PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

PAO Sovcomflot

Contents

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Independent auditor's report

To the Shareholder and the Board of Directors of
PAO Sovcomflot

Opinion

We have audited the consolidated financial statements of PAO Sovcomflot and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of vessels	
Impairment testing of vessels, which is performed at the level of cash generating units (CGUs), requires management make judgements and use assumptions in developing estimates. This was a key audit matter because the carrying amount of vessels was significant and value in use of the Group's CGUs was highly sensitive to changes in judgements and certain assumptions. Such judgements and assumptions comprise the management's trading strategies in respect of vessels, expected employment of vessels, estimates of future freight rates, discount rates, and other assumptions. The Group disclosed the information about the impairment testing of vessels, including sensitivity of test's results to changes in certain assumptions, in Note 16 to the consolidated financial statements.	We analysed judgements and assumptions used to assess value in use of the Group's vessels and tested calculations of value in use, with the involvement of our valuation experts. We also analysed the disclosures of impairment test, including sensitivity of the impairment test's results to changes in certain assumptions used in the calculations.
Classification of time-charter agreements as finance or operating lease	
The Group and the charterers enter into long-term time-charter agreements in respect of vessels in operation. Classification of a lease component of long-term time-charter agreement as a finance or an operating lease takes place as at the inception of a lease and requires management to make judgements with respect to allocation of risks and rewards incidental to ownership of vessels between the Group and the charterers. Such allocation is based on an analysis of contractual terms and evaluation of substance of operations. This was a key audit matter because revenue from long-term time-charter agreements, which include a lease component, comprises a significant portion of the Group's revenue, and therefore the conclusion on the classification of the lease component of these agreements as an operating lease or a finance lease affects the recognition of revenue in the consolidated financial statements for many years in the future. The Group disclosed the information on long-term time-charter agreements in Notes 37 and 43 to the consolidated financial statements.	We analysed the terms of long-term time-charter agreements and assessed the management's judgements on whether the agreements contain a lease component as defined in IFRS 16 *Leases* and judgements made by management in determination of lease term, including analysis of terms in respect of existence of options to extend or terminate a lease. We also assessed management's analysis of allocation of risks and rewards incidental to ownership of vessels, including judgements made by management based on the evaluation of substance of operations. We assessed the disclosure of information about the long-term time-charter agreements in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Initial application of IFRS 16 Leases	
The Group leases office premises and vessels, therefore the initial application of IFRS 16 *Leases* from 1 January 2019 resulted in recognition of right of use assets of $57.6 million, including investment property of $4.7 million, and $69.4 million of related lease liabilities. This was a key audit matter because the initial application of IFRS 16 requires management to make decisions with respect to accounting policy, to make judgements, and to use assumptions in developing estimates of lease term and discount rates. The Group disclosed the information on the initial application of IFRS 16, on right of use assets and lease liabilities in Notes 5 and 37 the consolidated financial statements.	We analysed the Group's accounting policy in respect of leases and assessed management's decisions made in respect of changes in accounting policy due to the initial application of IFRS 16. We analysed judgements made by management in identification of arrangements containing lease components, in determination of lease term, including analysis of terms in respect of existence of options to extend or terminate a lease, and in assessment of rate to be used for discounting lease payments. We analysed the Group's application of the accounting policy to lease transactions, including the application of specific transition provisions and practical expedients in IFRS 16 by the Group. We compared the list of agreements, included in the calculation of the effects of adoption of IFRS 16 to the data in the Group's accounting systems. We compared input data used in the calculation of the balances of right of use assets and respective lease liabilities to the terms of lease agreements. We assessed management's judgements with respect to determination of discount rates. We compared the input data for the discount rates calculation with the available external information. We assessed the management judgments made in respect of lease term in agreements containing options to extend a lease. We tested the management's analysis of impairment related to right of use assets, including allocation of these assets to cash generating units. We assessed the disclosure of information about the impact of initial application of IFRS 16, as well as information on balances and movements for the period of right of use assets and respective lease liabilities in the consolidated financial statements.

Other information included in the Annual Report 2019

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is R.G. Romanenko.

R.G. Romanenko
Partner
Ernst & Young LLC

12 March 2020

Details of the audited entity

Name: PAO Sovcomflot
Record made in the State Register of Legal Entities on 31 July 2002, State Registration Number 1027739028712.
Address: Russia 191186, Sankt-Petersburg, Moyka River Embankment, 3a.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2019

	Note	2019 $'000	2018 $'000
Revenue	7	1,665,207	1,519,937
Voyage expenses and commissions	8	(399,710)	(445,243)
Time charter equivalent revenues		1,265,497	1,074,694
Direct operating expenses			
Vessels' running costs	9	356,327	348,219
Charter hire payments		-	28,931
		(356,327)	(377,150)
Net earnings from vessels' trading		909,170	697,544
Other operating revenues	12	43,106	23,835
Other operating expenses	12	(17,914)	(12,031)
Depreciation, amortisation and impairment	10	(411,849)	(404,007)
General and administrative expenses	11	(107,992)	(111,752)
Gain / (loss) on sale of non-current assets	16, 19, 20, 29	6,282	(8,590)
Loss on sale and dissolution of subsidiaries		-	(1,659)
Allowance for credit losses		(173)	410
Share of profits in equity accounted investments	21	15,721	3,109
Operating profit		436,351	186,859
Other (expenses) / income			
Financing costs	14	(206,156)	(200,417)
Interest income		10,183	8,222
Other non-operating expenses	42	(1,946)	(3,179)
Hedge ineffectiveness and termination of hedge	23	(83)	1,038
Gain on derecognition of dividend liability		7,895	422
Foreign exchange gains		17,703	14,602
Foreign exchange losses		(9,563)	(29,695)
Net other expenses		(181,967)	(209,007)
Profit / (loss) before income taxes		254,384	(22,148)
Income tax expense	24	(29,006)	(23,408)
Profit / (loss) for the period		225,378	(45,556)
Profit / (loss) attributable to:			
Owners of the parent		221,629	(41,642)
Non-controlling interests	33	3,749	(3,914)
		225,378	(45,556)
Earnings per share			
Basic and diluted profit / (loss) per share for the period attributable to owners of the parent	25	$0.113	($0.021)

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2019

	Note	2019 $'000	2018 $'000
Profit / (loss) for the period		225,378	(45,556)
Other comprehensive income:			
Items to be reclassified to profit or loss in subsequent periods:			
Share of associates' other comprehensive income		12	(21)
Share of joint ventures' other comprehensive income	21	3,007	6,722
Exchange gain on translation from functional currency to presentation currency		413	3,769
Reclassification adjustment relating to foreign subsidiaries disposed of or dissolved during the period		-	1,597
Reclassification adjustment relating to derecognition of hedging instrument during the period	23	-	(590)
Net (loss) / gain on derivative financial instruments (debited) / credited to other comprehensive income	23	(32,710)	8,808
		(29,278)	20,285
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on retirement benefit obligations	38	(188)	(659)
		(188)	(659)
Other comprehensive income for the period, net of tax		(29,466)	19,626
Total comprehensive income for the period		195,912	(25,930)
Total comprehensive income attributable to:			
Owners of the parent		192,177	(21,952)
Non-controlling interests		3,735	(3,978)
		195,912	(25,930)

PAO Sovcomflot

Consolidated Statement of Financial Position – 31 December 2019

	Note	2019 $'000	2018 $'000
Assets			
Non-current assets			
Fleet	16	6,121,734	6,165,663
Right of use assets	37	45,895	-
Vessels under construction	17	179,579	135,890
Intangible assets	18	5,891	6,772
Other property, plant and equipment	19	41,366	43,240
Investment property	20	4,435	545
Investments in associates		105	99
Investments in joint ventures	21	152,255	132,926
Equity instruments at fair value through profit or loss		480	754
Loans to joint ventures	22	50,341	66,069
Derivative financial instruments	23	4,718	20,899
Trade and other receivables	27	8,705	13,670
Deferred tax assets	24	5,250	4,089
Bank deposits	28	15,500	11,000
		6,636,254	6,601,616
Current assets			
Inventories	26	53,749	67,452
Loans to joint ventures	22	11,804	-
Derivative financial instruments	23	170	3,783
Trade and other receivables	27	100,739	89,965
Prepayments and other current assets	27	15,280	18,245
Contract assets	7	41,605	31,020
Current tax receivable		5,592	4,032
Bank deposits	28	26,865	28,862
Cash and cash equivalents	28	374,821	267,571
		630,625	510,930
Non-current assets held for sale	29	69,061	29,700
		699,686	540,630
Total assets		7,335,940	7,142,246
Equity and liabilities			
Capital and reserves			
Share capital	30	405,012	405,012
Reserves		2,967,860	2,808,596
Equity attributable to owners of the parent		3,372,872	3,213,608
Non-controlling interests	33	131,709	136,455
Total equity		3,504,581	3,350,063
Non-current liabilities			
Trade and other payables	34	16,905	18,203
Other non-current liabilities	34	3,663	5,207
Secured bank loans	35	2,159,854	2,261,672
Other loans	36	897,106	899,312
Lease liabilities	37	41,180	-
Derivative financial instruments	23	30,233	14,071
Retirement benefit obligations	38	2,599	2,293
Provisions	39	3,895	1,367
Deferred tax liabilities	24	6,297	3,823
		3,161,732	3,205,948
Current liabilities			
Trade and other payables	34	161,924	167,935
Other current liabilities	34	72,519	65,738
Contract liabilities	7	14,741	16,086
Secured bank loans	35	378,955	313,842
Other loans	36	3,314	3,384
Lease liabilities	37	19,120	-
Current tax payable		394	1,124
Derivative financial instruments	23	18,660	15,626
Provisions	39	-	2,500
		669,627	586,235
Total liabilities		3,831,359	3,792,183
Total equity and liabilities		7,335,940	7,142,246

Approved by the Executive Board and authorised for issue on 12 March 2020

I.V. Tonkovidov
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 2019

	Share capital $'000	Share premium $'000	Group reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
	(Note 30)	(Note 30)	(Note 31)	(Notes 21,23)				(Note 33)	
At 1 January 2018	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,934,656**	**3,262,357**	**143,573**	**3,405,930**
Loss for the period	-	-	-	-	-	(41,642)	(41,642)	(3,914)	(45,556)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(21)	-	(21)	-	(21)
Share of joint ventures' other comprehensive income	-	-	-	6,722	-	-	6,722	-	6,722
Exchange gain / (loss) on translation from functional currency to presentation currency	-	-	-	-	3,912	-	3,912	(143)	3,769
Reclassification adjustment relating to foreign subsidiaries disposed of or dissolved during the period	-	-	-	-	1,449	-	1,449	148	1,597
Reclassification adjustment relating to derecognition of hedging instrument during the period	-	-	-	(590)	-	-	(590)	-	(590)
Net gain on derivative financial instruments credited to other comprehensive income	-	-	-	8,808	-	-	8,808	-	8,808
Remeasurement losses on retirement benefit obligations (Note 38)	-	-	-	-	-	(590)	(590)	(69)	(659)
Total comprehensive income	-	-	-	14,940	5,340	(42,232)	(21,952)	(3,978)	(25,930)
Dividends (Note 32)	-	-	-	-	-	(26,797)	(26,797)	(3,140)	(29,937)
At 31 December 2018	**405,012**	**818,845**	**(834,490)**	**(2,359)**	**(39,027)**	**2,865,627**	**3,213,608**	**136,455**	**3,350,063**
Adjustment on initial application of IFRS 16 (net of tax) (Note 5)	-	-	-	-	(7,849)	(2,520)	(10,369)	-	(10,369)
Adjusted balance at 1 January 2019	**405,012**	**818,845**	**(834,490)**	**(2,359)**	**(46,876)**	**2,863,107**	**3,203,239**	**136,455**	**3,339,694**
Profit for the period	-	-	-	-	-	221,629	221,629	3,749	225,378
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	12	-	12	-	12
Share of joint ventures' other comprehensive income	-	-	-	3,007	-	-	3,007	-	3,007
Exchange gain on translation from functional currency to presentation currency	-	-	-	-	407	-	407	6	413
Net loss on derivative financial instruments debited to other comprehensive income	-	-	-	(32,710)	-	-	(32,710)	-	(32,710)
Remeasurement losses on retirement benefit obligations (Note 38)	-	-	-	-	-	(168)	(168)	(20)	(188)
Total comprehensive income	-	-	-	(29,703)	419	221,461	192,177	3,735	195,912
Effect of intragroup financing	-	-	-	-	-	404	404	(404)	-
Dividends (Note 32)	-	-	-	-	-	(22,948)	(22,948)	(8,077)	(31,025)
At 31 December 2019	**405,012**	**818,845**	**(834,490)**	**(32,062)**	**(46,457)**	**3,062,024**	**3,372,872**	**131,709**	**3,504,581**

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2019

	Note	2019 $'000	2018 $'000
Operating Activities			
Cash received from vessels' operations		1,656,133	1,512,922
Other cash receipts		48,894	30,963
Cash payments for voyage and running costs		(771,923)	(828,041)
Other cash payments		(116,144)	(148,762)
Cash generated from operations		816,960	567,082
Interest received		6,433	5,320
Income tax paid		(29,538)	(19,718)
Net cash inflow from operating activities		793,855	552,684
Investing Activities			
Expenditure on fleet		(71,755)	(38,818)
Expenditure on vessels under construction	17	(352,001)	(379,301)
Interest capitalised	17	(3,766)	(4,858)
Expenditure on intangibles, other property, plant and equipment and investment property	18, 19, 20	(2,201)	(1,999)
Loan repayments from joint ventures		7,350	-
Loans issued to joint ventures		(1,122)	(8,460)
Proceeds from sale of subsidiary net of cash disposed		-	673
Proceeds from dissolution and disposal of investments		1,221	-
Proceeds from sale of vessels		8,942	78,461
Proceeds from sale of other property, plant and equipment and investment property		6,866	2,195
Dividends received from equity accounted for investments		124	70
Bank term deposits	28	(61)	17
Net cash outflow used in investing activities		(406,403)	(352,020)
Financing Activities			
Proceeds from borrowings		306,660	564,198
Repayment of borrowings		(338,742)	(571,690)
Financing costs		(6,588)	(9,381)
Repayment of lease liabilities	37	(23,932)	-
Repayment of liquidated damages		(1,681)	(3,989)
Restricted deposits under loan agreements	28	(3,500)	1,000
Funds in retention bank accounts	28	1,058	(2,861)
Interest paid on borrowings		(190,111)	(186,760)
Interest paid on lease liabilities	37	(7,732)	-
Interest paid on liquidated damages		(1,339)	(1,491)
Dividends paid	32	(24,680)	(29,881)
Proceeds from the termination of interest rate swap		-	590
Net cash outflow used in financing activities		(290,587)	(240,265)
Increase / (decrease) in Cash and Cash Equivalents		96,865	(39,601)
Cash and Cash Equivalents at 1 January	28	267,571	321,334
Net foreign exchange difference		10,385	(14,162)
Cash and Cash Equivalents at 31 December	28	374,821	267,571

The Group has provided information of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, in Note 41(c).

Total interest paid on borrowings during the period, comprising interest paid on borrowings and interest capitalised, presented under financing and investing activities in the statement of cash flows, respectively, amounted to $193.9 million (2018 – $191.6 million).

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2019

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 134 vessels at the period end, comprising 56 oil tankers, 36 product carriers, 19 shuttle tankers, 9 gas carriers, 10 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet, see also Notes 16, 17 and 29.

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 ("SCF Tankers"), Intrigue Shipping Limited (''Intrigue'') and SCF Gas Carriers Limited ("SCF Gas"). Ship management services for the Group's vessels are provided in-house by Sovcomflot's subsidiaries.

A list of significant subsidiary companies is disclosed in Note 40 to these consolidated financial statements. The ultimate controlling party of PAO Sovcomflot is the Russian Federation.

2. Directors and Management

The corporate governing bodies of PAO Sovcomflot comprise a Board of Directors which is responsible for strategic planning and management, prioritization of business activities and strategic decisions, and an Executive Board which is a collegial executive body responsible for the co-ordination of day to day activities, development of business policy, resolution on the most important operational matters, investments, oversight of subsidiaries and procures implementation of decisions of the Shareholders and the Board of Directors.

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 election	
S.O. Frank (Chairman) [1]	10 November 2004	Chairman of the Board of Directors of PAO Sovcomflot
A.S. Abramov	26 June 2019	Senior Advisor to the Board Chairman of the Central Union of Consumer Societies of the Russian Federation
W.A. Chammah	29 June 2015	Partner of "Chammah & Partners" LLC
I.I. Klebanov	3 November 2011	Member of the Board of Directors of PAO Sovcomflot
A.Y. Klyavin	30 June 2012	President of the Russian Chamber of Shipping
D.G. Moorhouse	29 June 2010	Member of the Board of Directors of PAO Sovcomflot
L.R. Nisenboym	26 June 2019	Head of Business Consulting Department at the Analytical Center for the Government of the Russian Federation
A.V. Sharonov	30 June 2014	President of Moscow School of Management "Skolkovo"
P.Y. Sorokin	26 June 2019	Deputy Minister of Energy of the Russian Federation
O.V. Tarasenko [2]	29 June 2018	Deputy Minister of Economic Development of the Russian Federation
Y.A. Tsvetkov	26 June 2019	Deputy Minister of Transport of the Russian Federation
I.V. Tonkovidov	23 September 2019	President and Chief Executive Officer of PAO Sovcomflot

Members of the Board of Directors are elected at the Annual General Meeting of 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 Extraordinary General Meeting on 23 September 2019.

Members of the Executive Board	Date of appointment	
I.V. Tonkovidov (Chairman) [3]	14 January 2011	President and Chief Executive Officer of PAO Sovcomflot
E.N. Ambrosov	13 July 2009	Senior Executive Vice-President of PAO Sovcomflot
V.N. Emelianov	12 September 2011	Vice-President and Chief Strategy Officer of PAO Sovcomflot
N.L. Kolesnikov	19 July 2005	Executive Vice-President and Chief Financial Officer of PAO Sovcomflot
C.B. Ludgate	22 February 2007	Managing Director of Sovcomflot (UK) Ltd
M.C. Orphanos	12 May 2010	Managing Director of Sovcomflot (Cyprus) Limited
A.V. Ostapenko	16 October 2012	Vice President and Chief Legal Counsel of PAO Sovcomflot
S.G. Popravko	19 July 2005	Executive Vice President and Chief Operating Officer of PAO Sovcomflot

[1] On 23 September 2019, S.O. Frank resigned as President and Chief Executive Officer of PAO Sovcomflot, and on 24 September 2019, he was elected Chairman of the Board of Directors.
[2] On 26 June 2019, O.V. Tarasenko left the Board of Directors and was elected Member of the Board of Directors again at the Extraordinary General Meeting of Shareholders on 23 September 2019.
[3] On 23 September 2019, I.V. Tonkovidov was appointed President and Chief Executive Officer of PAO Sovcomflot, Chairman of the Executive Board.

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).

These 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 major and majority of the Group's subsidiaries. The Group also prepares consolidated financial statements in Russian Roubles as required by the Russian Federal Law No. 208 – FZ "On consolidated financial reporting" dated 27 July 2010.

For the better understanding of users of these consolidated financial statements and in order to be consistent with the current period's presentation, certain comparatives have been represented which involved disaggregation of certain lines items on the face of the statement of financial position and the income statement.

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries ("controlled investees") as at 31 December 2019. 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. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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 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. 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 (see Note 3(t) for the impairment policy). 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.

(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.

3. **Significant Accounting Policies (Continued)**

(g) Non-current assets held for sale (continued)

Where events or circumstances extend the period to complete the sale beyond one year and where the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that management remains committed to its plan to sell the asset (or disposal group), the asset (or disposal group) continue to be classified 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) Revenue

Revenue includes service revenue from voyage and time charters, seismic research contracts and lease revenue from time charters derived from the Group's shipping operations, and represents vessel earnings during the period.

Freight revenues (revenues from voyage charters) 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 plus reimbursement of expenses incurred to the extent that these expenses are not included in the 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. Demurrage is a variable consideration which is recognised when it is highly probable that a significant reversal of this revenue will not occur, over the remaining time of the voyage.

In applying its revenue recognition method, management believes that satisfaction of a performance obligation for a voyage charter begins when the vessel arrives at the loading port and ends at the time the discharge of cargo is completed at the discharge port (load to discharge, which is when the contract with the customer expires).

The Group uses the output method for measuring the progress towards satisfaction of a performance obligation, i.e. voyage revenue is recognised pro-rata based on time elapsed from loading to the expected date of completion of the discharge.

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are incurred 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, seismic exploration and data processing expenses and charter hire payments on supply vessels chartered in from time to time for the support of the seismic vessels.

For voyage charter arrangements, costs incurred to acquire a contract and contract fulfilment costs incurred between the time of signing the charter party and time of arrival at the loading port are capitalised and amortised over the period the performance obligation is satisfied. Costs incurred from the discharge date of the previous voyage until the date of reaching a binding agreement for the next voyage are expensed as incurred. Costs to fulfil a voyage contract (i.e. port costs, canal dues, bunkers), from load port to discharge, are recognised in line with satisfaction of the related performance obligation. Full provision is made for any losses expected on voyages in progress at the end of the financial reporting period.

Hire revenues (revenues from time charters) are earned for exclusive use of the services of the vessel and the crew by the charterer for an agreed period of time. Revenues from time charters comprise a lease component and a service component. The revenues allocated to the lease component are accounted for as leases and are recognised on a straight line basis over the rental periods of such charters, as service is performed, to the extent the lease payments are fixed. Variable lease payments are recognised when the variability is removed. The time-charter revenue is allocated to the service component based on the relative fair value of the component, which is estimated with a reference to a "cost-plus" methodology and reflects crew costs, technical maintenance and insurance of a vessel with operating expenses escalation, and fees for ad hoc additional services. The service component in a time-charter usually includes a single performance obligation, where the charterer simultaneously receives and consumes the benefits over the time-charter period. 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 allocated to the service components of a time-charter are recognised to the extent the variable amounts earned beyond an agreed fixed minimum hire are determinable at the reporting date and it is not probable that a significant reversal will occur, if 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 either deferred lease revenue in payables and other liabilities, to the extent they relate to the lease component of the hire received, or as contract liabilities, to the extent that they relate to the service component of the hire received.

The Group performs acquisition and processing of seismic data (seismic services) under contracts for specific customers, whereby the seismic data is owned by the customers. Revenue from seismic services (included in revenues from contracts with customers) is recognised using the percentage of work completed based primarily on the input method for measurement of progress. Input method measures progress on the basis of inputs (for example, resources consumed, labour hours expended, bunker costs, mobilisation costs incurred) that are relative to the total expected inputs to the satisfaction of that performance obligation.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Time charter equivalent revenues describe the earnings of any charter and marine service 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 period to period changes in the performance irrespective of changes in the mix of charter types and marine service contracts under which the vessels may be employed.

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs, by transferring goods or services to a customer, before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration, which is unconditional, is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

3. **Significant Accounting Policies (Continued)**

(i) Other 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, including agency revenues earned in arranging third parties' seismic exploration and data processing services, rental operations derived from investment properties, commercial and technical management and newbuilding supervision, as well as ancillary services provided by vessels in operation in the offshore segment.

Commercial and technical management, newbuilding supervision and ancillary services provided, are considered to be contracts with customers under IFRS 15. Such contracts usually have one performance obligation satisfied over time. The Group recognises revenue from the commercial and technical management and from ancillary services over time using an output method, and revenues from the newbuilding supervision of vessels over time using an input method to measure progress towards complete satisfaction of the service. This is because the customer simultaneously receives and consumes the benefits provided by the Group. Agency revenues in arranging third parties' seismic exploration and data processing services, which are considered as revenue from contracts with customers, are recognised to reflect completion of the agency activities in accordance with the Group's accounting policy on revenue (Note 3(h)).

Rental income from investment properties is accounted for as operating lease income. These revenues are accounted for on a straight line basis over the rental periods of such properties.

(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's 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.

In determining the spot exchange rate to use on initial recognition of the asset, expense or income (or part of it) on the derecognition of a non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

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:

	2019 Closing $1	**2019 Average $1**	**2018 Closing $1**	**2018 Average $1**
Russian Roubles	61.9057	64.7362	69.4706	62.7078
Pounds Sterling	0.7629	0.7840	0.7869	0.7498
Euros	0.8928	0.8931	0.8743	0.8472

(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, including borrowings made specifically for the purpose of obtaining a qualifying asset, provided that substantially all the activities necessary to prepare that qualifying asset for its intended use or sale are complete. 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.

3. **Significant Accounting Policies (Continued)**

(m) Leasing

Policy applicable after 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets.

Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets that meet the definition of investment property under IAS 40 are classified as investment property.

Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, in accordance with the depreciation accounting policy on property, plant and equipment (Note 3(o)). The estimated useful lives of seismic vessels is 30 years from the date of construction. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase obligation or a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment testing in the same manner as other non-financial assets (Note 3(t)).

Accounting for drydocking and special survey costs of chartered in vessels

At initial recognition, the cost of the right of use asset for the chartered in vessels to be redelivered to the owner at the end of the lease term includes the estimated cost of planned drydockings for replacement of certain components and major repairs and maintenance of other components during the lease term. The corresponding provision is recorded at present value of the expected cash flows of the planned drydockings and major repairs and maintenance of other components mentioned above and is remeasured at each period end. The changes in the carrying amount of the provision resulting from the remeasument are recognised in correspondence with the relevant right of use asset.

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

Group as lessor

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.

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.

Subleasing

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

3. **Significant Accounting Policies (Continued)**

(m) Leasing (continued)

Policy applicable before 1 January 2019

Group as lessee - Finance and operating lease payables

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

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

Group as lessor - Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(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, and bonuses in the period the related service is rendered.

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. Remeasurements of the long-term employee benefit liability are recognised in profit or loss when they occur.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it can no longer withdraw the offer of those benefits.

(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 after deducting any net proceeds earned during this period. 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.

3. **Significant Accounting Policies (Continued)**

(o) Property, plant and equipment and depreciation (continued)

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

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:

	2019 $ per LWT	2018 $ per LWT
Oil, shuttle, product and chemical tankers	380	450
Arctic shuttle tankers	380	450
Ice breaking supply vessels	380	450
LNG carriers	440	510
LPG carriers	425	495
Bulk carriers	370	440

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.

Equipment acquired and installed on-board chartered in vessels is included within fleet and is depreciated to its residual value over the shorter of its anticipated useful life and the lease term of the chartered in vessel to which they relate.

Leasehold improvements are included within other property, plant and equipment and are depreciated over the lease term 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.

Revenue from sale of property plant and equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the property plant and equipment. There is usually no credit term related to the payment as the delivery is only made upon receipt of the relevant sales proceeds. However in determining the transaction price for the sale of property plant and equipment, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any). Significant financing component exists if there is a significant benefit of financing the transfer of property plant and equipment to the customer. The transaction price for such contracts is discounted (to take into account the time value of money), using a rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component. Any gain or loss arising on the disposal or retirement of the property plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the property plant and equipment and is recognised in profit or loss.

(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 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.

3. **Significant Accounting Policies (Continued)**

(q) Drydocking and special survey costs (continued)

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.

(s) Assets under construction

Assets under construction are carried at cost, less any recognised impairment loss. Cost comprises shipyard payments, after deducting any trade discounts and rebates, and any other costs directly attributable to the construction including supervision fees and expenses, professional fees and capitalised borrowing costs.

Certain shipbuilding contracts contain clauses whereby the Group is eligible for compensation from the shipyard, in the form of liquidated damages, for delay in construction and late delivery of the vessel to the Group. Liquidated damages receivable are accounted for as a reduction in the value of the vessel under construction. Where liquidated damages are both receivable from the shipyard and payable to the charterer of a vessel under construction once the vessel is delivered, the net amount of liquidated damages is accounted for as a reduction in the value of the vessel under construction on the basis that liquidated damages receivable and payable are triggered by the delay in construction of the vessel and are negotiated collectively by the Group, the shipyard, and the charterer.

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 of non-financial assets

At the end of each financial reporting period, the Group assesses whether there is any indication that its non-financial assets 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. The Group allocates the carrying amount of a right of use asset to CGUs it serves if this can be done in a reasonable and consistent basis, and tests the CGUs for impairment including these right of use 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 where a common employment strategy is followed.

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.

3. **Significant Accounting Policies (Continued)**

(u) Inventories

Inventories are stated at the lower of cost or net realisable value and comprise bunkers (where applicable), luboils, victualling 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.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 ("EIR") 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.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as:

i) subsequently measured at amortised cost;
ii) fair value through other comprehensive income (OCI) with recycling of cumulative gains and losses;
iii) fair value through other comprehensive income (OCI) with no recycling of cumulative gains and losses; and
iv) fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

i) Financial assets at amortised cost (debt instruments);
ii) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
iii) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
iv) Financial assets at fair value through profit or loss.

The Group does not have any financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments) or financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, loans to joint ventures and bank deposits.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Group elected to classify irrevocably its non-listed equity investments under this category.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due, in accordance with the contract, and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held, other credit enhancements that are integral to the contractual terms and guarantees received that are related to the arrangement.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next twelve months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group applies the simplified approach for trade receivables, contract assets and bank deposits in relation to the calculation of ECLs. In particular for trade and other receivables, contract assets and bank deposits that are due within twelve months, the 12-month ECLs are the same as the lifetime ECLs. By using the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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.

Where an existing financial asset is exchanged by another from the same borrower on substantially different terms, or the terms of an existing asset are substantially modified, such an exchange or modification is treated as derecognition of the original asset and the recognition of a new asset. Similarly, the Group accounts for substantial modification of terms of an existing asset or part of it as an extinguishment of the original financial asset and the recognition of a new asset. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial asset. If the modification is not substantial, the difference between: (i) the carrying amount of the asset before the modification; and (ii) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Financial liabilities and equity

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.

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Group has not designated any financial liability as at fair value through profit or loss.

Borrowings

Borrowings consist of secured bank loans and other loans. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as financing costs in the consolidated income statement.

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 expired. 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. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (i) the carrying amount of the liability before the modification; and (ii) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Offsetting of financial assets and liabilities

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

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements and foreign currency exchange movements on its bank borrowings.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

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. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months.

The Group designates derivatives as hedges of interest rate risk and foreign currency exchange 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 consolidated income statement.

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the same periods which the hedged item affects profit or loss, in the same line of the consolidated income statement where the effect of the hedged item is reflected. 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. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

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.

(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. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other period and it further excludes items that are never taxable or deductible. 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 not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. However where an asset and a liability is recognised at the same time, temporary differences are recognised to the extent that the transaction gives rise to equal amounts of deferred tax assets and liabilities.

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. Deferred tax liabilities are not recognised for taxable temporary differences arising on investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused 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.

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 is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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.

(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.

3. **Significant Accounting Policies (Continued)**

(x) Provisions (continued)

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. **Revision of Classification in Interim Financial Statements**

During the preparation of these consolidated financial statements, the Group reconsidered the principal versus agent assessment of one of its contracts with customers, relating to the other segment, and concluded that this contract should be presented net as the Group acted as an agent rather than a principal. Consequently, the Group revised the classification of line items in the condensed consolidated interim financial statements as presented below.

Consolidated income statement (unaudited)

	Six months ended 30/06/2019			Three months ended 30/06/2019		
	As reclassified $'000	**As reported $'000**	**Effect $'000**	**As reclassified $'000**	**As reported $'000**	**Effect $'000**
Revenue	794,065	828,002	(33,937)	383,333	417,270	(33,937)
Voyage expenses and commissions	(196,082)	(219,002)	22,920	(99,227)	(122,147)	22,920
Time charter equivalent revenues	597,983	609,000	(11,017)	284,106	295,123	(11,017)
Direct operating expenses						
Vessels' running costs	170,811	171,447	(636)	86,382	87,018	(636)
Charter hire payments	4,008	7,166	(3,158)	1,455	4,613	(3,158)
	(174,819)	(178,613)	3,794	(87,837)	(91,631)	3,794
Net earnings from vessels' trading	423,164	430,387	(7,223)	196,269	203,492	(7,223)
Other operating revenues	21,559	13,691	7,868	15,046	7,178	7,868
Other operating expenses	(10,494)	(9,849)	(645)	(5,127)	(4,482)	(645)
Operating profit	193,471	193,471	-	81,850	81,850	-

	Nine months ended 30/09/2019			Three months ended 30/09/2019		
	As reclassified $'000	**As reported $'000**	**Effect $'000**	**As reclassified $'000**	**As reported $'000**	**Effect $'000**
Revenue	1,170,539	1,246,775	(76,236)	376,474	418,773	(42,299)
Voyage expenses and commissions	(289,414)	(343,895)	54,481	(93,332)	(124,893)	31,561
Time charter equivalent revenues	881,125	902,880	(21,755)	283,142	293,880	(10,738)
Direct operating expenses						
Vessels' running costs	264,953	266,291	(1,338)	94,142	94,844	(702)
Charter hire payments	4,685	10,175	(5,490)	677	3,009	(2,332)
	(269,638)	(276,466)	6,828	(94,819)	(97,853)	3,034
Net earnings from vessels' trading	611,487	626,414	(14,927)	188,323	196,027	(7,704)
Other operating revenues	35,544	19,170	16,374	13,985	5,479	8,506
Other operating expenses	(13,200)	(11,753)	(1,447)	(2,706)	(1,904)	(802)
Operating profit	272,627	272,627	-	79,156	79,156	-

Consolidated statement of cash flows (unaudited)

	Six months ended 30/06/2019			Nine months ended 30/09/2019		
	As reclassified $'000	**As reported $'000**	**Effect $'000**	**As reclassified $'000**	**As reported $'000**	**Effect $'000**
Operating Activities						
Cash received from vessels' operations	799,821	814,975	(15,154)	1,177,644	1,253,762	(76,118)
Other cash receipts	12,626	12,626	-	35,525	19,269	16,256
Cash payments for voyage and running costs	(373,076)	(392,141)	19,065	(542,690)	(602,497)	59,807
Other cash payments	(52,611)	(48,700)	(3,911)	(86,521)	(86,576)	55
Cash generated from operations	386,760	386,760	-	583,958	583,958	-

5. **Adoption of New and Revised International Financial Reporting Standards**

Amendments to IFRS 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 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 2019. The nature and the impact of each new standard or amendment is described below.

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

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

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

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

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

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

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

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

Annual Improvements to IFRSs 2015–2017 Cycle

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

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

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

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

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

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

Amendments to IFRS and the new Interpretations that are mandatorily effective for the current period (continued)

IFRS 16 (“Leases”) (continued)

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

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

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

a) Nature of the effect of adoption of IFRS 16

Leases previously accounted for as operating leases

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

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

- Right of use assets of $52.9 million (net of impairment of right of use asset as at the date of initial application of $2.1 million) and investment property of $4.7 million were recognised and presented separately in the statement of financial position;
- Lease liabilities of $69.4 million were recognised;
- Provision of $2.4 million was recognised and onerous contract provision of $2.1 million was derecognised and off set against right of use assets mentioned above;
- Prepayments of $0.8 million and payables and other liabilities of $2.5 million were derecognised; and
- The net effect of these adjustments of $10.4 million had been charged to reserves.

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

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

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

The effect of the adoption of IFRS 16 as at 31 December 2019 and 1 January 2019 is as follows:

Impact on the consolidated statement of financial position

	Amounts prepared under			Amounts prepared under		
	IFRS 16 31/12/2019 $’000	IAS 17 31/12/2019 $’000	Effect 31/12/2019 $’000	IFRS 16 01/01/2019 $’000	IAS 17 01/01/2019 $’000	Effect 01/01/2019 $’000
Assets						
Non-current assets						
Right of use assets	45,895	-	45,895	52,943	-	52,943
Investment property	4,435	267	4,168	5,231	545	4,686
Deferred tax assets	5,250	4,778	472	4,089	4,089	-
Total non-current assets	6,636,254	6,585,719	50,535	6,659,245	6,601,616	57,629
Current assets						
Prepayments and other current assets	15,280	16,073	(793)	17,470	18,245	(775)
Total current assets	699,686	700,479	(793)	539,855	540,630	(775)
Total assets	7,335,940	7,286,198	49,742	7,199,100	7,142,246	56,854

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

Amendments to IFRS and the new Interpretations that are mandatorily effective for the current period (continued)

IFRS 16 (“Leases”) (continued)

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

Impact on the consolidated statement of financial position (continued)

	Amounts prepared under IFRS 16 31/12/2019 $’000	IAS 17 31/12/2019 $’000	Effect 31/12/2019 $’000	Amounts prepared under IFRS 16 01/01/2019 $’000	IAS 17 01/01/2019 $’000	Effect 01/01/2019 $’000
Equity and liabilities						
Capital and reserves						
Reserves	2,967,860	2,977,821	(9,961)	2,798,227	2,808,596	(10,369)
Equity attributable to owners of the parent	3,372,872	3,382,833	(9,961)	3,203,239	3,213,608	(10,369)
Non-controlling interests	131,709	131,559	150	136,455	136,455	-
Total equity	3,504,581	3,514,392	(9,811)	3,339,694	3,350,063	(10,369)
Non-current liabilities						
Lease liabilities	41,180	-	41,180	52,850	-	52,850
Provisions	3,895	2,187	1,708	3,796	1,367	2,429
Total non-current liabilities	3,161,732	3,118,844	42,888	3,261,227	3,205,948	55,279
Current liabilities						
Trade and other payables	161,924	164,211	(2,287)	166,653	167,935	(1,282)
Other current liabilities	72,519	72,687	(168)	64,511	65,738	(1,227)
Lease liabilities	19,120	-	19,120	16,553	-	16,553
Provisions	-	-	-	400	2,500	(2,100)
Total current liabilities	669,627	652,962	16,665	598,179	586,235	11,944
Total liabilities	3,831,359	3,771,806	59,553	3,859,406	3,792,183	67,223
Total equity and liabilities	7,335,940	7,286,198	49,742	7,199,100	7,142,246	56,854

Impact on the consolidated income statement

	Amounts prepared under IFRS 16 31/12/2019 $’000	IAS 17 31/12/2019 $’000	Effect 31/12/2019 $’000	IAS 17 31/12/2018 $’000
Voyage expenses and commissions	(399,710)	(397,610)	(2,100)	(445,243)
Time charter equivalent revenues	1,265,497	1,267,597	(2,100)	1,074,694
Direct operating expenses				
Vessels' running costs	356,327	357,147	(820)	348,219
Charter hire payments	-	26,138	(26,138)	28,931
	(356,327)	(383,285)	26,958	(377,150)
Net earnings from vessels' trading	909,170	884,312	24,858	697,544
Operating expenses				
Other operating expenses	(17,914)	(16,867)	(1,047)	(12,031)
Depreciation, amortisation and impairment	(411,849)	(388,229)	(23,620)	(404,007)
General and administrative expenses	(107,992)	(113,451)	5,459	(111,752)
Operating profit	436,351	430,701	5,650	186,859
Other (expenses) / income				
Financing costs	(206,156)	(198,298)	(7,858)	(200,417)
Foreign exchange gains	17,703	14,527	3,176	14,602
Foreign exchange losses	(9,563)	(9,563)	-	(29,695)
Net other expenses	(181,967)	(177,285)	(4,682)	(209,007)
Profit / (loss) before income taxes	254,384	253,416	968	(22,148)
Income tax expense	(29,006)	(29,462)	456	(23,408)
Profit / (loss) for the period	225,378	223,954	1,424	(45,556)

Impact on the consolidated statement of comprehensive income

	Amounts prepared under IFRS 16 31/12/2019 $’000	IAS 17 31/12/2019 $’000	Effect 31/12/2019 $’000	IAS 17 31/12/2018 $’000
Profit / (loss) for the period	225,378	223,954	1,424	(45,556)
Other comprehensive income:				
Items to be reclassified to profit or loss in subsequent periods:				
Exchange gain / (loss) gain on translation from functional currency to presentation currency	413	1,279	(866)	3,769
	(29,278)	(28,412)	(866)	20,285
Items not to be reclassified to profit or loss in subsequent periods:				
Remeasurement losses on retirement benefit obligations	(188)	(188)	-	(659)
Other comprehensive income for the period, net of tax	(29,466)	(28,600)	(866)	19,626
Total comprehensive income for the period	195,912	195,354	558	(25,930)

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

New and revised IFRS in issue but not yet effective

The following Standards and Interpretations which are relevant to the Group's operations are in issue but not yet effective. The Group does not intend to adopt any standard, interpretation or amendment that has been issued but is not yet effective before their effective date.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no significant impact on the results and financial position presented in these financial statements except the amendment on IFRS 7 below.

Conceptual Framework – "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020). The amendments introduce new definitions of assets and liabilities, as well as amended definitions of income and expenses. The Group does not expect the amendments introduced by the Conceptual Framework to have a material impact on the consolidated financial statements.

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. These amendments are not expected to have an impact on the Group's consolidated financial statements.

IFRS 3 (''Business Combinations") – "Amendments to clarify the definition of a business" (effective for annual periods beginning on or after 1 January 2020). The amendments enhance the definition of a business with the aim to make its application less complicated. In addition, they introduce an optional concentration test that, if met, eliminates the need for further assessment. Under this concentration test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. Since the amendments apply prospectively to transactions or other events after the date of first application, they will not have an impact on the Group's consolidated financial statements on the date of transition.

IAS 1 (''Presentation of Financial Statements") and IAS 8 (''Accounting Policies, Changes in Accounting Estimates and Errors") – "Amendments regarding the definition of material" (effective for annual periods beginning on or after 1 January 2020). These amendments are not expected to have a material impact on the Group's consolidated financial statements.

IFRS 7 ("Financial Instruments: Disclosures"), IFRS9 ("Financial Instruments") and IAS 39 "Financial Instruments: Recognition and Measurement" – "Amendments regarding pre-replacement issues in the context of the IBOR reform (effective for annual periods beginning on or after 1 January 2020). The amendments provide relief from certain requirements of hedge accounting, as their fulfilment can lead to discontinuation of hedge accounting due to uncertainty caused by the reform. The Group is currently assessing the impact from the application of these amendments on its consolidated financial statements.

IAS 1 (''Presentation of Financial Statements") – "Amendments regarding the classification of liabilities as current or non-current" (effective for annual periods beginning on or after 1 January 2022). These amendments are not expected to have an impact on the Group's consolidated financial statements as the Group already applies the criteria set by the amendments.

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 when the Group acts as a lessor

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed unless there is a lease modification. 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.

Determining the lease term of contracts with renewal options when the Group acts as a lessee

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

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

Determining the incremental borrowing rate

The interest rate implicit in the lease cannot be readily determined therefore the incremental borrowing rate (IBR) is used to measure lease liabilities. The IBR is the rate of interest that group entities would have to pay to borrow over a similar term, with a similar security and same currency, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

6. **Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)**

Critical Accounting Judgements (continued)

Determining the incremental borrowing rate (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate considered to be the government bond zero-coupon yield curves as adjusted for credit risk for leases held, which do not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country and currency but no adjustment is made for security due to immaterial effect.

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 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.

7. **Revenue**

	2019 $'000	**2018 $'000**
Lease revenue from time charters	615,824	557,411
Service revenue from time charters	262,028	245,117
Total revenue from time charters	877,852	802,528
Service revenue from voyage charters	708,406	666,372
Service revenue from marine services	78,949	51,037
	1,665,207	1,519,937

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

	Service revenue					
Segment	**Voyage charters 2019 $'000**	**Time charters 2019 $'000**	**Marine services 2019 $'000**	**Total 2019 $'000**	**Lease revenue from time charters 2019 $'000**	**Revenue 2019 $'000**
Offshore services	4,222	127,752	-	131,974	325,269	457,243
Gas transportation	-	39,824	-	39,824	145,742	185,566
Crude oil transportation	420,682	72,440	-	493,122	120,237	613,359
Oil products transportation	282,888	18,343	-	301,231	18,764	319,995
Other	614	3,669	78,949	83,232	5,812	89,044
Revenue from vessel operations	708,406	262,028	78,949	1,049,383	615,824	1,665,207
Other operating revenues from contracts with customers						
Other operating revenues (Note 12)				36,372		
Total revenue from contracts with customers				1,085,755		

7. **Revenue (Continued)**

	Service revenue				Lease revenue from time charters	
	Voyage charters	Time charters	Marine services	Total		Revenue
	2018	2018	2018	2018	2018	2018
Segment	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Offshore services	-	124,309	-	124,309	309,263	433,572
Gas transportation	608	35,125	-	35,733	147,299	183,032
Crude oil transportation	411,185	56,205	-	467,390	72,407	539,797
Oil products transportation	253,183	25,872	-	279,055	23,592	302,647
Other	1,396	3,606	51,037	56,039	4,850	60,889
Revenue from vessel operations	666,372	245,117	51,037	962,526	557,411	1,519,937
Other operating revenues from contracts with customers						
Other operating revenues (Note 12)				15,083		
Total revenue from contracts with customers				977,609		

7.1 Contract balances

	2019 $'000	2018 $'000
Trade receivables from contracts with customers (Note 27)	62,088	57,091
Contract assets	41,605	31,020
Contract liabilities	14,741	16,086

Trade receivables from contracts with customers represent net amounts receivable from charterers of vessels in respect of voyage charters, marine services and in respect of time charters for the non-lease (service component) of the receivable.

Contract assets represent the freight, demurrage, deviation and other amounts receivable from charterers for the completed voyage performance as at the period end. The balances of contract assets vary and depend on ongoing voyage charters at period end.

Contract liabilities represent the performance due to a charterer for the remaining voyage as at the period end. This may happen in the case where the charterer has made an advance payment before the completion of the voyage as of the period end date. The balances of contract liabilities vary and depend on advance payments received at period end.

Set out below is the amount of revenue recognised from:

	2019 $'000	2018 $'000
Amounts included in contract liabilities as at beginning of the year	16,086	13,592
Performance obligations satisfied in previous years	-	-

7.2 Performance obligations

Information about the Group's performance obligations are summarised below:

Revenue from voyage charters – A voyage performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. A performance obligation for a voyage charter, begins to be satisfied only once the vessel arrives at the first loading port and ends at the time the discharge of cargo is completed at the discharge port (load to discharge, which is when the contract with the customer expires). Freight from voyage charters and contracts of affreightment is receivable upon discharge of the vessel.

Revenue from time charters – The performance obligation for the service component of time charters, which is accounted for separately from the lease component, is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. The lease component is accounted for as a lease (see Note 3(h)). 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.

Seismic services revenue – Seismic revenue (which is included in service revenue from marine services), in the majority of cases, is recognised as a single performance obligation, which is satisfied over time, using the percentage of work completed based primarily on an input method for measurement of progress. Input method measures progress on the basis of inputs (for example, resources consumed, labour hours expended, bunker costs, mobilisation costs incurred) that are relative to the total expected inputs to the satisfaction of that performance obligation. Revenue from seismic services is usually receivable between 30 and 60 days after the completion of contractually defined work.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the period end are as follows:

	2019 $'000	2018 $'000
Within twelve months after the end of the reporting period	304,393	269,207
After one year but not more than five years	528,260	523,700
More than five years	675,006	746,518
	1,507,659	1,539,425

8. Voyage Expenses and Commissions

	2019 $'000	2018 $'000
Bunkers	239,739	276,218
Port costs	122,995	134,138
Commissions	10,289	10,332
Seismic exploration and data processing	15,212	17,766
Other voyage costs	11,475	6,789
	399,710	445,243

9. Vessels' Running Costs

	2019 $'000	2018 $'000
Crew costs	201,600	205,722
Technical costs	114,253	103,573
Insurance costs	19,362	17,560
Lubricating oils	11,282	11,477
Other costs	9,830	9,887
	356,327	348,219

10. Depreciation, Amortisation and Impairment

	2019 $'000	2018 $'000
Vessels' depreciation (Note 16)	326,154	312,338
Vessels' drydock cost amortisation (Note 16)	34,499	37,280
Vessels' impairment provision (Notes 16 and 29)	22,573	48,514
Vessels' reversal of impairment provision (Note 29)	(617)	-
Other depreciation and amortisation (Notes 18 and 19)	4,729	5,065
Other impairment (Note 19)	891	810
Right of use assets' depreciation (Note 37)	22,894	-
Right of use assets' impairment provision (Note 37)	726	-
	411,849	404,007

11. General and Administrative Expenses

	2019 $'000	2018 $'000
Administration expenses	92,728	93,077
Non-income based taxes	14,255	17,320
Bank charges and fees	1,009	1,355
	107,992	111,752

Administration expenses are analysed as follows:

	2019 $'000	2018 $'000
Office costs and other general expenses	86,991	86,783
Legal and professional	3,420	3,707
Audit and accountancy	2,317	2,587
	92,728	93,077

Non-income based taxes are analysed as follows:

	2019 $'000	2018 $'000
Irrecoverable value added tax	13,130	16,084
Tonnage tax	1,125	1,236
	14,255	17,320

12. Other Operating Revenues and Expenses

	2019 $'000	2018 $'000
Other operating revenues from contracts with customers	36,372	15,083
Lease revenue	4,408	5,175
Other income	2,326	3,577
	43,106	23,835
Contract fulfilment costs	(12,554)	(4,934)
Other operating expenses	(4,262)	(6,958)
Investment property depreciation and impairment (Note 20)	(1,098)	(139)
	(17,914)	(12,031)
	25,192	11,804

Other operating revenues from contracts with customers comprise income from non-core non-vessel operating activities, including agency revenues earned in arranging third parties' seismic exploration and data processing services, income from the commercial and technical management and newbuilding supervision of vessels belonging to joint ventures and third party owners performed by the Group as well as from ancillary services provided by the Group's vessels in operation in the offshore segment.

13. Employee Costs

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

	2019 $'000	2018 $'000
Seafarers		
- Short-term and other long-term employee benefits	170,894	168,669
- Payroll taxes	1,483	1,390
- Defined contribution pension plans	1,773	1,790
	174,150	171,849
Shore based staff		
- Short-term and other long-term employee benefits	63,854	60,339
- Payroll taxes	9,574	8,729
- Defined contribution pension plans	1,517	1,530
- Long-term service defined benefit plans	-	370
	74,945	70,968
Total employee costs	249,095	242,817

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 2019 and 31 December 2018 is based on actual performance vs. set KPI targets achieved as of 31 December 2017 over the entire LTIP evaluation period (2015-2017) and the recipient's continued employment with the Group, as stipulated by the LTIP bylaws.

These benefits are accounted for as other long-term employee benefits and are included in payables and other liabilities (Note 34). 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.

14. Financing Costs

	2019 $'000	2018 $'000
Interest on secured bank loans	121,070	119,965
Interest on interest rate swaps and cross currency interest rate swaps	17,687	19,752
Interest on other loans	48,094	48,260
Interest on lease liabilities (Note 37)	7,759	-
Other interest	9,996	11,204
Other financing costs	1,550	1,236
	206,156	200,417

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:

- Offshore 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 2019, this segment's fleet consisted of 19 shuttle tankers (2018 – 16), and 10 ice breaking supply vessels (2018 – 10).
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2019 and 31 December 2018, this segment's fleet consisted of 5 LNG carriers and 4 LPG carriers. The 4 LNG carriers owned through joint ventures are disclosed in Note 21.
- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2019 the Group's fleet in this segment consisted of 56 crude oil carriers (2018 – 53).
- 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 2019 the Group's fleet in this segment consisted of 36 petroleum product carriers (2018 – 39), including 17 chemical and oil carriers (2018 – 18). The 9 (2018 – 9) oil product tankers owned through joint ventures are disclosed in Note 21.
- Other. This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2019 and 31 December 2018, this segment's fleet consisted of 2 bulk carriers and 2 chartered in seismic vessels. 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 associated with the vessels in each of the segments. However Group financing (including finance costs and interest 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.

15. Segment Information (Continued)

Period ended 31 December 2019

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	457,243	185,566	613,359	319,995	89,044	1,665,207
Voyage expenses and commissions	(2,577)	(1,115)	(221,270)	(142,266)	(32,482)	(399,710)
Time charter equivalent revenues	454,666	184,451	392,089	177,729	56,562	1,265,497
Direct operating expenses						
Vessels' running costs	(84,124)	(37,455)	(123,819)	(88,474)	(22,455)	(356,327)
Net earnings from vessels' trading	370,542	146,996	268,270	89,255	34,107	909,170
Other operating revenues	3,101	-	-	-	17,815	20,916
Other operating expenses	(2,161)	-	-	-	(2,082)	(4,243)
Vessels' depreciation	(127,461)	(36,176)	(108,232)	(48,444)	(5,841)	(326,154)
Vessels' drydock cost amortisation	(10,072)	(4,699)	(12,846)	(6,462)	(420)	(34,499)
Vessels' impairment provision	-	-	(19,913)	(2,660)	-	(22,573)
Vessels' reversal of impairment provision	-	-	-	617	-	617
Right of use assets' depreciation	-	-	-	-	(18,960)	(18,960)
Loss on sale of vessels	-	-	-	(171)	-	(171)
Non-income based taxes	(4,287)	-	-	-	-	(4,287)
Net foreign exchange (losses) / gains	(2,176)	-	-	-	4,524	2,348
Segment operating profit	227,486	106,121	127,279	32,135	29,143	522,164
Unallocated						
General and administrative expenses						(103,705)
Financing costs						(206,156)
Other income and expenses (net)						36,289
Net foreign exchange gains						5,792
Profit before income taxes						254,384
Carrying amount of fleet in operation including right of use assets	2,032,948	1,169,841	2,018,225	837,699	91,621	6,150,334
Carrying amount of non-current assets held for sale	-	-	49,572	19,489	-	69,061
Deadweight tonnage of fleet used in operations ('000)	1,593	569	7,424	2,143	156	11,885

Period ended 31 December 2018

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	433,572	183,032	539,797	302,647	60,889	1,519,937
Voyage expenses and commissions	(473)	(1,792)	(255,935)	(158,401)	(28,642)	(445,243)
Time charter equivalent revenues	433,099	181,240	283,862	144,246	32,247	1,074,694
Direct operating expenses						
Vessels' running costs	(73,950)	(29,984)	(128,682)	(93,422)	(22,181)	(348,219)
Charter hire payments	-	-	-	-	(28,931)	(28,931)
Net earnings / (losses) from vessels' trading	359,149	151,256	155,180	50,824	(18,865)	697,544
Other operating revenues	2,910	-	-	-	-	2,910
Other operating expenses	(1,810)	-	-	-	-	(1,810)
Vessels' depreciation	(120,512)	(35,977)	(98,728)	(51,627)	(5,494)	(312,338)
Vessels' drydock cost amortisation	(9,430)	(4,888)	(14,799)	(7,649)	(514)	(37,280)
Vessels' impairment provision	-	-	(22,098)	(26,416)	-	(48,514)
(Loss) / gain on sale of vessels	-	-	(10,120)	348	-	(9,772)
Non-income based taxes	(6,112)	-	-	-	-	(6,112)
Net foreign exchange gains / (losses)	1,145	-	-	(261)	(9,157)	(8,273)
Segment operating profit / (loss)	225,340	110,391	9,435	(34,781)	(34,030)	276,355
Unallocated						
General and administrative expenses						(105,640)
Financing costs						(200,417)
Other income and expenses (net)						14,374
Net foreign exchange losses						(6,820)
Loss before income taxes						(22,148)
Carrying amount of fleet in operation	1,965,115	1,197,158	2,007,929	926,754	68,707	6,165,663
Carrying amount of non-current assets held for sale	-	-		29,700	-	29,700
Deadweight tonnage of fleet used in operations ('000)	1,343	569	7,085	2,400	156	11,553

16. Fleet

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2018	8,491,703	177,268	8,668,971
Expenditure in period	15,011	25,333	40,344
Transfer from vessels under construction (Note 17)	319,458	4,000	323,458
Transfer to non-current assets held for sale (Note 29)	(138,857)	(3,177)	(142,034)
Disposals in period	(200,691)	(4,977)	(205,668)
Write-off of fully amortised drydock cost	-	(40,645)	(40,645)
Exchange adjustment	(3,009)	(160)	(3,169)
At 31 December 2018	8,483,615	157,642	8,641,257
Expenditure in period	36,647	36,557	73,204
Transfer from vessels under construction (Note 17)	307,778	4,500	312,278
Transfer to non-current assets held for sale (Note 29)	(155,503)	(3,579)	(159,082)
Write-off of fully amortised drydock cost	-	(32,408)	(32,408)
Exchange adjustment	1,069	57	1,126
At 31 December 2019	8,673,606	162,769	8,836,375
Depreciation, amortisation and impairment			
At 1 January 2018	2,283,525	94,102	2,377,627
Charge for the period	312,338	37,280	349,618
Impairment provision	48,514	-	48,514
Transfer to non-current assets held for sale (Note 29)	(100,382)	(2,106)	(102,488)
Disposals in period	(152,142)	(4,251)	(156,393)
Write-off of fully amortised drydock cost	-	(40,645)	(40,645)
Exchange adjustment	(532)	(107)	(639)
At 31 December 2018	2,391,321	84,273	2,475,594
Charge for the period	326,154	34,499	360,653
Impairment provision	19,913	-	19,913
Transfer to non-current assets held for sale (Note 29)	(106,470)	(3,038)	(109,508)
Write-off of fully amortised drydock cost	-	(32,408)	(32,408)
Exchange adjustment	350	47	397
At 31 December 2019	2,631,268	83,373	2,714,641
Net book value			
At 31 December 2019	6,042,338	79,396	6,121,734
At 31 December 2018	6,092,294	73,369	6,165,663

	2019	2018
Market value ($'000)	5,714,000	5,264,000
Current insured values ($'000)	7,025,695	6,747,835
Total deadweight tonnage (dwt)	11,358,261	11,402,508

Summary of fleet at period end:

<u>Type of vessel</u>	Number of vessels 2019	Number of vessels 2018	Dwt'000 2019	Dwt'000 2018	Carrying value $ million 2019	Carrying value $ million 2018
Oil tankers	53	53	6,999	7,085	2,018	2,008
Product carriers	34	36	2,047	2,256	838	927
LNG and LPG carriers	9	9	569	569	1,170	1,197
Shuttle tankers	19	16	1,552	1,302	1,203	1,086
Ice breaking supply vessels	10	10	41	41	830	879
Bulk carriers	2	2	150	150	55	58
Seismic equipment	-	-	-	-	8	11
	127	126	11,358	11,403	6,122	6,166
Vessels held for sale (Note 29)	5	3	521	144	69	30
	132	129	11,879	11,547	6,191	6,196

16. **Fleet (Continued)**

As at 31 December 2019, 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 assesses their recoverable amount, which is the higher of their fair value less costs of disposal ("FVLCD"), as assessed by management at the period end and supported by independent professional valuations, and their value in use ("VIU").

Results of the impairment review for the period ended 31 December 2019

Reportable operating segment	CGU	Methodology	Applied pre tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tanker (1 CGU)	FVLCD (level 2)	n/a	2,071	13,338
Crude oil segment	Suezmax crude oil tankers (2 CGUs)	FVLCD (level 1)	n/a	9,304	36,234
Crude oil segment	Suezmax crude oil tankers (3 CGUs)	VIU	5.76%	8,538	60,854
				19,913	110,426

The impairment recognised in the period ended 31 December 2019 based on value in use for three crude oil suezmax tankers and based on fair value less costs of disposal for one crude oil aframax tanker and two crude oil suezmax tankers resulted from management's plan to dispose of these vessels before the end of their useful lives.

Results of the impairment review for the period ended 31 December 2018

Reportable operating segment	CGU	Methodology	Applied pre tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tankers (3 CGUs)	VIU	6.30%	5,757	46,605
Crude oil segment	Aframax crude oil tankers (1 CGU)	FVLCD (level 1)	n/a	2,900	7,235
Crude oil segment	Aframax crude oil tanker (2 CGUs)	FVLCD (level 2)	n/a	13,441	17,163
Oil product segment	Handysize tankers (8 CGUs)	VIU	5.97%	8,068	180,590
Oil product segment	Handysize tankers (4 CGUs)	FVLCD (level 2)	n/a	18,348	37,785
				48,514	289,378

The impairment recognised in the period ended 31 December 2018 based on value in use for two aframax crude oil tankers and based on fair value less costs of disposal for three aframax crude oil tankers and four MR chemical oil product tankers (handysize) resulted from management's decision to dispose of these vessels. The remaining impairments recognised based on value in use, for one aframax crude oil tanker and eight MR oil product tankers, resulted from a change in estimate of operating revenues and operating expenses over the remaining life of the vessels.

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 2020 to 2022 based on the Group's approved revenue budgets;
- Freight rate estimates after 2022 based on the historical twenty year normalised earnings averages (adjusted for the highest 5% and lowest 5%) for each type of vessel, obtained from independent brokers' research. Management believes that the historic twenty year normalised earnings averages address the impact of prolonged depressions in the shipping markets and deviation from the mean, which distorts shorter period averages;
- Operating expenses based on the Group's operating budget approved by the Group for 2020 and increasing at a rate of 2.6% per annum (2018 – 2.7% per annum);
- Annual utilisation for each vessel of 363 days, except for the cases where the actual utilisation is expected to be less, 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 life, unless the vessels are sold or planned to be sold; and
- Discount rates between 5.8% to 7.0% pre-tax (2018 – 6.8% to 8.4% pre-tax), depending on the remaining useful life of each vessel and the area it trades.

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 $12.4 million (2018 – $3.3 million);
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $1.1 million (2018 – nil); and
- A decrease of the useful economic life of the vessels by 5 years would result in an additional impairment provision to fleet of $17.4 million.

Management also carried out an assessment of whether there is any indication that equipment on board one of the chartered in seismic vessels of the Group may have suffered an impairment loss. Management concluded that there was no impairment based on the CGU's value in use (this CGU includes related right of use assets disclosed in Note 37). The main inputs and assumptions used in the value in use calculations were the estimated future revenue rates and vessel utilisation rates as well as expenses of the seismic vessels, for three years.

16. **Fleet (Continued)**

During the period ended 31 December 2019, 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 $4.6 million (2018 – decrease of $5.8 million).

Expenditure in period, under vessels, includes an amount of $22.1 million (2018 – $13.0 million) of modifications relating to legislative requirements, of which $6.0 million (2018 – $4.9 million) have not yet been completed/delivered as of the end of the reporting period.

As at 31 December 2019, 75 vessels (2018 – 65) are leased outside the Group under operating leases with an aggregate carrying value of $4,459.9 million (2018 – $4,192.6 million).

17. **Vessels Under Construction**

	2019 $'000	2018 $'000
At 1 January	135,890	81,837
Expenditure in period	355,967	377,511
Transfer to fleet (Note 16)	(312,278)	(323,458)
At 31 December	179,579	135,890
Total deadweight tonnage (dwt)	455,800	630,000

Vessels under construction at 1 January 2019 comprised three ice-class LNG fuelled aframax crude oil tankers, one ice-class shuttle tanker and three LNG carriers at a total contracted cost to the Group of $820.3 million.

Vessels delivered during the period comprised the following:

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

[1] Delivered to charter on 27 October 2019

During the period ended 31 December 2019, the Group entered into shipbuilding contracts for the construction of two aframax crude oil shuttle tankers scheduled for delivery in February and March 2022. The shuttle tankers are backed with ten and fifteen-year firm period time charter agreements, respectively, with various extension options attached in favour of the charterer.

At 31 December 2019, vessels under construction comprised three LNG carriers and two aframax crude oil shuttle tankers scheduled for delivery between February 2020 and March 2022 at a total contracted cost to the Group of $682.9 million. As at 31 December 2019, $174.6 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 $4.0 million (2018 – $5.0 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 $0.9 million (2018 – $4.3 million) capitalised using a weighted average interest rate of 4.20% per annum (2018 – 5.08% per annum).

As at 31 December 2019 management carried out an impairment assessment of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(t)). The assessment did not result in any such indication.

18. **Intangible Assets**

	2019 $'000	2018 $'000
Cost		
At 1 January	12,448	12,989
Additions in period	443	431
Exchange adjustment	352	(972)
At 31 December	13,243	12,448
Amortisation		
At 1 January	5,676	4,330
Charge for the period	1,562	1,563
Exchange adjustment	114	(217)
At 31 December	7,352	5,676
Net book value		
At 31 December	5,891	6,772

Intangible assets comprise computer software.

19. Other Property, Plant and Equipment

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2018	51,880	41,682	93,562
Additions in period	40	1,528	1,568
Transfer to non-current assets held for sale (Note 29)	-	(1,345)	(1,345)
Disposals in period	(16)	(1,401)	(1,417)
Exchange adjustment	(1,002)	(2,808)	(3,810)
At 31 December 2018	50,902	37,656	88,558
Additions in period	51	1,699	1,750
Transfer to non-current assets held for sale (Note 29)	(37)	(9)	(46)
Disposals in period	(230)	(3,084)	(3,314)
Exchange adjustment	1,144	1,516	2,660
At 31 December 2019	51,830	37,778	89,608
Depreciation and impairment			
At 1 January 2018	13,675	30,564	44,239
Charge for the period	932	2,570	3,502
Impairment provision	810	-	810
Transfer to non-current assets held for sale (Note 29)	-	(352)	(352)
Disposals in period	(6)	(530)	(536)
Exchange adjustment	(619)	(1,726)	(2,345)
At 31 December 2018	14,792	30,526	45,318
Charge for the period	947	2,220	3,167
Impairment provision	891	-	891
Transfer to non-current assets held for sale (Note 29)	(37)	(9)	(46)
Disposals in period	-	(3,055)	(3,055)
Exchange adjustment	1,055	912	1,967
At 31 December 2019	17,648	30,594	48,242
Net book value			
At 31 December 2019	34,182	7,184	41,366
At 31 December 2018	36,110	7,130	43,240

Buildings comprise offices in St. Petersburg, Novorossiysk and Sochi in Russia, 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 2019 and 31 December 2018, 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.

Based on this assessment management concluded that the cruise terminal in Sochi ("cruise terminal" CGU) was impaired. The cruise terminal CGU includes related investment property and right of use assets as disclosed in Note 20 and in Note 37, respectively. The impairment recognised in the period ended 31 December 2019, based on value in use, in respect of the cruise terminal CGU, amounted to $2.5 million, of which $0.9 million is included above, based on a recoverable amount of $4.5 million (2018 – $0.8 million impairment based on a recoverable amount of $0.8 million). The main inputs and assumptions used in the value in use calculations were: revenues and expenses based on the Group's three year budgets, a terminal growth rate of 3% on both revenues and expenses, use of the asset until the end of year 2063 and a pre-tax discount rate of 13.3% (2018 – 15.5%).

20. Investment Property

	2019 $'000	2018 $'000
Cost		
At 1 January	5,207	13,272
Effect of adoption of IFRS 16 as at 1 January 2019 (Note 5)	4,686	-
Additions in period	8	-
Transfer to non-current assets held for sale (Note 29)	(2,231)	(7,388)
Disposals in period	-	(15)
Exchange adjustment	528	(662)
At 31 December	8,198	5,207
Depreciation		
At 1 January	4,662	5,348
Charge for the period	249	139
Impairment provision	849	-
Transfer to non-current assets held for sale (Note 29)	(1,997)	(746)
Disposals in period	-	(15)
Exchange adjustment	-	(64)
At 31 December	3,763	4,662
Net book value		
At 31 December	4,435	545
Rental income from investment property	4,252	1,492
Direct operating expenses of investment property	1,697	514

20. Investment Property (Continued)

During the period ended 31 December 2019, the Group classified as held for sale, land and buildings in Novorossiysk (see Note 29).

As at 31 December 2019, investment property comprises land and buildings in Novorossiysk with a fair value (level 3 hierarchy) equivalent to $8.0 million (2018 – equivalent to $17.4 million) as well as leased in buildings in Sochi and in Limassol with a fair value (level 3 hierarchy) equivalent to $4.3 million. For a description of valuation techniques used for determining above disclosed fair values under level 3 hierarchy see Note 41(d). The impairment recognised during the period ended 31 December 2019, in respect of the leased in building in Sochi, forming part of the cruise terminal CGU, amounted to $0.8 million (see also Note 19).

21. Investments in Joint Ventures

	2019 $'000	2018 $'000
At 1 January	132,926	123,117
Investment in joint venture	808	-
Dissolution of joint ventures	(185)	-
Share of profits in joint ventures	15,703	3,087
Share of joint ventures' other comprehensive income	3,007	6,722
Currency retranslation difference	(4)	-
At 31 December	152,255	132,926

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

Name of entity	2019	2018	Country of incorporation	Principal activity
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Anubis Shipholding Limited	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Ltd.	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Ltd.	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Ltd.	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Ltd.	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Ltd.	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies

The Group through its joint ventures owns and operates 4 LNG carriers (2018 – 4) and 9 Panamax oil product tankers (LR1) (2018 – 9).

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

	2019 $'000	2018 $'000
Within twelve months after the end of the reporting period	93,636	93,625
After one year but not more than five years	377,363	375,253
More than five years	225,287	319,243
	696,286	788,121

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Notes to the Consolidated Financial Statements – 31 December 2019 (Continued)

21. **Investments in Joint Ventures (Continued)**

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

At 31 December 2019	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	126,806	129,782	132,145	130,286	307,927	34	826,980
Total current assets	30,226	30,872	13,850	39,254	25,749	1,612	141,563
Total non-current liabilities	-	(98,408)	(66,720)	(69,243)	(149,611)	-	(383,982)
Total current liabilities	(113,310)	(20,252)	(28,257)	(40,163)	(74,454)	(167)	(276,603)
Net assets of the joint venture	43,722	41,994	51,018	60,134	109,611	1,479	307,958
Group's share in net assets of the joint venture	16,396	20,997	25,509	30,067	55,902	740	149,611
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	16,396	20,997	25,509	30,067	58,546	740	152,255
Cash and cash equivalents	1,168	1,132	3,173	20,068	2,925	805	29,271
Current financial liabilities	(113,257)	(20,030)	(24,258)	(38,486)	(73,824)	-	(269,855)
Non-current financial liabilities	-	(98,408)	(66,720)	(69,243)	(149,611)	-	(383,982)
Revenues	24,167	24,662	21,053	23,417	104,363	-	197,662
Depreciation, amortisation and impairment	(5,708)	(5,677)	(6,356)	(5,834)	(17,335)	-	(40,910)
Interest income	366	374	103	140	82	1	1,066
Interest expense	(6,820)	(6,365)	(4,826)	(5,412)	(11,767)	-	(35,190)
Income tax	(652)	(653)	-	-	31	32	(1,242)
Joint ventures' profits / (losses) for the period	7,178	7,488	4,322	8,554	5,679	(138)	33,083
Group's share of joint ventures' profits / (losses) for the period recognised	2,692	3,744	2,161	4,277	2,896	(67)	15,703
Joint ventures' other comprehensive income for the period	1,629	1,296	1,369	2,469	(337)	-	6,426
Group's share of joint ventures' other comprehensive income for the period recognised	611	648	685	1,235	(172)	-	3,007
Joint ventures' total comprehensive income for the period	8,807	8,784	5,691	11,023	5,342	(138)	39,509
Group's share of joint ventures' total comprehensive income for the period recognised	3,303	4,392	2,846	5,512	2,724	(67)	18,710

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Notes to the Consolidated Financial Statements – 31 December 2019
(Continued)

21. **Investments in Joint Ventures (Continued)**

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

At 31 December 2018	**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	132,493	136,244	134,388	135,408	324,680	-	863,213
Total current assets	22,675	23,892	17,098	23,781	17,731	589	105,766
Total non-current liabilities	(112,154)	(115,789)	(18,992)	(94,943)	(194,808)	-	(536,686)
Total current liabilities	(8,100)	(11,138)	(87,168)	(15,136)	(43,334)	(21)	(164,897)
Net assets of the joint venture	34,914	33,209	45,326	49,110	104,269	568	267,396
Group's share in net assets of the joint venture	13,093	16,605	22,663	24,555	53,177	189	130,282
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	13,093	16,605	22,663	24,555	55,821	189	132,926
Cash and cash equivalents	3,010	1,223	243	4,908	1,668	434	11,486
Current financial liabilities	(7,953)	(10,923)	(82,568)	(13,057)	(44,009)	-	(158,510)
Non-current financial liabilities	(112,154)	(115,789)	(18,992)	(94,943)	(194,808)	-	(536,686)
Revenues	22,507	24,311	23,267	23,267	89,743	-	183,095
Depreciation, amortisation and impairment	(5,408)	(5,766)	(6,835)	(5,663)	(25,334)	-	(49,006)
Interest income	328	364	122	138	68	-	1,020
Interest expense	(7,116)	(6,738)	(5,668)	(5,913)	(12,063)	-	(37,498)
Income tax	(397)	(397)	-	-	-	-	(794)
Joint ventures' profits / (losses) for the period	5,734	7,362	7,134	8,121	(20,263)	(114)	7,974
Group's share of joint ventures' profits / (losses) for the period recognised	2,150	3,681	3,567	4,061	(10,334)	(38)	3,087
Joint ventures' other comprehensive income for the period	4,301	3,623	2,911	2,820	846	-	14,501
Group's share of joint ventures' other comprehensive income for the period recognised	1,613	1,812	1,456	1,410	431	-	6,722
Joint ventures' total comprehensive income for the period	10,035	10,985	10,045	10,941	(19,417)	(114)	22,475
Group's share of joint ventures' total comprehensive income for the period recognised	3,763	5,493	5,023	5,471	(9,903)	(38)	9,809

22. Loans to Joint Ventures

	2019 $'000	2018 $'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	26,948	33,273
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	35,533	32,796
	62,481	66,069
Allowance for credit losses	(336)	-
	62,145	66,069
Less current portion (current assets)	(11,804)	-
Non-current portion (non-current assets)	50,341	66,069
Interest income during the period on loans due from joint ventures	2,599	2,171
Interest receivable at period end on loans due from joint ventures	6,286	4,712

Movement in the allowance for credit losses in respect of loans to joint ventures:

	2019 $'000	2018 $'000
At 1 January	-	-
Increase in allowance recognised in the income statement	336	-
At 31 December	336	-

The loans to joint ventures are unsecured and mature between April 2020 and January 2022, except for certain loans that repayment shall be made at the discretion of the joint ventures. There is no contractual repayment schedule for the loans. The joint ventures have the right to repay the loans in part or in full at any time before maturity date. This right is considered as closely related to the host contract.

Management performed an assessment to determine whether there has been a significant increase in credit risk since the initial recognition of loans to joint ventures. The assessment reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Management concluded that there has not been a significant increase in credit risk since initial recognition. To calculate the ECL on loans due from joint ventures, the Group applied the 12-month ECL model and the general approach and recognised $0.3 million of expected credit losses during the period ended 31 December 2019 (2018 – nil).

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:

	Interest Rate Swaps ("IRS")		Cross Currency Interest Rate Swaps ("CCIRS")		Total	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Non-current asset	86	6,694	4,632	14,205	4,718	20,899
Current asset	170	3,783	-	-	170	3,783
Non-current liability	(16,194)	(8,268)	(14,039)	(5,803)	(30,233)	(14,071)
Current liability	(8,465)	(5,171)	(10,195)	(10,455)	(18,660)	(15,626)

<u>Hedging instruments</u>

The Group entered into interest rate swap and cross currency interest rate swap agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations, and interest payable on secured loans against EURIBOR rate and currency fluctuations, respectively.

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

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

	IRS		CCIRS		Total	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Amount recognised in hedging reserve	(22,971)	2,450	(31,154)	(34,709)	(54,125)	(32,259)
Reclassified from hedging reserve and debited to financing costs	1,243	8,929	13,151	12,895	14,394	21,824
Reclassified from hedging reserve and debited to foreign exchange	-	-	7,021	19,243	7,021	19,243
Reclassification adjustment relating to derecognition of hedging instrument during the period	-	(590)	-	-	-	(590)
Total in other comprehensive income	(21,728)	10,789	(10,982)	(2,571)	(32,710)	8,218

23. Derivative Financial Instruments (Continued)

The following tables detail various information regarding interest rate and cross currency interest rate swap contracts outstanding at the end of the reporting period and their related hedged items.

Interest Rate Swap contracts

	Weighted average contracted fixed interest rate		Notional principal value		Carrying amount of the hedging instrument assets / (liabilities)		Change in fair value used for calculating hedge ineffectiveness	
	2019	2018	2019	2018	2019	2018	2019	2018
Expiry date	%	%	$'000	$'000	$'000	$'000	$'000	$'000
Less than 1 year	2.04%	-	47,707	-	(133)	-	-	-
1 to 2 years	5.76%	2.04%	158,475	53,008	(6,852)	537	287	-
2 to 5 years	2.25%	5.76%	233,206	182,625	(4,388)	(10,528)	-	689
More than 5 years	2.35%	2.28%	457,051	627,212	(13,030)	7,029	-	-
			896,439	862,845	(24,403)	(2,962)	287	689

Cross Currency Interest Rate Swap contracts

	Weighted average contracted fixed interest rate		Notional principal value		Carrying amount of the hedging instrument assets / (liabilities)		Change in fair value used for calculating hedge ineffectiveness	
	2019	2018	2019	2018	2019	2018	2019	2018
Expiry date	%	%	$'000	$'000	$'000	$'000	$'000	$'000
More than 5 years	5.51%	5.51%	307,705	338,779	(19,602)	(2,053)	(370)	(241)

Hedged items

	Nominal amount of the hedged item		Change in fair value used for calculating hedge ineffectiveness		(Loss) / gain in hedging reserve for continuing hedges		(Loss) / gain in hedging reserve for which hedge accounting is no longer applied	
	2019	2018	2019	2018	2019	2018	2019	2018
Hedged items	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Floating rate borrowings 3 month Libor	881,628	842,432	287	689	(23,939)	(3,432)	-	-
Floating rate borrowings 6 month Libor	33,333	40,000	-	-	511	1,732	-	-
Floating rate borrowings 3 month Euribor	299,317	336,585	(370)	(241)	(10,465)	517	-	-
	1,214,278	1,219,017	(83)	448	(33,893)	(1,183)	-	-

24. Income Taxes

	2019 $'000	2018 $'000
Russian Federation profit tax expense	26,365	17,629
Overseas income tax expense	1,197	744
Current income tax expense	27,562	18,373
Deferred tax	1,444	5,035
Total income tax expense	29,006	23,408

Russian Federation profit tax is payable at a tax rate of 20% (2018 – 20%) on the taxable profits arising on Russian operations. Income taxes are also payable on the results of the Group's overseas management and agency 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 generated by these companies. Under the laws of the countries of incorporation and / or vessel registration, the majority of vessel owning and operating subsidiaries are subject to tonnage tax, in lieu of income tax, by reference to the registered tonnage of each vessel. 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.

In accordance with the Tax Code of the Russian Federation, the majority of the Group's Controlled Foreign Companies ("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 profit 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.

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:

	2019 $'000	2018 $'000
Profit / (loss) before income taxes	254,384	(22,148)
Income tax charge using an income tax rate of 20%	50,877	(4,430)
Difference in tax rates in other jurisdictions including tonnage tax	(31,813)	5,643
Tax effect on intercompany dividends paid	9,920	2,606
Deferred tax effect on intercompany dividends	3,215	2,450
Tax effect on intercompany loans	508	246
Non-deductible expenses and non-taxable income	(3,239)	4,612
Effect of tax losses (utilised) / for which no deferred tax asset was recognised	(668)	11,119
Adjustments in respect of income tax of previous years	206	1,162
Income tax expense	29,006	23,408

Deferred Tax

	Opening balance $'000	Released / (charged) to income $'000	Released to exchange differences on translation of foreign operations in OCI $'000	Exchange differences in profit or loss $'000	Closing balance $'000
At 31 December 2019					
Deferred tax assets	4,089	917	38	206	5,250
Deferred tax liabilities	(3,823)	(2,361)	-	(113)	(6,297)
	266	(1,444)	38	93	(1,047)
At 31 December 2018					
Deferred tax assets	8,162	(3,291)	-	(782)	4,089
Deferred tax liabilities	(2,258)	(1,744)	-	179	(3,823)
	5,904	(5,035)	-	(603)	266

Deferred tax relates to the following:

	Opening balance $'000	Adoption of IFRS 16 (Note 5) $'000	Released / (charged) to income $'000	Released to exchange differences on translation of foreign operations in OCI $'000	Exchange differences in profit or loss $'000	Closing balance $'000
At 31 December 2019						
Fleet	611	-	156	-	-	767
Drydock	(1,891)	-	412	-	(212)	(1,691)
Unused tax losses carried forward	1,029	-	(495)	-	24	558
Accounts receivable	(24)	-	(106)	-	-	(130)
Accounts payable	2,361	-	1,007	38	48	3,454
Right of use assets	-	(3,859)	879	(33)	(151)	(3,164)
Lease liabilities	-	3,859	(423)	33	167	3,636
Unremitted earnings of subsidiaries and on dividends declared	(2,450)	-	(3,215)	-	-	(5,665)
Other	630	-	341	-	217	1,188
	266	-	(1,444)	38	93	(1,047)
At 31 December 2018						
Fleet	554	-	57	-	-	611
Drydock	(462)	-	(1,693)	-	264	(1,891)
Unused tax losses carried forward	3,851	-	(2,458)	-	(364)	1,029
Accounts receivable	(518)	-	484	-	10	(24)
Accounts payable	2,848	-	(294)	-	(193)	2,361
Unremitted earnings from subsidiaries	(1,155)	-	(1,295)	-	-	(2,450)
Other	786	-	164	-	(320)	630
	5,904	-	(5,035)	-	(603)	266

As at the reporting period end, the Group has accumulated tax losses of $58.4 million (2018 – $56.1 million), for which a deferred tax asset of $11.7 million (2018 – $11.2 million) has not been recognised. There is no expiry date for tax losses carried forward, available for offsetting against future taxable profits of the companies in which they arose. No assets were recognised or derecognised in 2019 based on the projected results of those operations (2018 – $2.8 million derecognised assets).

The deferred tax impact on the unremitted earnings of subsidiaries, joint ventures or associates is included in the reconciliation of tax expense above in line tax effect on intercompany dividends. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,835.2 million (2018 – $2,822.7 million). There are no income tax consequences attached to the payment of dividends by the Company to its shareholder.

25. Earnings Per Share

	2019 $'000	2018 $'000
Net profit / (loss) attributable to owners of the parent for basic and diluted earnings	221,629	(41,642)

	2019	2018
Weighted average number of ordinary shares for basic and diluted earnings per share	1,966,697,210	1,966,697,210
Basic and diluted profit / (loss) per share for the period attributable to owners of the parent	$0.113	($0.021)

26. Inventories

	2019 $'000	2018 $'000
Bunkers	33,904	47,144
Lubricants	15,715	16,105
Victualling and slopchest	1,839	1,898
Spare parts and consumables	1,928	1,927
Other	363	378
	53,749	67,452

The amounts expensed during the period are disclosed in Note 8, Voyage Expenses and Commissions, and Note 9, Vessels' Running Costs. All inventories above are stated at cost at period end based on the accounting policy in Note 3(u).

27. Receivables and Other Assets

Trade and other receivables

	2019 $'000	2018 $'000
Non-current assets		
Other receivables	-	5,511
Receivables under High Court judgement award	2,700	2,700
Liquidated damages on vessels under construction receivable from shipyard	6,005	5,459
	8,705	13,670
Current assets		
Amounts due from charterers	71,412	67,142
Allowance for credit losses	(2,357)	(2,500)
	69,055	64,642
Casualty and other claims	10,443	5,841
Agents' balances	3,111	2,710
Other receivables	15,637	10,455
Amounts due from joint ventures	-	761
Accrued income	2,493	5,556
	100,739	89,965

Prepayments and other current assets

	2019 $'000	2018 $'000
Prepayments	8,944	8,951
Contract acquisition and voyage fulfilment costs	3,106	2,502
Non-income based taxes receivable	3,230	6,792
	15,280	18,245

In respect of the liquidated damages receivable from shipyard, the Group has obtained guarantees expiring on 30 April 2024 from a Russian state controlled entity. The guarantees are in respect of the performance obligations by the subsidiary of the guarantor (the shipyard) under the deed on deferred payment on part of liquidated damages amounting to $9.8 million, as a result of the delay on delivery of vessels constructed.

Amounts due from charterers represent amounts receivable from charterers of vessels owned or leased in by the Group in respect of voyage charters, time charters, contracts of affreightment as well as for marine services. Trade receivables are non-interest bearing and the Group does not hold collateral as security. The Group considers a trade receivable in default when contractual payments are 90 days past due.

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

	2019 $'000	2018 $'000
At 1 January	2,500	3,469
Amounts written off during the period	(76)	(552)
Amounts recovered during the period and recognised in the income statement	(55)	(277)
Decrease in allowance recognised in the income statement	(12)	(140)
At 31 December	2,357	2,500

28. Cash and Bank Deposits

	2019 $'000	2018 $'000
Non-current assets		
Restricted deposits	15,500	11,000
Bank deposits	15,500	11,000
Current assets		
Bank deposits accessible on maturity	565	504
Retention accounts	26,300	27,358
Restricted deposits	-	1,000
Bank deposits	26,865	28,862
Cash and cash equivalents	374,821	267,571
Cash and bank deposits	401,686	296,433

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, normally with original maturity of three months or less.

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 35. 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 to ensure minimum liquidity for the duration of the relevant secured loan. Restricted deposits also include funds placed on deposit in relation to a chartered in seismic vessel.

Under the terms of the agreements, a subsidiary of the Group, as guarantor of the secured bank loans of its respective subsidiaries, has to maintain consolidated freely available bank balances and cash in the amount of not less than $25.0 million. In addition under the terms of the agreements, as at 31 December 2019, another subsidiary of the Group had to maintain minimum consolidated liquidity of $150.1 million (2018 – $151.6 million) of which $75.1 million (2018 – $75.8 million) had to be maintained in cash and cash equivalents.

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

29. Non-Current Assets Held for Sale

	Fleet $'000	Property and other plant and equipment $'000	Total $'000
At 1 January 2018	25,719	-	25,719
Transfer from fleet (Note 16)	39,546	-	39,546
Transfer from investment property (Note 20)	-	6,642	6,642
Transfer from other property, plant and equipment (Note 19)	-	993	993
Exchange adjustment	-	(426)	(426)
Disposals in period	(35,565)	(7,209)	(42,774)
At 31 December 2018	29,700	-	29,700
Transfer from fleet (Note 16)	49,574	-	49,574
Transfer from investment property (Note 20)	-	234	234
Expenditure in period	650	-	650
Impairment provision	(2,660)	-	(2,660)
Reversal of impairment provision	617	-	617
Disposals in period	(8,820)	(234)	(9,054)
At 31 December 2019	69,061	-	69,061

During the period ended 31 December 2018, the Group classified as held for sale one crude oil aframax tanker and three MR chemical oil product tankers. The crude oil aframax tanker and one of the three MR chemical oil product tankers were disposed of and delivered to their buyers in October 2018 and in May 2019, respectively. During the period ended 31 December 2019, the Group classified as held for sale one crude oil aframax tanker and two crude oil suezmax tankers. These vessels, together with the two remaining MR chemical oil product tankers, were actively marketed for sale at a price approximate to their market values (see also Note 44).

During the period ended 31 December 2019, the Group also classified as held for sale land and buildings in Novorossiysk held as investment property, as well as other related property and equipment. These assets were actively marketed for sale at a price approximate to their fair value and were sold in October 2019. An amount of Roubles 135.0 million (equivalent to $2.2 million) is outstanding from the sale as of the period end, and is included in current other receivables (Note 27). The outstanding consideration is expected to be received in April 2020.

In June 2018, the Group classified as held for sale an exhibition centre in Sochi, Russia, as well as other related equipment ("Exhibition Centre"). The Exhibition Centre was sold in September 2018. As of 31 December 2019, an amount of Roubles 417.9 million (equivalent to $6.8 million) is outstanding and is included in current other receivables (2018 – Roubles 471.7 million, equivalent to $6.8 million, outstanding of which $5.4 million classified as non-current other receivables) in Note 27.

30. Share Capital

	2019 $'000	2018 $'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
Share premium arising from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 31)	818,845	818,845

On 13 February 2020, at an extraordinary general meeting, the shareholder of PAO Sovcomflot resolved to increase the authorised but not issued share capital of the Company to 655,565,735 ordinary shares of nominal value of 1 Rouble each, thereby increasing the authorised share capital of the Company to 2,622,262,945 ordinary shares. Amendments to the Company's charter regarding the increase in the authorised share capital were registered on 26 February 2020.

31. Group Reconstruction Reserve

	2019 $'000	2018 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)
	(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 30), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests' basis.

32. Dividends

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

33. Non-Controlling Interests

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2018	(5,358)	148,931	143,573
Loss for the period	-	(3,914)	(3,914)
Other comprehensive income	5	(69)	(64)
Dividends	-	(3,140)	(3,140)
At 31 December 2018	(5,353)	141,808	136,455
Profit for the period	-	3,749	3,749
Other comprehensive income	6	(20)	(14)
Dividends	-	(8,077)	(8,077)
Effect of intragroup financing	-	(404)	(404)
At 31 December 2019	(5,347)	137,056	131,709

34. Payables and Other Liabilities

Trade and other payables

	2019 $'000	2018 $'000
Non-current liabilities		
Liquidated damages for late delivery of vessels payable to charterer	16,905	18,203
	16,905	18,203
Current liabilities		
Trade payables	46,179	59,064
Other payables	38,776	33,527
Liquidated damages for late delivery of vessels payable to charterer	1,950	1,800
Amounts due to joint ventures	146	-
Dividends payable	9,970	10,742
Accrued liabilities	47,674	43,472
Interest payable	17,229	19,330
	161,924	167,935

Other liabilities

	2019 $'000	2018 $'000
Non-current liabilities		
Employee benefit obligations (Note 13)	646	5,207
Deferred lease revenue	3,017	-
	3,663	5,207
Current liabilities		
Deferred lease revenue	39,007	37,981
Employee benefit obligations (Note 13)	9,120	8,703
Non-income based taxes payable	24,392	19,054
	72,519	65,738

Liquidated damages represent penalties payable to a Russian State controlled entity, as charterer, in respect of three vessels (2018 – two charterers in respect of four vessels), for the late delivery of the vessels to charter.

Interest payable represents interest due as at period end on secured bank loans and other loans and is settled on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

35. **Secured Bank Loans**

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

	2019 $'000	2018 $'000
Within twelve months after the end of the reporting period	378,955	313,842
Between one to two years	401,794	362,009
Between two to three years	293,355	382,540
Between three to four years	283,871	274,021
Between four to five years	297,051	264,461
More than five years	883,783	978,641
	2,538,809	2,575,514
Less current portion	(378,955)	(313,842)
Non-current balance	2,159,854	2,261,672

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

Contractual interest rates	Weighted average interest rate 2019	Weighted average interest rate 2018	Outstanding loans gross of direct issue costs 2019 $'000	Outstanding loans gross of direct issue costs 2018 $'000	Maturity
Floating rate loans in U.S. Dollar between 0.875% - 3.00% per annum	Libor + 2.01%[1]	Libor + 2.07%[1]	1,518,586	1,543,957	Between July 2020 - December 2027
Floating rate loans in Euro	Euribor + 1.595%	Euribor + 1.595%	299,317	336,585	Between March 2029 - January 2030
Fixed rate loans in U.S. Dollar between 4.15% - 7.50% per annum	6.65%	6.71%	748,810	721,950	Between April 2025 - September 2031
			2,566,713	2,602,492	

[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 2019, of $5,023.1 million (2018 – $4,978.2 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.

36. **Other Loans**

	2019 $'000	2018 $'000
$900 million 5.375% Senior Notes due in 2023	893,792	892,545
Other loan from related party	6,628	10,151
	900,420	902,696
Less current portion	(3,314)	(3,384)
Non-current balance	897,106	899,312

The Senior Notes (the "Notes") are redeemable at par value and mature on 16 June 2023. Interest accrues at 5.375% and is payable semi-annually in arrears on 16 June and 16 December of each year. The Notes are included above net of unamortised financing costs. They are unsecured and guaranteed by Sovcomflot. There are no equity conversion rights or options attached to the Notes. Interest charged during the period amounted to $47.7 million (2018 - $47.8 million).

The Group is subject to a number of covenants in relation to its Notes which if breached could result in its Notes becoming immediately repayable. As at the period end, the Group was in full compliance with its Notes covenants.

Other loan from related party, granted by a subsidiary of a Russian State controlled financial institution, in relation to the acquisition of seismic equipment is payable in nine equal semi-annual instalments commencing on 15 December 2017 with final payment on 15 December 2021. The loan is secured over all present and future rights, title and interest in relation to the equipment with a carrying value, at 31 December 2019, of $7.9 million (2018 – $10.8 million). Interest accrues at six month EURIBOR plus 4% margin per annum. Interest charged during the period amounted to $0.4 million (2018 – $0.5 million).

37. **Leases**

Group as lessee

The Group leases in two seismic vessels with purchase options attached to the bareboat charter contracts as well as supply vessels for short term periods for their support. The Group also has lease contracts in respect of land and buildings, and other assets in various locations including Moscow, Sochi, London, Dubai and Limassol. As at the reporting period end, the firm period of the leases on the seismic vessels expires in less than five months and less than three years, respectively. Leases for land and buildings, expire between 2 and 47 years with various options attached. Leases for miscellaneous assets expire between 2 to 45 years. There are no restrictions placed upon the Group by entering into these leases.

37. **Leases (Continued)**

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

	Fleet $'000	Land and buildings $'000	Miscellaneous $'000	Total right of use assets $'000
At 1 January 2019	-	-	-	-
Effect of adoption of IFRS 16 as at 1 January 2019 (Note 5)	31,552	19,143	2,248	52,943
Lease modification	13,734	18	27	13,779
Additions in period	-	68	18	86
Lease termination	-	-	(39)	(39)
Depreciation charge for the period	(18,960)	(3,836)	(98)	(22,894)
Impairment provision in period	-	-	(726)	(726)
Exchange differences	2,274	212	260	2,746
At 31 December 2019	28,600	15,605	1,690	45,895

As at 31 December 2019, management carried out an assessment of whether there is any indication that right of use assets may have suffered an impairment loss, in accordance with the Group's policy (Note 3(t)), and concluded that some of the miscellaneous right of use assets forming part of the cruise terminal CGU, as disclosed in Note 19, had been impaired. The impairment recognised in the period in relation to the miscellaneous right of use assets amounted to $0.7 million.

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

	2019 $'000
At 1 January	-
Effect of adoption of IFRS 16 as at 1 January 2019 (Note 5)	69,403
Lease modification	13,779
Additions in the period	86
Accretion of interest	7,759
Payment of lease instalments	(31,664)
Lease termination	(38)
Exchange differences	975
At 31 December	60,300
Less current portion	(19,120)
Non-current balance	41,180

The following are the amounts recognised in profit or loss:

	2019 $'000
Depreciation charge of right of use assets	22,894
Impairment provision of right of use assets	726
Interest expense on lease liabilities	7,759
Expense relating to short-term leases (included in voyage expenses)	4,964
Expense relating to leases of low-value assets (included in other running costs)	17
Total amount recognised in profit or loss	36,360

The Group had total cash outflows for leases of $36.6 million (including payments for short-term leases of $5.0 million). The Group did not have any cash outflows in respect of additions to right-of-use assets and lease liabilities. The future cash outflows relating to leases that have not yet commenced are disclosed in Note 42. As at 31 December 2019, the lease commitments for short-term leases were $2.2 million.

The Group has certain lease contracts that include extension options. Management exercises judgement in determining whether these extension options are reasonably certain to be exercised (see Note 6). The undiscounted potential future rental payments relating to periods following the exercise date of extension options expected not to be exercised, and not included in the lease term, are $4.2 million within five years and $2.3 million after more than five years.

Group as lessor

Contracted revenues from vessel operations and related guarantees

The Group through its subsidiaries entered into time charter agreements with aggregate hire receivables (contracted revenues), comprising lease revenue and service revenue. There are no significant variable lease payments in relation to these agreements. At the end of the reporting period, undiscounted lease receipts and the transaction price allocated to the remaining service performance obligations, from the inception date, over the lease term, were as follows:

	Undiscounted lease receipts 31/12/2019 $'000	Service revenue 31/12/2019 $'000	Total contract revenue[1] 31/12/2019 $'000	Undiscounted lease receipts 31/12/2018 $'000	Service revenue 31/12/2018 $'000	Total contract revenue[1] 31/12/2018 $'000
Within twelve months after the end of the reporting period	627,722	228,765	856,487	524,256	212,625	736,881
Between one to two years	536,747	171,729	708,476	524,860	180,770	705,630
Between two to three years	533,930	167,202	701,132	513,123	165,310	678,433
Between three to four years	511,507	160,492	671,999	498,791	157,767	656,558
Between four to five years	430,198	127,828	558,026	460,302	145,660	605,962
More than five years	3,381,821	927,812	4,309,633	3,150,830	856,649	4,007,479
	6,021,925	1,783,828	7,805,753	5,672,162	1,718,781	7,390,943

[1] Includes contracts that have not yet commenced as at period end of total undiscounted lease receipts of $1,064.2 million (2018 - $373.1 million) and service revenue of $359.2 million (2018 - $116.3 million)

37. **Leases (Continued)**

Group as lessor (continued)

Contracted revenues from vessel operations and related guarantees (continued)

The time charters referred to above have 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 a subsidiary of the Group and the said subsidiary of the State controlled entity.

In addition, during the period, the Group, through its subsidiaries, entered into time charter agreements that have not yet commenced as at the period end and which are classified as finance leases with undiscounted lease receipts, over the lease term, as follows:

	Undiscounted lease receipts 31/12/2019 $'000	Service revenue 31/12/2019 $'000	Total receivable under contracts 31/12/2019 $'000	Undiscounted lease receipts 31/12/2018 $'000	Service revenue 31/12/2018 $'000	Total receivable under contracts 31/12/2018 $'000
Between two to three years	6,505	5,549	12,054	-	-	-
Between three to four years	32,922	34,345	67,267	6,505	5,549	12,054
Between four to five years	38,464	41,246	79,710	17,083	14,571	31,654
More than five years	919,511	1,187,168	2,106,679	311,761	265,918	577,679
	997,402	1,268,308	2,265,710	335,349	286,038	621,387

Lease revenues from other operations

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's onshore-based facilities including leased in facilities. These leases expire between 1 and 40 years. Future undiscounted lease receipts, from the inception date, over the lease term of operating leases are as follows:

	Land and buildings 2019 $'000	Land and buildings 2018 $'000
Within twelve months after the end of the reporting period	4,087	1,827
Between one to two years	3,257	1,979
Between two to three years	3,355	2,077
Between three to four years	3,460	2,179
Between four to five years	3,571	2,287
More than five years	12,627	14,390
	30,357	24,739

38. **Retirement Benefit Obligations**

	2019 $'000	2018 $'000
Post retirement pension benefit plan	2,599	2,256
Long-term service retirement benefit plan	-	37
Total obligations	2,599	2,293

A subsidiary of the Group operates a post retirement pension benefit plan. The post retirement service benefit plan stipulates 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. The benefit plan is unfunded and it does not have any assets.

Until 2018, the subsidiary also operated 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. In June 2018, the Group settled the long-term service retirement benefit plan (the "Old Plan"), by introducing a new plan (the "New Plan") entered into with a Russian State controlled entity and contributing the liability of $1.6 million under the Old Plan. The New Plan is a defined contribution plan where periodic contributions will be made throughout the employment period of the shore-based employees.

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

	2019 $'000	2018 $'000
Defined benefit obligation at 1 January	2,256	2,145
Interest cost	213	146
Benefits paid	(337)	(246)
Exchange adjustment	279	(418)
Remeasurement losses recognised in other comprehensive income	188	629
Defined benefit obligation at 31 December	2,599	2,256

38. **Retirement Benefit Obligations (Continued)**

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

	2019 $'000	2018 $'000
Defined benefit obligation at 1 January	37	1,900
Interest cost	-	47
Benefits paid	(37)	(575)
Exchange adjustment	-	(115)
Remeasurement losses recognised in other comprehensive income	-	30
Losses on settlement and transfer to New Plan	-	323
Transfer of funds to New Plan	-	(1,573)
Defined benefit obligation at 31 December	-	37

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

	Post retirement pension benefit plan		Long-term service retirement benefit plan		Total recognised	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Interest cost	213	146	-	47	213	193
Losses on settlement and transfer to New Plan	-	-	-	323	-	323
Transfer of funds to New Plan	-	-	-	(1,573)	-	(1,573)
Exchange adjustment	279	(418)	-	(115)	279	(533)
Charged in the income statement	492	(272)	-	(1,318)	492	(1,590)
Experience adjustments on obligation	(67)	768	-	30	(67)	798
Actuarial changes arising from changes in financial assumptions	255	(139)	-	-	255	(139)
Remeasurement losses recognised in other comprehensive income	188	629	-	30	188	659

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

	2019	2018
Discount rate for cash flows in Russian Roubles	6.41%	8.81%
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 65	15	15
Life expectancy in years of a female pensioner retiring at the age of 60	23	23
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	7.2	6.6

The Group expects to make benefit payments of $0.3 million (2018 – $0.2 million) in respect of the defined benefit plan in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019 and 31 December 2018, by increasing and decreasing the discount rate by 50bps or increasing and decreasing the future salary increase by 100bps or increasing and decreasing the life expectancy of both male and female pensioners by one year, would have an insignificant effect on the Group.

39. **Provisions**

	2019 $'000	2018 $'000
Provisions for drydocking	3,895	1,367
Onerous contract provisions	-	2,500
	3,895	3,867
Less current portion	-	(2,500)
Non-current balance	3,895	1,367

	Provisions for drydocking $'000	Onerous contract provisions $'000	Total $'000
At 31 December 2018 / At 1 January 2019	1,367	2,500	3,867
Effect of adoption of IFRS 16 as at 1 January 2019 (Note 5)	2,429	(2,100)	329
Utilised during the period	-	(400)	(400)
Unwinding of discount (recognised as other interest in financing costs)	99	-	99
At 31 December 2019	3,895	-	3,895

Provisions for drydocking

As at 31 December 2019, the Group made a provision of $3.9 million (2018 – $1.4 million) for the estimated cost of planned drydockings for replacement of certain components and major repairs and maintenance of other components during the lease term of vessels leased in by the Group.

40. Significant Subsidiary Companies

At 31 December 2019, the Group had 131 vessel owning and operating subsidiaries (2018 – 129) incorporated in Liberia, Russia, 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
SCF Arctic LLC	Russia	100%	Holding company
Sovcomflot Varandey LLC	Russia	100%	Ship operation
SCF Shelf LLC	Russia	100%	Ship operation
SCF Geo LLC and its subsidiary[1]	Russia	100%	Ship operation
SCF Novy Port LLC	Russia	100%	Ship operation
SCF Prirazlomnoye LLC	Russia	100%	Vessel owning and 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

[1] During the period the functional currency of SCF GEO LLC and its subsidiary has changed from the Russian Roubles to the U.S. dollar, due to an increase in exposure to US dollar economic environment.

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 2019			At 31 December 2018		
	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	98.29	1.48	89.46
Non-controlling shareholders	1.71	98.52	10.54	1.71	98.52	10.54
	100.00	100.00	100.00	100.00	100.00	100.00

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

	2019 $'000	2018 $'000
Summarised statement of financial position:		
Total non-current assets	1,235,324	1,286,469
Total current assets	188,060	150,121
Total non-current liabilities	(47,788)	(58,642)
Total current liabilities	(126,451)	(83,783)
Net assets at period end	1,249,145	1,294,165
Cash and cash equivalents	126,259	86,186
Current financial liabilities	20,399	23,941
Non-current financial liabilities	32,292	52,630
Summarised income statement:		
Revenues	356,100	345,910
Depreciation, amortisation and impairment	(76,451)	(81,841)
Interest income	9,368	5,290
Interest expense	(4,568)	(4,486)
Income tax	(12,735)	(6,345)
Profit / (loss) for the period	35,571	(37,121)
Other comprehensive income for the period	(130)	(612)
Total comprehensive income for the period	35,441	(37,733)
Summarised statement of cash flows:		
Operating activities	110,217	45,081
Investing activities	(12,563)	17,206
Financing activities	(58,594)	(70,473)
Net increase / (decrease) in cash and cash equivalents	39,060	(8,186)

41. **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 or inject additional capital into its subsidiaries. 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 market value of the fleet ("total adjusted capital"). Net debt is calculated as the total of secured bank loans (Note 35), other loans (Note 36) and lease liabilities (Note 37), less cash and bank deposits (Note 28) comprising cash and cash equivalents and bank deposits. 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 2019, the Group's overall strategy remained unchanged from 2018. The net debt ratio at 31 December 2019 and at 31 December 2018 and the net adjusted debt ratio of the Group were as follows:

	2019 $'000	2018 $'000
Secured bank loans (Note 35)	2,538,809	2,575,514
Other loans (Note 36)	900,420	902,696
Lease liabilities (Note 37)	60,300	-
Less: cash and bank deposits (Note 28)	(417,186)	(307,433)
Net debt	3,082,343	3,170,777
Total equity	3,504,581	3,350,063
Total capital	6,586,924	6,520,840
Net debt ratio	46.8%	48.6%
Total adjusted capital	6,179,190	5,619,177
Net adjusted debt ratio	49.9%	56.4%

(b) Categories of financial assets and financial liabilities

	2019 $'000	2018 $'000
Cash and debt instruments at amortised cost		
Trade and other receivables (Note 27)	109,444	103,635
Loans to joint ventures (Note 22)	62,145	66,069
Cash and bank deposits (Note 28)	417,186	307,433
Financial assets at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 23)	4,888	24,682
Equity instruments at fair value through profit or loss		
Investments in non-listed companies	480	754
Total financial assets	594,143	502,573
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 23)	48,893	29,697
Financial liabilities at amortised cost		
Secured bank loans (Note 35)	2,538,809	2,575,514
Other loans (Note 36)	900,420	902,696
Lease liabilities (Note 37)	60,300	-
Trade and other payables (Note 34)	178,829	186,138
Total financial liabilities	3,727,251	3,694,045

41. **Financial Risk Management (Continued)**

(c) Changes in liabilities arising from financing activities

	Secured bank loans and financing costs $'000	Other loans $'000	Interest payable $'000	Lease liabilities $'000	Liquidated damages payable to charterer $'000	Dividends payable $'000	Total $'000
Balance at 1 January 2018	2,601,047	905,949	17,049	-	23,505	12,801	3,560,351
Changes from financing cash flows							
Proceeds from cash flows	564,198	-	-	-	-	-	564,198
Repayments of cash flows	(568,265)	(3,425)	(186,760)	-	(5,480)	(29,881)	(793,811)
Repayment of financing costs	(9,381)	-	-	-	-	-	(9,381)
Total changes from financing cash flows	(13,448)	(3,425)	(186,760)	-	(5,480)	(29,881)	(238,994)
Other changes							
Non-cash movement on direct issue costs	7,405	744	-	-	-	-	8,149
Dividends declared	-	-	-	-	-	29,937	29,937
Gain on derecognition of dividend liability	-	-	-	-	-	(422)	(422)
Interest expense in the period	-	-	189,041	-	1,978	-	191,019
Foreign exchange movement	(19,490)	(572)	-	-	-	(1,693)	(21,755)
Total other related changes	(12,085)	172	189,041	-	1,978	27,822	206,928
Balance at 31 December 2018	2,575,514	902,696	19,330	-	20,003	10,742	3,528,285
Changes from financing cash flows							
Proceeds from cash flows	306,660	-	-	-	-	-	306,660
Repayments of cash flows	(335,422)	(3,320)	(190,111)	(31,664)	(3,020)	(24,680)	(588,217)
Repayment of financing costs	(6,588)	-	-	-	-	-	(6,588)
Total changes from financing cash flows	(35,350)	(3,320)	(190,111)	(31,664)	(3,020)	(24,680)	(288,145)
Other changes							
Non-cash movement on direct issue costs	5,662	1,247	-	-	-	-	6,909
Dividends declared	-	-	-	-	-	31,025	31,025
Gain on derecognition of dividend liability	-	-	-	-	-	(7,895)	(7,895)
Effect of adoption of IFRS 16 as at 1 January 2019 (Note 5)	-	-	-	69,403	-	-	69,403
Leases additions, modifications and terminations	-	-	-	13,827	-	-	13,827
Interest expense in the period	-	-	188,010	7,759	1,872	-	197,641
Foreign exchange movement	(7,017)	(203)	-	975	-	778	(5,467)
Total other related changes	(1,355)	1,044	188,010	91,964	1,872	23,908	305,443
Balance at 31 December 2019	2,538,809	900,420	17,229	60,300	18,855	9,970	3,545,583

(d) Fair value of financial assets and financial liabilities

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

	Carrying Value		Fair value hierarchy	Fair Value	
	2019 $'000	2018 $'000		2019 $'000	2018 $'000
Financial assets					
Loans to joint ventures	62,145	66,069	Level 2	61,891	64,127
Total financial assets	62,145	66,069		61,891	64,127
Financial liabilities					
Secured bank loans at fixed interest rates	739,620	711,274	Level 2	765,368	737,091
Secured bank loans at floating interest rates	1,799,189	1,864,240	Level 2	1,806,728	1,867,212
Other loans (Senior Notes due in 2023)	893,792	892,545	Level 1	964,125	873,000
Other loans	6,628	10,151	Level 2	6,777	10,468
Total financial liabilities	3,439,229	3,478,210		3,542,998	3,487,771

41. **Financial Risk Management (Continued)**

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

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within level 1) from observable current market transactions and dealer quotes for similar instruments. The fair values of derivative instruments are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, as adjusted for credit risk.

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

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

Recurring fair value measurements recognised in the statement of financial position

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2019				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	4,888	-	4,888
	-	4,888	-	4,888
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	48,893	-	48,893
	-	48,893	-	48,893
At 31 December 2018				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	24,682	-	24,682
	-	24,682	-	24,682
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	29,697	-	29,697
	-	29,697	-	29,697

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2019				
Assets				
Non-current assets held for sale	46,413	22,648	-	69,061
	46,413	22,648	-	69,061
At 31 December 2018				
Assets				
Non-current assets held for sale	-	29,700	-	29,700
	-	29,700	-	29,700

The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Level 1 fair value measurements are based on actual selling price for vessels sold shortly after the period end, less costs of disposal. Level 2 fair value measurements are based on vessels' most recent sales, as provided by independent professional vessel brokers, less cost of disposal.

Assets and liabilities for which fair values are disclosed

As at period end, the Group obtained reports from qualified independent valuation experts in relation to the fair values of its investment properties (Note 20) for owned and leased in buildings. These fair values, which have not been adjusted thereafter, are classified under level 3 fair value hierarchy. The techniques used by the valuation experts are based on the discounted cash flow method. This method includes unobservable inputs due to the fact that the market in Russia where the properties are situated is not active and is fragmented.

(e) 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. The Russian economy is particularly sensitive to oil and gas price fluctuations and has been negatively impacted by 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.

41. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

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, vessels' 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 is also exposed to foreign currency risk on its Euro denominated secured bank loans and other loans, and lease liabilities. As at 31 December 2019, 91.2% of the Group's secured bank loans and other loans were denominated in U.S. Dollars (2018 – 90.1%) and 8.8% (2018 – 9.9%) in Euro. The Group manages its cash flow foreign currency risk by the use of cross currency, floating to fixed interest rate swaps. Such financial instruments have the economic benefit of converting loans issued in foreign currencies to U.S. Dollar at fixed exchange rates. The Group's hedging instruments to protect against currency fluctuations as at the reporting date are detailed in Note 23 of these financial statements. As of 31 December 2019 the net exposure of the Group to foreign exchange rate fluctuations on its borrowings is limited to €5.9 million (equivalent to $6.6 million) (2018– €8.9 million (equivalent to $10.2 million)). In addition as at 31 December 2019, 76.6% of the Group's lease liabilities were denominated in U.S. Dollars, 14.9% in Russian Roubles, 4.1% in Sterling Pounds and 3.5% in Euro.

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Russian Roubles (RUR)	48,215	37,872	111,614	74,341
Euro (EUR)	20,733	20,462	17,173	17,864
Sterling Pounds (GBP)	4,967	2,423	1,599	4,439
Others	1,989	2,190	704	1,949

An analysis of the exposure of the Group to reasonably possible changes in exchange rates against the U.S. Dollar, with all other variables held constant, was performed using the following movement in rates:

	Increase		Decrease	
	2019	2018	2019	2018
Russian Roubles (RUR)	11.0%	14.0%	13.0%	14.0%
Euro (EUR)	8.0%	11.0%	8.0%	7.0%
Sterling Pounds (GBP)	9.0%	11.0%	9.0%	8.0%
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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Russian Roubles (RUR)	104	4,525	(5,594)	(564)
Euro (EUR)	323	(119)	(59)	1,031
Sterling Pounds (GBP)	(8)	(157)	291	106
Others	117	(6)	-	27

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Russian Roubles (RUR)	(157)	5,998	8,436	749
Euro (EUR)	(378)	(92)	69	(783)
Sterling Pounds (GBP)	10	(138)	(349)	(93)
Others	(143)	(7)	-	(33)

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates.

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 and cross-currency 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.

41. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

Market risk (continued)

Cash flow interest rate risk (continued)

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:

	2019 $'000	2018 $'000
Lease liabilities and borrowings gross of direct issue costs (Notes 35, 36 and 37)	3,533,641	3,512,643
Lease liabilities and fixed rate borrowings gross of direct issue costs (Notes 35, 36 and 37)	(1,709,110)	(1,621,950)
Total floating rate borrowings gross of direct issue costs (Notes 35 and 36)	1,824,531	1,890,693
Notional amount of floating borrowings to fixed rate swaps (Note 23)	(1,204,144)	(1,201,624)
Net exposure to interest fluctuations	620,387	689,069
% of floating rate borrowings exposed to interest rate fluctuations	34.0%	36.4%

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

	2019		2018	
Sensitivity of interest rates	**35 bps increase $'000**	**35 bps decrease $'000**	**100 bps increase $'000**	**25 bps decrease $'000**
Change in fair value of interest rate swaps				
- Increase / (decrease) in other comprehensive income for the period	3,433	(3,445)	4,204	(8,391)
- Increase / (decrease) in profit or loss for the period	49	(50)	271	(70)
Increase / (decrease) in interest expense for the period excluding interest capitalised	1,588	(1,588)	2,727	(935)

Sensitivity of interest in relation to cross currency swaps

	Increase / (decrease) in other comprehensive income for the period	
Change in fair value of cross currency interest rate swaps	**2019 $'000**	**2018 $'000**
Increase in U.S. Dollar 3 month interest rates by 50bps and increase foreign exchange rate by 10%	40,666	45,973
Decrease in U.S. Dollar 3 month interest rates by 50bps and decrease foreign exchange rate by 10%	(40,928)	(46,294)
Increase in Euro cross currency curve by 50bps and increase in Euro 6 month interest rate by 50bps	(94)	(162)
Decrease in Euro cross currency curve by 50bps and decrease in Euro 6 month interest rate by 50bps	78	145

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 53.5% (2018 – 51.0%) of the vessels' total trading days were on time charter representing 69.4% (2018 – 79.4%) of time charter equivalent revenues of which 0.5% (2018 – 3.0%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2019, 56.0% (2018 – 51.1%) of the vessels were on time charter.

Public health threats

Public health threats such as coronavirus (COVID-19) or other epidemics or pandemics could affect the operations of the Group, the operations of the Group's customers, suppliers and shipyards. The Group is continuously monitoring public health threats and takes necessary steps to protect the health and safety of its seafarers and shore based staff, and minimise any disruption in its operations.

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 operating activities and from financing activities including derivative financial instruments and deposits with financial institutions and committed transactions.

Amounts due from charterers and contract assets

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 and in accordance with the ECL method. As at 31 December 2019, amounts due from charterers included two charterers with a total amount of revenue due of $15.1 million, representing 11.2% and 10.8% of total amounts due respectively (2018 – no charterer exceeded 10% of total amounts due).

As at 31 December 2019, total revenue included $270.8 million and $169.0 million (2018 – $248.9 million and $187.1 million) from two charterers individually representing 16.3% and 10.2% (2018 – 16.4% and 12.3%), respectively, of total revenue.

41. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

Credit risk (continued)

The revenue from the above charterers relates to the following operating segments:

Operating segment	2019 $'000	2018 $'000
Offshore services	227,500	283,770
Gas transportation	48,969	54,717
Crude oil transportation	105,241	48,502
Oil product transportation	47,659	8,143
Other	10,453	40,822
	439,822	435,954

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customers with similar loss patterns (i.e., by type of revenue). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, historical credit loss experience, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's amounts due from charterers and contract assets, as at each period end, using a provision matrix.

	2019 Expected credit loss rate	2019 $'000	2018 Expected credit loss rate	2018 $'000
Contract assets	0.07%	41,605	0.04%	31,020
Current	0.07%	25,119	0.04%	23,762
Days past due				
Up to one month	0.07%	31,394	0.19%	23,650
One to two months	1.04%	5,015	0.65%	7,541
Two to three months	0.77%	1,568	1.87%	4,341
More than three months	2.18%	5,959	2.30%	5,348
		43,936		40,880

Financial instruments and cash deposits

Management is of the opinion that the credit risk on liquid funds 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, taking into account financing arrangements with the same counterparty, and takes appropriate action to minimise exposure to any one bank. Cash and cash equivalents and bank deposits include deposits with three banks (2018 – three) representing 42.8%, 16.2% and 10.9% (2018 – 26.1%, 22.5% and 20.7%) of total deposits of $415.6 million (2018 – $306.0 million). The Group did not recognise any expected credit loss on the above as the amount of credit loss is insignificant (2018 – insignificant).

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 undrawn facilities that the Group has at its disposal to further reduce liquidity risk:

	Secured bank loans $'000	Secured revolving credit facilities $'000	Total available facilities $'000
At 1 January 2019	360,169	76,018	436,187
Reassessment of available facility	(1,051)	-	(1,051)
Facilities settled	-	8,878	8,878
New facilities entered into during the period	297,000	-	297,000
Facilities drawn down	(306,660)	-	(306,660)
At 31 December 2019	349,458	84,896	434,354

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 2019 all facilities above were available for drawdown.

41. **Financial Risk Management (Continued)**

(e) 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 2019	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	144,695	16,905	-	161,600
Secured bank loans	384,734	1,292,249	889,730	2,566,713
Other loans	3,314	903,314	-	906,628
Lease liabilities	25,026	41,384	39,836	106,246
Net amounts payable on cross currency interest rate swaps	13,397	47,427	26,684	87,508
Net amounts payable on interest rate swaps	9,859	13,747	1,260	24,866
Interest payable on secured loans	108,501	274,011	91,931	474,443
Interest payable on other loans	50,620	121,126	-	171,746
	740,146	2,710,163	1,049,441	4,499,750
At 31 December 2018				
Trade and other payables	148,605	18,203	-	166,808
Secured bank loans	319,436	1,298,231	984,825	2,602,492
Other loans	3,384	906,767	-	910,151
Net amounts payable on cross currency interest rate swaps	13,433	34,389	21,204	69,026
Net amounts payable on interest rate swaps	5,414	7,546	477	13,437
Interest payable on secured loans	123,682	324,883	122,392	570,957
Interest payable on other loans	48,736	169,667	-	218,403
	662,690	2,759,686	1,128,898	4,551,274

42. **Contingent Liabilities and Commitments**

Lease commitments - the Group as Lessee

The Group has the following lease commitments, to subsidiaries of a Russian State controlled financial institution, in respect of two ice-class crude oil LNG fuelled aframax tankers, three ice-class LNG fuelled MR oil product tankers and one ice breaking LNG carrier commencing upon delivery of the vessels from the shipyard, between June 2022 and May 2023, as follows:

	2019 $'000	2018 $'000
Between two to three years	9,110	-
Between three to four years	51,703	6,870
Between four to five years	56,871	18,320
More than five years	1,022,877	249,141
	1,140,561	274,331

On expiration of the agreements, and settlement of all obligations under the arrangements, legal title of the vessels passes to the Group. The Group has no obligation to the lessor until the vessels are delivered from the shipyard and accepted by the Group (see also Note 43 for transactions entered into during the period).

Details of the Group's commitments under commenced leases are disclosed in Note 37.

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 17 is summarised as follows:

	Less than 1 year $'000	1 to 5 years $'000	Total $'000
At 31 December 2019			
Newbuilding contracts	365,144	143,100	508,244
	365,144	143,100	508,244
At 31 December 2018			
Newbuilding contracts	341,059	349,244	690,303
	341,059	349,244	690,303

Guarantees

The Group has provided guarantees to an unrelated party on behalf of certain of its joint ventures (Note 21) in respect of their secured bank loans and interest rate swaps. As at the period end, no liability is expected to arise in respect of these guarantees. (2018 – nil).

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.

42. **Contingent Liabilities and Commitments (Continued)**

Contingent liabilities (continued)

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 uncertainty in application of the rules, substantial tax liabilities might arise in case the tax authorities challenge compliance with the beneficial ownership confirmation requirements.

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

A total amount of $1.9 million (2018 – $3.2 million), relating to legal costs, has been expensed in the income statement and is included in the line other non-operating expenses.

43. **Related Party Transactions**

Note 40 provides information about the Group's structure, including details of its significant subsidiaries. There were no material transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes. The Group's cross currency derivative financial instruments with a Russian State controlled financial institution are presented in Note 23 to these consolidated financial statements.

During the year, the Group entered into a finance lease arrangement with subsidiaries of a Russian State controlled financial institution for three ice-class LNG fuelled MR oil product tankers and one ice breaking LNG carrier respectively. The finance lease arrangements commence on delivery of the vessels from the shipyard, between December 2022 to March 2023, and May 2023, for lease terms of 10 years and 26.5 years, respectively, at effective interest rates of 4.5% per annum for the MR oil product tankers and 4.85% per annum for the LNG carrier. The total commitments under the leases are $866.2 million (see also Note 37).

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

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Transactions with Russian State controlled entities				
Revenue[1]	(441,406)	(441,960)	(18,641)	(21,684)
Voyage expenses and commissions	38,479	22,888	(4,704)	(3,080)
Administration expenses (pension contributions)	108	1,686	-	-
Other operating revenues	(7,037)	(3,702)	(354)	(1,948)
Other operating expenses	1,985	994	(258)	-
Other loans	364	514	(6,640)	(10,168)
Secured bank loans	46,269	48,660	(714,910)	(679,730)
Lease liabilities	1,019	-	(7,864)	-
Receivables from shipyard (liquidated damages for late delivery of vessels)	(546)	(496)	6,005	5,459
Payables to charterer (liquidated damages for late delivery of vessels)	1,872	1,977	(18,855)	(20,003)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	-	105,529
Cash at bank	(3,116)	(2,695)	217,896	111,343
Transactions with Joint Ventures				
Other operating revenues	(3,330)	(3,432)	(146)	761
Loans due from joint ventures	(2,599)	(2,171)	62,624	66,253
Compensation of Key Management Personnel				
Short-term benefits	9,317	8,154	(4,576)	(2,583)
Post-employment benefits	64	62	(3)	(3)
Long-term service benefits	1,979	2,278	(4,530)	(6,498)
Termination benefits	260	-	-	-
	11,620	10,494	(9,109)	(9,084)

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

44. Events After the Reporting Period

On 10 February 2020, the Group took delivery of an LNG carrier, the m/v SCF La Perouse. Effective on the same date, the Group entered into a seven year USD interest rate swap transaction with a financial institution to hedge the Group's cash flow exposure arising from interest rate fluctuations in respect of a $49.5 million secured bank loan facility in connection with the financing of the vessel.

The two crude oil suezmax tankers classified as held for sale as at 31 December 2019 (see Note 29), were delivered to their buyers, on 24 February and 25 February 2020, respectively.