expose the Group to declines, in market rates. Management believes that the Group's vessel employment mix provides efficient visibility in managing its fleet and stability in its operating cash flows.

Well-positioned to serve the large Russian energy export market.

According to the EIA, Russia holds the largest natural gas reserves in the world and has significant oil reserves. In addition, the Russian Federation is committed to maintaining its pivotal role in the global oil and gas industry. A scenario by the IEA places Russian natural gas production at more than 700 cubic meters by the end of 2040, and crude oil production is expected to remain stable. Management estimates that the Group carried approximately 16% of Russian seaborne exports of hydrocarbons in 2016 and lifted a significant portion crude oil produced from offshore production platforms along the Russian coasts. As a result, the Group is the leading seaborne exporter of Russian hydrocarbons. Management believes the Group is well positioned to maintain its leading position in servicing seaborne trade in hydrocarbons in Russia and to capture a significant portion of future growth in this market. The Group's capital expenditure plans anticipate growth in this market.

Strong, long-term relationships with high-credit-quality customers.

The Group has developed strong relationships with a broad and diverse list of high-credit-quality customers. The Group's customers include a number of Russian oil and gas companies, including Gazprom, Lukoil and Rosneft. The Group's customers also include major international oil and gas groups, such as BP, Chevron, ExxonMobil, Shell and Total, as well as other national oil and gas companies, such as Petrochina, Philips66 and Statoil. Several project-specific companies also charter the Group's vessels, including Naryanmarneftegaz (a subsidiary of Lukoil), ExxonNeftegaz Ltd., Sakhalin Energy Investment Company Limited ("**SEIC**") and Tangguh LNG Project Partners. The Group's customers also include major oil and gas trading houses, such as Glencore Gunvor, Trafigura and the Vitol Group. The Group attributes the strength and longevity of its customer relationships, and the opportunity to partner with these high-credit-quality customers on many long-term, logistically complex projects, to the diversity and depth of the Group's service offering, the Group's reputation for consistent delivery of high-quality services and the Group's financial stability. The Group often provides services on a sector-specific basis (for example, gas or crude oil transportation services), but for its largest customers, the Group provides services across the sectors in which it operates, whether crude, oil products, offshore or gas.

Focus on harsh-environment operations in the offshore sector.

The Group has focused its development in the offshore sector exclusively on providing services and vessels that are designed to operate in harsh environments and ice-water conditions. The vessels and their operation are specifically designed for the upstream installations and equipment which the vessels support. These vessels are essential assets integral to the operation of the upstream installations for which they were designed and constructed and are often irreplaceable at short notice. Accordingly, charter contracts for these vessels tend to be for longer durations with fewer termination provisions for cause than is customary in the conventional offshore support vessel industry. The skillsets imbedded within the Group's naval architecture team, the crews at sea and ship management ashore provide an integral part of the services provided beyond the vessels themselves. Management believes that this represents a significant barrier to competition entry.

Strong management team focused on operational excellence.

The Group has a highly experienced management team and the Group's Executive Board has an aggregate of more than 200 years of experience in the shipping industry. Management has experience navigating through multiple economic cycles and expertise across commercial, technical, financial and other functional management areas of the Group's business. This helps maintain their focus on operational excellence through in-house management and an emphasis on safety and high-quality, cost-efficient operations. Management believes the Group benefits from higher quality control over the commercial and technical management of its vessels due to its in-house operational expertise, such as operational and technical support, tanker maintenance, crewing, shipyard supervision, insurance and financial management services. Moreover, Management believes that the Group's current operations are scalable, primarily because its in-house training facilities and relationships with the Russian state maritime academies provide the Group with a continuous supply of the most highly qualified seamen.

As a result of its experienced management team and highly trained seamen, Management believes that the Group is an industry leader in safety management and environmental standards and in developing and implementing technical innovations in the energy transportation industry to promote safety and efficiency. The Group's personnel have extensive seafaring experience, including valuable expertise in navigating in ice-water conditions. The Group's safety strategy focuses on the retention of crewmembers to retain the most highly qualified seamen. For example, Group's officer-retention rate stands at the level of 95.1% for the year ended December 31, 2016. In addition, Management continually seeks to enhance the effectiveness of the Group's preventative technical arrangements and to promote the safety of its operations, as reflected in the Group's total recordable lost time injury frequency of 0.45 cases per one million man-hours in 2016, compared to the Intertanko industry average of 0.89. Management believes the Group's expertise in this area allows the Group to provide the highest quality services to its customers at a competitive cost level.

Strong and sustainable financial profile.

The Group has maintained a credit rating from Moody's since July 2005 and is currently rated Ba1 with a stable outlook by Moody's, BB+ with a stable outlook by S&P, and BB with a stable outlook by Fitch. The Group generates substantial cash flow from its operations and has strong access to liquidity, as well as a conservative total debt-to-capitalization ratio, which the Group aims to maintain at a level below 50%. The Group's net cash generated from operating activities for the year ended December 31, 2016 was 22.9% of its total borrowings as of December 31, 2016. Moreover, as of December 31, 2016, the Group had total cash and bank deposits of US$480.6 million, aggregate undrawn revolving credit facilities of US$ 40.0 million and a ratio of net debt to total capitalization of 42.8%. The Group's high liquidity and relatively low leverage ratio provide the Group with capacity for additional financing to obtain new vessels. See "*Operating and Financial Review—Liquidity and Capital Resources*" and "*Selected Consolidated Financial and Operating Data.*" The Group has historically had access to multiple sources of debt, including asset-backed financing, export credit agency financing, project financing and debt capital markets. Since 2015, the Group has raised around US$ 1.6 billion on the bank market from a variety of banks and export credit agencies for the financing of newbuildings and acquisitions, as well as refinancing.

Group Strategy

On November 19, 2014, the Board of Directors of Sovcomflot approved the Group's long-term development program for 2014–2020. Sovcomflot's Board of Directors and Management have developed this strategic plan in line with programs and strategies that have been published by the Russian Government. The Group's development program sets forth the following strategies, which Management continues to monitor, develop and implement on an ongoing basis:

Maintain the leading position in exporting Russian hydrocarbons.

Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Government (see "*—Status as a Strategic Enterprise*"), the Group has an important role in the development of Russia's energy sector, both as the leading energy shipping group in Russia and as a key element of the Russian hydrocarbon transportation infrastructure. Management considers the Group's operations to be, in effect, a seaborne extension of the Russian pipeline infrastructure, which positions the Group to benefit from anticipated growth in Russian exports of hydrocarbons (see "*Industry Overview—The Russian Oil and Gas Market*"). Management estimates that the Group carried approximately 16% of Russian seaborne exports of hydrocarbons in 2016 and lifted a signification portion crude oil produced from offshore production platforms along the Russian coasts. As a result, the Group is the largest carrier of seaborne hydrocarbon exports from Russia. The Group's strategy is to leverage its leading position to increase its market share in servicing Russian offshore upstream projects and exporting Russian hydrocarbons. For example, Management seeks to enhance the Group's cooperation with other key members of the Russian oil and gas industry, such as Gazprom, Lukoil, Novatek, Rosneft, Transneft and others by providing high-quality transportation services and marine logistics solutions for various oil and gas production projects. Moreover, Management intends to continue to develop the Group's fleet to meet the particular needs of exports from Russia, such as increasing the number of specialist ice-class vessels in the Group's fleet.

Develop as an integrated offshore upstream services provider with a specific focus on operating in the harsh environment and ice conditions of the Arctic and sub-Arctic areas.

According to Clarksons Research, the Group is the largest owner worldwide of ice-class oil tankers based on DWT capacity as of March 1, 2017. The Group currently operates a technologically advanced fleet that is able to serve large-scale integrated industrial projects, primarily in the Arctic and sub-Arctic areas. In particular, the Group provides supply vessel and shuttle tanker services to projects such as the Sakhalin-1, Sakhalin-2, Prirazlomnoye, Novy Port and Varandey. These projects require highly specialized vessels and specifically trained crew to operate supply vessels and shuttle tankers, particularly in the extremely harsh ice-water conditions of the Arctic and Far Eastern regions. As a result, the vessels in this segment earn a significant premium over traditional tankers and offshore supply vessels, and this specialized expertise provides a significant barrier to entry for potential competitors. In addition, the cost, risk and potential delay associated with switching providers for such specialist services may often deter customers from doing so. As the largest owner worldwide of ice-class tankers and a diversified energy shipping company, Management aims to leverage the Group's integrated expertise to gain market share in the Russian market for offshore oil and gas development. In 2016, industrial projects accounted for 35.7% of the Group's time-charter-equivalent revenues, as compared to 64.3% accounted for by conventional shipping services. The Group aims to increase the share of industrial projects in the revenue mix to 50% by year-end 2020.

Maintain the Group's status as a 'preferred carrier' for oil and gas majors by focusing on a diverse and high-quality service offering.

In addition to the Group's leading position in Russia, the Group was the second largest oil tanker owner in the world by number of vessels, as of March 1, 2017, according to Clarksons Research, and Management aims to maintain the Group's status as a preferred carrier for both Russian and international oil and gas majors. Management aims to leverage the Group's large, modern and technologically advanced fleet, together with its integrated services offering, to meet the varying and complex needs of international oil and gas companies. These companies increasingly require younger vessels, such as the Group's, in order to meet heightened safety and emissions standards. Moreover, Management intends to leverage the Group's integrated services across the energy value chain to expand its existing relationships with Russian and international oil and gas companies by allowing such companies to depend on the Group as a single service provider for many of their energy transportation needs. Finally, Management intends to maintain and enhance the Group's reputation as a leader in safety management, which Management believes will continue to increase the Group's attractiveness to Russian and international oil and gas companies.

Strengthen the Group's market positions by renewing and selectively expanding its fleet.

In order to strengthen the Group's position in the Russian and international markets, Management intends to expand the number and types of vessels the Group operates in its core segments over the next several years, while maintaining its conservative financial profile. Management believes that maintaining the size of the Group's ice-class fleet will allow the Group to retain its leading position in the Russian energy export market. Moreover, Management expects to invest in additional highly specialized shuttle tankers, LNG carriers and supply vessels, designed to operate in the harsh environment and ice-water conditions of the Arctic and Far Eastern regions of Russia, which can be used in the Group's integrated offshore services. Management believes these investments will allow the Group to maintain and strengthen its market positions in Russia. In addition, Management plans to invest in the renewal of the Group's tanker fleet to maintain its market position with international oil and gas companies and to comply with tightening regulatory requirements.

Focus the Group's investment policy on the needs of core Russian and international oil and gas clients.

The Group's investment program has been designed to focus on the changing needs of the Group's core customers. The Group specifically focuses on long-term industrial projects that can deliver recurring and predictable cash flows, particularly in the Baltic, Arctic and Far Eastern regions of Russia, where the Group has competitive advantages. For example, in connection with the Novy Port oil development project, the Group invested in three highly specialized ice-class shuttle tankers to meet the particular demands of the project, and those vessels were immediately chartered to the project operator under long-term fixed-rate contracts. Management intends to remain consistent as regards the size of its annual investments the coming years, particularly in order to grow its offshore development and LNG transportation services. At the same time, Management expects to make periodical capital expenditures in the renewal of crude oil and oil products tankers to manage the age profile of the fleet and to preserve the Group's market positions in those segments while maintaining a conservative debt-to-total-capitalization ratio.

History and Development

The Group was the first Russian shipping company established according to international shipping practices and governance standards. The Group's operations began in 1973 through the adoption of a special resolution by the government of the Union of Soviet Socialist Republics (the "**USSR**"). The state-owned foreign trade organization "Sovcomflot" was created with the purpose of purchasing modern and second-hand vessels through long-term leasing schemes known as 'bareboat charters.' The bareboat charter vessel operations continued to develop after a Currency Fund for Commercial Operations within the Ministry of the Marine Fleet of the USSR was established in 1976. Over the next fifteen years, the Group acquired more than one hundred vessels under bareboat charters.

In 1988, Joint-Stock Commercial Enterprise "Sovcomflot" was instituted under the Fund for Commercial Operations within the USSR Ministry of Marine Fleet. Pursuant to the Resolution of the USSR Council of Ministers, the company was authorized to conduct operations in foreign markets. In 1995, Sovcomflot was further reorganized into a Russian joint-stock company and, from this year onward, the Russian Federation has owned 100% of Sovcomflot's ordinary shares.

Over the past 25 years, the Group has developed into Russia's largest shipping company and the world's largest oil tanker owner based on the number of vessels through a series of organic growth, acquisitions, capital contributions and joint ventures. In 1991, the Group initiated its own independent tanker operations through a joint venture, Unicom Management Services (Cyprus) Limited, and the Group subsequently acquired 100% interest in the company. In 2006, Sovcomflot acquired Marpetrol, which has allowed for growth in the oil products transportation segment, as well as in the Spanish market. In the same year, the Group started its own LNG operations through the acquisition of two LNG carriers and began its FSO operations through a joint venture with Rosneft.

The Group's transformation into a global leader in energy shipping, and Russia's largest shipping company continued with the acquisition of Novoship in 2007. In particular, in December 2007, pursuant to Presidential Decree No. 784, dated June 20, 2007, and Government Resolution No. 964-r, dated July 20, 2007, the Russian Federation privatized its 50.3% interest in the charter capital of Novoship (equal to 67.1% of the ordinary shares and an effective interest of 66.5%) by transferring such interest to Sovcomflot in consideration for additionally issued shares of Sovcomflot. Following its acquisition of this interest in Novoship, and in accordance with the Joint-Stock Companies Law, Sovcomflot made a series of mandatory tender offers to Novoship's shareholders to acquire the remainder of the outstanding ordinary shares in Novoship. As a result of these tender offers and a series of open market transactions, Sovcomflot increased its effective interest in Novoship to 89.5% as of December 31, 2016. Novoship, founded in 1967, had operated as the largest shipping company in southern Russia, conducting the management of bulk-oil fleets, product carriers and ports on the Russian coast of the Black Sea. This consolidation of Russian state-owned shipping assets enabled the Group to offer a full range of shipping services to Russian and international oil and gas companies and continue development of the Group's LNG shipping and offshore projects.

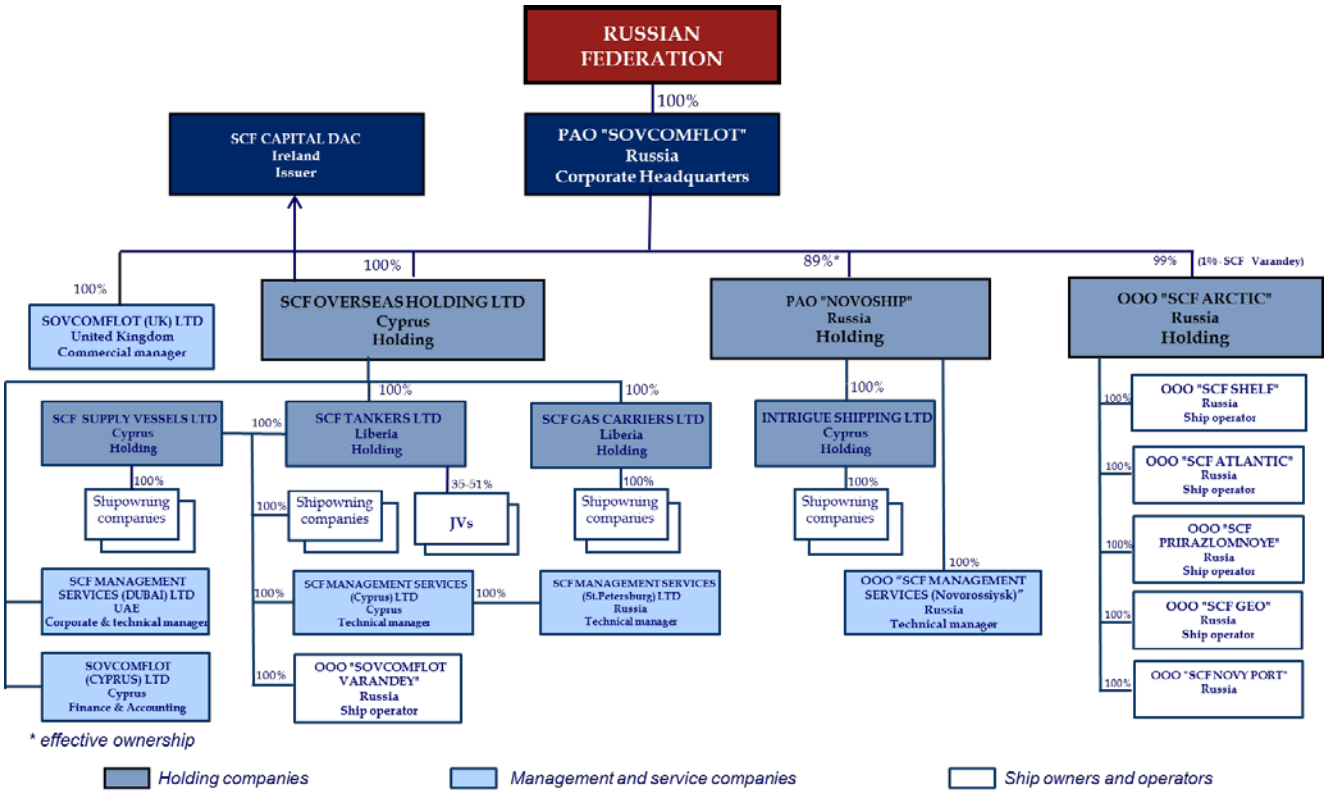
In 2010, Sovcomflot acquired a six-strong ice-class Aframax shuttle tanker fleet servicing the Sakhalin-1 and Sakhalin-2 projects in the Russian Far East, becoming the sole lifter of crude oil from these projects and cementing its position as one of the top-three shuttle tanker owners globally.

In 2009, Sovcomflot made its entry into the offshore supply segment through the acquisition of an ice-breaking platform supply vessel servicing the Sakhalin-2 project in the Russian Far East. This was followed by further acquisitions of ice-breaking platform supply vessels in 2010 and 2016.

Organizational Structure

Sovcomflot is a holding company, and Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are owned and financed by the vessel holding companies of the Group's intermediate holding companies, Intrigue, SCF Gas Carriers, SCF Supply Vessels and SCF Tankers. When a vessel is chartered to one of the Group's customers, the charter contract is entered into directly with the customer by the relevant vessel holding company, and the resulting cash flows run through such subsidiary. Part of the Group's existing indebtedness is incurred by the vessel holding companies on a non- or limited-recourse basis or with guarantees provided by SCF Tankers, Intrigue or SCF Gas Carriers, and is secured by mortgages over certain of the Group's vessels and pledges of the vessel holding companies' shares (see "*Operating and Financial Review—Liquidity and Capital Resources—Borrowings*" and "*Risk Factors—Risks Relating to the Notes—The Group's assets are held in subsidiaries to which Noteholders have no direct recourse, and the Group has a significant amount of indebtedness in such subsidiaries.*"). As of December 31, 2016, Group vessels with a carrying value of US$ 1,525.0 million (25.9%) remain unencumbered. Ship management services for the Group's vessels are primarily provided by Sovcomflot's subsidiaries SCF Management Services (Dubai) and SCF Management Services (St. Petersburg).

The chart below sets forth the Group's organizational structure as of December 31, 2016:



Fleet

The table below sets forth a summary of all of the Group's vessels as of December 31, 2016, broken down by business segment and type:

Ship Name	Owned[1]	Chartered-in	Newbuilding	Total	Average Age[2]
Crude Oil Transportation					
VLCC	2	-	-	2	3.0
Aframax oil tanker	42	-	-	42	11.6
Suezmax oil tanker	15	-	-	15	9.8
Oil Products Transportation					
Handysize product carrier	4	-	-	4	9.4
MR product carrier	27	-	-	27	10.6
LRI product carrier	9	-	-	9	5.6
LRII product carrier	9	-	-	9	6.8

Ship Name	Owned[1]	Chartered-in	Newbuilding	Total	Average Age[2]
Gas Transportation					
LNG gas fleet	8	-	1	9	5.2
LPG gas fleet	4	-	-	4	6.9
Offshore Development Services					
Aframax shuttle tanker	8	-	-	8	11.0
Panamax shuttle tanker	5	-	-	5	7.7
MR shuttle tanker	3	-	-	3	0.2
Ice-breaking platform supply	6	1	1	8	9.2
Ice-breaking standby vessel	-	-	3	3	-
Other Marine Services					
Panamax bulker	2	-	-	2	4.0
Seismic research vessel	-	1	-	1	5.3
TOTAL	144	2	5	151	9.3

(1) Includes fully owned vessels, vessels owned through joint ventures and vessels shown as finance leases in the balance sheet.

(2) Average age includes fully owned vessels, vessels owned through joint ventures and chartered-in vessels and is weighted based on the DWT of such vessels.

All of the Group's tanker fleet is double-hulled, and the Group's fleet had an average age, weighted by DWT, of 9.3 years as of December 31, 2016, compared to a weighted average fleet age of approximately 11 years for the world fleet over 5,000 DWT, according to Clarksons Research. This means that the Group has one of the youngest and most modern fleets in the world among major tanker owners. See "*—Key Competitive Strengths—Modern and diverse fleet enabling a broad product offering.*" Management believes the Group's modern fleet is a key competitive advantage in the markets in which it operates, and Management continually seeks to renew portions of the Group's fleet to maintain the competitive profile of its vessels.

The Group's Operations

Crude Oil Transportation

Overview

The Group, through its subsidiaries, owns a crude oil tanker fleet that was the largest Aframax tanker fleet and the eighth-largest Suezmax tanker fleet in the world as of March 1, 2017, according to Clarksons Research. As of December 31, 2016, the Group's fleet in this segment consisted of 59 crude oil carriers, with a total capacity of 7.7 million DWT. These vessels include 42 Aframax tankers, 15 Suezmax tankers and two VLCC tankers of which 11 carry an ice-class notation. The average age of the Group's vessels in this segment, weighted by deadweight tonnage, was 10.3 years as of December 31, 2016. The Group's fleet of Aframax and Suezmax tankers operates primarily within the Atlantic basin, from the Baltic Sea, Black Sea and West Africa to Europe, from the Caribbean and South America to the USA and on intra-Mediterranean voyages. Further, the Group owns the largest fleet of ice-class Aframax tankers, which focus their services on Russian exports from the Baltic Sea. The two VLCCs operate worldwide under time charters to the Petrochina Group and which expire in 2020 and 2021 respectively.

This segment generated US$ 477.4 million (41.8%) of the Group's time-charter-equivalent revenues in 2016.

Competition

Competition for charters in the crude oil tanker market is intense and is based upon the price, location, size, age, condition and acceptability of the vessel and the reputation of the vessel's operator. The Group's competition in each of the size classes in which it competes is also affected by the availability of other size vessels that compete in that market. For example, Suezmax vessels may compete at certain times for some of the same charters for which the Group's Aframax tankers compete. Similarly, VLCCs can compete at certain times for some of the same charters for which the Group's Suezmax vessels compete. Since VLCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax routes or of Suezmax vessels into Aframax routes heightens the already intense competition.

The Group's main competitors in this segment are other operators of crude oil tankers, ranging in size from Aframax to VLCCs, including Frontline Ltd., Dynacom Tankers Management, Euronav N.V, Nordic American Tankers, Malaysian International Shipping Corporation ("**MISC**"), Minerva Marine Inc., Mitsui OSK Lines and Teekay Corporation ("**Teekay**").

Chartering and Customers

The global tanker charter market comprises tanker broker companies that represent both charterers and shipowners in chartering transactions. Within this market, some transactions, referred to as 'market cargoes,' are offered by charterers through two or more brokers simultaneously and shown to the widest possible range of owners. Other transactions, referred to as 'private cargoes,' are given by the charterer to only one broker and shown selectively to a limited number of owners whose tankers are most likely to be acceptable to the charterer and are in position to undertake the voyage. In addition, in many cases, charterers contact the Group directly to charter a vessel because of their existing relationships with the Group. The Group's chartering activities are based primarily in London, England. Fleet operations, vessel positions and charter market rates are monitored around the clock, which Management believes to be critical in making informed bids on competitive brokered business.

The Group's main customers in this segment include major international oil companies, such as Chevron, ExxonMobil, Phillips66 and Shell, as well as other oil traders and national oil companies, including Glencore, Statoil, Trafigura and Vitol. In the year ended December 31, 2016, 51.8% of the Group's voyage days in this segment were engaged on time charters and 48.2% of the Group's voyage days in this segment were used on the spot market (including contracts of affreightment).

Fleet

The table below sets forth the Group's crude oil carriers as of December 31, 2016:

Ship Name	Vessel Type	Capacity (DWT)	Ice Class[1]	Owned/Chartered-in	Ownership (%)	Year Built	Flag
Oil Tankers							
ADYGEYA	Aframax	105,926		Owned	100	2005	Liberia
GEORGY MASLOV	Aframax	122,018		Owned	100	2012	Liberia
KALUGA	Aframax	115,707		Owned	100	2003	Liberia
KAZAN	Aframax	115,727		Owned	100	2003	Liberia
KRASNODAR	Aframax	115,605		Owned	100	2003	Liberia
KRYMSK	Aframax	115,605		Owned	100	2003	Liberia
KUBAN	Aframax	106,562		Owned	100	2000	Liberia
LIGOVSKY PROSPECT	Aframax	114,639	1B	Owned	100	2003	Liberia
LITEYNY PROSPECT	Aframax	114,546	1B	Owned	100	2003	Liberia
MOSCOW	Aframax	106,553		Owned	100	1998	Liberia
MOSCOW KREMLIN	Aframax	106,521		Owned	100	1998	Liberia
MOSCOW RIVER	Aframax	106,552		Owned	100	1999	Liberia
MOSCOW STARS	Aframax	106,450		Owned	100	1999	Liberia
MOSCOW UNIVERSITY	Aframax	106,474		Owned	100	1999	Liberia
MOSKOVSKY PROSPECT	Aframax	113,867	1B	Owned	100	2010	Liberia
NEVSKIY PROSPECT	Aframax	114,598	1B	Owned	100	2003	Liberia
NIKOLAY ZUYEV	Aframax	122,039		Owned	100	2012	Liberia
NS CAPTAIN	Aframax	109,915		Owned	100	2006	Liberia
NS CENTURY	Aframax	105,784		Owned	100	2006	Liberia
NS CHALLENGER	Aframax	109,541		Owned	100	2005	Liberia
NS CHAMPION	Aframax	110,084		Owned	100	2005	Liberia
NS CLIPPER	Aframax	109,907		Owned	100	2006	Liberia
NS COLUMBUS	Aframax	109,808		Owned	100	2007	Liberia
NS COMMANDER	Aframax	105,782		Owned	100	2006	Liberia
NS CONCEPT	Aframax	109,857		Owned	100	2005	Liberia
NS CONCORD	Aframax	109,918		Owned	100	2005	Liberia
NS CONSUL	Aframax	109,716		Owned	100	2006	Liberia
NS CORONA	Aframax	110,066		Owned	100	2006	Liberia
NS CREATION	Aframax	109,819		Owned	100	2007	Liberia
NS LAGUNA	Aframax	115,831		Owned	100	2007	Liberia
NS LEADER	Aframax	115,857		Owned	100	2007	Liberia
NS LION	Aframax	115,831		Owned	100	2007	Liberia
NS LOTUS	Aframax	115,831		Owned	100	2008	Liberia
OLYMPIYSKY PROSPECT	Aframax	113,905	1B	Owned	100	2010	Liberia
PETRODVORETS	Aframax	105,692		Owned	100	1999	Liberia
PETROPAVLOVSK	Aframax	106,532		Owned	100	2002	Liberia
PETROVSK	Aframax	106,449		Owned	100	2004	Liberia
PETROZAVODSK	Aframax	106,449		Owned	100	2003	Liberia
PRIMORSKY PROSPECT	Aframax	113,860	1B	Owned	100	2010	Liberia
SCF BALTICA	Aframax	117,153	1A*	Owned	100	2005	Liberia

Ship Name	Vessel Type	Capacity (DWT)	Ice Class[1]	Owned/Chartered-in	Ownership (%)	Year Built	Flag
SUVOROVSKY PROSPECT	Aframax	113,816	1B	Owned	100	2011	Liberia
ZALIV AMERIKA	Aframax	104,535	1C	Owned	100	2007	Liberia
ALEKSEY KOSYGIN	Suezmax	163,545	1A	Owned	100	2007	Liberia
NS BORA	Suezmax	156,697		Owned	100	2010	Liberia
NS BRAVO	Suezmax	156,694		Owned	100	2010	Liberia
NS BURGAS	Suezmax	156,572		Owned	100	2009	Liberia
LEONID LOZA	Suezmax	156,630		Owned	100	2011	Liberia
SCF ALTAI	Suezmax	159,168		Owned	100	2001	Liberia
SCF BAIKAL	Suezmax	158,097		Owned	100	2010	Liberia
SCF CAUCASUS	Suezmax	159,173		Owned	100	2002	Liberia
SCF KHIBINY	Suezmax	159,196		Owned	100	2002	Liberia
SCF PRIMORYE	Suezmax	158,071		Owned	100	2009	Liberia
SCF SAMOTLOR	Suezmax	158,071		Owned	100	2010	Liberia
SCF SAYAN	Suezmax	159,185		Owned	100	2002	Liberia
SCF SURGUT	Suezmax	158,097		Owned	100	2009	Liberia
SCF URAL	Suezmax	159,313		Owned	100	2002	Liberia
VLADIMIR TIKHONOV	Suezmax	162,362	1A	Owned	100	2006	Liberia
SCF SHANGHAI	VLCC	315,000		Owned	100	2014	Liberia
SVET	VLCC	315,000		Owned	100	2013	Liberia

(1) Ice-class notation according to DNV GL classification or closest equivalent.

On February 3, 2017, the Group entered into shipbuilding contracts with a shipyard to construct four Aframax crude oil tankers at a total contracted cost of US$ 240.0 million. Deliveries of the vessels is expected to take place between July 2018 and February 2019.

Oil Products Transportation

Overview

The Group, through its subsidiaries, owns an oil products tanker fleet that was the second largest oil product carrier fleet in the world in terms of tanker DWT as of March 1, 2017, according to Clarksons Research. As of December 31, 2016, the Group's fleet in this segment consisted of 21 petroleum product carriers and 19 chemical and oil carriers, with a total capacity of 2.4 million DWT. The Group also operates nine petroleum product carriers in this segment, jointly owned with third parties, with a total capacity of 0.7 million DWT. The Group's vessels in this segment include 31 MR oil product carriers, nine LR2 product carriers and a 51% ownership in nine LR1 product carriers. Of these vessels, 28 carry an ice-class notation. The average age of the Group's vessels in this segment, weighted by DWT, was 8.2 years as of December 31, 2016. The fleet of oil products tankers operates on a worldwide basis operating in both the clean petroleum and dirty petroleum trades.

This segment generated US$ 193.3 million (16.9%) of the Group's time-charter-equivalent revenues in 2016.

Competition

The Group's product carriers primarily compete in the MR, LR I and LR II tanker markets. Competition for charters in these markets is intense and is based upon the price, location, size, age, condition and acceptability of the vessel (including which products have recently been carried by the vessel) and the reputation of the vessel's operator. The Group's competition in each of the size classes in which it competes is also affected by the availability of other size vessels that compete in that market. See "*—Crude Oil Transportation—Competition.*" The Group's main competitors in this segment are other operators of oil products and chemical tankers, ranging in size from Handysize to LR2, including BW Pacific, China COSCO Shipping, Ocean Tankers, Scorpio Tankers and Torm A/S.

Chartering and Customers

The chartering market in the oil products segment is the same market as for crude oil tankers (See "*—Crude Oil Transportation—Chartering and Customers*"). The Group's main customers in this segment include major oil companies and trading houses, such as BP, Gazprom Neft, Glencore, Shell and Trafigura. The commercial management of the nine jointly owned LR1 vessels is performed by ST Shipping Pte Limited, which is a subsidiary of the Glencore group.

In the year ended December 31, 2016, 38.4% of the Group's voyage days in this segment were engaged on time charters and 61.6% of the Group's voyage days in this segment were used on the spot market (including contracts of affreightment).

Fleet

The table below sets forth the Group's oil products and chemical carriers as of December 31, 2016:

Ship Name	Vessel Type	Capacity (DWT)	Ice Class[1]	Owned/Chartered-in	Ownership (%)	Year Built	Flag
MR Product Tankers							
NS PARADE	HANDYSIZE	40,199	1B	Owned	100	2008	Liberia
NS POINT	HANDYSIZE	40,199	1B	Owned	100	2008	Liberia
NS POWER	HANDYSIZE	40,161	1B	Owned	100	2006	Liberia
NS PRIDE	HANDYSIZE	40,119	1B	Owned	100	2006	Liberia
NS SILVER	MR	47,197		Owned	100	2005	Liberia
NS SPIRIT	MR	46,941	1C	Owned	100	2006	Liberia
NS STELLA	MR	47,197	1C	Owned	100	2005	Liberia
NS STREAM	MR	46,991		Owned	100	2006	Liberia
ANICHKOV BRIDGE	MR	47,842	1A	Owned	100	2003	Russia
ELBRUS	MR	46,659	1C	Owned	100	2004	Malta
HERMITAGE BRIDGE	MR	47,880	1A	Owned	100	2003	Liberia
NARODNY BRIDGE	MR	47,791	1A	Owned	100	2003	Liberia
OKHTA BRIDGE	MR	47,803	1A	Owned	100	2004	Liberia
PAMIR	MR	46,654	1C	Owned	100	2004	Malta
SCF AMUR	MR	47,095	1A	Owned	100	2007	Russia
SCF ANADYR	MR	50,973	1A	Owned	100	2008	Liberia
SCF ANGARA	MR	50,973	1A	Owned	100	2008	Liberia
SCF DON	MR	49,999	1A	Owned	100	2009	Liberia
SCF IRTYSH	MR	49,999	1A	Owned	100	2009	Liberia
SCF NEVA	MR	47,125	1A	Owned	100	2006	Russia
SCF PECHORA	MR	47,218	1A	Owned	100	2007	Russia
SCF USSURI	MR	50,922	1A	Owned	100	2009	Liberia
SCF YENISEI	MR	47,187	1A	Owned	100	2007	Russia
TAVRICHESKY BRIDGE	MR	46,697		Owned	100	2006	Liberia
TEATRALNY BRIDGE	MR	46,697		Owned	100	2006	Liberia
TORGOVY BRIDGE	MR	46,697		Owned	100	2005	Liberia
TOWER BRIDGE	MR	47,252		Owned	100	2004	Liberia
TRANSSIB BRIDGE	MR	46,564		Owned	100	2008	Liberia
TROITSKY BRIDGE	MR	47,199		Owned	100	2003	Liberia
TUCHKOV BRIDGE	MR	47,199		Owned	100	2004	Russia
TVERSKOY BRIDGE	MR	46,564		Owned	100	2007	Liberia
LR I							
SCF ALPINE	LR I	74,609		Owned	51	2010	Liberia
SCF PACIFICA	LR I	74,534		Owned	51	2012	Liberia
SCF PEARL	LR I	74,559		Owned	51	2012	Liberia
SCF PIONEER	LR I	74,559		Owned	51	2011	Liberia
SCF PLYMOUTH	LR I	74,606		Owned	51	2012	Liberia
SCF PRIME	LR I	74,581		Owned	51	2011	Liberia
SCF PROGRESS	LR I	74,558		Owned	51	2012	Liberia
SCF PROVIDER	LR I	74,548		Owned	51	2011	Liberia
SCF PRUDENCIA	LR I	74,565		Owned	51	2012	Liberia
LR II							
ANATOLY KOLODKIN	LR II	118,316	1C	Owned	100	2013	Liberia
NS AFRICA	LR II	111,682		Owned	100	2009	Liberia
NS ANTARCTIC	LR II	111,107	1B	Owned	100	2009	Liberia
NS ARCTIC	LR II	111,107	1B	Owned	100	2009	Liberia
NS ASIA	LR II	111,682		Owned	100	2009	Liberia
VIKTOR BAKAEV	LR II	118,175	1C	Owned	100	2013	Liberia
ZALIV AMURSKIY	LR II	104,527	1C	Owned	100	2008	Liberia
ZALIV BAIKAL	LR II	104,532	1C	Owned	100	2009	Liberia
ZALIV VOSTOK	LR II	104,527	1C	Owned	100	2009	Liberia

(1) Ice-class notation according to DNV GL classification or nearest equivalent.

Gas Transportation

Overview

As of December 31, 2016, the Group operated a fleet of eight LNG carriers (four of which were jointly owned with third parties) and four LPG carriers, of which eight carried an ice-class notation. In contrast to the crude

oil and oil products shipping markets, LNG shipping arrangements have historically been carried out almost exclusively pursuant to time charters of long duration that require LNG carriers to perform dedicated transport services to LNG receiving facilities. All of the Group's LNG carriers and two of the Group's LPG vessels are chartered on long-term fixed-rate contracts, which provide predictability in the Group's cash flows from these vessels. Management aims to continue selective expansion of the Group's operations in the LNG market in the coming years.

The principal routes served by the Group's LNG carriers are from Sakhalin Island to Asia, from Indonesia to South Korea and from West Africa and the Middle East to India and Asia. The Group's two fully-refrigerated LPG carriers operate worldwide, predominantly carrying ammonia, and the Group's two ice-class semi-refrigerated LPG carriers operate predominantly within the Baltic Sea and northern Europe carrying LPG.

This segment generated US$ 140.6 million (12.3%) of the Group's time-charter-equivalent revenues in 2016. As of December 31, 2016, the Group's fleet in this segment consisted of four LNG carriers and four LPG carriers, representing a total capacity of 0.80 CBM. The Group also operates four LNG carriers in this segment, jointly owned with third parties, representing a total capacity of 0.58 CBM. The average age of the vessels in this segment, weighted by DWT, was 5.4 years as of December 31, 2016.

Competition

The vessels in the Group's gas transportation segment compete in the LNG and LPG markets. In the LNG market, the Group competes principally with other private and state-controlled energy and utilities companies, which generally operate captive fleets, and independent shipowners and operators. Many major energy companies compete directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies have historically transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as major energy companies have continued to divest non-core businesses. The major operators of LNG carriers are Maran Gas, Mitsui O.S.K. Lines ("**Mitsui**"), Golar LNG, MISC, NYK Line, Qatar Gas Transport (Nakilat) and Teekay.

Chartering and Customers

LNG carriers predominantly carry LNG pursuant to time-charter contracts, where a vessel is hired for a fixed period of time, usually between 15 and 25 years, and the charter rate is payable to the owner on a monthly basis at a fixed rate. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends to a large extent on long-range planning and coordination of project activities, including marine transportation. However, the spot and short-term time-charter market has continued to expand its share of LNG shipping over recent years.

LPG carriers are typically chartered to carry LPG, ammonia (NH_3) and other petrochemical gases under spot and time-charter contracts. The two largest consumer groups for LPG are residential users and the petrochemical industry. Residential users, particularly in developing regions where electricity and gas pipelines are not developed, do not have fuel-switching alternatives and are not generally LPG price sensitive. The petrochemical industry, however, has the ability to switch between LPG and other feedstock fuels depending on the price and availability of alternatives. The largest consumers of ammonia (NH_3) are fertilizer producers and distributors, with demand for product being governed by seasonal agricultural conditions.

The Group's LNG are all operated subject to long-term, fixed-rate time-charter contracts, and, in some cases, the charterers have the option, under certain conditions at specified times, to purchase the chartered vessel at specified prices. The Group provides LNG transportation services to both specific gas development projects, the Sakhalin-2 Project and the Tangguh Project (see below), and to 'oil majors'. Two vessels are on long-term charter to the Gazprom group until 2029 and two are on long-term charter to the Shell Group until 2025, providing services for Shell Group's own portfolio cargoes. All these charters contain varying charter extension options. The Group's main customer in the LPG transportation market is Sibur International, with two vessels on ten-year charters which expire in 2023.

Sakhalin-2 Project

The Sakhalin-2 Project is an oil, gas, and condensate development in Russia on the north-eastern shelf of Sakhalin Island. The project is operated by SEIC, a joint venture among Gazprom, Shell, Mitsui and Mitsubishi under a production-sharing agreement ("**PSA**") with the Russian Federation. The Sakhalin-2 Project is the Russian Federation's inaugural LNG project exporting gas via the LNG plant and terminal at Prigorodnoye, Aniva Bay, in

the south of Sakhalin Island. LNG production, which started in March 2009, produced approximately 10.5 million tons of LNG in 2015. The Group, in a joint venture with NYK Line, owns and operates two ice-class LNG carriers to provide the project with seaborne LNG transportation services under long-term charters to SEIC. The time charters for the Grand Aniva and the Grand Elena expire in 2027 and 2028, respectively, and, in each case, SEIC has the right to extend these contracts for two successive periods of five years. The Group's agreements with SEIC indicate that the LNG will be exported principally to customers in the Pacific basin, such as Japan, China and South Korea.

Tangguh Project

The Tangguh Project is a gas development in eastern Indonesia operated by The Tangguh Production Sharing Contractors ("**TPSC**"), which is controlled by an international consortium led by BP Berau, a subsidiary of BP. LNG production, which started at the end of 2008, produced approximately 7.5 million tons of LNG in 2015. The Group, in a joint venture with NYK Line and Samudera Shipping Line Ltd., owns and operates two LNG carriers, Tangguh Batur and Tangguh Towuti, to provide the project with seaborne LNG transportation services under long-term charters to TPSC. Long-term sales agreements indicate that the LNG will be exported to markets in China, South Korea and the USA via Mexico. The time charters for the Tangguh Batur and the Tangguh Towuti expire in 2025 and 2028, respectively, and in each case, TPSC has the right to extend these contracts for a period of one year.

Yamal Project

The Yamal Project is a gas development in the Yamal-Nenets province, an autonomous *okrug* (district) situated in the northern peninsula of the Russian Federation which is licensed to Yamal LNG, an entity controlled by an international consortium including Novatek, Total, CNPC, and China's Silk Road Fund. The LNG facility is currently under construction and, according to Yamal LNG, is scheduled to be operational from 2017. On March 27, 2017, the Group took delivery of '*Christophe de Margerie*', an LNG carrier of 172,600 CBM capacity (ice-class POLAR-20) from DSME shipyard. The acquisition of the vessel is financed by VTB. The vessel is contracted for a time-charter to Yamal Trade Pte. Ltd. to perform year-round exports of LNG. The time-charter is due to expire in December 2045 and there exist certain charter extension options beyond the initial period.

Fleet

The table below sets forth the Group's LNG and LPG carriers as of December 31, 2016:

Ship Name	Vessel Type	Capacity (CBM)	Ice Class[(1)]	Owned/Chartered-in	Ownership (%)	Year Built	Flag
Gas Fleet							
GRAND ANIVA	LNG	145,000	1C	Owned	50	2008	Cyprus
GRAND ELENA	LNG	145,000	1C	Owned	50	2007	Cyprus
PSKOV	LNG	170,200	1C	Owned	100	2014	Liberia
SCF MELAMPUS	LNG	170,200	1C	Owned	100	2014	Liberia
SCF MITRE	LNG	170,200	1C	Owned	100	2015	Liberia
TANGGUH BATUR	LNG	145,700		Owned	50	2008	Singapore
TANGGUH TOWUTI	LNG	145,700		Owned	37.5	2008	Singapore
VELIKY NOVGOROD	LNG	170,200	1C	Owned	100	2013	Liberia
SIBUR TOBOL	LPG	22,819	1B	Owned	100	2013	Liberia
SIBUR VORONEZH	LPG	22,819	1B	Owned	100	2013	Liberia
SCF TOBOLSK	LPG	35,000		Owned	100	2006	Liberia
SCF TOMSK	LPG	35,000		Owned	100	2007	Liberia

(1) Ice-class notation according to DNV GL classification or nearest equivalent.

On March 27, 2017, the Group took delivery of an LNG carrier. See "—*Yamal Project*" above.

Offshore Development Services

Overview

Offshore oil and gas development projects are an increasingly important part of the world's oil and gas production infrastructure. Oil is one of the world's most important energy sources, and approximately 27% of global production was met by offshore activities in 2016, according to Clarksons Research. Gas is the third-largest global

energy source, after oil and coal, and approximately 31% of global natural gas production was met by offshore production in 2016. International oil and gas companies use a variety of drilling and production platforms or other offshore installations to drill wells and extract hydrocarbons. Once oil or gas is extracted, it may be sent via underwater pipes to the mainland, but, in many cases, the installation of such a pipeline is not feasible. In such cases, oil and gas companies may use an FPSO or an FSO or fixed offshore terminals.

Shuttle tankers are specialized ships designed to transport crude oil and condensates from offshore oil field installations, such as fixed offshore terminals, FSOs or FPSOs, to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were originally developed in the North Sea as an alternative to pipelines and are often described as 'floating pipelines' because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor. Offshore production is increasing in the Russian Far East and Russian Arctic, where the construction of pipelines is economically unfeasible due to the harsh weather and ice conditions. The Group's shuttle tanker fleet operates primarily to service the Varandey and the Prirazlomnoye projects in the Pechora Sea and the Sakhalin-1 and Sakhalin-2 projects in the Russian Far East.

Ice-Breaking Supply Vessels ("**IBSV**") and Ice-Breaking Emergency Rapid Response Vessels ("**ERRV**") are specialized ships which provide logistical support services to offshore oil and gas platforms and installations located in waters that are commonly covered by ice during the autumn and spring months. The IBSVs are able to perform the same normal functions of a platform supply vessel, including the provision of fuels, equipment, drilling muds and potable water. The IBSV is further capable of providing certain ice-breaking support services to the offshore platforms and installations, as well as operating in ice-water conditions without the assistance of ice breakers to the extent permitted by each vessel's ice-class notation. The ERRV are specialized vessels which provide stand-by services to offshore oil and gas platforms and installations. These vessels can provide a limited range of logistical support functions above their principle emergency response function as well as operating in ice-water conditions without the assistance of ice breakers o the extent permitted by each vessel's ice-class notation.

This segment generated US$ 250.9 million (22.0%) of the Group's time-charter-equivalent revenues in 2016. As of December 31, 2016, the Group's fleet in this segment consisted of 16 shuttle tankers with a total capacity of 1.3 million DWT, as well as seven specialized ice-class platform supply vessels. As of December 31, 2016, all of the Group's shuttle tankers and supply vessels were engaged on long-term time charters. The average age of the vessels in this segment, weighted by DWT, was 9.1 years as of December 31, 2016. The Group also provides other logistical support services to offshore development projects, such as the technical management and crewing of FSOs and the seasonal redeployment of its Suezmax tankers as FSOs in the Baltic region and the Black Sea.

Competition

Competition for charters in this segment is based primarily upon price, availability, the size, technical sophistication, age and condition of the vessel and the reputation of the vessel's manager. Technical sophistication of the vessel is especially important in harsh operating environments such as the Arctic and Far East regions. Other major shuttle tanker operators include Knutsen NYK KNOT Offshore, Teekay Offshore and Viken MOL AS. Management believes the Group has significant competitive advantages in the shuttle tanker market as a result of the quality, type and dimensions of its vessels, combined with the Group's market share in the Arctic and Far East regions.

Chartering and Customers

The Group's shuttle tankers and supply vessels are all subject to fixed-rate time-charter contracts for specific offshore oil fields. Pursuant to these contracts, a vessel is hired for a fixed period of time by the project operator and in certain cases, the charterers have the option to purchase the vessels at various points over the life of the charter. These charter contracts are typically for periods of 10 years or more, and rates are quoted per day, with adjustments for inflation in certain charter contracts.

Sakhalin-1 Project

The Sakhalin-1 project is an oil and gas development in Russia on the north-east shelf of Sakhalin Island, comprising the Chayvo, Odoptu and Arkutun-Dagi fields. Sakhalin-1 is operated by Exxon Neftegas Limited, a project company controlled by an international consortium consisting of affiliates of ExxonMobil Corporation, SODECO, Rosneft and ONGC Videsh Ltd., under a PSA with the Russian Federation. A pipeline has been constructed from the producing oilfields to the DeKastri Export Terminal in the Tatar Straits, from where oil is shipped to international markets utilizing fully winterized ice-class oil tankers. The Group has five highly

specialized, purpose built, ice-class Aframax tankers with bow-loading systems (the Victor Konetsky, the Yuri Senkevich, the Pavel Chernysh, the Viktor Titov and the Captain Kostichev) to transport Sakhalin-1 oil from DeKastri under long-term contracts that expire in 2021–2022. Further, the Group has three IBSVs servicing the Project under long-term time-charter contracts; the SCF Sakhalin until 2020, the Vitus Bering until 2023 and the Aleksey Chirikov until 2023, with certain charter extension options to extend the charter periods further.

Sakhalin-2 Project

As discussed above, the Sakhalin-2 project is an oil, gas and condensate development on the north and eastern shelves of Sakhalin Island (see "*—Gas Transportation—Sakhalin-2 Project*"). In addition to the LNG carrier charters that the Group has with SEIC, the project operator, the Group owns three ice-class shuttle tankers which service the project under time-charter contracts; the Governor Farkhutdinov until 2017, the Sakhalin Island until 2018 and the Zaliv Aniva until 2018, with certain charter extension options to extend the charter periods further. The Group owns the IBSVs SCF Endeavour, SCF Endurance and SCF Enterprise, the latter two being acquired from Swire Pacific Offshore Limited in 2016 and which service the project under long-term time-charters that expire in 2021, 2026 and 2026, respectively, with certain options to extend the charter periods. The acquisition of SCF Endurance and SCF Enterprise extended the long-term fixed-income portfolio with forward contract cover of US$ 129.6 million of time-charter-equivalent revenues and US$ 93.6 million of EBITDA per vessel from January 1, 2017 to the expiration of the contract in 2026. One further IBSV was delivered to the Group on March 2, 2017 from ATHS/OSK shipyard, and three IBSBVs ('*Stepan Makarov*', '*Fedor Ushakov*' and '*Mikhail Lazarev*') are currently under construction and are due to be delivered on April 7, 2017, July 10, 2017 and September 8, 2017, respectively, from ATHS/OSK shipyard; each of these is contracted for time-charter to SEIC for 20 years. The acquisition of these four vessels is financed by ING and Finnvera. The Group has one ice-class multi-functional support vessel, MSV Nordica, on short-term time-charter for a period of 30 days including extension options. The vessel is chartered to SEIC for an identical charter period.

Varandey Project

The Varandey project is a crude oil development in Russia operated by the Lukoil Group. The project comprises the development of the Timano-Pechorskoe and other neighboring oil fields, as well as the operation of the export terminal at Varandey in the Barents Sea. The Group had three highly specialized super ice-class shuttle tankers of 70,000 DWT each, constructed at Samsung Heavy Industries in South Korea. The vessels have been chartered to a Lukoil Group subsidiary under long-term time-charter contracts to provide seaborne transportation of crude oil from the Varandey project. Oil shipments from Varandey commenced in June 2008, and these long-term time-charters expire in 2018, 2023 and 2024, and in each case, the Lukoil Group has the right to extend these contracts for two successive periods of five years.

Prirazlomnoye Project

The Prirazlomnoye project is a crude oil development in Russia controlled by Gazprom Neft Shelf (formerly Sevmorneftegaz), a 100% subsidiary of Gazprom. The Prirazlomnoye oil field is located offshore in the Barents Sea. This industrially underdeveloped area is characterized by extremely low temperatures and strong ice loads. The Group has two highly specialized super-ice-class shuttle tankers of 70,000 DWT chartered to Gazprom Neft Shelf under long-term time-charter contracts to provide seaborne transportation of crude oil from the Prirazlomnoye project both time-charter contracts expire in 2035.

Noviport Project

The Noviport project is a crude oil development in Russia controlled by Gazprom Neft, a 100% subsidiary of Gazprom. The Noviport offshore terminal is located in the estuary of the River Ob in the Yamalo-Nenets autonomous *okrug* (district) of Russia. The Group had three highly specialized super-ice-class shuttle tankers of 42,000 DWT each, constructed at Samsung Heavy Industries in South Korea. The vessels have been chartered by Gazprom Neft under long-term charter contracts to provide seaborne transportation of crude oil from the Noviport terminal. The vessels commenced operations from the Noviport terminal in 2016 and these long-term time-charters expire in 2028 and Gazprom Neft has the right in each case to extend these contracts.

Fleet

The table below sets forth the Group's shuttle tanker and supply vessels as of December 31, 2016:

Ship Name	Vessel Type	Capacity (DWT)	Ice Class[(1)]	Owned/Chartered-in	Ownership (%)	Year Built	Flag
Shuttle Tankers							

Ship Name	Vessel Type	Capacity (DWT)	Ice Class[1]	Owned/Chartered-in	Ownership (%)	Year Built	Flag
CAPTAIN KOSTICHEV	Aframax	100,927	1A/1C	Owned	100	2006	Cyprus
GOVERNOR FARKHUTDINOV	Aframax	108,078	1C	Owned	100	2004	Cyprus
PAVEL CHERNYSH	Aframax	100,971	1A/1C	Owned	100	2005	Cyprus
SAKHALIN ISLAND	Aframax	108,078	1C	Owned	100	2004	Cyprus
VICTOR KONETSKY	Aframax	100,869	1A/1C	Owned	100	2005	Cyprus
VIKTOR TITOV	Aframax	100,899	1A/1C	Owned	100	2005	Cyprus
YURI SENKEVICH	Aframax	101,018	1A/1C	Owned	100	2005	Cyprus
ZALIV ANIVA	Aframax	102,945	1C	Owned	100	2009	Cyprus
KAPITAN GOTSKY	Panamax	71,228	ICE 15	Owned	100	2008	Russia
VASILY DINKOV	Panamax	71,254	ICE 15	Owned	100	2008	Russia
TIMOFEY GUZHENKO	Panamax	71,266	ICE 15	Owned	100	2009	Russia
KIRIL LAVROV	Panamax	70,053	ICE 15	Owned	100	2010	Russia
MIKHAIL ULYANOV	Panamax	69,830	ICE 15	Owned	100	2010	Russia
SHURTMAN ALBANOV	MR	42,000	POLAR 20	Owned	100	2016	Russia
SHURTMAN MALYGIN	MR	42,000	POLAR 20	Owned	100	2016	Russia
SHURTMAN OVTSYN	MR	42,000	POLAR 20	Owned	100	2016	Russia
Supply Vessels							
SCF ENDEAVOUR	Ice-breaking platform supply	4,482	IceBreaker ICE 10	Owned	100	2006	Russia
SCF ENDURANCE	Ice-breaking platform supply	4,482	IceBreaker ICE 10	Owned	100	2006	Russia
SCF ENTERPRISE	Ice-breaking platform supply	4,482	IceBreaker ICE 10	Owned	100	2006	Russia
SCF SAKHALIN	Ice-breaking platform supply	6.882	IceBreaker ICE 15	Owned	100	2005	Russia
ALEKSEY CHIRIKOV	Ice-breaking platform supply	3,950	IceBreaker ICE 15	Owned	100	2013	Russia
VITUS BERING	Ice-breaking platform supply	3,950	IceBreaker ICE 15	Owned	100	2012	Russia
MSV NORDICA	Multi-functional Ice-breaker	4,800	ICE 10	Chartered	N/A	1994	Finland

(1) Ice-class notation according to DNV GL classification or closest equivalent.

In addition to those listed above, as of December 31, 2016, the Group had under construction one ice-breaking platform support vessel and three ice-breaking stand-by vessels, all with an ice-class notation of IceBreaker ICE 15, which were scheduled for delivery in 2017 and were contracted for a time-charter of 20 years each to service the Sakhalin-2 project, Russia, described above. On March 2, 2017, the Group took delivery of the ice-breaking platform support vessel '*Gennadiy Nevelskoy*'.

Other Marine Services

Overview

In this segment, the Group operates two ice-class bulk carriers primarily for the transportation of minerals and dry bulk commodities within the North Atlantic, focusing on clients with imports and exports from the Baltic Sea and eastern Canada during the winter and spring months, when ice-water conditions have historically been present. More recently, the vessels have been engaged in the export of iron ore from Baffinland in the Canadian Arctic during the ice-free summer months. The Group provides 3-D marine geophysical exploration services to its oil and gas clients and operates one chartered-in seismic survey vessel to provide such services.

This segment generated US$ 79.8 million (7.0%) of the Group's time-charter-equivalent revenues in 2016. As of December 31, 2016, the Group's fleet in this segment consisted of two dry cargo carriers with a total capacity of 150,000 DWT and one seismic survey vessel.

Fleet

The table below sets forth the Group's dry cargo carriers and tug vessels as of December 31, 2016:

Ship Name	Vessel Type	Capacity (DWT)	Ice Class[(1)]	Owned/Chartered-in	Ownership (%)	Year Built	Flag
Dry Bulk							
NS ENERGY	Panamax	74,120	1B	Owned	100	2012	Liberia
NS YAKUTIA	Panamax	74,120	1B	Owned	100	2013	Liberia
Seismic							
Vyacheslav Tikhonov	Seismic	2053	1A	Chartered-in	0	2011	Russia

(1) Ice-class notation according to DNV GL classification

Safety Management and Ship Operations

Safety and environmental compliance are the Group's top operational priorities. The Group operates its vessels in a manner intended to protect the safety and health of the Group's employees, the general public and the environment. Management seeks to manage the risks that are inherent in its business and is committed to eliminating incidents that threaten the safety and integrity of the Group's vessels, such as groundings, fires, collisions and petroleum spills. The Group is also committed to reducing its vessels' emissions and waste generation.

The Group has a unified safety management system, which incorporates recommendations from the Tanker Management and Self Assessment ("**TMSA**") code that was developed by the Oil Companies International Marine Forum ("**OCIMF**"). OCIMF, a voluntary association of oil companies that have an interest in shipping crude oil and oil products and operating both onshore and offshore oil terminals, has been organized to represent its members before, and to consult with, the IMO and other governmental bodies on matters relating to shipping crude oil and oil products and operating oil terminals, including marine pollution and safety. TMSA evaluates shipping companies according to 12 elements and assigns one of four grades for each such element. Management aims to achieve the highest TMSA level in all 12 elements. Moreover, the Group maintains a comprehensive safety monitoring system, which is based on best industry practices, including the TMSA code.

The technical management services to the Group are provided by the following subsidiary companies:

- SCF Management Services (Dubai) for foreign-flag ships and ship management (HQ);
- SCF Management Services (St. Petersburg) for Russian-flag ships.

The Group has the following branch offices:

- SCF Management Services (Cyprus) Ltd
- SCF Management Services (St. Petersburg) Ltd
- SCF Management Services (Novorossiysk) Ltd

All of the Group's vessels are operated under a comprehensive and integrated safety management system that complies with the ISM Code, the ISO 9001 for Quality Assurance and ISO 14001 for Environment Management Systems. The Group's safety management system is certified by DNV GL, the Norwegian classification society. Although certification is valid for five years, compliance with the above-mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits and external verification audits by DNV GL and certain flag states.

The Group also provides certain ship management services, which can range from full technical management to selected management functions, to third-party owners or operators. Ship management services include such critical functions as vessel maintenance (including repairs and drydocking) and certification, crewing by competent seafarers, procurement of stores, bunker fuel and spare parts, management of emergencies and

incidents, newbuildings supervision, insurance and financial management services of Sovcomflot's subsidiaries that are involved in the provision of ship management services.

Employees

The following table sets forth the number of employees and seafarers of the Group as of the end of the periods indicated, broken down by function:

	As of December 31,		
	2016	2015	2014
Officers	3,162	2,842	2,928
Crew members	3,702	3,592	3,733
Administration and other	965	975	1,233
Total	7,829	7,409	7,894

Note: Includes all the Group's seafaring employees, including employees actively deployed on a Group vessel and the Group's onshore employees under long-term contracts who are expected to be deployed on a Group vessel within the next four months, in each case, as of the end of the period shown.

The number of employees of the Group has not changed materially since December 31, 2016. As of December 31, 2016, the Group employed 7,829 employees, of whom 6,864 were seafarers and 965 were shore-based personnel, compared to 7,409 employees as of December 31, 2015, of whom 6,434 were seafarers and 975 were shore-based personnel.

The Group regards attracting and retaining motivated seagoing personnel as a top priority. Through the Group's crewing offices in St. Petersburg, Novorossiysk and Vladivostok, the Group offers its seafarers what it believes to be competitive employment packages and comprehensive benefits. Moreover, the Group has taken several measures to ensure the safety and wellbeing of its employees, including the introduction of additional staff aboard its vessels, the installation of fitness facilities onboard and offering contracts that reduce time at sea for commanding officers. In addition, the Group's crewing policy onboard its ships is that all crew and officers onboard a ship at a time must speak the same language to minimize the risk of miscommunications among the crew, as well as to promote social living conditions onboard the Group's vessels. Partly as a result of these and other efforts, the Group has what it believes to be a very low turnover rate, as illustrated by the fact that, on average, less than 10% of the Group's officers leave the Group within two years.

Labor Relations

Most of the Group's seafarers belong to unions, and the Group has a collective bargaining agreement with the Seafarer's Union of Russia, an affiliate of the ITF that governs the Group's employment of seafarers serving on a substantial portion of the Group's vessels. The terms of this agreement generally govern the wages paid to the Group's crew, minimum living conditions onboard the Group's vessels, as well as other benefits and conditions of the seafarers' employment. This agreement is subject to customary renegotiation, and the Group may also become subject to additional collective bargaining agreements in the future. The Group has never suffered from work stoppages as a result of labor disruptions, and Management believes the Group's relationships with the ITF and other trade unions are good.

Personnel Management and Training

The Group is committed to developing and training its personnel. Management selects the Group's personnel from highly qualified cadets at Russia's maritime educational establishments and other specialized professional schools for seafarers in St Petersburg, Novorossiysk and Vladivostok. The Group is involved in the training of these cadets throughout their education, with candidates receiving training sessions as operators or technical superintendents in on-shore establishments. The Group hires approximately 100 graduates from these maritime educational establishments annually.

Advanced maritime training continues throughout a seafarer's employment with the Group. The Group benefits from strong relationships with Russia's maritime educational institutions, using their existing advanced training centers to train personnel, as some of the Group's top managers are members of academic councils of all three state maritime academies in Russia.

The Group is currently developing a special program focusing on the training and retraining of personnel and enhancing the social security system for seamen. This program, 'SCF-2021,' which Management believes to be an example of the Group's continued commitment to crew development and advancement of on-shore personnel

qualification, is expected to include training programs in ice conditions and onboard a variety of the Group's vessels.

Properties

The Group leases offices in Moscow, London and Dubai from the third parties under long-term lease agreements for terms ranging from one to eight years. These lease agreements were entered into by the Group in 2006, 2014 and 2015. The Group also owns non-residential premises and buildings in Moscow, Saint Petersburg, Novorossiysk, Sochi and Limassol, and these properties had an aggregate book value of US$ 45.6 million as of December 31, 2016.

Risk of loss and insurance

The operation of any ocean-going vessel carries an inherent risk of catastrophic maritime disasters, death or injury of persons and property, losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, the transportation of crude oil, petroleum products, LNG and LPG is subject to the risk of spills and to business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. The occurrence of any of these events may result in loss of revenues or increased costs.

To protect itself from certain of these risks, the Group carries hull and machinery (including marine and war risks) insurance and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of the Group's business. Hull and machinery insurance generally covers the loss of, or damage to, a vessel due to marine perils such as collisions, grounding and weather. Protection and indemnity insurance indemnifies the Group for liabilities incurred while operating vessels, including injury to the Group's crew or third parties, cargo loss and pollution. Insurance policies also cover other risks, mainly war risks, including piracy and terrorism risks, and such policies typically cover the entire hull value of a vessel. However, the Group does not generally carry insurance on its vessels covering the loss of revenues resulting from vessel off-hire time, as in the Group's experience the cost of such coverage is greater than overall off-hire costs.

Management believes that the Group's current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of its business and that the Group maintains appropriate levels of environmental damage and pollution insurance coverage, consistent with industry norms. However, there can be no assurance that all covered risks are adequately insured against, that any particular claim will be paid or that the Group will be able to procure adequate insurance coverage at commercially reasonable rates in the future. In addition, more stringent environmental regulations have generally resulted in increased costs for insurance against risks of environmental damage or pollution, although the Group managed to keep such costs at minimum.

Classification, Audits and Inspections

Generally, inspection procedures and requirements are a multi-layer quality control system starting from internal arrangements ending up by external verification. The system starts from control of newbuilding technical documentation and development, goes on to supervision during construction, crew selection and training; running the vessel by the Group's crew; control of the vessels and crew by an onshore technical manager; and evaluations of technical managers, crew and vessels by various third parties, such as classification societies, flag states, ports, charterers and insurers.

The Group's vessels and crews are regularly inspected by the Group's technical personnel to monitor the necessary routine maintenance. Shore-based operational and technical specialists inspect vessels at least twice a year. Upon completion of each such inspection, inspection report is produced and if required action plans are developed to address any items requiring improvement. All action plans are monitored until completion. The objectives of these inspections are to ensure adherence to the Group's internal operating standards; that the vessel is being maintained as per company standards; that the vessel's machinery and equipment is being maintained to give full reliability in service; that the vessel is optimizing performance in terms of speed and fuel consumption; and that the vessel's appearance will support the Group's brand and meet customer expectations.

The hull and machinery of all the Group's vessels have been 'classed' by one of the major classification societies: BV, DNV GL, Lloyd's Register of Shipping, Russian Maritime Register of Shipping or American Bureau of Shipping. In each case, the relevant classification society certifies that the vessel has been built and maintained in accordance with the rules of that classification society. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an "**Intermediate Survey**") and the fifth annual inspection being the most comprehensive survey (a "**Special Survey**"). The inspection cycle resumes after each Special Survey. Vessels also may be required to be drydocked at each

Intermediate Survey and Special Survey for inspection of the underwater parts of the vessel in addition to a more detailed inspection of hull and machinery. Many of the Group's vessels have qualified with their respective classification societies for drydocking every five years in connection with the Special Survey and are no longer subject to drydocking at Intermediate Surveys. To qualify, the Group was required to enhance the resiliency of the underwater coatings of each vessel hull to accommodate underwater inspections by divers.

Each vessel's flag state, or the vessel's classification society if nominated by the flag state, also inspects the Group's vessels to ensure they comply with applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a signatory. Port state authorities, such as the United States Coast Guard (the "**Coast Guard**") and the Australian Maritime Safety Authority, also inspect the Group's vessels when they visit their ports. Many of the Group's customers also regularly inspect the Group's vessels, commonly known as 'vetting,' as a condition to chartering. Management believes that the Group's modern, well-maintained and high-quality vessels provide the Group with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

Status as a Strategic Enterprise

By Decree of the Russian Government No. 1226-r of August 20, 2009 (the "**Decree**"), Sovcomflot was included on the Russian Federation's list of strategic enterprises and organizations that have a special status in respect of bankruptcy and debt restructuring matters. This status provides Sovcomflot some benefits in relation to its creditors and with respect to bankruptcy under Russian law. First, the Russian Government is authorized to take measures to maintain Sovcomflot's financial stability and to prevent the initiation of bankruptcy proceedings. In doing so, the Russian Government may assist in negotiating the restructuring of Sovcomflot's debt with private creditors (including by means of providing state guarantees). Second, the regime applicable to the bankruptcy of strategic entities is generally more protective to the debtor compared to the regime governing the bankruptcy of ordinary business entities. For instance, the bankruptcy regulations for strategic entities provide a higher threshold for initiating bankruptcy proceedings (unpaid debt in the amount of RUR 1,000,000 for six months, as opposed to the general rule of unpaid debt of RUR 300,000 for three months) and stricter requirements with respect to the person who can serve as the bankruptcy manager. In addition, the Russian Federation has specific rights with respect to bankruptcy proceedings for strategic entities and can oversee the bankruptcy proceedings or undertake certain supportive measures to prevent bankruptcy once proceedings have been initiated. Moreover, a bankruptcy manager is obligated to perform state contracts of strategic entities and cannot dispose of the assets needed to perform such contracts. Finally, as a general rule, the assets of bankrupt strategic entities must be sold at an open competitive tender, the winner of which is obliged to preserve the designated use for the assets of such entities and to continue performing relevant state contracts. The Russian Federation also generally has a right of first refusal in acquiring assets from bankrupt strategic entities.

In addition to the benefits conveyed upon Sovcomflot as a result of the Decree, Sovcomflot is also included on the list of strategic enterprises and strategic joint-stock companies that have certain restrictions with respect to their share capital pursuant to a separate decree. See "*Share Capital and Dividends.*"

Legal Proceedings

Russian tax- and customs-related disputes

In 2015 and 2016, following tax audits of a number of the Group's Russian subsidiaries, the regional (St. Petersburg) authorities of the Federal Tax Service of Russia challenged the application of the 0% value added tax ("**VAT**") rate to the hire revenues earned from vessels time-chartered out by these subsidiaries and employed for international trade voyages from 2012 to 2015, and required the subsidiaries to apply an 18% VAT rate on hire revenue. As a result, the Group was required to make VAT payments in relation to the international trade voyages performed, of approximately RUR 334 million (equivalent to US$ 5.5 million as of December 31, 2016) (including penalties and interest). Upon the Group's request, the federal authorities of the Federal Tax Service of Russia subsequently confirmed in a letter addressed to the Group that the Group's application of the 0% VAT rate to hire revenue was appropriate as, in their view, international trade voyages are subject to 0% VAT rate. Following this confirmation, enquiries from the regional authorities ceased. In December 2016, the regional authorities refunded to the subsidiaries involved approximately RUR 185 million (equivalent to US$ 3.1 million as of December 31, 2016) of the total RUR 334 million in VAT payments, including penalties and interest. The balance of approximately RUR 149 million (equivalent to US$ 2.4 million as of December 31, 2016) is included in trade and other receivables pending Russian Arbitrazh Court hearings scheduled for April 2017, which the Group expects to result in the balance being refunded to the subsidiaries. This amount is also potentially recoverable from the charterers that are party to the time-charter concerned, as the charterers are contractually responsible for any VAT, if applicable.

Following the inspection in 2015 of the Group's Russian subsidiary OOO "SCF Atlantic," the Russian customs authorities concluded that this subsidiary had breached applicable customs regulations in respect of its

'*Kara Sea*' and '*Anichkov Bridge*' vessels by not obtaining permission from the customs authorities prior to chartering out the vessels on time-charter. As a result, in 2016 the district court imposed administrative fines on OOO "SCF Atlantic" totaling RUR 1,548 million (equivalent to US$ 25.5 million as at December 31, 2016). In June 2016, the court of appeal overturned the decisions of the district court imposing the administrative fines and dismissed the underlying administrative cases. In November 2016, a court of higher instance confirmed the dismissal of the underlying administrative cases.

The Russian customs authorities also demanded payment of RUR 314 million in customs duties (equivalent to US$ 5.2 million as at December 31, 2016), which the Group has paid in full. RUR 284 million (equivalent to US$ 4.7 million as at December 31, 2016) of such payment has been included in the audited consolidated financial statements of the Guarantor as of and for the year ended December 31, 2016 in other receivables under trade and other receivables. The Group brought legal proceedings contesting the basis for the Russian customs authorities' demand for the payment of RUR 314 million in customs duties.

In October 2016, the courts ruled that the Russian customs authorities had improperly imposed customs duties with respect to the '*Anichkov Bridge*' (such duties amounting to RUR 221 million (equivalent to US$ 3.7 million as at December 31, 2016) of the RUR 314 million in customs duties contested by the Group). This ruling was confirmed by the court of appeal and became effective on January 25, 2017. The deadline for the Russian customs authorities to appeal this decision expired on April 1, 2017 without any appeal having been lodged.

A ruling on the customs duties imposed with respect to the 'Kara Sea' (such duties amounting to the RUR 93 million (equivalent US$ 1.5 million as at December 31, 2016) and representing part of the RUR 314 million in customs duties contested by the Group) had been postponed pending the decision on the '*Anichkov Bridge*' becoming effective on January 25, 2017. The next court hearing for the '*Kara Sea*' case has been scheduled for April 27, 2017. The Group intends to continue to defend its position in the Russian courts.

Certain non-Russian legal proceedings

Fiona Litigation

From 2005 to 2009, the Group's management filed claims in London for losses arising out of various transactions, mostly time-charter parties and ship sale and purchase agreements, that had taken place from 2000 to 2004 (the "**Fiona Litigation**"). The trial for the Fiona Litigation commenced at the High Court in London in October 2009 and concluded in mid-2010. The judgment in the Fiona Litigation (the "**Fiona Judgment**") was handed down on December 10, 2010. The Group was successful on a number of claims and unsuccessful on a number of others.

As a result of the Group recovering at trial an amount less than the total amount of the two freezing orders granted against some of the defendants in 2005 and 2007 in the course of the Fiona Litigation, these defendants claimed damages allegedly suffered as a result of the freezing orders being in an amount that exceeded the sums recovered under the Fiona Judgment. Among other things, the defendants claimed that the 2005 freezing order frustrated implementation of a newbuilding programme of the defendants. The defendants in the Fiona Litigation filed claims against the Group companies on a variety of bases, claiming between US$ 73.5 and US$ 387.8 million, plus interest until the date of payment. The trial for these claims took place in July 2016. Following the trial, three judgments were handed down on August 26, 2016, October 7, 2016 and October 27, 2016 (the "**FO Damages Judgments**").

The net result of the FO Damages Judgments was that the court concluded that the defendants' claims under the 2005 freezing order succeeded, but their claims under the 2007 freezing order failed. In relation to the 2005 freezing order the court awarded the defendants damages of US$ 59.8 million and interest on damages from December 2010 to October 27, 2016 of US$ 11.0 million. The court also ordered the Group to pay 50% of the defendants' costs of GBP 3.0 million and to make an interim payment of such costs in the amount of GBP 1.0 million (equivalent to US$ 1.2 million as of December 31, 2016).

The Group applied to the Court of Appeal for permission to appeal the FO Damages Judgments and for a stay of execution pending permission to appeal. The Court of Appeal granted permission to appeal on certain limited grounds concerning the defendants' failure to apply to the High Court in London for permission to use the funds blocked pursuant to the 2005 freezing order for funding their newbuilding programme. Pending the outcome of the appeal, the Court of Appeal also ordered a stay conditional on the Group paying over to the defendants the awarded US$ 59.8 million of damages and US$ 11.0 million of interest, and paying into Court GBP 1.0 million on account of costs. These sums have been paid into Court and the one-day hearing of the Group's appeal is fixed for early October 2017.

The Group intends to defend its position vigorously. No provision has been made in respect of payments of damages to the defendants.

Novoship (UK) claims

In late 2005, the Group investigated irregularities in a number of charter parties entered into between 2002 and 2005, which involved the former management of Novoship (UK) Ltd ("**NOUK**"), one of the Group's subsidiaries. NOUK and other Group companies filed claims for losses arising out of such transactions in the Commercial Court in London in December 2006 and subsequently joined further defendants. The trial for these claims commenced on May 16, 2012 and concluded on July 5, 2012. The judgment in this case was handed down on December 14, 2012. The Group was initially successful on all claims, but, after appeal, unsuccessful on some claims against certain defendants.

On April 15, 2015, the High Court in London ruled on a settlement agreement reached among the Group and certain of the defendants in relation to the NOUK claims. It found that, despite the defendants' breach of the settlement agreement by late payment of US$ 25.6 million, the Group was eligible to recover only US$ 40.0 million, rather than the judgment sum of US$ 59.2 million plus interest (less the US$ 7.9 million already received by the Group). The final installment of US$ 15.0 million pursuant to this ruling was received in April 2015. The Group was granted leave to appeal this ruling on February 16, 2016, and a hearing was scheduled for May 2017 in the Court of Appeal. However, on September 26, 2016, the Group concluded a settlement agreement with the defendants pursuant to which a payment of US$ 15.0 million was made to the Group in October 2016. Accordingly, the appeal and related proceedings in respect of those defendants were discontinued.

Some of the defendants in the unsuccessful claims have indicated an intention to pursue the Group for damages in respect of the US$ 90.0 million of security provided during the litigation. No claim has yet been filed for damages.

PDVSA disputes

The dispute relates to the non-payment of sums (mainly hire and war-risk premiums) due to the Group from PDVSA Petroleo S.A. ("**PDVSA**") under 14 time charterparties relating to 13 tanker vessels owned by the Group. Each of these charterparties was entered into in the period from 2012 to 2015 between a Group vessel-owning entity, as owner, and PDVSA, as charterer. As of December 31, 2016, the overall sum outstanding from PDVSA was about US$ 29.2 million.

Arbitration proceedings in relation to these charterparties were commenced by the Group in London in October 2016. The first arbitration tribunal decisions are anticipated to be issued by the end of 2017.

To secure the claims, in October 2016, a lien on bill of lading freight and on the cargo on board in respect of the sums due under the charterparty was exercised by the owners of one of the vessels. Subsequently, the owners arrested the cargo on board that vessel. Additionally, in November 2016, the cargo on board was arrested by nine other Group entities. Also in October 2016, the owners of another vessel exercised a lien on bill of lading freight and on the cargo on board in respect of the sums that were then due under the respective charterparty. In December 2016, the cargo on board that vessel was arrested by four other Group entities. In January 2017, the cargo on board was arrested by a further nine entities of the Group.

With a view to getting the vessels re-delivered cargo-free and to secure the claims in the meantime, the Group applied to the English arbitration tribunal for permission to make applications to the English High Court for an order of sale of the cargo on board of the vessels. Permission was granted in December 2016, whereupon the Group filed an application with the High Court for the sale of the cargo on board one of the vessels. The hearing scheduled for March 24, 2017 was stayed in light of the developments in the local court application filed by PDVSA, as described below. The Group is awaiting further developments in that application before taking further steps in relation to the other vessel.

In February 2017, PDVSA filed an application with the local court in St. Eustatius (a special municipality of the Netherlands in the Caribbean) in relation to the arrest of the cargo on board one of the vessels and requested the court, among other things, to order the attaching parties to permit the discharge of the cargo to on-shore bunkers under the control of PDVSA. In March 2017, the Group filed a counterclaim and requested the court to order, among other things, the sale of the cargo or, in the alternative, the storage of the cargo in independent on-shore bunkers not under the control of PDVSA or subject to suitable safeguards. The hearing took place on March 6, 2017. On March 10, 2017, the court ordered the storage of the cargo subject to the safeguards requested by the Group in its counterclaim. PDVSA and the Group have contacted the owner of the on-shore storage to arrange for the storage subject to their agreement to the safeguards ordered by the Court. The Group is presently looking into

whether the safeguards required by the St. Eustatius Court have been put in place and further arrangements are being made to store the cargo on-shore.

For further details see also notes 42 and 44 to the consolidated financial statements of the Guarantor for the year ended December 31, 2016.

REGULATORY OVERVIEW

The Group's business and the operation of its vessels are significantly affected by international conventions, treaties and national, supranational, state and local laws and regulations ("**Norms**") in the jurisdictions in which its vessels operate, as well as in the country or countries of their registration. Because these Norms change frequently, Management cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of its vessels. Additional Norms may be adopted that could limit the Group's ability to do business or increase the Group's cost of doing business and that may materially adversely affect its operations. The Group is required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to its operations. Subject to the discussion below, Management believes that the Group will be able to continue to obtain all permits, licenses and certificates material to the conduct of the Group's operations.

Management believes that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will generally lead to increased inspections and safety requirements for all vessels in the oil tanker and LNG and LPG carrier markets and will accelerate the scrapping of older vessels throughout these markets.

The following is an overview of certain material Norms which affect the Group's business and the operation of its vessels. It is not a comprehensive summary of all Norms to which the Group and the operation of the Group's vessels are subject.

International Maritime Organization (IMO)

The IMO, an agency of the United Nations, is responsible for setting standards and creating an international regulatory framework to improve international shipping, to increase maritime safety and to prevent pollution from ships. The IMO has developed international treaties and conventions to regulate the international shipping industry, which are incorporated into each signatory state's legislation, that now apply to over 98% of the world's shipping. The most important of these are mentioned below.

International Convention for the Prevention of Pollution from Ships, 1973, as amended by the 1978 Protocol ("MARPOL")

MARPOL is the primary convention dealing with the prevention of pollution from ships and imposes environmental standards on the shipping industry. These relate to the prevention of pollution by oil, noxious liquid substances in bulk, harmful substances in packaged forms within the scope of the International Maritime Dangerous Goods Code, sewage, garbage and air emissions.

MARPOL provides stringent construction and operating standards to prevent the release of oil into the environment. Under the requirements of MARPOL, all new oil tankers built since 1996 are required to have double hulls, and single-hull tankers were gradually phased out. All of the Group's owned and finance leased tankers are double-hulled vessels.

Under MARPOL, oil tankers of 150 gross tons and above and all vessels of 400 gross tons and above must carry an approved 'shipboard oil pollution emergency plan'. Such a plan is also required to be carried on certain vessels under the International Convention on Oil Pollution, Preparedness, Response and Co-operation, which entered into force in 1995. This convention was adopted in order to provide a global framework for international co-operation and mutual assistance in preparing for and dealing with major pollution incidents or threats of marine pollution. The Protocol on Preparedness, Response and Co-operation to Pollution Incidents by Hazardous and Noxious Substances 2000 extended this framework to hazardous and noxious substances.

MARPOL similarly provides that all vessels of 150 gross tonnage and above which carry noxious liquid substances in bulk are to carry an approved shipboard marine pollution emergency plan for such substances.

All of the Group's vessels are fully compliant with all requirements of MARPOL and its amendments.

Annex VI to MARPOL also sets limits on sulfur oxides (SOx) and nitrogen oxides (NOx) and particulate matter emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances. It also regulates the emission of volatile organic compounds (VOC) from cargo tankers and certain gas carriers, as well as shipboard incineration of specific substances. Annex VI also includes a global cap on the sulfur content of fuel oil with a lower cap on the sulfur content applicable inside emission control areas ("**ECAs**"), such as the Baltic Sea, the North Sea, including the English Channel, the North American area and the U.S. Caribbean Sea area. The global cap on the sulfur content of fuel oil is currently 3.5%, to be reduced to 0.5% from January 1, 2020. From January 1, 2015 the cap on the sulfur content of fuel oil for vessels operating in ECAs has been 0.1%.

On December 4, 2015 China also announced the establishment of emission control areas in the Pearl River Delta, the Yangtze River Delta and the Bohai Bay rim area with restrictions in the maximum sulfur content of the fuel to be used by vessels within those areas to apply from January 1, 2016 and to become progressively stricter over time.

The Group anticipates that the additional cost of fuel to comply with the above regulations will be significant and will have a negative effect in terms of marine transport freight volumes.

Annex VI to MARPOL provides for a three-tier reduction in NOx emissions from marine diesel engines, with the final tier ("**Tier III**") to apply to engines installed on vessels constructed on or after January 1, 2016 and which operate in the North American ECA or the U.S. Caribbean Sea ECA. The Tier III requirements would also apply to ECAs designated in the future by the IMO. In October 2016, the IMO's Marine Environment Protection Committee ("**MEPC**") approved the designation of the North Sea and the Baltic Sea as ECAs for NOx emissions. These two new NOx ECAs and the related amendments to Annex VI of MARPOL are expected to be formally adopted by the MEPC in 2017 and enter into effect on January 1, 2021. The Group does not currently have any vessels to which Tier III applies.

The Group anticipates incurring costs at each stage of implementation on all these areas, but is unable to predict the quantum of such costs. All of the Group's vessels are currently compliant.

International Convention for the Control and Management of Ships' Ballast Water and Sediments 2004 (the "BWM Convention")

The BWM Convention aims to prevent the spread of harmful aquatic organisms from one region to another, by establishing standards and procedures for the management and control of vessels' ballast water and sediments. The BWM Convention's implementing regulations require vessels to conduct ballast water management in accordance with the standards set out in the convention, which include performance of ballast water exchange and the gradual phasing in of a ballast water performance standard which requires ballast water treatment and the installation of ballast water treatment systems on board the vessels. Under the BWM Convention, vessels are required to implement a ballast water and sediments management plan, carry a ballast water record book and have an international ballast water management certificate. The BWM Convention has been adopted by 54 states, the combined merchant fleets of which represent 53.30% of the gross tonnage of the world's merchant shipping and will enter into force on September 8, 2017 .

Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships 2009 (the "Recycling Convention")

The Recycling Convention deals with issues relating to ship recycling and aims to address the occupational health and safety, as well as environmental risks relating to ship recycling. It contains regulations regarding the design, construction, operation, maintenance and recycling of vessels, along with survey and certification requirements to ensure compliance with the Recycling Convention. In particular, it prohibits and/or restricts the installation or use of hazardous materials on vessels, requires an inventory of hazardous materials specific to each vessel and requires a ship-recycling plan to be developed for each vessel prior to its recycling. The Recycling Convention will enter into force 24 months after ratification by a specified minimum number of states with a combined gross tonnage and maximum annual recycling volume during the preceding ten years.

International Convention on the Control of Harmful Anti-Fouling Systems on Ships 2001 (the "Anti-Fouling Convention")

The Anti-Fouling Convention entered into force in September 2008. It prohibits and/or restricts the use of organotin compounds in anti-fouling paints used on vessels to prevent the attachment of sea-life to their hulls. Vessels of over 400 gross tons which operate on international voyages must obtain an international anti-fouling system certificate before the vessel can be put into service. Vessels must undergo a survey before the Anti-fouling System Certificate is first issued and whenever the anti-fouling systems are altered or replaced.

International Convention on Load Lines 1966, as amended (the "Load Lines Convention")

The Load Lines Convention entered into force on July 21, 1968 and established principles and rules concerning the limits to which ships may be loaded for international voyages. The provisions take into account the potential for hazards in different maritime regions and seasonal operating conditions and designate how, where and when assigned load lines are to be marked on each ship. Under the Load Lines Convention, all assigned load lines must be marked amidships on each side of the ship, together with the deck line. The 1988 Protocol to the Load Lines Convention, which entered into force on February 3, 2000, amongst other things, harmonized the Load Line Convention's survey and certification requirements with those set out in MARPOL and SOLAS and amended certain regulations in its technical Annexes. Currently, each of the Group's vessels to which the Load Lines Convention applies are operating under an international load line certificate demonstrating that the vessel has been surveyed and marked in accordance with the Load Lines Convention.

International Convention for Safety of Life at Sea 1974, as amended ("SOLAS")

SOLAS is the primary international convention concerning ship safety and security and has been ratified by more than 90 countries. It establishes basic safety standards for the construction and operation of merchant ships engaged on international voyages. SOLAS sets out safety standards for construction, machinery and electrical installations, life-saving equipment, radiotelegraphy and radiotelephony, navigation and the carriage of dangerous goods. SOLAS puts the primary responsibility for compliance on the flag state, but there are also certain rights and obligations on countries where ships call. SOLAS has been subject to several amendments.

For example, amendments to SOLAS adopted in 2000 and 2002 stipulate, among other things, that ships be fitted with an automatic identification system and a voyage data recorder for ships engaged on international voyages. Additional security provisions adopted under SOLAS in December 2002 include mandatory compliance with the new International Ship and Port Facility Security Code. The Group's operations are fully compliant with these requirements.

SOLAS was also amended in May 2006 with respect to long-range identification and tracking of ships ("**LRIT**"). SOLAS regulation on LRIT establishes a multilateral agreement for sharing LRIT information, including the ship's identity, location and date and time of the position, for security and search and rescue purposes. The amendment contains a phased-in implementation schedule for ships constructed before the entry into force of the amendment. The Group's ships are in compliance with the LRIT implementation schedule.

In 1993 the IMO adopted the International Management Code for the Safe Operation of Ships and for Pollution Prevention (as amended, the "**ISM Code**"), which became mandatory in July 1998 pursuant to SOLAS.

Under the ISM Code, the party with operational control of a vessel is required to develop, implement and maintain an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and protecting the environment, providing for safe practices in ship operation in a safe working environment, establishing safeguards against all identified risks, continuously improving personnel's safety management skills and describing procedures for responding to emergencies. The safety management system includes providing the necessary resources and shore-based support and a designated person ashore having direct access to the highest level of management. The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate is issued after verification that the vessel's operator and its shipboard management operate in accordance with the approved safety management system and evidences that the vessel complies with the requirements of the ISM Code. No safety management certificate can be issued in respect of a vessel unless its operator has been awarded a document of compliance, issued by the respective flag state for the vessel, under the ISM Code.

The Group's vessels and management companies all are compliant with the ISM Code and are audited regularly to ensure that this remains the case.

Another amendment of SOLAS, following the terrorist attacks of September 11, 2001, introduced special measures to enhance maritime security, including the International Ship and Port Facility Security Code (the "**ISPS Code**"), which came into force on July 1, 2004. The ISPS Code sets out measures for the enhancement of security of vessels and port facilities, such as the on-board installation of automatic information systems to enhance vessel-to-vessel and vessel-to-shore communications, the on-board installation of vessel security alert systems, the development of vessel security plans and the compliance with flag state security certification requirements. Compliance of a vessel with the ISPS Code is evidenced by an international ship security certificate. All of the Group's vessels have obtained an international ship security certificate and are compliant with all applicable security requirements.

International Convention on Standards of Training, Certification and Watchkeeping for Seafarers 1978, as amended (the "STCW Convention")

The STCW Convention established international minimum requirements on training, certification and watchkeeping for seafarers. Under amendments made in 1995, which entered into force on February 1, 1997, a STCW Code was created to which many technical regulations were transferred. Part A of the STCW Code is mandatory and Part B is recommended. Further amendments to the STCW Convention and the STCW Code were adopted in 2010 and entered into force on January 1, 2012. Also, amendments have been made to the STCW Convention setting out mandatory minimum requirements for the training and qualifications of masters, officers, ratings and other personnel on ships which are subject to the IGF Code. These amendments entered into force on January 1, 2017.

Other IMO Regulations

IMO regulations also include, specifically with respect to LNG and LPG carriers, the International Code for the Construction and Equipment of Ships Carrying Liquefied Gases in Bulk (the "**IGC Code**"). Each LNG and LPG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of the Group's LNG and LPG carriers is currently IGC Code certified and each of the Group's LNG and LPG newbuilding shipbuilding contracts requires compliance prior to delivery. The IMO's Maritime Safety Committee ("**MSC**") has adopted a revised and updated IGC Code which entered into force on January 1, 2016 with an implementation/application date of July 1, 2016.

The IMO's MSC has also published guidelines for vessels with dynamic positioning ("**DP**") systems, which apply to shuttle tankers and DP-assisted FSOs and FPSOs.

In addition, the IMO's MSC has adopted the International Code of Safety for Ships using Gases or other Low-flashpoint Fuels (the "**IGF Code**"), which is a mandatory code for ships fuelled by gases or other low-flashpoint fuels. The IGF Code, which is applicable from January 1, 2017, sets out mandatory provisions for the arrangement, installation, control and monitoring of machinery, equipment and systems using low-flashpoint fuel, in order to minimise the risk to the ship, its crew and the environment taking into account the nature of these fuels.

With regard to offshore support vessels, SOLAS permits certain exemptions and equivalents to be allowed by the relevant vessel's flag state. The International Code on Intact Stability 2008, which became mandatory on July 1, 2010, also generally applies to offshore support vessels. The IMO has also developed non-mandatory codes and guidelines which apply to various types or aspects of offshore support vessels.

The IMO has also developed and adopted an International Code for Ships Operating in Polar Waters (the "Polar Code"), which deals with matters regarding the design, construction, equipment, operation, search and rescue and environmental protection in relation to ships operating in waters surrounding the two poles. The Polar Code includes both safety and environmental provisions and will be mandatory, with the safety provisions becoming part of SOLAS and the environmental provisions becoming part of MARPOL. The Polar Code entered into force on January 1, 2017. The Group does not foresee significant costs associated with its implementation.

Non-compliance with IMO regulations

Non-compliance with IMO regulations, including SOLAS, the ISM Code, the ISPS Code and the IGC Code may subject the Group to greater liability and, if the implementing legislation so provides, to criminal sanctions, which may lead to decreases in available insurance coverage for affected vessels, and denial of access to, or detention in, some ports. The United States Coast Guard and European Union authorities have stated that vessels that are not in compliance with the ISM Code and the ISPS Code will be prohibited from trading in their respective ports.

Maritime Labor Convention 2006, as amended (the "MLC")

The MLC, which was adopted by the International Labor Organization in 2006 and came into force in 2013, sets out minimum working and living standards for all seafarers working on ships which fly the flags of the ratifying countries. It also aims to create a level playing field for shipowners operating under the flags of ratifying countries and to protect them from unfair competition from operators of substandard ships.

European Union Regulations

European Union regulations in relation to the maritime sector have generally been based on international regulations (mostly produced by the IMO) adopted by the Member States. However, in recent years the European

Union has played an increasingly active role in promoting, developing and adopting regulations for the purposes of maritime safety and protection of the environment, sometimes establishing new or parallel (and often more stringent) regulatory frameworks which apply in addition to those established by the IMO. For example, the European Union adopted a more accelerated phasing-in scheme for the phasing-out of single-hull oil tankers than that set out under MARPOL.

In 2005, the European Union adopted Directive 2005/35/EC on ship-source pollution (amended in 2009), imposing criminal sanctions for discharges of oil and other noxious substances from any vessels sailing in its waters, not only where such pollution is caused by intent or recklessness, but also where it is caused by 'serious negligence', which more stringent than the equivalent MARPOL provisions. Criminal liability for a pollution incident could not only result in the Group incurring substantial penalties or fines but may also, in some jurisdictions, facilitate civil liability claims for greater compensation than would otherwise have been payable.

Under Council Directive 1999/32/EC, as amended (most recently by Directive 2012/33/EU), from January 1, 2015, vessels have been required to burn fuel with a sulfur content not exceeding 0.1% while they are within European Union Member States' territorial seas, exclusive economic zones and pollution control zones which fall within sulfur oxide emission control areas ("**SECAs**"). The Baltic Sea and the North Sea, including the English Channel, have been designated as SECAs. Further sea areas may be designated as SECAs in the future by the IMO.

Under Directive 2009/16/EC on Port State Control, as amended, Member States must refuse access to their ports to certain sub-standard vessels according to various factors, such as the vessel's condition, flag and number of previous detentions within certain preceding periods. The same Directive creates obligations on the part of European Union member port states to inspect minimum percentages of vessels using their ports annually and provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment. If deficiencies are found that are clearly hazardous to safety, health or the environment, the state is required to detain the vessel or stop loading or unloading until the deficiencies are addressed. Member States are also required to implement their own separate systems of proportionate penalties for breaches of these standards.

Commission Regulation (EU) No 802/2010, which came into force on January 1, 2011, introduced a ranking system (published on a public website and updated daily) displaying shipping companies operating in the European Union with the worst safety records. The ranking is judged upon the results of the technical inspections carried out on the vessels owned by a particular shipping company. Those shipping companies that have the most safety shortcomings or technical failings recorded upon inspection are to be subjected to a greater frequency of official inspections of their vessels and those with the most positive safety records are granted a reduction in inspections.

By Directive 2009/15/EC of April 23, 2009 (on common rules and standards for ship inspection and survey organizations and for the relevant activities of maritime administrations), as amended, the European Union has established measures for the exercise of authority and control over classification societies, including the ability to seek to suspend or revoke the authority of classification societies that are negligent in their duties.

Directive 2000/59/EC of November 27, 2000 (on port reception facilities for ship-generated waste and cargo residues)(as amended) requires all ships (except for warships, naval auxiliary or other state-owned or state-operated ships on non-commercial service), irrespective of flag, calling at, or operating within, ports of member states to deliver all ship-generated waste and cargo residues to port reception facilities. Under the directive, a fee is payable by the ships for the use of the port reception facilities, including the treatment and disposal of the waste. The ships may be subject to an inspection for verification of their compliance with the requirements of the directive and penalties may be imposed for their breach.

The European Union has also adopted Regulation (EU) No 1257/2013, which lays down requirements for the recycling of vessels in an environmentally sound manner at approved recycling facilities which meet certain requirements, so as to minimize the adverse effects of recycling on human health and the environment. The Regulation also lays down rules for the control and proper management of hazardous materials on vessels and prohibits or restricts the installation or use of certain hazardous materials on vessels. The Regulation aims at facilitating the ratification of the Recycling Convention. In general, it applies to vessels flying the flag of a Member State. However, certain of its provisions apply to vessels flying the flag of a third country calling at a port or anchorage of a Member State. The Regulation is to apply not later than December 31, 2018, although certain of its provisions are to apply at different stages, with some of them applicable from December 31, 2020. Pursuant to this Regulation, the EU Commission has recently published the first version of a European List of approved ship recycling facilities meeting the requirements of the regulation, as well as four further implementing decisions dealing with certification and other administrative requirements set out in the Regulation.

Greenhouse Gas Emissions—Climate Change

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol") entered into force. Adopting countries are required to implement national programs to reduce emissions of certain gases suspected of contributing to global warming. Currently, the greenhouse gas emissions from international shipping do not come under the Kyoto Protocol. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding, but is intended to pave the way for a comprehensive, international treaty on climate change.

On December 12, 2015 the Paris Agreement (the "Paris Agreement") was adopted by a large number of countries at the COP 21. The Paris Agreement, which entered into force on November 4, 2016, deals with greenhouse gas emission reduction measures and targets from 2020 in order to limit global average temperature increases to well below 2˚ Celsius above pre-industrial levels. Although shipping was ultimately not included in the Paris Agreement, it is expected that the adoption of the Paris Agreement may lead to regulatory changes in relation to curbing greenhouse gas emissions from shipping.

In July 2011, the IMO adopted regulations imposing technical and operational measures for the reduction of greenhouse gas emissions. These new regulations formed a new chapter in Annex VI of MARPOL and became effective on January 1, 2013. The new technical and operational measures include the "Energy-Efficiency Design Index", which is mandatory for newbuilding vessels, and the "Ship Energy-Efficiency Management Plan", which is mandatory for all vessels. In October 2016, the MEPC adopted updated guidelines for the calculation of the Energy-Efficiency Design Index. In addition, the IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. In October 2014, the MEPC agreed in principle to develop a system of data collection regarding fuel consumption of vessels. In October 2016, the IMO adopted a mandatory data collection system under which vessels of 5,000 gross tonnage and above are to collect fuel consumption and other data and to report the aggregated data to their flag state at the end of each calendar year. The new requirements are expected to enter into force on March 1, 2018. The IMO also approved a roadmap for the development of a comprehensive IMO strategy on reduction of greenhouse gas emissions from ships with an initial strategy to be adopted in 2018 and a revised strategy to be adopted in 2023.

The European Union also has indicated that it intends to propose an expansion of its existing emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries within the European Union may impose additional requirements. Regulation (EU) 2015/757 on the monitoring, reporting and verification of CO2 emissions from vessels (the "MRV Regulation") was published in the Official Journal on May 19, 2015 and entered into force on July 1, 2015. The MRV Regulation is to apply to all vessels over 5,000 gross tonnage (with a few exceptions, such as fish-catching or fish-processing vessels), irrespective of flag, in respect of CO2 emissions released during intra-EU voyages and EU incoming and outgoing voyages. The first reporting period will commence on January 1, 2018. The monitoring, reporting and verification system adopted by the MRV Regulation may be the precursor to a market-based mechanism to be adopted in the future. In fact, the European Union is currently considering a proposal for the inclusion of shipping in the EU Emissions Trading System as from 2021 in the absence of a comparable system operating under the IMO. Other than as set out above, the Group does not expect any significant financial or operational impact on the Group's business relating to the passage of new climate control legislation or other regulatory initiatives by the IMO, European Union or countries in which the Group operates, restricting the emissions of greenhouse gases.

International Conventions in Relation to Liability and Compensation

International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended by the 1992 Protocol and further amended in 2000 (the "CLC")

The CLC sets out a liability regime in relation to oil pollution damage. Many countries are parties and have ratified either the original CLC or the 1992 protocol to it (the "1992 Protocol"). Under the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters or, under the 1992 Protocol, in the exclusive economic zone or equivalent area, of a contracting state by discharge of persistent oil, subject to certain defenses and subject to the right to limit liability. The original CLC applies to vessels carrying oil as cargo and not in ballast, whereas the CLC, as amended by the 1992 Protocol, applies to tanker vessels and combination carriers (i.e., vessels which sometimes carry oil in bulk and sometimes other cargoes) but only when the latter carry oil in bulk as cargo and during any voyage following such carriage (to the extent they have oil residues on board). The limits on liability are based on the use of the IMF currency unit of Special Drawing Rights ("**SDRs**"). Under the 2000 amendments to the 1992 Protocol to the CLC, which became effective on November 1, 2003, liability is limited (i) for vessels not exceeding 5,000 gross tons, to 4.51 million SDR; (ii) for vessels between 5,000 and 140,000 gross tons, to 4.51 million SDRs plus 631 SDRs for each additional gross ton over 5,000; and (iii) for vessels of over 140,000 gross tons, to 89.77 million SDRs. The exchange rate between SDRs and U.S. dollars was

0.737002 SDR per U.S. dollar on March 31, 2017. Under the original CLC, the right to limit liability is forfeited where the incident causing the damage is caused by the owner's actual fault or privity and under the 1992 Protocol where the relevant incident is caused by the owner's personal act or omission, committed with the intent to cause such damage or recklessly and with knowledge that such damage would probably result. Vessels trading with states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In many jurisdictions where the CLC has not been adopted, other than the United States, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that of the CLC. The Group considers that its protection and indemnity insurance will cover the liability under the regime adopted by the IMO.

The CLC is supplemented by the International Fund Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage 1971, as superseded by the 1992 Protocol (the "Fund Convention"). The purpose of the Fund Convention was the creation of a supplementary compensation fund (the International Oil Pollution Compensation Fund, or IOPC Fund) which provides additional compensation to victims of a pollution incident who are unable to obtain adequate or any compensation under the CLC.

International Convention on Civil Liability for Bunker Oil Pollution Damage 2001 (the "Bunker Convention")

The Bunker Convention covers liability and compensation for pollution damage caused in the territorial waters or the exclusive economic zone or equivalent area of ratifying states by discharges of bunker oil. The Bunker Convention imposes strict liability (subject to certain defenses) on the shipowner (which includes the registered owner, bareboat charterer, manager and operator of the vessel). It also requires registered owners of vessels over a certain size to maintain insurance for pollution damage or other financial security in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended, as to which see below). The Bunker Convention entered into force in November 2008. In other jurisdictions, liability for spills or releases of oil from vessels' bunkers continues to be determined by national or other domestic laws in the jurisdiction where the events or damages occur.

International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea 1996, as amended/superseded by the 2010 Protocol (the "HNS Convention")

The HNS Convention sets out a liability regime for loss or damage caused by hazardous or noxious substances, such as chemicals, carried on board a vessel. These substances are listed in the convention itself or defined by reference to lists of substances included in various IMO conventions and codes. The HNS Convention covers loss or damage by contamination to the environment, costs of preventive measures and further damage caused by such measures, loss or damage to property outside the ship and loss of life or personal injury caused by such substances on board or outside the ship. It imposes strict liability (subject to certain defenses) on the registered owner of the vessel and provides for limitation of liability and compulsory insurance. The owner's right to limit liability is lost if it is proved that the damage resulted from the owner's personal act or omission, committed with the intent to cause such damage, or recklessly and with knowledge that such damage would probably result. Neither the HNS Convention, nor its 2010 Protocol have entered into force yet.

International Convention on Limitation of Liability for Maritime Claims 1976, as amended by the 1996 Protocol and further amended in 2012 (the "LLMC Convention")

The LLMC Convention sets out a regime for limitation of liability for maritime claims. It allows shipowners (including owners, charterers, managers and operators of seagoing ships) and salvors to limit their liability for certain categories of maritime claims. The right to limit is extended to any persons for whose act, neglect or default the relevant shipowner or salvor is responsible. The claims which may be subject to limitation under the LLMC Convention, irrespective of the basis of the liability, include claims for loss of life or personal injury or loss of or damage to property occurring on board or in direct connection with the operation of the ship, or with salvage operations, as well as consequential loss resulting therefrom, claims for loss due to delay in the carriage of cargo, passengers and their luggage and claims for other loss resulting from infringement of non-contractual rights occurring in direct connection with the operation of the ship, or with salvage operations. Under the LLMC Convention, the person liable loses its right to limit its liability if it is proved that the loss resulted from its personal act or omission, committed with the intent to cause such loss, or recklessly and with knowledge that such loss would probably result. The LLMC Convention excludes from its limitation regime (among others) claims for oil pollution damage within the meaning of the International Convention on Civil Liability for Oil Pollution Damage 1969 and any amendment or Protocol to it in force (as to which, see above). The LLMC Convention provides for two separate

limitation amounts, one for claims for loss of life or personal injury and one for any other claims. The limits of liability are calculated on the basis of the relevant ship's tonnage.

Environmental regulation—U.S. regulations

The United States has enacted an extensive regulatory and liability regime for the protection and clean-up of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 ("**OPA 90**") and the Comprehensive Environmental Response, Compensation and Liability Act (or "CERCLA"). OPA 90 affects all owners, bareboat charterers and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in U.S. waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States.

Under OPA 90, vessel owners, operators and bareboat charterers are 'responsible parties' and are jointly, severally and strictly liable without regard to fault (unless the spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

- natural resources damages and related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties. The limit for double- hulled tank vessels, effective December 21, 2015, is the greater of US$ 2,200 per gross ton or US$ 18.8 million per double-hulled tanker per incident, subject to possible further adjustment for inflation. These limits would not apply if the incident were proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party's gross negligence or wilful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. In addition, CERCLA, which applies to the discharge of hazardous substances (other than oil), imposes strict, joint and several liability without regard to fault upon owners, operators and bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances, whether on land or at sea. Liability under CERCLA is limited to the greater of US$ 300 per gross ton or US$ 5 million, or is unlimited if the incident is caused by gross negligence, wilful misconduct or a violation of certain regulations.

The Coast Guard has implemented regulations requiring evidence of financial responsibility in an amount equal to the sum of the applicable limitation on liability amounts for a vessel under OPA and CERCLA. Under the regulations, such evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to agency approval. Under OPA 90, an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the tanker in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA.

The Coast Guard's regulations concerning certificates of financial responsibility ("**COFR**") provide, in accordance with OPA 90, that claimants may bring suit directly against an insurer or guarantor that furnishes COFR. In addition, in the event that such insurer or guarantor is sued directly, it is prohibited from asserting any contractual defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the wilful misconduct of the responsible party.

The Coast Guard's financial responsibility regulations may also be satisfied by evidence of surety bond or guaranty, or by self-insurance. The Group has complied with the Coast Guard regulations by obtaining financial guaranties from a third-party. If other vessels in the Group's fleet trade into the United States in the future, Management expects to obtain additional guarantees from third-party insurers.

OPA 90 and CERCLA permit individual states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, including California, Washington and Alaska, require state-specific COFRs and vessel response plans. Management intends to comply with all applicable state regulations in the ports where the Group's vessels call.

Owners or operators of tank vessels operating in United States waters are required to file vessel response plans with the Coast Guard, and their tank vessels are required to operate in compliance with their Coast-Guard-approved plans. Such response plans must, among other things:

- address a 'worst case' scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a 'worst case discharge';
- describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.

The Group has filed vessel response plans with the Coast Guard for the vessels it owns and has received approval of such plans for all vessels in its fleet to operate in United States waters. In addition, the Group conducts regular spill response drills in accordance with the guidelines set out in OPA 90.

CERCLA contains a similar liability regime to OPA 90, but applies to the discharge of 'hazardous substances' rather than 'oil.' Petroleum products and LNG should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on LNG carriers might fall within its scope. CERCLA imposes strict joint and several liability upon the owner, operator or bareboat charterer of a vessel for cleanup costs and damages arising from a discharge of hazardous substances.

OPA 90 and CERCLA do not preclude claimants from seeking damages for the discharge of oil or hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize the transportation of LNG aboard a vessel as an ultra-hazardous activity under a doctrine that would impose strict liability for damages resulting from that activity. The application of this doctrine varies by jurisdiction. There can be no assurance that a court in a particular jurisdiction will not find in favor of such a claimant, which would expose the Group to strict liability for damages caused to parties even when the Group has not acted negligently.

Environmental regulation—other environmental initiatives

In addition, the IMO, various countries and states, such as Australia, the United States and the State of California and various regulators, such as port authorities, the Coast Guard and the U.S. Environmental Protection Agency (the "**EPA**") have either adopted legislation or regulations, or are separately considering the adoption of legislation or regulations, aimed at regulating the transmission, distribution, supply and storage of LNG, the discharge of ballast water and the discharge of bunkers as potential pollutants (OPA 90 applies to discharges of bunkers or cargoes).

The United States Clean Water Act ("**CWA**") prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA.

The EPA enacted rules governing the regulation of ballast water discharges and other discharges incidental to the normal operation of vessels within U.S. waters. Under the rules, most commercial vessels 79 feet in length or longer ("**Regulated Vessels**"), are required to obtain a CWA permit, which the EPA has designated as the vessel general permit for discharges incidental to the normal operation of vessels ("**VGP**"). The VGP incorporates the current U.S. Coast Guard requirements for ballast water management as well as supplemental ballast water requirements and includes limits applicable to specific discharge streams, such as deck runoff, bilge water and gray water.

For each discharge type, among other things, the VGP establishes effluent limits pertaining to the constituents found in the effluent, including best management practices, or BMPs, designed to decrease the amount of constituents entering the waste stream. Each of the VGP discharge limits is deemed to be met when a Regulated Vessel carries out the BMPs pertinent to that specific discharge stream. The VGP imposes additional requirements on certain Regulated Vessel types that emit discharges unique to those vessels. Administrative provisions, such as inspection, monitoring, recordkeeping and reporting requirements are also included for all Regulated Vessels.

The VGP application procedure, known as the Notice of Intent, or NOI, may be accomplished through the 'eNOI' electronic filing interface. The Group has submitted NOIs for all of its vessels to which the CWA applies. The Vessel General Permit contains limits on effluents and specific measures with respect to ships operating on the Great Lakes.

In addition, the CWA requires each state to certify federal discharge permits such as the VGP. Certain states have enacted additional discharge standards as conditions to their certification of the VGP. These local standards bring the VGP into compliance with more stringent state requirements, such as those further restricting ballast water discharges and preventing the introduction of non-indigenous species considered to be invasive. The VGP and related state-specific regulations and any similar restrictions enacted in the future will increase the costs of operating in the relevant waters.

Vessel security regulation

The United States implemented the ISPS Code with the adoption of the Maritime Transportation Security Act of 2002 ("**MTSA**"), which requires vessels entering U.S. waters to obtain certification of plans to respond to emergency incidents there, including identification of persons authorized to implement the plans. Each of the existing vessels in the Group's fleet currently complies with the requirements of the ISPS Code and MTSA.

Inspection by Classification Societies

Every seagoing merchant vessel must be 'classed' by a classification society. The classification society certifies that the vessel is 'in class,' signifying that the vessel has been built and is being maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of the flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

For maintenance of the classification, regular surveys of hull and machinery, including the electrical plant, safety equipment, communication equipment and any special equipment classed, are required to be performed as follows:

- annual surveys for seagoing ships, which are conducted for the hull and the machinery, including the electrical plant, safety equipment, communication equipment and, where applicable, special equipment classed at intervals of 12 months plus or minus three months from the date of commencement of the class period indicated in the certificate;

- intermediate surveys, being more extensive surveys than annual surveys, of the vessel's structure and equipment, are conducted in conjunction with the second or third annual survey;

- special surveys are carried out for the ship's hull and the machinery, including the electrical plant, safety equipment, communications equipment and for any special equipment classed, at five yearly intervals from the vessel's certification;

- continuous surveys performed at an owner's application are required for class renewal. These surveys may be split according to an agreed schedule to be carried out over the entire period of the class certificate. It is common for this process to be applied to the vessel's machinery, known as a continuous machinery survey, and is adopted on all of the vessels within the Group's owned fleet. All areas subject to survey as defined by the classification society are required to be surveyed at least once per five-year class period, unless shorter intervals between surveys are prescribed;

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

- conditions of class may be issued in case the surveyor during any survey of the ship discovers any defects, and these defects are safe for the vessel to continue in service without an immediate repair. Conditions of class will require the defect to be rectified by the shipowner within prescribed time limits.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected consolidated financial information as of and for the fiscal years ended December 31, 2016, December 31, 2015 and December 31, 2014 has been derived from the Group's audited consolidated financial statements included in this Prospectus. The audited consolidated financial statements of the Group as of and for the fiscal years ended December 31, 2016, December 31, 2015 and December 31, 2014 included in this Prospectus have been prepared in accordance with IFRS, which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board and have been audited by Ernst & Young LLC, the Group's independent registered public accounting firm, who are members of the self-regulatory organization of auditors "Russian Union of Auditors" (Association).

The selected financial and operating information set forth below should be read in conjunction with "*Operating and Financial Review*" included elsewhere in this Prospectus and Sovcomflot's financial statements and the notes to those financial statements included in this Prospectus. Due to certain reclassifications in the Group's financial statements for the year ended December 31, 2015, the comparative figures for the year 2014 have been adjusted in order to be consistent with the presentation for 2015. This is fully explained in note 4 to the financial statements for the year ended December 31, 2015.

Selected Consolidated Income Statements

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Freight and hire revenue	1,388,127	1,483,002	1,377,880[(1)]
Voyage expenses and commissions	(245,941)	(242,916)	(333,904)
Time-charter-equivalent revenues	1,142,186	1,240,086	1,043,976
Direct operating expenses			
Vessels' running costs	(318,293)	(338,745)	(349,116)
Charter hire payments	(25,791)	(52,812)	(52,675)
	(344,084)	(391,557)	(401,791)
Net earnings from vessels' trading	798,102	848,529	642,185
Other operating revenues	18,036	20,215	31,907
Other operating expenses	(9,443)	(10,814)	(24,605)
Depreciation, amortization and impairment	(355,790)	(312,871)	(321,533)
General and administrative expenses	(115,645)	(105,914)	(104,010)
(Loss)/gain on sale of assets	(483)	9,895	9,904
Loss on sale of subsidiary	-	(727)	-
Gain/(loss) on sale of equity-accounted investments	-	5,402	(356)
Allowance for credit losses	84	(782)	1,848
Share of profits in equity-accounted investments	12,939	15,765	12,874
Operating profit	347,800	468,698	248,214
Other (expenses)/income			
Financing costs	(162,664)	(140,492)	(138,325)
Interest income	18,303	16,749	16,672
Other non-operating income	15,000	40,559	3,402
Other non-operating expenses	(4,930)	(4,868)	(8,620)
Gain on ineffective hedging instruments	1,032	683	442
Gain on derivative financial instruments held for trading	-	-	6,164
Foreign exchange gains	29,078	17,212	21,026
Foreign exchange losses	(10,142)	(26,765)	(57,996)
Net other expenses	(114,323)	(96,922)	(157,235)
Profit before income taxes	233,477	371,776	90,979
Income tax expense	(26,684)	(17,304)	(7,085)
Profit for the period	206,793	354,472	83,894
Profit attributable to:			
Owners of the parent	202,490	339,461	80,058
Non-controlling interests	4,303	15,011	3,836
	206,793	354,472	83,894

(1) In order to be consistent with the presentation for 2015, address commissions of US$ 9.5 million for the year ended December 31, 2014 were reclassified from voyage costs and commissions to be presented as a reduction in freight and hire revenue. This is fully disclosed in note 4(a) to the Group's audited consolidated financial statements for the year ended December 31, 2015.

Selected Consolidated Statements of Financial Position

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Assets			
Non-current assets			
Fleet	5,895,365	5,388,542	5,278,983
Vessels under construction	225,814	368,453	237,250
Other property, plant and equipment	58,746	60,284	70,657
Intangible assets	3,961	4,668	3,989
Investment property	864	7,468	10,341
Investments in associates	131	104	118
Investments in joint ventures	114,761	98,306	82,430
Available-for-sale investments	760	1,012	1,012
Loans to joint ventures	45,574	52,468	59,942
Finance lease receivables	-	66,956	71,469
Derivative financial instruments	7,146	8,050	7,438
Trade and other receivables	2,783	2,812	180
Deferred tax assets	4,663	7,387	3,575
Restricted cash	-	13,190	17,183
Bank deposits	10,000	10,000	12,315
	6,370,568	6,089,700	5,856,882
Current assets			
Inventories	53,368	37,568	45,825
Loans to joint ventures	4,750	8,320	4,750
Derivative financial instruments	373	-	-
Trade and other receivables	173,022	174,605	149,112
Finance lease receivables	-	4,875	4,193
Current tax receivable	4,089	888	593
Restricted cash	72,079	-	6,060
Cash and bank deposits	470,638	357,427	272,201
	778,319	583,683	482,734
Non-current assets held for sale	8,360	28,130	93,163
	786,679	611,813	575,897
Total assets	7,157,247	6,701,513	6,432,779
Equity and liabilities			
Capital and reserves			
Share capital	405,012	405,012	405,012
Reserves	3,048,858	2,916,047	2,596,080
Equity attributable to the owners of the parent	3,453,870	3,321,059	3,001,092
Non-controlling interest	150,446	159,922	156,389
Total equity	3,604,316	3,480,981	3,157,481
Non-current liabilities			
Trade and other payables	37,504	16,045	330
Secured bank loans	1,903,365	1,596,434	1,587,956
Finance lease liabilities	-	173,690	183,810
Derivative financial instruments	21,624	32,135	37,808
Retirement benefit obligations	3,419	3,067	3,390
Other loans	737,076	875,492	842,882
Provisions	-	-	3,244
Deferred tax liabilities	858	776	1,258
	2,703,846	2,697,639	2,660,678
Current liabilities			
Trade and other payables	214,784	181,676	183,998
Other loans	139,896	16,984	-
Secured bank loans	290,460	289,142	394,652
Finance lease liabilities	173,690	10,120	9,481
Current tax payable	14,809	2,042	1,653
Derivative financial instruments	15,446	22,929	24,836
	849,085	522,893	614,620

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Total liabilities	3,552,931	3,220,532	3,275,298
Total equity and liabilities	7,157,247	6,701,513	6,432,779

Selected Consolidated Cash Flow Statements

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Operating activities			
Cash received from freights and hire of vessels	1,414,275	1,460,200	1,363,106
Other cash receipts	24,780	61,127	44,556
Cash payments for voyage and running costs	(585,758)	(649,887)	(740,125)
Other cash payments	(101,315)	(116,480)	(168,633)
Cash generated from operations	751,982	754,960	498,904
Interest received	5,943	2,901	2,455
Income tax paid	(14,007)	(22,158)	(10,259)
Net cash inflow from operating activities	743,918	735,703	491,100
Investing activities			
Expenditure on fleet	(36,596)	(45,022)	(26,888)
Fleet acquisitions in the period	(347,906)	-	-
Expenditure on vessels under construction	(329,904)	(516,181)	(492,434)
Expenditure on assets held for sale	-	-	(419)
Interest capitalized	(19,139)	(10,375)	(8,157)
Expenditure on intangibles and other property, plant and equipment	(5,248)	(3,444)	(3,971)
Investment in joint venture	-	(107)	-
Loan repayments from joint ventures	14,531	4,272	7,030
Loans issued to joint ventures	-	-	(1,020)
Proceeds from sale of subsidiary net of cash disposed	-	1,232	-
Proceeds from sale of equity-accounted investments	-	6,300	-
Proceeds from sale of vessels	28,172	112,909	123,298
Proceeds from sale of other property, plant and equipment	324	10,035	8,711
Proceeds from settlement of finance lease receivable	67,628	-	-
Capital element received on finance leases	4,838	4,141	4,108
Interest received on finance leases	12,053	13,115	17,593
Dividends received from equity-accounted for investments	3,578	2,762	2,531
Bank term deposits	(15,000)	1,442	391
Restricted cash placed in court	(72,079)	-	-
Restricted cash released	17,190	6,060	-
Other receipts	-	-	285
Net cash outflow used in investing activities	(677,558)	(412,861)	(368,942)
Financing activities			
Proceeds of borrowings	1,533,452	493,081	426,846
Repayment of borrowings	(1,218,248)	(546,670)	(361,824)
Financing costs	(44,106)	(8,196)	(7,269)
Repayment of finance lease liabilities	(10,345)	(9,718)	(9,098)
Restricted deposits	846	1,469	(4,215)
Funds in retention bank accounts	1,055	(6,982)	(2,062)
Interest paid on borrowings	(125,152)	(118,541)	(116,643)
Interest paid on finance leases	(11,895)	(12,521)	(13,141)
Dividends paid	(98,184)	(21,331)	(10,192)
Acquisition of non-controlling interests	(59)	(217)	-
Net cash inflow/(outflow) from financing activities	27,364	(229,626)	(97,598)
Increase/(decrease) in cash and cash equivalents	93,724	93,216	24,560
Cash and cash equivalents at beginning of period	332,680	253,840	256,750
Net foreign exchange differences	6,388	(14,376)	(27,470)
Cash and cash equivalents at end of period	432,792	332,680	253,840

Other Financial and Operating Data

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Secured bank loans	2,193,825	1,885,576	1,982,608
Finance lease liabilities	173,690	183,810	193,291
Other loans	876,972	892,476	842,882
Less: cash and bank deposits	(480,638)	(367,427)	(284,516)
Less: restricted cash	(72,079)	(13,190)	(23,243)
Net debt	2,691,770	2,581,245	2,711,022

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
EBITDA[(1)]	733,628	808,390	534,165
Adjusted EBITDA[(1)]	706,455	780,055	575,938
Ratio of net debt/capitalization[(2)]	42.8%	42.6%	46.2%
Total voyage days for fleet[(3)]	44,113	45,006	47,064
Total time-charter days for fleet	26,094	29,443	31,563
Total spot market days for fleet	18,019	15,563	15,501

(1) EBITDA represents earnings before interest, taxes, depreciation, amortization and impairment. Adjusted EBITDA represents EBITDA before other non-operating expenses, other non-operating income, gain/(loss) on derivative financial instruments held for trading, gain/(loss) on ineffective hedging instruments, loss on sale of subsidiaries, foreign exchange gains/(losses), gain/(loss) on sale of equity-accounted investments, other operating revenues, other operating expenses, plus finance lease interest receivable.

EBITDA and Adjusted EBITDA are used as supplemental financial measures by Management and by external users of the Group's financial statements, such as investors, as discussed below:

— *Financial and operating performance*. EBITDA and Adjusted EBITDA assist Management and security holders by increasing the comparability of the Group's fundamental performance from period to period and against the fundamental performance of other companies in the Group's industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. Management believes that including EBITDA and Adjusted EBITDA as a financial and operating measure benefits security holders in (a) selecting between investing in the Group and other investment alternatives and (b) monitoring the Group's ongoing financial and operational strength and health in assessing the Group's ability to meet its debt obligations and whether to hold the Group's securities.

— *Liquidity*. EBITDA and Adjusted EBITDA allow Management to assess the ability of assets to generate cash sufficient to service debt, pay dividends and undertake capital expenditures. By eliminating the cash flow effect resulting from the Group's existing capitalization and other items that may vary significantly from period to period, EBITDA and Adjusted EBITDA provide a consistent measure of the Group's ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) the Group's capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of the Group's dividend policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits security holders to assess the fundamental ability of the Group's business to generate cash sufficient to meet cash needs, including repayments under debt instruments.

EBITDA and Adjusted EBITDA are not determined in accordance with IFRS or any other generally accepted accounting principles and should not be considered as an alternative to profit for the period, operating profit, profit from vessels' operations or any other measure of financial performance or liquidity presented in accordance with IFRS. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect profit for the period and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies. See "*Presentation of Financial and Other Data*."

The following table reconciles the Group's historical consolidated EBITDA and Adjusted EBITDA to profit for the period:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Reconciliation of EBITDA and Adjusted EBITDA to profit for the period			
Profit/(loss) for the period	206,793	354,472	83,894
Income tax expense	26,684	17,304	7,085
Financing costs net of interest income	144,361	123,743	121,653
Depreciation, amortization and impairment	355,790	312,871	321,533
EBITDA	733,628	808,390	534,165
Other non-operating income	(15,000)	(40,559)	(3,402)

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Other non-operating expenses	4,930	4,868	8,620
Gain on ineffective hedging instruments	(1,032)	(683)	(442)
(Gain)/loss on derivative financial instruments	-	-	(6,164)
Loss on sale of subsidiary	-	727	-
Foreign exchange gains	(29,078)	(17,212)	(21,026)
Foreign exchange losses	10,142	26,765	57,996
(Gain)/loss on sale of equity-accounted investments	-	(5,402)	356
Finance lease interest receivable	11,458	12,562	13,137
Other operating revenues	(18,036)	(20,215)	(31,907)
Other operating expenses	9,443	10,814	24,605
Adjusted EBITDA	706,455	780,055	575,938

(2) Net debt includes total secured bank loans, other loans and finance lease liabilities after deducting cash and bank deposits and restricted cash. Capitalization is the sum of net debt and total equity.

Ratio of net debt/capitalization is the ratio of net debt to capitalization. The capital structure of the Group consists of net debt and total equity. The ratio of net debt to capitalization as a measure represents the Group's financial leverage and the Group's capital structure, calculated as the Group's net debt divided by its total capitalization. Net debt includes total secured bank loans, other loans and finance lease liabilities after deducting cash and bank deposits and restricted cash. Total capitalization comprises the Group's net debt and shareholders' equity, which includes share capital, share premium, accumulated reserves attributable to owners of the parent and non-controlling interests. The Group reviews its capital structure by applying the ratio of net debt to capitalization in combination with other measures and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the Group's activities. The ratio of net debt to capitalization is considered to be a useful measure as it highlights the extent to which the Group's operations are financed through debt or equity, highlighting the Group's financial position, credit position and borrowing capacity

The following table reconciles the Group's ratio of net debt/capitalization to IFRS line items:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Reconciliation of the Group's ratio of net debt/capitalization			
Secured bank loans	2,193,825	1,885,576	1,982,608
Finance lease liabilities	173,690	183,810	193,291
Other loans	876,972	892,476	842,882
Less: cash and bank deposits	(480,638)	(367,427)	(284,516)
Less: restricted cash	(72,079)	(13,190)	(23,243)
Net debt	2,691,770	2,581,245	2,711,022
Total equity	3,604,316	3,480,981	3,157,481
Total capitalization	6,296,086	6,062,226	5,868,503
Ratio of net debt/capitalization	42.8%	42.6%	46.2%

(3) Total voyage days for fleet are the total days the Group's vessels were in the Group's possession for the relevant period, net of off-hire days associated with major repairs, drydockings or special or intermediate surveys.

OPERATING AND FINANCIAL REVIEW

Overview

The Group is the largest shipping company in Russia and owns and operates one of the largest modern tanker fleets in the world according to Clarksons Research. As a fully integrated shipowner and manager, the Group is able to provide complex high-end shipping services to the world's leading oil and gas companies for the worldwide transportation of crude oil, oil products and liquefied gas (LNG and LPG), as well as servicing offshore upstream oil and gas installations and equipment. The Group enjoys a reputation for providing services in harsh-weather environments and ice-water conditions with fleet vessels, management systems and personnel specialized in operating in such conditions. A substantial portion of the Group's fleet consists of vessels with ice-class notations, spread across each of the Group's operating sectors. These vessels, which are designed to operate in and withstand harsh weather and ice-water conditions and are customized to their operating sector, operate primarily along the harsh-environment trade routes of the Baltic, Russian and Canadian Arctic and sub-Arctic regions and the northern Far East of Russia. As of December 31, 2016, the Group's fleet consisted of 146 owned and chartered-in vessels of 13.0 million total DWT (13 of which are jointly owned with third parties), including 73 ice-class vessels (50% of the Group's fleet), and the Group operated nine offices worldwide. According to Clarksons Research, the Group is the largest owner of ice-class tankers in the world based on DWT as of March 1, 2017. The Group is also the second largest oil tanker owner in the world by number of vessels, and the largest Russian oil tanker owner by DWT capacity according to Clarksons Research. In 2016, the Group generated time-charter-equivalent revenues of US$ 1,142.2 million and Adjusted EBITDA of US$ 706.5 million.

Sovcomflot is currently wholly owned by the Russian Federation and, in 2009, was included on the Russian Federation's list of strategic enterprises and organizations that share a privileged legal status under certain Russian laws. See "*Business Overview—Status as a Strategic Enterprise.*" Given Sovcomflot's status as a state-owned shipping company and a strategic asset of the Russian Federation, the Group has an important role in the development of Russia's energy sector, both as the leading energy shipping group in Russia and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's operations to be, in effect, a seaborne extension of the Russian pipeline infrastructure, which positions the Group to benefit from servicing Russian hydrocarbon exports. According to Clarksons Research, Russia was the third-largest crude oil producing country in the world in 2016, and the second largest producer of natural gas in the world in 2016. See "*Industry Overview—The Russian Oil and Gas Sector.*" Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of those oil and gas reserves that are exported by sea.

The Group's operations are organized into five business segments:

- *Crude oil transportation.* This segment transports mainly crude oil for the Group's customers worldwide. As of December 31, 2016, the Group's fleet in this segment consisted of 59 crude oil carriers, representing a total capacity of 7.7 million DWT, and this business segment generated US$ 477.4 million (41.8%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016.

- *Oil products transportation.* This segment transports mainly refined petroleum and other oil products for the Group's customers worldwide. As of December 31, 2016, the Group's fleet in this segment consisted of 40 petroleum product carriers, representing a total capacity of 2.4 million DWT, and this business segment generated US$ 193.3 million (16.9%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016. The Group also operates in this segment 9 petroleum product carriers jointly owned with third parties representing a total capacity of 0.7 million DWT.

- *Gas transportation.* This segment primarily transports LNG and LPG. As of December 31, 2016, the Group's fleet in this segment consisted of four LNG carriers and four LPG carriers, representing a total capacity of 0.5 million DWT and generated US$ 140.6 million (12.3%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2016. The Group also operates four LNG carriers in this segment, jointly owned with third parties, representing a total capacity of 0.3 million DWT.

- *Offshore development services.* This segment contains the Group's shuttle tankers and specialized supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. The Group's supply vessels are dedicated to continuously providing supplies to dedicated offshore facilities. This segment also provides additional services to offshore development facilities, such as the management of FSOs, and logistical support. As of December 31, 2016, this segment's fleet consisted of sixteen shuttle

tankers with a total capacity of 1.3 million DWT, as well as seven ice-breaking supply vessels, and generated US$ 250.9 million (22.0%) of the Group's time-charter-equivalent revenues.

- *Other marine services.* As of December 31, 2016, this segment's fleet consisted of two dry cargo carriers with a total capacity of 150,000 DWT and one chartered-in seismic vessel, and generated US$ 79.8 million (7.0%) of the Group's time-charter-equivalent revenues.

Factors Affecting the Group's Results

Volatility in Tanker Charter Rates

The Group derives its revenue from the charter hires of the Group's owned and chartered-in vessels that are engaged on the spot market, time charter market or under contracts of affreightment. As a result, the Group's freight and hire revenues are heavily influenced by the charter rates in the segments in which the Group operates. Shipping charter rates, in turn, are closely tied to, and are significantly affected by developments in, the global economy and shifts in both the global and local markets. Historically, charter rates for tankers have been highly cyclical, experiencing volatility due to changes in the supply and demand for tanker capacity, which are influenced by a number of different factors, including the demand for and supply of crude oil and oil products, regional availability of refining capacity, global and regional economic conditions, the distance oil and oil products are to be moved by sea, changes in seaborne and other transportation patterns, the number of newbuilding deliveries and scrapping of tankers from the global fleet. See "*Industry Overview—Crude Oil Shipping—Introduction*" and "*Industry Overview—Oil Products Shipping—Introduction*" for information regarding average historical charter rates in certain of the segments in which the Group operates.

The cyclical nature of the tanker industry may cause significant declines in the charter rates realized by the Group's vessels. Moreover, because a substantial portion of the Group's costs are fixed in the short term, changes in the Group's charter rates have a significant effect on the Group's profit for the period. As a result, volatility in shipping charter rates may cause significant fluctuations in the Group's profit for the period and cash flows.

The Group's Vessel Employment Mix

The cyclicality and volatility in vessel charter rates described above affects the charter rates realized by the Group on the spot market, time charter market and under contracts of affreightment. See *"—Volatility in Tanker Charter Rates."* Increases and decreases in the charter rates in each of these markets generally tend to be correlated since they are both determined based on the supply and demand for tanker capacity. However, changes in charter rates on the spot market tend to have an effect on the Group's time-charter-equivalent revenues more quickly than changes in other markets. This is primarily because vessels operating under spot charters enter into charter agreements more frequently, so changes in such rates affect the Group's revenue and earnings more quickly. Similarly, since the charter rates under contracts of affreightment are often variable and based on spot market rates, the earnings of vessels operating under such contracts fluctuate more quickly as a result of this volatility. However, with respect to vessels operating under time charters, a shift in time charter rates does not immediately have an impact on such vessels, primarily because the time charter rates are fixed for longer periods of time.

As a result of these differences between spot charters, time charters and contracts of affreightment, the Group's vessel employment mix has a significant effect on the Group's exposure to volatility in charter rates, and consequently on the Group's revenue, earnings and cash flows. The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time charters. Management considers the Group's fleet deployment to be well balanced, with 74.8% of its time-charter-equivalent revenues for the year ended December 31, 2016, 69.7% for the year ended December 31, 2015, and 78.1% for the year ended December 31, 2014 from time charters. Management believes that this vessel employment mix provides visibility in managing its fleet and stability in its operating cash flows, and Management continually re-evaluates its employment mix based on current market conditions. Further, Management places great importance on security of income and counterparty creditworthiness with guidelines in place under its chartering risk management policies to ensure that the Group's income is not overly reliant upon a limited number counterparties. For the year ended December 31, 2016, no single client group accounted for more than 10% of Group time-charter-equivalent revenues, with the exception of Shell and Gazprom, which accounted for 14.36% and 14.29%, respectively.

Market Value for the Group's Vessels

The market value of vessels fluctuates depending upon a number of factors, including general economic and market conditions affecting the industry, demand for vessel capacity, the number, type, age and size of vessels in the world fleet, the price of newbuildings (which is affected by availability of shipyard berths and financing), the level of vessel scrapping, the impact of any port congestion on fleet productivity, the cost of other modes of

transportation and swings in the historically cyclical shipping industry. Moreover, the Group's fleet accounted for 80.4% of the Group's total assets as of December 31, 2015 and 82.4% of the Group's total assets as of December 31, 2016. The market value of the Group's fleet represented 94.5% of its carrying value as of December 31, 2015 and 76.2% of its carrying value as of December 31, 2016. Since the Group's fleet accounts for such a significant portion of the Group's assets, shifts in the market value of those assets can have a significant impact on the Group's financial statements.

For example, a decline in the market value of the Group's fleet can cause the Group to recognize losses if any of its vessels are sold or their values are impaired, as was the case in 2016 when Management carried out an impairment review of the Group's fleet, which led to the recognition of impairment losses of US$ 39.6 million in aggregate, as reflected in notes 9 and 15 to the audited consolidated financial statements of the Group for the year ended December 31, 2016. Moreover, the Group's existing debt as of December 31, 2016 was secured by the value of certain of the Group's vessels. A decline in the market value of the Group's vessels could limit the amount of such assets available for the purposes of granting security and could prevent the Group from borrowing under certain existing secured credit facilities or may trigger a default under its covenants.

Additions to the Group's fleet

The Group continues to acquire vessels for its fleet, with two new LNG vessels added in 2014, and a further two new LNG vessels added in 2015. In 2016, the Group took delivery of three new shuttle tankers, and acquired two used IBSV and nine PRISCO tankers (three used Aframax tankers, one used LR2 product carrier with total capacity of 420,000 DWT, and five used MR chemical tankers with a total capacity of 255,000 DWT). On March 2, 2017, the Group took delivery of an IBSV with a capacity of 3,000 DWT, and on March 27, 2017, the Group took delivery of an LNG carrier with a capacity of 172,600 CBM. A further three newbuildings are expected in 2017. The Group estimates that these additional vessels will bring in approximately US$ 5.0 billion in time-charter-equivalent revenues by 2045, and US$ 4.4 billion in EBITDA over the same period. However, these additional revenues could be affected by a number of factors, such as:

- default or delay on the part of the shipyards;
- insolvency of the shipyards;
- damage from adverse weather or a similar disaster; or
- the introduction of sanctions affecting the Group's ability to operate in particular regions or with particular clients.

Any or all of these factors could significantly impact on the revenues realizable from the Group's newbuildings, and could affect the Group's cashflow, capital expenditure, or ability to service its debts.

Developments in Interest Rates

The Group is exposed to interest rate movements through its variable-rate financing arrangements, for instance, movements in LIBOR or the yield curve impact the market value of the Group's secured bank loans and the interest that the Group pays on such loans. As of December 31, 2016, the Group's total variable-rate borrowings, gross of direct issue costs, amounted to US$ 1,807.0 million of which US$ 1,066.1 million were hedged by interest-rate derivatives. As a result, the Group is sensitive to changes in interest rates. Interest rates are sensitive to numerous factors outside the Group's control including, but not limited to, government and central bank monetary policy in the jurisdictions in which the Group operates. The Group uses interest-rate derivative instruments to manage interest rate exposure, such as swap contracts. As of December 31, 2016, the Group had an outstanding nominal amount of interest rate derivatives of US$ 1,066.1 million, compared to US$ 1,221.8 million as of December 31, 2015.

Critical Accounting Policies and Estimates

The preparation of the Group's financial statements and the notes thereto requires that Management make judgments, estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience, changes in the business environment and on various other assumptions that Management believes are reasonable under the circumstances.

While the Group provides information on the application of accounting principles being used in its financial statements in the notes thereto, the following paragraphs describe a number of the critical accounting principles and estimates that Management considers most important for understanding the Group's financial condition, results of operations and cash flows. The critical accounting policies and estimates are more fully described in the Group's consolidated financial statements and the notes thereto.

Freight and Hire revenue

Freight and hire revenue represents vessel earnings measured at the fair value of the consideration received or receivable, net of address commissions. Freight revenues are earned for the carriage of cargo on behalf of the charterer, on the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached, the Group is compensated for the additional time incurred in the form of demurrage revenue which is recognized when it can be measured reliably in accordance with the terms and conditions of the respective charter party agreements. Hire revenues are earned for exclusive use of the services of the vessel by the charterer for an agreed period of time.

Time-charter-equivalent revenues describe the earnings of any charter contract once voyage expenses and commissions relating to the performance of the contract have been deducted from freight and hire revenues, divided by the number of days taken to perform the charter contract. The term is commonly used in the shipping industry to measure financial performance and to compare revenue generated from a voyage charter to revenue generated from a time charter. Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage-related expenses include commission on income paid to third-party brokers by the Group.

Freight revenue and voyage expenses are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. The impact of recognizing voyage expenses ratably over the length of each voyage is not materially different on a quarterly and annual basis from the method of recognizing such costs on an accruals basis. Full provision is made for any losses forecast on voyages in progress at the end of the financial reporting period. The Group does not begin recognizing revenue until a charter has been agreed to by the Group and the charterer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

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

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

A number of the Group's vessels participate in vessel pooling arrangements with third parties. Pool revenue is generated from each vessel participating, undertaking either voyage or time charters. The Group recognizes all revenue (and voyage costs) earned by its vessels through participation in the pools under the specific voyage and time charters that the vessels undertake via their pool participation. Revenue and voyage costs arising under such charters are recognized in the same way as voyage charters and time charters as set out above. All pool agreements in which the Group participates contain profit share clauses, under which the Group's vessels and the third parties' vessels net earnings (time-charter-equivalent) are shared. The pool measures net earnings based on the contractual rates, the duration of each voyage and, the relevant voyage costs recognized upon delivery of the services in accordance with the terms and conditions of the charter parties. The Group's share of the net earnings in the pools is dependent on the number of days the Group's vessels have been available for the pools in relation to the total available pool earning days during the period. These profit sharing arrangements may give rise to a liability to the third party or a receivable to the Group. These amounts are settled periodically. The results of the profit sharing

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

Impairments

At the end of each financial reporting period, the Group assesses whether there is any indication that its property, plant and equipment may have suffered an impairment loss. If any indication exists, the Group estimates the asset's recoverable amount. The assessment of whether there is an indication that an asset is impaired is made with reference to trading results, predicted trading results, market rates, technical and regulatory changes and market values. If any such indication exists, the recoverable amount of the asset or cash generating unit ("**CGU**") is estimated in order to determine the extent of any impairment loss.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is determined as the amount at which assets may be disposed of on a willing-seller/willing-buyer basis, less directly associated costs of disposal. In estimating fair value, the Group considers recent market transactions for similar assets, and the views of reputable shipbrokers. If the recoverable amount is less than the carrying amount of the asset or the CGU, the asset is considered impaired and an expense is recognized equal to the amount required to reduce the carrying amount of the vessel or the CGU to its recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior periods. Such reversal is recognized in the income statement.

Drydocking

The vessels are required to undergo planned drydockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with Intermediate Surveys and Special Surveys as set out in "*Business—Classification, Audits and Inspections*." The inspection cycle resumes after each Special Survey. Vessels are typically required to undergo special surveys, which include inspection of underwater parts (bottom survey), every 60 months.

Drydocking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for bottom surveys and for repairs related to inspections. An in-water survey may be permitted in lieu of a drydocking for the intermediate survey, although the vessel must carry out a drydocking in conjunction with a Special Survey. Drydocking and special survey costs, to the extent that they are incurred directly to meet regulatory requirements, are capitalized as a separate component of vessel cost and are amortized on a straight line basis over the estimated period to the next drydocking. Amortization of the capitalized drydocking costs is included in the depreciation, amortization and impairment line in the consolidated income statement. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred. Drydocking costs may include the costs associated but not limited to the service and replacements of main engine and propulsion machinery, boilers, engine room tanks, auxiliary machinery, various gears and systems of shaft seals, safety and navigation equipment, anchor and deck machinery, turbo chargers, steering gears, electrical equipment, controls and automated systems, cargo, fuel and ballast tanks and applying of antifouling and hull paint.

Where a vessel is acquired new, or constructed, a proportion of the cost of the vessel is allocated to the components expected to be replaced at the next drydocking based on the expected costs related to the first-coming drydocking, which is based on experience and past history of similar vessels. For second hand vessels, the actual cost of the previous drydocking component is used, amortized to the date of acquisition, taking into account the

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

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

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

Classification of charter agreements as either finance or operating leases

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed unless the provisions of the contract were changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a "substance over form" approach is used. In determining the substance of the transaction the Group considers amongst others the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions, expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

Recoverability of amounts receivable from charterers

The Group makes allowances for estimated irrecoverable amounts receivable from charterers. Significant judgment is used to estimate the estimated irrecoverable accounts. In estimating irrecoverable accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for estimated irrecoverable amounts recorded in the consolidated financial statements.

Results of Operations

Years Ended December 31, 2016 and December 31, 2015

The following table sets forth the Group's results of operations for the periods indicated:

	Year ended December 31,		
	2016	2015	Change
	(in thousands of U.S. dollars)		(%)
Freight and hire revenue	1,388,127	1,483,002	(6.4)
Voyage expenses and commissions	(245,941)	(242,916)	1.2
Time-charter-equivalent revenues	1,142,186	1,240,086	(7.9)
Direct operating expenses			
Vessels' running costs	318,293	338,745	(6.0)
Charter hire payments	25,791	52,812	(51.2)
	(344,084)	(391,557)	(12.1)
Net earnings from vessels' trading	798,102	848,529	(5.9)
Other operating revenues	18,036	20,215	(10.8)
Other operating expenses	(9,443)	(10,814)	(12.7)
Depreciation, amortization and impairment	(355,790)	(312,871)	13.7
General and administrative expenses	(115,645)	(105,914)	9.2
(Loss)/gain on sale of assets	(483)	9,895	N/A
Loss on sale of subsidiary	-	(727)	N/A
Gain/(loss) on sale on equity-accounted investments	-	5,402	N/A
Allowance for credit losses	84	(782)	N/A
Share of profits in equity-accounted investments	12,939	15,765	(17.9)
Operating profit	347,800	468,698	(25.8)
Other (expenses)/income			

Financing costs	(162,664)	(140,492)	15.8
Interest income	18,303	16,749	9.3
Other non-operating income	15,000	40,559	(63.0)
Other non-operating expenses	(4,930)	(4,868)	1.3
Gain on ineffective hedging instruments	1,032	683	51.1
Foreign exchange gains	29,078	17,212	68.9
Foreign exchange losses	(10,142)	(26,765)	(62.1)
Net other expenses	(114,323)	(96,922)	18.0
Profit before income taxes	233,477	371,776	(37.2)
Income tax expense	(26,684)	(17,304)	54.2
Profit for the period	206,793	354,472	(41.7)
Profit attributable to:			
Owners of the parent	202,490	339,461	
Non-controlling interest	4,303	15,011	
	206,793	354,472	

Freight and hire revenue

Freight and hire revenue represents income from charter hires of the Group's owned and chartered-in vessels engaged either on the spot or time charter market.

The Group's freight and hire revenue was US$ 1,388.1 million in 2016, as compared to US$ 1,483.0 million in the year ended December 31, 2015, a decrease of US$ 94.9 million, or 6.4%. This decrease was primarily due to a decrease in spot and time charter rates over 2016 and a net decrease in fleet trading days resulting from the sale and acquisition of vessels. Overall market rates for the conventional fleet, comprising oil product carriers and crude oil carriers, were lower in 2016 compared to 2015, owing to a negative imbalance between supply and demand in the tanker market.

The effect of the decrease in spot freight rates for conventional tankers and fleet trading days was offset in part by an increase in freight and hire revenues from fixed rate time-charter vessels entering the fleet in 2016 and the acquisition of the PRISCO fleet in the second half of 2016. In 2016, three new ice-breaking shuttle tankers were delivered from shipyards and contributed US$ 14.3 million in total hire and freight revenue. Further, two ice breaking supply vessels and nine conventional vessels were acquired second hand, and contributed US$ 7.4 million and US$ 21.0 million in total freight and hire revenue respectively. The total freight and hire revenue deriving from vessels delivered and acquired in 2016 was US$ 42.7 million, across 1,495 trading days.

There were a total of 44,113 trading days in 2016, as compared to 45,006 trading days in 2015, a decrease of 893 trading days, or 2%. Vessel acquisition and disposals resulted in 1,476 fewer trading days in 2016 compared to 2015. Among other things, fewer dry-docks and unscheduled repairs in 2016 compared to 2015 positively contributed to the total trading days in 2016.

Voyage expenses and commissions

Voyage expenses are expenses that are unique to a particular voyage, which are paid by the Group under spot charter contracts. Voyage expenses, which would be paid by a charterer under a time charter contract, primarily consist of bunker fuel costs, port expenses, canal fees, cargo loading and unloading expenses, agency fees and commissions paid to brokers.

The Group's voyage expenses and commissions increased from US$ 242.9 million in 2015 to US$ 245.9 million in 2016, an increase of US$ 3.0 million, or 1.2%. This increase was primarily the result of an increase in port costs of US$ 19.1 million (or 21.9%) in 2016 as compared to 2015, partly offset by a decrease in bunker oil consumption of US$ 15.2 million (or 11.0%) in 2016 as compared to 2015. Bunker costs decreased as a result of a decrease of 21.0% in the average price of fuel, partially offset by an increase in consumption as a result of an increase of 15.8% in vessels trading on the spot market. Port costs increased as a result of an increase of 21.5% in port visits in 2016 by the Group's vessels trading on the spot market as compared to 2015. Fuel costs represented 49.7% of voyage costs and commissions in 2016 compared to 56.6% in 2015.

Time-charter-equivalent revenues

The Group's time-charter-equivalent revenues decreased from US$ 1,240.1 million in 2015 to US$ 1,142.2 million in 2016, a decrease of US$ 97.9 million, or 7.9%, for the reasons described above.

Direct operating expenses

The Group's direct operating expenses decreased from US$ 391.6 million in 2015 to US$ 344.1 million in 2016, a decrease of US$ 47.5 million, or 12.1%. Direct operating expenses include vessels' running costs and charter hire payments. This decrease was a result of a decrease in vessels' running costs, as described below, and a decrease in charter hire payments.

Vessels' running costs decreased from US$ 338.7 million in 2015 to US$ 318.3 million in 2016, a decrease of US$ 20.4 million, or 6.0%. This decrease was primarily the result of a decrease in the fleet's available days for trading by 1,481 days, or 3.17%, that resulted in a decrease in running costs of US$ 10.1 million. In addition, maintenance costs during dry-dock included in running costs decreased by US$ 8.7 million, or 39.3%, due to fewer dry-dockings that took place in 2016 compared to 2015.

Charter hire payments decreased from US$ 52.8 million in 2015 to US$ 25.8 million in 2016, a decrease of US$ 27.0 million, or 51.2%, due to a decrease in average charter hire rates by US$ 53,274 per day, or 58.3%, as a result of the renegotiation of charter hire rates. The average charter hire rate in 2016 was US$ 38,096 per day compared to US$ 91,370 per day in 2015. In 2016, there were 677 charter hire days, compared to 578 available days in 2015, an increase of 99 days. Charter hire payments related to expenses for two chartered-in seismographic vessels that serve the Group's seismic operations, only one of which was on charter as at December 31, 2016.

Net Earnings from vessels' trading

The Group recognized net earnings from vessels' trading of US$ 848.5 million in 2015, compared to net earnings from vessels' trading of US$ 798.1 million in 2016, a decrease of US$ 50.4 million, or 5.9%, primarily due to the significant decrease in time-charter-equivalent revenues, as described above.

Other operating revenues

The Group's other operating revenues decreased from US$ 20.2 million in 2015 to US$ 18.0 million in 2016, a decrease of US$ 2.2 million, or 10.8%, as a result of a decrease in income from third-party clients, from technical management of vessels and shipbuilding supervision, and the disposal of one of the Group's subsidiaries that was involved in non-shipping-related activities during the first half of 2015.

Other operating expenses

The Group's other operating expenses decreased from US$ 10.8 million in 2015 to US$ 9.4 million in 2016, a decrease of US$ 1.4 million, or 12.7%, as a result of the disposal of one of the Group's subsidiaries that was involved in non-shipping-related activities during the first half of 2015.

Depreciation, amortization and impairment

Depreciation, amortization and impairment increased from US$ 312.9 million in 2015 to US$ 355.8 million in 2016, an increase of US$ 42.9 million, or 13.7%. This increase was primarily the result of an increase in vessels' impairment provision for 2016 of US$ 16.4 million, from US$ 23.2 million in 2015 to US$ 39.6 million in 2016. The vessels' impairment provision in 2016 resulted from the decision of the Group to dispose of six vessels. In addition, an impairment provision of US$ 3.1 million in relation to the Group's cruise terminal in Sochi was recognized in 2016. Depreciation expenses increased by US$ 21.5 million in 2016, compared to 2015, as a result of the delivery and acquisition of 14 vessels, three of which were delivered new from the shipyard and 11 of which were acquired second-hand. In addition, the price of scrap metal from vessels decreased by 3.3% or US$ 10 per lightweight ton from December 31, 2015 to December 31, 2016. There was a corresponding decrease in the residual and depreciable value of the Group's vessels, which has resulted in a higher depreciation charge.

General and administrative expenses

General and administrative expenses increased from US$ 105.9 million in 2015 to US$ 115.6 million in 2016, an increase of US$ 9.7 million, or 9.2%. This increase was primarily due to an increase in non-income based taxes as a result of an increase in irrecoverable VAT of US$ 5.2 million compared to 2015, due to the current chartering structure of two of the Group's vessels and an increase in employee costs associated with the employment of additional staff in 2016 compared to 2015.

Loss / (gain) on sale of assets

The Group recognized a loss on sale of assets in 2016 of US$ 0.5 million compared to a gain of US$ 9.9 million. In 2016, the Group disposed of two oil products tankers and one crude oil tanker, realizing a loss on disposal of US$ 0.5 million. In 2015, the Group disposed of five oil product tankers, two crude oil tankers and two gas carriers, realizing a gain on disposal of the vessels of US$ 3.8 million. In addition, the Group disposed of non-core assets realizing a gain on disposal of US$ 6.1 million in 2015.

Loss on sale of subsidiary

The Group recognized a loss on disposal of US$ 0.7 million in 2015, resulting from the disposal of a subsidiary company, OOO "Novomorsnab," that was involved in non-shipping-related activities. No disposal of subsidiaries took place in 2016.

Gain/(loss) on sale of equity-accounted investments

The Group recognized a gain on sale of equity-accounted investments of US$ 5.4 million in 2015. In June 2015, Sovcomflot disposed of its 49% shareholding in JSC Rosnefteflot to the majority shareholder of JSC Rosnefteflot, realizing a profit on sale of equity-accounted investments of US$ 5.4 million. No disposals took place in 2016.

Share of profits in equity-accounted investments

The Group's share of profits in equity-accounted investments decreased from US$ 15.8 million in 2015 to US$ 12.9 million in 2016, a decrease of US$ 2.8 million, or 17.9%. This decrease was the result of a lower contribution from equity-accounted investments in LR1 vessels that resulted from the decrease in time-charter-equivalent revenues. The time-charter-equivalent revenues of these vessels decreased from US$ 33.4 million in 2015 to US$ 26.5 million in 2016, a decrease of US$ 6.9 million, or 20.7%. The decrease was partially offset by an increase in the results of equity-accounted investments in LNG carriers employed under long-term time charter contracts as a result of the higher number of vessels' trading days in 2016 compared to 2015.

Operating profit

The Group recognized an operating profit of US$ 468.7 million in 2015 compared to US$ 347.8 million in 2016, a decrease of US$ 120.9 million, or 25.8%, for the reasons described above.

Net other expenses

The Group's net other expenses increased from US$ 96.9 million in 2015 to US$ 114.3 million in 2016, an increase of US$ 17.4 million, or 18.0%. The increase was primarily due to the reasons explained below.

Financing costs were US$ 140.5 million in 2015, compared to US$ 162.7 million in 2016, an increase of US$ 22.2 million, or 15.8%. Financing costs include interest expense on borrowings, interest on interest rate swaps, interest on finance lease liabilities and other costs related to financing. The increase is primarily the result of financing costs in relation to the US$ 800 million eurobond due in 2017 having been partly refinanced in June 2016, amounting to US$ 18.1 million, and an increase in the Group's total debt of US$ 282.6 million, or 9.5%, as at the end of 2016 compared to 2015.

Interest income increased from US$ 16.7 million in 2015 to US$ 18.3 million in 2016, an increase of US$ 1.6 million, or 9.3%. This interest income is mainly attributable to finance lease interest income on vessels chartered out under finance leases to a related party, and interest income on bank deposits. The increase in interest income is the result of higher interest income being earned on bank deposits in 2016 compared to 2015.

Other non-operating income of US$ 40.6 million in 2015 and US$ 15.0 million in 2016 relates solely to income received from the defendants in the Novoship UK litigation as described in "*Business — Legal Proceedings*" (the "**NOUK Litigation**").

Foreign exchange gains increased from US$ 17.2 million in 2015 to US$ 29.1 million in 2016, an increase of US$ 11.9 million. These foreign exchange gains were primarily generated by foreign exchange gains on ruble-denominated balances and bank deposits. Ruble-denominated balances increased owing to an increase in business in Russia following the charter of two of the Group's vessels delivered in 2016.

Foreign exchange losses decreased from US$ 26.8 million in 2015 to US$ 10.1 million in 2016, a reduction of US$ 16.7 million, or 62.1%. These foreign exchange losses were primarily generated on ruble-denominated outstanding receivable and payable balances and bank deposits. The reduction was primarily due to the significant improvement in the exchange rate of the ruble to the U.S. dollar in 2016 compared to 2015.

Profit before income taxes

The Group recognized profit before income taxes of US$ 371.8 million in 2015, compared to US$ 233.5 million in 2016, a decrease of US$ 138.3 million, or 37.2%, for the reasons described above.

Income tax expense

The Group's income tax expense increased from US$ 17.3 million in 2015 to US$ 26.7 million in 2016, an increase of US$ 9.4 million, or 54.2%. The increase was the result of higher taxable intragroup dividends being declared in 2016, lower utilization of tax losses in 2016 compared to 2015, and an increase in the profits of the Group's Russian subsidiaries. Taxation on intragroup dividends in 2016 was US$ 14.7 million compared to US$ 11.9 million in 2015, an increase of US$ 2.8 million. In addition, in 2015, the Group recognized a deferred tax asset and a corresponding credit to income tax of US$ 3.9 million in relation to losses incurred by the Group in 2015 and prior years. Deferred tax asset of US$ 3.1 million was charged to income in 2016 for taxable losses brought forward and utilized during the year.

Profit for the period

The Group recognized profit for the period of US$ 354.5 million in 2015, compared to US$ 206.8 million in 2016, a decrease of US$ 147.7 million, or 41.7%, for the reasons described above.

Years Ended December 31, 2015 and December 31, 2014

The following table sets forth the Group's results of operations for the periods indicated:

	Year ended December 31,		
	2015	2014	Change
	(in thousands of U.S. dollars)		(%)
Freight and hire revenue	1,483,002	1,377,880	7.6
Voyage expenses and commissions	(242,916)	(333,904)	(27.2)
Time-charter-equivalent revenues	1,240,086	1,043,976	18.8
Direct operating expenses			
Vessels' running costs	338,745	349,116	(3.0)
Charter hire payments	52,812	52,675	0.3
	(391,557)	(401,791)	(2.5)
Net earnings from vessels' trading	848,529	642,185	32.1
Other operating revenues	20,215	31,907	(36.6)
Other operating expenses	(10,814)	(24,605)	(56.1)
Depreciation, amortization and impairment	(312,871)	(321,533)	(2.7)
General and administrative expenses	(105,914)	(104,010)	1.8
Gain on sale of assets	9,895	9,904	(0.1)
Loss on sale of subsidiary	(727)	-	N/A
Gain/(loss) on sale on equity-accounted investments	5,402	(356)	N/A
Allowance for credit losses	(782)	1,848	N/A
Share of profits in equity-accounted investments	15,765	12,874	22.5
Operating profit	468,698	248,214	88.8
Other (expenses)/income			
Financing costs	(140,492)	(138,325)	1.6
Interest income	16,749	16,672	0.5
Other non-operating income	40,559	3,402	N/A
Other non-operating expenses	(4,868)	(8,620)	(43.5)
Gain on ineffective hedging instruments	683	442	54.5
Gain on derivative financial instruments held for trading	-	6,164	N/A
Foreign exchange gains	17,212	21,026	(18.1)
Foreign exchange losses	(26,765)	(57,996)	(53.9)
Net other expenses	(96,922)	(157,235)	(38.4)
Profit before income taxes	371,776	90,979	N/A
Income tax expense	(17,304)	(7,085)	N/A
Profit for the period	354,472	83,894	N/A
Profit attributable to:			
Owners of the parent	339,461	80,058	
Non-controlling interest	15,011	3,836	
	354,472	83,894	

Freight and hire revenue

The Group's freight and hire revenue increased from US$ 1,377.9 million in 2014 to US$ 1,483.0 million in 2015, an increase of US$ 105.1 million, or 7.6%. This increase was primarily due to the increase in spot and time charter rates throughout 2015, coupled with the delivery of one VLCC and four LNG carriers in 2014 and 2015. Overall market rates for the conventional fleet, comprising oil product carriers and crude oil carriers were higher during the year ended December 31, 2015, compared to 2014 owing to an increase in demand for oil shipping services. This resulted in an increase in spot and time charter rates of the conventional fleet throughout 2015 for the Group resulting in an increase on the Group's freight and hire revenue. The time-charter-equivalent rates for the tanker vessels employed in the conventional market increased by 30.6% and 29.4% respectively compared to 2014 owing to an increase in the overall market rates as a result of higher demand for oil shipping services. The Group's exposure to the spot market increased from 32.93% of the total trading days in 2014 to 34.6% of total trading days in 2015. Income from vessels on time charters for the year ended December 31, 2014, and December 31, 2015 represented 59.2% and 58.3% respectively of the Group's total freight and hire revenue. Furthermore, during 2014 and 2015, four technologically advanced LNG carriers were delivered (two carriers in 2014 and two carriers in

2015), contributing US$ 34.3 million and US$ 102.4 million of total freight and hire revenue respectively, and 459 trading days in 2014 compared to 1,354 trading days in 2015. This represents an increase of US$ 68.1 million in freight and hire revenue and 895 trading days from 2014 to 2015.

Voyage expenses and commissions

The Group's voyage expenses and commissions decreased from US$ 333.9 million in 2014 to US$ 242.9 million in 2015, a decrease of US$ 91.0 million, or 27.2%. This significant decrease was primarily due to the decrease by approximately 45% in the average price of fuel costs during 2015 that resulted in a decrease of US$ 70.7 million in bunkers costs. The decrease in the average price of fuel costs was coupled with a decrease in port costs of US$ 16.2 million. Port costs have decreased as a result of a 9.4% decrease in port visits in 2015 by vessels trading on the spot market compared to 2014. Port costs for vessels that visited ports in the Russian Federation have also decreased as a result of the devaluation of the ruble against the U.S. dollar. Fuel costs represented 62.3% of voyage costs and commissions in 2014 compared to 56.6% for the comparative period in 2015.

Time-charter-equivalent revenues

The Group's time-charter-equivalent revenues increased from US$ 1,044.0 million in 2014 to US$ 1,240.1 million in 2015, an increase of US$ 196.1 million, or 18.8%, for the reasons described above.

Direct operating expenses

The Group's direct operating expenses decreased from US$ 401.8 million in 2014 to US$ 391.6 million in 2015, a decrease of US$ 10.2 million, or 2.5%. This decrease was primarily due to a decrease in vessels' running costs as described below, whereas the charter hire payments were at same levels as in 2014.

Vessels' running costs decreased from US$ 349.1 million in 2014 to US$ 338.7 million in 2015, a decrease of US$ 10.4 million, or 3.0%. This decrease was primarily the result of a decrease in the fleet's available days for trading by 1,934 days or 3.98%. In addition, crew costs decreased by US$ 5.2 million, or 2.56%. Crew costs represented 59.01% and 59.26% of total vessels running costs in 2014 and 2015 respectively.

Charter hire payments were at the similar levels for the years ended December 31, 2015 and 2014, increasing slightly from US$ 52.7 million in 2014 to US$ 52.8 million in 2015, an increase of US$ 0.1 million, or 0.3%. Charter hire payments relate to expenses for chartered-in seismographic vessels that serve the Group's seismic operations.

Net Earnings from vessels' trading

The Group recognized net earnings from vessels' trading of US$ 642.2 million in 2014, compared to net earnings from vessels' trading of US$ 848.5 million in 2015, an increase of US$ 206.3 million, or 32.1%, primarily due to the significant increase in time-charter-equivalent revenues, as described above.

Other operating revenues

The Group's other operating revenues decreased from US$ 31.9 million in 2014 to US$ 20.2 million in 2015, a decrease of US$ 11.7 million, or 36.6%.

Other operating expenses

The Group's other operating expenses decreased from US$ 24.6 million in 2014 to US$ 10.8 million in 2015, a decrease of US$ 13.8 million, or 56.1%. These decreases were primarily due to the disposal in 2015 of Novomorsnab, one of the Group's subsidiaries, that was involved in non-shipping-related activities.

Depreciation, amortization and impairment

Vessels' depreciation, amortization and impairment decreased from US$ 321.5 million in 2014 to US$ 312.9 million in 2015, a decrease of US$ 8.6 million, or 2.7%. This decrease was primarily the result of a decrease of vessels' impairment provision for 2015 by US$ 19.9 million compared to 2014. Part of this decrease is offset by the increase in depreciation expense of US$ 16.0 million between 2015 and 2014 due to the delivery of two expensive and technologically advanced vessels, which have a total net book value cost higher than the costs of the 11 older vessels that were disposed of during the period ended December 31, 2015. In addition, the price of metal as

of December 31, 2015 decreased by 37% or US$ 181 per lightweight ton, with a corresponding decrease in the residual and depreciable value of the Group's vessels, which has resulted in a higher depreciation charge.

General and administrative expenses

General and administrative expenses increased from US$ 104.0 million in 2014 to US$ 105.9 million in 2015, an increase of US$ 1.9 million, or 1.8%. General and administrative expenses increased due to the increase in employees' remuneration, which comprises salaries and discretionary bonuses. This increase was offset by the devaluation of the ruble and euro, currencies that the Group incurs the majority of its administration expenses, vis-a-vis the Group's reporting currency which is the U.S. dollar.

Gain on sale of assets

The Group recognized a gain on sale of assets in 2014 of US$ 9.9 million, which was almost the same level as the gain of US$ 9.9 million in 2015. During 2014, the Group disposed of five oil product tankers, two crude oil tankers and two gas carriers, realizing a gain on disposal of the vessels of US$ 3.8 million. In addition, the Group disposed of non-core assets realizing a gain on disposal of US$ 6.1 million. In addition, in 2014, the Group disposed of non-core assets realizing a gain on disposal of US$ 8.3 million. In 2015, the Group disposed of nine oil product tankers, one crude oil tanker and one Panamax bulker, realizing a gain on disposal of US$ 1.3 million, primarily as a result of depressed market conditions.

Loss on sale of subsidiary

The Group recognized a loss on disposal of US$ 0.7 million in 2015, resulting from the disposal of a subsidiary company, OOO "Novomorsnab," that was involved in non-shipping-related activities.

Gain/(loss) on sale of equity-accounted investments

The Group recognized a loss on sale of equity-accounted investments of US$ 0.4 million in 2014 compared to a gain of US$ 5.4 million in 2015. In June 2015, Sovcomflot disposed of its 49% shareholding in JSC Rosnefteflot to the majority shareholder of JSC Rosnefteflot, realizing a profit on sale of equity-accounted investments of US$ 5.4 million.

Share of profits in equity-accounted investments

The Group's share of profits in equity-accounted investments increased from US$ 12.9 million in 2014 to US$ 15.8 million in 2015, an increase of US$ 2.9 million, or 22.5%. This increase is the result of a higher contribution from the equity-accounted investments in LR1 vessels that resulted from the increase in time-charter-equivalent revenues. The time-charter-equivalent revenues of these vessels increased to US$ 33.4 million compared to US$ 28.1 million representing an increase of US$ 5.3 million, or 19.2%. The increase was partially offset by a decrease in the results of the equity-accounted investments in LNG carriers employed under long-term time charter contracts as a result of the vessels being off-hire due to their planned drydocks.

Operating profit

The Group recognized an operating profit of US$ 248.2 million in 2014, compared to an operating profit of US$ 468.7 million in 2015, an increase of US$ 220.5 million, or 88.8%, for the reasons described above.

Net other (expenses)/income

The Group's net other expenses decreased from US$ 157.2 million in 2014 to US$ 96.9 million in 2015, a decrease of US$ 60.3 million, or 38.4%. The decrease was primarily due to the reasons explained below.

Financing costs increased from US$ 138.3 million in 2014 to US$ 140.5 million in 2015, an increase of US$ 2.2 million, or 1.6%. Although (1) the 0.1% average U.S.-dollar London interbank offered rate ("**US LIBOR**") for 2014 was at the same level as the 0.1% average US LIBOR for 2015 and (2) the Group's outstanding bank loans during the period were decreased from US$ 1,982.6 million as of December 31, 2014, to US$ 1,885.6 million as of December 31, 2015, this decrease on financing costs was offset by the increase in other loans' outstanding balances. The balance on other loans increased from US$ 842.9 million in 2014 to US$ 892.5 million in 2015, an increase of US$ 49.6 million, or 5.9% that is resulting from the increase on financing provided by a related company.

Interest income for both 2015 and 2014 is at almost the same level, being US$ 16.7 million. This interest income is mainly attributable to the finance lease interest income on vessels chartered out under finance leases to an

associated undertaking and interest income on bank deposits. The finance lease interest income was US$ 12.6 million for 2015 and US$ 13.1 million in 2014.

Other non-operating income increased from US$ 3.4 million in 2014 to US$ 40.6 million, an increase of US$ 37.2 million. Other non-operating income relates solely to income received from the defendants in the NOUK Litigation. The US$ 40.6 million income received in 2015 relates to a settlement agreement with some of the defendants in the NOUK Litigation (see "*Business—Legal Proceedings*"), which was concluded in 2012 and for which reimbursement was received in 2015.

Other non-operating expenses decreased from US$ 8.6 million in 2014 to US$ 4.9 million in 2015, a decrease of US$ 3.7 million. Other non-operating expenses relate solely to the legal costs and provisions for the costs of certain of the defendants in the NOUK Litigation that have been recorded as expenses as these are not expected to be recovered. See "*Business — Legal Proceedings.*"

Gain on derivative financial instruments held for trading reduced from a gain of US$ 6.2 million in 2014 to US$ nil for 2015, as all the Group's derivative financial instruments held for trading matured in 2014. These instruments are interest rate swaptions that provided the counterparty banks with the right to enter into a number of interest rate swap agreements by closing out older derivative financial instruments.

Foreign exchange gains decreased from US$ 21.0 million in 2014 to US$ 17.2 million in 2015, a reduction in exchange gains of US$ 3.8 million, or 18.1%. The foreign exchange gains were primarily generated by foreign exchange gains on ruble-denominated balances and bank deposits. The reduction was primarily due to higher balances in 2014 and a slower decline in the value of ruble compared to the U.S. dollar during 2014.

Foreign exchange losses decreased from US$ 57.9 million in 2014 to US$ 26.8 million in 2015, a reduction in exchange losses of US$ 31.1 million, or 53.7%. The foreign exchange losses were primarily generated by foreign exchange losses on ruble-denominated outstanding payable balances and bank deposits. The reduction was primarily due to maintaining higher balances in 2014 than in 2015, and a slower decline in the value of ruble compared to the U.S. dollar during 2014.

Profit before income taxes

The Group recognized profit before income taxes of US$ 91.0 million in 2014, compared to profit before income taxes of US$ 371.8 million in 2015, an increase of US$ 280.8 million, or 308.6% for the reasons described above.

Income tax expense

The Group's income tax expense increased from US$ 7.1 million in 2014 to US$ 17.3 million in 2015, an increase of US$ 10.2 million, or 143.7%. The increase in taxation is the result of higher taxable intragroup dividends distribution that is subject to taxation. Taxation on intragroup dividends for 2015 was US$ 11.9 million compared to US$ 0.7 million for 2014, an increase of US$ 11.2 million.

Profit for the period

The Group recognized profit for the period of US$ 83.9 million in 2014, compared to profit for the period of US$ 354.5 million in 2015, an increase of US$ 270.6 million, or 322.5%, for the reasons described above.

Liquidity and Capital Resources

Overview

The Group's liquidity requirements relate to funding working capital (including vessel maintenance expenses), capital expenditures (including funding investments in vessels), debt service and maintaining cash reserves. Net cash flows from operations are the main source of liquidity for the Group. Additional sources include additional indebtedness and issuances of debt securities such as the Notes. The Group operates in a capital-intensive industry requiring substantial investment in vessels. Capital expenditures are funded primarily from the Group's internally generated funds and borrowings, although as part of the Group's aim to diversify its financing sources, the Group may consider debt and equity issuances in the international capital markets. After funding its working capital, the Group's primary use of cash is for capital expenditures, and in particular newbuildings. Management expects to continue to apply cash to regular debt servicing and repayment as well as to consider debt prepayments as opportunities arise.

The Group's dividend policy provides for dividends at a level no lower than 25% of the profit for the period attributable to the equity stake. On April 18, 2016, the Russian Government adopted Resolution No. 705-r, pursuant to which state-owned companies shall distribute at least 50% of their net profit as dividends for 2015. See "*Share Capital and Dividends—Dividends.*"

Management believes that the Group's financial resources are sufficient to meet its liquidity needs and that its existing capital resources, along with available sources of external financing that include the proceeds of this offering, will be sufficient to meet its currently anticipated capital expenditures.

Cash Flows

The following table sets forth a summary of the Group's consolidated cash flows for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Net cash inflow from operating activities	743,918	735,703	491,100
Net cash outflow used in investing activities	(677,558)	(412,861)	(368,942)
Net cash inflow/(outflow) used in financing activities	27,364	(229,626)	(97,598)
Increase/(decrease) in cash and cash equivalents	93,724	93,216	24,560
Cash and cash equivalents at beginning of period	332,680	253,840	256,750
Net foreign exchange difference	6,388	(14,376)	(27,470)
Cash and cash equivalents at end of period	432,792	332,680	253,840

Operating activities

Net cash inflow from operating activities was US$ 491.1 million in 2014, US$ 735.7 million in 2015 and US$ 743.9 million in 2016. The increase in net cash flow from operating activities is due to the factors discussed under *"—Results of Operations.*"

Investing activities

Net cash outflow used in investing activities was US$ 368.9 million in 2014, US$ 412.9 million in 2015 and US$ 677.6 million in 2016. The increase of 11.9% in net cash outflow used in investing activities between 2014 and 2015 was primarily due an increase in expenditure on vessels under construction to US$ 516.2 million in 2015 from US$ 492.4 million in 2014 and an increase in expenditure on fleet to US$ 45.0 million in 2015 from US$ 26.9 million in 2014.

Net cash outflow used in investing activities was US$ 412.9 million in 2015 and US$ 677.6 million in 2016. The increase of 64.1% in net cash outflow used in investing activities between 2015 and 2016 was primarily due to the increase in fleet acquisition of US$347.9 million in 2016 from US$ nil in 2015, a decrease in expenditure of vessels under construction of US$ 329.9 million in 2016 compared to US$ 516.2 million in 2015 and an increase in restricted deposits amounts by US$ 60.9 million in 2016 compared to 2015.

Financing activities

Net cash outflow from financing activities was US$ 97.6 million in 2014 and US$ 229.6 million in 2015. The Group had a net cash inflow of US$ 27.4 million in 2016. The upward movement of 135.3% in net cash outflow used in financing activities between 2014 and 2015 was primarily due to net cash outflow on borrowings of US$ 53.6 million made in 2015 compared to net cash inflow on borrowings of US$ 65.0 million in 2014, primarily to fund the Group's expenditure on the construction of newbuildings and higher dividend payments made in 2015. The movement in net cash outflow used in financing activities in 2015 and net cash inflow from financing activities in 2016 was primarily due to net cash inflow of US$ 315.2 million on borrowings made in 2016 compared to a US$ 53.6 million net cash outflow on borrowings in 2015, primarily to fund the fleet acquisition and expenditure on the construction of new buildings, partially offset by US$ 76.9 million of higher dividend payments in 2016 compared to 2015.

Borrowings

As of December 31, 2016, the Group's outstanding total borrowings, net of direct issue costs, amounted to US$ 3,244.5 million (including the current portion of US$ 604.0 million), which included secured bank term loans**,** secured revolving credit facilities, eurobonds and finance lease liabilities.

As of December 31, 2016, the Group had US$ 2,193.8 million in secured bank term loans outstanding (including the current portion of US$ 290.4 million) and US$ 711.0 million was available and undrawn under the secured bank term loans. The Group's secured bank term loans are collateralized by first priority mortgages over 80 of the Group's vessels.

In addition, as of December 31, 2016, US$ 1,890.6 million of the Group's secured bank term loans were guaranteed by SCF Tankers, Intrigue or SCF Gas Carriers and US$ 321.7 million were structured without corporate recourse.

As of December 31, 2016, the Group had three multi-borrower secured revolving credit facilities available, which, as at such date, provided for borrowings of up to US$ 248.7 million in aggregate, of which US$ 40.0 million was undrawn, with an outstanding amount of US$ 208.7 million. The Group's secured revolving credit facilities are collateralized by mortgages over 42 of the Group's vessels. In addition, as of December 31, 2016, all of the Group's secured revolving credit facilities were guaranteed by SCF Tankers or Intrigue.

As of December 31, 2016, the Group had 5.375% eurobonds due in 2017 with a par value of US$ 140.0 million (US$ 139.9 million net of direct issue costs) and 5.375% eurobonds due in 2023 with a par value of US$ 750.0 million (US$ 737.1 million net of direct issue costs) outstanding.

As of December 31, 2016, the Group had US$ 173.7 million in finance lease liabilities outstanding, with maturity in 2017. A credit facility has been put in place to refinance these obligations.

Financial covenants are given by the borrowing special purpose companies and facility guarantors, SCF Tankers and Intrigue and aim to assess the companies' change in liquidity, net asset position or decrease in the market values of the Group's vessels. As of December 31, 2016, all of the Group's companies were in full compliance with their respective covenants and maintained sufficient headroom. In addition, as of December 31, 2016, the Group had unencumbered vessels, vessels under construction and properties with net carrying value of US$ 1.5 billion.

Schedule of Obligations

The following table shows the Group's contractual obligations as of December 31, 2016 (in US$ millions), based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay:

		Payments due by period		
	Total	**Less than 1 year**	**1-5 years**	**More than 5 years**
Trade and other payables	155,315	154,196	1,119	-
Payments under finance leases	173,850	173,850	-	-
Secured bank loans	2,212,380	294,861	1,185,205	732,314
Other loan	889,955	139,955	-	750,000
	3,431,500	762,862	1,186,324	1,482,314

Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements that have or are reasonably likely to have, a current or future material effect on the Group's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

MANAGEMENT

In accordance with the Russian Joint Stock Companies Law and Sovcomflot's charter (the "**Charter**"), adopted by Rosimushchestvo, the latter, acting on behalf of the Russian Federation, exercises the rights of Sovcomflot's sole shareholder. Sovcomflot's operations are governed by its "**General Meeting of Shareholders**," Board of Directors, "**Executive Board**" and the "**General Director**," being at the same time the head of the Executive Board (the "**CEO**"). The General Meeting of Shareholders is Sovcomflot's highest governing body and, among other things, elects its Board of Directors. The Board of Directors is responsible for formulating the Group's strategy and the Executive Board and the CEO are responsible for implementing Group's strategy and for managing the Group's affairs on a daily basis.

General Meeting of Shareholders

The General Meeting of Shareholders takes place at least annually, no earlier than two months and no later than six months after the end of the respective financial year. The following decisions, among others, can be taken only by the General Meeting of Shareholders: amendments to the Charter; reorganization or liquidation of Sovcomflot; election of the members of the Board of Directors and early termination of their powers; appointment of the CEO and early termination of his/her powers; determination of the number, category and nominal price of Sovcomflot's authorized shares as well as the rights attributable to such shares; increase and reduction of the charter capital; approval of the annual report and annual accounts; and approval of certain major transactions and interested party transactions in accordance with the Joint-Stock Companies Law.

As the Russian Federation currently controls 100% of the voting shares of Sovcomflot, Rosimushchestvo, in accordance with Resolution No. 738 of the Russian Government dated December 3, 2004 'On Management of Shares of Joint-Stock Companies Being the Federal Property and Exercise of a Special Right of the Russian Federation to Participate in Management of Joint-Stock Companies ('Golden Share')' (as amended) ("**Resolution No. 738**"), is empowered to exercise all of the powers within the competence of the General Meeting of Shareholders. Accordingly, decisions of the General Meeting of Shareholders are taken in the form of Resolutions passed by Rosimushchestvo. Further, pursuant to Resolution No. 738 and Resolution No. 91-r of the Russian Government dated January 23, 2003, when exercising its powers as the sole shareholder of Sovcomflot, Rosimushchestvo can take decisions only upon directives from the Russian Government, Prime Minister or, at the request of the Prime Minister, Deputy Prime Minister.

Board of Directors

The Board of Directors is responsible for the general management of Sovcomflot's activities and meets several times each year. Under Sovcomflot's Charter, the Board of Directors shall consist of nine members, and it currently consists of nine such members. All members of the current Board of Directors were nominated by the Russian Federation. Four members of the current Board of Directors are independent.

As the Russian Federation controls 100% of the voting stock of Sovcomflot, members of Sovcomflot's Board of Directors, other than independent directors, are required to vote in meetings of the Board of Directors on certain agenda items in accordance with directives issued by Rosimushchestvo pursuant to Resolution No. 738. Such agenda items include, among other things, recommendations on the size of dividends and decisions on certain major transactions.

The powers of the Board of Directors include, among other things, the following: to determine priorities of Sovcomflot's operations; to issue bonds or other securities in accordance with the Joint-Stock Companies Law; to appoint Sovcomflot's Executive Board members and to early terminate their powers; to determine the remuneration for the members of the Executive Board; to recommend the size of dividends; to use the reserve fund and other funds; to create branches and representative offices; and to adopt decisions on certain major transactions and interested party transactions in accordance with the Joint-Stock Companies Law.

Executive Board

The Executive Board and the CEO are Sovcomflot's executive bodies. The Executive Board is responsible for the daily management of Sovcomflot. The Executive Board holds its meetings in accordance with the internal schedule agreed on a quarterly basis and may also hold meetings when necessary. Usually the Executive Board meets several times a month. Members of the Executive Board, except for the CEO, are nominated by the CEO and are appointed by the Board of Directors. The Board of Directors has the right to terminate the powers of the Executive Board at any time and appoint new Executive Board.

The responsibilities and tasks of the Executive Board include, among other things: the development of the Group's business operations policy and internal coordination and control; decisions on the most important issues of the daily management of Sovcomflot; recommendations to the CEO on entering into proposed transactions, including financing agreements; reporting to the Board of Directors on the financial standing of Sovcomflot, on the implementation of priority projects, transactions and decisions that may have a material effect on Sovcomflot's business; and other issues that are not within the exclusive competence of the General Meeting of Shareholders or the Board of Directors.

The CEO

The CEO has the authority to act on behalf of Sovcomflot without power of attorney, and presents Sovcomflot's interests; hires employees; issues orders and decrees; gives instructions to be carried out by all employees of Sovcomflot; issues powers of attorney; enters into certain transactions; and performs certain other activities. The CEO is appointed by the General Meeting of Shareholders for the period up to five years. Mr. Frank, the CEO of Sovcomflot as of the date of this Prospectus, has been appointed for a term that expires on June 8, 2020.

Share Ownership of Directors and Administrative Board Members

None of the members of the Board of Directors or the Executive Board holds any shares in Sovcomflot.

Board of Directors

The following table sets forth the name, year of birth, the year of initial election and position of each of Sovcomflot's directors as of the date hereof.

Name	Year of birth	Board Member since	Position (Independence)
Ilya Klebanov	1951	2011	Chairman of the Board of Directors
Walid Chammah	1955	2015	Member (Independent)
Sergey Frank	1960	2004	Member
Ivan Glumov	1936	2015	Member (Independent)
Pavel Kadochnikov	1978	2016	Member
Alexey Klyavin	1954	2012	Member (Independent)
David Moorhouse	1947	2010	Member
Mikhail Poluboyarinov	1966	2012	Member
Andrey Sharonov	1964	2014	Member (Independent)

Certain biographical information and key positions held by the members of Sovcomflot's Board of Directors are set forth below.

Ilya Klebanov

Mr. Klebanov was born in 1951. He graduated from the Leningrad Polytechnic Institute named after M.I. Kalinin and Matsushita Business School (Japan). He also undertook postgraduate studies at the Institute of Management and at R&D Institute of Radio Instrument Making. Before joining Sovcomflot, Mr. Klebanov held different state offices. In particular, from 2003 to 2011, he served as the Plenipotentiary Representative of the President of the Russian Federation in the North-West Federal District. Mr. Klebanov is Senior State Counselor of the Russian Federation (1st class). Currently, he is also a member of the Board of Directors of JSC Transneft.

Mr. Klebanov was elected to the Board of Directors of Sovcomflot on November 3, 2011.

Walid Chammah

Mr. Chammah was born in 1954. He graduated from the American University of Beirut with a Bachelor of Business Administration in 1976 and received a Master's Degree in International Management from the American Graduate School of International Management in 1977. Mr. Chammah is the former Co-President of Morgan Stanley & Co. and Chairman of Morgan Stanley International. He retired from the firm in early 2012 after serving Morgan Stanley for over 19 years, including overseeing the firm's Global Institutional Securities business and operations, and serving as a member of both the Management and Operating Committees. Mr. Chammah is currently founder and partner of Chammah and Partners. Mr. Chammah is also a member of the Board of the American University of Beirut. Mr. Chammah is an International Advisory Board member at HEC Montreal, Senior Counsel of Signa Holding GmbH, and a Board member of the IMF's Financial Institutions Consultative Group and the British-American Business Counsel.

Mr. Chammah was elected to the Board of Directors of Sovcomflot on June 29, 2015.

Sergey Frank

Mr. Frank was elected to the Board of Directors of Sovcomflot on November 10, 2004.

For additional information on Mr. Frank, see "*–Executive Board.*"

Ivan Glumov

Mr. Glumov was born in 1936. He graduated from the Moscow State University of Geodesy and Cartography in 1959. Mr. Glumov is a Doctor of Technical Sciences. From 2002 to 2004, he served as Deputy Minister of Natural Resources and was responsible for implementation of the priority tasks relating to the problems of the oceans and their international legal regime. Mr. Glumov participated in the annual sessions of the General Assembly and the Council of the International Seabed Authority of the United Nations and coordinated matters relating to the implementation of the Federal Target Program 'World Ocean.' Since 2004, he has been the CEO of OJSC Severneftegaz and a member of the Maritime Board at the Russian Government. Since June 2012, he has served as the Vice-President of the UN Commission on the Limits of the Continental Shelf.

Mr. Glumov was elected to the Board of Directors of Sovcomflot on June 29, 2015.

Pavel Kadochnikov

Mr. Kadochnikov was born in 1978. He graduated from the Moscow Institute of Physics and Technology, Department of Applied Mathematics and Economics. He also undertook postgraduate studies at the Institute for the Economy in Transition. Mr. Kadochnikov holds various positions in research institutes: he is a deputy rector at the Russian Foreign Trade Academy, an advisor to the rector at the Russian Presidential Academy of National Economy and Public Administration, and a leading researcher at the Gaidar Institute for Economic Policy. Currently, he is also a member of the Board of Directors of JSC Zarubezhneft.

Mr. Kadochnikov was elected to the Board of Directors of Sovcomflot on June 30, 2016.

Alexey Klyavin

Mr. Klyavin was born in 1954. He graduated from the Kaliningrad Higher Engineering Maritime Institute specializing as engineer-navigator. From 2003 to 2011, Mr. Klyavin held different state offices and worked as assistant to the Russian Minister of Transport, Head of the Department for Shipping Policy, Deputy Director, Acting Director and then Director of the Department for State Policy for Rail, Sea and River Transport at Russian Transport Ministry. From 2011 to 2013, he occupied the position of the President of the Systems Operator Association of Shipping Companies. Since 2013, he has served as the President of the Russian Chamber of Shipping.

Mr. Klyavin was elected to the Board of Directors of Sovcomflot on June 30, 2012.

David Moorhouse

Mr. Moorhouse was born in London in 1947. He graduated from the University of Southampton. In 2005, Mr. Moorhouse was awarded an Honorary Doctorate of the University of Southampton. He started his career in 1975 at John Brown Engineering and Constructors Ltd and was appointed the Chairman of the Board of Directors at John Brown plc in 1986. In 1989, Mr. Moorhouse was appointed to the Board of Directors of Trafalgar House Engineering, and in 1992, he was appointed to the position of CEO of Trafalgar. In 1996, Mr. Moorhouse was appointed Chairman and CEO of the Process Division of Kvaerner (Norway). After that he was appointed a Head of Lloyd's Register in 1999 and performed duties of the CEO from 2000 to 2007. Currently, Mr. Moorhouse serves as the Chairman of the Nominations Committee of Braemar Shipping Services PLC, as a trustee director of Trafalgar House Pensions, and as a director of Maritime London.

Mr. Moorhouse was elected to the Board of Directors of Sovcomflot on June 29, 2010.

Mikhail Poluboyarinov

Mr. Poluboyarinov was born in 1966. He graduated from the Moscow Finance Institute, Faculty of Credit and Economics. He continued his post-graduate studies at the Plekhanov Academy of Economics and received a degree of candidate of economic sciences. From 2003 to 2009, he worked as deputy CEO and chief accountant at OJSC Aeroflot – Russian Airlines. From 2009 to 2012, he occupied the position of Director of the Infrastructure

Department and Deputy Chairman of State Corporation Vnesheconombank, where he has served as member of the management board and First Deputy Chairman since 2012. Currently, he is also a member of the Board of Directors of PJSC Rostelecom, PJSC ROSSETI and JSC AHML.

Mr. Poluboyarinov was elected to the Board of Directors of Sovcomflot on June 30, 2012.

Andrey Sharonov

Mr. Sharonov was born in 1964. He graduated from the Ufa State Aviation Technical University. From 2008 to 2011, he was a member of the Board in OJSC Russian Railways, OJSC RusHydro and OJSC OGK-2. From 2010 to 2013, he served as deputy mayor of Moscow for Economic Policy. Currently, Mr. Sharonov holds the position of the President of the Moscow School of Management Skolkovo. He is also a member of the Boards of Directors of PJSC Novatek, LLC NefteTransService and JSC Rosgeo.

Mr. Sharonov was elected to the Board of Directors of Sovcomflot on June 30, 2014.

Executive Board

The following table sets forth the name, year of birth, year of initial election and position of each of the Group's directors as of the date hereof.

Name	Year of birth	Board Member since	Position
Sergey Frank	1960	2004	Executive Board Chairman, CEO
Evgeniy Ambrosov	1957	2009	Senior Executive Vice-President of Sovcomflot, Chief Operating Officer
Vladimir Emelianov	1969	2011	Vice-President of Sovcomflot, Chief Strategy Officer
Nikolay Kolesnikov	1963	2005	Executive Vice-President of Sovcomflot, Chief Financial Officer
Callum Ludgate	1969	2007	Managing Director of Sovcomflot UK Ltd.
Marios Orphanos	1972	2010	Managing Director of Sovcomflot (Cyprus) Limited
Alexey Ostapenko	1972	2012	Vice-President of Sovcomflot, Administrative Director
Sergey Popravko	1961	2005	Managing Director of SCF Management Services (Cyprus) Ltd
Igor Tonkovidov	1964	2011	Executive Vice-President of Sovcomflot, Technical Director
Yury Tsvetkov	1965	2012	President of Novoship

Certain biographical information about each of the Group's current Executive Board members is set forth below.

Sergey Frank—Executive Board Chairman, CEO

Mr. Frank was born in Novosibirsk in 1960. He graduated from the Far East Nautical Engineering College where he majored in maritime navigation and later undertook postgraduate studies at the Far East State University, Faculty of Law. Mr. Frank has worked in the maritime transportation industry since 1984. He occupied positions as the Deputy Head of the Far East Nautical Engineering College and as the Head of the Foreign Economic Relations Department, Deputy Head and Chief Financial Officer of the Far East Shipping Company ("**FESCO**"). Between 1995 and 2004, he served at the Ministry of Transport of the Russian Federation as Deputy Director of the Maritime Transport Department (Maritime Administration of Russia), Deputy, First Deputy of the Minister of Transport and was then appointed as the Minister of Transport. He currently serves as the chairman of the Board of Directors of Novoship and as a member of the Board of Directors of JSC United Shipbuilding Corporation.

In 2004, Mr. Frank was elected CEO of Sovcomflot and Chairman of the Executive Board.

Evgeniy Ambrosov—Senior Executive Vice-President of Sovcomflot, Chief Operating Officer

Mr. Ambrosov was born in Vladivostok in 1957. In 1979, he graduated from the navigation faculty of the Far Eastern Higher Engineer Academy. He began his career as a cargo-officer on board liner vessels of FESCO and continued to work for the Head office of FESCO for the following 17 years as a clerk and then as the Head of Fleet Operation Department. Mr. Ambrosov occupied several leadership positions in the maritime transportation industry

as FESCO's Vice-President, Director of the Fleet Operation Department between 1997 and 2000, President of FESCO from 2002 to 2007 and President of FESCO Transportation Group from 2008 to 2009.

After serving as Senior Vice-President of Sovcomflot between 2000 and 2002, Mr. Ambrosov was appointed Senior Executive Vice-President of Sovcomflot in 2009.

Vladimir Emelianov—Vice-President of Sovcomflot, Chief Strategy Officer

Mr. Emelianov was born in Moscow in 1969. In 1990, he graduated from the Moscow Finance Institute with a degree in international economic relations. In 1993, he completed the joint MBA program of Madrid Business School and University of Houston. In 2003-2011, he was the managing partner of Gibov, Emelianov and Partners LLC. From 2011 to 2014, Mr. Emelianov occupied the position of Executive Board member and Deputy Chief Executive Officer of Sovcomflot.

In 2014, Mr. Emelianov was appointed Vice-President of Sovcomflot, Chief Strategy Officer.

Nikolay Kolesnikov—Executive Vice-President and Chief Financial Officer

Mr. Kolesnikov was born in Moscow in 1963. He graduated with honors from the Moscow Institute of Finance with a degree in economics and later studied at the Instituto de Empresa, Madrid, where he received an International Executive MBA in 2002, and completed Columbia Business School's Senior Executive Programme. Throughout his career, Mr. Kolesnikov has occupied several investment positions centered in the marine and energy industries. Between 1985 and 1992, he served as the Deputy Director of the Morinvest Department of VVO "Sovfracht" of the USSR Ministry of Merchant Marine and from 1993 to 1999, he worked at Morgan Grenfell/Deutsche Bank (last position – Vice President and Head of Investment Banking at Deutsche Bank in Moscow). From 1999 to 2005, Mr. Kolesnikov served as Vice President at the Investment Banking Division of J.P. Morgan Securities Ltd., Senior Banker at the European Bank for Reconstruction & Development's Energy Business Group and Executive Director at the Investment Banking Division of United Financial Group.

In 2008, Mr. Kolesnikov was appointed Vice-President of Sovcomflot, Chief Financial Officer.

Callum Ludgate—Managing Director of Sovcomflot UK Ltd

Mr. Ludgate was born in Great Britain in 1969. He graduated from the University of Southampton and began his career at Sovcomflot in May 1993 as a professional ship broker. In 2007, he was appointed Executive Board member of Sovcomflot.

In 2004, Mr. Ludgate was appointed Managing Director of Sovcomflot UK Ltd. (London).

Marios Orphanos—Managing Director of Sovcomflot (Cyprus) Limited

Mr. Orphanos was born in Cyprus in 1972. He graduated from the University of Manchester with a First Class Bachelor of Arts degree in Economics and Social Studies. In 1998, he became a qualified Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales. Mr. Orphanos worked for several years at Moore Stephens, Chartered Accountants in London. Between 2000 and 2005, he occupied the position of Group Chief Accountant at Unicom Management Services (Cyprus) Limited. Mr. Orphanos has served as a member of the Execute Board of Sovcomflot since 2010.

In 2006, Mr. Orphanos was appointed Managing Director of Sovcomflot (Cyprus) Limited.

Alexey Ostapenko—Vice-President of Sovcomflot, Administrative Director

Mr. Ostapenko was born in 1972. He graduated from the Moscow State Institute of International Relations with a degree in international law; in 2008, he graduated from the Financial Academy under the Government of Russian Federation with a degree in economy and in 2012, he received a degree in maritime law in London Metropolitan University. From 1997 to 2001, he was employed at Sovcomflot as senior legal adviser. From 2002 to 2004, he worked at Lukoil-Arctic-Tanker LLC as Vice-President for Legal Matters and from 2005 to 2006, Mr. Ostapenko served as a Senior Legal Adviser in Lukoil International GmbH (Vienna). From 2006 to 2014, he held the positions of the Director of Legal Department and Secretary of the Board of Directors of Sovcomflot. He has served as a member of the Executive Board since 2012.

Mr. Ostapenko was appointed Vice-President of Sovcomflot, Administrative Director in 2014.

Sergey Popravko—Managing Director of SCF Management Services (Cyprus) Ltd

Mr. Popravko was born in Mikhailovka, Primorsky region in 1961. In 1984, he graduated from the Far East Higher Engineering Marine School with a degree in maritime navigation and in 1993, he received a Master of Science in Technical Management of Shipping Companies from the World Maritime University. Mr. Popravko worked as an Able Seaman, Deck Officer, Chief Officer and Master on the vessels for Primorsk Shipping Company ("**PRISCO**") from 1984 to 1992. Between 1994 and 1997, he served as Manager of the Chartering Department of PRISCO and Sinchart Shipping Pte., Ltd. (Singapore) and became General Manager of PRISCO's Fleet Operations and Management in 1997. Between 2001 and 2004, Mr. Popravko occupied the position of First Vice-President of PRISCO and then served as President and CEO of PRISCO between 2004 and 2005. In 2005, Mr. Popravko was appointed Executive Vice-President and Chief Operating Officer of Sovcomflot.

In 2005, he was appointed Managing Director of Unicom Management Services (Cyprus) Limited (subsequently renamed to SCF Management Services (Cyprus) Ltd).

Igor Tonkovidov—Executive Vice-President of Sovcomflot, Technical Director

Mr. Tonkovidov was born in Khabarovsk in 1964. In 1986, he graduated from the Odessa Institute of Marine Engineers. In 2001, Mr. Tonkovidov graduated from the University of London with a Master of Science Degree in Financial Management. From 2006 to 2008, he was employed as the General Director in OJSC Volga-Baltic Shipping Company. From 2008 to 2012, Mr. Tonkovidov served as Vice-President and then President of Novoship. Currently, he serves as a member of the Board of Directors in Novoship and JSC Morport Sochi. Mr. Tonkovidov has served as a member of the Executive Board since 2011.

In 2012, Mr. Tonkovidov was appointed Executive Vice-President of Sovcomflot, Technical Director.

Yury Tsvetkov—President of Novoship

Mr. Tsvetkov was born in Novgorod in 1965. He graduated from the Admiral Makarov State Maritime Academy with a degree in navigation. He also graduated from the Russian Presidential Academy of National Economy and Public Administration with a degree in economics and management economics and in public finance. He also studied at the University of Durham (UK) Business School, as well as the Maastricht School of Management (the Netherlands). From 1996 to 2008, Mr. Tsvetkov worked in the Audit Chamber of the Russian Federation. From 2008 to 2011, Mr. Tsvetkov was head of the audit committee at Novoship and has been a member of the Board of Directors since 2012. In 2008, he joined Sovcomflot as Vice President – Head of Internal Control. Mr. Tsvetkov has been a member of the Executive Board of Sovcomflot since 2012.

In 2012, Mr. Tsvetkov was appointed President of Novoship.

The business address of each of the members of the Group's Board of Directors and Executive Board is 6 Gasheka Street, Moscow 125047, Russian Federation.

There are no current or potential conflicts of interest between the private interests and/or other duties of any member of Sovcomflot's Board of Directors or Executive Board and the duties of the members of Sovcomflot's Board of Directors and Executive Board to Sovcomflot.

Directors' and Officers' Compensation

According to the Charter of Sovcomflot, the amount of remuneration and compensation payable to the members of the Executive Board shall be determined by the Board of Directors. The General Meeting of Shareholders decides on the amount of remuneration and compensation payable to the members of the Board of Directors.

Accrued compensation amounts of the members of the Board of Directors and the Executive Board for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, were as follows:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Short-term benefits	9,437	12,339	11,251
Post-employment benefits	64	72	83
Other long-term service benefits	9,556 [(1)]	8,446 [(1)]	27

	Year Ended December 31,		
	2016	2015	2014
	(in thousands of U.S. dollars)		
Total	19,057	20,857	11,361

(1) Part of the long-term benefits for the years ended December 31, 2016 and December 31, 2015 in the amount of US$ 9,454 and US$ 8,287, respectively, is subject to fulfilment of target key performance indicators set as part of Sovcomflot's strategy and conditional upon the recipient's continued employment with the Group, as set out in a long-term incentive employee benefit plan approved by the Board of Directors ("**LTIP**") and effective from January 1, 2015. The total duration of the LTIP is five years with awards payable in years 2018, 2019 and 2020. The remaining part of the long-term benefits for the years ended December 31, 2016 and ended December 31, 2015 also includes accruals for benefits that might or might not materialize in future periods.

D&O Liability Insurance

Sovcomflot maintains a directors and officers (D&O) liability insurance policy with AIG Insurance Company, CJSC executed on December 10, 2016. The policy stipulates a limitation of liability on all claims of US$ 25 million. The policy is valid until December 9, 2017. The policy provides for a standard set of exceptions, including for intentional criminal activity, unlawful profit and pollution-related claims.

Loans and Guarantees

As of December 31, 2016, Sovcomflot did not have outstanding loans and guarantees to the members of the Board of Directors and the Executive Board.

Corporate Governance

In November 2015, the Board of Directors of Sovcomflot adopted the Code of Corporate Governance (the "**Code**") which, *inter alia*, is based on OECD Principles of Corporate Governance, the Code of Corporate Governance approved by the Central Bank of Russia and listing requirements of Russian and foreign stock exchanges. The Code replaces the Corporate Governance Code adopted by the Group in 2007 and sets out key principles of corporate governance of Sovcomflot, and it contains provisions on shareholders' rights, Board of Directors, corporate secretary, remuneration of the directors and officers, risk management and internal control, information disclosure and material corporate actions.

Strategy Committee of the Board of Directors

The Strategy Committee is responsible for the initial discussion and analysis of issues in connection with Sovcomflot's strategic development, and for the provision of recommendations to the Board of Directors for increasing Sovcomflot's assets, profitability and investment attractiveness. This committee currently consists of Alexey Klyavin, Pavel Kadochnikov, Walid Chammah, Sergey Frank, Ivan Glumov and Andrey Sharonov. The Strategy Committee is chaired by Alexey Klyavin.

Audit Committee of the Board of Directors

The Audit Committee coordinates Sovcomflot's policies regarding internal controls and audit services, monitors the work of Sovcomflot's independent registered public accounting firm and controls Sovcomflot's financial and operational activities. This committee currently consists of Andrey Sharonov, Walid Chammah, Alexey Klyavin and David Moorhouse. The Audit Committee is chaired by Andrey Sharonov.

Human Resources and Compensation Committee of the Board of Directors

The Human Resources and Compensation Committee advises the Board of Directors on policies regarding the appointment of executive officers and the remuneration to be paid to executive officers of Sovcomflot and other HR-related matters. This committee currently consists of Walid Chammah, David Moorhouse and Andrey Sharonov. The Human Resources and Compensation Committee is chaired by Walid Chammah.

Committee for Innovative Development and Technical Policy of the Board of Directors

The Committee for Innovative Development and Technical Policy provides recommendations to the Board of Directors on approval of policies and programs for innovative development of Sovcomflot, approval of research and development projects, as well as the results of such research and development projects, and analyzing modern innovative technologies to be implemented at Sovcomflot. This committee currently consists of David Moorhouse,

Sergey Frank, Ivan Glumov and Alexey Klyavin. The Committee for Innovative Development and Technical Policy is chaired by David Moorhouse.

Litigation Statement about Directors and Officers

At the date of this Prospectus, for at least the previous five years, none of the members of the Board of Directors or the Executive Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

SHARE CAPITAL AND DIVIDENDS

Share Capital

As of December 31, 2016, Sovcomflot's issued share capital amounted to RUR 1,966,697,210, consisting of 1,966,697,210 ordinary shares with a nominal value of RUR one each. In addition, Sovcomflot had 280,956,743 authorized but unissued ordinary shares with a nominal value of RUR one each. No preferred shares are issued, authorized or outstanding.

The Russian Federation currently owns 100% of Sovcomflot's ordinary shares. Rosimushchestvo, acting on behalf of the Russian Federation, exercises the rights of Sovcomflot's sole shareholder. As a sole shareholder and the nominating party for all of the members of Sovcomflot's Board of Directors, the Russian Federation has a strong influence over decisions made by Sovcomflot.

By Decree of the Russian President No. 1009 dated August 4, 2004 ("**Decree No. 1009**"), Sovcomflot was included on the Russian Federation's list of strategic enterprises and strategic joint-stock companies that are subject to certain restrictions with respect to their share capital. This Decree required that 100% of Sovcomflot's share capital be state-owned, and, until 2010, when the relevant amendments to Decree No. 1009 were made, privatization of Sovcomflot's shares was not permitted. Pursuant to this Decree and Federal Law No. 178-FZ 'On Privatization of the State and Municipal Property' dated December 21, 2001, any decision to privatize entities included into the list is the exclusive competence of the Russian President and the Russian Government. The CEO of Sovcomflot is not entitled to sell or otherwise transfer, as well as to enter into transactions that may result in transfer of or introduction of trust management with respect to, the shares that were contributed to the share capital of Sovcomflot (including Novoship) without prior consent of the Russian Government or other authorized authorities. Any such transaction executed without prior consent of the Russian Government or other authorized authorities is void. Further, any decrease in the federal interest in a strategic company as a result of issuing additional shares must be approved by the Russian President.

Decree of the Russian President No. 762 dated June 18, 2010 ("**Decree No. 762**"), allowed privatization of up to 25% minus one share of the share capital of Sovcomflot, and amended Decree No. 1009, accordingly. Further, Decree of the Russian President No. 887 dated July 5, 2011 allowed Sovcomflot's share capital to be increased, and privatized by up to 25% minus one share. Following Decree No. 762, under the Forecast Plan of Federal Property Privatization and Principal Directions for Federal Property Privatization for the years 2011-2013, adopted by the Russian Government on November 27, 2010 (as amended), the Russian Federation contemplated privatization of up to 50% minus one share and targeted its partial withdrawal from Sovcomflot's share capital by 2016. Further, the Forecast Plan of Federal Property Privatization and Principal Directions for Federal Property Privatization for the years 2014-2016, adopted by the Russian Government on July 1, 2013 (as amended), and the Forecast Plan of Federal Property Privatization and Principal Directions for Federal Property Privatization for the years 2017-2019, adopted by the Russian Government on February 8, 2017, contemplated privatization of up to 75% minus one share of Sovcomflot.

Currently, Sovcomflot's privatization structure contemplates issuance of new shares along with concurrent sale of the existing shares held by the Russian Federation, with the Russian Federation retaining ownership over 75% plus one share. In addition, Sovcomflot's privatization structure and company laws provide for the possibility of placing depositary receipts representing a portion of the relevant shares in Sovcomflot under foreign law.

As preliminary steps towards privatization, on June 30, 2014, the General Meeting of Shareholders resolved to increase the share capital of Sovcomflot by 280,956,743 ordinary shares, following Decree No. 887 of the Russian President dated July 5, 2011, that allowed Sovcomflot to issue new shares with the Russian Federation retaining at least 75% plus one share. On December 17, 2014, the Board of Directors approved an additional issue of shares to be placed by open subscription along with respective Prospectus. The issuance decision and Prospectus were registered with the Central Bank of Russia on March 12, 2015. Since the additional shares were not placed within one year from the date of the registration of the issuance decision, on January 27, 2016, the Board of Directors of Sovcomflot extended the term for the relevant placement of additional shares through March 12, 2017. On February 28, 2017, the Board of Directors of Sovcomflot further extended the term for the relevant placement of additional shares through March 12, 2018. The statutory deadline for placement of the additional shares is three years from the registration of the issuance decision. As of the date of this Prospectus, no additional shares have been placed.

Dividends

On December 14, 2012, the Board of Directors of Sovcomflot approved a dividend policy providing for dividends at a level no lower than 25% of the profit for the period attributable to the equity stake, in accordance with

the audited consolidated financial statements prepared under IFRS, and converted into rubles at the exchange rate of the Central Bank of Russia at the end of the reporting period. The following dividends were approved in respect of the years ended December 31, 2013, 2014 and 2015 and (as of the date of this Prospectus, no dividends for 2016 and 2017 have been approved):

For the year ended December 31	RUR per share	Total RUR (million)	Total US$ (million)
2013	0.15	300.0	9.0
2014	0.57	1,126.0	20.5
2015	3.04	5,972.7	92.9

On April 13, 2016, the Board of Directors of Sovcomflot preliminarily recommended the amount of dividends at 25% of IFRS net profit for 2015. However, on April 18, 2016, the Russian Government adopted Resolution No. 705-r, pursuant to which state-owned companies shall distribute at least 50% of their net profit as dividends for 2015. Such net profit is to be determined in accordance with stand-alone financial statements of a company (excluding revenues and expenses in connection with revaluation of its subsidiaries' shares traded on stock exchange, and associated income tax), or in accordance with consolidated financial statements of a company, whichever produces a greater net profits figure. On June 21, 2016, the Board of Directors of Sovcomflot recommended to distribute RUR 5,972.698 million (100% of net profit in accordance with stand-alone financial statements) as dividends for 2015. On June 30, 2016, the General Meeting of Shareholders resolved to distribute RUR 5,972.698 million as dividends for 2015.

RELATED-PARTY TRANSACTIONS

For the purposes of IFRS, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial or operational decisions, as defined by IAS 24 'Related Party Disclosures.'

At present, state-controlled entities are no longer exempt from disclosing transactions with other state-controlled entities and bodies. Since Sovcomflot is a wholly state-owned entity, the nature of Sovcomflot's relationships with the related parties whom the Group entered into significant transactions or had significant balances outstanding as of March 31, 2016 are described below.

Transactions with the Government, state-controlled entities and Associates

- In 2014, the Group signed time-charter agreements with a Russian state-controlled entity, for the chartering out of three Arctic shuttle tankers, all of which were delivered to the Group in 2016 for a firm period of 12 years. Two of the vessels have been delivered to charter on September 8, 2016 and October 29, 2016, respectively. The last vessel was delivered to charter on January 5, 2017. Transactions during the period in respect of these vessels are reflected in the table below.

- In 2016, the Group drew down, from an available loan facility entered into with a Russian state-controlled financial institution in 2015, a total amount of US$338.6 million as part of the financing of the three ice-class shuttle tankers delivered during the period.

- On June 17, 2016, the Group entered into a loan facility with a Russian state-controlled financial institution totaling US$255.0 million, to finance the construction of an ice-breaking LNG carrier. The Group has not made any drawdown up to the date of the financial statements.

The following table shows the total value of transactions that have been entered into with related parties in the financial reporting periods ended December 31, 2016 and 2015.

	Income Statement (income)/expense		Statement of Financial Position asset/(liability)	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(in thousands of U.S. dollars)			
Transactions with Russian state-controlled entities				
Freight and hire of vessels	(268,280)	(195,227)	7,617	645
Other operating revenues	(2,296)	-	-	-
Other loans	-	-	-	(95,489)
Secured bank loans	5,803	-	(336,242)	-
Finance leases payable	11,858	12,487	(173,690)	(183,810)
Other receivables from shipyard	-	-	11,800	-
Other payables to charterer	-	-	(12,919)	-
Payments to related shipyards	-	-	104,000	104,000
Cash at bank	(5,233)	(2,735)	205,896	128,758
Disposal of associate	-	(5,402)	-	-
Finance leases receivable	(11,458)	(12,562)	764	82,748
Allowances for credit losses of finance leases receivable	(419)	(417)	-	(9,494)
Rental of investment property	-	(70)	-	-
Transactions with joint ventures				
Freight and hire of vessel	(7,044)	(9,045)	-	-
Other operating revenues	(3,186)	(3,659)	473	491
Loans due from joint ventures	(1,160)	(1,054)	52,829	63,081

The Group also receives services from state-controlled bodies at prices comparable with other similar organizations, the total amounts of which are not material.

SCF CAPITAL DESIGNATED ACTIVITY COMPANY

SCF Capital Designated Activity Company was incorporated in Ireland on August 16, 2010, with registered number 487769. It was initially incorporated as a private company with limited liability under the Companies Act 1963-2009 of Ireland under the name "SCF Capital Limited". As a result of new provisions of Irish law, the Issuer was required to convert to a different form of company prior to November 30, 2016. The Issuer's board resolved to convert to a private designated activity company. Accordingly, on September 20, 2016, the Issuer was converted to a designated activity company and changed its name to SCF Capital Designated Activity Company.

The registered office of the Issuer is Pinnacle 2, East Point Business Park, Dublin 3, Ireland and its telephone number + 353 1 680 6000.

Share capital and ownership

The authorized share capital of the Issuer is EUR 100 divided into 100 ordinary shares of par value EUR 1.00 each (the "**Shares**"). The Issuer has issued one Share, which is fully paid and is held by SCF Overseas Holding Limited, a Cyprus company that was initially registered in Liberia and re-domiciled to the Republic of Cyprus in 2015.

The Issuer is a wholly owned subsidiary of SCF Overseas Holding Limited, which is a wholly owned subsidiary of Sovcomflot.

Pursuant to the constitution of the Issuer, the Board of Directors is responsible for the management of the Issuer. Under Irish law, for as long as the Issuer is solvent the Board of Directors is required to act in the best interests of the Issuer.

The relationship between the Issuer and SCF Overseas Holding Limited, the sole shareholder of the Issuer, is governed by the constitution of the Issuer and Irish law, including the Companies Act 2014 (the "**Companies Act**") and regulations made thereunder.

Deutsche International Corporate Services (Ireland) Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on October 21, 2010 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is Pinnacle 2, East Point Business Park, Dublin 3.

Principal Activities

The principal objects of the Issuer are set forth in clause 3 of its memorandum of association (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organized as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to advance loans to Group companies.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of the US$ 800,000,000 5.375% Senior Notes due 2017 issued in October 2010 (the "**2010 Notes**"), the on-lending of the

proceeds, the tender offer in respect of a part of the 2010 Notes launched by the Issuer on June 1, 2016, and the issue of the Notes, including the issue of the Further Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's constitution provides that the Board of Directors of the Issuer will consist of at least two directors. The directors of the Issuer and their business addresses are as follows:

David McGuiness	Pinnacle 2, East Point Business Park, Dublin 3, Ireland.
Margaret Kennedy	Pinnacle 2, East Point Business Park, Dublin 3, Ireland.
Alexander Verbo	6 Gasheka Street, Moscow, 125047, Russian Federation

The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorships of David McGuiness and Margaret Kennedy are provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement. There are no current or potential conflicts of interest between the private interests and/or other duties of any member of the Issuer's Board of Directors and the duties of the members of the Issuer's Board of Directors to the Issuer.

Save for the issues of the 2010 Notes and the issue of the Notes, including the issue of the Further Notes, described above and their related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Financial Statements

The Issuer does not prepare interim financial statements. The financial year of the Issuer ends on December 31 in each year. The audited financial statements of the Issuer as at and for the years ended December 31, 2015, 2014 and 2013 together with the audit reports thereon, have been filed with the Central Bank.

The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The auditors of the Issuer are Ernst & Young of Ernst & Young Building, Harcourt Centre, Harcourt Street, Dublin 2, Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

TERMS AND CONDITIONS OF THE NOTES AND THE GUARANTEE

The following is the text of the terms and conditions of the Notes which, subject to amendment, will be endorsed on each Definitive Note (as defined below) and will be attached and (subject to the provisions thereof) apply to the Global Notes.

The U.S.$900,000,000 5.375 per cent. Notes due 2023 comprising the Original Notes and the Further Notes (each as defined below and together, the "**Notes**", which expression includes any further Notes, additional to the Further Notes, issued pursuant to Condition 16 and forming a single series therewith) of SCF Capital Designated Activity Company (the "**Issuer**") were authorised by written resolutions of the board of directors of the Issuer dated 31 May 2016 and 3 April 2017.

The Notes are constituted by a trust deed dated 16 June 2016 (the "**Original Trust Deed**") between the Issuer, PAO "Sovcomflot" (the "**Guarantor**") and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all Persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below) as amended and restated by virtue of a supplemental trust deed dated 10 April 2017 between the same parties attaching an amended and restated trust deed (the "**Supplemental Trust Deed**" and together with the Original Trust Deed, the "**Trust Deed**"). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

The Issuer and the Guarantor have entered into an agency agreement dated 14 June 2016 (the "**Original Agency Agreement**") with the Trustee and Citibank, N.A., London Branch, as principal paying agent (the "**Principal Paying Agent**" and, together with any other paying agents appointed under the Agency Agreement, the "**Paying Agents**") and a transfer agent (a "**Transfer Agent**" and, together with any other transfer agents appointed under the Agency Agreement, the "**Transfer Agents**") and Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**") as supplemented by a supplemental agency agreement dated 6 April 2017 between the same parties (the "**Supplemental Agency Agreement**" and together with the Original Agency Agreement, the "**Agency Agreement**"). The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**".

The U.S.$150,000,000 5.375 per cent. Notes due 2023 issued by the Issuer on 10 April 2017 (the "**Further Notes**") are constituted by, subject to and have the benefit of, the Trust Deed and will be consolidated and form a single issue with the U.S.$750,000,000 5.375 per cent. Notes due 2023 issued on 16 June 2016 (the "**Original Notes**").

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, and at the specified offices of the Agents. The Noteholders are entitled to the benefit from, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Capitalised terms used but not defined in these Terms and Conditions shall have the respective meanings given to them in the Trust Deed.

1 Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof ("**authorised denominations**") and, provided that the Notes may be transferred only in amounts not less than an authorised denomination. Title to the Notes shall pass by registration in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar. The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form ("**Definitive Notes**") in the limited circumstances set forth in the Agency Agreement.

2 Guarantee and Status

(a) *Guarantee*

The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**"). The Guarantor's obligations in respect of the Guarantee are contained in the Trust Deed.

The Guarantor has undertaken in the Trust Deed that so long as any of the Notes remain outstanding (as defined in the Trust Deed) it will not take any action for the liquidation or

winding-up of the Issuer and that it will procure that sufficient funds are at all times made available to the Issuer to enable it to meet its liabilities as and when they fall due.

(b) *Status*

The Notes constitute unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Subject to Condition 4, each of the Issuer and the Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other unsecured and unsubordinated creditors save those whose claims are preferred by any mandatory operation of law.

3 Register, Title and Transfers

(a) *Register*

The Registrar shall maintain the Register in respect of the Notes in accordance with the provisions of the Agency Agreement. The Register shall be kept at the specified office for the time being of the Registrar and shall record the names and addresses of the holders of the Notes, particulars of the Notes and all transfers thereof. In these Conditions, the "**holder**" of a Note means the Person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(b) *Title*

Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no Person shall be liable for so treating such holder.

(c) *Transfers*

Subject to Conditions 3(f) and 3(g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of the Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the Persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3(d). Neither the part transferred nor the balance not transferred may be less than the applicable authorised denomination.

(d) *Registration and delivery of Definitive Notes*

Within five business days of the surrender of a Definitive Note in accordance with Condition 3(c) above, the Registrar shall register the transfer in question and deliver a new Definitive Note to each relevant holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of the Transfer Agent or (at the request and risk of such relevant holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder.

(e) *No Charge*

The registration of the transfer of a Note shall be effected without charge to the holder or transferee thereof, but against such indemnity from the holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*

Noteholders may not require the transfer of a Note to be registered during the period from any Record Date (as defined below) to the relevant due date for any payment of principal or interest in respect of such Note.

(g) *Regulations concerning Transfer and Registration*

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer, exchange and registration of Notes set out in Schedule 1 to the Agency Agreement. The regulations may be changed by the Issuer and the Guarantor with the prior written approval of the Trustee, the Transfer Agent and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any Person who so requests and will be available at the specified office of the Registrar in London.

4 Negative Pledge

So long as any of the Notes remain outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will procure that no Subsidiary will create or permit to subsist any Lien, other than a Permitted Lien, upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Relevant Indebtedness unless, at the same time or prior thereto, the obligations of the Issuer and the Guarantor hereunder are secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be, as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

5 Covenants

(a) *Mergers*

The Guarantor shall (i) not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation as these terms are construed by applicable Russian legislation) and (ii) procure that neither the Issuer nor any Principal Subsidiary enters into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time, as these terms are construed by applicable legislation) if, in the case of (i) or (ii) above, any such reorganisation or other type of corporate reconstruction could reasonably be expected to result in a Material Adverse Effect. For the avoidance of doubt, this Condition 5(a) shall not prevent any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time, as these terms are construed by applicable legislation) pursuant to which the assets and liabilities of any Principal Subsidiary are transferred to another Subsidiary (provided that prior to or upon such reorganisation, the Subsidiary becomes a Principal Subsidiary) as part of a solvent corporate reconstruction, reorganisation, merger or analogous procedure if, at the date of such reorganisation, each relevant Principal Subsidiary or Subsidiary, as the case may be, is able to pay its debts generally as they become due.

(b) *Disposals*

Neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will procure that no Subsidiary will, sell, lease, transfer or otherwise dispose of (each such action, a "**disposal**") by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets to any Person, except where:

i. such disposal is made on an arm's-length basis in the course of the ordinary business of the Group, as at the Original Issue Date;

ii. such disposal is made to a Person that is either the Issuer, the Guarantor or a Subsidiary (provided that prior to or upon such disposal, the Subsidiary becomes a Principal Subsidiary), as the case may be;

iii. such disposal is of an asset not necessary for the ordinary business of the Group, as at the Original Issue Date, and is made on an arm's-length basis;

iv. such disposal is made on an arms-length basis and the proceeds of such disposal are invested in assets used in the ordinary business of the Group, as at the Original Issue Date, or exchanged for other assets comparable, or superior, as to type, value and quality;

v. such disposal is of obsolete or worn out equipment; or

vi. such disposal could not reasonably be expected to result in a Material Adverse Effect.

(c) *Maintenance of Insurance*

The Guarantor shall, and shall ensure that each of its Subsidiaries shall, keep those of their assets and properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that a competent officer of the Guarantor considers in good faith such insurance to be prudent and assets and properties of similar character are typically so insured by corporations in the same jurisdictions similarly situated and owning like properties and carrying on a similar business, save to the extent that such failure to do so could not reasonably be expected to have a Material Adverse Effect.

(d) *Financial Information*

So long as any of the Notes are outstanding, the Issuer and the Guarantor shall (i) make available on the Guarantor's website or (ii) so long as the Notes are listed on the Stock Exchange, make available on the official website of the Stock Exchange, to the extent and in the manner permitted by the rules of the Stock Exchange:

i. as soon as practicable after their date of publication, but in any event within 270 calendar days after the end of each of its financial years, a copy (or, if not in English, an English translation) of the consolidated accounts of the Guarantor and the Subsidiaries prepared in accordance with IFRS as at the end of, and for, such financial year, including a report thereon by the Guarantor's Auditors, and

ii. as promptly as practicable after their compilation a copy (or, if not in English, an English translation) of the semi-annual consolidated accounts of the Guarantor and the Subsidiaries prepared in accordance with IFRS for each first semi-annual financial period.

6 Interest

The Notes bear interest on their outstanding principal amount from the Original Issue Date or the Further Issue Date, as applicable, at the rate of 5.375 per cent. per annum, payable in equal instalments semi-annually in arrear on 16 June and 16 December in each year, commencing on 16 December 2016 for the Original Notes and 16 June 2017 for the Further Notes.

For the avoidance of doubt, notwithstanding any contrary provision in these Conditions, holders of Further Notes will receive on 16 June 2017 an amount representing interest on the Further Notes in respect of the period from and including 16 December 2016 to but excluding the Further Issue Date that shall be deemed to have accrued for that period, together with any interest accrued from the Further Issue Date to (but excluding) 16 June 2017.

The Notes will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at such rate to but excluding the date on which payment in full of the principal thereof is made. If interest is required to be calculated for a period other than a semi-annual interest period ending on 16 June and 16 December in each year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

7 Redemption and Purchase

(a) *Final redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 16 June 2023 (the "**Maturity Date**").

(b) *Redemption at the option of the Issuer*

The Issuer may at any time, on giving not less than 30 nor more than 60 calendar days' notice (which notice shall be irrevocable) to the Noteholders and, for so long as the Notes are listed on the Stock Exchange, to the Stock Exchange, redeem the Notes, in whole but not in part only, at their principal amount and the Applicable Premium together with interest accrued, if any, to the date fixed for redemption. All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

(c) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 calendar days' notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with unpaid interest accrued to the date fixed for redemption, if (i) the Issuer satisfies the Trustee that immediately prior to the giving of such notice it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9, or the Guarantor would be unable to procure payment by the Issuer and in making payment itself would be required to pay such Additional Amounts, in each case as a result of any change in, or amendment to, the laws or regulations of Ireland or the Russian Federation or any political or governmental subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 16 June 2016 and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 calendar days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer or the Guarantor (as the case may be) shall deliver to the Trustee (x) a certificate signed by two directors of the Issuer or the Guarantor (as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept and rely on such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Amounts as a result of such change or amendment. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(d) *Change of Control*

If a Change of Control shall have occurred, the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 100 per cent. of its principal amount together with accrued, but unpaid, interest (if any) to, but excluding, the Change of Control Put Settlement Date.

Promptly upon the Issuer or the Guarantor becoming aware that a Change of Control has occurred, the Issuer or the Guarantor, as the case may be, shall give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 17 and to the Trustee, specifying the details relating to the occurrence of the Change of Control and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 calendar days after the Change of Control Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent or any Paying Agent, evidence satisfactory to the Principal Paying Agent or Paying Agent of such holder's entitlement to such

Note and a duly completed put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or Paying Agent will provide such Noteholder with a non-transferable receipt. On the business day following the end of the Change of Control Put Period, the Principal Paying Agent shall notify the Issuer and the Guarantor in writing of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (as provided in Condition 8) redeem all such Notes on the date falling five business days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered in accordance with this Condition 7(d), may be withdrawn.

The Trustee shall not be required to take any steps to ascertain or monitor whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred or exists or may occur or exist and will not be responsible or liable to any holder of a Note or any other Person for any loss arising from any failure by it to do so. The Trustee may assume until notified otherwise pursuant to this Condition 7 that no Change of Control has occurred and shall have no liability to any Person for so doing.

(e) *Purchase*

The Issuer, the Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(f) *Cancellation*

All Notes redeemed or purchased pursuant to Condition 7(a), (b), (c) or (d) shall be cancelled forthwith, and all Notes purchased pursuant to Condition 7(e) shall be delivered promptly to the Registrar for cancellation. Any Notes so cancelled may not be held, resold or reissued.

8 Payments

(a) *Principal*

Payments of principal (whenever due) and interest due on redemption shall be made by the Paying Agents by U.S. dollar cheque drawn on a bank in New York City, or by wire transfer to a U.S. dollar account maintained by the payee with a bank in New York City and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Notes at the specified office of any Paying Agent.

(b) *Interest*

Payments of interest (other than interest due on redemption) shall be made by the Paying Agents by U.S. dollar cheque drawn on a bank in New York City, or upon application by the payee to the specified office of the Registrar before the Record Date, by wire transfer to a U.S. dollar account maintained by the payee with a bank in New York City not later than the due date for such payment.

(c) *Payments subject to fiscal laws*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*

If the due date for any payment of principal or interest under this Condition 8 is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "**business day**" means any day (other than a Saturday or a Sunday) on which

banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a U.S. dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such other place.

(e) *Record date*

Each payment in respect of a Note will be made to the Person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth calendar day before the due date for such payment (the "**Record Date**"). Any cheque will be mailed to the holder of the relevant Note at his address appearing in the Register.

(f) *Agents*

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantor, acting together, reserve the right, with the written approval of the Trustee, to vary or terminate the appointment of all or any of the Agents at any time and appoint additional or other paying or transfer agents, provided that they will maintain (i) a Principal Paying Agent and (ii) Paying Agents and a Transfer Agent having specified offices in at least one major European city approved by the Trustee. Notice of any change in the Agents or their specified offices will promptly be provided to the Noteholders as described in Condition 17 below.

9 Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or under the Guarantee by the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature (collectively, "**Taxes**") imposed, levied, collected, withheld or assessed by or within Ireland or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In the event that such withholding or deduction is so required, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts ("**Additional Amounts**") as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such Additional Amounts shall be payable in respect of any Note:

(a) held by or on behalf of a holder which is liable for such Taxes in respect of such Note or the Guarantee by reason of its having some connection with Ireland or (as the case may be) the Russian Federation other than the mere holding of such Note or the benefit of the Guarantee; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 calendar days after the Relevant Date except to the extent that the relevant holder would have been entitled to such Additional Amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 calendar days; or

(c) held by or on behalf of a holder which is liable for such Taxes in respect of such Note or Guarantee by reason of the failure of such holder (or any financial institution through which the holder holds the Note or Guarantee or through which payment on the Note or Guarantee is made) to comply with any certification, identification, information, documentation or other reporting requirement concerning its nationality, residence, identity or connection to a taxing jurisdiction, or to enter into or comply with any agreement or reporting requirement concerning accounts maintained by, or ownership of, such holder, beneficial owner, or financial institution; or

(d) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Definitive Note to another Paying Agent in a member state of the European Union; or

(e) in respect of any withholding or deduction imposed under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended; or

(f) any combination of the above items.

In these Conditions, "**Relevant Date**" means the date on which the payment in question first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made and notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts or premium in respect of principal or interest (as the case may be) which may be payable under these Conditions.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than (or in addition to) Ireland or the Russian Federation, respectively, references in these Conditions to Ireland or the Russian Federation shall be construed as references to Ireland or (as the case may be) the Russian Federation and/or such other jurisdiction.

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject to it having been indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable (subject, in the case of Condition 10(i), as provided below) if any of the following events (each an "**Event of Default**") occur:

(a) payment of principal or interest in respect of any Notes is not made within seven business days of when the same ought to have been paid in accordance with these Conditions;

(b) a default is made by the Issuer or the Guarantor in the performance or observance of any covenant, condition or provision contained in the Trust Deed, in the Notes or on its part to be performed or observed (other than the covenant to pay interest in respect of any of the Notes) which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 45 calendar days after notice of such default shall have been given by the Trustee to the Issuer or the Guarantor requiring such default to be remedied;

(c) (i) the Issuer, the Guarantor or any Subsidiary fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes due and payable, taking into account any applicable grace period; or (ii) any Financial Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or such Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person or entity entitled to such Financial Indebtedness; provided that the total amount of such Financial Indebtedness unpaid or becoming due and payable exceeds U.S.$50,000,000 in aggregate (or its equivalent in another currency);

(d) the occurrence of any of the following events: (i) the Issuer, the Guarantor or any Principal Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer; (ii) the presentation or filing of a petition in respect of the Issuer, the Guarantor or any Principal Subsidiary in any court of competent jurisdiction, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, examinership, liquidation (or any analogous proceedings) of the Issuer, the Guarantor or any Principal Subsidiary (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is determined by a court of competent jurisdiction to be vexatious or frivolous; (iii) the institution of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo*) over the Issuer, the Guarantor or any Principal Subsidiary; (iv) entry by the Issuer, the Guarantor or any Principal Subsidiary into, or the agreement by the Issuer, the Guarantor or any Principal Subsidiary to enter into, amicable settlement (*mirovoe soglasheniye*) with its creditors, as such terms are defined in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time); (v) the initiation of proceedings in relation to the Issuer, the Guarantor or any Principal Subsidiary aimed at its reorganization or liquidation or commencement of any bankruptcy or analogous proceedings against the Issuer, the Guarantor or any Principal Subsidiary and/or (vi) any judicial liquidation, dissolution, administration or winding-up in respect of the Issuer, the Guarantor or any Principal Subsidiary, provided that no Event of Default shall occur under (v) or (vi) of this Condition 10(d) if the relevant Principal Subsidiary is able to pay its debts generally as they become due and its assets and liabilities are being transferred to another Principal Subsidiary as part of a corporate reconstruction, reorganisation, merger or analogous procedure;

(e) the Issuer, the Guarantor or any Principal Subsidiary is unable or admits inability to pay its debts generally as they fall due, generally suspends making payments on its debts or, by reason of actual

or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Financial Indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; and/or a moratorium is declared in respect of any Financial Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary (provided that, for the purposes of this Condition 10(e), in the case of a Principal Subsidiary only, the same could reasonably be expected to have a Material Adverse Effect);

(f) any governmental authorisation necessary for the performance of any obligation of the Issuer or the Guarantor under the Notes and the Guarantee, respectively, fails to be in full force and effect and, without prejudice to any other provision of this Condition 10, such failure has not been remedied within 30 business days after the Issuer or the Guarantor (as applicable) is notified or becomes aware of the occurrence thereof;

(g) any governmental authority or court takes any action that has a Material Adverse Effect on the Issuer's or the Guarantor's ability to perform its obligations under the Notes or the Guarantee, respectively, or the validity or enforceability of the Notes or the Guarantee, save where such action is being contested in good faith by the Issuer or the Guarantor, as the case may be, and provided that such action is not removed, paid out, stayed or discharged within 60 calendar days of such action being taken;

(h) any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part (in the latter case being assets with a book value in excess of U.S.$50,000,000 in aggregate (or its equivalent in another currency)) of, the assets of the Issuer, the Guarantor or any Principal Subsidiary or any event occurs which under the laws of any jurisdiction has a similar or analogous effect and the same could have a Material Adverse Effect unless such execution, distress, enforcement of a Lien or similar or analogous event is being contested in good faith by the Issuer, the Guarantor or any Principal Subsidiary, as the case may be, and is not removed, paid out, stayed or discharged within 60 calendar days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be;

(i) there are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against the Issuer, the Guarantor or any Principal Subsidiary which could have a Material Adverse Effect and there is a period of 60 calendar days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed;

(j) any seizure, compulsory acquisition, expropriation, nationalization without appropriate compensation or renationalisation after the Original Issue Date by or under the authority of a government authority of all or part (the book value of which is 15 per cent. or more of the book value of the whole, as determined under IFRS) of the assets of the Issuer, the Guarantor or any Principal Subsidiary, which could reasonably be expected to have a Material Adverse Effect;

(k) the Guarantor ceases to carry on the principal business activities it carries on as at the Original Issue Date;

(l) at any time it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with any or all of its material (in the Trustee's opinion) obligations under the Notes or the Guarantee, respectively, or any of such material obligations are not, or cease to be, legal, valid, binding and enforceable;

(m) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect to at least the same extent as at the Original Issue Date; or

(n) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Conditions 10(c), 10(d), 10(h) and 10(i), subject to the same thresholds and cure periods as set out in the relevant Conditions above,

and, except in the case of (a), (c), (d), (e), (f), (g), (h), (i), (j), (k), (l), (m) and (n) (so far as it relates to events analogous to Conditions 10(c), 10(d),10(h) and 10(i)) above, the Trustee shall have certified in writing to the Issuer that the event is, in its opinion, materially prejudicial to the interests of the Noteholders.

Upon any such notice being given to the Issuer (other than in the case of Condition 10(i)), the Notes will immediately become due and repayable at their principal amount together with unpaid accrued interest to such date. In the case of Condition 10(i)), the Notes will become due and repayable 20 calendar days after the notice specified in this Condition 10 is provided to the Issuer (provided that the default continues until such date) at their principal amount together with unpaid interest incurred to such date.

11 Prescription

Claims for the payment of principal and interest in respect of any Definitive Note shall be prescribed and become void unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

12 Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

13 Meetings of Noteholders, Modification and Waiver

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes, (v) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vi) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more Persons holding or representing not less than two thirds, or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. Such a written resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and Waiver*

The Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be subject to such conditions as the Trustee shall determine and shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

(c) *Substitution*

The Trust Deed contains provisions permitting the Trustee to agree with the Issuer and the Guarantor, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such substitution, the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to a change of law governing the Notes and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of Noteholders. Notice of any such substitution will be provided to the Noteholders as described in Condition 17 below.

(d) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

14 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such steps, actions or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit. The Trustee may act and/or rely without liability to Noteholders on any report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or other expert, whether or not addressed to the Trustee and whether or not liability in relation thereto is limited by reference to a monetary cap, methodology or otherwise. The Trustee may accept and be entitled to act and/or rely on any such report, confirmation, certificate or advice and it shall be binding on the Issuer, the Guarantor, the Trustee and the Noteholders.

16 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) ("**Additional Notes**") and so that such further issue shall be consolidated and form a single series with the outstanding Notes. The Issuer shall not issue any Additional Notes with the same CUSIP number as the Notes issued hereunder unless such issuance would be part of the same "issue" as the Notes issued hereunder or constitute a "qualified reopening" as defined for U.S. federal income tax purposes. References in these Conditions to the Notes include (unless the context requires otherwise) any Additional Notes issued pursuant to this Condition. Any Additional Notes shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides.

17 Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses as set out on the Register. Any such notice shall be deemed to have been given on the fourth calendar day (other than a Saturday or a Sunday) after the date of mailing. In addition, notices will be published in a leading newspaper having general circulation in Dublin or, if in the opinion of the Trustee such publication shall not be practicable, in any English-language newspaper of general circulation in

Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of the Stock Exchange or any other stock exchange on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice.

In case by reason of any other cause it shall be impracticable to publish any notice to Noteholders as provided above, then such notification to such Noteholders as shall be given with the approval of the Trustee in accordance with the rules of the Stock Exchange (or any other stock exchange on which the Notes are listed or quoted from time to time) shall constitute sufficient notice to such Noteholders for every purpose hereunder.

18 Contracts (Rights of Third Parties) Act 1999

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19 Arbitration

(a) Any dispute or difference of whatever nature howsoever arising under, out of or in connection with the Trust Deed, the Notes or the Guarantee (including a dispute or difference as to the breach, existence, termination or validity of the Notes or the Trust Deed or the Guarantee and any non-contractual obligations arising out of or in connection with any of them) (each a "**Dispute**") shall (regardless of the nature of the Dispute) be referred to and finally settled by arbitration in accordance with the Arbitration Rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") as at present in force (which Rules are deemed to be incorporated by reference into this Condition 19, save that Article 6 (Nationality of the Arbitrators) shall not apply and Article 2.1 of the Rules shall be amended in respect of any Response (as defined in the Rules) to be given by the Trustee such that the Response shall be sent to the Registrar (as defined in the Rules) within 60 days of service of the Request (as defined in the Rules)) by a panel of three arbitrators, each of whom shall be a lawyer experienced in international finance transactions. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly one arbitrator; and a third arbitrator will be nominated jointly by the first two arbitrators and shall serve as presiding arbitrator. In the event the claimant(s) or respondent(s) or the first two arbitrators shall fail to nominate an arbitrator or the third arbitrator within the time limits specified by the Rules, such arbitrator shall be appointed promptly by the LCIA Court (as defined in the Rules).

(b) The seat of arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of the arbitration shall be English. Any award given by the LCIA shall be final and binding on the parties to the Dispute and shall be in lieu of any other remedy.

20 Governing Law, Consent to Enforcement and Waiver of Immunity

(a) *Governing law*

The Notes (including for the avoidance of doubt Condition 19), the Trust Deed and any non-contractual obligations arising out of or in connection with either of them are governed by, and shall be construed in accordance with, English law.

(b) *Agent for Service of Process*

Each of the Issuer and the Guarantor has appointed Sovcomflot (UK) Ltd at its registered office (being, at the date hereof, 1 Finsbury Square, 6th Floor, London EC2A 1AE) as its agent in England to receive service of process in any Dispute in connection with the Notes or the Trust Deed.

(c) *Consent to enforcement etc.*

The Issuer and the Guarantor consent generally in respect of any Disputes to the giving of any relief or the issue of any process in connection with such Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any award which may be made or given in such Disputes.

(d) *Waiver of immunity*

To the extent that either the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, the Guarantor or their respective assets or revenues, the Issuer and the Guarantor agree not to claim and irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

21 Non-Petition

None of the Noteholders or the other creditors (nor any other Person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, other than in the case of fraud or negligence.

22 Definitions

In these Conditions, the following terms shall have the following meanings:

"**Applicable Premium**" means, with respect to a Note on any redemption date, the excess of (i) the present value at such redemption date of the principal amount of the Note at maturity, plus all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and the Maturity Date excluding accrued but unpaid interest at such redemption date, calculated using a discount rate equal to the Treasury Rate, at such redemption date plus 50 basis points, over (ii) the principal amount of the Note at maturity, provided that if the value of the Applicable Premium at any time would otherwise be less than zero, then in such circumstances for the purposes of these Conditions the value of the Applicable Premium will be equal to zero.

"**Auditors**" means the auditors of the Group's IFRS consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under the terms of the Notes, such other internationally recognised firm of accountants as may be approved in writing by the Trustee for this purpose;

"**business day**" means (except where expressly defined otherwise) a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office;

"**Change of Control**" means either:

(i) the Russian Federation (a) ceases to own or control (directly or indirectly) at least 50 per cent. plus one voting share of the issued and outstanding voting share capital of the Guarantor; or (b) no longer has the right to appoint or remove a majority of the Guarantor's board of directors; or

(ii) a Person or Persons Acting In Concert, other than the Russian Federation, becomes the legal or beneficial owner, or gains the ability to control (directly or indirectly) more than 25 per cent. of the issued and outstanding voting share capital of the Guarantor;

"**European Union**" means the European Union, including the countries of Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom but not including any country which becomes a member of the European Union after the Original Issue Date;

"**Event of Default**" has the meaning assigned to such term in Condition 10;

"**Financial Indebtedness**" means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

(a) moneys borrowed or raised (including the capitalized value of obligations under finance leases and hire purchase agreements which would, in accordance with IAS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital);

(b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;

(c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;

(d) any liability under any interest rate or currency hedging agreement (and the amount of such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction, at the relevant time);

(e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and

(f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the Person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group);

"**Further Issue Date**" means 10 April 2017;

"**Group**" means the companies which are consolidated in the most recent accounts of the Guarantor prepared in accordance with IFRS;

"**IAS**" means the International Accounting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**IFRS**" means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**Lien**" means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 90 calendar days of arising) or other security interest securing any obligation of any Person or any other type of preferential arrangement (including any title transfer and arrangement) having a similar effect.

"**Material Adverse Effect**" means a material adverse effect on: (a) the financial condition or operations of the Guarantor or the Group; (b) the Issuer's or the Guarantor's ability to perform its obligations under the Notes and the Guarantee, respectively; or (c) the validity, legality or enforceability of the Notes or the Guarantee or the rights or remedies of the Noteholders under the Notes or the Guarantee;

"**Original Issue Date**" means 16 June 2016;

"**Permitted Lien**" means any Lien in respect of rights and payments under a loan to the Guarantor or any Subsidiary which is financed by the issuance of any Relevant Indebtedness, where such issuance is by a special purpose vehicle or a bank or any other third party entity and the rights to payment of the holders of such Relevant Indebtedness are limited in recourse to payments actually made by any of the Guarantor or any Subsidiary pursuant to such loan;

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity;

"**Persons Acting In Concert**" means a group of Persons who (a) knowingly participate in a joint activity or conscious parallel action towards a common goal, whether or not pursuant to an express agreement; or (b) combine or pool voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise;

"**Principal Subsidiary**" means at any relevant time a Subsidiary of the Guarantor (other than the Issuer):

(a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5 per cent. of the total consolidated assets or the gross consolidated revenues of the Group, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) (in each case produced on the basis of IFRS consistently applied) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor (produced on the basis of IFRS consistently applied) and its consolidated Subsidiaries; or

(b) to which are transferred all or substantially all the assets and undertakings of a Subsidiary of the Guarantor which immediately prior to such transfer is a Principal Subsidiary,

to the extent that, at any relevant time, any Subsidiary of the Guarantor falls within (a) and/or (b) above;

An Officers' Certificate from the Guarantor (whether or not addressed to the Trustee) to the effect that a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Trustee without further enquiry or evidence (without liability to any Person for so relying) and, if so relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

"**Relevant Indebtedness**" means any Financial Indebtedness which: (a)(i) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument which is listed or quoted on any stock exchange or (ii) is in the form of a loan to the Issuer, the Guarantor or any Subsidiary which is financed by the issuance of any of the foregoing forms of debt in (a)(i) above, where such issuance is by a special purpose company or a bank or any other entity and the rights to payment of the holders of such forms of debt are limited to payments actually made by any of the Issuer, the Guarantor or any Subsidiary pursuant to such loan; and (b) in the case of the debt referred to in (a)(i) above or the debt financing a loan referred to in (a)(ii) above, was initially issued and distributed (as to more than 50 per cent. of the original principal amount of such debt) outside the Russian Federation;

"**Subsidiary**" means any corporation or other business entity of which the Issuer or the Guarantor owns or controls (either directly or through one or more Subsidiaries) 50 per cent. or more of the issued share capital or other ownership interest having ordinary voting power to elect a majority of the directors, managers or trustees of such corporation or other business entity;

"**Stock Exchange**" means The Irish Stock Exchange plc;

"**Treasury Rate**" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity most nearly equal to the period from the redemption date to the Maturity Date. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15(519) which has become publicly available at least two business days prior to the redemption date. If the Federal Reserve Statistical Release H.15(519) is no longer published, the Issuer will use any publicly available source or similar market data. If the period from the redemption date to the Maturity Date is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Issuer will obtain the Treasury Rate by linear interpolation, calculated to the nearest one-twelfth of a year, from the weekly average yields of U.S. Treasury securities for which such yields are given. If the period from the redemption date to the Maturity Date is less than one year, the Issuer will use the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year to make such calculation; and

"**U.S. dollars**", "**U.S.$**" or the sign "**$**" means the lawful currency of the United States of America from time to time.

TRANSFER RESTRICTIONS

In connection with its purchase of Rule 144A Notes, any purchaser thereof (an "**Investor**"), by virtue of its acceptance of this Prospectus, will be deemed to represent, acknowledge and agree as follows:

1. This Prospectus is personal to it and does not constitute an offer to any other person or to the public generally to subscribe for or acquire Notes other than pursuant to Rule 144A or in offshore transactions outside the United States in accordance with Regulation S. It has not distributed this Prospectus or any of its contents to any other person and has not disclosed any of the contents of the Prospectus to any other person.

2. It is not relying on any investigation that the Joint Lead Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the Notes, Ireland, Russia, the Issuer or Sovcomflot and none of such persons has made any representations to it, express or implied, with respect thereto and that the Joint Lead Managers have not made and are not making any representation as to the truth, accuracy or completeness of the information in the Prospectus.

3. It is a QIB acquiring such Notes for its own account, or for the account of one or more QIBs, and aware and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

4. It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and are 'restricted securities' within the meaning of Rule 144 under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction outside the United States in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from the registration requirements of the Securities Act provided by Rule 144 thereunder, if available, and in each case in accordance with any applicable securities laws of any state of the United States.

5. Anything herein to the contrary notwithstanding, the Investor shall notify any transferee to which it transfers Rule 144A Notes in accordance with Rule 144A that such transferee will be subject to the restrictions set forth herein.

6. The Rule 144A Notes will be represented by a Rule 144A Global Note. Before any beneficial interests in the Notes represented by the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note, and vice versa, certain certifications will be required pursuant to an agency agreement dated June 14, 2016 among the Issuer, the Guarantor, Citicorp Trustee Company Limited, Citibank N.A., and Citigroup Global Markets Deutschland AG (the "**Agency Agreement**").

7. The Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will at all times bear a legend substantially to the following effect:

   THIS NOTE AND THE GUARANTEE HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") OR (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

The Issuer, Sovcomflot, the Registrar, the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Rule 144A Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

The Notes will be evidenced on issue by (i) in the case of Regulation S Notes, Regulation S Global Notes deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream Luxembourg and (ii) in the case of Rule 144A Notes, Rule 144A Global Notes deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream Luxembourg at any time. See "*—Book-entry Procedures for the Global Notes.*" Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See "*—Book-entry Procedures for the Global Notes.*" By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions.*"

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to Rule 144A Global Notes, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions.*" A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note, and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the 144A Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of Noteholders against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

Notices

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and

Conditions of such Notes, provided that notices will also be given in accordance with the rules of the Irish Stock Exchange.

Record Date

Notwithstanding Condition 8, "**Record Date**" shall mean the Clearing System Business Day before the relevant due date for payment, where "**Clearing System Business Day**" means (i) in respect of a Global Note held on behalf of Euroclear or Clearstream Luxembourg, a day when Euroclear or Clearstream Luxembourg is open for business, and (ii) in respect of a Global Note held on behalf of DTC, a day when DTC is open for business.

Meetings

The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

Trustee's Powers

In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable on an Exchange Date, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a 'clearing agency' registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream Luxembourg, and Euroclear or Clearstream Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions."

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions,*" or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-entry Procedures for the Global Notes

For each series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Settlement and Transfer of Notes.*"

Euroclear and Clearstream Luxembourg

The Regulation S Global Notes representing the Regulation S Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream Luxembourg.

DTC

The Rule 144A Global Notes representing the Rule 144A Notes will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Euroclear and Clearstream Luxembourg

Euroclear and Clearstream Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organizations that are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a 'banking organization' under the laws of the State of New York, a member of the U.S. Federal Reserve System, a 'clearing corporation' within the meaning of the New York Uniform Commercial code and a 'clearing agency' registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerized book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organizations that are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Exchange for Definitive Notes*," DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream Luxembourg

will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note, as the case may be (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream Luxembourg participant. On the settlement date, the custodian of the relevant Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream Luxembourg and evidenced by the relevant Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream Luxembourg participant must send to Euroclear or Clearstream Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream Luxembourg will (a) transmit appropriate instructions to the custodian of the relevant Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream Luxembourg and evidenced by the relevant Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the relevant Rule 144A Global Note.

Although Euroclear, Clearstream Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee nor any Agent will have the responsibility for the performance by Euroclear, Clearstream Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing then-operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

TAX CONSIDERATIONS

The following is a general description of certain tax considerations relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of the Notes. Prospective investors in the Notes should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including but not limited to the consequences of receipt of interest and sale or redemption of the Notes.

Certain Russian tax considerations

Taxation of the Notes

General

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as the taxation of payments under the Guarantee. The overview is based on the laws of the Russian Federation in effect on the dates of this Prospectus, which are subject to potential change (possibly with retroactive effect). The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes pertinent to any particular Noteholder is made hereby.

Many aspects of the Russian tax laws are subject to significant uncertainty and a lack of interpretive guidance, resulting in the inconsistent interpretation and application of such laws. Further, provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent interpretation than in jurisdictions with better developed capital markets or taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates and relevant interpretations may constantly change. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated in the Russian Tax Code. Similarly, in the absence of binding precedents, court rulings on tax or other related matters taken by different Russian courts relating to the same or similar facts and circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term "**Resident Noteholder**" means:

- a Noteholder which is a legal entity or an organization and is:
  - a Russian legal entity;
  - a foreign legal entity or organization recognized as a Russian tax resident based on the provisions of an applicable double tax treaty (for the purposes of application of such double tax treaty);
  - a foreign legal entity or organization recognized as a Russian tax resident based on Russian domestic law (if the Russian Federation is recognized as the place of management of such legal entity or organization as determined in the Russian Tax Code unless otherwise envisaged by an applicable double tax treaty);
  - a foreign legal entity or organization which holds and/or disposes of the Notes through its permanent establishment in the Russian Federation (a "**Legal Entity Resident Noteholder**"); and
- an Individual Noteholder who is actually present in Russia in total 183 calendar days or more in any period comprised of 12 consecutive months (an "**Individual Resident Noteholder**"). Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) from the Russian Federation for medical treatment or education purposes as well as for employment or other duties related to the performance of works (services) on offshore hydrocarbon fields. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that, for tax withholding purposes, an individual's tax residence status should be determined on the date of the income

payment, based on the number of days spent in the Russian Federation in the 12-month period preceding the date of the payment. An individual's final tax liability in the Russian Federation for any reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year.

For the purposes of this overview, the term "**Non-Resident Noteholder**" means any Noteholder (including any individual (the "**Individual Non-Resident Noteholder**") and any legal entity or an organization (the "**Legal Entity Non-Resident Noteholder**")) that does not qualify as a Resident Noteholder.

The Russian tax treatment of payments under the Guarantee to the Trustee under the Trust Deed may affect the holders of the Notes. See "*—Taxation of Payments under the Guarantee*" below.

Noteholders should seek professional advice on their tax status in Russia.

Legal Entity Non-Resident Noteholders

Acquisition of the Notes

The acquisition of the Notes by a Legal Entity Non-Resident Noteholder (whether upon issuance or in the secondary market) should not trigger any Russian tax implications for a Legal Entity Non-Resident Noteholder.

Disposal of the Notes

A Legal Entity Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of a gain or other income realised on the redemption, sale or disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption, or other disposal of the Notes are not received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity.

In the event that proceeds from a sale, redemption or disposal of Notes are received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity, a Legal Entity Non-Resident Noteholder should not be subject to Russian tax in respect of such proceeds, provided that no portion thereof is attributable to accrued interest. There is a risk that any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at the rate of 20%, even if the disposal itself results in a capital loss. In order to enjoy any available benefits of a double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed (including the Russian Tax Code requirements under the 'beneficial ownership' concept). Legal Entity Non-Resident Noteholders should consult their tax advisers with respect to possibility of obtaining double tax treaty relief.

Legal Entity Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes.

Individual Non-Resident Noteholders

Acquisition of the Notes

Under Russian tax legislation, the taxation of income of Individual Non-Resident Noteholders will depend on whether the income is characterized as received from a Russian or non-Russian source. In certain circumstances, the acquisition of the Notes (either at original issuance if the Notes are not issued at par, or in the secondary market) by Individual Non-Resident Noteholders may constitute a taxable event for Russian personal income tax purposes. In particular, if an Individual Non-Resident Noteholder acquires the Notes in the Russian Federation or from a Russian entity and the acquisition price of the Notes is below fair market value (calculated under a specific procedure for the determination of market prices of securities for Russian personal income tax purposes), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to a material benefit (deemed income) received by an individual as a result of acquiring securities. Although the Russian Tax Code does not contain any provisions as to how the source of the related material benefit should be determined, in practice the Russian tax authorities may infer that such income should be considered as Russian-source income if the Notes are purchased 'in the Russian Federation.' In the absence of any additional guidance as to what should be considered as a purchase of securities in the Russian Federation, the Russian tax authorities may apply various criteria, including looking at the place where the acquisition transaction was concluded, the location of the seller, or other similar criteria. In such a case, Individual Non-Resident Noteholders may be subject to Russian personal income tax at a rate of 30% of the difference between the fair market value and the purchase price of the Notes.

The tax may be withheld at source of payment or, if the tax is not withheld, the Individual Non-Resident Noteholder may be required to declare its income in the Russian Federation by filing a tax return and paying the tax or based on a tax assessment received from the Russian tax authorities, depending on the circumstances.

Disposal of the Notes

Individual Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sale or disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption, or other disposal of the Notes are not received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity.

If proceeds from the sale, redemption or other disposal of the Notes, including any portion of such proceeds attributable to accrued interest income under the Notes, are received either from a Russian source or from a Russian tax resident which is a legal entity, an Individual Non-Resident Noteholder will generally be subject to Russian personal income tax at a rate of 30% subject to any available double tax treaty relief, as discussed below in "*Double Tax Treaty Relief*", in respect of the gross proceeds from such sale, redemption or other disposal less any available deduction of expenses incurred by the Noteholder (which includes the purchase price of the Notes).

Under Russian tax legislation, income received from a sale, redemption or disposal of securities should be treated as having been received from a Russian source if such sale, redemption or disposal occurs in the Russian Federation. In absence of any guidance as to what should be considered as a sale or other disposal of securities 'in the Russian Federation', the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the buyer, or other similar criteria. There is no assurance, therefore, that proceeds received by Individual Non-Resident Noteholders from a sale, redemption or disposal of the Notes will not become subject to tax in the Russian Federation.

Further, there is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or by the person remitting the proceeds to an Individual Non-Resident Noteholder (where such person is considered a tax agent), the cost deductions may be disallowed and the tax will apply to the gross amount of the sale, redemption or disposal proceeds. A tax agent is a person obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget

In certain circumstances, if the sale and/or disposal proceeds (including accrued interest on the Notes) are paid to an Individual Non-Resident Noteholder by a licensed broker or an asset manager who carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, the applicable Russian personal income tax at the rate of 30% should be withheld at source by such person, who will be considered as the tax agent. The withholding tax rate should be applied to the difference between the proceeds paid to the Individual Non-Resident Noteholder and the amount of duly documented deductions relating to the original purchase cost and related expenses incurred by the Noteholder on the purchase, holding and sale of the Notes, to the extent that such deductions and expenses can be determined by the entity making the payment. The entity making the payment would be required to report to the Russian tax authorities the amount of income received by and a deduction allowed to the Individual Non-Resident Noteholder, and the tax withheld upon the sale of the Notes.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax has not been withheld due to the absence of a tax agent, an Individual Non-Resident Noteholder is required to file a personal income tax return in the Russian Federation to report the amount of income received to the Russian tax authorities and apply for a deduction in the amount of the acquisition cost and other expenses related to the acquisition, holding, sale or other disposal of the Notes, based on the provision of supporting documentation. The applicable personal income tax will then have to be paid by the individual on the basis of the filed personal income tax return.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax agent was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Non-Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Under certain circumstances, gains received and losses incurred by an Individual Non-Resident Noteholder as a result of the sale, redemption or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of personal income of an Individual Non-Resident Noteholder subject to taxation in the Russian Federation.

Since the sale, redemption or other disposal proceeds and deductible expenses for Russian tax purposes are calculated in rubles, the taxable base may be affected by fluctuations in the exchange rates between the currency in which the Notes were acquired, the currency in which the Notes were sold, and rubles. This means that, even where there is a loss or no gain in the currency of the Notes but there is a gain in rubles, this gain could be potentially subject to taxation.

Individual Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes.

Resident Noteholders

A Resident Noteholder will generally be subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gain from the sale, redemption or other disposal of the Notes and interest income received on the Notes. Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

Legal Entity Resident Noteholders

A Legal Entity Resident Noteholder should, *prima facie*, be subject to Russian profits tax at the rate of up to 20% on interest (coupon) income on the Notes as well as on the capital gain from the sale, redemption or other disposal of the Notes. Generally, Legal Entity Resident Noteholders are required to submit Russian profits tax returns, and assess and pay tax on capital gains and interest (coupon) income.

Individual Resident Noteholders

An Individual Resident Noteholder should generally be subject to personal income tax at a rate of 13% on (i) deemed income resulting from the acquisition of the Notes at a price below fair market value, (ii) on interest (coupon) income on the Notes and (iii) income received from the sale, redemption or other disposal of the Notes. If such income is paid to an Individual Resident Noteholder by a tax agent, the applicable Russian personal income tax of 13% should be withheld at source by such person. For the purposes of interest (coupon) income and income received from a sale, redemption and/or other disposal of the Notes, a tax agent is a licensed broker or an asset manager who carries out operations in the interest of an Individual Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement. If the Russian personal income tax has not been withheld (if there was no tax agent) Individual Resident Noteholders are required to submit annual personal income tax returns, assess and pay the tax. If the tax agent in Russia was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Non-Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Taxation of Principal and Interest under the Notes paid by the Issuer to the Noteholders

Legal Entity Non-Resident Noteholders should not generally be subject to any Russian taxes in respect of payments of principal on the Notes received from the Issuer.

Payments under the Notes may be subject to Russian withholding tax if (i) the Issuer is treated as a tax resident of the Russian Federation or (ii) Russia is considered to be the Issuer's place of permanent establishment as a result of the Issuer's activities. In these cases payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognized by Russian tax authorities as subject to Russian withholding tax at a rate of 20% (or 30% in respect of non-resident individuals). However, the Issuer currently expects that all criteria will be met for the Issuer to be exempt from tax residence in Russia and the Issuer's activities will not create a permanent establishment for the Issuer in Russia.

In addition, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organization under the 'quoted bonds' issued in accordance with the legislation of the foreign jurisdiction (this exemption is also applicable to foreign organizations recognized either as Russian tax residents, or as having their place of permanent establishment in Russia).

For the purpose of the Russian Tax Code, 'quoted bonds' means bonds and other debt obligations (1) which passed the listing procedure and/or (2) which were admitted to circulation on one or more foreign stock exchanges and/or (3) the rights to which are recorded by a foreign depositary-clearing organization, provided that such foreign stock exchanges and depositary-clearing organizations are specified on the List. The List, which became effective on December 30, 2012, includes the Irish Stock Exchange (as a recognized foreign stock exchange) and Euroclear,

Clearstream and the DTCC (as recognized foreign depositary-clearing organizations). While Clearstream and DTCC are mentioned in the List, the List does not explicitly mention Clearstream Luxembourg or DTC. According to the shareholding structure of Clearstream and DTCC groups, Clearstream Luxembourg and DTC are member entities of the Clearstream and DTCC groups respectively, and, therefore, Clearstream Luxembourg and DTC are parts of Clearstream and DTCC respectively. However, there is a residual risk that the Russian tax authorities may apply a formalistic approach and take a position that Clearstream Luxembourg and DTC are not included in the List based on the fact that they are not explicitly mentioned in the List.

Criteria (1) and (2) should be satisfied as the Notes will be listed on the Irish Stock Exchange. The Notes should satisfy criterion (3) because the rights to the Notes will be held in Euroclear and Clearstream Luxembourg and/or DTC, which for the purposes of the Russian Tax Code should mean that the rights to the Notes are 'recorded' with one of the above foreign depositary-clearing organizations. According to the Russian Tax Code, in order to be treated as 'quoted bonds', fulfilment of any one of the above criteria is sufficient. Therefore, the Notes should be recognized as 'quoted bonds' for purposes of the Russian Tax Code.

Based on the above, the Issuer should be released from the obligation to withhold the Russian withholding tax from interest payments made to the Noteholders under the Notes provided that the Notes continue to be recognized as 'quoted bonds' for the purposes of the Russian Tax Code as outlined above.

Assuming that the Group companies, to which the Issuer will advance loans out of the proceeds of each respective issuance of the Notes, are not Russian tax residents and their activities are not leading to the creation of a permanent establishment by them in Russia for the purpose of the Russian Tax Code, no Russian withholding tax should be imposed on the interest payments made by such Group companies to the Issuer. Should this assumption prove incorrect, the Group companies should still be released from the obligation to withhold the Russian withholding tax from interest payments made by such Group companies to the Issuer based on the above assumption for the 'quoted bonds' and other applicable provisions of Russian tax law.

Taxation of Payments under the Guarantee

Russian withholding tax

Non-Resident Noteholders

Payments made by the Guarantor to non-resident Noteholders relating to interest on the Notes following enforcement of the Guarantee are likely to be characterized as Russian-source income. Accordingly, such payments should be subject to withholding tax at a rate of 20% in the event that a payment under the Guarantee is made to a Legal Entity Non-Resident Noteholder which is not organized under Russian law and which holds the Notes otherwise than through a permanent establishment in Russia, subject to the provisions outlined in "*Double Tax Treaty Relief*" below. In the event a payment under the Guarantee is made to an Individual Non-Resident Noteholder, such payment should be subject to withholding tax at a rate of 30%, subject to the provisions outlined in "*Double Tax Treaty Relief*" below.

The Issuer and the Guarantor cannot offer any assurance: (i) that double tax treaty advance relief (or a refund of any taxes withheld) will be available to a Non-Resident Noteholder with respect to payments under the Guarantee or (ii) that such withholding tax will not be imposed on the entire payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or the possibility of the imposition of this withholding tax could adversely affect the value of the Notes.

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which the Guarantor would be obligated to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), the Guarantor is required to increase the payments as necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is currently unclear whether the provisions obliging the Guarantor to gross-up payments will be enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by the Guarantor will be subject to reduction by the Russian income tax at a rate of 20% (or 30% in respect of Individual Non-Resident Noteholders).

Non-Resident Noteholders should consult their tax advisors with respect to the tax consequences of the receipt of payments under the Guarantee, including applicability of any available double tax treaty relief.

Resident Noteholders

A Resident Noteholder is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of payments to be received by such Noteholder under the Guarantee.

Resident Noteholders should consult their tax advisers with respect to the tax consequences of the receipt of payments under the Guarantee.

Russian VAT

Payments under the Guarantee attributable to the principal amount or interest under the Notes and the additional tax gross-up amounts, should not be subject to Russian VAT. The payments under the Guarantee attributable to compensation of other expenses (if any) could be subject to Russian VAT.

All payments made by the Guarantor with respect to the Guarantee will, except in certain limited circumstances, be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes unless the withholding or deduction for, or on account of, such taxes is then required by law. In the event of such a deduction or withholding, the Guarantor, as applicable, will pay such additional amounts as may be necessary in order that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. While the Prospectus provides for the Guarantor to pay such corresponding amounts in these circumstances, it is unclear whether a tax gross-up clause such as that contained in the Terms and Conditions of the Notes is enforceable in the Russian Federation. There is a risk that the tax gross-up for VAT will not take place and that the portion of the payments under the Guarantee attributable to compensation of other expenses (if any) made by the Guarantor, which is a Russian legal entity, will be reduced by Russian VAT at a rate of 18%.

Noteholders should consult their tax advisers with respect to the Russian VAT consequences of the receipt of payments under the Guarantee.

Double Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income or proceeds received by Non-Resident Noteholders from a source within Russia, including income or proceeds from the sale, redemption or other disposal of the Notes. To the extent double tax treaty relief is available and the Russian Tax Code requirements are met (i.e. the concept of 'beneficial ownership' and the concept of 'tax residency'), a Non-Resident Noteholder must comply with the information, documentation and reporting requirements which are then in force in the Russian Federation in order to obtain such relief.

A Legal Entity Non-Resident Noteholder who is the beneficial owner of income or proceeds for the purposes of an applicable double tax treaty and the Russian Tax Code would need to provide the payor of the income or proceeds with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income or proceeds in order to obtain relief from Russian withholding taxes under a double tax treaty. This certificate should confirm that the respective Legal Entity Non-Resident Noteholder is a tax resident of the relevant double tax treaty country in the particular calendar year during which the income or proceeds is paid. This certificate should be apostilled or legalized and needs to be renewed on an annual basis. A notarized Russian translation of the certificate may be required. However, in practice the payor of the income or proceeds may request additional documents confirming the eligibility of the Legal Entity Non-Resident Noteholder for the benefits of the double tax treaty. In addition, in order to enjoy benefits under an applicable double tax treaty, the person claiming such benefits must be the beneficial owner of the relevant income or proceeds according to the respective requirements of the Russian Tax Code. In addition to a certificate of tax residency, starting from January 1, 2017, the Russian Tax Code obliges the Legal Entity Non-Resident Noteholder to provide the tax agent with a confirmation that it is the beneficial owner of the relevant income or proceeds in advance of payment of income or proceeds. As of the date of this Prospectus, there has been no guidance on the form of such confirmation and it is at the moment unclear how these measures will be applied in practice. Due to introduction of these changes, there can be no assurance that treaty relief at source will be available in practice.

Currently, in order to obtain a full or partial exemption from taxation in Russia under an applicable double tax treaty at source, an Individual Non-Resident Noteholder must confirm to a tax agent that he or she is a tax resident in a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of a foreign resident, or (ii) another document provided for under applicable federal law or recognized as a personal identity document of a foreign resident in accordance with an international treaty and (iii) if

such passport/document does not confirm tax resident status in a foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her tax-resident status in the respective country. A notarized Russian translation of such official confirmation is required. The above provisions are intended to provide a tax agent with the opportunity to apply reduced (or zero) withholding tax rates under an applicable double tax treaty at source.

Non-Resident Noteholders should consult their own tax advisers with respect to the applicability of any double tax treaty relief and the relevant procedures required in Russia.

Refund of Tax Withheld

If (i) Russian withholding tax on income derived by a Non-Resident Noteholder from either Russian sources, or from a Russian tax resident which is a legal entity has been withheld at source or (ii) tax on such income has been paid by a Non-Resident Noteholder on the basis of a tax return, and such Non-Resident Noteholder is entitled to relief from tax on such income under an applicable double tax treaty allowing it not to pay the tax or to pay the tax at a reduced rate, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld or paid (subject to limitations described below).

In order to obtain a refund, the Legal Entity Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarized, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant double tax treaty country and other documents confirming the right for a refund under the Russian Tax Code (including the Russian Tax Code requirements under the 'beneficial ownership' concept).

If an Individual Non-Resident Noteholder wishes to obtain a refund, he or she should provide a claim for a refund of the tax withheld and documents confirming the right for a refund under the Russian Tax Code to the tax agent (if the tax was withheld by the agent). If there is no tax agent on the date of receipt by the individual of confirmation of its tax residence status in a relevant foreign jurisdiction having an applicable double tax treaty with the Russian Federation, the individual can file a claim for a refund and documents confirming the right for a refund directly with the Russian tax authorities.

Obtaining a refund of Russian taxes withheld may be a time-consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons. Non-Resident Noteholders should consult their tax advisors regarding the procedures required to be fulfilled in order to obtain a refund of Russian income tax which was excessively withheld at source.

Certain Tax Considerations in the United States

The following is a summary of certain U.S. federal income tax considerations material to the purchase, ownership and disposition of the Further Notes. This summary does not describe all of the tax consequences that may be relevant to a U.S. Holder (as defined below) in light of such holder's particular circumstances. For example, it does not address considerations that may be relevant to U.S. Holders that are subject to special tax rules, such as banks, thrifts, real estate investment trusts, regulated investment companies, insurance companies, dealers in securities or currencies, tax-exempt investors, holders that have a functional currency other than the U.S. dollar, or certain U.S. expatriates. This summary also does not discuss Further Notes held as part of a hedge, straddle, conversion, 'synthetic security' or other integrated transaction. This summary addresses only Noteholders that purchase the Further Notes pursuant to this offering and that hold the Further Notes as capital assets. It does not include any description of any alternative minimum tax consequences or the tax laws of any state or local government or of any foreign government that may be applicable to the Further Notes.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the Further Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes holding the Further Notes should consult its own tax advisor with regard to the U.S. federal income tax treatment of an investment in the Further Notes.

This summary is based upon the U.S. Internal Revenue Code of 1986, as amended, Treasury regulations, Internal Revenue Service ("**IRS**") rulings and pronouncements and administrative and judicial decisions currently in effect, all of which are subject to change (possibly with retroactive effect) or possible differing interpretations.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS TO DETERMINE THE ANTICIPATED TAX CONSEQUENCES TO THEM OF HOLDING THE FURTHER NOTES, INCLUDING THE TAX CONSEQUENCES UNDER U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. TAX LAWS AND POSSIBLE CHANGES IN TAX LAWS.

For the purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Further Notes that is an individual who is a citizen or resident of the United States, a U.S. domestic corporation or any other person that is subject to U.S. federal income tax on a net income basis in respect of its investment in the Further Notes.

Characterization of the Further Notes

The following summary assumes that the Further Notes will be treated as indebtedness for U.S. federal income tax purposes.

Qualified Reopening

It is expected that the Further Notes will be treated as issued in a "qualified reopening" of the Original Notes for U.S. federal income tax purposes. Provided such treatment is respected, for U.S. federal income tax purposes, the Further Notes will be considered to have the same issue date and issue price as the Original Notes. The remainder of this discussion assumes that the Further Notes are treated as having been issued in a "qualified reopening" of the Original Notes.

U.S. Holders

Payments of Interest

Interest payments (including any foreign withholding tax imposed on, and any Additional Amounts paid with respect to, such payments, but excluding accrued interest from December 16, 2016 that is excluded from income) on the Further Notes generally will be taxable to a U.S. Holder as ordinary interest income at the time that such payments are paid or accrued in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. If the offering price of the Further Notes (excluding accrued interest from December 16, 2016) exceeds their stated principal amount, a U.S. Holder will be considered to have acquired the Further Notes with bond premium equal to the amount of the excess. A U.S. Holder generally may elect to amortize such premium as an offset to interest income, using a constant yield method, over the remaining term of the Further Notes. A U.S. Holder that elects to amortize the premium will be required to reduce its tax basis in the Further Notes by the amount of the premium amortized. If a U.S. Holder makes the election, it generally will apply to all debt obligations then owned and thereafter acquired by such holder and may be revoked only with the consent of the IRS. A U.S. Holder that does not elect to amortize the premium will recognize a decreased gain or an increased loss on a disposition of Further Notes in the manner described below under *"—Sale, Exchange, Redemption or Other Disposition."*

Payments on the Further Notes generally will constitute foreign-source income for U.S. federal income tax purposes and will be categorized as "passive category income"' (or, in the case of certain U.S. Holders, "general category income") for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. A U.S. Holder may be able, subject to certain generally applicable limitations, to claim a foreign tax credit (or, alternatively, a deduction if the U.S. Holder has elected to deduct all foreign income taxes for that taxable year) for any foreign withholding taxes imposed on payments of interest. The rules relating to foreign tax credits and the timing thereof are complex, and U.S. Holders should consult their tax advisors with regard to the availability of foreign tax credits and the application of the foreign tax credit limitations to their particular situation.

Effect of Russian Withholding Taxes

As discussed in "*Certain Tax Considerations in the Russian Federation,*" under current law payments made by the Guarantor under the Guarantee to Noteholders who are not Russian residents may become subject to Russian withholding taxes. In this circumstance, the Guarantor may become liable for the payment of Additional Amounts to U.S. Holders (see "*Terms and Conditions of the Notes and the Guarantee—Taxation*") so that U.S. Holders receive the same amounts they would have received had no Russian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having received the amount of Russian taxes withheld by the Issuer with respect to a Further Note, and as then having paid over the withheld taxes to the Russian taxing authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Sale, Exchange, Redemption or Other Disposition

A U.S. Holder will recognize taxable gain or loss upon the sale, exchange, redemption or other disposition of a Further Note, in an amount equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received upon such sale, exchange, redemption or other disposition (except to the extent that

such cash or property is attributable to accrued interest, which amount will be taxable as ordinary income to the extent not previously included in gross income) and (ii) the U.S. Holder's adjusted tax basis in the Further Note. A U.S. Holder's adjusted tax basis in respect of a Further Note generally will be equal to its original purchase price therefor, excluding accrued interest from December 16, 2016 excluded from income and reduced by any amortized bond premium. Such gain or loss will be U.S.-source capital gain or loss, and will be a long-term capital gain or loss if the U.S. Holder held the Further Notes for more than one year. Long-term capital gains may be taxed at a lower rate than ordinary income for certain non-corporate U.S. Holders. The deduction of capital losses is subject to limitations.

Substitution of Issuer

The terms of the Further Notes provide that, in certain circumstances, the obligations of the Issuer under the Further Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Further Notes by a U.S. Holder in exchange for newly-issued notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the newly-issued notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's adjusted tax basis in the Further Notes. U.S. Holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Further Notes.

Backup Withholding Tax and Information Reporting

Amounts paid to a U.S. Holder in respect of the Further Notes , and payments of the proceeds of a sale of Further Notes, paid within the United States or through certain U.S.-related financial intermediaries, are subject to information reporting and may be subject to backup withholding unless the U.S. Holder (i) is an exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. A Noteholder that is not a U.S. Holder generally will not be subject to information reporting or backup withholding, but may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund.

Certain Tax Considerations in Ireland

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 percent) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish Stock Exchange) and which carry a right to interest; and

the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

(i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

one of the following conditions is satisfied:

(ii) the Noteholder is resident for tax purposes in Ireland or, if not so resident, is otherwise within the charge to corporation tax in Ireland in respect of the interest; or

the interest is subject, under the laws of a relevant territory, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which corresponds to income tax or corporation tax in Ireland and which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

i. from whom the Issuer has acquired assets;

ii. to whom the Issuer has made loans or advances; or

iii. with whom the Issuer has entered into a Swap Agreement,

where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 percent of the aggregate value of the assets of the Issuer, or

- the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iii) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory, where for these purposes, the term

"**Relevant Territory**" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"**Swap Agreement**" means any agreement, arrangement or understanding that –

iv. provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

v. transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is satisfied, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is satisfied.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 percent) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is a company which is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory and which tax corresponds to income tax or corporation tax in Ireland or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident or is a company not resident in Ireland where the principal class of shares of the company or its 75% parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless (i) such holder is either resident or ordinarily resident in Ireland or (ii) such holder carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held or (iii) the Notes cease to be listed on a stock exchange in circumstances where the Notes derive their value or more than 50% of their value from Irish real estate, mineral rights or exploration rights.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33 percent) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on

the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

Certain Tax Considerations in the United Kingdom

*The comments below are of a general nature and are based on current UK tax law as applied in England and published practice of HM Revenue & Customs ("**HMRC**"), the UK tax authorities. Such law may be repealed, revoked or modified and such practice may not bind HMRC and/or may change (in each case, possibly with retrospective effect), resulting in UK tax consequences different from those discussed below. The comments below deal only with UK rules relating to information that may need to be provided to HMRC in connection with the Notes. They do not deal with any other UK tax consequences of acquiring, owning or disposing of the Notes, or of the Guarantee. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.*

Provision of Information Requirements

Information relating to the Notes may be required to be provided to HMRC in certain circumstances pursuant to certain domestic and international reporting and transparency regimes. This may include (but is not limited to) information relating to the value of the Notes, amounts paid or credited with respect to the Notes, details of the holders or the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons who exercise control over entities that are, or are treated as, holders of the Notes, details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, among others, the Issuer, the holders of the Notes, persons by or through whom payments derived from the Notes are made or credited or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. Accordingly, in order to enable these requirements to be met, holders of the Notes may be required to provide information to the Issuer, paying agents or other persons. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

The Proposed Financial Transactions Tax

The European Commission has published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes in certain circumstances. Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or may be deemed to be, 'established' in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional European Union Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and J.P. Morgan Securities plc. (the "**Joint Global Coordinators & Joint Lead Managers and Bookrunners**") and ING Bank N.V., London Branch, SIB (Cyprus) Limited and VTB Capital plc (the "**Joint Lead Managers and Bookrunners**" and, together with the Joint Global Coordinators & Joint Lead Managers and Bookrunners, the "**Joint Lead Managers**") have, pursuant to a supplemental Subscription Agreement dated April 6, 2017 (the "**Subscription Agreement**"), on a several but not joint and several basis, agreed with the Issuer and Sovcomflot, subject to the satisfaction of certain conditions, to subscribe for the Further Notes at 100% of the principal amount of the Further Notes less any commissions and expenses required to be deducted in accordance with the Subscription Agreement. In addition, the Issuer and the Guarantor have agreed to pay or reimburse the Joint Lead Managers for their costs, fees and expenses in connection with the issue of the Further Notes. The Issuer and the Guarantor have in the Subscription Agreement agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Further Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers and their respective affiliates have performed and are expected to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders).

Selling Restrictions

The United States

The Further Notes and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

Each of the Joint Lead Managers has, severally and not jointly, represented, warranted and undertaken that it has not offered or sold, and agrees that it will not offer or sell, any Further Notes and the Guarantee constituting part of its allotment:

(1) within the United States except to parties that it reasonably believes are "qualified institutional buyers" within the meaning of Rule 144A, in transactions meeting the requirements of Rule 144A, and, in connection with each such sale, it has taken or will take reasonable steps to ensure that the purchaser of the Further Notes and the Guarantee is aware that such sale is being made in reliance on Rule 144A;

(2) outside the United states, except in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Further Notes and the Guarantee. Terms used in this sub-paragraph have the meaning given to them by Regulation S under the Securities Act.

Each of the Joint Lead Managers has, severally and not jointly, represented, warranted and undertaken that (i) neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D), nor any person acting on its or their behalf has solicited offers for or offered or sold, and (ii) no such person will solicit offers for or offer to sell, the Further Notes and the Guarantee by means of any form of general solicitation or general advertising (within the meaning of Regulation D) or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act, in connection with any offer and sale of the Further Notes and the Guarantees in the United States.

The Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of the Further Notes and the Guarantee in the United States only to "qualified institutional buyers" within the meaning of and in accordance with Rule 144A.

Each of the Joint Lead Managers has, severally and not jointly, represented, warranted and undertaken, that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Further Notes, except with its affiliates or with the prior written consent of the Issuer and the Guarantor.

The United Kingdom

Each Joint Lead Manager has, severally and not jointly, represented, warranted and undertaken that:

- it has complied and will comply with all applicable provisions of the FSMA and the regulations adopted thereunder with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or Sovcomflot.

The Russian Federation

Each of the Joint Lead Managers has, severally and not jointly, represented, warranted and agreed that the Notes have not been and will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ireland

Each Joint Lead Manager has, severally and not jointly, represented, warranted and agreed that:

(a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended, the "**MiFID Regulations**"), including, without limitation, Regulations 7 (Authorization) and 152 (Restrictions on advertising) thereof, any codes of conduct made under the MiFID Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);

(b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act 2014 (as amended, the "**Companies Act**"), the Central Bank Acts 1942-2015 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank under Section 1363 of the Companies Act; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014 as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

Republic of Italy

The offering of the Notes has not been registered with the Italian Securities Exchange Commission (*Commissione Nazionale per la Società e la Borsa* or "**CONSOB**") pursuant to Italian securities legislation and, accordingly, each Joint Lead Manager has represented and agreed, severally and not jointly, that it has not offered, sold or distributed, and will not offer, sell or distribute any Notes, copies of this Prospectus or any offer document relating to the Notes in the Republic of Italy ("**Italy**") except:

(a) to qualified investors (*investitori qualificati*), as defined in Article 26, paragraph 1, letter d) of CONSOB Regulation No. 16190 of October 29, 2007 (the "**Intermediaries Regulation**") pursuant to Article 100, paragraph 1, letter a), of Legislative Decree no. 58 of February 24, 1998 (the "**Consolidated Financial Services Act**") and Article 34-*ter*, paragraph 1, letter (b) of CONSOB regulation No. 11971 of May 14, 1999 (the "**Issuers Regulation**"), all as amended; or

(b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Consolidated Financial Services Act and Article 34-*ter* of the Issuers Regulation.

Moreover, and subject to the foregoing, each Joint Lead Manager severally and not jointly acknowledges that any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under (a) or (b) above must be:

- made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Consolidated Financial Services Act, Legislative Decree No. 385 of September 1, 1993 (the "**Banking Act**"), the Issuers Regulation and the Intermediaries Regulation, all as amended;

- in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and

- in compliance with any securities, tax, exchange control and any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time, *inter alia*, by CONSOB or the Bank of Italy.

Any investor purchasing the Notes in this offering is exclusively responsible for ensuring that any offer or resale of the Notes it purchased in this offering occurs in compliance with applicable laws and regulations. No person resident or located in Italy other than the original addressees of this document may rely on this document or its contents.

This Prospectus, any other document relating to the Notes, and the information contained therein are intended only for the use of its recipient and, unless in circumstances which are exempted from the rules governing offers of securities to the public pursuant to Article 100 of the Consolidated Financial Services Act and Article 34-*ter* of the Issuers Regulation, are not to be distributed, for any reason, to any third party resident or located in Italy.

Hong Kong

Each Joint Lead Manager has, severally and not jointly, represented, warranted and undertaken that:

- it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to 'professional investors' as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a 'prospectus' as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**CO**") or which do not constitute an offer to the public within the meaning of the CO; and

- No advertisement, invitation or document relating to the Notes, had been or will be issued or in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to 'professional investors' as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Joint Lead Manager has, severally and not jointly, represented, warranted and undertaken that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law; or
- as specified in Section 276(7) of the SFA.

General

No action has been or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or the Guarantor that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

LISTING AND GENERAL INFORMATION

The Notes

The Regulation S Global Notes have been accepted for clearance through Euroclear and Clearstream Luxembourg under the following reference numbers:

	ISIN	Common Code
Regulation S Global Note	XS1433454243	143345424

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

The Rule 144A Global Note has been accepted for clearance through the facilities of DTC, under the following reference numbers:

	ISIN	Common Code	CUSIP
Rule 144A Global Note	US78403LAB80	143352056	78403LAB8

The address of DTC is 55 Water Street, New York, New York 10041-0099, United States of America.

The listing of the Notes on the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the Further Notes on the Official List and admission of the Further Notes to trading on the Main Securities Market will be granted on or about April 10, 2017, subject only to the issue of the Further Rule 144A Global Note and the Further Regulation S Global Note. Prior to official listing and admission to trading, however, dealing will be permitted by the Irish Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the day of the transaction.

Noteholders should note that the Trustee may act, or not act, and rely on (and shall have no liability for doing so) certificates or reports provided by the auditors of the Issuer or the independent registered public accounting firm of Sovcomflot or any other expert, whether or not addressed to the Trustee and whether or not any such certificate or report is subject to any limit on the liability of such auditors or independent registered public accounting firm or other expert (whether by reference to a monetary cap or by reference to the methodology to be employed in producing the same).

Sovcomflot and the Issuer have obtained all necessary consents, approval, authorizations or other orders for the issue of the Notes and other documents to be entered into by the Issuer in connection with the issue of the Notes in England and Wales.

The yield of the Original Notes when issued was 5.375% on an annual basis. The yield of the Further Notes is 4.850% on an annual basis. The yield of the Further Notes is calculated as of the Closing Date on the basis of the issue price. It is not an indication of future yield.

Changes

There has been no significant change in the financial or trading position of the Issuer since December 31, 2015, such date being the date of the Issuer's last published audited financial statements, or in the financial or trading position of the Group or Sovcomflot since December 31, 2016, such date being the date of the Group's last published audited financial statements.

There has been no material adverse change in the prospects of the Issuer since December 31, 2015, such date being the date of the Issuer's last published audited financial statements, or in the prospects of Sovcomflot or the Group since December 31, 2016, such date being the date of the Group's last published audited financial statements.

Miscellaneous

1. Sovcomflot is a public joint stock company organized in accordance with the Russian Joint Stock Companies Law on April 16, 1988 for an unlimited duration. Sovcomflot has its registered offices at 3, Lit. A, Moika River Embankment, Saint Petersburg, 191186, Russian Federation, with the main state registration number 1027739028712.

2. Application has been made to the Irish Stock Exchange for the Further Notes to be admitted to the Official List and to trading on the Main Securities Market, through the Arthur Cox Listing Services Limited (the "**Listing Agent**"). The Listing Agent is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or trading on the Main Securities Market for the purposes of the Prospectus Directive.

3. For the life of the Prospectus, copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at and are available in physical form from the registered office of the Issuer and the offices of the Issuer at Pinnacle 2, East Point Business Park, Dublin 3, Ireland during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):

(a) a copy of this Prospectus, together with any supplement to this Prospectus;

(b) the constitution of the Issuer;

(c) the memorandum and articles of association of Sovcomflot;

(d) Sovcomflot's financial statements;

(e) the Trust Deed which includes the form of the Global Notes and the Definitive Notes;

(f) the Agency Agreement; and

(g) the audited financial statements of the Issuer as at and for the years ended December 31, 2014 and 2015, together with the audit reports thereon.

4. The entry into of the Trust Deed and Agency Agreement was authorized by a decision of the Board of Directors of Sovcomflot and the shareholder of Sovcomflot, dated March 6, 2017 and March 31, 2017, respectively. The issue of the Further Notes was authorized by a decision of the Board of Directors of the Issuer on April 3, 2017.

5. No consents, approvals, authorizations or orders of any regulatory authorities other than as disclosed in the Prospectus are required by the Issuer under the laws of the Ireland for issuing the Further Notes.

6. The Issuer has no subsidiaries.

7. Save for the fees payable to the Joint Lead Managers, the Trustee and the Agents, so far as the Issuer is aware, no person involved in the issue of the Further Notes has an interest that is material to the issue of the Further Notes.

8. "*Business—Legal Proceedings*" summarizes certain legal proceedings involving the Group. Other than as set out in "*Business—Legal Proceedings*", there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the previous 12 months in relation to the Issuer, which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

9. The audited consolidated financial statements of the Group as of and for the fiscal years ended December 31, 2016, December 31, 2015 and December 31, 2014 included in this Prospectus have been audited by Ernst &Young LLC, independent registered public accounting firm, of 77, bldg.. 1, Sadovnicheskaya Nab, 1105035 Moscow, Russian Federation. Ernst & Young LLC is a member of the self-regulatory organization of auditors "Russian Union of Auditors" (Association).

10. The Trust Deed provides, *inter alia*, that the Trustee may rely on any certificate or report prepared by auditors pursuant to the Trust Deed (whether or not addressed to the Trustee), notwithstanding whether or not the accountants' liability in respect thereof is limited by a monetary cap or otherwise.

11. Sovcomflot has obtained all necessary consents, approvals and authorizations in the Russian Federation in connection with its entry into, and performance of its obligations under, the Trust Deed and the Agency Agreement.

12. The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

13. The Issuer estimates the expenses of, and incidental to, the offering and admission to trading on the Main Securities Market payable by the Issuer, including the Irish Stock Exchange fee, professional fees and the costs of preparation, printing and distribution of this Prospectus, are estimated to amount to approximately US$ 1 million (exclusive of recoverable VAT). No Notes have been marketed to, nor are available for purchase in whole or in part by, the public in Ireland or elsewhere in conjunction with the offering. This Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No application is currently intended to be made for the Notes to be admitted to listing or dealt with on any exchange other than the Irish Stock Exchange.

14. The Issuer does not intend to provide any post-issuance transaction information regarding the Notes.

15. Citigroup Global Markets Deutschland AG will act as Registrar in relation to the Notes.

16. Citicorp Trustee Company Limited is a professional trustee company, which is providing its services in relation to the Notes on an arm's-length basis in consideration of a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Issuer, but a trustee so appointed must in the first place be approved by an extraordinary resolution of Noteholders. The Noteholders have the power, exercisable by extraordinary resolution, to remove any trustee or trustees. The removal of any trustee is only effective if, following the removal, there remains a trustee (being a trust corporation) in office after such removal. In addition, Citicorp Trustee Company Limited, or any other trustee duly appointed, may retire at any time upon giving not less than three months' notice in writing to the Issuer and Sovcomflot. The retirement of any trustee is only effective if, following the retirement, there remains a trustee (being a trust corporation) in office after such retirement. If the trustee has given notice of its desire to retire and the Issuer has failed to appoint a new trustee within two months of such notice, the trustee shall have the power of appointing new trustee(s).

17. Neither Sovcomflot nor any of its subsidiaries (including the Issuer) is a party to any material contracts that are not entered into in the ordinary course of the relevant entity's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to the Noteholders in respect of the Notes.

18. Save for any fees payable to the Joint Lead Managers, so far as the Issuer is aware, no person involved in the offer of the Further Notes has an interest material to the offer. Some or all of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

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The audited financial statements of the Issuer, SCF Capital Designated Activity Company, as at and for the years ended December 31, 2015 and 2014 together with the audit reports thereon, as issued by Ernst & Young Chartered Accountants, the auditors of the Issuer, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland, shall be deemed to be incorporated in, and to form part of, this prospectus. Such financial statements are accessible online at the following locations:

- Audited financial statements of SCF Capital Designated Activity Company as of and for the year ended December 31, 2015:

  http://www.ise.ie/debt_documents/SCF%20Financial%20Statements%2031%20December%202015(23908399_1)_9f40a503-bc2b-4529-9ded-40cd3ca3e14e.PDF

- Audited financial statements of SCF Capital Designated Activity Company as of and for the year ended December 31, 2014:

  http://www.ise.ie/debt_documents/FS%20-%20SCF%20Capital%202014(20815756_1)_8203ed3e-9ce5-44da-a109-1c63f8df615d.pdf.

PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

PAO Sovcomflot

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of PAO Sovcomflot

We have audited the accompanying consolidated statements of financial position of PAO Sovcomflot ("the Company") as of 31 December 2016 and 2015, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for each of the two years in the period ended 31 December 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PAO Sovcomflot at 31 December 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the two years in the period ended 31 December 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young LLC

17 March 2017

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2016

	Note	2016 $'000	2015 $'000
Freight and hire revenue	6	1,388,127	1,483,002
Voyage expenses and commissions	7	(245,941)	(242,916)
Time charter equivalent revenues		1,142,186	1,240,086
Direct operating expenses			
Vessels' running costs	8	318,293	338,745
Charter hire payments	43	25,791	52,812
		(344,084)	(391,557)
Net earnings from vessels' trading		798,102	848,529
Other operating revenues	11	18,036	20,215
Other operating expenses	11	(9,443)	(10,814)
Depreciation, amortisation and impairment	9	(355,790)	(312,871)
General and administrative expenses	10	(115,645)	(105,914)
(Loss) / gain on sale of assets	17,18, 19	(483)	9,895
Loss on sale of subsidiary		-	(727)
Gain on sale of equity accounted investments		-	5,402
Allowance for credit losses		84	(782)
Share of profits in equity accounted investments	20	12,939	15,765
Operating profit		347,800	468,698
Other (expenses) / income			
Financing costs	13	(162,664)	(140,492)
Interest income		18,303	16,749
Other non-operating income	44	15,000	40,559
Other non-operating expenses	44	(4,930)	(4,868)
Gain on ineffective hedging instruments	23	1,032	683
Foreign exchange gains		29,078	17,212
Foreign exchange losses		(10,142)	(26,765)
Net other expenses		(114,323)	(96,922)
Profit before income taxes		233,477	371,776
Income tax expense	24	(26,684)	(17,304)
Profit for the period		206,793	354,472
Profit attributable to:			
Owners of the parent		202,490	339,461
Non-controlling interests	34	4,303	15,011
		206,793	354,472
Earnings per share			
Basic earnings per share for the period attributable to equity holders of the parent	25	$0.103	$0.173

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2016

	Note	2016 $'000	2015 $'000
Profit for the period		206,793	354,472
Other comprehensive income:			
Share of associates' other comprehensive income		23	(27)
Share of joint ventures' other comprehensive income	20	8,275	6,013
Exchange loss on translation from functional currency to presentation currency		(1,915)	(16,795)
Reclassification adjustment relating to foreign investments disposed of during the period		-	1,834
Derivative financial instruments recycled and debited to the income statement	23	22,873	25,050
Fair value movement of derivative financial instruments debited to other comprehensive income	23	(6,442)	(17,541)
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		22,814	(1,466)
Remeasurement losses on employee benefit obligations		(48)	(550)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(48)	(550)
Total other comprehensive income for the period, net of tax		22,766	(2,016)
Total comprehensive income for the period		229,559	352,456
Total comprehensive income attributable to:			
Owners of the parent		225,272	338,969
Non-controlling interests		4,287	13,487
		229,559	352,456

PAO Sovcomflot

Consolidated Statement of Financial Position – 31 December 2016

	Note	2016 $'000	2015 $'000	2014 $'000
Assets				
Non-current assets				
Fleet	15	5,895,365	5,388,542	5,278,983
Vessels under construction	16	225,814	368,453	237,250
Intangible assets	17	3,961	4,668	3,989
Other property, plant and equipment	18	58,746	60,284	70,657
Investment property	19	864	7,468	10,341
Investments in associates		131	104	118
Investments in joint ventures	20	114,761	98,306	82,430
Available-for-sale investments		760	1,012	1,012
Loans to joint ventures	21	45,574	52,468	59,942
Finance lease receivables	22	-	66,956	71,469
Derivative financial instruments	23	7,146	8,050	7,438
Trade and other receivables	27	2,783	2,812	180
Deferred tax assets	24	4,663	7,387	3,575
Restricted cash	28	-	13,190	17,183
Bank deposits	29	10,000	10,000	12,315
		6,370,568	6,089,700	5,856,882
Current assets				
Inventories	26	53,368	37,568	45,825
Loans to joint ventures	21	4,750	8,320	4,750
Derivative financial instruments	23	373	-	-
Trade and other receivables	27	173,022	174,605	149,112
Finance lease receivables	22	-	4,875	4,193
Current tax receivable		4,089	888	593
Restricted cash	28	72,079	-	6,060
Cash and bank deposits	29	470,638	357,427	272,201
		778,319	583,683	482,734
Non-current assets held for sale	30	8,360	28,130	93,163
		786,679	611,813	575,897
Total assets		7,157,247	6,701,513	6,432,779
Equity and liabilities				
Capital and reserves				
Share capital	31	405,012	405,012	405,012
Reserves		3,048,858	2,916,047	2,596,080
Equity attributable to owners of the parent		3,453,870	3,321,059	3,001,092
Non-controlling interests	34	150,446	159,922	156,389
Total equity		3,604,316	3,480,981	3,157,481
Non-current liabilities				
Trade and other payables	35	37,504	16,045	330
Secured bank loans	36	1,903,365	1,596,434	1,587,956
Finance lease liabilities	37	-	173,690	183,810
Derivative financial instruments	23	21,624	32,135	37,808
Retirement benefit obligations	38	3,419	3,067	3,390
Other loans	39	737,076	875,492	842,882
Provisions		-	-	3,244
Deferred tax liabilities	24	858	776	1,258
		2,703,846	2,697,639	2,660,678
Current liabilities				
Trade and other payables	35	214,784	181,676	183,998
Other loans	39	139,896	16,984	-
Secured bank loans	36	290,460	289,142	394,652
Finance lease liabilities	37	173,690	10,120	9,481
Current tax payable		14,809	2,042	1,653
Derivative financial instruments	23	15,446	22,929	24,836
		849,085	522,893	614,620
Total liabilities		3,552,931	3,220,532	3,275,298
Total equity and liabilities		7,157,247	6,701,513	6,432,779

Approved by the Executive Board and authorised for issue on 17 March 2017

S.O. Frank
President and Chief Executive Officer

N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 31 December 2016

	Share capital $'000	Share premium $'000	Reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
	(Note 31)	(Note 31)	(Note 32)					(Note 34)	
At 1 January 2015	**405,012**	**818,845**	**(834,490)**	**(81,800)**	**(30,958)**	**2,724,483**	**3,001,092**	**156,389**	**3,157,481**
Profit for the period	-	-	-	-	-	339,461	339,461	15,011	354,472
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(27)	-	(27)	-	(27)
Share of joint ventures' other comprehensive income	-	-	-	6,021	(8)	-	6,013	-	6,013
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(15,230)	-	(15,230)	(1,565)	(16,795)
Reclassification adjustment relating to investments disposed of during the period	-	-	-	-	1,734	-	1,734	100	1,834
Derivative financial instruments recycled and debited to the income statement (Note 23)	-	-	-	25,050	-	-	25,050	-	25,050
Fair value movement of derivative financial instruments debited to other comprehensive income (Note 23)	-	-	-	(17,541)	-	-	(17,541)	-	(17,541)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(491)	(491)	(59)	(550)
Total comprehensive income	-	-	-	13,530	(13,531)	338,970	338,969	13,487	352,456
Dividends (Note 33)	-	-	-	-	-	(20,543)	(20,543)	(8,196)	(28,739)
Effect of acquisition of non-controlling interests in PAO Novoship (Note 41)	-	-	-	-	(53)	1,594	1,541	(1,758)	(217)
At 31 December 2015	**405,012**	**818,845**	**(834,490)**	**(68,270)**	**(44,542)**	**3,044,504**	**3,321,059**	**159,922**	**3,480,981**
Profit for the period	-	-	-	-	-	202,490	202,490	4,303	206,793
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	23	-	23	-	23
Share of joint ventures' other comprehensive income	-	-	-	8,271	4	-	8,275	-	8,275
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(1,904)	-	(1,904)	(11)	(1,915)
Derivative financial instruments recycled and debited to the income statement (Note 23)	-	-	-	22,873	-	-	22,873	-	22,873
Fair value movement of derivative financial instruments debited to other comprehensive income (Note 23)	-	-	-	(6,442)	-	-	(6,442)	-	(6,442)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(43)	(43)	(5)	(48)
Total comprehensive income	-	-	-	24,702	(1,877)	202,447	225,272	4,287	229,559
Dividends (Note 33)	-	-	-	-	-	(92,948)	(92,948)	(13,217)	(106,165)
Effect of acquisition of non-controlling interests in PAO Novoship (Note 41)	-	-	-	-	(16)	503	487	(546)	(59)
At 31 December 2016	**405,012**	**818,845**	**(834,490)**	**(43,568)**	**(46,435)**	**3,154,506**	**3,453,870**	**150,446**	**3,604,316**

Notes

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

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2016

	Note	2016 $'000	2015 $'000
Operating Activities			
Cash received from freight and hire of vessels		1,414,275	1,460,200
Other cash receipts		24,780	61,127
Cash payments for voyage and running costs		(585,758)	(649,887)
Other cash payments		(101,315)	(116,480)
Cash generated from operations	40	751,982	754,960
Interest received		5,943	2,901
Income tax paid		(14,007)	(22,158)
Net cash inflow from operating activities		743,918	735,703
Investing Activities			
Expenditure on fleet		(36,596)	(45,022)
Fleet acquisitions in the period	15	(347,906)	-
Expenditure on vessels under construction	16	(329,904)	(516,181)
Interest capitalised	16	(19,139)	(10,375)
Expenditure on intangibles and other property, plant and equipment	17, 18, 19	(5,248)	(3,444)
Investment in joint venture		-	(107)
Loan repayments from joint ventures		14,531	4,272
Proceeds from sale of subsidiary net of cash disposed		-	1,232
Proceeds from sale of equity accounted investments		-	6,300
Proceeds from sale of vessels		28,172	112,909
Proceeds from sale of other property, plant and equipment		324	10,035
Proceeds from settlement of finance lease receivable	22	67,628	-
Capital element received on finance leases	22	4,838	4,141
Interest received on finance leases	22	12,053	13,115
Dividends received from equity accounted for investments	20	3,578	2,762
Bank term deposits	29	(15,000)	1,442
Restricted cash placed in court	28, 44	(72,079)	-
Restricted cash released	28	17,190	6,060
Net cash outflow used in investing activities		(677,558)	(412,861)
Financing Activities			
Proceeds from borrowings		1,533,452	493,081
Repayment of borrowings		(1,218,248)	(546,670)
Financing costs		(44,106)	(8,196)
Repayment of finance lease liabilities		(10,345)	(9,718)
Restricted deposits	29	846	1,469
Funds in retention bank accounts	29	1,055	(6,982)
Interest paid on borrowings		(125,152)	(118,541)
Interest paid on finance leases		(11,895)	(12,521)
Dividends paid		(98,184)	(21,331)
Acquisition of non-controlling interests	34	(59)	(217)
Net cash inflow from / (outflow used in) financing activities		27,364	(229,626)
Increase in Cash and Cash Equivalents		93,724	93,216
Cash and Cash Equivalents at 1 January	29	332,680	253,840
Net foreign exchange difference		6,388	(14,376)
Cash and Cash Equivalents at 31 December	29	432,792	332,680

1. Organisation and Trading Activities

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

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 115 tankers, 8 gas carriers, 7 ice breaking supply vessels (including 1 chartered in), 2 bulk carriers and 1 chartered in seismic vessel. For major changes in the period in relation to the fleet see also Notes 15, 16, 22 and 30.

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

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

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

2. Directors and Management

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

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

Members of the Board of Directors	Initial date of appointment	
I.I. Klebanov (Chairman)	3 November 2011	Senior State Counsellor of the Russian Federation, 1st Class
W.A. Chammah	29 June 2015	Partner of "Chammah & Partners" LLC
I.F. Glumov	29 June 2015	General Director of OJSC "Severneftegaz"
P.A. Kadochnikov	30 June 2016	Vice Rector for Research of the Russian Foreign Trade Academy of the Ministry for Economic Development of the Russian Federation
A.Y. Klyavin	30 June 2012	President of The National Chamber of Shipping
D.G. Moorhouse	29 June 2010	Member of the Board of Directors
M.I. Poluboyarinov	30 June 2012	Member of the Board of Management and First Deputy Chairman of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
A. V. Sharonov	30 June 2014	Dean of Moscow School of Management "SKOLKOVO"
S.O. Frank	10 November 2004	President and Chief Executive Officer of PAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 30 June 2016. Mr Klebanov was re-elected as a Chairman on 25 August 2016.

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

3. Significant Accounting Policies

(a) Basis of preparation and accounting

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

The consolidated financial statements have been prepared on the historical cost basis except where fair value accounting is specifically required by IFRS, as explained in the accounting policies below.

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries ("controlled investees") as at 31 December 2016. Control is achieved when the Group:

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

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

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

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

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

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

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

3. **Significant Accounting Policies (Continued)**

(c) Business combinations

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

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

The Group initiates and performs a review of all acquisition transactions during each period to consider the transaction to be either a business combination or an asset acquisition in accordance with IFRS 3. When the acquisition is not a business combination by its nature, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 "Intangible Assets") and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. Consistent with shipping industry practice, the acquisition of a vessel (whether acquired with or without charter) is treated as the acquisition of an asset rather than a business, because vessels are acquired without related business processes.

(d) Segmental reporting

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

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

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

(e) Investments in associates and joint ventures

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

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

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

(f) Interests in joint operations

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

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

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

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

3. **Significant Accounting Policies (Continued)**

(g) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, an active programme to locate a buyer and complete the sale must be initiated and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. These criteria have to be met at the reporting period end for classification as held for sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non–current asset is classified as held for sale.

(h) Freight and Hire revenue

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

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

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

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

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid to third party brokers by the Group.

Freight revenue and voyage expenses are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. The impact of recognising voyage expenses rateably over the length of each voyage is not materially different on a quarterly and annual basis from the method of recognising such costs on an accruals basis. Full provision is made for any losses forecast on voyages in progress at the end of the financial reporting period.

The Group does not begin recognising revenue until a charter has been agreed to by the Group and the charterer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. In applying its revenue recognition method, management believes that the discharge to discharge port basis of calculating voyage results provides greater degree of accuracy than the load to load port basis. In the application of this policy, the Group recognises revenue only when (i) the amount of revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the transactions stage of completion at the balance sheet date can be measured reliably; and (iv) the costs incurred and the costs to complete the transaction can be measured reliably.

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

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

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

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

(i) Operating revenues and operating expenses

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

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

3. **Significant Accounting Policies (Continued)**

(j) Interest income

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

(k) Currency translation

Transactions and balances

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

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

Non-monetary items that are measured in terms of historical cost in currencies other than the functional currencies are not retranslated. Non-monetary items measured at fair value in currencies other than the functional currencies are translated using the exchange rates at the date when the fair value was determined.

Group companies

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

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

Any goodwill arising on the acquisition of an entity with a functional currency other than the U.S. Dollar and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the acquired entity. They are expressed in the functional currency of the acquired entity and are translated at the rate of exchange ruling at the reporting date.

Exchange rates

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

	2016 Closing $1	2016 Average $1	2015 Closing $1	2015 Average $1	2014 Closing $1
Russian Roubles	60.6569	67.0349	72.8827	61.3194	56.2584
Pounds Sterling	0.8135	0.7397	0.6750	0.6542	0.6435
Euros	0.9506	0.9036	0.9145	0.9025	0.8232

(l) Borrowing costs

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

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

(m) Leasing

Finance leases are leases which transfer substantially all the risks and rewards incidental to ownership of the leased item. Leases which do not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. The determination of whether a lease is a finance lease or an operating lease depends on the substance of the arrangement rather than the form of the contract at the inception of the lease. In determining the substance of the transaction the Group considers amongst others the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions, expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

Group as lessee - Finance and operating lease payables

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

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

3. **Significant Accounting Policies (Continued)**

(m) Leasing (continued)

Group as lessor - Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(n) Employee benefits

Retirement benefit costs

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

Defined contribution retirement benefit plans

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

Defined benefit retirement benefit plans

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

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

Long-term service retirement benefit plans

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

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

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

Past service cost is recognised immediately in profit or loss.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash flows expected to be made by the Group in respect of services provided by the employees up to the reporting date. Re-measurements of the long-term employee benefit liability are recognised in profit or loss when they occur.

(o) Property, plant and equipment and depreciation

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

Cost comprises of the acquisition or construction cost of the asset, after deducting trade discounts and rebates, and any costs directly attributable to the acquisition or construction up to the time that the asset is ready for its intended use. Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised as part of the cost of the asset. Subsequent expenditures for conversions and major improvements are capitalised when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise they are charged to profit or loss as incurred.

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

Oil, shuttle, product and chemical tankers	25 years
Arctic shuttle tankers	12 years
Ice breaking supply vessels	25 years
LNG carriers	35 years
LPG carriers	30 years
Bulk carriers	25 years

3. **Significant Accounting Policies (Continued)**

(o) Property, plant and equipment and depreciation (continued)

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

	2016 $ per LWT	2015 $ per LWT	2014 $ per LWT
Oil, shuttle, product and chemical tankers	290	300	495
Arctic shuttle tankers	290	-	-
Ice breaking supply vessels	290	300	495
LNG carriers	330	310	495
LPG carriers	320	310	495
Bulk carriers	305	305	465

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

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

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

(p) Intangible assets

Intangible assets comprise computer software. Computer software is carried in the statement of financial position at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is charged so as to write-off the cost of the computer software on a straight line basis over the useful economic life of the software concerned at a rate between 10% and 33%.

The amortisation period of each intangible is reviewed at each financial period end. Any changes in the expected useful life are treated as a change in accounting estimate and are accounted for prospectively in the income statement in the period of change and future periods. Amortisation of the capitalised intangible assets is included in the depreciation, amortisation and impairment line in the consolidated income statement.

(q) Drydocking and special survey costs

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

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

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

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

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

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

(r) Investment property

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

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

3. **Significant Accounting Policies (Continued)**

(s) Assets under construction

Assets under construction are carried at cost, less any recognised impairment loss. Cost comprises shipyard payments and any other costs directly attributable to the construction including supervision fees and expenses, professional fees and capitalised borrowing costs.

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

(t) Impairment

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

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

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

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

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

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

(u) Inventories

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

(v) Financial instruments

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

Effective interest method

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

Trade receivables

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

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

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

Cash and cash equivalents

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

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

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

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

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

Available-for-sale financial assets

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

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

Held-to-maturity investments

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

Derecognition of financial assets

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

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

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

Bank borrowings

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

Trade payables

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

Classification as debt or equity

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

Equity instruments

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

Derecognition or modification of financial liabilities

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

Where an existing financial liability is exchanged by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss. Where an existing financial liability is exchanged by another from the same lender or modified on terms that are not substantially different, the exchange or modification is not accounted for as an extinguishment and any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting of financial assets and liabilities

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

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

(w) Taxation

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

Current tax

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

Deferred tax

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

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

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

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

A deferred tax liability is recognised on unremitted earnings of subsidiaries to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future.

Current and deferred tax for the period

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

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

Tonnage tax

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

3. **Significant Accounting Policies (Continued)**

(x) Provisions

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

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

Onerous contracts

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

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

(y) Insurance claims

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

(z) Earnings per share

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

4. **Adoption of New and Revised International Financial Reporting Standards**

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

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2016. The nature and the impact of each new standard or amendment are described below:

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

IFRS 11 ("Joint Arrangements") – "Amendments regarding the accounting for acquisitions of an interest in a joint operation". Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group did not have any such transactions in the current period.

IAS 1 ("Presentation of Financial Statements") – "Amendments resulting from the disclosure initiative". The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The application of these amendments has not resulted in any impact on the Group.

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

Annual Improvements to IFRSs 2012–2014 Cycle

The "September 2014 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to four standards. These improvements are effective from 1 January 2016 and have no material impact on the Group. It includes the following amendments:

- IFRS 5 "Non-current assets held for sale and Discontinued Operations" – "Changes in methods of disposal"
- IFRS 7 "Financial Instruments: Disclosures" – "Servicing contracts" and "Applicability of the amendments to IFRS 7 to condensed interim financial statements"
- IAS 19 "Employee Benefits" – "Discount rate: regional market issue"
- IAS 34 "Interim Financial Reporting" – "Disclosure of information 'elsewhere in the interim financial report'".

New and revised IFRSs in issue but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group's operations were in issue but not yet effective. The Group does not intend to adopted any standard, interpretation or amendment that has been issued but is not yet effective before their effective date.

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

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

The Group is currently assessing the impact from the application of IFRS 9 ("Financial Instruments") – "Classification and Measurement", IFRS 11 ("Joint Arrangements") – "Amendments regarding the accounting for acquisitions of an interest in a joint operation", IFRS 15 ("Revenue from Contracts with Customers") and IFRS 16 ("Leases") on its consolidated financial statements. Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements.

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 portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception" (when IFRS 9 will be applied – see below).

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

IFRS 9 ("Financial Instruments") – "Classification and Measurement". The final version of IFRS 9 replaces IAS 39 Financial Instruments "Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses (effective for annual periods beginning on or after 1 January 2018).

IAS 7 ("Statement of Cash flows") – "Amendments resulting from the disclosure initiative" The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after 1 January 2017).

IFRS 15 ("Revenue from Contracts with Customers"). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after 1 January 2018).

IFRS 16 ("Leases"), IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after 1 January 2019).

IFRS 10 ("Consolidated Financial Statements") and IAS 28 ("Investments in Associates and Joint Ventures") – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IAS 12 ("Income Taxes") – Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity (effective for annual periods beginning on or after 1 January 2017).

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 (effective for annual periods beginning on or after 1 January 2018).

IAS 40 ("Investment Property") – Amendments to clarify transfers of property to, or from investment property (effective for annual periods beginning on or after 1 January 2018).

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 (effective for annual periods beginning on or after 1 January 2018).

Annual Improvements to IFRSs 2014–2016 Cycle

The "December 2016 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to two standards. These improvements are effective from 1 January 2017 and 1 January 2018. It includes the following amendments:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards" – "Removal of short term exemptions"
- IFRS 12 "Disclosures of Interests in Other Entities" – "Clarifying scope".

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the end of the reporting period that have the most significant effect on the amounts recognised in the financial statements.

Critical Accounting Judgements

Classification of charter agreements as either finance or operating leases

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed unless the provisions of the contract were changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a “substance over form” approach is used. In determining the substance of the transaction the Group considers amongst others the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions, expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

Investments in joint arrangements and associates

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

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

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

Determination of cash generating units for value in use calculations

In determining the CGUs the Group considers various factors including management’s trading strategies, nature and terms of contractual arrangements and actual and predicted employment of the vessels. The Group also considers other factors such as investment and discontinuance decisions, and how management monitors financial performance.

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

Key Sources of Estimation Uncertainty

Carrying amount of vessels and vessels under construction

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

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

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

Recoverability of amounts receivable from charterers

The Group makes allowances for estimated irrecoverable amounts receivable from charterers. Significant judgment is used to estimate the estimated irrecoverable accounts. In estimating irrecoverable accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for estimated irrecoverable amounts recorded in the consolidated financial statements.

Outcomes of legal claims

The Group has been pursuing a number of legal claims, referred to in Note 44. Judgement is applied in estimating outcomes of these legal claims based on legal advice received. Should these judgements be proven to be inaccurate, additional charges or reversal of charges may arise. The majority of the claims received judgment in December 2010 and December 2012 and management has recognised assets and liabilities in relation to these judgments based on legal advice. The Group was unsuccessful on a number of claims in the December 2010 and December 2012 judgments and as a result it is possible that the Group will face further liabilities. The Group’s exposure in respect of these claims is disclosed in Note 44.

6. Freight and Hire Revenue

	2016 $'000	2015 $'000
Freight	533,542	619,107
Hire	854,585	863,895
	1,388,127	1,483,002

7. Voyage Expenses and Commissions

	2016 $'000	2015 $'000
Bunkers	122,148	137,371
Port costs	106,211	87,109
Commissions	11,573	13,059
Other voyage costs	6,009	5,377
	245,941	242,916

8. Vessels' Running Costs

	2016 $'000	2015 $'000
Crew costs	198,255	200,730
Technical costs	80,124	92,530
Insurance costs	18,201	20,461
Lubricating oils	11,469	13,342
Other costs	10,244	11,682
	318,293	338,745

9. Depreciation, Amortisation and Impairment

	2016 $'000	2015 $'000
Vessels' depreciation (Note 15)	271,525	250,035
Vessels' drydock cost amortisation (Note 15)	36,358	35,022
Vessels' impairment provision (Notes 15 and 30)	39,572	23,175
Vessels' reversal of impairment provision (Note 30)	-	(1,148)
Other depreciation and amortisation (Notes 17 and 18)	5,223	5,787
Other impairment (Note 18)	3,112	-
	355,790	312,871

10. General and Administrative Expenses

	2016 $'000	2015 $'000
Administration expenses	97,921	93,614
Non-income based taxes	16,358	11,177
Bank charges and fees	1,366	1,123
	115,645	105,914

Administration expenses are analysed as follows:

	2016 $'000	2015 $'000
Office costs and other general expenses	91,541	87,764
Legal and professional	3,904	3,379
Audit and accountancy	2,476	2,471
	97,921	93,614

Non-income based taxes are analysed as follows:

	2016 $'000	2015 $'000
Irrecoverable value added tax	15,229	10,050
Tonnage tax	1,129	1,127
	16,358	11,177

11. Other Operating Revenues and Expenses

	2016 $'000	2015 $'000
Other operating revenues	18,036	20,215
Cost of sales		
- Wages and salaries	(1,666)	(1,932)
- Payroll taxes	(503)	(592)
- Other cost of sales	(5,043)	(5,010)
Administrative expenses	(1,382)	(1,590)
Other expenses	(302)	(613)
Investment property depreciation (Note 19)	(547)	(1,077)
Other operating expenses	(9,443)	(10,814)
Net other operating income	8,593	9,401

Other operating revenues comprise income from non-core non-vessel operating activities, rental income derived from investment properties (Note 19) and income from the commercial and technical management of vessels belonging to joint ventures and third party owners performed by the Group.

12. Employee Costs

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

	2016 $'000	2015 $'000
Seafarers		
- Short term and other long-term employee benefits	161,270	164,080
- Payroll taxes	1,230	1,657
- Defined contribution pension plans	1,714	1,477
- Long-term service defined benefit plans	6	5
	164,220	167,219
Shore based staff		
- Short-term and other long-term employee benefits	67,522	65,811
- Payroll taxes	9,217	9,535
- Defined contribution pension plans	1,238	1,268
- Long-term service defined benefit plans	109	103
	78,086	76,717
Total employee costs	242,306	243,936

Effective 1 January 2015, the Group introduced a long-term incentive employee benefit plan ("LTIP"), approved by the Company's board of directors, for a selected number of seafarers and shore based personnel. The total duration of the plan is five years with awards payable in years 2018, 2019 and 2020. The plan is unfunded.

Under the LTIP employees will be eligible to receive awards subject to the fulfilment of target key performance indicators ("KPIs") set as part of the Company's strategy (long-term development programme).

The calculation for the period ended 31 December 2016 and 31 December 2015 is based on the assumption that the performance vs. set KPI targets achieved as of period end will be sustained over the entire LTIP evaluation period (2015-2017) and the recipient's continued employment with the Group, as stipulated by the LTIP bylaws. Should this estimation be proven inaccurate and the target KPIs not met, reversal of charges may arise.

These benefits are accounted for as other long-term employee benefits included in non-current trade and other payables (Note 35) in the statement of financial position. Current service costs and related social charges, recognised as employee benefits under the programme, for the period, are included in crew costs under vessels' running costs and in administration expenses under general and administrative expenses in the income statement.

13. Financing Costs

	2016 $'000	2015 $'000
Interest on secured bank loans	54,645	47,589
Interest on interest rate swaps	23,837	30,680
Interest on other loans	45,479	42,562
Interest on finance lease liabilities	11,858	12,487
Other interest	5,751	5,109
Other financing costs (Note 39)	21,094	2,065
	162,664	140,492

14. Segment Information

For management purposes, the Group is organised into business units (operating segments) based on the main types of activities and has five reportable operating segments as follows:

- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2016 and 31 December 2015, the Group's fleet in this segment consisted of 59 crude oil carriers.
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2016, the Group's fleet in this segment consisted of 40 petroleum product carriers (2015 – 34), including 19 chemical and oil carriers (2015 – 16). The 9 (2015 – 9) oil product tankers owned through joint ventures are disclosed in Note 20.
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2016 and 31 December 2015, this segment's fleet consisted of 4 LNG carriers and 4 LPG carriers. The 4 LNG carriers owned through joint ventures are disclosed in Note 20.
- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. As of 31 December 2016, this segment's fleet consisted of 16 shuttle tankers (2015 – 13), 6 ice breaking supply vessels (2015 – 4) and 1 chartered in ice breaking supply vessel (2015 – none).
- Other (<10% of revenue). This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2016 and 31 December 2015, this segment's fleet consisted of 2 bulk carriers and 1 chartered in seismic vessel. This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

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

Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Period ended 31 December 2016

	Crude Oil $'000	Oil Product $'000	Gas $'000	Offshore $'000	Other $'000	Total $'000
Freight and hire revenue	629,977	276,681	141,701	251,729	88,039	1,388,127
Voyage expenses and commissions	(152,533)	(83,337)	(1,058)	(788)	(8,225)	(245,941)
Time charter equivalent revenues	477,444	193,344	140,643	250,941	79,814	1,142,186
Direct operating expenses						
Vessels' running costs	(141,475)	(84,646)	(25,647)	(48,383)	(18,142)	(318,293)
Charter hire payments	(200)	(170)	-	(51)	(25,370)	(25,791)
Net earnings from vessels' trading	335,769	108,528	114,996	202,507	36,302	798,102
Vessels' depreciation	(120,420)	(51,947)	(28,520)	(68,046)	(2,592)	(271,525)
Vessels' drydock cost amortisation	(17,221)	(6,745)	(5,242)	(6,427)	(723)	(36,358)
Vessels' impairment provision (net)	(39,572)	-	-	-	-	(39,572)
Loss on sale of vessels	(159)	(254)	-	-	-	(413)
Non-income based taxes	-	-	-	(5,608)	-	(5,608)
Net foreign exchange gains / (losses)	-	1,583	-	(2,213)	3,236	2,606
Segment operating profit	158,397	51,165	81,234	120,213	36,223	447,232
Unallocated						
General and administrative expenses						(110,037)
Financing costs						(162,664)
Other income and expenses (net)						42,616
Net foreign exchange gains						16,330
Profit before income taxes						233,477
Carrying amount of fleet in operation	2,142,607	1,085,301	942,569	1,662,085	62,803	5,895,365
Deadweight tonnage of fleet used in operations ('000)	7,653	2,449	472	1,328	152	12,054

14. **Segment Information (Continued)**

Period ended 31 December 2015

	Crude Oil $'000	Oil Product $'000	Gas $'000	Offshore $'000	Other $'000	Total $'000
Freight and hire revenue	695,783	314,467	137,826	230,175	104,751	1,483,002
Voyage expenses and commissions	(153,710)	(74,138)	(364)	(1,342)	(13,362)	(242,916)
Time charter equivalent revenues	542,073	240,329	137,462	228,833	91,389	1,240,086
Direct operating expenses						
Vessels' running costs	(154,032)	(95,105)	(22,272)	(47,957)	(19,379)	(338,745)
Charter hire payments	-	-	-	-	(52,812)	(52,812)
Net earnings from vessels' trading	388,041	145,224	115,190	180,876	19,198	848,529
Vessels' depreciation	(115,934)	(46,831)	(26,068)	(58,333)	(2,869)	(250,035)
Vessels' drydock cost amortisation	(18,240)	(6,015)	(4,847)	(5,178)	(742)	(35,022)
Vessels' impairment provision (net)	(5,417)	(6,565)	-	-	(10,045)	(22,027)
Gain / (loss) on sale of vessels	2,561	(923)	-	-	-	1,638
Non-income based taxes	-	-	-	(197)	-	(197)
Net foreign exchange gains / (losses)	-	1,336	-	(815)	(10,734)	(10,213)
Segment operating profit / (loss)	251,011	86,226	84,275	116,353	(5,192)	532,673
Unallocated						
General and administrative expenses						(105,717)
Financing costs						(140,492)
Other income and expenses (net)						84,652
Net foreign exchange gains						660
Profit before income taxes						371,776
Carrying amount of fleet in operation	2,275,627	943,693	973,870	1,130,102	65,250	5,388,542
Carrying amount of non-current assets held for sale	14,550	13,580	-	-	-	28,130
Deadweight tonnage of fleet used in operations ('000)	7,654	1,902	472	1,193	153	11,374

15. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2015	6,779,919	159,654	6,939,573
Expenditure in period	1,193	43,809	45,002
Transfer from vessels under construction (Note 16)	408,836	8,000	416,836
Transfer to non-current assets held for sale (Note 30)	(63,938)	(3,372)	(67,310)
Disposals in period	(54,832)	(1,791)	(56,623)
Write-off of fully amortised drydock cost	-	(41,368)	(41,368)
At 31 December 2015	7,071,178	164,932	7,236,110
Expenditure in period	21,600	14,996	36,596
Transfer from vessels under construction (Note 16)	465,202	4,500	469,702
Acquisitions during the period	340,951	6,955	347,906
Write-off of fully amortised drydock cost	-	(13,818)	(13,818)
Exchange adjustment	-	93	93
At 31 December 2016	7,898,931	177,658	8,076,589
Depreciation, amortisation and impairment			
At 1 January 2015	1,582,218	78,372	1,660,590
Charge for the period	250,035	35,022	285,057
Impairment provision	14,225	-	14,225
Transfer to non-current assets held for sale (Note 30)	(43,446)	(3,127)	(46,573)
Eliminated on disposal	(23,333)	(1,030)	(24,363)
Write-off of fully amortised drydock cost	-	(41,368)	(41,368)
At 31 December 2015	1,779,699	67,869	1,847,568
Charge for the period	271,525	36,358	307,883
Impairment provision	39,572	-	39,572
Write-off of fully amortised drydock cost	-	(13,818)	(13,818)
Exchange adjustment	-	19	19
At 31 December 2016	2,090,796	90,428	2,181,224
Net book value			
At 31 December 2016	5,808,135	87,230	5,895,365
At 31 December 2015	5,291,479	97,063	5,388,542
At 31 December 2014	5,197,701	81,282	5,278,983

	2016	2015	2014
Market value ($'000)	4,491,000	5,092,750	4,777,500
Current insured values ($'000)	6,492,276	5,830,970	5,856,922
Total deadweight tonnage (dwt)	12,049,977	11,243,584	11,390,550

The following vessels were acquired during the period:

Vessel name	Vessel type	Segment	DWT	Date of acquisition
Zaliv Baikal	Aframax tanker LR2	Oil Product	104,527	5 August 2016
SCF Ussuri	Handymax tanker	Oil Product	50,923	12 August 2016
SCF Don	Handymax tanker	Oil Product	50,923	22 August 2016
Zaliv Vostok	Aframax tanker LR2	Oil Product	104,527	24 August 2016
Zaliv Amurskiy	Aframax tanker LR2	Oil Product	104,542	30 August 2016
SCF Anadyr	Handymax tanker	Oil Product	50,973	1 September 2016
SCF Enterprise	Multifunctional ice breaking supply vessel	Offshore	4,482	6 September 2016
SCF Angara	Handymax tanker	Oil Product	50,956	20 September 2016
Zaliv Amerika [1]	Aframax tanker	Crude Oil	104,535	22 September 2016
SCF Irtysh	Handymax tanker	Oil Product	50,975	23 September 2016
SCF Endeavour	Multifunctional ice breaking supply vessel	Offshore	4,482	27 September 2016

[1] Vessel acquired with time charter party attached with a fair value of $1.8 million amortising to 1 June 2017.

15. **Fleet (Continued)**

Summary of fleet at period end:

Type of vessel	Number of vessels		Dwt'000		Carrying value $ million	
	2016	2015	2016	2015	2016	2015
Oil tankers	59	58	7,653	7,548	2,143	2,276
Product carriers	40	32	2,449	1,881	1,085	944
LNG and LPG carriers	8	8	472	472	943	974
Shuttle tankers	16	13	1,301	1,176	1,238	823
Ice breaking supply vessels	6	4	25	17	423	307
Bulk carriers	2	2	150	150	63	65
	131	117	12,050	11,244	5,895	5,389
Vessels held for sale (Note 30)	-	3	-	127	-	28
	131	120	12,050	11,371	5,895	5,417

As at 31 December 2016, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use.

Results of the impairment test for the period ended 31 December 2016

Operating segment	CGU	Methodology	Applied pre tax discount rate	Impairment losses	Recoverable amount
			%	$'000	$'000
Crude oil segment	Aframax crude oil tankers (1 CGU)	Value in use	6.6%	4,979	11,677
Crude oil segment	Aframax crude oil tankers (5 CGUs)	Fair value less cost of disposal (level 2)	n/a	34,593	52,470
				39,572	64,147

The impairment recognised in the period ended 31 December 2016 based on value in use for one aframax crude oil tanker and fair value less costs of disposal for five aframax crude oil tankers resulted from management's decision to dispose of these vessels.

Results of the impairment test for the period ended 31 December 2015

Operating segment	CGU	Methodology	Applied pre tax discount rate	Impairment losses	Recoverable amount
			%	$'000	$'000
Crude oil segment	Aframax crude oil tanker (1 CGU)	Fair value less cost of disposal (level 1)	n/a	5,417	14,550
Other segment	Bulk carriers (2 CGUs)	Value in use	7.1% & 7.2%	7,310	65,472
Other segment	Bulk carrier (1 CGU)	Fair value less cost of disposal (level 2)	n/a	1,498	6,188
				14,225	86,210

The impairment recognised in the period ended 31 December 2015 based on value in use related to the Group's two bulk carriers, not held for sale, and resulted from the deterioration of the bulker market and current market expectations for freight rate estimates. The impairment recognised in the period ended 31 December 2015 based on fair value (determined in accordance to the sale agreements where relevant) less costs of disposal resulted from management's decision to dispose of one of its bulk carriers and one of its aframax crude oil tankers. Both vessels were reclassified as held for sale in the statement of financial position as at 31 December 2015.

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

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

- Contracted hire rates, for vessels on time charter, until the expiry of the current agreements;
- Freight rate estimates in the years 2017 to 2019 based on the Group's approved revenue budgets;
- Freight rate estimates after 2019 based on the historical ten year earnings averages for each type of vessel, obtained from independent brokers' research applying a growth rate of 3% per annum until the vessel reaches fifteen years of age;
- Operating expenses based on the Group's operating budget approved by the Group for 2017 and increasing at a rate of 3% per annum;
- Annual utilisation for each vessel of 363 days based on the fleet's historical performance less any scheduled estimated drydocking period based on the Group's approved drydock plan, and thereafter 363 days less the maximum number of days in drydock based on the previously approved plan;
- Use of the vessels until the end of their useful economic life, unless the vessels are sold or planned to be sold; and
- Discount rates between 6.6% to 8.5% pre-tax (2015 – 6.7% to 8.7% pre-tax), depending on the remaining useful economic life of each vessel and the area it trades.

15. **Fleet (Continued)**

The following sensitivity analysis has been performed by management as at the period end, for 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 $67.7 million (2015 – $56.8 million);
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $1.8 million (2015 – $14.1 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 $3.6 million.

During the period ended 31 December 2016 management have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to increase the depreciation charge by $1.1 million (2015 – increase of $2.4 million).

Expenditure in period for vessels includes an amount of $8.5 million of modification relating to legislative requirements for which installation on board the vessels has not yet been completed.

Included in the Group's fleet are 2 vessels (2015 – 2) held under finance leases with an aggregate carrying value of $185.1 million (2015 – $195.2 million). The depreciation and amortisation charge in the period in respect of these vessels amounted to $10.1 million (2015 – $8.9 million) (see also Note 37).

16. **Vessels Under Construction**

	2016 $'000	2015 $'000
At 1 January	368,453	237,250
Expenditure in period	327,063	548,039
Transfer to fleet (Note 15)	(469,702)	(416,836)
At 31 December	225,814	368,453
Total deadweight tonnage (dwt)	107,800	233,800

Vessels under construction at 1 January 2016 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel, three MIB standby vessels and three ice-class shuttle tankers at a total contracted cost to the Group of $1,279.0 million.

Vessels delivered during the period comprised the following:

Vessel name	Vessel type	Segment	DWT	Delivery date
Shturman Albanov	Ice-class shuttle tanker	Offshore	41,455	16 August 2016
Shturman Malygin	Ice-class shuttle tanker	Offshore	41,542	7 October 2016
Shturman Ovtsyn	Ice-class shuttle tanker	Offshore	41,551	8 December 2016

Vessels under construction at 31 December 2016 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel and three MIB standby vessels scheduled for delivery between March 2017 and November 2017 at a total contracted cost to the Group of $837.9 million. As at 31 December 2016, $199.4 million of the contracted costs had been paid for.

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

Included in expenditure in the period is an amount of $10.0 million (2015 – $17.5 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)). The interest capitalised includes interest on general borrowings of $5.0 million (2015 – $5.1 million) capitalised using a weighted average interest rate of 3.60% per annum (2015 – 3.43% per annum).

As at 31 December 2016 management carried out an impairment test of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(t)). The testing did not result in any indication that vessels under construction may have suffered an impairment loss.

17. **Intangible Assets**

	2016 $'000	2015 $'000
Cost		
At 1 January	9,167	7,540
Additions in period	667	1,822
Disposals in period	(2,768)	-
Exchange adjustment	(13)	(195)
At 31 December	7,053	9,167
Amortisation		
At 1 January	4,499	3,551
Charge for the period	1,197	997
Disposals in period	(2,606)	-
Exchange adjustment	2	(49)
At 31 December	3,092	4,499
Net book value		
At 31 December	3,961	4,668

Intangible assets comprise computer software.

18. **Other Property, Plant and Equipment**

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2015	67,419	47,095	114,514
Additions in period	30	1,592	1,622
Transfer to investment property (Note 19)	(1,015)	(925)	(1,940)
Disposals in period	(1,483)	(5,931)	(7,414)
Exchange adjustment	(3,805)	(5,829)	(9,634)
At 31 December 2015	61,146	36,002	97,148
Additions in period	150	4,394	4,544
Transfer to non-current assets held for sale (Note 30)	(293)	(1,336)	(1,629)
Disposals in period	(493)	(775)	(1,268)
Exchange adjustment	981	2,427	3,408
At 31 December 2016	61,491	40,712	102,203
Depreciation			
At 1 January 2015	13,374	30,483	43,857
Charge for the period	1,476	3,314	4,790
Transfer to investment property (Note 19)	(1,046)	(806)	(1,852)
Disposals in period	(902)	(4,506)	(5,408)
Exchange adjustment	(1,056)	(3,467)	(4,523)
At 31 December 2015	11,846	25,018	36,864
Charge for the period	1,233	2,793	4,026
Impairment provision	3,112	-	3,112
Transfer to non-current assets held for sale (Note 30)	(167)	(230)	(397)
Disposals in period	(188)	(752)	(940)
Exchange adjustment	72	720	792
At 31 December 2016	15,908	27,549	43,457
Net book value			
At 31 December 2016	45,583	13,163	58,746
At 31 December 2015	49,300	10,984	60,284
At 31 December 2014	54,045	16,612	70,657

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

As at 31 December 2016, management carried out an assessment of whether there is any indication that other property, plant and equipment may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use and concluded that the cruise terminal in Sochi (a Cruise terminal CGU) was impaired. The impairment recognised in the period ended 31 December 2016, based on value in use, in respect of the Cruise terminal CGU, amounted to $3.1 million. The recoverable amount of the Cruise terminal CGU of $2.0 million was based on value in use. The main inputs and assumptions used in the value in use calculations were: probabilities assigned to each of the possible scenarios considered by the Group, revenues and expenses based on the Group's three year budgets, a terminal growth rate of 3% on both revenues and expenses, and a pre-tax discount rate of 13.0%.

19. **Investment Property**

	2016 $'000	2015 $'000
Cost		
At 1 January	26,946	28,149
Additions in period	37	-
Transfer from other property, plant and equipment (Note 18)	-	1,940
Transfer to non-current assets held for sale (Note 30)	(7,341)	-
Disposals in period	(25)	(3)
Exchange adjustment	871	(3,140)
At 31 December	20,488	26,946
Depreciation		
At 1 January	19,478	17,808
Charge for the period (Note 11)	547	1,077
Transfer from other property, plant and equipment (Note 18)	-	1,852
Transfer to non-current assets held for sale (Note 30)	(454)	-
Exchange adjustment	53	(1,259)
At 31 December	19,624	19,478
Net book value		
At 31 December	864	7,468
Rental income from investment property	1,277	1,420
Direct operating expenses of investment property	767	523

Investment property comprises buildings in Moscow, Novorossiysk and Sochi with a fair value, based on valuations performed by independent qualified valuers as at 31 December 2016, equivalent to $25.6 million (2015 – equivalent to $35.1 million).

20. Investments in Joint Ventures

	2016 $'000	2015 $'000
At 1 January	98,306	82,430
Investment in joint venture during the period	-	107
Long-term interest repayment from joint venture	(1,177)	-
Share of profits in joint ventures	12,904	15,731
Share of joint ventures' other comprehensive income	8,275	6,013
Dividends receivable	(3,547)	(2,731)
Release of provision for share in net liabilities of joint ventures	-	(3,244)
At 31 December	114,761	98,306

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

	Percentage holding				
Name of entity	2016	2015	2014	Country of incorporation	Principal activity
LNG East-West Shipping Company (Singapore) Pte Limited[1]	37.5%	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Anubis Shipholding Limited[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Ltd.[1]	51.0%	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc[1]	51.0%	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies
Eastern Supply Vessels Limited[2]	50.0%	50.0%	50.0%	Russia	Ship chartering and subchartering services
SSV Sakhalin Offshore Limited[2]	50.0%	50.0%	50.0%	Cyprus	Ship chartering and subchartering services
SCF Swire Offshore Pte Limited[2]	50.0%	50.0%	50.0%	Singapore	Ship management

[1] All key business decisions require joint approval by the shareholders

[2] Effective ownership 33.3%. Ceased operations in September 2016

The Group through its joint ventures owns and operates 4 LNG carriers (2015 – 4) and 9 Panamax oil product tankers (LR1) (2015 – 9). The Group also operated through its joint ventures, up to September 2016, 3 ice breaking supply vessels (2015 – 3) one of which it directly owns. In September 2016 the Group acquired from its joint venture partners the two ice breaking supply vessels they owned (see Note 15).

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

	2016 $'000	2015 $'000
Within one year	90,418	143,554
After one year but not more than five years	372,603	533,628
More than five years	500,885	636,166
	963,906	1,313,348

20. **Investments in Joint Ventures (Continued)**

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

At 31 December 2016	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	Other $'000	Total $'000
Total non-current assets	138,286	142,471	144,453	144,902	362,240	-	932,352
Total current assets	21,267	18,200	15,302	23,752	40,371	2,981	121,873
Total non-current liabilities	(129,012)	(135,940)	(110,809)	(120,116)	(225,401)	-	(721,278)
Total current liabilities	(9,583)	(12,271)	(19,310)	(18,285)	(45,382)	(470)	(105,301)
Net assets of the joint venture	20,958	12,460	29,636	30,253	131,828	2,511	227,646
Group's share in net assets of the joint venture	7,859	6,230	14,818	15,127	67,232	851	112,117
Long-term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	7,859	6,230	14,818	15,127	69,876	851	114,761
Cash and cash equivalents	1,790	1,281	3,251	4,960	4,956	2,825	19,063
Current financial liabilities	(9,554)	(12,058)	(14,702)	(15,888)	(27,890)	-	(80,092)
Non-current financial liabilities	(129,012)	(135,940)	(110,809)	(120,116)	(225,401)	-	(721,278)
Revenues	24,824	25,162	23,196	23,153	81,593	28,342	206,270
Depreciation, amortisation and impairment	(5,968)	(5,971)	(6,723)	(6,346)	(18,077)	(728)	(43,813)
Interest income	59	48	21	27	20	-	175
Interest expense	(7,654)	(7,273)	(6,294)	(6,679)	(10,900)	-	(38,800)
Income tax	(328)	(333)	-	-	-	38	(623)
Joint ventures' profits for the period	6,281	6,280	5,852	6,526	1,326	1,589	27,854
Group's share of joint ventures' profits for the period recognised	2,355	3,140	2,926	3,263	676	544	12,904
Joint ventures' other comprehensive income for the period	4,486	4,096	3,914	4,024	1,122	-	17,642
Group's share of joint ventures' other comprehensive income for the period recognised	1,682	2,048	1,957	2,012	572	4	8,275
Joint ventures' total comprehensive income for the period	10,767	10,376	9,766	10,550	2,448	1,589	45,496
Group's share of joint ventures' total comprehensive income for the period recognised	4,037	5,188	4,883	5,275	1,248	548	21,179

20. **Investments in Joint Ventures (Continued)**

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

At 31 December 2015	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	Other $'000	Total $'000
Total non-current assets	144,254	145,673	151,175	151,233	379,639	6,119	978,093
Total current assets	18,671	19,007	14,803	26,004	46,730	13,648	138,863
Total non-current liabilities	(137,328)	(145,904)	(126,376)	(138,616)	(248,623)	(139)	(796,986)
Total current liabilities	(10,040)	(16,691)	(19,732)	(18,918)	(48,367)	(14,118)	(127,866)
Net assets of the joint venture	15,557	2,085	19,870	19,703	129,379	5,510	192,104
Group's share in net assets of the joint venture	5,834	1,043	9,935	9,852	65,983	1,838	94,485
Long-term interests in the joint venture	-	-	-	-	2,644	1,177	3,821
Carrying amount of the investment in joint venture	5,834	1,043	9,935	9,852	68,627	3,015	98,306
Cash and cash equivalents	6,350	3,240	3,276	6,526	13,349	7,412	40,153
Current financial liabilities	(10,010)	(16,477)	(15,147)	(16,333)	(35,015)	(3,531)	(96,513)
Non-current financial liabilities	(137,328)	(145,904)	(126,376)	(138,616)	(248,623)	-	(796,847)
Revenues	23,950	24,732	21,638	21,504	91,502	39,389	222,715
Depreciation, amortisation and impairment	(5,844)	(6,217)	(6,323)	(6,099)	(18,061)	(1,235)	(43,779)
Interest income	17	14	-	1	8	-	40
Interest expense	(7,882)	(7,538)	(6,619)	(6,969)	(11,556)	-	(40,564)
Income tax	(317)	(328)	-	-	-	(877)	(1,522)
Joint ventures' profits for the period	5,090	5,801	4,431	4,244	12,122	1,497	33,185
Group's share of joint ventures' profits for the period recognised	1,909	2,901	2,216	2,122	6,182	401	15,731
Joint ventures' other comprehensive income for the period	2,836	2,773	3,160	3,198	766	-	12,733
Group's share of joint ventures' other comprehensive income for the period recognised	1,064	1,387	1,580	1,599	391	(8)	6,013
Joint ventures' total comprehensive income for the period	7,926	8,574	7,591	7,442	12,888	1,497	45,918
Group's share of joint ventures' total comprehensive income for the period recognised	2,973	4,288	3,796	3,721	6,573	393	21,744

21. Loans to Joint Ventures

	2016 $'000	2015 $'000	2014 $'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	32,197	40,476	44,380
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	18,127	20,312	20,312
	50,324	60,788	64,692
Less current portion (current assets)	(4,750)	(8,320)	(4,750)
Non-current portion (non-current assets)	45,574	52,468	59,942
Interest income during the period on loans due from joint ventures	1,160	1,054	1,066
Interest receivable at period end on loans due from joint ventures	2,505	2,293	1,607

The loans to joint ventures are unsecured and mature between February 2019 and January 2025. The joint ventures have the right to repay the loans in part or in full at any time before maturity.

22. Finance Lease Receivables

	2016 $'000	2015 $'000	2014 $'000
Gross finance lease receivable			
At 1 January	81,325	85,518	89,136
Finance lease interest receivable	11,458	12,562	13,137
Finance lease instalments receivable	(16,136)	(16,755)	(16,755)
Settlement of finance lease receivable	(67,572)	-	-
	9,075	81,325	85,518
Finance lease receivable written-off on settlement	(9,075)	-	-
At 31 December	-	81,325	85,518
Allowance for credit losses			
At 1 January	(9,494)	(9,856)	(6,572)
Release of allowance / (allowance for) credit losses	419	362	(3,284)
Release of allowance on settlement of finance lease receivable	9,075	-	-
At 31 December	-	(9,494)	(9,856)
Receivable net of provision	-	71,831	75,662
Less current finance lease receivables	-	(4,875)	(4,193)
Non-current finance lease receivables	-	66,956	71,469

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

	Minimum lease instalments		Present value of minimum lease instalments	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Within one year	-	16,801	-	4,875
After one year but not more than five years	-	67,067	-	28,632
More than five years	-	53,461	-	38,324
	-	137,329	-	71,831
Less unearned income	-	(65,498)	-	-
Present value of minimum lease instalments	-	71,831	-	71,831

Finance lease receivables comprised nine Escort tugs chartered out to a subsidiary of a Russian State controlled entity, a former associate, on fifteen year bareboat charters commencing on delivery of the tugs by the shipyards, at effective interest rates ranging from 11.96% to 18.39% per annum.

The charter hires were receivable monthly in arrears at daily rates ranging from $3,411 to $7,083 through to expiration of the charters. The charterer had the option to acquire the tugs on any hire payment date through to the expiration of the charter, provided that the charterer had fulfilled all obligations under the bareboat charter agreements, at predetermined prices. In November 2016 the charterer exercised its option to acquire the tugs for a total consideration of $67.6 million. Legal ownership of the tugs was transferred to their new owners during December 2016.

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

23. Derivative Financial Instruments

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

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

	2016 $'000	2015 $'000	2014 $'000
Non-current asset	7,146	8,050	7,438
Current asset	373	-	-
Non-current liability	(21,624)	(32,135)	(37,808)
Current liability	(15,446)	(22,929)	(24,836)
	(29,551)	(47,014)	(55,206)

Hedging instruments

	2016 $'000	2015 $'000
At 1 January	47,014	55,206
Recycled during the period and credited to the income statement	(22,873)	(25,050)
Fair value movement during the period recognised in other comprehensive income	6,442	17,541
Fair value movement during the period credited to the income statement	(1,032)	(683)
At 31 December	29,551	47,014

The Group entered into interest rate swap ("IRS") agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. As of 31 December 2016 the Group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to U.S. Dollar three and six month LIBOR as follows:

U.S. Dollar LIBOR compared to fixed rate	Notional amount 2016 $'000	Notional amount 2015 $'000	Fixed interest rate	Expiry date
Three month	-	21,780	4.47%	12 December 2016
Three month	21,000	26,600	2.02%	22 July 2017
Three month	150,000	200,000	0.89%	12 December 2019
Three month	14,970	16,217	2.02%	13 August 2020
Three month	14,970	16,217	2.01%	13 August 2020
Three month	33,670	36,476	2.07%	31 December 2020
Three month	230,925	255,075	5.76%	1 March 2021
Three month	129,033	139,567	2.44%	29 January 2024
Three month	133,960	144,467	2.27%	29 August 2024
Six month	53,333	60,000	1.63%	21 December 2024
Three month	140,770	151,394	1.98%	9 January 2025
Three month	143,426	154,050	1.86%	20 April 2025
	1,066,057	1,221,843		

24. Income Taxes

	2016 $'000	2015 $'000
Russian Federation profit tax	22,929	21,475
Overseas income tax expense	644	777
Current income tax expense	23,573	22,252
Deferred tax	3,111	(4,948)
Total income tax expense	26,684	17,304

Russian Federation profits tax is payable in Roubles at a tax rate of 20% (2015 – 20%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxes are also payable on the results of the Group's overseas management and agency and broking subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions historically utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Under the laws of the countries of incorporation and / or vessel registration, a number of vessel owning and operating subsidiaries are subject to tax on international shipping income. Management is of the opinion that the Group is fully compliant with the respective tax regime of the countries of incorporation of the vessel owning companies and / or vessel registration.

On 24 November 2014 Federal Law No. 376-FZ of the Russian Federation, effective 1 January 2015, concerning the introduction of amendments to part one and two of the Tax Code of the Russian Federation (regarding the taxation of profit of Controlled Foreign Companies ("CFC") and tax residence of Foreign Companies in Russia) was enacted. Based on the current interpretation of the Law, the majority of the Group's CFC which generate more than 20% of their revenue from passive activities, subject to a maximum profit exemption, as defined by the Law, are subject to Russian profits tax on their undistributed profits generated after 1 January 2015, provided that such profits are not distributed as dividends until 31 December of the year following the period when the profits are generated. The Group has not incurred any additional tax liabilities as a result of the enactment of this Law.

24. **Income Taxes (Continued)**

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

	2016 $'000	2015 $'000
Profit before income taxes	233,477	371,776
Income tax charge using Russian Federation income tax rate of 20%	46,695	74,355
Difference in tax rates in other jurisdictions including tonnage tax	(31,859)	(67,537)
Tax effect on intercompany dividends[1]	14,686	11,879
Non-deductible expenses and non-taxable income	(2,790)	1,506
Tax losses recognised during the period	-	(3,303)
Adjustments in respect of current income tax of previous years	(48)	-
Tax effect on disposal of subsidiary	-	404
Income tax expense	26,684	17,304

[1] Includes tax of $14.3 million on intercompany dividends declared during the period ended 31 December 2016 and paid in 2017.

Deferred Tax

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2016				
Deferred tax assets	7,387	(3,137)	413	4,663
Deferred tax liabilities	(776)	26	(108)	(858)
	6,611	(3,111)	305	3,805
At 31 December 2015				
Deferred tax assets	3,575	4,556	(744)	7,387
Deferred tax liabilities	(1,258)	392	90	(776)
	2,317	4,948	(654)	6,611

Deferred tax relates to the following:

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2016				
Fleet	79	739	-	818
Drydock	(645)	65	(121)	(701)
Unused tax losses carried forward	3,968	(3,123)	297	1,142
Accounts receivable	167	(337)	8	(162)
Accounts payable	2,592	(178)	67	2,481
Gains on disposal of assets reinvested	(79)	79	-	-
Other	529	(356)	54	227
	6,611	(3,111)	305	3,805
At 31 December 2015				
Fleet	559	(480)	-	79
Drydock	(270)	(517)	142	(645)
Unused tax losses carried forward	607	3,928	(567)	3,968
Accounts receivable	(198)	367	(2)	167
Accounts payable	1,644	948	-	2,592
Bank loans	4	(4)	-	-
Gains on disposal of assets reinvested	(563)	484	-	(79)
Other	534	222	(227)	529
	2,317	4,948	(654)	6,611

The Group has tax losses which arose in Spain of $14.5 million (2015 – $15.0 million in Spain), for which a deferred tax asset has not been recognised on the basis that the company in which the losses arose ceased operations in 2016. In 2015 the Group recognised deferred tax assets of $3.9 million relating to certain operations in Russia, based on the projected results of those operations, supported by contracted revenues in subsequent periods. Some of the unused tax losses were offset against taxable profits generated during the period ended 31 December 2016 resulting in a release of deferred tax assets of $3.1 million.

There is no deferred tax impact on the unremitted earnings of subsidiaries, joint ventures or associates. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,898.5 million (2015 – $2,890.2 million).

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

25. **Earnings Per Share**

	2016 $'000	2015 $'000
Net profit attributable to equity holders of the parent for basic earnings	202,490	339,461
	2016	**2015**
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic earnings per share for the period attributable to holders of the parent	$0.103	$0.173

26. **Inventories**

	2016 $'000	2015 $'000	2014 $'000
Bunkers	32,222	17,644	24,305
Lubricants	17,618	17,168	17,454
Victualling and slopchest	1,835	1,595	2,026
Spare parts and consumables	730	476	1,195
Other	963	685	845
	53,368	37,568	45,825

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

27. **Trade and Other Receivables**

	2016 $'000	2015 $'000	2014 $'000
Non-current assets			
Financial assets			
Other receivables	83	104	180
Receivables under High Court judgement award	2,700	2,708	-
	2,783	2,812	180
Current assets			
Financial assets			
Amounts due from charterers	75,279	96,289	82,272
Allowance for credit losses	(3,520)	(5,166)	(4,214)
	71,759	91,123	78,058
Casualty and other claims	6,945	11,191	3,887
Agents' balances	2,756	2,606	5,364
Other receivables	24,031	21,135	16,255
Liquidated damages on vessels under construction receivable from shipyard	11,800	-	-
Amounts due from joint ventures	473	491	280
Amounts due from lessee for finance leases	764	1,423	1,869
Receivables under High Court judgement award	-	-	2,708
Accrued income	3,426	5,365	5,030
Non-financial assets			
Prepayments	20,302	11,385	11,378
Voyages in progress	25,295	23,809	16,359
Non-income based taxes receivable	5,471	6,077	7,924
	173,022	174,605	149,112

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

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

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2016, $17.4 million (2015 – $59.2 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2016, charterers with a carrying amount of $54.4 million (2015 – $31.9 million) are past due at the reporting date. The Group has not provided for these receivables as either there has not been a significant change in credit quality or the recoverability of such amounts has been secured through the exercise of contractual liens over the cargo and its arrests (see also Note 42 (d) – credit risk) and therefore the amounts outstanding are still considered recoverable.

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

	2016 $'000	2015 $'000	2014 $'000
Up to one month	18,898	18,809	15,009
One to two months	10,192	6,452	5,460
Two to three months	3,146	2,535	2,592
Three to four months	4,663	1,450	100
More than four months	17,458	2,619	6,213
	54,357	31,865	29,374

27. **Trade and Other Receivables (Continued)**

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

	2016 $'000	2015 $'000	2014 $'000
At 1 January	5,166	4,214	4,135
Amounts written off during the period	(1,354)	(109)	(102)
Amounts recovered during the period and recognised in the income statement	(319)	(252)	(3)
Increase in allowance recognised in the income statement	27	1,313	184
At 31 December	3,520	5,166	4,214

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

28. **Restricted Cash**

	2016 $'000	2015 $'000	2014 $'000
Non-current assets			
Financial assets			
Restricted cash	-	13,190	17,183
	-	13,190	17,183
Current assets			
Financial assets			
Restricted cash	72,079	-	6,060
	72,079	-	6,060

Restricted cash in 2016 represents payment into court, as security deposit, of judgment sum and payment on account of costs in relation to the legal claims described in Note 44.

Restricted cash in 2015 related to an amount, including accrued interest, of $13.2 million (2014 - $13.2 million) that was held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, as a result of a claim advanced by the charterers of the vessel at the time, relating to the grounding of the vessel in the Suez canal in November 2004. The claim is in arbitration in London and was heard in May 2016. The Tribunal's Award was published on 29 July 2016. By that Award the Tribunal rejected charterer's claim and awarded owners approximately $1.0 million inclusive of interest in relation to their counterclaim. Costs were reserved. The time limit for the charterers to seek permission to appeal was 27 August 2016. No appeal has been pursued and the above Award is now final with steps being taken to enforce it and have the costs of the proceedings determined. The security deposits, net of commission of $0.2 million charged by the American Courts has been returned to the Group in October 2016.

Included in restricted cash in 2014 is an amount of $10.1 million, of which $6.1 million classified as current assets, representing securities placed to the Court's Funds Office to cover for potential legal costs of the defendants connected with the claims described in Note 44. These amounts were released in 2015, of which $4.0 million was released on the Group's lawyers' client account.

29. **Cash and Bank Deposits**

	2016 $'000	2015 $'000	2014 $'000
Non-current assets			
Bank deposits	10,000	10,000	12,315
Restricted deposits	(10,000)	(10,000)	(12,315)
Cash and cash equivalents	-	-	-
Current assets			
Cash and bank deposits	470,638	357,427	272,201
Bank deposits accessible on maturity	(15,000)	-	(1,442)
Retention accounts	(22,846)	(23,901)	(16,919)
Restricted deposits	-	(846)	-
Cash and cash equivalents	432,792	332,680	253,840

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

Under the terms of the agreements, two subsidiaries of the Group have to maintain freely available bank balances and cash in the amount of not less than $35.0 million and $25.0 million respectively. In addition under the terms of the agreements, one of the two subsidiaries has to maintain minimum liquidity of the higher of $50.0 million and 7.5% of total debt and at least 50% of the minimum liquidity has to be maintained in cash and cash equivalents. The amount of cash and cash equivalents that had to be maintained under the terms of the agreements as at 31 December 2016 were $62.7 million (2015 – $52.0 million) and $25.0 million (2015 – $25.0 million) respectively.

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

30. **Non-Current Assets Held for Sale**

	Property and other plant and equipment $'000	Fleet $'000	Total $'000
At 1 January 2015	-	93,163	93,163
Transfer from fleet (Note 15)	-	20,737	20,737
Impairment provision	-	(8,950)	(8,950)
Reversal of impairment provision	-	1,148	1,148
Disposals in period	-	(77,968)	(77,968)
At 31 December 2015	-	28,130	28,130
Transfer from investment property (Note 19)	6,887	-	6,887
Transfer from other property, plant and equipment (Note 18)	1,232	-	1,232
Exchange adjustment	241	-	241
Disposals in period	-	(28,130)	(28,130)
At 31 December 2016	8,360	-	8,360

As at 31 December 2015, non-current assets held for sale, comprised two chemical oil product tankers and one crude oil aframax carrier which were all disposed of in January and February 2016.

During the period ended 31 December 2016, the Group classified as held for sale an exhibition centre in Sochi, Russia, and the international hall building of the port of Sochi, both held as investment property, as well as other related plant and equipment. The property and other plant and equipment were actively marketed for sale at a price approximate to their fair value (see also Note 46).

31. **Share Capital**

	2016 $'000	2015 $'000	2014 $'000
Authorised 2,247,653,953 shares of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012	405,012
Share premium arising from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 32)	818,845	818,845	818,845

32. **Group Reconstruction Reserve**

	2016 $'000	2015 $'000	2014 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)	(843,450)
	(834,490)	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 Roubles ($1.40071) per share (see also Note 31), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests' basis.

33. **Dividends**

Dividends of Rouble 3.04 per share totalling Roubles 5,972.7 million, equivalent to $92.9 million were declared on 30 June 2016 and paid on 11 July 2016 (2015 – 0.57 Rouble per share totalling Roubles 1,126.0 million, equivalent to $20.5 million).

34. **Non-Controlling Interests**

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2015	(4,006)	160,395	156,389
Profit for the period	-	15,011	15,011
Other comprehensive income	(1,465)	(59)	(1,524)
Dividends	-	(8,196)	(8,196)
Acquisition of non-controlling interest by equity holders	54	(1,812)	(1,758)
At 31 December 2015	(5,417)	165,339	159,922
Profit for the period	-	4,303	4,303
Other comprehensive income	(11)	(5)	(16)
Dividends	-	(13,217)	(13,217)
Acquisition of non-controlling interest by equity holders	20	(566)	(546)
At 31 December 2016	(5,408)	155,854	150,446

35. **Trade and Other Payables**

	2016 $'000	2015 $'000	2014 $'000
Non-current liabilities			
Financial liabilities			
Other payables	1,119	-	-
Non-financial liabilities			
Employee benefit obligations (Note 12)	36,385	16,045	330
	37,504	16,045	330
Current liabilities			
Financial liabilities			
Trade payables	46,032	36,406	57,500
Other payables	45,886	46,384	29,347
Dividends payable	15,986	7,604	1,235
Accrued liabilities	46,292	37,535	41,763
Accrued interest	17,299	20,436	17,072
Non-financial liabilities			
Deferred revenue	29,985	23,319	24,072
Non-income based taxes payable	13,304	9,992	13,009
	214,784	181,676	183,998

36. **Secured Bank Loans**

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

	2016 $'000	2015 $'000	2014 $'000
Repayable			
- within twelve months after the end of the reporting period	290,460	289,142	394,652
- between one to two years	309,162	238,866	297,782
- between two to three years	390,830	226,236	242,370
- between three to four years	227,658	359,061	240,886
- between four to five years	246,686	170,834	270,927
- more than five years	729,029	601,437	535,991
	2,193,825	1,885,576	1,982,608
Less current portion	(290,460)	(289,142)	(394,652)
Non-current balance	1,903,365	1,596,434	1,587,956

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

Contractual interest rates	Interest rate 2016	Interest rate 2015	Outstanding loans gross of direct issue costs 2016 $'000	Outstanding loans gross of direct issue costs 2015 $'000	Maturity
Floating rate loans between 0.85%-3.00% per annum	Libor+2.15%[1]	Libor+2.09%[1]	1,807,030	1,784,510	Between January 2017 - December 2024
Fixed rate	-	4.75%	-	13,200	July 2018 (repaid in October 2016)
Fixed rate	5.19%	5.19%	12,441	18,281	July 2019
Fixed rate	-	5.50%	-	21,647	April 2016
Fixed rate	4.15%	4.15%	56,667	63,333	April 2025
Fixed rate	7.50%	-	336,242	-	December 2028
			2,212,380	1,900,971	

[1] Weighted average margin for the period

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

As security for the loans, the lenders have first preferred mortgages on the Group's vessels with an aggregate carrying value at 31 December 2016 of $4,370.4 million (2015 – $3,965.8 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 16 and pledges of shares in certain of the vessel owning companies.

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

37. **Finance Lease Liabilities**

	2016 $'000	2015 $'000	2014 $'000
Repayable			
- within twelve months after the end of the reporting period	173,690	10,120	9,481
- between one to two years	-	173,690	10,120
- between two to three years	-	-	173,690
	173,690	183,810	193,291
Less current portion	(173,690)	(10,120)	(9,481)
Non-current balance	-	173,690	183,810

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

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

38. **Retirement Benefit Obligations**

	2016 $'000	2015 $'000	2014 $'000
Post retirement pension benefit plans	2,105	1,757	2,036
Long-term service retirement benefit plans	1,314	1,310	1,354
Total obligations	3,419	3,067	3,390

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

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

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

	2016 $'000	2015 $'000	2014 $'000
Defined benefit obligation at 1 January	1,757	2,036	4,978
Interest cost	185	212	317
Benefits paid	(259)	(328)	(555)
Exchange adjustment	354	(412)	(1,689)
Re-measurement of losses / (gains) recognised in other comprehensive income	68	249	(1,015)
Defined benefit obligation at 31 December	2,105	1,757	2,036

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

Defined benefit obligation at 1 January	1,310	1,354	2,427
Current service costs	31	31	58
Interest cost	84	77	110
Benefits paid	(203)	(263)	(565)
Exchange adjustment	112	(190)	(439)
Re-measurement of (gains) / losses recognised in other comprehensive income	(20)	301	(237)
Defined benefit obligation at 31 December	1,314	1,310	1,354

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

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current service cost	-	-	31	31	31	31
Interest cost	185	212	84	77	269	289
Exchange adjustment	354	(412)	112	(190)	466	(602)
Charged in the income statement	539	(200)	227	(82)	766	(282)
Experience adjustments on obligation	(74)	(10)	(148)	127	(222)	117
Actuarial changes arising from changes in demographic assumptions	22	-	24	-	46	-
Actuarial changes arising from changes in financial assumptions	120	259	104	174	224	433
Re-measurement losses / (gains) recognised in other comprehensive income	68	249	(20)	301	48	550

38. **Retirement Benefit Obligations (Continued)**

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

	2016	2015
Discount rate for cash flows in Russian Roubles	8.37%	9.68%
Discount rate for cash flows in US Dollars	0.81%	1.09%
Future salary increases in Russian Roubles	5.00%	10.00%
Future salary increases in US Dollars	-	-
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 60	17	17
Life expectancy in years of a female pensioner retiring at the age of 55	27	26
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	7.1	6.7
The average duration of the defined benefit plan obligation for long-term service retirement pension benefit plans	5.8	5.7

The Group expects to make benefit payments of $0.5 million (2015 – $0.5 million) in respect of the defined benefit plans in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 and 31 December 2015 is as shown below:

	2016 (Decrease) / increase in net defined benefit obligation		2015 (Decrease) / increase in net defined benefit obligation	
	50 bps increase $'000	50 bps decrease $'000	50 bps increase $'000	50 bps decrease $'000
Discount rate	(80)	86	(70)	74
Future salary increases	37	(34)	32	(29)

	2016 (Decrease) / increase in net defined benefit obligation		2015 (Decrease) / increase in net defined benefit obligation	
	100 bps increase $'000	100 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
Future pension cost increases	84	-	70	-
	Increase by 1 year $'000	Decrease by 1 year $'000	Increase by 1 year $'000	Decrease by 1 year $'000
Life expectancy of male pensioners	75	(82)	58	(64)
Life expectancy of female pensioners	39	(42)	28	(30)

39. **Other Loans**

	2016 $'000	2015 $'000	2014 $'000
$800 million 5.375% Senior Notes due in 2017	139,896	799,089	798,591
$750 million 5.375% Senior Notes due in 2023	737,076	-	-
Other loans from related party	-	93,387	44,291
	876,972	892,476	842,882
Less current portion	(139,896)	(16,984)	-
Non-current balance	737,076	875,492	842,882

On 27 October 2010, the Group, through its subsidiary SCF Capital Designated Activity Company (formerly SCF Capital Limited) ("SCF Capital"), issued Senior Notes (the "Old Notes") of $800 million, redeemable at par value, maturing on 27 October 2017. Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011.

On 16 June 2016, the Group, through SCF Capital, issued $750 million of Senior Notes (the "New Notes"), redeemable at par value, maturing on 16 June 2023. Interest accrues at 5.375% from 16 June 2016 and is payable semi-annually in arrears on 16 June and 16 December of each year, commencing on 16 December 2016. The New Notes were used to partly refinance the Old Notes. A total amount of $660,045,000 of the Old Notes was tendered back to the company at a price of $104.125 per $100 par value. Of the $27.2 million premium paid on the tendered bonds, $18.1 million has been expensed to profit and included in financing costs in the income statement for the period ended 31 December 2016. The balance of $9.1 million relating to refinancing of the Old Notes with New Notes has been netted off against the proceeds raised from the New Notes. Both the Old Notes and the New Notes are unsecured and guaranteed by Sovcomflot. There are no equity conversion rights or options attached to either Notes. Both the Old and New Notes are included above net of unamortised financing costs. Interest charged during the period amounted to $45.5 million (2015 – $43.0 million of which $0.4 million were capitalised on vessels under construction).

39. **Other Loans (Continued)**

In July 2014 the Group entered into three unsecured subordinated loan facilities with a Russian State controlled entity totalling $86.2 million (as amended in 2015, increasing the facility amount to $129.2 million) at an interest rate of 11% per annum, repayable in quarterly instalments. The loan facilities were entered into in connection with time charter agreements signed with the above party for the chartering out by the Group of three Arctic shuttle tankers delivered during the period ended 31 December 2016 (see Note 16). The loans were repayable over twelve years, commencing on the delivery of each vessel to charter and maturing on the expiration of the firm period of each time charter mentioned above. Interest accrued during the period to delivery of the vessels is capitalised as part of the loan. Under the agreements the Group had the right to repay the loan in part or in full at any time before maturity. In December 2015 and February 2016, the Group repaid in full the outstanding balance of the facilities. Interest charged during the period and capitalised in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)) amounted to $1.0 million (2015 – $14.3 million).

40. **Cash Generated From Operations**

	2016 $'000	2015 $'000
Profit for the period before income taxes	233,477	371,776
Share of profits in equity accounted investments	(12,939)	(15,765)
Depreciation, amortisation and impairment	355,790	312,871
Investment property depreciation	547	1,077
Loss / (gain) on sale of assets	483	(9,895)
Loss on sale of subsidiary	-	727
Gain on sale of equity accounted investments	-	(5,402)
Interest expenses and financing costs	162,664	140,492
Interest income	(18,303)	(16,749)
Gain on ineffective hedging instruments	(1,032)	(683)
Foreign exchange differences	(18,936)	9,553
Change in allowance for credit losses	(84)	782
Other long-term employee benefits	20,079	15,715
Operating cash flows before movements in working capital	721,746	804,499
(Increase) / decrease in inventories	(15,800)	8,240
Decrease / (increase) in trade and other receivables	17,910	(28,499)
Increase / (decrease) in trade and other payables	28,126	(29,280)
Cash generated from operations	751,982	754,960

41. **Significant Subsidiary Companies**

At 31 December 2016, the Group had 131 single vessel owning and operating subsidiaries (2015 – 120) incorporated in Liberia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of Incorporation	Percentage Holding	Principal Activity
PAO Novoship	Russia	89.46%	Holding company
SCF Overseas Holding Limited	Cyprus	100%	Holding company
SCF Tankers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Supply Vessels Limited and its subsidiaries	Cyprus	100%	Holding company
Intrigue Shipping Limited and its subsidiaries	Cyprus	89.46%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Arctic LLC	Russia	100%	Holding company
Sovcomflot Varandey LLC	Russia	100%	Ship operation
SCF Shelf LLC	Russia	100%	Ship operation
SCF Atlantic LLC	Russia	100%	Ship operation
SCF Geo LLC	Russia	100%	Ship operation
SCF Novy Port LLC	Russia	100%	Ship operation
SCF Management Services (Novorossiysk) Ltd.	Russia	100%	Ship management
SCF Management Services (Cyprus) Ltd.	Cyprus	100%	Ship management
SCF Management Services (St. Petersburg) Ltd.	Russia	100%	Ship management
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Ship management and supervision of operations
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Capital Designated Activity Company	Ireland	100%	Financing

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

	At 31 December 2016			At 31 December 2015		
	Ordinary shares %	Preference shares %	Total shares %	Ordinary shares %	Preference shares %	Total shares %
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.29	1.48	89.46	98.28	1.11	89.42
Non-controlling shareholders	1.71	98.52	10.54	1.72	98.89	10.58
	100.00	100.00	100.00	100.00	100.00	100.00

41. **Significant Subsidiary Companies (Continued)**

In January 2016 Sovcomflot acquired 9,000 ordinary and 107,000 preference shares of Novoship from non-controlling shareholders. Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently, Sovcomflot holds an effective interest in Novoship of 89.46% as at 31 December 2016 (2015 – 89.42%).

Consolidated financial information of Novoship that has material non-controlling interests is provided below. This information is based on amounts before intercompany eliminations and reflect the change in functional currency of PAO Novoship in 2016, from the Russian Rouble to the US dollar, due to increase in US dollar denominated operations.

	2016 $'000	2015 $'000
Summarised statement of financial position:		
Total non-current assets	1,456,625	1,539,390
Total current assets	257,292	231,243
Total non-current liabilities	(110,522)	(74,901)
Total current liabilities	(176,546)	(184,182)
Net assets at period end	1,426,849	1,511,550
Cash and cash equivalents	180,944	162,942
Current financial liabilities	23,840	90,349
Non-current financial liabilities	100,515	69,232
Summarised income statement:		
Revenues	397,580	424,522
Depreciation, amortisation and impairment	(128,541)	(100,324)
Interest income	2,699	4,161
Interest expense	(3,795)	(5,497)
Income tax	(14,338)	(16,854)
Profit for the period	40,807	140,492
Other comprehensive income for the period	(152)	(14,280)
Total comprehensive income for the period	40,655	126,212
Summarised cash flows:		
Operating activities	175,312	225,798
Investing activities	(40,007)	16,079
Financing activities	(117,411)	(166,021)
Net increase in cash and cash equivalents	17,894	75,856

42. **Financial Risk Management**

(a) Capital management

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

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

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

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the excess or deficit of the market value of the fleet over/under its carrying amount ("total adjusted capital"). Net debt is calculated as the total of secured bank loans, finance lease liabilities and, other loans disclosed in Notes 36, 37 and 39 of the financial statements respectively, less restricted cash (Note 28) and cash and bank deposits (Note 29). Total equity comprises all components of equity.

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

42. **Financial Risk Management (Continued)**

(a) Capital management (continued)

During 2016 the Group's overall strategy remained unchanged from 2015. The net debt ratio at 31 December 2016 and at 31 December 2015 and the net adjusted debt ratio of the Group were as follows:

	2016 $'000	2015 $'000
Secured bank loans (Note 36)	2,193,825	1,885,576
Finance lease liabilities (Note 37)	173,690	183,810
Other loans (Note 39)	876,972	892,476
Less: restricted cash (Note 28)	(72,079)	(13,190)
Less: cash and bank deposits (Note 29)	(480,638)	(367,427)
Net debt	2,691,770	2,581,245
Total equity	3,604,316	3,480,981
Total capital	6,296,086	6,062,226
Net debt ratio	42.8%	42.6%
Total capital	6,296,086	6,062,226
Deficit of market value of fleet over carrying value	(1,404,365)	(295,792)
Total adjusted capital	4,891,721	5,766,434
Net adjusted debt ratio	55.0%	44.8%

(b) Categories of financial assets and financial liabilities

	2016 $'000	2015 $'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships (Note 23)	7,519	8,050
Restricted cash (Note 28)	72,079	13,190
Cash and bank deposits (Note 29)	480,638	367,427
Available-for-sale investments	760	1,012
Loans and other receivables (Note 27)	124,737	136,146
Loans to joint ventures (Note 21)	50,324	60,788
Finance lease receivables (Note 22)	-	71,831
Total financial assets	736,057	658,444
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships (Note 23)	37,070	55,064
Secured bank loans (Note 36)	2,193,825	1,885,576
Finance lease liabilities (Note 37)	173,690	183,810
Other loans (Note 39)	876,972	892,476
Other liabilities measured at amortised cost (Note 35)	172,614	148,365
Total financial liabilities	3,454,171	3,165,291

(c) Fair value of financial assets and financial liabilities

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

	Carrying Value		Fair Value	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Financial assets				
Loans to joint ventures	50,324	60,788	48,256	57,512
Finance lease receivables	-	71,831	-	71,831
Total financial assets	50,324	132,619	48,256	129,343
Financial liabilities				
Secured bank loans at fixed interest rates	400,469	115,743	409,306	115,924
Secured bank loans at floating interest rates	1,793,356	1,769,833	1,794,306	1,761,909
Other loans	876,972	892,476	903,829	929,588
Finance lease liabilities	173,690	183,810	175,974	177,828
Total financial liabilities	3,244,487	2,961,862	3,283,415	2,985,249

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

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

42. **Financial Risk Management (Continued)**

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

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

The following table provides an analysis of financial instruments as at 31 December 2016 and 31 December 2015 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

Recurring fair value measurements recognised in the statement of financial position

At 31 December 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	7,519	-	7,519
	-	7,519	-	7,519
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	37,070	-	37,070
	-	37,070	-	37,070

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2015				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	8,050	-	8,050
	-	8,050	-	8,050
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	55,064	-	55,064
	-	55,064	-	55,064

There were no transfers between Level 1 and 2 during the periods ended 31 December 2016 and 31 December 2015.

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

At 31 December 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Fleet	-	52,470	-	52,470
	-	52,470	-	52,470

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2015				
Assets				
Non-current assets held for sale	28,130	-	-	28,130
	28,130	-	-	28,130

42. **Financial Risk Management (Continued)**

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

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

At 31 December 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Fair value of assets				
Investment property	3,378	22,188	-	25,566
Loans to joint ventures	-	48,256	-	48,256
	3,378	70,444	-	73,822
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	409,306	-	409,306
Secured bank loans at floating interest rates	-	1,794,306	-	1,794,306
Other loans	903,829	-	-	903,829
Finance lease liabilities	-	175,974	-	175,974
	903,829	2,379,586	-	3,283,415
At 31 December 2015				
Fair value of assets				
Investment property	-	35,056	-	35,056
Loans to joint ventures	-	57,512	-	57,512
Finance lease receivables	-	71,831	-	71,831
	-	164,399	-	164,399
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	115,924		115,924
Secured bank loans at floating interest rates	-	1,761,909	-	1,761,909
Other loans	791,928	137,660	-	929,588
Finance lease liabilities	-	177,828	-	177,828
	791,928	2,193,321	-	2,985,249

(d) Financial risk factors

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. Over the last three years, the Russian economy has been negatively impacted by a decline in crude oil prices, devaluation of the Russian Rouble and increase of the interest rates, as well as economic sanctions imposed on certain Russian legal entities and individuals by several countries.

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

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

Market risk

Foreign currency risk

The Group's economic environment is the international shipping market. This market utilises the U.S. Dollar as its functional currency. The majority of the Group's revenues and most of the operating expenses are in U.S. Dollars. Exposure to transaction risk arises because certain revenues from seismic operations, voyage expenses, vessel operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Sterling Pound. The Group has not entered into any hedging contracts to protect against currency fluctuations but may seek to hedge this currency fluctuation risk in the future (see also Note 46).

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

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

	Liabilities		Assets	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Euro (EUR)	6,059	6,842	12,944	24,348
Russian Roubles (RUR)	79,925	44,193	77,375	89,847
Sterling Pounds (GBP)	4,919	4,564	22,737	20,238
Others	2,150	1,747	921	571

42. **Financial Risk Management (Continued)**

(d) Financial risk factors (continued)

Market risk (continued)

Foreign currency risk (continued)

An analysis of the exposure of the Group to fluctuations in exchange rates against the U.S. Dollar, with all other variables held constant, was performed using the following movement in rates:

	Increase		Decrease	
	2016	2015	2016	2015
Euro (EUR)	10.0%	12.5%	10.0%	12.5%
Russian Roubles (RUR)	20.0%	40.0%	20.0%	13.0%
Sterling Pounds (GBP)	6.0%	4.5%	18.0%	13.0%
Others	10.0%	10.0%	10.0%	10.0%

The effect of an increase in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in pre-tax equity	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Euro (EUR)	606	(2,018)	(78)	73
Russian Roubles (RUR)	5,558	2,860	(2,855)	(15,903)
Sterling Pounds (GBP)	640	(563)	(154)	(112)
Others	107	107	5	-

The effect of a decrease in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in pre-tax equity	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Euro (EUR)	742	2,595	95	(95)
Russian Roubles (RUR)	8,337	(1,495)	4,282	8,318
Sterling Pounds (GBP)	2,482	1,954	596	389
Others	130	(131)	(6)	-

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During 2016 and 2015 all of the Group's borrowings were denominated in U.S. Dollars.

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

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

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

	2016 $'000	2015 $'000
Total borrowings gross of direct issue costs (Notes 36, 37 and 39)	3,276,185	2,978,553
Fixed rate borrowings gross of direct issue costs (Notes 36, 37 and 39)	(1,469,155)	(1,194,043)
Total floating rate borrowings gross of direct issue costs (Note 36)	1,807,030	1,784,510
Notional amount of floating to fixed rate swaps qualifying under IAS32 / IAS39 (Note 23)	(1,066,057)	(1,221,843)
Net exposure to interest fluctuations	740,973	562,667
% of floating rate borrowings exposed to interest rate fluctuations	41.0%	31.5%

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

	2016		2015	
Sensitivity of interest rates	100 bps increase $'000	25 bps decrease $'000	100 bps increase $'000	25 bps decrease $'000
Change in fair value of hedging instruments				
- Increase / (decrease) in other comprehensive income for the period	40,455	(10,114)	18,131	(4,640)
- Increase / (decrease) in profit or loss for the period	588	(147)	1,441	(369)
Increase / (decrease) in interest expense for the period excluding interest capitalised	5,619	(1,405)	5,933	(1,483)

42. **Financial Risk Management (Continued)**

(d) Financial risk factors (continued)

Market risk (continued)

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 59.1% (2015 – 65.0%) of the vessels' total trading days were on time charter representing 75.0% (2015 – 69.7%) of time charter equivalent revenues of which 4.0% (2015 – 4.9%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2016, 55.6% (2015 – 63.6%) of the vessels were on time charter.

Credit risk

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

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2016, amounts due from charterers included one charterer (2015 – two) with a balance of freight and hire due of $29.2 million, representing 40.7% of total amounts due (2015 – 31.8% and 19.7%). The Group exercised contractual liens over the cargo on board two of the vessels chartered out to this charterer and also obtained the court orders arresting same cargo, with an estimated value of approximately $50.5 million, in the interests of the members of the Group which do not have the contractual lien. An amount of $10.8 million has been settled by the charterer subsequent to the period end. Management believes that there is no further credit provision required in excess of the allowance for credit losses. As at 31 December 2016 total freight and hire revenue included revenue of $181.5 million and $179.6 million (2015 – $154.2 million and $194.1 million) from two charterers individually representing 13.1% and 12.9% (2015 – 10.4% and 13.1%), respectively, of total freight and hire revenue.

The revenue from the two charterers relates to the following operating segments:

Operating segment	2016 $'000	2015 $'000
Crude oil	112,689	117,664
Oil product	35,019	30,999
Gas	110,854	102,393
Offshore	54,690	38,251
Other	47,842	59,015
	361,094	348,322

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with five banks (2015 – three) representing 21.3%, 21.1%, 15.8%, 13.2% and 10.7% (2015 – 23.5%, 21.3% and 11.7%) of total deposits of $479.0 million (2015 – $367.4 million).

Liquidity risk

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

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

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

	Credit facilities $'000	Drawn down $'000	Available $'000
At 31 December 2016			
Secured bank loans	1,260,129	(589,129)	671,000
Secured revolving credit facilities	248,662	(208,662)	40,000
	1,508,791	(797,791)	711,000
At 31 December 2015			
Secured bank loans	1,390,681	(635,000)	755,681
Secured revolving credit facilities	248,662	(120,000)	128,662
Other loans	129,240	(129,240)	-
	1,768,583	(884,240)	884,343

Availability of secured revolving credit facilities is subject to compliance with the relevant loan to value covenants of each of the facilities based on the market value of the vessels used as collateral. As of 31 December 2016 all facilities above were available for drawdown.

42. **Financial Risk Management (Continued)**

(d) Financial risk factors (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

At 31 December 2016	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	154,196	1,119	-	155,315
Minimum lease payments under finance leases	173,850	-	-	173,850
Secured bank loans	294,861	1,185,205	732,314	2,212,380
Other loans	139,955	-	750,000	889,955
Interest payable on derivative instruments	18,462	28,988	-	47,450
Interest payable on secured loans	83,066	249,585	100,645	433,296
Interest payable on other loans	47,836	161,250	60,469	269,555
Interest payable on finance leases	8,430	-	-	8,430
	920,656	1,626,147	1,643,428	4,190,231
At 31 December 2015				
Trade and other payables	127,929	-	-	127,929
Minimum lease payments under finance leases	10,345	173,850	-	184,195
Secured bank loans	351,271	945,936	603,764	1,900,971
Other loans	-	814,816	87,368	902,184
Interest payable on derivative instruments	25,546	26,643	1,079	53,268
Interest payable on secured loans	49,347	197,269	70,565	317,181
Interest payable on other loans	45,914	87,099	37,805	170,818
Interest payable on finance leases	11,894	8,430	-	20,324
	622,246	2,254,043	800,581	3,676,870

43. **Operating Lease Arrangements**

The Group as Lessee

The Group has the following non-cancellable operating lease commitments as at the period end in respect of vessels and buildings in Novorossiysk, London, Moscow and Dubai:

	Vessels		Buildings	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Within one year	23,555	16,055	1,351	4,415
After one year but not more than five years	23,522	-	18,251	16,672
More than five years	-	-	37,522	28,884
	47,077	16,055	57,124	49,971
Expensed during the period	25,791	52,812	5,155	4,241

The Group charters in a seismic vessel with various extension options attached to the bareboat charter contract and purchase options starting from the end of 2014 and thereafter for each subsequent year up to the end of the optional period in 2026. The firm period of the lease on the vessel has a remaining life of less than 3 years. The leases for the buildings expire between 5 and 10 years with various options attached and one lease expiring in 44 years. There are no restrictions placed upon the Group by entering into these leases.

The Group as Lessor

	Buildings	
	2016 $'000	2015 $'000
Within one year	1,788	1,247
After one year but not more than five years	8,093	7,238
More than five years	9,176	6,722
	19,057	15,207
Income during the period	1,502	1,317

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's on shore based facilities in Novorossiysk and Sochi, Russia, including leased in facilities. The leases expire within 9 years.

44. Contingent Liabilities and Commitments

Contracted revenues and guarantees

The Group through its subsidiaries entered into time charter agreements with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2016 $'000	2015 $'000
Within one year	717,348	685,467
After one year but not more than five years	2,323,630	2,351,049
More than five years	4,605,660	4,948,695
	7,646,638	7,985,211

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

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

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 16, is summarised as follows:

	Less than 1 year $'000	1 to 5 years $'000	Total $'000
At 31 December 2016			
Newbuilding contracts	222,512	-	222,512
Newbuilding contracts with Russian State controlled shipyards	416,000	-	416,000
	638,512	-	638,512
At 31 December 2015			
Newbuilding contracts	537,430	-	537,430
Newbuilding contracts with Russian State controlled shipyards	213,040	202,960	416,000
	750,470	202,960	953,430

Contingent liabilities

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

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

Effective 1 January 2015 the concept of beneficial ownership was introduced in the Russian tax code in respect of application of the provisions of double tax treaties to certain types of income. Given the lack of practice and uncertainty in application of the new rules by the Russian tax authorities, substantial tax liabilities might arise in case the tax authorities challenge compliance with the beneficial ownership confirmation requirements.

In 2015 and 2016 the Russian tax authorities, following tax audits of a number of Russian subsidiaries of the Group, challenged application of 0% value added tax ("VAT") rate charged on hire revenues earned from vessels time-chartered out by these subsidiaries and employed on international trade, requiring the subsidiaries to apply 18% VAT rate on hire revenue. As a result the Group was required to make VAT payments, including penalties and interest, of approximately RUR334 million (equivalent to $5.5 million). Following clarification on the issue received from the Federal Russian tax authorities, that the application of 0% VAT rate is indeed appropriate to such revenues, all existing enquiries by the Russian regional tax authorities were stopped. In December 2016, the Russian regional tax authorities refunded approximately RUR185 million (equivalent to $3.1 million) of the RUR334 million to the subsidiaries involved. The balance of approximately RUR149 million (equivalent to $2.4 million) is included in trade and other receivables pending Russian Aritrazh Court hearings scheduled for April 2017 where the matter is expected to be resolved and the monies refunded. In any case, this amount is potentially recoverable from the charterers, parties to the time charter agreement concerned.

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. As a result, the Russian local city court, at the request of Russian customs, has imposed penalties in 2016 totalling approximately RUR1,548 million (equivalent to $25.5 million). Russian customs have also requested the Group to pay RUR314 million of custom fees (equivalent to $5.2 million) of which RUR284 million (equivalent to $4.7 million) of the RUR314 million paid, are included in other receivables under trade and other receivables. In two separate court of appeal hearings, in June 2016, the courts overturned the penalties of RUR1,548 million imposed by the local city court and dismissed the cases; such decision was confirmed by a court of high instance in November 2016. In addition in October 2016 the courts have decided that customs illegally imposed the custom fee of RUR221 million (equivalent to $3.7 million) for the first vessel; such decision was confirmed by an appeal court in February 2017. Courts have postponed the decision on the balance of the custom fee of RUR93 million (equivalent $1.5 million) relating to the second vessel but it is likely that the court proceedings will recommence in the second quarter of 2017. The Group will continue defending its position in courts in Russia. The final judgment of the Russian courts for both cases and return of the RUR314 million paid is expected by the end of 2017.

44. **Contingent Liabilities and Commitments (Continued)**

Contingent liabilities (continued)

During 2005 through to 2009, the Group's newly appointed management filed claims in London for losses arising out of various transactions that had taken place during 2000 through to 2004. The trial for the claims filed commenced at the High Court in London in October 2009 and concluded in mid-2010. Judgment was handed down on 10 December 2010. The Group was successful on a number of claims, and unsuccessful on a number of others.

As a result of the Group recovering at trial an amount less than the total amount of the two freezing orders granted against some of the defendants in 2005 and 2007 in the course of the London proceedings in the Fiona litigation, these defendants are pursuing a claim for damages said to have been suffered by virtue of the freezing orders to the extent that the freezing orders were in an amount in excess of the sums recovered under the Judgment. On 12 December 2014 the defendants served their points of claim in respect of any recoverable damages on four different bases claiming between approximately $73.5 million and $224.6 million. They subsequently amended their points of claim increasing the primary claim from $224.6 million to $387.8 million.

Following a trial in July 2016, three judgments were handed down; on 26 August 2016, 7 October and 27 October 2016. The net result of those judgments was that the Court concluded that the defendants' claims under the 2005 freezing order succeeded but their claims under the 2007 freezing order failed. In relation to the 2005 freezing order the Court awarded the defendants damages of $59.8 million and interest on damages from December 2010 to 27 October 2016 of $11.0 million; a total sum of $70.8 million. The Court also ordered the Group to pay 50% of the defendants' costs of £3.0 million (assessed on a standard basis) in relation to this claim and to make an interim payment of such costs of £1.0 million.

The Group applied to the Court of Appeal for permission to appeal and for a stay of execution pending determination of their application for permission to appeal/appeal if permission is granted. The Court of Appeal granted permission to appeal on certain limited grounds concerned primarily with the failure of the defendants to seek permission to use the funds put up by way of security to discharge the 2005 freezing to fund the intended newbuilding programme. The Court of Appeal also ordered a stay pending the outcome of the appeal conditional on the Group paying the above judgment sum and the payment on account of costs of £1.0 million (equivalent to $1.2 million) into Court. Those sums have been paid into Court and the hearing of the Group's appeal is fixed for one day; either 4 or 5 October 2017. The Group has been advised by its legal counsel that it is only possible, but not probable, that the defendants will succeed. The Group will defend its position vigorously. Accordingly, no provision has been made.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK and other companies of the Group filed claims at the Commercial Court in London in December 2006 and subsequently joined further defendants. The trial for these claims commenced on 16 May 2012 and concluded on 5 July 2012. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims, but after appeal unsuccessful on some claims against certain defendants.

In relation to the successful claims, in September 2013 the Group concluded a settlement agreement with some of the defendants, pursuant to which a payment of $40.0 million was to be made to the Group in satisfaction of the judgment of approximately $59.2 million of principal, plus interest (less any amounts received in prior periods of approximately $7.9 million). When payment was not received, in breach of the settlement agreement, the Group obtained a freezing order against these defendants in December 2014 to enforce the judgment. As a result of the enforcement actions, on 13 March 2015 the Group received $25.6 million, from the defendants, they said pursuant to the settlement agreement. On 15 April 2015 the High Court in London construed the settlement agreement so that the Group cannot recover the judgment sum but is restricted to a recovery of no more than the settlement sum of $40.0 million. On 21 April 2015 the Group received a further $15.0 million from these defendants in satisfaction of the settlement agreement. The total amount received of $40.6 million has been recognised in the income statement in 2015 and is included in the line other non-operating income. The Group sought leave to appeal the 15 April 2015 judgment and leave was granted on 16 February 2016. The hearing in the Court of Appeal was supposed to take place on 3-4 May 2017. However on 26 September 2016 the Group concluded a settlement agreement with the relevant defendants pursuant to which a payment of $15.0 million was made to the Group in October 2016. Accordingly, the appeal and related proceedings in respect of those defendants were discontinued. The settlement amount of $15.0 million has been recognised in the income statement and is included in the line other non-operating income.

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.

A total amount of $4.9 million (2015 – $4.9 million), relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims, has been expensed in the income statement and is included in the line other non-operating expenses.

Details of the Group's commitments under finance leases and operating leases are disclosed in Note 37 and Note 43, respectively.

45. Related Party Transactions

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

In 2014, the Group signed time charter agreements with a Russian State controlled entity, for the chartering out of three Arctic shuttle tankers, all of which were delivered to the Group in 2016 (Note 16) for a firm period of 12 years with thirteen one year extension options attached in favour of the charterer with aggregate receivables of $1,087.2 million over the firm period. The time charter agreements have been classified as operating leases. Two of the vessels have been delivered to charter on 8 September 2016 and 29 October 2016 respectively. The last vessel was delivered to charter on 5 January 2017. Transactions during the period in respect of these vessels are reflected in the table below.

In 2016, the Group drew down, from an available loan facility entered into with a Russian State controlled financial institution in 2015, a total amount of $338.6 million as part of the financing of the three ice-class shuttle tankers delivered during the period (Note 16). Part of these funds were used to refinance the unsecured subordinated loans facilities included in other loans referred to in Note 39. Those subordinated loan facilities were repaid in full in February 2016.

On 17 June 2016, the Group entered into a loan facility with a Russian State controlled financial institution totalling $255.0 million, to finance the construction of an ice breaking LNG carrier referred to in Note 16, at an interest rate of 6.99% per annum repayable in quarterly instalments by July 2029. The Group has not made any drawdown up to the date of these financial statements.

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)	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Transactions with Russian State controlled entities				
Freight and hire of vessels	(268,280)	(195,227)	7,617	645
Other operating revenues	(2,296)	-	-	-
Other loans	-	-	-	(95,489)
Secured bank loans	5,803	-	(336,242)	-
Finance leases payable	11,858	12,487	(173,690)	(183,810)
Other receivables from shipyard (liquidated damages for late delivery of vessels)	-	-	11,800	-
Other payables to charterer (liquidated damages for late delivery of vessels)	-	-	(12,919)	-
Payments to related shipyards for vessels under construction	-	-	104,000	104,000
Cash at bank	(5,233)	(2,735)	205,896	128,758
Disposal of associate	-	(5,402)	-	-
Finance leases receivable	(11,458)	(12,562)	764	82,748
Allowance for credit losses on finance lease receivables	(419)	(417)	-	(9,494)
Rental of investment property	-	(70)	-	-
Transactions with Joint Ventures				
Freight and hire of vessel	(7,044)	(9,045)	-	-
Other operating revenues	(3,186)	(3,659)	473	491
Loans due from joint ventures	(1,160)	(1,054)	52,829	63,081
Compensation of Key Management Personnel				
Short term benefits	9,437	12,339	(3,599)	(6,713)
Post-employment benefits	64	72	(10)	(6)
Long-term service benefits	9,556	8,446	(18,203)	(8,578)
	19,057	20,857	(21,812)	(15,297)

46. Events After the Reporting Period

On 23 January 2017, the Group sold the international hall building of the port of Sochi, Russia, classified as non-current asset held for sale as at 31 December 2016 realising a gain on disposal of $1.4 million.

On 3 February 2017, the Group entered into shipbuilding contracts with a shipyard to construct four Aframax crude oil tankers at a total contracted cost of $240.0 million and estimated deliveries between July 2018 and February 2019.

On 2 March 2017, the Group took delivery from a Russian State controlled shipyard a multifunctional ice breaking supply vessel, the m/v Gennadiy Nevelskoy. Effective 2 March 2017, the Group entered into a twelve year Euro-USD cross currency swap transaction 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 a Euro equivalent of $89.5 million loan in connection with the financing of the m/v Gennadiy Nevelskoy.

On 16 March 2017, the Group entered into a $174.0 million credit facility with a Russian State controlled financial institution, repayable in 38 quarterly equal instalments, with a balloon payment of 36.0% of the amount drawn down under the facility in March 2027. Under the facility the Group has the option to extend maturity for a further 5 years at an interest rate to be agreed should the option be exercised.

PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

PAO Sovcomflot

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of PAO Sovcomflot

We have audited the accompanying consolidated statements of financial position of PAO Sovcomflot ("the Company") as of 31 December 2015 and 2014, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for each of the two years in the period ended 31 December 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PAO Sovcomflot at 31 December 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended 31 December 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young LLC

17 March 2016

A member firm of Ernst & Young Global Limited

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2015

	Note	2015 $'000	2014 $'000
Freight and hire revenue	4, 7	1,483,002	1,377,880
Voyage expenses and commissions	4, 8	(242,916)	(333,904)
Time charter equivalent revenues		1,240,086	1,043,976
Direct operating expenses			
Vessels' running costs	9	338,745	349,116
Charter hire payments	45	52,812	52,675
		(391,557)	(401,791)
Net earnings from vessels' trading		848,529	642,185
Other operating revenues	12	20,215	31,907
Other operating expenses	12	(10,814)	(24,605)
Depreciation, amortisation and impairment	10	(312,871)	(321,533)
General and administrative expenses	11	(105,914)	(104,010)
Gain on sale of assets	16, 18	9,895	9,904
Loss on sale of subsidiary		(727)	-
Gain / (loss) on sale of equity accounted investments		5,402	(356)
Allowance for credit losses		(782)	1,848
Share of profits in equity accounted investments	22	15,765	12,874
Operating profit		468,698	248,214
Other (expenses) / income			
Financing costs	14	(140,492)	(138,325)
Interest income		16,749	16,672
Other non-operating income	47	40,559	3,402
Other non-operating expenses	46	(4,868)	(8,620)
Gain on ineffective hedging instruments	25(a)	683	442
Gain on derivative financial instruments held for trading	25(b)	-	6,164
Foreign exchange gains		17,212	21,026
Foreign exchange losses		(26,765)	(57,996)
Net other expenses		(96,922)	(157,235)
Profit before income taxes		371,776	90,979
Income tax expense	26	(17,304)	(7,085)
Profit for the period		354,472	83,894
Profit attributable to:			
Owners of the parent		339,461	80,058
Non-controlling interests	35	15,011	3,836
		354,472	83,894
Earnings per share			
Basic earnings per share for the period attributable to equity holders of the parent	27	$0.173	$0.041

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2015

	Note	2015 $'000	2014 $'000
Profit for the period		354,472	83,894
Other comprehensive income:			
Share of associates' other comprehensive income		(27)	(84)
Share of joint ventures' other comprehensive income	22	6,013	2,703
Exchange loss on translation from functional currency to presentation currency		(16,795)	(27,954)
Reclassification adjustment relating to foreign investments disposed of during the period		1,834	-
Derivative financial instruments recycled and debited to the income statement	25(a)	25,050	20,081
Fair value movement of derivative financial instruments debited to other comprehensive income	25(a)	(17,541)	(23,265)
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		(1,466)	(28,519)
Remeasurement (losses) / gains on employee benefit obligations		(550)	1,252
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(550)	1,252
Total other comprehensive income for the period, net of tax		(2,016)	(27,267)
Total comprehensive income for the period		352,456	56,627
Total comprehensive income attributable to:			
Owners of the parent		338,969	55,819
Non-controlling interests		13,487	808
		352,456	56,627

PAO Sovcomflot

Consolidated Statement of Financial Position – 31 December 2015

	Note	2015 $'000	2014 $'000	2013 $'000
Assets				
Non-current assets				
Fleet	16	5,388,542	5,278,983	5,206,150
Vessels under construction	17	368,453	237,250	244,584
Intangible assets	18	4,668	3,989	4,524
Other property, plant and equipment	19	60,284	70,657	83,323
Investment property	20	7,468	10,341	16,973
Other assets under construction	21	-	-	11,992
Investments in associates		104	118	1,130
Investments in joint ventures	22	98,306	82,430	72,507
Available-for-sale investments		1,012	1,012	1,012
Loans to joint ventures	23	52,468	59,942	65,526
Finance lease receivables	24	66,956	71,469	78,908
Derivative financial instruments	25	8,050	7,438	10,356
Trade and other receivables	29	16,002	17,363	17,765
Deferred tax assets	26	7,387	3,575	2,228
Bank deposits	4, 30	10,000	12,315	8,100
		6,089,700	5,856,882	5,825,078
Current assets				
Inventories	28	37,568	45,825	64,719
Loans to joint ventures	23	8,320	4,750	4,750
Trade and other receivables	4, 29	174,605	155,172	145,144
Finance lease receivables	24	4,875	4,193	3,656
Current tax receivable		888	593	2,017
Cash and bank deposits	4, 30	357,427	272,201	273,440
		583,683	482,734	493,726
Non-current assets held for sale	31	28,130	93,163	74,252
		611,813	575,897	567,978
Total assets		6,701,513	6,432,779	6,393,056
Equity and liabilities				
Capital and reserves				
Share capital	32	405,012	405,012	405,012
Reserves		2,916,047	2,596,080	2,549,215
Equity attributable to owners of the parent		3,321,059	3,001,092	2,954,227
Non-controlling interests	35	159,922	156,389	157,045
Total equity		3,480,981	3,157,481	3,111,272
Non-current liabilities				
Trade and other payables	37	16,045	330	261
Secured bank loans	38	1,596,434	1,587,956	1,598,257
Finance lease liabilities	39	173,690	183,810	193,291
Derivative financial instruments	25	32,135	37,808	42,266
Retirement benefit obligations	40	3,067	3,390	7,405
Other loans	41	875,492	842,882	798,092
Provisions	36	-	3,244	6,354
Deferred tax liabilities	26	776	1,258	2,477
		2,697,639	2,660,678	2,648,403
Current liabilities				
Trade and other payables	4, 37	181,676	183,998	231,348
Other loans	41	16,984	-	-
Secured bank loans	38	289,142	394,652	363,259
Finance lease liabilities	39	10,120	9,481	8,850
Current tax payable		2,042	1,653	3,206
Derivative financial instruments	25	22,929	24,836	26,718
		522,893	614,620	633,381
Total liabilities		3,220,532	3,275,298	3,281,784
Total equity and liabilities		6,701,513	6,432,779	6,393,056

Approved by the Executive Board and authorised for issue 17 March 2016

Signed

S.O. Frank
President and Chief Executive Officer

Signed

N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 31 December 2015

	Share capital $'000	Share premium $'000	Reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
	(Note 32)	(Note 32)	(Note 33)					(Note 35)	
At 1 January 2014	**405,012**	**818,845**	**(834,490)**	**(81,319)**	**(6,082)**	**2,652,261**	**2,954,227**	**157,045**	**3,111,272**
Profit for the period	-	-	-	-	-	80,058	80,058	3,836	83,894
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(84)	-	(84)	-	(84)
Share of joint ventures' other comprehensive income	-	-	-	2,703	-	-	2,703	-	2,703
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(24,792)	-	(24,792)	(3,162)	(27,954)
Derivative financial instruments recycled and debited to the income statement (Note 25 (a))	-	-	-	20,081	-	-	20,081	-	20,081
Fair value movement of derivative financial instruments debited to other comprehensive income (Note 25 (a))	-	-	-	(23,265)	-	-	(23,265)	-	(23,265)
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	1,118	1,118	134	1,252
Total comprehensive income	-	-	-	(481)	(24,876)	81,176	55,819	808	56,627
Dividends (Note 34)	-	-	-	-	-	(8,954)	(8,954)	(1,464)	(10,418)
At 31 December 2014	**405,012**	**818,845**	**(834,490)**	**(81,800)**	**(30,958)**	**2,724,483**	**3,001,092**	**156,389**	**3,157,481**
Profit for the period	-	-	-	-	-	339,461	339,461	15,011	354,472
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(27)	-	(27)	-	(27)
Share of joint ventures' other comprehensive income	-	-	-	6,021	(8)	-	6,013	-	6,013
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(15,230)	-	(15,230)	(1,565)	(16,795)
Reclassification adjustment relating to investments disposed of during the period	-	-	-	-	1,734	-	1,734	100	1,834
Derivative financial instruments recycled and debited to the income statement (Note 25 (a))	-	-	-	25,050	-	-	25,050	-	25,050
Fair value movement of derivative financial instruments debited to other comprehensive income (Note 25 (a))	-	-	-	(17,541)	-	-	(17,541)	-	(17,541)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(491)	(491)	(59)	(550)
Total comprehensive income	-	-	-	13,530	(13,531)	338,970	338,969	13,487	352,456
Dividends (Note 34)	-	-	-	-	-	(20,543)	(20,543)	(8,196)	(28,739)
Effect of acquisition of non-controlling interests in PAO Novoship (Note 43)	-	-	-	-	(53)	1,594	1,541	(1,758)	(217)
At 31 December 2015	**405,012**	**818,845**	**(834,490)**	**(68,270)**	**(44,542)**	**3,044,504**	**3,321,059**	**159,922**	**3,480,981**

Notes

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

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2015

	Note	2015 $'000	2014 $'000
Operating Activities			
Cash received from freight and hire of vessels	4	1,460,200	1,363,106
Other cash receipts		61,127	44,556
Cash payments for voyage and running costs	4	(649,887)	(740,125)
Other cash payments		(110,420)	(168,633)
Cash generated from operations	42	761,020	498,904
Interest received		2,901	2,455
Income tax paid		(22,158)	(10,259)
Net cash inflow from operating activities		741,763	491,100
Investing Activities			
Expenditure on fleet		(45,022)	(26,888)
Expenditure on vessels under construction		(516,181)	(492,434)
Expenditure on assets held for sale		-	(419)
Interest capitalised	17	(10,375)	(8,157)
Expenditure on other property, plant and equipment		(3,444)	(3,971)
Investment in joint venture		(107)	-
Loan repayments from joint ventures		4,272	7,030
Loans issued to joint ventures		-	(1,020)
Proceeds from sale of subsidiary net of cash disposed		1,232	-
Proceeds from sale of equity accounted investments	48	6,300	-
Proceeds from sale of vessels		112,909	123,298
Proceeds from sale of other property, plant and equipment		10,035	8,711
Capital element received on finance leases	24	4,141	4,108
Interest received on finance leases	24	13,115	17,593
Dividends received from equity accounted investments	22	2,762	2,531
Bank term deposits	4, 30	1,442	391
Other receipts		-	285
Net cash outflow used in investing activities		(418,921)	(368,942)
Financing Activities			
Proceeds from borrowings		493,081	426,846
Repayment of borrowings		(546,670)	(361,824)
Financing costs		(8,196)	(7,269)
Repayment of finance lease liabilities		(9,718)	(9,098)
Restricted deposits	4, 30	1,469	(4,215)
Funds in retention bank accounts	30	(6,982)	(2,062)
Interest paid on borrowings		(118,541)	(116,643)
Interest paid on finance leases		(12,521)	(13,141)
Dividends paid		(21,331)	(10,192)
Acquisition of non-controlling interests	35	(217)	-
Net cash outflow used in financing activities		(229,626)	(97,598)
Increase in Cash and Cash Equivalents		93,216	24,560
Cash and Cash Equivalents at 1 January	4, 30	253,840	256,750
Net foreign exchange difference		(14,376)	(27,470)
Cash and Cash Equivalents at 31 December	4, 30	332,680	253,840

1. Organisation and Trading Activities

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

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 121 vessels at the period end, comprising 106 tankers, 1 chartered in seismic vessel, 8 gas carriers, 2 bulk carriers and 4 ice breaking supply vessels. For major changes in the period in relation to the fleet see also Notes 16, 17 and 31. In addition the Group through its subsidiaries owns 9 escort tug vessels which have been chartered out on bareboat charter to a former associated undertaking (see Note 24).

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

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

A list of significant subsidiary companies is disclosed in Note 43 to these consolidated financial statements. The ultimate controlling party of PAO Sovcomflot is the Russian Federation.

2. Directors and Management

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

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

Members of the Board of Directors	Initial date of appointment	
I.I. Klebanov (Chairman)	3 November 2011	Senior State Counsellor of the Russian Federation, 1st Class
A.G. Belova	30 June 2014	Professor of the National Research University Higher School of Economics
W.A. Chammah	29 June 2015	Partner of "Chammah & Partners" LLC
I.F. Glumov	29 June 2015	General Director of OJSC "Severneftegaz"
A.Y. Klyavin	30 June 2012	President of The National Chamber of Shipping
D.G. Moorhouse	29 June 2010	Member of the Board of Directors
M.I. Poluboyarinov	30 June 2012	Member of the Board of Management and First Deputy Chairman of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
A.V. Sharonov	30 June 2014	Dean of Moscow School of Management "SKOLKOVO"
S.O. Frank	10 November 2004	President and Chief Executive Officer of PAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 29 June 2015. Mr Klebanov was re-elected Chairman on 7 August 2015.

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

3. Significant Accounting Policies

(a) Basis of preparation and accounting

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

The consolidated financial statements have been prepared on the historical cost basis except where fair value accounting is specifically required by IFRS, as explained in the accounting policies below.

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries ("controlled investees") as at 31 December 2015. Control is achieved when the Group:

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

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

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

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

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

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

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

3. **Significant Accounting Policies (Continued)**

(c) Business combinations

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

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

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

(d) Segmental reporting

The Group consists of five reportable operating segments: crude oil transportation, oil product transportation, gas transportation, offshore development services and other. The segments are fully explained in Note 15.

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

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

(e) Investments in associates and joint ventures

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

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

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

(f) Interests in joint operations

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

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

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

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

3. **Significant Accounting Policies (Continued)**

(g) Non-current assets held for sale

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

(h) Freight and Hire revenue

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

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

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

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

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid to third party brokers by the Group.

Freight revenue and voyage expenses are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. The impact of recognising voyage expenses rateably over the length of each voyage is not materially different on a quarterly and annual basis from the method of recognising such costs on an accruals basis. Full provision is made for any losses forecast on voyages in progress at the end of the financial reporting period.

The Group does not begin recognising revenue until a charter has been agreed to by the Group and the charterer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. In applying its revenue recognition method, management believes that the discharge to discharge port basis of calculating voyage results provides greater degree of accuracy than the load to load port basis. In the application of this policy, the Group recognises revenue only when (i) the amount of revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the transactions stage of completion at the balance sheet date can be measured reliably; and (iv) the costs incurred and the costs to complete the transaction can be measured reliably.

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

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

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

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

(i) Operating revenues and operating expense

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

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

3. **Significant Accounting Policies (Continued)**

(j) Interest income

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

(k) Currency translation

Transactions and balances

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

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

Non-monetary items that are measured in terms of historical cost in currencies other than the functional currencies are not retranslated. Non-monetary items measured at fair value in currencies other than the functional currencies are translated using the exchange rates at the date when the fair value was determined.

Group companies

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

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

Any goodwill arising on the acquisition of an entity with a functional currency other than the U.S. Dollar and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the acquired entity. They are expressed in the functional currency of the acquired entity and are translated at the rate of exchange ruling at the reporting date.

Exchange rates

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

	2015 Closing $1	2015 Average $1	2014 Closing $1	2014 Average $1	2013 Closing $1
Russian Roubles	72.8827	61.3194	56.2584	38.6475	32.7292
Pounds Sterling	0.6750	0.6542	0.6435	0.6071	0.6051
Euros	0.9145	0.9025	0.8232	0.7531	0.7251

(l) Borrowing costs

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

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

(m) Leasing

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

Group as lessee - Finance and operating lease payables

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

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

3. **Significant Accounting Policies (Continued)**

(m) Leasing (continued)

Group as lessor - Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(n) Employee benefits

Retirement benefit costs

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

Defined contribution retirement benefit plans

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

Defined benefit retirement benefit plans

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

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

Long-term service retirement benefit plans

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

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

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

Past service cost is recognised immediately in profit or loss.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long term employee benefits are measured at the present value of the estimated future cash flows expected to be made by the Group in respect of services provided by the employees up to the reporting date. Re-measurements of the long term employee benefit liability are recognised in profit or loss when they occur.

(o) Property, plant and equipment and depreciation

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

Cost comprises of the acquisition or construction cost of the asset, after deducting trade discounts and rebates, and any costs directly attributable to the acquisition or construction up to the time that the asset is ready for its intended use. Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised as part of the cost of the asset. Subsequent expenditures for conversions and major improvements are capitalised when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise they are charged to profit or loss as incurred.

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

Oil, product and chemical tankers	25 years
LPG carriers	30 years
LNG carriers	35 years
Bulk carriers	25 years
Ice breaking supply vessels	25 years

3. **Significant Accounting Policies (Continued)**

(o) Property, plant and equipment and depreciation (continued)

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

	2015 $ per LWT	2014 $ per LWT	2013 $ per LWT
Oil, product and chemical tankers	300	495	445
LNG and LPG carriers	310	495	445
Bulk carriers	305	465	415
Ice breaking supply vessels	300	495	445

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

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

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

(p) Intangible assets

Intangible assets comprise computer software. Computer software is carried in the statement of financial position at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is charged so as to write-off the cost of the computer software on a straight line basis over the useful economic life of the software concerned at a rate between 10% and 33%

The amortisation period of each intangible is reviewed at each financial period end. Any changes in the expected useful life are treated as a change in accounting estimate and are accounted for prospectively in the income statement in the period of change and future periods. Amortisation of the capitalised intangible assets is included in the depreciation, amortisation and impairment line in the consolidated income statement.

(q) Drydocking and special survey costs

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

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

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

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

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

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

(r) Investment property

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

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

3. **Significant Accounting Policies (Continued)**

(s) Assets under construction

Assets under construction are carried at cost, less any recognised impairment loss. Cost comprises shipyard payments and any other costs directly attributable to the construction including supervision fees and expenses, professional fees and capitalised borrowing costs.

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

(t) Impairment

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

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

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

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

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

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

(u) Inventories

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

(v) Financial instruments

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

Effective interest method

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

Trade receivables

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

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

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

Cash and cash equivalents

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

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

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

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

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

Available-for-sale financial assets

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

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

Held-to-maturity investments

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

Derecognition of financial assets

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

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

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

Bank borrowings

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

Trade payables

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

Classification as debt or equity

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

Equity instruments

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

Derecognition of financial liabilities

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

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

Offsetting of financial assets and liabilities

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

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

(w) Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

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

Tonnage tax

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

3. **Significant Accounting Policies (Continued)**

(x) Provisions

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

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

Onerous contracts

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

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

(y) Insurance claims

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

(z) Earnings per share

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

4. **Reclassification of comparatives**

In the course of preparation of the financial statements for 2015, the Group represented certain comparatives in order to be consistent with the current year's presentation. The below changes were made to the comparative figures:

a) Address commissions

The reclassification relates to address commissions of $9.5 million previously presented in voyage costs and commissions. Address commissions represent a discount provided directly to the charterers based on a fixed percentage of the agreed upon charter rate. Since address commissions represent a discount on services rendered by the Group and no identifiable benefit is received in exchange for the consideration provided to the charterer, these commissions are now presented as a reduction of revenue.

b) Restricted deposits

The reclassification relates to restricted deposits of $8.5 million (2013 – $8.1 million) and $3.8 million (2013 – Nil) previously classified as restricted deposit and as cash and cash equivalents, respectively, under current cash and bank deposits. These deposits have been reclassified and included as restricted deposits under non-current bank deposits. The $3.8 million of restricted deposits has also been presented as a movement in financing activities and cash and cash equivalents in the statement of cash flows.

c) Liabilities relating to future periods

The reclassification relates to invoices received for insurance and financing costs prior to the end of each reporting period for periods commencing after the end of the reporting period and remained unsettled as of the period end. Such invoices were previously included in prepayments with a corresponding credit in trade and other payables. The Group has refined its policy regarding recognition of amounts invoiced but not yet due on the basis that the Group has no contractual obligation to effect payment of these invoices until the period covered by the invoices has commenced. Consequently both the prepayment and the liability recognised in respect of the invoices received have been derecognised unless settlement of the invoice had been effected prior to the end of the reporting period.

Impact on consolidated income statement

	As previously reported 2014 $'000	Reclassified 31/12/2014 $'000	As currently reported 2014 $'000
Freight and hire revenue	1,387,366	(9,486)	1,377,880
Voyage expenses and commissions	(343,390)	9,486	(333,904)
Time charter equivalent revenues	1,043,976	-	1,043,976

4. **Reclassification of comparatives (Continued)**

Impact on consolidated statement of financial position

	As previously reported 2014 $'000	Reclassified 2014 $'000	As currently reported 2014 $'000	As previously reported 2013 $'000	Reclassified 2013 $'000	As currently reported 2013 $'000
Non-current assets						
Bank deposits	-	12,315	12,315	-	8,100	8,100
Total non-current assets	5,844,567	12,315	5,856,882	5,816,978	8,100	5,825,078
Current assets						
Trade and other receivables	161,109	(5,937)	155,172	150,955	(5,811)	145,144
Cash and bank deposits	284,516	(12,315)	272,201	281,540	(8,100)	273,440
Total current assets	594,149	(18,252)	575,897	581,889	(13,911)	567,978
Total assets	6,438,716	(5,937)	6,432,779	6,398,867	(5,811)	6,393,056
Non-current liabilities						
Trade and other payables	-	330	330	-	261	261
Total non-current liabilities	2,660,348	330	2,660,678	2,648,142	261	2,648,403
Current liabilities						
Trade and other payables	190,265	(6,267)	183,998	237,420	(6,072)	231,348
Total current liabilities	620,887	(6,267)	614,620	639,453	(6,072)	633,381
Total equity and liabilities	6,438,716	(5,937)	6,432,779	6,398,867	(5,811)	6,393,056

Impact on consolidated statement of cash flows

	As previously reported 2014 $'000	Reclassified 2014 $'000	As currently reported 2014 $'000
Operating Activities			
Cash received from freight and hire of vessels	1,372,592	(9,486)	1,363,106
Cash payments for voyage and running costs	(749,611)	9,486	(740,125)
Cash generated from operations	498,904	-	498,904
Net cash inflow from operating activities	491,100	-	491,100
Financing Activities			
Restricted deposits	(400)	(3,815)	(4,215)
Net cash outflow from financing activities	(93,783)	(3,815)	(97,598)
Increase / (decrease) in Cash and Cash Equivalents	28,375	(3,815)	24,560
Cash and Cash Equivalents at 31 December	257,655	(3,815)	253,840

The above changes did not have an impact in the statement of comprehensive income or the statement of changes in equity. Disclosures in notes affected by the reclassifications were revised accordingly.

5. Adoption of New and Revised International Financial Reporting Standards

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

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2015. The nature and the impact of each new standard or amendment are described below:

IAS 19 ("Employee Benefits") – These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment is not expected to be relevant to the Group, since none of the entities of the Group have defined benefit plans with contributions from employees or third parties (effective from annual periods beginning on or after 1 July 2014).

Annual Improvements to IFRSs 2010–2012 Cycle

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

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

Annual Improvements to IFRSs 2011–2013 Cycle

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

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

New and revised IFRSs in issue but not yet effective

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

The effect from the application of IFRS 9 ("Financial Instruments") – "Classification and Measurement", IFRS 11 ("Joint Arrangements") – "Amendments regarding the accounting for acquisitions of an interest in a joint operation", IFRS 15 ("Revenue from Contracts with Customers") and IFRS 16 ("Leases") and has not yet been assessed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IAS 7 ("Statement of Cash flows") – "Amendments resulting from the disclosure initiative" The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after 1 January 2017).

IFRS 15 ("Revenue from Contracts with Customers"). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after 1 January 2018).

IFRS 16 ("Leases"), IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after 1 January 2019).

Annual Improvements to IFRSs 2012–2014 Cycle

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

- IFRS 5 "Non-current assets held for sale and Discontinued Operations" – "Changes in methods of disposal"
- IFRS 7 "Financial Instruments: Disclosures" – "Servicing contracts" and "Applicability of the amendments to IFRS 7 to condensed interim financial statements"
- IAS 19 "Employee Benefits" – "Discount rate: regional market issue"
- IAS 34 "Interim Financial Reporting" – "Disclosure of information 'elsewhere in the interim financial report' "

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the end of the reporting period that have the most significant effect on the amounts recognised in the financial statements.

Critical Accounting Judgements

Classification of charter agreements as either finance or operating leases

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

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

Investments in joint arrangements and associates

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

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

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

Determination of cash generating units for value in use calculations

In determining the CGUs the Group considers various factors including management’s trading strategies, nature and terms of contractual arrangements and actual and predicted employment of the vessels. The Group also considers other factors such as investment and discontinuance decisions, and how management monitors financial performance.

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

Key Sources of Estimation Uncertainty

Carrying amount of vessels and vessels under construction

The carrying amount of vessels and vessels under construction may not represent their fair market value at any point in time. The market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. Management reviews vessels, including vessels under construction, for indicators of impairment whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable. Impairment testing requires an estimate of future cash flows over the period of expected use of the vessels and the choice of a suitable discount rate and an assessment of recoverable amount based on comparable market transactions. If actual results differ from the estimates and assumptions used in estimating future cash flows then this could result in potential impairment losses recognised in future periods. Additional information is disclosed in Note 16 to these financial statements.

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

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

Recoverability of finance lease receivable

The finance lease receivable is subject to an allowance for impairment as disclosed in Notes 24 and 29. In determining the required level of allowance for impairment, management has considered projections of estimating future cash flows expected to be received from the lessee. The cash flow projections are based on certain assumptions, judgements and estimates. Should these assumptions and judgements be proven to be inaccurate, additional impairment charges or reversal of previous impairment charges may arise.

Outcomes of legal claims

The Group has been pursuing a number of legal claims, referred to in Notes 46 and 47. Judgement is applied in estimating outcomes of these legal claims based on legal advice received. Should these judgements be proven to be inaccurate, additional charges or reversal of charges may arise. The majority of the claims received judgment in December 2010 and December 2012 and management has recognised assets and liabilities in relation to these judgments based on legal advice. The Group was unsuccessful on a number of claims in the December 2010 and December 2012 judgments and as a result it is possible that the Group will face further liabilities. In respect of the successful claim in the December 2012 judgement the Group has been granted leave to appeal the judgment of 15 April 2015 referred to in Note 47 and it is possible that further assets may be recognised in the future. The Group’s exposure in respect of these claims is disclosed in Notes 46 and 47.

7. Freight and Hire Revenue

	2015 $'000	2014 $'000
Freight	619,107	562,786
Hire	863,895	815,094
	1,483,002	1,377,880

8. Voyage Expenses and Commissions

	2015 $'000	2014 $'000
Bunkers	137,371	208,082
Port costs	87,109	103,314
Commissions	13,059	14,574
Other voyage costs	5,377	7,934
	242,916	333,904

9. Vessels' Running Costs

	2015 $'000	2014 $'000
Crew costs	200,730	205,999
Technical costs	92,530	97,301
Insurance costs	20,461	22,333
Lubricating oils	13,342	14,070
Other costs	11,682	9,413
	338,745	349,116

10. Depreciation, Amortisation and Impairment

	2015 $'000	2014 $'000
Vessels' depreciation (Note 16)	250,035	231,961
Vessels' drydock cost amortisation (Note 16)	35,022	39,793
Vessels' impairment provision (Note 16 and Note 31)	23,175	42,758
Vessels' reversal of impairment provision (Note 31)	(1,148)	(823)
Other depreciation and amortisation (Note 18 and Note 19)	5,787	7,844
	312,871	321,533

11. General and Administrative Expenses

	2015 $'000	2014 $'000
Administration expenses	93,614	92,361
Non-income based taxes	11,177	10,383
Bank charges and fees	1,123	1,266
	105,914	104,010

Administration expenses are analysed as follows:

	2015 $'000	2014 $'000
Office costs and other general expenses	87,764	86,463
Legal and professional	3,379	3,512
Audit and accountancy	2,471	2,386
	93,614	92,361

Non-income based taxes are analysed as follows:

	2015 $'000	2014 $'000
Irrecoverable value added tax	10,050	9,319
Tonnage tax	1,127	1,064
	11,177	10,383

12. Other Operating Revenues and Expenses

	2015 $'000	2014 $'000
Other operating revenues	20,215	31,907
Cost of sales		
- Wages and salaries	(1,932)	(4,533)
- Payroll taxes	(592)	(1,380)
- Other cost of sales	(5,010)	(13,987)
Administrative expenses	(1,590)	(2,130)
Other expenses	(613)	(1,455)
Investment property depreciation (Note 20)	(1,077)	(1,120)
Other operating expenses	(10,814)	(24,605)
Net other operating income	9,401	7,302

Other operating revenues comprise income from non-core non-vessel operating activities, rental income derived from investment properties (Note 20) and income from the commercial and technical management of vessels belonging to joint ventures and third party owners performed by the Group.

13. Employee Costs

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

	2015 $'000	2014 $'000
Seafarers		
- Short term and other long term employee benefits	166,123	159,657
- Payroll taxes	1,657	1,853
- Defined contribution pension plans	1,477	1,717
- Long-term service defined benefit plans	5	37
	169,262	163,264
Shore based staff		
- Short term and other long term employee benefits	73,597	64,014
- Payroll taxes	9,535	8,990
- Defined contribution pension plans	1,268	1,563
- Long-term service defined benefit plans	103	131
	84,503	74,698
Total employee costs	253,765	237,962

Effective 1 January 2015, the Group introduced a long term incentive employee benefit plan ("LTIP"), approved by the Company's board of directors, for a selected number of seafarers and shore based personnel. The total duration of the plan is five years with awards payable in years 2018, 2019 and 2020. The plan is unfunded.

Under the LTIP employees will be eligible to receive award subject to the fulfilment of target key performance indicators ("KPIs") set as part of the Company's strategy (long-term development programme).

The calculation for the period ended 31 December 2015 is based on the assumption that the performance vs. set KPI targets achieved as of 31 December 2015 will be sustained over the entire LTIP evaluation period (2015-2017) and the recipient's continued employment with the Group, as stipulated by the LTIP bylaws. Should this estimation be proven to inaccurate and the target KPIs not met, reversal of charges may arise.

These benefits are accounted for as other long-term employee benefits with accrued liabilities included in non-current trade and other payables (Note 37) in the statement of financial position. Current service costs and related social charges, recognised as employee benefits under the programme, for the period, are included in crew costs under vessels' running costs and in administrative expenses under general and administrative expenses in the income statement.

14. Financing costs

	2015 $'000	2014 $'000
Interest on secured bank loans	47,589	45,197
Interest on interest rate swaps	30,680	33,112
Interest on other loans	42,562	38,903
Interest on finance lease liabilities	12,487	13,109
Other interest	5,109	5,298
Other financing costs	2,065	2,706
	140,492	138,325

15. Segment Information

For management purposes, the Group is organised into business units (operating segments) based on the main types of activities and has five reportable operating segments as follows:

- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2015 the Group's fleet in this segment consisted of 59 crude oil carriers (2014 – 60).
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2015, the Group's fleet in this segment consisted of 34 petroleum product carriers, (2014 – 43), including 16 chemical and oil carriers (2014 – 19 chemical and oil carriers and 2 asphalt and bitumen carriers). The 9 (2014 – 9) oil product tankers owned through joint ventures are disclosed in Note 22.
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2015, this segment's fleet consisted of 4 LNG carriers (2014 – 2) and 4 LPG carriers (2014 – 4). The 4 (2014 – 4) LNG carriers owned through joint ventures are disclosed in Note 22.
- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously.. As of 31 December 2015, this segment's fleet consisted of 13 shuttle tankers (2014 – 13) and 4 ice breaking supply vessels (2014 – 4).
- Other (<10% of revenue). This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2015, this segment's fleet consisted of 2 bulk carriers (2014 – 3) and 1 chartered in seismic vessel (2014 – 1). This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

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

Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Period ended 31 December 2015

	Crude Oil $'000	Oil Product $'000	Gas $'000	Offshore $'000	Other $'000	Total $'000
Freight and hire revenue	695,783	314,467	137,826	230,175	104,751	1,483,002
Voyage expenses and commissions	(153,710)	(74,138)	(364)	(1,342)	(13,362)	(242,916)
Time charter equivalent revenues	542,073	240,329	137,462	228,833	91,389	1,240,086
Direct operating expenses						
Vessels' running costs	(154,032)	(95,105)	(22,272)	(47,957)	(19,379)	(338,745)
Charter hire payments	-	-	-	-	(52,812)	(52,812)
Net earnings from vessels' trading	388,041	145,224	115,190	180,876	19,198	848,529
Vessels' depreciation	(115,934)	(46,831)	(26,068)	(58,333)	(2,869)	(250,035)
Vessels' drydock cost amortisation	(18,240)	(6,015)	(4,847)	(5,178)	(742)	(35,022)
Vessels' impairment provision (net)	(5,417)	(6,565)	-	-	(10,045)	(22,027)
Gain / (loss) on sale of vessels	2,561	(923)	-	-	-	1,638
Net foreign exchange gains / (losses)	-	1,336	-	(815)	(10,734)	(10,213)
Segment operating profit / (loss)	251,011	86,226	84,275	116,550	(5,192)	532,870
Unallocated						
General and administrative expenses						(105,914)
Financing costs						(140,492)
Other income and expenses						84,652
Net foreign exchange gains						660
Profit before income taxes						371,776
Carrying amount of fleet in operation	2,275,627	943,693	973,870	1,130,102	65,250	5,388,542
Carrying amount of non-current assets held for sale	14,550	13,580	-	-	-	28,130
Deadweight tonnage of fleet used in operations ('000)	7,651	1,903	472	1,196	153	11,375

15. **Segment Information (Continued)**

Period ended 31 December 2014

	Crude Oil $'000	Oil Product $'000	Gas $'000	Offshore $'000	Other $'000	Total $'000
Freight and hire revenue	624,972	327,399	85,679	224,042	115,788	1,377,880
Voyage expenses and commissions	(203,878)	(113,944)	(2,453)	(1,624)	(12,005)	(333,904)
Time charter equivalent revenues	421,094	213,455	83,226	222,418	103,783	1,043,976
Direct operating expenses						
Vessels' running costs	(153,668)	(111,570)	(18,135)	(44,936)	(20,807)	(349,116)
Charter hire payments	-	-	-	-	(52,675)	(52,675)
Net earnings from vessels' trading	267,426	101,885	65,091	177,482	30,301	642,185
Vessels' depreciation	(107,038)	(51,586)	(13,201)	(56,537)	(3,599)	(231,961)
Vessels' drydock cost amortisation	(19,469)	(11,001)	(2,990)	(5,003)	(1,330)	(39,793)
Vessels' impairment provision (net)	-	(35,555)	-	-	(6,380)	(41,935)
Gain / (loss) on sale of vessels	4,728	(510)	(420)	-	-	3,798
Net foreign exchange gains / (losses)	-	46	-	(831)	(31,009)	(31,794)
Segment operating profit / (loss)	145,647	3,279	48,480	115,111	(12,017)	300,500
Unallocated						
General and administrative expenses						(104,010)
Financing costs						(138,325)
Other income and expenses						37,990
Net foreign exchange losses						(5,176)
Profit before income taxes						90,979
Carrying amount of fleet in operation	2,437,633	991,198	587,753	1,178,542	83,857	5,278,983
Carrying amount of non-current assets held for sale	-	93,163	-	-	-	93,163
Deadweight tonnage of fleet used in operations ('000)	7,811	2,146	284	1,196	222	11,659

16. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2014	6,671,203	155,838	6,827,041
Expenditure in period	3,831	23,291	27,122
Transfer from vessels under construction (Note 17)	500,498	10,470	510,968
Transfer to non-current assets held for sale (Note 31)	(306,531)	(7,255)	(313,786)
Disposals in period	(89,082)	(2,636)	(91,718)
Write-off of fully amortised drydock cost	-	(20,054)	(20,054)
At 31 December 2014	6,779,919	159,654	6,939,573
Expenditure in period	1,193	43,809	45,002
Transfer from vessels under construction (Note 17)	408,836	8,000	416,836
Transfer to non-current assets held for sale (Note 31)	(63,938)	(3,372)	(67,310)
Disposals in period	(54,832)	(1,791)	(56,623)
Write-off of fully amortised drydock cost	-	(41,368)	(41,368)
At 31 December 2015	7,071,178	164,932	7,236,110
Depreciation, amortisation and impairment			
At 1 January 2014	1,555,334	65,557	1,620,891
Charge for the period	231,961	39,793	271,754
Impairment provision	30,254	-	30,254
Transfer to non-current assets held for sale (Note 31)	(209,883)	(4,766)	(214,649)
Eliminated on disposal	(25,448)	(2,158)	(27,606)
Write-off of fully amortised drydock cost	-	(20,054)	(20,054)
At 31 December 2014	1,582,218	78,372	1,660,590
Charge for the period	250,035	35,022	285,057
Impairment provision	14,225	-	14,225
Transfer to non-current assets held for sale (Note 31)	(43,446)	(3,127)	(46,573)
Eliminated on disposal	(23,333)	(1,030)	(24,363)
Write-off of fully amortised drydock cost	-	(41,368)	(41,368)
At 31 December 2015	1,779,699	67,869	1,847,568
Net book value			
At 31 December 2015	5,291,479	97,063	5,388,542
At 31 December 2014	5,197,701	81,282	5,278,983
At 31 December 2013	5,115,869	90,281	5,206,150

	2015	2014	2013
Market value ($'000)	5,092,750	4,777,500	4,355,000
Current insured values ($'000)	5,830,970	5,856,922	5,587,372
Total deadweight tonnage (dwt)	11,243,584	11,390,550	11,497,966

Summary of fleet at period end:

Type of vessel	Number of vessels		Dwt'000		Carrying value $ million	
	2015	2014	2015	2014	2015	2014
Oil tankers	58	60	7,548	7,814	2,276	2,439
Shuttle tankers	13	13	1,176	1,176	823	857
Product carriers	32	32	1,881	1,881	944	991
LNG and LPG carriers	8	6	472	284	974	588
Bulk carriers	2	3	150	219	65	84
Ice breaking supply vessels	4	4	17	17	307	320
	117	118	11,244	11,391	5,389	5,279
Vessels held for sale (Note 31)	3	11	127	265	28	93
	120	129	11,371	11,656	5,417	5,372

16. **Fleet (Continued)**

As at 31 December 2015, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs to sell, as assessed by management at the period end and supported by independent professional valuations, and their value in use.

Results of the impairment review for the period ended 31 December 2015

Operating segment	CGU	Methodology	Applied pre-tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tanker (1 CGU)	Fair value less cost to sell (level 1)	n/a	5,417	14,550
Other segment	Bulk carriers (2 CGUs)	Value in use	7.05 & 7.17	7,310	65,472
Other segment	Bulk carrier (1 CGU)	Fair value less cost to sell (level 2)	n/a	1,498	6,188
				14,225	86,210

The impairment recognised in the period ended 31 December 2015 based on value in use related to the Group's two other bulk carriers and resulted from the deterioration of the bulker market and current market expectations for freight rate estimates. The impairment recognised in the period ended 31 December 2015 based on fair value less costs to sell resulted from management's decision to dispose of one of its bulk carriers and one of its aframax crude oil tankers. Both vessels were reclassified as held for sale in the statement of financial position as at the reporting period end.

Results of the impairment review for the period ended 31 December 2014

Operating segment	CGU	Methodology	Applied pre-tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Oil product segment	3 chemical oil product tankers and 2 asphalt chemical tankers (5 CGUs)	Fair value less cost to sell (level 2)	n/a	11,178	50,126
Oil product segment	4 MR product tankers (4 CGUs)	Value in use	6.29	12,696	38,769
Other segment	Bulk carrier (1 CGU)	Fair value less cost to sell (level 2)	n/a	6,380	7,920
				30,254	96,815

The impairment recognised in the period ended 31 December 2014 resulted from management's decision to dispose of nine oil product vessels and a bulk carrier. The nine oil product vessels satisfied the criteria of being classified as held for sale at period end and as such were reclassified in the statement of financial position (Note 31). Four of the nine oil product vessels were impaired to their value in use before being classified as held for sale as this materially exceeded their fair value less costs to sell.

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

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

- Contracted hire rates, for vessels on time charter, until the expiry of the current agreements;
- Freight rate estimates in the years 2016 to 2018 based on Baltic Exchange Forward Freight Assessments for the relevant route that applies to each vessel, or where Baltic Exchange Forward Freight Assessments are not available for the relevant route, publically available market forecasts. These are adjusted for any premium/discount earned by each vessel on the relevant route compared to the historic average without any inflationary increase;
- Freight rate estimates after 2018 based on the historical ten year earnings averages for each type of vessel, obtained from independent brokers' research as adjusted for any premium/discount earned by each vessel on the relevant route compared to the historical average without any inflationary increase;
- Operating expenses based on the Group's operating budget approved by the Group for 2016 and increasing at a rate of 3% (2014 – 3%) per annum for the first five years thereafter (up to 2021);
- The technical element of the operating expenses increasing at a rate of 3% per annum from year six for the remaining useful economic life of the vessels reflecting increase in technical expenses due to the aging of the vessels;
- Annual utilisation for each vessel of 363 days based on the fleet's historical performance less any scheduled estimated drydocking period based on the Group's approved drydock plan and thereafter 363 days less the maximum number of days in drydock based on the previously approved plan;
- Use of the vessels until the end of their useful economic life, unless the vessels are sold or planned to be sold; and
- Discount rates between 6.68% to 8.66% pre-tax (2014 – 6.29% to 7.93% pre-tax), depending on the remaining useful economic life of each vessel and the area it trades.

16. **Fleet (Continued)**

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

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of $56.8 million (2014 – $11.1 million); and
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $14.1 million (2014 – $2.9 million).

During the period ended 31 December 2015 management have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to increase the depreciation charge by $2.4 million (2014 – decrease of $3.8 million).

Included in the Group's fleet are 2 vessels (2014 – 2) held under finance leases with an aggregate carrying value of $195.2 million (2014 – $199.9 million). The depreciation charge in the period in respect of these vessels amounted to $8.9 million (2014 – $8.6 million) (see also Note 39).

17. **Vessels Under Construction**

	2015 $'000	2014 $'000
At 1 January	237,250	244,584
Expenditure in period	548,039	503,634
Transfer to fleet (Note 16)	(416,836)	(510,968)
At 31 December	368,453	237,250
Total deadweight tonnage (dwt)	233,800	423,200

Vessels under construction at 1 January 2015 comprised two LNG carriers, one ice breaking LNG carrier, one multifunctional ice breaking supply ("MIB") vessel, three MIB standby vessels and three Arctic shuttle tankers scheduled for delivery between January 2015 and June 2017 at a total contracted cost to the Group of $1,677.4 million.

Vessels delivered during the period comprised the following:

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

Vessels under construction at 31 December 2015 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel, three MIB standby vessels and three Arctic shuttle tankers scheduled for delivery between June 2016 and April 2017 at a total contracted cost to the Group of $1,279.0 million. As at 31 December 2015, $325.6 million of the contracted costs had been paid for.

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

Included in expenditure in the period is an amount of $17.5 million (2014 – $9.0 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)). The interest capitalised includes interest on general borrowings of $5.1 million (2014 – $6.6 million) capitalised using a weighted average interest rate of 3.43% per annum (2014 – 4.26% per annum).

As at 31 December 2015 management carried out an impairment review of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(t)). The review did not result in any indication that vessels under construction may have suffered an impairment loss.

18. **Intangibles**

	2015 $'000	2014 $'000
Cost		
At 1 January	7,540	7,099
Additions in period	1,822	775
Exchange adjustment	(195)	(334)
At 31 December	9,167	7,540
Amortisation		
At 1 January	3,551	2,575
Charge for the period	997	1,010
Exchange adjustment	(49)	(34)
At 31 December	4,499	3,551
Net book value		
At 31 December	4,668	3,989

Intangible assets comprise computer software.

19. **Other Property, Plant and Equipment**

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2014	76,687	62,578	139,265
Additions in period	77	1,531	1,608
Transfer from other assets under construction (Note 21)	7,395	2,417	9,812
Transferred to investment property (Note 20)	(2,385)	-	(2,385)
Disposals in period	(476)	(1,110)	(1,586)
Exchange adjustment	(13,879)	(18,321)	(32,200)
At 31 December 2014	67,419	47,095	114,514
Additions in period	30	1,592	1,622
Transferred to investment property (Note 20)	(1,015)	(925)	(1,940)
Disposals in period	(1,483)	(5,931)	(7,414)
Exchange adjustment	(3,805)	(5,829)	(9,634)
At 31 December 2015	61,146	36,002	97,148
Depreciation			
At 1 January 2014	21,666	34,276	55,942
Charge for the period	1,714	5,120	6,834
Transferred to investment property (Note 20)	(1,826)	-	(1,826)
Disposals in period	(159)	(771)	(930)
Exchange adjustment	(8,021)	(8,142)	(16,163)
At 31 December 2014	13,374	30,483	43,857
Charge for the period	1,476	3,314	4,790
Transferred to investment property (Note 20)	(1,046)	(806)	(1,852)
Disposals in period	(902)	(4,506)	(5,408)
Exchange adjustment	(2,271)	(2,252)	(4,523)
At 31 December 2015	10,631	26,233	36,864
Net book value			
At 31 December 2015	50,515	9,769	60,284
At 31 December 2014	54,045	16,612	70,657
At 31 December 2013	55,021	28,302	83,323

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

20. **Investment Property**

	2015 $'000	2014 $'000
Cost		
At 1 January	28,149	33,364
Transfer from other property, plant and equipment (Note 19)	1,940	2,385
Transferred from assets under construction (Note 21)	-	167
Disposals in period	(3)	(384)
Exchange adjustment	(3,140)	(7,383)
At 31 December	26,946	28,149
Depreciation		
At 1 January	17,808	16,391
Charge for the period (Note 12)	1,077	1,120
Transfer from other property, plant and equipment (Note 19)	1,852	1,826
Disposals in period	-	(134)
Exchange adjustment	(1,259)	(1,395)
At 31 December	19,478	17,808
Net book value		
At 31 December	7,468	10,341
Rental income from investment property	1,420	3,322
Direct operating expenses of investment property	523	782

Investment property comprises buildings in Moscow, Novorossiysk and Sochi with a fair value, based on valuations performed by independent qualified valuers as at 31 December 2015, equivalent to $35.1 million (2014 – equivalent to $31.5 million).

21. Other Assets Under Construction

	2015 $'000	2014 $'000
At 1 January	-	11,992
Expenditure in the period	-	1,554
Transfer to other property, plant and equipment (Note 19)	-	(9,812)
Transfer to investment property (Note 20)	-	(167)
Exchange adjustment	-	(3,567)
At 31 December	-	-

During the period ended 31 December 2014, the Group completed the construction of a cruise terminal in Sochi and certain outstanding works on the yacht marina which were subsequently transferred to other property, plant and equipment (Note 19).

22. Investments in Joint Ventures

	2015 $'000	2014 $'000
At 1 January	82,430	72,507
Investment in joint venture during the period	107	-
Share of profits in joint ventures	15,731	12,861
Share of joint ventures' other comprehensive income	6,013	2,703
Dividends receivable	(2,731)	(2,531)
Release of provision for share in net liabilities of joint ventures	(3,244)	(3,110)
At 31 December	98,306	82,430

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

	Percentage holding				
Name of entity	2015	2014	2013	Country of Incorporation	Principal Activity
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Eastern Supply Vessels Limited[1]	50.0%	50.0%	50.0%	Russia	Ship chartering and subchartering services
SSV Sakhalin Offshore Limited[1]	50.0%	50.0%	50.0%	Cyprus	Ship chartering and subchartering services
SCF Swire Offshore Pte Limited[1]	50.0%	50.0%	50.0%	Singapore	Ship management
Anubis Shipholding Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Limited[2]	51.0%	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc[2]	51.0%	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies

[1] Effective ownership 33.3%

[2] All key business decisions require joint approval by the shareholders

The Group through its joint ventures owns and operates 4 LNG carriers (2014 – 4) and 9 Panamax oil product tankers (LR1) (2014 – 9). The Group also operates through its joint ventures 3 ice breaking supply vessels (2014 – 3), one of which it directly owns.

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

	2015 $'000	2014 $'000
Within one year	143,554	131,578
After one year but not more than five years	533,628	531,387
More than five years	636,166	755,725
	1,313,348	1,418,690

22. **Investments in Joint Ventures (Continued)**

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

At 31 December 2015	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	Other $'000	Total $'000
Total non-current assets	144,254	145,673	151,175	151,233	379,639	6,119	978,093
Total current assets	18,671	19,007	14,803	26,004	46,730	13,648	138,863
Total non-current liabilities	(137,328)	(145,904)	(126,376)	(138,616)	(248,623)	(139)	(796,986)
Total current liabilities	(10,040)	(16,691)	(19,732)	(18,918)	(48,367)	(14,118)	(127,866)
Net assets of the joint venture	15,557	2,085	19,870	19,703	129,379	5,510	192,104
Group's share in net assets of the joint venture	5,834	1,043	9,935	9,852	65,983	1,838	94,485
Long term interests in the joint venture	-	-	-	-	2,644	1,177	3,821
Carrying amount of the investment in joint venture	5,834	1,043	9,935	9,852	68,627	3,015	98,306
Provision for share in net liabilities of joint venture	-	-	-	-	-	-	-
Cash and cash equivalents	16,140	16,936	14,893	19,994	18,116	7,412	93,491
Current financial liabilities	(10,010)	(16,477)	(15,147)	(16,333)	(35,015)	(3,531)	(96,513)
Non-current financial liabilities	(137,328)	(145,904)	(126,376)	(138,616)	(248,623)	-	(796,847)
Revenues	23,950	24,732	21,638	21,504	91,502	39,389	222,715
Depreciation, amortisation and impairment	(5,844)	(6,217)	(6,323)	(6,099)	(18,061)	(1,235)	(43,779)
Interest income	17	14	-	1	8	-	40
Interest expense	(7,882)	(7,538)	(6,619)	(6,969)	(11,556)	-	(40,564)
Income tax	(317)	(328)	-	-	-	(877)	(1,522)
Joint ventures' profits for the period	5,090	5,801	4,431	4,244	12,122	1,497	33,185
Group's share of joint ventures' profits for the period recognised	1,909	2,901	2,216	2,122	6,182	401	15,731
Joint ventures' other comprehensive income for the period	2,836	2,773	3,160	3,198	766	-	12,733
Group's share of joint ventures' other comprehensive income for the period recognised	1,064	1,387	1,580	1,599	391	(8)	6,013
Joint ventures' total comprehensive income for the period	7,926	8,574	7,591	7,442	12,888	1,497	45,918
Group's share of joint ventures' total comprehensive income for the period recognised	2,973	4,288	3,796	3,721	6,573	393	21,744

22. **Investments in Joint Ventures (Continued)**

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

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

23. Loans to Joint Ventures

	2015 $'000	2014 $'000	2013 $'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	40,476	44,380	50,984
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	20,312	20,312	19,292
	60,788	64,692	70,276
Less current portion (current assets)	(8,320)	(4,750)	(4,750)
Non-current portion (non-current assets)	52,468	59,942	65,526
Interest income during the period on loans due from joint ventures	1,054	1,066	1,157
Interest receivable at period end on loans due from joint ventures	2,293	1,607	1,004

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

24. Finance Lease Receivables

	2015 $'000	2014 $'000	2013 $'000
Gross finance lease receivable			
At 1 January	85,518	89,136	92,261
Finance lease interest receivable	12,562	13,137	13,631
Finance lease instalments receivable	(16,755)	(16,755)	(16,756)
At 31 December	81,325	85,518	89,136
Allowance for credit losses			
At 1 January	(9,856)	(6,572)	-
Release of / (allowance for) credit losses	362	(3,284)	(6,572)
At 31 December	(9,494)	(9,856)	(6,572)
Receivable net of provision	71,831	75,662	82,564
Less current finance lease receivables	(4,875)	(4,193)	(3,656)
Non-current finance lease receivables	66,956	71,469	78,908

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

	Minimum lease instalments		Present value of minimum lease instalments	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Within one year	16,801	16,755	4,875	4,193
After one year but not more than five years	67,067	67,067	28,632	24,657
More than five years	53,461	69,901	38,324	46,812
	137,329	153,723	71,831	75,662
Less unearned income	(65,498)	(78,061)	-	-
Present value of minimum lease instalments	71,831	75,662	71,831	75,662

Finance lease receivables comprise nine Escort tugs chartered out to a subsidiary of a Russian State controlled entity, a former associate (see Note 48), on fifteen year bareboat charters commencing on delivery of the tugs by the shipyards, at effective interest rates ranging from 11.96% to 18.39% per annum.

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

Amounts invoiced but outstanding as at the period end are disclosed separately under trade and other receivables in Note 29.

25. Derivative Financial Instruments

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

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

	2015 $'000	2014 $'000	2013 $'000
Non-current asset	8,050	7,438	10,356
Non-current liability	(32,135)	(37,808)	(42,266)
Current liability	(22,929)	(24,836)	(26,718)
	(47,014)	(55,206)	(58,628)

25. **Derivative Financial Instruments (Continued)**

(a) Hedging instruments

	2015 $'000	2014 $'000
At 1 January	55,206	52,464
Recycled during the period and credited to the income statement	(25,050)	(20,081)
Fair value movement during the period recognised in other comprehensive income	17,541	23,265
Fair value movement during the period credited to the income statement	(683)	(442)
At 31 December	47,014	55,206

The Group entered into interest rate swap ("IRS") agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. As of 31 December 2015 the Group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to U.S. Dollar three and six month LIBOR as follows:

U.S. Dollar LIBOR compared to fixed rate	Notional amount 2015 $'000	Notional amount 2014 $'000	Fixed interest rate	Expiry date
Three month	-	34,500	1.59%	24 August 2015
Three month	26,600	32,200	2.02%	22 July 2017
Three month	21,780	23,760	4.47%	12 December 2016
Three month	255,075	279,225	5.76%	1 March 2021
Six month	60,000	66,667	1.63%	21 December 2024
Three month	200,000	250,000	0.89%	12 December 2019
Three month	16,217	17,464	2.02%	13 August 2020
Three month	16,217	17,464	2.01%	13 August 2020
Three month	36,476	39,282	2.07%	31 December 2020
Three month	139,567	150,099	2.44%	29 January 2024
Three month	144,467	154,974	2.27%	29 August 2024
Three month	151,394	-	1.98%	9 January 2025
Three month	154,050	-	1.86%	20 April 2025
	1,221,843	1,065,635		

(b) Classified at fair value through profit or loss

	2015 $'000	2014 $'000
At 1 January	-	6,164
Fair value movement during the period credited to the income statement	-	(6,164)
At 31 December	-	-

All derivative financial instruments classified at fair value through profit or loss at 1 January 2014 were interest rate financial instruments and were recorded in the statement of financial position as current liabilities.

26. **Income Taxes**

	2015 $'000	2014 $'000
Russian Federation profit tax	21,475	9,565
Overseas income tax expense	777	565
Current income tax expense	22,252	10,130
Deferred tax	(4,948)	(3,045)
Total income tax expense	17,304	7,085

Russian Federation profits tax is payable in Roubles at a tax rate of 20% (2014 – 20%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxes are also payable on the results of the Group's overseas management and agency and broking subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions historically utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Under the laws of the countries of incorporation and / or vessel registration, a number of vessel owning and operating subsidiaries are subject to tax on international shipping income. Management is of the opinion that the Group is fully compliant with the respective tax regime of the countries of incorporation of the vessel owning companies and / or vessel registration.

On 24 November 2014 Federal Law No. 376-FZ of the Russian Federation, effective 1 January 2015, concerning the introduction of amendments to part one and two of the Tax Code of the Russian Federation (regarding the taxation of profit of Controlled Foreign Companies ("CFC") and tax residence of Foreign Companies in Russia) was enacted. Based on the current interpretation of the Law, the majority of the Group's CFC which generate more than 20% of their revenue from passive activities, subject to a maximum profit exemption, as defined by the Law, are subject to Russian profits tax on their undistributed profits generated after 1 January 2015, provided that such profits are not distributed as dividends until 31 December of the year following the period when the profits are generated. The Group has not incurred any additional tax liabilities as a result of the enactment of this Law.

26. **Income Taxes (Continued)**

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

	2015 $'000	2014 $'000
Profit before income taxes	371,776	90,979
Income tax charge using Russian Federation income tax rate of 20%	74,355	18,196
Difference in tax rates in other jurisdictions	(3,191)	20,578
Profits subject to tonnage tax	(64,672)	(32,501)
Tax effect on intercompany dividends	11,879	(1,172)
Non-deductible expenses and non-taxable income	1,832	(109)
Difference in tax rate of dividends received from other investments	-	(33)
Tax losses (recognised) / unrecognised during the period	(3,303)	2,283
Adjustments in respect of current income tax of previous years	-	(157)
Tax effect on disposal of subsidiary	404	-
Income tax expense	17,304	7,085

Deferred Tax

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2015				
Deferred tax assets	3,575	4,556	(744)	7,387
Deferred tax liabilities	(1,258)	392	90	(776)
	2,317	4,948	(654)	6,611
At 31 December 2014				
Deferred tax assets	2,228	1,963	(616)	3,575
Deferred tax liabilities	(2,477)	1,082	137	(1,258)
	(249)	3,045	(479)	2,317

Deferred tax relates to the following:

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2015				
Fleet	559	(480)	-	79
Drydock	(270)	(517)	142	(645)
Unused tax losses carried forward	607	3,928	(567)	3,968
Accounts receivable	(198)	367	(2)	167
Accounts payable	1,644	948	-	2,592
Bank loans	4	(4)	-	-
Gains on disposal of assets reinvested	(563)	484	-	(79)
Other	534	222	(227)	529
	2,317	4,948	(654)	6,611
At 31 December 2014				
Fleet	380	693	(514)	559
Drydock	(680)	183	227	(270)
Unused tax losses carried forward	531	140	(64)	607
Accounts receivable	(382)	44	140	(198)
Accounts payable	2,352	(209)	(499)	1,644
Bank loans	(34)	38	-	4
Gains on disposal of assets reinvested	(585)	22	-	(563)
Unremitted earnings of Russian subsidiaries	(1,800)	1,800	-	-
Other	(31)	334	231	534
	(249)	3,045	(479)	2,317

The Group has tax losses which arose in Spain of $15.0 million (2014 – $20.6 million in Russia and $11.4 million in Spain), for which a deferred tax asset has not been recognised, that are available for offsetting against future taxable profits of the companies in which they arose. During the period the Group recognised deferred tax assets of $3.9 million relating to certain operations in Russia based on the projected results of those operations, supported by contracted revenues in subsequent periods.

As in previous years, at 31 December 2015, the Group did not recognise accumulated deferred tax liabilities of $159.3 million (2014 – $112.1 million) for taxes that would be payable, if the Group's subsidiaries distribute their retained earnings, on the basis that the Group has the ability to control the timing of the distribution, and does not intend to distribute these retained earnings in the foreseeable future. There is no tax impact on the unremitted earnings of joint ventures or associates. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,890.2 million (2014 – $2,606.6 million).

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

27. **Earnings Per Share**

	2015 $'000	2014 $'000
Net profit attributable to equity holders of the parent for basic earnings	339,461	80,058

	2015	2014
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic earnings per share for the period attributable to holders of the parent	$0.173	$0.041

28. **Inventories**

	2015 $'000	2014 $'000	2013 $'000
Bunkers	17,644	24,305	39,060
Lubricants	17,168	17,454	18,479
Victualling and slopchest	1,595	2,026	1,882
Spare parts and consumables	476	1,195	3,254
Other	685	845	2,044
	37,568	45,825	64,719

The amounts expensed during the period are disclosed in Note 8, Voyage Expenses and Commissions, and Note 9, Vessels' Running Costs.

29. **Trade and Other Receivables**

	2015 $'000	2014 $'000	2013 $'000
Non-current assets			
Other receivables	104	180	587
Security deposits	13,190	17,183	17,178
Receivables under High Court judgement award	2,708	-	-
	16,002	17,363	17,765
Current assets			
Amounts due from charterers	96,289	82,272	62,831
Allowance for credit losses	(5,166)	(4,214)	(4,135)
	91,123	78,058	58,696
Casualty and other claims	11,191	3,887	5,761
Agents' balances	1,354	4,807	2,767
Other receivables	28,464	24,736	25,298
Amounts due from joint ventures	491	280	1,170
Security deposits	-	6,060	9,789
Amounts due from lessee for finance leases	1,423	1,869	1,662
Receivables under High Court judgement award	-	2,708	2,708
Prepayments	11,385	11,378	9,730
Voyages in progress	23,809	16,359	22,952
Accrued income	5,365	5,030	4,611
	174,605	155,172	145,144

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

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

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2015, $59.2 million (2014 – $48.7 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2015, charterers with a carrying amount of $31.9 million (2014 – $29.4 million) are past due at the reporting date. The Group has not provided for these receivables as there has not been a significant change in credit quality and the amounts outstanding are still considered recoverable.

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

	2015 $'000	2014 $'000	2013 $'000
Up to one month	18,809	15,009	27,462
One to two months	6,452	5,460	3,586
Two to three months	2,535	2,592	2,030
Three to four months	1,450	100	383
More than four months	2,619	6,213	5,097
	31,865	29,374	38,558

29. **Trade and Other Receivables (Continued)**

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

	2015 $'000	2014 $'000	2013 $'000
At 1 January	4,214	4,135	5,435
Amounts written off during the period	(109)	(102)	(1,059)
Amounts recovered during the period and recognised in the income statement	(252)	(3)	(533)
Increase in allowance recognised in the income statement	1,313	184	270
Exchange adjustment	-	-	22
At 31 December	5,166	4,214	4,135

Security deposits comprised the following:

- an amount of $10.1 million, as at 31 December 2014, of which $6.1 million classified as current assets, representing securities placed to the Court's Funds Office to cover for potential legal costs of the defendants connected with the claims described in Note 46 (these amounts were released in 2015) ; and
- an amount, including accrued interest, of $13.2 million (2014 – $13.2 million) held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, classified as non-current asset as at 31 December 2015 and 31 December 2014 (see also Note 46).

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

30. **Cash and Bank Deposits**

	2015 $'000	2014 $'000	2013 $'000
Non-current assets			
Bank deposits	10,000	12,315	8,100
Restricted deposits	(10,000)	(12,315)	(8,100)
Cash and cash equivalents	-	-	-
Current assets			
Cash and bank deposits	357,427	272,201	273,440
Bank deposits accessible on maturity	-	(1,442)	(1,833)
Retention accounts	(23,901)	(16,919)	(14,857)
Restricted deposits	(846)	-	-
Cash and cash equivalents	332,680	253,840	256,750

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 38. These funds are accumulated to cover future loan principal and interest repayments. Restricted deposits represent additional security for the purposes of certain secured loan agreements and represent minimum liquidity for the duration of the relevant secured loan.

Under the terms of the agreements, two subsidiaries of the Group have to maintain freely available bank balances and cash in the amount of not less than $35.0 million each. In addition under the terms of the agreements, one of the two subsidiaries has to maintain minimum liquidity of the higher of $50.0 million and 7.5% of total debt and at least 50% of the minimum liquidity has to be maintained in cash and cash equivalents. The amount of cash and cash equivalents that had to be maintained under the terms of the agreements as at 31 December 2015 were $52.0 million (2014 – $57.5 million) and $35.0 million (2014 – $35.0 million) respectively.

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

31. **Non-Current Assets Held for Sale**

	Building $'000	Fleet $'000	Total $'000
At 1 January 2014	15,792	58,460	74,252
Transfer from fleet (Note 16)	-	99,137	99,137
Expenditure in period	-	419	419
Impairment provision	-	(12,504)	(12,504)
Reversal of impairment provision	-	823	823
Exchange adjustment	(777)	-	(777)
Disposals in period	(15,015)	(53,172)	(68,187)
At 31 December 2014	-	93,163	93,163
Transfer from fleet (Note 16)	-	20,737	20,737
Impairment provision	-	(8,950)	(8,950)
Reversal of impairment provision	-	1,148	1,148
Disposals in period	-	(77,968)	(77,968)
At 31 December 2015	-	28,130	28,130

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

During the period ended 31 December 2015 the Group disposed of all but two of the five chemical oil product tankers held for sale at 31 December 2014. In addition the Group entered into an agreement for the sale of one of the remaining two chemical oil product carrier held for sale. Moreover, during the period ended 31 December 2015 the Group classified as held for sale one bulk carrier and one crude oil aframax carrier. These vessels were actively marketed for sale at a price approximate to their market values and consequently transferred to non-current assets held for sale. The bulk carrier was sold during the period.

As at 31 December 2015, non-current assets held for sale, comprised two chemical oil product tankers and one crude oil aframax carrier. These vessels were sold in 2016 (see also Note 49).

32. **Share Capital**

	2015 $'000	2014 $'000	2013 $'000
Authorised 2,247,653,953 shares of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012	405,012
Share premium arising from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 33)	818,845	818,845	818,845

33. **Group Reconstruction Reserve**

	2015 $'000	2014 $'000	2013 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)	(843,450)
	(834,490)	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 Roubles ($1.40071) per share (see also Note 32), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests basis.

34. **Dividends**

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

35. **Non-Controlling Interests**

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2014	(844)	157,889	157,045
Profit for the period	-	3,836	3,836
Other comprehensive income	(3,162)	134	(3,028)
Dividends	-	(1,464)	(1,464)
At 31 December 2014	(4,006)	160,395	156,389
Profit for the period	-	15,011	15,011
Other comprehensive income	(1,465)	(59)	(1,524)
Dividends	-	(8,196)	(8,196)
Acquisition of non-controlling interest by equity holders	54	(1,812)	(1,758)
At 31 December 2015	(5,417)	165,339	159,922

36. **Provisions**

	2015 $'000	2014 $'000	2013 $'000
At 1 January	3,244	6,354	26,796
Reductions resulting from remeasurement of guarantees given for its joint ventures	(3,244)	(3,110)	(20,442)
At 31 December	-	3,244	6,354

The Group has legal obligations arising out of its investments relating to guarantees given for its joint ventures. The Group has severally guaranteed to the hedging banks the performance of all the obligations and liabilities under the swap agreements entered into by the LNG carrier owning companies listed in Note 22, limited to its percentage holding in the equity share capital of these companies.

37. **Trade and Other Payables**

	2015 $'000	2014 $'000	2013 $'000
Non-current liabilities			
Employee benefit obligations (Note 13)	16,045	330	261
	16,045	330	261
Current liabilities			
Trade payables	36,406	57,500	83,579
Other payables	56,376	42,356	60,081
Dividends payable	7,604	1,235	1,912
Accrued liabilities	37,535	41,763	43,336
Deferred revenue	23,319	24,072	27,102
Accrued interest	20,436	17,072	15,338
	181,676	183,998	231,348

38. Secured Bank Loans

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

	2015 $'000	2014 $'000	2013 $'000
Repayable			
- within twelve months after the end of the reporting period	289,142	394,652	363,259
- between one to two years	238,866	297,782	364,323
- between two to three years	226,236	242,370	225,937
- between three to four years	359,061	240,886	219,372
- between four to five years	170,834	270,927	187,848
- more than five years	601,437	535,991	600,777
	1,885,576	1,982,608	1,961,516
Less current portion	(289,142)	(394,652)	(363,259)
Non-current balance	1,596,434	1,587,956	1,598,257

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

Contractual interest rates	Interest rate 2015	Interest rate 2014	Outstanding loans gross of direct issue costs 2015 $'000	Outstanding loans gross of direct issue costs 2014 $'000	Maturity
Floating rate loans between 0.75%-3.00% per annum	Libor+2.09%[1]	Libor+1.93%[1]	1,784,510	1,852,645	Between December 2016 - December 2024
Fixed rate	4.75%	4.75%	13,200	18,000	July 2018
Fixed rate	5.19%	5.19%	18,281	24,121	July 2019
Fixed rate	5.50%[2]	5.50%[2]	21,647	32,875	April 2016
Fixed rate	4.15%	4.15%	63,333	70,000	April 2025
			1,900,971	1,997,641	

[1] Weighted average margin for the period

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

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

As security for the loans, the lenders have first preferred mortgages on Group vessels with an aggregate carrying value at 31 December 2015 of $3,965.8 million (2014 – $4,100.3 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 17 and pledges of shares in certain of the vessel owning companies.

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

39. Finance Lease Liabilities

	2015 $'000	2014 $'000	2013 $'000
Repayable			
- within twelve months after the end of the reporting period	10,120	9,481	8,850
- between one to two years	173,690	10,120	9,481
- between two to three years	-	173,690	10,120
- between three to four years	-	-	173,690
	183,810	193,291	202,141
Less current portion	(10,120)	(9,481)	(8,850)
Non-current balance	173,690	183,810	193,291

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

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

40. Retirement Benefit Obligations

	2015 $'000	2014 $'000	2013 $'000
Post retirement pension benefit plans	1,757	2,036	4,978
Long-term service retirement benefit plans	1,310	1,354	2,427
Total obligations	3,067	3,390	7,405

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

40. **Retirement Benefit Obligations (Continued)**

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

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

	2015 $'000	2014 $'000	2013 $'000
Defined benefit obligation at 1 January	2,036	4,978	5,199
Interest cost	212	317	386
Benefits paid	(328)	(555)	(655)
Exchange adjustment	(412)	(1,689)	(355)
Re-measurement of losses / (gains) recognised in other comprehensive income	249	(1,015)	403
Defined benefit obligation at 31 December	1,757	2,036	4,978

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

	2015 $'000	2014 $'000	2013 $'000
Defined benefit obligation at 1 January	1,354	2,427	3,984
Current service costs	31	58	153
Interest cost	77	110	117
Benefits paid	(263)	(565)	(183)
Exchange adjustment	(190)	(439)	(60)
Re-measurement of losses / (gains) recognised in other comprehensive income	301	(237)	229
Gain on curtailment	-	-	(1,813)
Defined benefit obligation at 31 December	1,310	1,354	2,427

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

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Current service cost	-	-	31	58	31	58
Interest cost	212	317	77	110	289	427
Exchange adjustment	(412)	(1,689)	(190)	(439)	(602)	(2,128)
Charged in the income statement	(200)	(1,372)	(82)	(271)	(282)	(1,643)
Experience adjustments on obligation	(10)	(423)	127	(1)	117	(424)
Actuarial changes arising from changes in demographic assumptions	-	10	-	4	-	14
Actuarial changes arising from changes in financial assumptions	259	(602)	174	(240)	433	(842)
Re-measurement losses / (gains) recognised in other comprehensive income	249	(1,015)	301	(237)	550	(1,252)

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

	2015	2014
Discount rate for cash flows in Russian Roubles	9.68%	13.49%
Discount rate for cash flows in US Dollars	1.09%	0.68%
Future salary increases in Russian Roubles	10.00%	7.00%
Future salary increases in US Dollars	-	-
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 60	17	17
Life expectancy in years of a female pensioner retiring at the age of 55	26	26
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	6.7	5.9
The average duration of the defined benefit plan obligation for long-term service retirement pension benefit plans	5.7	3.7

The Group expects to make benefit payments of $0.5 million (2014 – $0.6 million) in respect of the defined benefit plans in the annual period beginning after the reporting period end.

40. **Retirement Benefit Obligations (Continued)**

A quantitative sensitivity analysis for significant assumptions as at 31 December 2015 and 31 December 2014 is as shown below:

	2015 (Decrease) / increase in net defined benefit obligation		2014 (Decrease) / increase in net defined benefit obligation	
	50 bps increase $'000	50 bps decrease $'000	50 bps increase $'000	50 bps decrease $'000
Discount rate	(70)	74	(63)	65
Future salary increases	32	(29)	19	(16)
	100 bps increase $'000	100 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
Future pension cost increases	70	-	82	-
	Increase by 1 year $'000	Decrease by 1 year $'000	Increase by 1 year $'000	Decrease by 1 year $'000
Life expectancy of male pensioners	58	(64)	56	(64)
Life expectancy of female pensioners	28	(30)	24	(27)

41. **Other Loans**

	2015 $'000	2014 $'000	2013 $'000
5.375% Senior Notes	799,089	798,591	798,092
Other loans from related party	93,387	44,291	-
	892,476	842,882	798,092
Less current portion	(16,984)	-	-
Non-current balance	875,492	842,882	798,092

On 27 October 2010, the Group, through its subsidiary SCF Capital Limited, issued Senior Notes (the "Notes") of $800 million, redeemable at par value, maturing on 27 October 2017. The Notes are unsecured and guaranteed by Sovcomflot. The Notes are included above net of amortised financing costs. There are no equity conversion rights or options attached to the Notes. Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011. Interest charged during the period amounted to $43.0 million (2014 – $43.0 million) of which $0.4 million (2014 – $4.1 million) were capitalised on vessels under construction.

In July 2014 the Group entered into three unsecured subordinated loan facilities with a Russian State controlled entity totalling $86.2 million (as amended in 2015, increasing the facility amount to $129.2 million) at an interest rate of 11% per annum, repayable in quarterly instalments. The loan facilities were entered into in connection with time charter agreements signed with the above party for the chartering out by the Group of three Arctic shuttle tankers currently under construction (Note 17). The loans are repayable over twelve years, commencing on the delivery of each vessel to charter and maturing on the expiration of the firm period of each time charter mentioned above. Interest accrued during the period to delivery of the vessels is capitalised as part of the loan. Under the agreements the Group has the right to repay the loan in part or in full at any time before maturity. In December 2015, the Group repaid the outstanding balance on one of the facilities (see also Note 49). Interest charged during the period and capitalised in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)) amounted to $14.3 million (2014 – $2.2 million).

42. **Cash Generated From Operations**

	2015 $'000	2014 $'000
Profit for the period before income taxes	371,776	90,979
Share of profits in equity accounted investments	(15,765)	(12,874)
Depreciation, amortisation and impairment	312,871	321,533
Investment property depreciation	1,077	1,120
Gain on sale of assets	(9,895)	(9,904)
Loss on sale of subsidiary	727	-
(Gain) / loss on sale of equity accounted investments	(5,402)	356
Interest expenses and financing costs	140,492	138,325
Interest income	(16,749)	(16,672)
Gain on derivative financial instruments held for trading	-	(6,164)
Gain on ineffective hedging instruments	(683)	(442)
Foreign exchange differences	9,553	36,970
Change in allowance for credit losses	782	(1,848)
Other long-term employee benefits	15,715	-
Operating cash flows before movements in working capital	804,499	541,379
Decrease in inventories	8,240	18,894
Increase in trade and other receivables	(22,439)	(13,476)
Decrease in trade and other payables	(29,280)	(47,893)
Cash generated from operations	761,020	498,904

43. Significant Subsidiary Companies

At 31 December 2015, the Group had 120 single vessel owning and operating subsidiaries (2014 – 124) incorporated in Liberia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of Incorporation	Percentage Holding	Principal Activity
PAO Novoship	Russia	89.42%	Holding company
Fiona Trust and Holding Corporation and its subsidiaries	Liberia	100%	Vessel owning and operation
Intrigue Shipping Limited and its subsidiaries	Cyprus	89.42%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Marpetrol, S.A.	Spain	100%	Vessel owning and operation
Sovcomflot Varandey LLC	Russia	100%	Ship operation
SCF Shelf LLC	Russia	100%	Ship operation
SCF Atlantic LLC	Russia	100%	Ship operation
SCF Geo LLC	Russia	100%	Ship operation
SCF Novoship Technical Management LLC	Russia	100%	Ship management
Unicom Management Services (Cyprus) Limited	Cyprus	100%	Ship management
Unicom Management Services (St. Petersburg) LLC	Russia	100%	Ship management
SCF Unicom Singapore Pte Ltd	Singapore	100%	Ship management
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Capital Limited	Ireland	100%	Financing
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Management services and supervision of operations

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

	At 31 December 2015			At 31 December 2014		
	Ordinary shares %	Preference shares %	Total shares %	Ordinary shares %	Preference shares %	Total shares %
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.28	1.11	89.42	98.28	-	89.32
Non-controlling shareholders	1.72	98.89	10.58	1.72	100.00	10.68
	100.00	100.00	100.00	100.00	100.00	100.00

In December 2015 Sovcomflot acquired 319,177 preference shares of Novoship from non-controlling shareholders. Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently Sovcomflot holds an effective interest in Novoship of 89.42% as at 31 December 2015 (2014 – 89.32%).

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

	2015 $'000	2014 $'000
Summarised statement of financial position:		
Total non-current assets	1,539,390	1,647,262
Total current assets	231,243	162,057
Total non-current liabilities	(74,901)	(129,070)
Total current liabilities	(184,182)	(216,131)
Net assets at period end	1,511,550	1,464,118
Cash and cash equivalents	165,109	99,826
Current financial liabilities	90,349	184,111
Non-current financial liabilities	69,232	124,919
Summarised income statement:		
Revenues	424,522	386,819
Depreciation, amortisation and impairment	(100,324)	(89,435)
Interest income	4,161	3,398
Interest expense	(5,497)	(12,891)
Income tax	(16,854)	(1,613)
Profit for the period	140,492	35,914
Other comprehensive income for the period	(14,280)	(28,350)
Total comprehensive income for the period	126,212	7,564
Summarised cash flows:		
Operating activities	225,798	146,859
Investing activities	16,079	(8,867)
Financing activities	(166,021)	(142,799)
Net increase / (decrease) in cash and cash equivalents	75,856	(4,807)

44. Financial Risk Management

(a) Capital management

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

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

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

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the excess or deficit of the market value of the fleet over/under its carrying amount ("total adjusted capital"). Net debt is calculated as the total of secured bank loans, finance lease liabilities and, other loans disclosed in Notes 38, 39 and 41 of the financial statements respectively, less cash and bank deposits (Note 30). Total equity comprises all components of equity.

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

During 2015 the Group's overall strategy remained unchanged from 2014. The net debt ratio at 31 December 2015 and at 31 December 2014 and the net adjusted debt ratio of the Group were as follows:

	2015 $'000	2014 $'000
Secured bank loans (Note 38)	1,885,576	1,982,608
Finance lease liabilities (Note 39)	183,810	193,291
Other loans (Note 41)	892,476	842,882
Less: cash and bank deposits (Note 30)	(367,427)	(284,516)
Net debt	2,594,435	2,734,265
Total equity	3,480,981	3,157,481
Total capital	6,075,416	5,891,746
Net debt ratio	42.7%	46.4%
Total capital	6,075,416	5,891,746
Deficit of market value of fleet over carrying value	(295,792)	(501,483)
Total adjusted capital	5,779,624	5,390,263
Net adjusted debt ratio	44.9%	50.7%

(b) Categories of financial assets and financial liabilities

	2015 $'000	2014 $'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships	8,050	7,438
Cash and bank deposits (Note 30)	367,427	284,516
Available-for-sale investments	1,012	1,012
Loans and other receivables	149,336	136,874
Loans to joint ventures (Note 23)	60,788	64,692
Finance lease receivables (Note 24)	71,831	75,662
Total financial assets	658,444	570,194
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	55,064	62,644
Secured bank loans (Note 38)	1,885,576	1,982,608
Finance lease liabilities (Note 39)	183,810	193,291
Other loans (Note 41)	892,476	842,882
Other liabilities measured at amortised cost	148,365	150,161
Total financial liabilities	3,165,291	3,231,586

44. **Financial Risk Management (Continued)**

(c) Fair value of financial assets and financial liabilities

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

	Carrying Value		Fair Value	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Financial assets				
Loans to joint ventures	60,788	64,692	57,512	61,347
Finance lease receivables	71,831	75,662	71,831	75,662
Total financial assets	132,619	140,354	129,343	137,009
Financial liabilities				
Secured bank loans at fixed interest rates	115,743	144,091	115,924	145,658
Secured bank loans at floating interest rates	1,769,833	1,838,517	1,761,909	1,826,076
Other loans	892,476	842,882	929,588	716,778
Finance lease liabilities	183,810	193,291	177,828	183,508
Total financial liabilities	2,961,862	3,018,781	2,985,249	2,872,020

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

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

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

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

The following table provides an analysis of financial instruments as at 31 December 2015 and 31 December 2014 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

Recurring fair value measurements recognised in the statement of financial position

At 31 December 2015	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	8,050	-	8,050
	-	8,050	-	8,050
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	55,064	-	55,064
	-	55,064	-	55,064

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

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

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

At 31 December 2015	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Non-current assets held for sale	28,130	-	-	28,130
	28,130	-	-	28,130

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

44. **Financial Risk Management (Continued)**

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

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

At 31 December 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment property	-	35,056	-	35,056
Loans to joint ventures	-	57,512	-	57,512
Finance lease receivables	-	71,831	-	71,831
	-	164,399	-	164,399
Liabilities				
Secured bank loans at fixed interest rates	-	115,924	-	115,924
Secured bank loans at floating interest rates	-	1,761,909	-	1,761,909
Other loans	791,928	137,660	-	929,588
Finance lease liabilities	-	177,828	-	177,828
	791,928	2,193,321	-	2,985,249

At 31 December 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment property	-	31,518	-	31,518
Loans to joint ventures	-	61,347	-	61,347
Finance lease receivables	-	75,662	-	75,662
	-	168,527	-	168,527
Liabilities				
Secured bank loans at fixed interest rates	-	145,658		145,658
Secured bank loans at floating interest rates	-	1,826,076	-	1,826,076
Other loans	648,520	68,258	-	716,778
Finance lease liabilities	-	183,508	-	183,508
	648,520	2,223,500	-	2,872,020

(d) Financial risk factors

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. In 2015 and 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices, devaluation of the Russian Rouble and significant increase of the interest rates, as well as economic sanctions imposed on certain Russian legal entities and individuals by several countries.

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

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

Market risk

Foreign currency risk

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

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

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

	Liabilities		Assets	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Euro (EUR)	6,842	10,526	24,348	25,406
Russian Roubles (RUR)	44,193	29,190	89,847	47,348
Sterling Pounds (GBP)	4,564	9,682	20,238	27,755
Others	1,747	1,755	571	559

44. **Financial Risk Management (Continued)**

(d) Financial risk factors (continued)

Market risk (continued)

Foreign currency risk (continued)

An analysis of the exposure of the Group to fluctuations in exchange rates against the U.S. Dollar, with all other variables held constant, was performed using the following movement in rates

	Increase		Decrease	
	2015	2014	2015	2014
Euro (EUR)	12.5%	10.0%	12.5%	10.0%
Russian Roubles (RUR)	40.0%	29.0%	13.0%	29.0%
Sterling Pounds (GBP)	4.5%	10.0%	13.0%	10.0%
Others	10.0%	10.0%	10.0%	10.0%

The effect of an increase in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in equity	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Euro (EUR)	(2,018)	(1,354)	73	2
Russian Roubles (RUR)	2,860	1,527	(15,903)	(5,609)
Sterling Pounds (GBP)	(563)	(1,511)	(112)	(132)
Others	107	105	-	4

The effect of a decrease in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in equity	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Euro (EUR)	2,595	1,655	(95)	(2)
Russian Roubles (RUR)	(1,495)	(2,775)	8,318	10,192
Sterling Pounds (GBP)	1,954	1,848	389	161
Others	(131)	(129)	-	(4)

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During 2015 and 2014 all of the Group's borrowings were denominated in U.S. Dollars.

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

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 25 of these financial statements.

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

	2015 $'000	2014 $'000
Total borrowings gross of direct issue costs (Note 38, 39 and 41)	2,978,553	3,035,845
Fixed rate borrowings gross of direct issue costs (Note 38, 39 and 41)	(1,194,043)	(1,183,200)
Total floating rate borrowings gross of direct issue costs (Note 38)	1,784,510	1,852,645
Notional amount of floating to fixed rate swaps qualifying under IAS 32 / IAS39 (Note 25(a))	(1,221,843)	(1,065,635)
Net exposure to interest fluctuations	562,667	787,010
% of floating rate borrowings exposed to interest rate fluctuations	31.5%	42.5%

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

	2015		2014	
Sensitivity of interest rates	100 bps increase $'000	25 bps decrease $'000	100 bps increase $'000	25 bps decrease $'000
Change in fair value of hedging instruments				
- Increase / (decrease) in other comprehensive income for the period	18,131	(4,640)	43,111	(10,851)
- Increase / (decrease) in profit or loss for the period	1,441	(369)	986	(252)
Increase / (decrease) in interest expense for the period excluding interest capitalised	5,933	(1,483)	7,718	(1,929)

44. **Financial Risk Management (Continued)**

(d) Financial risk factors (continued)

Market risk (continued)

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 65.0% (2014 – 66.7%) of the vessels' total trading days were on time charter representing 69.7% (2014 – 78.2%) of time charter equivalent revenues of which 4.9% (2014 – 5.3%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2015, 63.6% (2014 – 64.1%) of the vessels were on time charter.

Credit risk

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

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2015, amounts due from charterers included two charterers (2014 – two) with a balance of freight and hire due representing 31.8% and 19.7% of total amounts due (2014 – 27.2% and 11.9%). Management believes that there is no further credit provision required in excess of the allowance for credit losses. As at 31 December 2015 total freight and hire revenue included revenue of $194.1 million and $194.2 million from two charterers (2014 – none) individually representing 13.1% and 13.1%, respectively, of total freight and hire revenue. The revenue from the two charterers relates to the following operating segments:

Operating segment	2015 $'000
Crude oil	117,664
Oil product	30,999
Gas	102,393
Offshore	78,221
Other	59,015
	388,292

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with three banks (2014 – four) representing 23.5%, 21.3% and 11.7% (2014 – 18.4%, 14.0%, 11.5% and 10.9%) of total deposits of $367.4 million (2014 – $282.9 million).

Liquidity risk

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

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

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

	Credit facilities $'000	Drawn down $'000	Available $'000
At 31 December 2015			
Secured bank loans	1,390,681	(635,000)	755,681
Secured revolving credit facilities	248,662	(120,000)	128,662
Other loans	129,240	(129,240)	-
	1,768,583	(884,240)	884,343
At 31 December 2014			
Secured bank loans	699,750	(382,554)	317,196
Secured revolving credit facilities	391,058	(307,208)	83,850
Other loans	86,160	(43,080)	43,080
	1,176,968	(732,842)	444,126

Availability of secured revolving credit facilities is subject to compliance with the relevant loan to value covenants of each of the facilities based on the market value of the vessels used as collateral.

44. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

At 31 December 2015	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	127,929	-	-	127,929
Minimum lease payments under finance leases	10,345	173,850	-	184,195
Secured bank loans	351,271	945,936	603,764	1,900,971
Other loans	-	814,816	87,368	902,184
Interest payable on derivative instruments	25,546	26,643	1,079	53,268
Interest payable on secured loans	49,347	197,269	70,565	317,181
Interest payable on other loans	45,914	87,099	37,805	170,818
Interest payable on finance leases	11,894	8,430	-	20,324
	622,246	2,254,043	800,581	3,676,870
At 31 December 2014				
Trade and other payables	129,845	-	3,244	133,089
Minimum lease payments under finance leases	9,718	184,195	-	193,913
Secured bank loans	398,107	1,061,209	538,325	1,997,641
Other loans	-	805,304	47,745	853,049
Interest payable on derivative instruments	25,320	26,640	3,965	55,925
Interest payable on secured loans	48,360	186,001	58,884	293,245
Interest payable on other loans	43,597	107,497	23,891	174,985
Interest payable on finance leases	12,522	20,324	-	32,846
	667,469	2,391,170	676,054	3,734,693

45. Operating Lease Arrangements

The Group as Lessee

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

	Vessels		Buildings	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Within one year	16,055	26,112	4,415	4,842
After one year but not more than five years	-	16,055	16,672	16,914
More than five years	-	-	28,884	34,894
	16,055	42,167	49,971	56,650
Expensed during the period	52,812	52,675	4,241	4,777

The Group charters in a seismic vessel with various extension options attached to the bareboat charter contract and purchase options starting from the end of 2014 and thereafter for each subsequent year up to the end of the optional period in 2026. The firm period of the lease on the vessel has a remaining life of less than 9 months. In February 2016 the Group extended the charter period of the vessel for a further three years from the end of the firm period (see also Note 49). Two of the leases for buildings expire within one year with various options attached and the remaining between 6 and 8 years and one lease expiring in 45 years. There are no restrictions placed upon the Group by entering into these leases.

The Group as Lessor

	Buildings	
	2015 $'000	2014 $'000
Within one year	1,247	1,619
After one year but not more than five years	7,238	6,966
More than five years	6,722	12,735
	15,207	21,320
Income during the period	1,317	3,449

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's on shore based facilities in Novorossiysk and Sochi including leased in facilities. The leases expire within 11 years.

46. Contingent Liabilities and Commitments

Contracted revenues and guarantees

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

	2015 $'000	2014 $'000
Within one year	664,867	578,460
After one year but not more than five years	1,984,020	1,875,508
More than five years	4,249,136	4,663,567
	6,898,023	7,117,535

46. **Contingent Liabilities and Commitments (Continued)**

Contracted revenues and guarantees (continued)

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

The Group obtained guarantees from a Russian State controlled entity in respect of the performance of the obligations by its subsidiary as charterer under two time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the State controlled entity. In addition, the Group obtained guarantees from a subsidiary of the Russian State controlled entity in respect of the performance of the obligations by the subsidiary of the guarantor under three time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the guarantor, for vessels that are currently under construction (Note17), with expected delivery dates between June and October 2016.

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 17, and in respect of the construction and development facilities of the port of Sochi, is summarised as follows:

	Less than 1 year $'000	1 to 5 years $'000	Total $'000
At 31 December 2015			
Newbuilding contracts	537,430	-	537,430
Newbuilding contracts with Russian State controlled shipyards	213,040	202,960	416,000
	750,470	202,960	953,430
At 31 December 2014			
Newbuilding contracts	511,540	459,495	971,035
Newbuilding contracts with Russian State controlled shipyards	76,400	416,000	492,400
Construction and development costs for Sochi	267	-	267
	588,207	875,495	1,463,702

Contingent liabilities

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

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

In 2015 the Russian tax authorities, following a tax audit of a number of Russian subsidiaries of the Group, challenged application of 0% value added tax ("VAT") rate charged on hire revenues earned from vessels time-chartered out by these subsidiaries and employed on international trade, requiring the subsidiaries to apply 18% VAT rate on hire revenue. Should the position of the Russian tax authorities be adopted, the potential liability of the Group would be approximately RUR1,609 million (equivalent to $22.1 million). The Group disagrees with the tax authorities' stance and will challenge the tax authorities' position in court vigorously. If the Group is required to settle these contingent liabilities, a maximum amount of RUR1,204 million (equivalent to $16.5 million) is potentially recoverable from the charterers, parties to the time charter agreement concerned.

Following a routine inspection of one of the Group's Russian subsidiaries in 2015, the Russian customs concluded that the subsidiary had breached the custom regulations in respect of two of its vessels on the basis that it had not obtained the customs' permission prior to chartering out the vessels on time charter. As result the Group may face liabilities for allegedly breaching these customs' regulations of between 100% and 200% of the market value of the vessels on the date the vessels cleared Russian customs. This contingent liability is currently estimated at between RUR1,369 million and RUR2,738 million (equivalent to between $18.8 million and $37.6 million). The Group strongly disagrees with the position of the Russian customs and it will vigorously defend its position in court.

During 2005 through to 2009, the Group's newly appointed management filed claims in London for losses arising out of various transactions that had taken place during 2000 through to 2004. The trial for the claims filed commenced at the High Court in London in October 2009 and concluded in mid-2010. Judgment was handed down on 10 December 2010. The Group was successful on a number of claims, and unsuccessful on a number of others.

As a result of the Group recovering at trial an amount less than the total amount of the two freezing orders granted against some of the defendants in 2005 and 2007 in the course of the London proceedings in the Fiona litigation, these defendants are pursuing a claim for any recoverable damages suffered by virtue of the freezing orders to the extent that the freezing orders were in an amount in excess of the sums recovered under the Judgment. On 12 December 2014 the defendants served their Points of Claim in respect of any recoverable damages on four different bases claiming between approximately $73.5 million and $224.6 million. They have subsequently amended their Points of Claim increasing the primary claim from $224.6 million to $387.8 million. The trial of this claim has been fixed to commence of 4 July 2016 and last for 2 weeks.

However, in the light of certain recent disclosure from the defendants, the Group have issued an application to reverse the decision permitting the defendants to pursue the damages claim on the basis that the Court was misled by the defendants at the permission hearing on 28 July 2014. That application was fixed to be heard between 8 -10 February 2016. However, on 8 February the Court adjourned the application to the trial. In the light of the defendants' objection that the Court had no jurisdiction to set aside the judge's order, the Group, at the Court's suggestion, issued new proceedings to overcome that objection (if valid). Those new proceedings will form part of the July 2016 hearing. In any event, Management is of the opinion that the defendants will more likely than not fail in their claim against the Group even if permitted to proceed with it. The Group will defend its position vigorously. Accordingly, no provision has been made.

46. Contingent Liabilities and Commitments (Continued)

Contingent liabilities (continued)

An amount, including accrued interest, of $13.2 million is held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, as a result of a claim advanced by the charterers of the vessel at the time, relating to the grounding of the vessel in the Suez canal in November 2004. The claim is in arbitration in London and is scheduled to be heard in 2016. Management is of the opinion that the claim is without merit and the Group will defend its position vigorously. Accordingly no provision has been made against this amount which is included in the line security deposits in non-current trade and other receivables.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK and other companies of the Group filed claims at the Commercial Court in London in December 2006 and subsequently joined further defendants. The trial for these claims commenced on 16 May 2012 and concluded on 5 July 2012. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims, but after appeal unsuccessful on some claims against certain defendants.

Some of those defendants have indicated an intention to pursue the Group for damages in respect of $90 million of security provided during the litigation. No claim has yet been filed for damages and the defendants agreed to release the $4.0 million counter security provided by the Group in respect of the security provided by the defendants. The counter security was released on 30 December 2015.

A total amount of $4.9 million (2014 – $8.6 million), relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims, has been expensed in the income statement and is included in the line other non-operating expenses.

Details of the Group's obligations under finance leases are disclosed in Note 39.

47. Contingent Assets

In relation to the December 2012 judgment referred to in note 46, in September 2013 the Group concluded a settlement agreement with some of the defendants, pursuant to which a payment of $40.0 million was to be made to the Group in satisfaction of the judgment of approximately $59.2 million of principal, plus interest (less any amounts received in prior periods of approximately $7.9 million). When payment was not received, in breach of the settlement agreement, the Group obtained a freezing order against these defendants in December 2014 to enforce the judgment. As a result of the enforcement actions, on 13 March 2015 the Group received $25.6 million, from the defendants, they said pursuant to the settlement agreement. On 15 April 2015 the High Court in London construed the settlement agreement so that the Group cannot recover the judgment sum but is restricted to a recovery of no more than the settlement sum of $40.0 million. On 21 April 2015 the Group received a further $15.0 million from these defendants in satisfaction of the settlement agreement. The Group sought leave to appeal the 15 April 2015 judgment and leave was granted on 16 February 2016. The hearing date in the Court of Appeal has not yet been fixed. The total amount received of $40.6 million has been recognised in the income statement and is included in the line other non-operating income.

48. Related Party Transactions

Note 43 provides information about the Group's structure, including details of its subsidiaries. In addition, the below are material transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes.

(i) On 5 June 2015 the Group disposed of its 49% shareholding in JSC Rosnefteflot, to the majority shareholder, a Russian State controlled entity, for a sales consideration of $6.3 million, realising a profit on disposal of $5.4 million. An amount of $0.9 million, being exchange on translation of Rosnefteflot, has been reclassified from other comprehensive income to the income statement on disposal of the associate.

(ii) On 18 December 2015, the Group entered into a loan facility with a Russian State controlled financial institution totalling $339.7 million, to finance the construction of the three Arctic shuttle tankers referred to in Note 17, at an interest rate of 7.5% per annum, repayable in 48 quarterly instalments (see also Note 49).

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)	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Transactions with Russian State controlled entities				
Freight and hire of vessels	(195,227)	(124,241)	645	1,368
Other loans	-	-	(95,489)	(45,252)
Finance leases payable	12,487	13,109	(183,810)	(193,291)
Payments to related shipyards for vessels under construction	-	-	104,000	27,600
Cash at bank	(2,735)	(1,426)	128,758	50,742
Disposal of associate	(5,402)	-	-	-
Transactions with Associates[1]				
Finance leases receivable	(12,562)	(13,140)	82,748	87,442
Allowance for credit losses on finance lease receivables	(417)	(1,836)	(9,494)	(9,911)
Rental of investment property	(70)	(437)	-	31

[1] The associate was disposed of on 5 June 2015 to the majority shareholder, a Russian State controlled entity.

48. **Related Party Transactions (Continued)**

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Transactions with Joint Ventures				
Freight and hire of vessel	(9,045)	(9,045)	-	-
Other operating revenues	(3,659)	(3,541)	491	249
Loans due from joint ventures	(1,054)	(1,066)	63,081	66,299
Compensation of Key Management Personnel				
Short term benefits	12,339	12,292	6,713	4,910
Post employment benefits	72	83	6	85
Other long term service benefits	8,446	50	8,578	211
	20,857	12,425	15,297	5,206

49. **Events After the Reporting Period**

On 8 and 21 January 2016 the Group signed agreements for the sale of one of the chemical oil product tankers and for its crude oil aframax tanker, respectively, held for sale as at 31 December 2015 (Note 31). The vessels were delivered to their new owners on 3 February 2016 and 18 February 2016 respectively. The net result on their sale is estimated to be insignificant.

On 21 January 2016, the second of the chemical oil product tankers held for sale as at 31 December 2015 was delivered to her new owners. The net result on the sale is estimated to be insignificant.

On 5 and 10 February 2016, the Group drew down from available the loan facility granted by the Russian State controlled financial institution, as disclosed in Note 48, an amount of $23.6 million and $47.3 million, respectively, to refinance, as part of the financing of three Arctic Shuttle tankers referred to in Notes 17, the unsecured subordinated loans facilities referred to in Note 41. Those subordinated loan facilities were repaid in February 2016.

On 18 February 2016 the Group extended the charter period of its bareboat chartered in seismic vessel, referred to in Note 45, for three years from the date of expiry of the initial firm period of the charter in August 2016. The total commitment of the Group over the three year extension period of the charter is $52.8 million.

On 25 February 2016 the Central Bank of the Russian Federation has registered amendments to the prospectus registered by the Company on 12 March 2015 for the issue and public offering of 280,956,743 shares, extending the period over which the shares had to be placed for public offering from one year to two years from the date of initial registration.

GLOSSARY

The following terms used in this Prospectus have the meanings assigned to them below:

Aframax	Aframax oil tankers are generally between 85,000 DWT and 124,999 DWT and have carrying capacities of between 600,000 and 750,000 barrels of crude oil. The term is based on the Average Freight Rate Assessment tanker rate system developed by Shell Oil in 1954. Aframax tankers are the largest ship under that classification system. Aframax tankers are largely used in the basins of the Black Sea, the North Sea, the Caribbean Sea, the China Sea and the Mediterranean.
Bareboat charter	A bareboat charter is an arrangement for the hiring of a boat, whereby no crew or provisions are included as part of the agreement but rather the persons who rent the boat from the owner are responsible for taking care of such things.
Brent	Brent crude oil comes from the North Sea and is a light, sweet crude with an API gravity of 38.06 and a specific gravity of 0.835. The sulfur content is 0.37%. The price of Brent crude oil is used to set prices for roughly 2/3 of the world's oil. It is mostly refined in northwest Europe and is also called Brent Blend, London Brent and Brent petroleum.
Bulk cargo carrier	A bulk carrier, bulk freighter or bulker is a merchant ship designed especially to transport unpackaged bulk cargo, such as grain, coal, ore and cement in its cargo holds.
Capesize	Capesize is a naval architecture term for vessels that were originally too large to transit the Suez Canal (i.e., larger than both Panamax and Suezmax vessels). To travel between oceans, such vessels used to have to pass either the Cape of Good Hope or Cape Horn, although they can now transit the Suez Canal provided they meet the draft restriction.
Chemical carrier	A chemical carrier or chemical tanker is a type of tanker designed to transport chemicals in bulk. Ocean-going chemical tankers generally range from 5,000 DWT to 40,000 DWT, which is considerably smaller than the average size of other tanker types, due to the specialized nature of their cargoes and the size restrictions of the port terminals where they call.
Contract of affreightment	A series of spot charters for a vessel operator to carry a specified quantity of cargo over a given period of time, using vessels as determined by the vessel operator.
Crude oil tanker	A crude oil tanker or crude oil carrier moves large quantities of unrefined crude oil from its point of extraction to refineries.
DP	Dynamic positioning is a computer controlled system to automatically maintain a vessel's position and heading by using its own propellers and thrusters.
Dry cargo carrier	A cargo ship or freighter that carries cargo other than liquid cargo or cargo requiring temperature control.
DWT	Deadweight tonnage is the displacement at any loaded condition minus the lightship weight. It includes the crew, passengers, cargo, fuel, water and stores.
Escort tug	A specially designed tug with considerable power to minimize the risks associated with tankers losing power or steering while transiting confined waters.
FPSO	Floating production, storage and offloading unit.
FSO	Floating storage and offloading unit.
Handymax	Although there is no official definition in terms of exact tonnages, Handysize typically refers to a dry bulk vessel (or, less commonly, to a product tanker) ranging from 40,000 DWT to 59,999 DWT.
Handysize	Although there is no official definition in terms of exact tonnages, Handysize typically refers to a dry bulk vessel (or, less commonly, to a product tanker) ranging from 10,000 DWT to 39,999 DWT.
Heavy fuel oil	Fuel oil is classified into six classes, numbered one through six, according to its boiling point, composition and purpose. Number 5 fuel oil and Number 6 fuel oil, the remainder of the crude oil after gasoline and the distillate fuel oils are extracted through distillation, are called heavy fuel oils.

Ice-class	Ice-class vessels have a strengthened hull to enable them to navigate through sea ice.
Ice-breaking supply vessel	Ice-breaking supply vessels are designed for operation in cold and ice-water environments. The tasks of ice breaking supply vessels are the supply of offshore platforms, drilling rigs and vessels with stores, materials and equipment according to a buyer's specifications, ice breaking, early stage firefighting and rescue operations and the provision of standby services to offshore installations.
LNG	Liquefied natural gas.
LNG carrier	An LNG carrier is a tanker ship designed for transporting LNG.
LPG	Liquefied petroleum gas.
LPG carrier	An LPG carrier is a tanker ship designed for transporting LPG.
LR1	Long-range product tankers 1 are generally between 60,000 DWT and 94,999 DWT and have cubic carrying capacities of approximately 55,000 metric tons of naphtha.
LR2	Long-range product tankers 2 are generally between 95,000 DWT and 120,000 DWT and have cubic carrying capacities of approximately 75,000 metric tons of naphtha.
LRIT	Long-range identification and tracking.
MR1	Medium-range product tankers 1 are generally between 25,000 DWT and 44,999 DWT and have cubic carrying capacities of approximately 22,000-30,000 metric tons of gasoline.
MR2	Medium-range product tankers 2 are generally between 45,000 DWT and 59,999 DWT and have cubic carrying capacities of approximately 37,000 metric tons of gasoline and gas oil.
Off-hire	The time during which a vessel is not available for service.
Oil tanker	An oil tanker, also known as a petroleum tanker, is a ship designed for the bulk transport of oil. There are two basic types of oil tankers: the crude oil tanker and the oil product tanker. Crude oil tankers move large quantities of unrefined crude oil from its point of extraction to refineries. Oil product tankers, which are generally much smaller than crude oil tankers, are designed to move oil products from refineries to points near consuming markets.
Panamax	Panamax is a naval architecture term for the largest ships capable of transiting the Panama Canal fully loaded. The allowable size is limited by the width and length of the available lock chambers, by the depth of the water in the canal and by the height of the Bridge of the Americas.
Product tanker	A product tanker or product carrier, generally much smaller, is designed to move petrochemicals from refineries to points near consuming markets.
PSV	Platform Supply Vessel.
Shuttle tanker	Vessels designed to transport crude oil and condensates from offshore oil field installations, such as fixed offshore terminals, FSOs or FPSOs, to onshore terminals and refineries.
Spot charter	A charter in which the charterer pays for the use of a vessel's cargo capacity for one, or sometimes more than one, voyage between specified ports. Under this type of charter, the shipowner pays all the operating costs of the vessel, including bunker fuel, canal and port charges, pilotage, towage and vessel's agency.
Suezmax	Suezmax is a naval architecture term for the largest ships capable of transiting the Suez Canal fully loaded, and is almost exclusively used in reference to tankers.

Super ice-class	In the Finnish-Swedish (DNV GL) ice-class rules, merchant ships operating in the Baltic Sea are divided into six ice classes, based on requirements for hull structural design, engine output and performance in ice. Vessels of the highest ice class, 1A Super, can operate in difficult ice conditions, mainly without icebreaker assistance, and their design requirement is equivalent to a minimum speed of five knots in brash ice channels with a thickness of one meter in the middle and a consolidated ice layer of 0.1 meters. Ice classes 1A, 1B and 1C have lower design requirements and ships of these ice classes usually rely on icebreaker assistance.
Supply vessel	These ships range from 65 to 350 feet in length and accomplish a variety of tasks. The primary function for most of these vessels is the transportation of goods and personnel to and from offshore oil platforms and other offshore structures.
Time-charter contract.....	A type of contract under which the charterer pays for the use of a vessel's cargo capacity for a specified period of time. The shipowner provides the vessel with crew, stores and provisions, ready in all aspects to load cargo and proceed on a voyage as directed by the charterer. The charterer typically pays for bunkering and all voyage-related expenses, including canal tolls and port charges.
Tug.....	A tug is a boat that maneuvers vessels by pushing or towing them. They can also be used to extinguish fires.
VLCC.....	Very-large crude carriers are a sub-sector of the Capesize vessel class, and are generally between 200,000 DWT and 320,000 DWT and have carrying capacities of approximately two million barrels or more of crude oil.
Voyage days	The total days the Group's vessels are in the Group's possession for the relevant period, net of off-hire days associated with major repairs, drydockings or special or intermediate surveys.

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