PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

PAO Sovcomflot

Contents

Building a better
working world

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of PAO Sovcomflot

Opinion on the financial statements

We have audited the accompanying consolidated statements of financial position of PAO Sovcomflot ("the Company") as of 31 December 2017 and 2016, the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst & Young LLC

We have served as the Company's auditor since 2013.

16 March 2018

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2017

	Note	2017 $'000	2016 $'000
Freight and hire revenue	6	1,435,365	1,388,127
Voyage expenses and commissions	7	(377,374)	(245,941)
Time charter equivalent revenues		1,057,991	1,142,186
Direct operating expenses			
Vessels' running costs	8	378,776	318,293
Charter hire payments	43	40,424	25,791
		(419,200)	(344,084)
Net earnings from vessels' trading		638,791	798,102
Other operating revenues	11	22,307	18,036
Other operating expenses	11	(14,041)	(9,443)
Depreciation, amortisation and impairment	9	(389,142)	(355,790)
General and administrative expenses	10	(116,703)	(115,645)
Gain / (loss) on sale of assets	17, 18, 19, 30	20,177	(483)
Loss on sale of equity accounted investments		(5)	-
Allowance for credit losses		490	84
Share of profits in equity accounted investments	20	2,675	12,939
Operating profit		164,549	347,800
Other (expenses) / income			
Financing costs	13	(193,859)	(162,664)
Interest income		9,787	18,303
Other non-operating income	44	-	15,000
Other non-operating expenses	44	(78,718)	(4,930)
Gain on ineffective hedging instruments	23	401	1,032
Foreign exchange gains		10,586	29,078
Foreign exchange losses		(10,343)	(10,142)
Net other expenses		(262,146)	(114,323)
(Loss) / profit before income taxes		(97,597)	233,477
Income tax expense	24	(15,372)	(26,684)
(Loss) / profit for the period		(112,969)	206,793
(Loss) / profit attributable to:			
Owners of the parent		(109,670)	202,490
Non-controlling interests	34	(3,299)	4,303
		(112,969)	206,793
Earnings per share			
Basic (loss) / earnings per share for the period attributable to equity holders of the parent	25	($0.056)	$0.103

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Consolidated Statement of Comprehensive Income
For the period ended 31 December 2017

	Note	2017 $'000	2016 $'000
(Loss) / profit for the period		(112,969)	206,793
Other comprehensive income:			
Share of associates' other comprehensive income		6	23
Share of joint ventures' other comprehensive income	20	8,472	8,275
Exchange gain / (loss) on translation from functional currency to presentation currency		2,112	(1,915)
Change in fair value of derivative financial instruments credited to other comprehensive income	23	17,797	16,431
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		28,387	22,814
Remeasurement losses on employee benefit obligations		(461)	(48)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(461)	(48)
Total other comprehensive income for the period, net of tax		27,926	22,766
Total comprehensive income for the period		(85,043)	229,559
Total comprehensive income attributable to:			
Owners of the parent		(81,745)	225,272
Non-controlling interests		(3,298)	4,287
		(85,043)	229,559

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Consolidated Statement of Financial Position – 31 December 2017

	Note	2017 $'000	2016 $'000	2015 $'000
Assets				
Non-current assets				
Fleet	15	6,291,344	5,895,365	5,388,542
Vessels under construction	16	81,837	225,814	368,453
Intangible assets	17	8,659	3,961	4,668
Other property, plant and equipment	18	49,323	58,746	60,284
Investment property	19	7,924	864	7,468
Investments in associates		132	131	104
Investments in joint ventures	20	123,117	114,761	98,306
Available-for-sale investments		523	760	1,012
Loans to joint ventures	21	55,511	45,574	52,468
Finance lease receivables	22	-	-	66,956
Derivative financial instruments	23	35,909	7,146	8,050
Trade and other receivables	27	7,739	2,783	2,812
Deferred tax assets	24	8,162	4,663	7,387
Restricted cash	28	-	-	13,190
Bank deposits	29	12,000	10,000	10,000
		6,682,180	6,370,568	6,089,700
Current assets				
Inventories	26	61,883	53,368	37,568
Loans to joint ventures	21	-	4,750	8,320
Derivative financial instruments	23	808	373	-
Trade and other receivables	27	146,922	173,022	174,605
Finance lease receivables	22	-	-	4,875
Current tax receivable		6,487	4,089	888
Restricted cash	28	75,543	72,079	-
Cash and bank deposits	29	347,352	470,638	357,427
		638,995	778,319	583,683
Non-current assets held for sale	30	25,719	8,360	28,130
		664,714	786,679	611,813
Total assets		7,346,894	7,157,247	6,701,513
Equity and liabilities				
Capital and reserves				
Share capital	31	405,012	405,012	405,012
Reserves		2,860,208	3,048,858	2,916,047
Equity attributable to owners of the parent		3,265,220	3,453,870	3,321,059
Non-controlling interests	34	143,802	150,446	159,922
Total equity		3,409,022	3,604,316	3,480,981
Non-current liabilities				
Trade and other payables	35	28,413	37,504	16,045
Secured bank loans	36	2,262,821	1,903,365	1,596,434
Finance lease liabilities	37	-	-	173,690
Derivative financial instruments	23	12,812	21,624	32,135
Retirement benefit obligations	38	4,045	3,419	3,067
Other loans	39	902,412	737,076	875,492
Deferred tax liabilities	24	2,258	858	776
		3,212,761	2,703,846	2,697,639
Current liabilities				
Trade and other payables	35	285,574	214,784	181,676
Other loans	39	3,537	139,896	16,984
Secured bank loans	36	338,226	290,460	289,142
Finance lease liabilities	37	-	173,690	10,120
Current tax payable		4,890	14,809	2,042
Derivative financial instruments	23	17,370	15,446	22,929
Payable under high court judgement award	44	75,514	-	-
		725,111	849,085	522,893
Total liabilities		3,937,872	3,552,931	3,220,532
Total equity and liabilities		7,346,894	7,157,247	6,701,513

Approved by the Executive Board and authorised for issue on 16 March 2018

S.O. Frank
President and Chief Executive Officer

N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 31 December 2017

	Share capital $'000	Share premium $'000	Reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
	(Note 31)	(Note 31)	(Note 32)					(Note 34)	
At 1 January 2016	**405,012**	**818,845**	**(834,490)**	**(68,270)**	**(44,542)**	**3,044,504**	**3,321,059**	**159,922**	**3,480,981**
Profit for the period	-	-	-	-	-	202,490	202,490	4,303	206,793
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	23	-	23	-	23
Share of joint ventures' other comprehensive income	-	-	-	8,271	4	-	8,275	-	8,275
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(1,904)	-	(1,904)	(11)	(1,915)
Change in fair value of derivative financial instruments credited to other comprehensive income (Note 23)	-	-	-	16,431	-	-	16,431	-	16,431
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(43)	(43)	(5)	(48)
Total comprehensive income	-	-	-	24,702	(1,877)	202,447	225,272	4,287	229,559
Dividends (Note 33)	-	-	-	-	-	(92,948)	(92,948)	(13,217)	(106,165)
Effect of acquisition of non-controlling interests in PAO Novoship (Note 41)	-	-	-	-	(16)	503	487	(546)	(59)
At 31 December 2016	**405,012**	**818,845**	**(834,490)**	**(43,568)**	**(46,435)**	**3,154,506**	**3,453,870**	**150,446**	**3,604,316**
Loss for the period	-	-	-	-	-	(109,670)	(109,670)	(3,299)	(112,969)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	6	-	6	-	6
Share of joint ventures' other comprehensive income	-	-	-	8,472	-	-	8,472	-	8,472
Exchange gain on currency translation from functional currency to presentation currency	-	-	-	-	2,062	-	2,062	50	2,112
Change in fair value of derivative financial instruments credited to other comprehensive income (Note 23)	-	-	-	17,797	-	-	17,797	-	17,797
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(412)	(412)	(49)	(461)
Total comprehensive income	-	-	-	26,269	2,068	(110,082)	(81,745)	(3,298)	(85,043)
Dividends (Note 33)	-	-	-	-	-	(106,905)	(106,905)	(3,346)	(110,251)
At 31 December 2017	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,937,519**	**3,265,220**	**143,802**	**3,409,022**

Notes

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

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2017

	Note	2017 $'000	2016 $'000
Operating Activities			
Cash received from freight and hire of vessels		1,460,260	1,414,275
Other cash receipts		28,672	24,780
Cash payments for voyage and running costs		(794,276)	(585,758)
Other cash payments		(127,306)	(101,315)
Cash generated from operations	40	567,350	751,982
Interest received		8,203	5,943
Income tax paid		(29,709)	(14,007)
Net cash inflow from operating activities		545,844	743,918
Investing Activities			
Expenditure on fleet		(56,226)	(36,596)
Fleet acquisitions in the period		-	(347,906)
Expenditure on vessels under construction	16	(556,663)	(329,904)
Interest capitalised	16	(4,045)	(19,139)
Expenditure on intangibles, other property, plant and equipment and investment property	17, 18, 19	(5,058)	(5,248)
Loan repayments from joint ventures		1,924	14,531
Loans issued to joint ventures		(6,018)	-
Proceeds from sale of equity accounted investments		19	-
Proceeds from sale of vessels		-	28,172
Proceeds from sale of other property, plant and equipment		26,619	324
Proceeds from settlement of finance lease receivable	22	-	67,628
Capital element received on finance leases	22	220	4,838
Interest received on finance leases	22	446	12,053
Dividends received from equity accounted for investments	20	2,801	3,578
Bank term deposits	29	14,479	(15,000)
Restricted cash placed in court	28	(2,864)	(72,079)
Restricted cash placed in deposit	29	(3,000)	-
Restricted cash released	28	-	17,190
Net cash outflow used in investing activities		(587,366)	(677,558)
Financing Activities			
Proceeds from borrowings		851,642	1,533,452
Repayment of borrowings		(448,213)	(1,218,248)
Financing costs		(10,914)	(44,106)
Repayment of finance lease liabilities	37	(176,817)	(10,345)
Restricted deposits	29	-	846
Funds in retention bank accounts	29	(1,651)	1,055
Interest paid on borrowings		(173,161)	(125,152)
Interest paid on finance leases		(4,917)	(11,895)
Dividends paid	42(c)	(110,977)	(98,184)
Acquisition of non-controlling interests	34	-	(59)
Net cash (outflow used in) / inflow from financing activities		(75,008)	27,364
(Decrease) / increase in Cash and Cash Equivalents		(116,530)	93,724
Cash and Cash Equivalents at 1 January	29	432,792	332,680
Net foreign exchange difference		5,072	6,388
Cash and Cash Equivalents at 31 December	29	321,334	432,792

The amendments to IAS 7 require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has provided the information in Note 42(c).

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2017

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 137 vessels at the period end, comprising 115 tankers, 9 gas carriers, 9 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 15, 16, 22 and 30.

Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are each owned and financed by individual wholly owned subsidiaries of the Group's intermediate holding companies, SCF Tankers Limited ("SCF Tankers"), Intrigue Shipping Limited (''Intrigue'') and SCF Gas Carriers Limited ("SCF Gas").

Ship management services for the Group's vessels are provided by Sovcomflot's subsidiaries SCF Management Services (Dubai) Ltd., SCF Management Services (Novorossiysk) Ltd., SCF Management Services (Cyprus) Ltd, and SCF Management Services (St. Petersburg) Ltd.

A list of significant subsidiary companies is disclosed in Note 41 to these consolidated financial statements. The ultimate controlling party of PAO Sovcomflot is the Russian Federation.

2. Directors and Management

The corporate 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 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 appointment	
I.I. Klebanov (Chairman)	3 November 2011	Senior State Counsellor of the Russian Federation, 1st Class
W.A. Chammah	29 June 2015	Partner of "Chammah & Partners" LLC
I.F. Glumov	29 June 2015	General Director of OJSC "Severneftegaz"
P.A. Kadochnikov	30 June 2016	Vice Rector for Research of the Russian Foreign Trade Academy of the Ministry for Economic Development of the Russian Federation
A.Y. Klyavin	30 June 2012	President of The Russian Chamber of Shipping
D.G. Moorhouse	29 June 2010	Member of the Board of Directors
V.A.Olersky	16 June 2017	Deputy Minister of Transport of the Russian Federation, Head of the Federal Agency for Maritime and River Transport
A. V. Sharonov	30 June 2014	President of Moscow School of Management "SKOLKOVO"
S.O. Frank	10 November 2004	President and Chief Executive Officer of PAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 16 June 2017. Mr Klebanov was re-elected as a Chairman on 1 September 2017.

Members of the Executive Board	Date of appointment	
S.O. Frank (Chairman)	4 October 2004	President and Chief Executive Officer of PAO Sovcomflot
E.N. Ambrosov	13 July 2009	Senior Executive Vice-President of PAO Sovcomflot
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	Managing Director of SCF Management Services (Cyprus) Ltd
I.V. Tonkovidov	14 January 2011	Executive Vice-President and Chief Operating / Chief Technical Officer of PAO Sovcomflot
Y.A Tsvetkov	14 December 2012	President of PAO Novoship

3. **Significant Accounting Policies**

(a) Basis of preparation and accounting

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the historical cost basis except where fair value accounting is specifically required by IFRS, as explained in the accounting policies below.

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

The financial statements are presented in U.S. Dollars, which is also the currency of the Group's primary economic environment and the functional currency of the Group's major subsidiaries.

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries ("controlled investees") as at 31 December 2017. Control is achieved when the Group:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in a change of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

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

(c) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred / assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations", are recognised at their fair values at the acquisition date.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 provided that they are controlled by the same party both before and after the business combination. These transactions are accounted for on a pooling of interests basis. The financial position, financial performance and cash flows of the combined Group are brought together as if the companies had always been a single entity.

The Group initiates and performs a review of all acquisition transactions during each period to consider the transaction to be either a business combination or an asset acquisition in accordance with IFRS 3. When the acquisition is not a business combination by its nature, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 "Intangible Assets") and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. Consistent with shipping industry practice, the acquisition of a vessel (whether acquired with or without charter) is treated as the acquisition of an asset rather than a business, because vessels are acquired without related business processes.

(d) Segmental reporting

The Group consists of five reportable operating segments: crude oil transportation, oil product transportation, gas transportation, offshore development services and other. The segments are fully explained in Note 14.

The requirements of IFRS 8 "Operating Segments" on segment reporting are based on the information about the components of the entity that management uses to make decisions about operating matters. The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, which is defined as the Board of Directors of the Company, in order to allocate resources to the segment and assess its performance. The Group has only one geographical segment, because management considers the global market as a whole, and as the individual vessels are not limited to specific parts of the world with the exception of vessels operating on Russian continental shelf projects. Furthermore, the internal management reporting does not provide such information.

The segment income statement comprises revenues and expenses directly attributable to the segment i.e. freight and hire revenue, voyage expenses and commissions, vessels' running costs and charter hire payments, vessels' drydock cost amortisation, vessels' depreciation, vessels' impairment provision and reversal thereof, gains or losses on sale of vessels and exchange differences. Non-current assets consist of the vessels used in the operation of each segment. Not allocated items primarily comprise assets and liabilities as well as revenues and expenses relating to the Group's administrative functions and investment activities, cash and bank balances, interest bearing debt, and income tax.

(e) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are included in these consolidated financial statements from the date on which the investee becomes an associate or a joint venture, using the equity method of accounting. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. Investments in associates and joint ventures are carried in the consolidated statement of financial position at cost and adjusted for by post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests, that in substance form part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the investment is acquired.

(f) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (as defined in Note 3(e)), have rights to the assets and obligations for the liabilities relating to the arrangement.

The Group recognises in relation to its interest in a joint operation its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

The Group's share of the assets, liabilities, income and expenses of joint operations are recognised within the equivalent items in the consolidated financial statements on a line-by-line basis.

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

(g) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, an active programme to locate a buyer and complete the sale must be initiated and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. These criteria have to be met at the reporting period end for classification as held for sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non–current asset is classified as held for sale.

(h) Freight and hire revenue

Freight and hire revenue includes contract revenue from seismic services and the Group's share of revenues arising under vessel pooling arrangements and represents vessel earnings during the period. Vessel earnings are measured at the fair value of the consideration received or receivable, net of address commissions.

Freight revenues are earned for the carriage of cargo on behalf of the charterer, in the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached, the Group is compensated for the additional time incurred in the form of demurrage revenue which is recognised when it can be measured reliably in accordance with the terms and conditions of the respective charter party agreements.

Hire revenues are earned for exclusive use of the services of the vessel by the charterer for an agreed period of time.

Time charter equivalent revenues describe the earnings of any charter contract once voyages expenses and commissions relating to the performance of the contract have been deducted from the gross revenues. The term is commonly used in the shipping industry to measure financial performance and to compare revenue generated from a voyage charter to revenue generated from a time charter.

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid to third party brokers by the Group.

Freight revenue and voyage expenses are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. The impact of recognising voyage expenses rateably over the length of each voyage is not materially different on a quarterly and annual basis from the method of recognising such costs on an accruals basis. Full provision is made for any losses forecast on voyages in progress at the end of the financial reporting period.

The Group does not begin recognising revenue until a charter has been agreed to by the Group and the charterer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. In applying its revenue recognition method, management believes that the discharge to discharge port basis of calculating voyage results provides greater degree of accuracy than the load to load port basis. In the application of this policy, the Group recognises revenue only when (i) the amount of revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the transactions stage of completion at the balance sheet date can be measured reliably; and (iv) the costs incurred and the costs to complete the transaction can be measured reliably.

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

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 hire revenues) is recognised using the percentage of completion method, consistent with the progress of the project, provided that all revenue recognition criteria are satisfied.

A number of the Group's vessels participate in vessel pooling arrangements with third parties. Pool revenue is generated from each vessel participating, undertaking either voyage or time charters. The Group recognises all revenue (and voyage costs) earned by its vessels through participation in the pools under the specific voyage and time charters that the vessels undertake via their pool participation. Revenue and voyage costs arising under such charters are recognised in the same way as voyage charters and time charters as set out above.

All pool agreements in which the Group participates contain profit share clauses, under which the Group's vessels and the third parties' vessels net earnings (time charter equivalent) are shared. The pool measures net earnings based on the contractual rates, the duration of each voyage and, the relevant voyage costs recognised upon delivery of the services in accordance with the terms and conditions of the charter parties. The Group's share of the net earnings in the pools is dependent on the number of days the Group's vessels have been available for the pools in relation to the total available pool earning days during the period. These profit sharing arrangements may give rise to a liability to the third party or a receivable to the Group. These amounts are settled periodically.

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

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

(i) Operating revenues and operating expenses

Other operating revenues and other operating expenses comprise income and directly related expenses from non-core non-vessel operating related activities, rental operations derived from investment properties, technical management and newbuilding supervision, as well as ancillary services provided by vessel in operation in the offshore segment.

Other operating revenues are measured at the fair value of the consideration received or receivable. Revenues from non-core vessel operating activities and revenues from the provision of technical management services are recognised by reference to the time of provision of the activities and services. Revenues from rental income from investment properties are accounted for on a straight line basis over the rental periods of such properties. Revenues from newbuilding supervision are recognised using the percentage of completion method, based on input methods, consistent with the progress of the project.

(j) Interest income

Bank and other interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(k) Currency translation

Transactions and balances

Transactions during the period in currencies other than the functional currencies of the various Group entities have been translated into their functional currencies (mostly the U.S. Dollar) at rates ruling at the time of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in currencies other than the functional currencies are retranslated at the rates ruling at that date.

Non-monetary items that are measured in terms of historical cost in currencies other than the functional currencies are not retranslated. Non-monetary items measured at fair value in currencies other than the functional currencies are translated using the exchange rates at the date when the fair value was determined.

Group companies

The assets and liabilities of the Group's entities that have functional currencies other than the U.S. Dollar are translated from their functional currency into U.S. Dollars at the rate of exchange ruling at the reporting date. Income and expenses are translated into U.S. Dollars at the average rate of exchange for the period unless exchange rates fluctuate significantly in which case they are translated, for significant transactions, at the exchange rate ruling at the date of the transaction, and, for other transactions, the average rate of exchange for shorter periods, depending on the fluctuation of the exchange rates.

Differences arising on retranslation of their opening net assets and results for the period are dealt with as movements in other comprehensive income. On disposal of an entity with a functional currency other than the U.S. Dollar, the deferred cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

Any goodwill arising on the acquisition of an entity with a functional currency other than the U.S. Dollar and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the acquired entity. They are expressed in the functional currency of the acquired entity and are translated at the rate of exchange ruling at the reporting date.

Exchange rates

For the purposes of these consolidated financial statements, the exchange rates used are as follows:

	2017 Closing $1	**2017 Average $1**	**2016 Closing $1**	**2016 Average $1**	**2015 Closing $1**
Russian Roubles	57.6002	58.3529	60.6569	67.0349	72.8827
Pounds Sterling	0.7416	0.7770	0.8135	0.7397	0.6750
Euros	0.8364	0.8874	0.9506	0.9036	0.9145

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset (see also Note 3(s)). To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period (with consideration to the effect of effective hedging of floating rate debt) less any investment income on the temporary investment of those borrowings.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated using the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalises during a period does not exceed the amount of borrowing costs incurred during that period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(m) Leasing

Finance leases are leases which transfer substantially all the risks and rewards incidental to ownership of the leased item. Leases which do not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. The determination of whether a lease is a finance lease or an operating lease depends on the substance of the arrangement rather than the form of the contract at the inception of the lease. In determining the substance of the transaction the Group considers amongst others the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions, expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

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

(m) Leasing (continued)

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 in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash flows expected to be made by the Group in respect of services provided by the employees up to the reporting date. Re-measurements of the long-term employee benefit liability are recognised in profit or loss when they occur.

(o) Property, plant and equipment and depreciation

The Group's property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Cost comprises of the acquisition or construction cost of the asset, after deducting trade discounts and rebates, and any costs directly attributable to the acquisition or construction up to the time that the asset is ready for its intended use. Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised as part of the cost of the asset. Subsequent expenditures for conversions and major improvements are capitalised when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise they are charged to profit or loss as incurred.

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:

	2017 $ per LWT	2016 $ per LWT	2015 $ per LWT
Oil, shuttle, product and chemical tankers	415	290	300
Arctic shuttle tankers	415	290	-
Ice breaking supply vessels	415	290	300
LNG carriers	465	330	310
LPG carriers	450	320	310
Bulk carriers	390	305	305

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 non-cancellable operating lease period of the chartered in vessel to which they relate.

Leasehold improvements are included within other property, plant and equipment and are depreciated over the non-cancellable period of the operating lease to which they relate.

The residual value and useful life of each asset is reviewed at each financial period end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the income statement in the period of the change and future periods. An increase in the residual value of an asset will decrease the depreciation charge for the period and future periods and vice versa until the residual value is reassessed.

(p) Intangible assets

Intangible assets comprise computer software. Computer software is carried in the statement of financial position at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is charged so as to write-off the cost of the computer software on a straight line basis over the useful economic life of the software concerned at a rate between 10% and 33%.

The amortisation period of each intangible is reviewed at each financial period end. Any changes in the expected useful life are treated as a change in accounting estimate and are accounted for prospectively in the income statement in the period of change and future periods. Amortisation of the capitalised intangible assets is included in the depreciation, amortisation and impairment line in the consolidated income statement.

(q) Drydocking and special survey costs

The vessels are required to undergo planned drydockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an ''Intermediate Survey'') and the fifth annual inspection being the most comprehensive survey (a ''Special Survey''). The inspection cycle resumes after each Special Survey. Vessels are typically required to undergo special surveys, which include inspection of underwater parts ("bottom survey"), every 60 months.

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

Drydocking and special survey costs, to the extent that they are incurred directly to meet regulatory requirements, are capitalised as a separate component of vessel cost and are amortised on a straight line basis over the estimated period to the next drydocking. Amortisation of the capitalised drydocking costs is included in the depreciation, amortisation and impairment line in the consolidated income statement. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred.

Drydocking costs may include the costs associated but not limited to the service and replacements of main engine and propulsion machinery, boilers, engine room tanks, auxiliary machinery, various gears and systems of shaft seals, safety and navigation equipment, anchor and deck machinery, turbo chargers, steering gears, electrical equipment, controls and automated systems, cargo, fuel and ballast tanks and applying of antifouling and hull paint.

Where a vessel is acquired new, or constructed, a proportion of the cost of the vessel is allocated to the components expected to be replaced at the next drydocking based on the expected costs related to the first-coming drydocking, which is based on experience and past history of similar vessels.

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

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

(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 ship yard, 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

At the end of each financial reporting period, the Group assesses whether there is any indication that its property, plant and equipment may have suffered an impairment loss. If any indication exists, the Group estimates the asset's recoverable amount.

The assessment of whether there is an indication that an asset is impaired is made with reference to trading results, predicted trading results, market rates, technical and regulatory changes and market values. If any such indication exists, the recoverable amount of the asset or cash generating unit (CGU) is estimated in order to determine the extent of any impairment loss.

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is determined as the amount at which assets may be disposed of on a willing seller, willing buyer basis, less directly associated costs of disposal. In estimating fair value, the Group considers recent market transactions for similar assets, and the views of reputable shipbrokers.

If the recoverable amount is less than the carrying amount of the asset or the CGU, the asset is considered impaired and an expense is recognised equal to the amount required to reduce the carrying amount of the vessel or the CGU to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior periods. Such reversal is recognised in the income statement.

(u) Inventories

Inventories are stated at the lower of cost or net realisable value and comprise bunkers (where applicable), luboils, victualing and slopchest stocks, other inventories and spares and consumables purchased for or acquired on board bareboat chartered in vessels. Cost is calculated using the first in first out method. Other stores and spares relating to vessel operations are charged to running costs when purchased and no account is taken of stocks remaining on board at the end of the period.

(v) Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

<u>Effective interest method</u>
The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period, to its net carrying amount.

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

(v) Financial instruments (continued)

Trade receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance is made when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables taking into account any collateral or other credit enhancement obtained. A provision is made for outstanding demurrages based on prior years' experience. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the allowance is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the appropriate allowance account. Subsequent recoveries of amounts previously written off are credited against allowance of credit losses in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on deposit with banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated upon initial recognition as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Available-for-sale financial assets

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Unlisted and listed shares held by the Group are classified as being available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses on available-for-sale monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in profit or loss for the period. Investments in equity shares that are not traded in an active market and where fair value cannot be estimated on a reasonable basis are stated at cost less impairment losses.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Borrowings

Interest bearing bonds, bank loans and overdrafts and other loans are initially measured at fair value (proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the fair value of the proceeds received, net of direct issue costs.

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

(v) Financial instruments (continued)

Derecognition or modification of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, eliminated, sold, cancelled or expires.

Where an existing financial liability is exchanged by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss. Where an existing financial liability is exchanged by another from the same lender or modified on terms that are not substantially different, the exchange or modification is not accounted for as an extinguishment and any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting of financial assets and liabilities

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

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 the strict criteria for hedge accounting are accounted for and further described in the below sections.

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group designates certain derivatives as hedges of interest rate risk 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 income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss as a reclassification adjustment.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A derivative instrument that is not a designated and effective hedging instrument is required to be classified as held for trading under IAS 39 "Financial Instruments: Recognition and Measurement". IAS 1 "Presentation of Financial Statements" clarifies that such an instrument must be separated into current and non-current portions unless it is held primarily for trading in which case it is classified as current. Therefore, an entity separates such a derivative instrument into current and non-current portions based on an assessment of the facts and circumstances and classifies it accordingly.

1) When management holds a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond twelve months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item as discussed below in scenarios 2 and 3;
2) An embedded derivative that is not closely related to the host contract, which is required to be accounted for separately, is classified consistent with the cash flows of the host contract; and
3) A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made; and it is applied to all designated and effective hedging instruments.

(w) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the Company and its subsidiaries are incorporated. Income taxes in respect of the Company are accounted for in accordance with Russian fiscal regulations. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

(w) Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
A deferred tax liability is recognised on unremitted earnings of subsidiaries to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the consideration transferred on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tonnage tax

Tonnage tax is payable by the Group in the countries of registration of its vessels by reference to the registered tonnage of each vessel. Tonnage tax is not a tax on income as defined by IAS 12 "Income Taxes" and is therefore included in general and administrative expenses under non-income based taxes.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect of discounting is material.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements unless recovery is virtually certain but are disclosed when an inflow of economic benefits is only probable.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(y) Insurance claims

Amounts for insurance claims are recognised when amounts are virtually certain to be received, based on the management's judgement and estimates of independent adjusters as to the amount of the claims.

(z) Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit or loss for the period available to equity holders of the parent by the weighted average number of shares outstanding during the period.

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

Amendments to IFRSs and the new Interpretations that are mandatorily effective for the current period

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2017. The nature and the impact of each new standard or amendment are described below:

IAS 7 ("Statement of Cash flows") – "Amendments resulting from the disclosure initiative". The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Information required by this amendments is presented in Note 42(c) of these consolidated financial statements.

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

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

IAS 12 (“Income Taxes”) – “Recognition of Deferred Tax Assets for Unrealised Losses”. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The Group applied the amendments retrospectively. The application has no effect on the Group’s financial position and performance.

IFRS 12 (“Disclosures of Interests in Other Entities”) – “Clarifying scope”. The amendments clarify the disclosure requirements in IFRS 12 in respect of an entity’s interest in a subsidiary, joint venture or an associate that is classified as held for sale. The amendment has no impact on these consolidated financial statements as the Group has no such entity as classified for sale.

New and revised IFRSs in issue but not yet effective

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

The Group is currently assessing the impact from the application of IFRS 16 (“Leases”) on its consolidated financial statements.

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

IFRS 15 (“Revenue from Contracts with Customers”)

IFRS 15 was issued in May 2014 and amended in April 2016, (effective as of 1st January 2018), with earlier adoption permitted. The Group will adopt the new standard on the required effective date. The standard permits either a full retrospective or a modified retrospective approach for application. The Group will apply the modified retrospective approach. IFRS 15 introduces a new single model for the recognition of revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 (“Revenue”), and IAS 11 (“Construction Contracts”) and their related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods to a customer in an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services. Specifically, the standard introduces a five-step model approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

During 2017, the Group assessed the impact of applying the new standard to the Group’s financial statements, processes and systems and has identified the following areas that are expected to be impacted:

1. Following discussions with other companies in the shipping industry and having reviewed the terms of the Group’s voyage contracts, for freight revenues under voyage charter parties the Group assessed that
    a. Normally, voyage contract represents a single performance obligation. This is similar to the current identification of revenue applied by the Group under IAS 18.
    b. In the majority of cases, a voyage charter party does not contain a lease as either the charterer does not have a substantive right to direct how and for what purpose the vessel will be used or the Group has a substantive right to substitute the vessel i.e. the Group is practically able to do so and it would benefit economically from the right of substitution, in which case an identified vessel does not exist.
    c. When a voyage charter contains a lease, the lease component will be accounted for as operating leases and recognised on a straight line basis over the rental periods of such charters, as service is performed (see Note 3(h)) and the service component will be accounted for separately under IFRS 15.
    d. Demurrage is a variable consideration (and not a separate performance obligation), which is to be recognised from the time it becomes probable over the remaining time of the voyage.
    e. The voyage performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. This treatment is also consistent with the current practice.
    f. The performance obligation for a voyage charter begins to be satisfied only once cargo is loaded (from load to discharge). This is different from the current practice of recognising revenue from discharge to discharge.
    g. The Group considers that an output method is more appropriate in measuring the progress towards satisfaction of a performance obligation, i.e. voyage revenue will be recognised pro-rata based on time elapsed from loading of cargo to the expected date of completion of the discharge.

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

New and revised IFRSs in issue but not yet effective (continued)

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

2. Hire revenues under time charter parties, comprise a lease component and a service component. The lease components will continue to be accounted for as leases and recognised on a straight line basis over the rental periods of such charters, as service is performed (see Note 3(h)). The service component will be accounted for separately under IFRS 15. Revenue recognised in respect of the service component under IFRS 15 will not change. The components of hire revenue are required to be disclosed separately in a new disclosure note in financial statements.
3. In the majority of cases, revenue from seismic services will be recognised as a single performance obligation, which is satisfied over time, using the percentage of work completed based primarily on the input method for measurement of progress. This method will measure 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 the performance obligation.
4. Incremental costs incurred to obtain a contract (i.e. brokers' commissions), as well as voyage costs incurred between signing the charter party and arrival at the loading port, will be recognised as an asset and amortised over the period the performance obligation is satisfied unless expensing them as incurred would not be materially different on a quarterly and annual basis. Costs to fulfil a voyage contract (i.e. port costs, canal dues, bunkers) from load port to discharge will be expensed as incurred.
5. Other operating revenues disclosed in Note 11 comprising income from non-core non-vessel operating activities, rental income derived from investment properties, income from the commercial and technical management and newbuilding supervision of vessels as well as from ancillary services provided by the Group's vessels in operation in the offshore segment will not be impacted as a result of the adoption of IFRS 15.

The Group has assessed that the impact of the disclosure requirements in IFRS 15 will be significant. Disclosures shall include both qualitative and quantitative information about:

- Contracts with charterers (disaggregation of revenue, contract balances);
- Significant judgements (transfer of control, satisfying performance obligation over time vs point of time, stage of completion, determining collectability from the charterer, determination of an appropriate measure of progress, estimation of variable consideration); and
- Practical expedients.

Except from providing more extensive disclosures, management does not anticipate that the application of IFRS 15 will have a material impact on the financial position and/or financial performance of the Group.

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

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

IFRS 9 ("Financial Instruments")

IFRS 9 ("Financial Instruments") – "Classification and Measurement". The final version of IFRS 9 replaces IAS 39 Financial Instruments "Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses (effective for annual periods beginning on or after 1 January 2018).

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a preliminary impact assessment of the aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. The Group is considering the application of the simplified approach to trade receivable that do not contain a significant financing component as it is recommended by the standard. Also the Group is considering its choice for the other types of financial assets, the accounting policy for these assets may be selected independently of one another.

Overall the Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group considers that the contractual cash flow characteristics of those instruments meet the criteria for amortised cost measurement under IFRS 9, therefore reclassification for these instruments is not required.

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

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost. Based on the preliminary assessment undertaken to date, the Group expects that IFRS 9 can produce the same measurement of loss allowance as IAS 39, or higher but the increase will not be significant to the loss measured under IAS 39.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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

New and revised IFRSs in issue but not yet effective (continued)

IFRS 16 (“Leases”) – IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after 1 January 2019).

IFRS 10 (“Consolidated Financial Statements”) and IAS 28 (“Investments in Associates and Joint Ventures”) – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”. The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 2 (“Share Based Payment”) – “Classification and Measurement of Share-based Payment Transactions”. The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met (effective for annual periods beginning on or after 1 January 2018).

IAS 40 (“Investment Property”) – “Amendments to clarify transfers of property to, or from investment property” (effective for annual periods beginning on or after 1 January 2018).

IFRS 9 (‘‘Financial Instruments’’) – “Amendments for prepayment features with negative compensation and modifications of financial liabilities” (effective for annual periods beginning on or after 1 January 2019).

IAS 28 (‘‘Investments in Associates and Join Ventures’’) – “Amendments in relation to long term interests in associates and joint ventures” (effective for annual periods beginning on or after 1 January 2019).

IFRIC 22 (“Foreign Currency Transactions and Advance Consideration”). Clarifies the accounting for transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency before the entity recognises the related asset, expense or income (effective for annual periods beginning on or after 1 January 2018).

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.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. The Group is considering whether applying the Interpretation may affect its consolidated financial statements and the required disclosures.

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

The amendments clarify that:

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

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to 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. These improvements are effective from 1 January 2019. It includes the following amendments:

- 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).

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the end of the reporting period that have the most significant effect on the amounts recognised in the financial statements.

Critical Accounting Judgements

Classification of charter agreements as either finance or operating leases

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

Investments in joint arrangements and associates

Judgement is exercised upon classification of an investment as a joint operation or a joint venture. This is determined by reference to the type of the joint arrangement and judgement is exercised on whether the Group has rights to the assets and obligations for the liabilities of that arrangement (joint operation) or if the Group has rights to the net assets of the arrangement (joint venture).

Investments in associates and joint ventures are recognised using the equity method of accounting. The classification of entities partly owned by other enterprises depends amongst other things on the individual conditions and clauses in shareholders’ agreements and other contractual documents. The exercise of judgement as to the influence and level of control on these conditions and clauses in the agreements determines whether a particular entity should be accounted for as joint operation or under the equity method.

The Group consolidates its share of losses of associates and joint ventures to the extent that it is believed that the Group has a constructive obligation to do so. The determination of the presence of a constructive obligation requires the exercise of judgement, as invariably such an obligation is not contained within any legal agreement and may take the form of an implied commitment to, or an expectation of, a third party.

Determination of cash generating units for value in use calculations

In determining the CGUs the Group considers various factors including management’s trading strategies, nature and terms of contractual arrangements and actual and predicted employment of the vessels. The Group also considers other factors such as investment and discontinuance decisions, and how management monitors financial performance.

The determination as to whether the cash inflows of groups of vessels which form a CGU are largely dependent on each other requires judgement to be exercised in assessing all the available data and information noted above, particularly with reference to assumptions and judgements with regard to future planned and expected employment of the vessels within a CGU. Should these judgements be proven, through the passage of time, to be incorrect or subject to change or amendment in future periods it is possible that additional impairment charges may arise, or reversals of impairments may occur.

Key Sources of Estimation Uncertainty

Carrying amount of vessels and vessels under construction

The carrying amount of vessels and vessels under construction may not represent their fair market value at any point in time. The market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. Management reviews vessels, including vessels under construction, for indicators of impairment whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable. Impairment testing requires an estimate of future cash flows over the period of expected use of the vessels and the choice of a suitable discount rate and an assessment of recoverable amount based on comparable market transactions. If actual results differ from the estimates and assumptions used in estimating future cash flows then this could result in potential impairment losses recognised in future periods. Additional information is disclosed in Note 15 to these financial statements.

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

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

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Notes to the Consolidated Financial Statements – 31 December 2017 (Continued)

6. Freight and Hire Revenue

	2017 $'000	2016 $'000
Freight	617,233	533,542
Hire	818,132	854,585
	1,435,365	1,388,127

7. Voyage Expenses and Commissions

	2017 $'000	2016 $'000
Bunkers	220,155	122,148
Port costs	139,301	106,211
Commissions	10,068	11,573
Other voyage costs	7,850	6,009
	377,374	245,941

8. Vessels' Running Costs

	2017 $'000	2016 $'000
Crew costs	216,717	198,255
Technical costs	115,892	80,124
Insurance costs	23,839	18,201
Lubricating oils	12,160	11,469
Other costs	10,168	10,244
	378,776	318,293

9. Depreciation, Amortisation and Impairment

	2017 $'000	2016 $'000
Vessels' depreciation (Note 15)	314,673	271,525
Vessels' drydock cost amortisation (Note 15)	40,352	36,358
Vessels' impairment provision (Notes 15 and 30)	28,970	39,572
Other depreciation and amortisation (Notes 17 and 18)	5,147	5,223
Other impairment (Note 18)	-	3,112
	389,142	355,790

10. General and Administrative Expenses

	2017 $'000	2016 $'000
Administration expenses	97,975	97,921
Non-income based taxes	17,165	16,358
Bank charges and fees	1,563	1,366
	116,703	115,645

Administration expenses are analysed as follows:

	2017 $'000	2016 $'000
Office costs and other general expenses	92,821	91,541
Legal and professional	2,776	3,904
Audit and accountancy	2,378	2,476
	97,975	97,921

Non-income based taxes are analysed as follows:

	2017 $'000	2016 $'000
Irrecoverable value added tax	15,967	15,229
Tonnage tax	1,198	1,129
	17,165	16,358

11. Other Operating Revenues and Expenses

	2017 $'000	2016 $'000
Other operating revenues	22,307	18,036
Cost of sales		
- Wages and salaries	(2,056)	(1,666)
- Payroll taxes	(622)	(503)
- Other cost of sales	(6,094)	(5,043)
Administrative expenses	(2,273)	(1,382)
Other expenses	(2,702)	(302)
Investment property depreciation (Note 19)	(294)	(547)
Other operating expenses	(14,041)	(9,443)
Net other operating income	8,266	8,593

Other operating revenues comprise income from non-core non-vessel operating related activities, rental income derived from investment properties (Note 19), 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.

12. Employee Costs

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

	2017 $'000	2016 $'000
Seafarers		
- Short-term and other long-term employee benefits	177,902	161,270
- Payroll taxes	1,595	1,230
- Defined contribution pension plans	1,398	1,714
- Long-term service defined benefit plans	3	6
	180,898	164,220
Shore based staff		
- Short-term and other long-term employee benefits	65,297	67,522
- Payroll taxes	9,498	9,217
- Defined contribution pension plans	1,364	1,238
- Long-term service defined benefit plans	120	109
	76,279	78,086
Total employee costs	257,177	242,306

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 2017 is based on actual performance vs. set KPI targets achieved as of period end over the entire LTIP evaluation period (2015-2017) and the recipient's continued employment with the Group, as stipulated by the LTIP bylaws. The calculation for the period ended 31 December 2016 and 31 December 2015 was based on the assumption that the performance vs. set KPI targets achieved as of period end will be sustained over the entire LTIP evaluation period.

These benefits are accounted for as other long-term employee benefits included in trade and other payables (Note 35) in the statement of financial position. Current service costs and related social charges, recognised as employee benefits under the programme, for the period, are included in crew costs under vessels' running costs and in administration expenses under general and administrative expenses in the income statement.

13. Financing Costs

	2017 $'000	2016 $'000
Interest on secured bank loans	103,815	54,645
Interest on interest rate swaps and cross currency interest rate swaps	20,754	23,837
Interest on other loans	48,955	45,479
Interest on finance lease liabilities	4,304	11,858
Other interest	9,358	5,751
Other financing costs (Note 39)	6,673	21,094
	193,859	162,664

14. Segment Information

For management purposes, the Group is organised into business units (operating segments) based on the main types of activities and has five reportable operating segments as follows:

- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. As of 31 December 2017, this segment's fleet consisted of 16 shuttle tankers (2016 – 16), and 9 ice breaking supply vessels (2016 – 6 plus 1 chartered in).
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2017, this segment's fleet consisted of 5 LNG carriers and 4 LPG carriers (2016 – 4 LNG and 4 LPG). The 4 LNG carriers owned through joint ventures are disclosed in Note 20.
- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2017 and 31 December 2016, the Group's fleet in this segment consisted of 59 crude oil carriers.
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2017 and 31 December 2016, the Group's fleet in this segment consisted of 40 petroleum product carriers, including 19 chemical and oil carriers (2016 – 19). The 9 (2016 – 9) oil product tankers owned through joint ventures are disclosed in Note 20.
- Other (<10% of revenue). This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2017, this segment's fleet consisted of 2 bulk carriers (2016 – 2) and 2 chartered in seismic vessels (2016 – 1). This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

Management monitors the performance of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss directly attributable to vessels. However Group financing (including finance costs and finance income), general and administrative expenses and income taxes are managed on a Group basis and are not allocated to operating segments. No operating segments have been aggregated to form the above reportable operating segments.

Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Period ended 31 December 2017

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	373,928	166,551	552,425	286,980	55,481	1,435,365
Voyage expenses and commissions	(811)	(1,396)	(231,309)	(132,306)	(11,552)	(377,374)
Time charter equivalent revenues	373,117	165,155	321,116	154,674	43,929	1,057,991
Direct operating expenses						
Vessels' running costs	(69,058)	(30,960)	(160,158)	(94,074)	(24,526)	(378,776)
Charter hire payments	(3,401)	-	-	-	(37,023)	(40,424)
Net earnings / (losses) from vessels' trading	300,658	134,195	160,958	60,600	(17,620)	638,791
Vessels' depreciation	(109,193)	(34,747)	(110,338)	(55,736)	(4,659)	(314,673)
Vessels' drydock cost amortisation	(8,727)	(5,646)	(17,202)	(8,021)	(756)	(40,352)
Vessels' impairment provision (net)			(22,106)	(6,864)		(28,970)
Non-income based taxes	(6,073)	-	-	-	-	(6,073)
Net foreign exchange gains / (losses)	799	-	-	(128)	1,810	2,481
Segment operating profit / (loss)	177,464	93,802	11,312	(10,149)	(21,225)	251,204
Unallocated						
General and administrative expenses						(110,630)
Financing costs						(193,859)
Other income and expenses (net)						(42,074)
Net foreign exchange losses						(2,238)
Loss before income taxes						(97,597)
Carrying amount of fleet in operation	1,949,641	1,236,549	2,001,751	1,027,099	76,304	6,291,344
Carrying amount of non-current assets held for sale	-	-	25,719	-	-	25,719
Deadweight tonnage of fleet used in operations ('000)	1,336	552	7,653	2,449	156	12,146

14. **Segment Information (Continued)**

Period ended 31 December 2016

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	251,729	141,701	629,977	276,681	88,039	1,388,127
Voyage expenses and commissions	(788)	(1,058)	(152,533)	(83,337)	(8,225)	(245,941)
Time charter equivalent revenues	250,941	140,643	477,444	193,344	79,814	1,142,186
Direct operating expenses						
Vessels' running costs	(48,383)	(25,647)	(141,475)	(84,646)	(18,142)	(318,293)
Charter hire payments	(51)	-	(200)	(170)	(25,370)	(25,791)
Net earnings from vessels' trading	202,507	114,996	335,769	108,528	36,302	798,102
Vessels' depreciation	(68,046)	(28,520)	(120,420)	(51,947)	(2,592)	(271,525)
Vessels' drydock cost amortisation	(6,427)	(5,242)	(17,221)	(6,745)	(723)	(36,358)
Vessels' impairment provision (net)	-	-	(39,572)	-	-	(39,572)
Loss on sale of vessels	-	-	(159)	(254)	-	(413)
Non-income based taxes	(5,608)	-	-	-	-	(5,608)
Net foreign exchange (losses) / gains	(2,213)	-	-	1,583	3,236	2,606
Segment operating profit	120,213	81,234	158,397	51,165	36,223	447,232
Unallocated						
General and administrative expenses						(110,037)
Financing costs						(162,664)
Other income and expenses (net)						42,616
Net foreign exchange gains						16,330
Profit before income taxes						233,477
Carrying amount of fleet in operation	1,662,085	942,569	2,142,607	1,085,301	62,803	5,895,365
Deadweight tonnage of fleet used in operations ('000)	1,328	472	7,653	2,449	152	12,054

15. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2016	7,071,178	164,932	7,236,110
Expenditure in period	21,600	14,996	36,596
Transfer from vessels under construction (Note 16)	465,202	4,500	469,702
Acquisitions during the period	340,951	6,955	347,906
Write-off of fully amortised drydock cost	-	(13,818)	(13,818)
Exchange adjustment	-	93	93
At 31 December 2016	7,898,931	177,658	8,076,589
Expenditure in period	46,052	28,686	74,738
Transfer from vessels under construction (Note 16)	720,409	8,500	728,909
Transfer to non-current assets held for sale (Note 30)	(175,722)	(4,700)	(180,422)
Transfer from other fixed assets (Note 18)	2,257	-	2,257
Write-off of fully amortised drydock cost	-	(32,922)	(32,922)
Exchange adjustment	(224)	46	(178)
At 31 December 2017	8,491,703	177,268	8,668,971
Depreciation, amortisation and impairment			
At 1 January 2016	1,779,699	67,869	1,847,568
Charge for the period	271,525	36,358	307,883
Impairment provision	39,572	-	39,572
Write-off of fully amortised drydock cost	-	(13,818)	(13,818)
Exchange adjustment	-	19	19
At 31 December 2016	2,090,796	90,428	2,181,224
Charge for the period	314,673	40,352	355,025
Impairment provision	28,514	-	28,514
Transfer to non-current assets held for sale (Note 30)	(150,485)	(3,762)	(154,247)
Write-off of fully amortised drydock cost	-	(32,922)	(32,922)
Exchange adjustment	27	6	33
At 31 December 2017	2,283,525	94,102	2,377,627
Net book value			
At 31 December 2017	6,208,178	83,166	6,291,344
At 31 December 2016	5,808,135	87,230	5,895,365
At 31 December 2015	5,291,479	97,063	5,388,542

	2017	2016	2015
Market value ($'000)	5,157,750	4,491,000	5,092,750
Current insured values ($'000)	6,652,398	6,492,276	5,830,970
Total deadweight tonnage (dwt)	11,713,915	12,049,977	11,243,584

Summary of fleet at period end:

Type of vessel	Number of vessels 2017	Number of vessels 2016	Dwt'000 2017	Dwt'000 2016	Carrying value $ million 2017	Carrying value $ million 2016
Oil tankers	55	59	7,227	7,653	2,001	2,143
Product carriers	40	40	2,449	2,449	1,027	1,085
LNG and LPG carriers	9	8	552	472	1,237	943
Shuttle tankers	16	16	1,301	1,301	1,163	1,238
Ice breaking supply vessels	9	6	35	25	787	423
Bulk carriers	2	2	150	150	60	63
Seismic equipment	-	-	-	-	16	-
	131	131	11,714	12,050	6,291	5,895
Vessels held for sale (Note 30)	4	-	426	-	26	-
	135	131	12,140	12,050	6,317	5,895

15. **Fleet (Continued)**

As at 31 December 2017, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use.

Results of the impairment review for the period ended 31 December 2017

Operating segment	CGU	Methodology	Applied pre-tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tankers (2 CGU)	Value in use	5.81%	15,214	13,398
Crude oil segment	Aframax crude oil tankers (2 CGUs)	Fair value less cost of disposal (level 1)	n/a	6,436	12,777
Oil product segment	Handysize Ice (4 CGUs)	Value in use	5.98%	6,864	58,304
				28,514	84,479

The impairment recognised in the period ended 31 December 2017 based on value in use for two aframax crude oil tankers and fair value less costs of disposal for two aframax crude oil tankers resulted from management's decision to dispose of these vessels. Impairment recognised in the period, based on value in use, for four handysize ice class tankers, resulted from a change in estimate of operating revenues and operating expenses over the remaining life of the vessels.

Results of the impairment review for the period ended 31 December 2016

Operating segment	CGU	Methodology	Applied pre-tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tankers (1 CGU)	Value in use	6.60%	4,979	11,677
Crude oil segment	Aframax crude oil tankers (5 CGUs)	Fair value less cost of disposal (level 2)	n/a	34,593	52,470
				39,572	64,147

The impairment recognised in the period ended 31 December 2016 based on value in use for one aframax crude oil tanker and fair value less costs of disposal for five aframax crude oil tankers resulted from management's decision to dispose of these vessels.

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 2018 to 2020 based on the Group's approved revenue budgets;
- Freight rate estimates after 2020 based on the historical ten year earnings averages for each type of vessel, obtained from independent brokers' research applying a growth rate of 2.7% per annum until the vessel reaches fifteen years of age;
- Operating expenses based on the Group's operating budget approved by the Group for 2018 and increasing at a rate of 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 economic life, unless the vessels are sold or planned to be sold; and
- Discount rates between 5.8% to 7.3% pre-tax (2016 – 6.6% to 8.5% pre-tax), depending on the remaining useful economic 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 $47.4 million (2016 – $67.7 million);
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $3.8 million (2016 – $1.8 million); and
- A decrease in the growth rate of freight rates by 1% per annum would result in an additional impairment provision to fleet of $1.6 million (2016 – $3.6 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 value in use. The main inputs and assumptions used in the value in use calculations were: revenues and expenses of the seismic vessels for five years.

During the period ended 31 December 2017 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 decrease the depreciation charge by $10.9 million (2016 – increase of $1.1 million).

During the period ended 31 December 2017 the Group repurchased two vessels held under finance leases, see Note 37 (2016 – 2 vessels held under finance leases).

15. **Fleet (Continued)**

Expenditure in period, under vessels, includes an amount of $31.6 million (2016 – $8.5 million) of modifications relating to legislative requirements and other capital expenditure, of which $7.9 million (2016 – $8.5 million) of modifications have not yet been completed/delivered as of the end of the reporting period. In addition, included in expenditure in period are $15.9 million worth of seismic equipment installed on board one of the Group's chartered in seismic vessels. This equipment was acquired through a deferred consideration arrangement (Note 39).

16. **Vessels Under Construction**

	2017 $'000	2016 $'000
At 1 January	225,814	368,453
Expenditure in period	584,932	327,063
Transfer to fleet (Note 15)	(728,909)	(469,702)
At 31 December	81,837	225,814
Total deadweight tonnage (dwt)	811,110	89,000

Vessels under construction at 1 January 2017 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel and three MIB standby vessels at a total contracted cost to the Group of $837.9 million.

Vessels delivered during the period comprised the following:

Vessel name	Vessel type	Segment	DWT	Delivery date
Gennadiy Nevelskoy[1]	Multifunctional ice breaking ("MIB") supply vessel	Offshore	3,259	2 March 2017
Christophe de Margerie	Ice breaking LNG carrier	Gas	80,182	27 March 2017
Stepan Makarov[2]	MIB standby vessel	Offshore	3,319	15 June 2017
Fedor Ushakov[3]	MIB standby vessel	Offshore	3,264	27 October 2017

[1] delivered to charter on 18 April 2017 / [2] delivered to charter on 5 August 2017 / [3] delivered to charter on 1 December 2017

During the period ended 31 December 2017, the Group entered into shipbuilding contracts for the construction of six ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker, and one 174,000 cubic metre LNG carrier at a total contracted cost of $651.0 million. The vessels are scheduled for delivery between July 2018 and March 2019, in October 2019 and February 2020, respectively. The LNG carrier is backed with a seven year firm period time charter agreement with various extension options attached in favour of the charterer. The aggregate hire receivable over the firm period of the charter is $158.6 million. The charter arrangement for the Arctic shuttle tanker is disclosed in Note 45.

At 31 December 2017, vessels under construction comprised one MIB standby vessel, six ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and one LNG carrier scheduled for delivery between January 2018 and February 2020 (see also Note 46) at a total contracted cost to the Group of $772.2 million. As at 31 December 2017, $67.2 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 (2016 – $10.0 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 $3.9 million (2016 – $5.0 million) capitalised using a weighted average interest rate of 4.17% per annum (2016 – 3.60% per annum).

As at 31 December 2017 management carried out an impairment test of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(t)). The testing did not result in any indication that vessels under construction may have suffered an impairment loss.

17. **Intangible Assets**

	2017 $'000	2016 $'000
Cost		
At 1 January	7,053	9,167
Additions in period	5,852	667
Disposals in period	-	(2,768)
Exchange adjustment	84	(13)
At 31 December	12,989	7,053
Amortisation		
At 1 January	3,092	4,499
Charge for the period	1,222	1,197
Disposals in period	-	(2,606)
Exchange adjustment	16	2
At 31 December	4,330	3,092
Net book value		
At 31 December	8,659	3,961

Intangible assets comprise computer software.

18. Other Property, Plant and Equipment

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2016	61,146	36,002	97,148
Additions in period	150	4,394	4,544
Transfer to non-current assets held for sale (Note 30)	(293)	(1,336)	(1,629)
Disposals in period	(493)	(775)	(1,268)
Exchange adjustment	981	2,427	3,408
At 31 December 2016	61,491	40,712	102,203
Additions in period	236	1,560	1,796
Transfer to / from non-current assets held for sale (Note 30)	(10,196)	1,466	(8,730)
Transfer to fleet (Note 15)	-	(2,257)	(2,257)
Disposals in period	-	(545)	(545)
Exchange adjustment	349	746	1,095
At 31 December 2017	51,880	41,682	93,562
Depreciation and impairment			
At 1 January 2016	11,846	25,018	36,864
Charge for the period	1,233	2,793	4,026
Impairment provision	3,112	-	3,112
Transfer to non-current assets held for sale (Note 30)	(167)	(230)	(397)
Disposals in period	(188)	(752)	(940)
Exchange adjustment	72	720	792
At 31 December 2016	15,908	27,549	43,457
Charge for the period	1,109	2,816	3,925
Transfer to / from non-current assets held for sale (Note 30)	(3,476)	252	(3,224)
Disposals in period	-	(459)	(459)
Exchange adjustment	134	406	540
At 31 December 2017	13,675	30,564	44,239
Net book value			
At 31 December 2017	38,205	11,118	49,323
At 31 December 2016	45,583	13,163	58,746
At 31 December 2015	49,300	10,984	60,284

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 2017 and 31 December 2016, management carried out an assessment of whether there is any indication that other property, plant and equipment may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use. As at 31 December 2016, management concluded that the cruise terminal in Sochi (a Cruise terminal CGU) was impaired. The impairment recognised in the period ended 31 December 2016, based on value in use, in respect of the Cruise terminal CGU, amounted to $3.1 million. The recoverable amount of the Cruise terminal CGU of $2.0 million was based on value in use. As at 31 December 2017, management concluded that the assets were not further impaired.

The main inputs and assumptions used in the value in use calculations were: probabilities assigned to each of the possible scenarios considered by the Group, revenues and expenses based on the Group's three year budgets, a terminal growth rate of 3% (2016 – 3%) on both revenues and expenses, and a pre-tax discount rate of 12.2% (2016 - 13.0%).

19. Investment Property

	2017 $'000	2016 $'000
Cost		
At 1 January	20,488	26,946
Additions in period	-	37
Transfer from / to non-current assets held for sale (Note 30)	8,050	(7,341)
Disposals in period	(15,266)	(25)
Exchange adjustment	-	871
At 31 December	13,272	20,488
Depreciation		
At 1 January	19,624	19,478
Charge for the period (Note 11)	294	547
Transfer from / to non-current assets held for sale (Note 30)	533	(454)
Disposals in period	(15,103)	-
Exchange adjustment	-	53
At 31 December	5,348	19,624
Net book value		
At 31 December	7,924	864
Rental income from investment property	1,780	1,277
Direct operating expenses of investment property	965	767

As at 31 December 2017, investment property comprises buildings in Novorossiysk and Sochi with a fair value, based on valuations performed by independent qualified valuers as at 31 December 2017, equivalent to $30.2 million (2016 – equivalent to $25.6 million).

20. Investments in Joint Ventures

	2017 $'000	2016 $'000
At 1 January	114,761	98,306
Dissolution of joint venture	(17)	-
Long-term interest repayment from joint venture	-	(1,177)
Share of profits in joint ventures	2,638	12,904
Share of joint ventures' other comprehensive income	8,472	8,275
Dividends receivable	(2,737)	(3,547)
At 31 December	123,117	114,761

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

	Percentage holding				
Name of entity	**2017**	**2016**	**2015**	**Country of incorporation**	**Principal activity**
LNG East-West Shipping Company (Singapore) Pte Limited[1]	37.5%	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Anubis Shipholding Limited[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Ltd.[1]	51.0%	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc[1]	51.0%	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies
Eastern Supply Vessels Limited[2]	-	50.0%	50.0%	Russia	Ship chartering and subchartering services
SSV Sakhalin Offshore Limited[3]	50.0%	50.0%	50.0%	Cyprus	Ship chartering and subchartering services
SCF Swire Offshore Pte Limited[3]	50.0%	50.0%	50.0%	Singapore	Ship management

[1] All key business decisions require joint approval by the shareholders

[2] The joint venture was liquidated on 29 September 2017. Effective ownership was 33.3% for the previous years

[3] Effective ownership 33.3%. Ceased operations in September 2016

The Group through its joint ventures owns and operates 4 LNG carriers (2016 – 4) and 9 Panamax oil product tankers (LR1) (2016 – 9). The Group also operated through its joint ventures, up to September 2016, 3 ice breaking supply vessels one of which it directly owns. In September 2016 the Group acquired from its joint venture partners the two ice breaking supply vessels they owned.

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

	2017 $'000	2016 $'000
Within one year	93,170	90,418
After one year but not more than five years	367,584	372,603
More than five years	403,653	500,885
	864,407	963,906

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Notes to the Consolidated Financial Statements – 31 December 2017 (Continued)

20. Investments in Joint Ventures (Continued)

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

At 31 December 2017	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	132,991	136,641	141,224	141,071	350,003	-	901,930
Total current assets	21,185	22,746	17,774	21,488	34,183	698	118,074
Total non-current liabilities	(120,277)	(123,298)	(104,085)	(107,787)	(215,781)	-	(671,228)
Total current liabilities	(9,021)	(13,867)	(19,631)	(16,603)	(44,716)	(15)	(103,853)
Net assets of the joint venture	24,878	22,222	35,282	38,169	123,689	683	244,923
Group's share in net assets of the joint venture	9,329	11,111	17,641	19,085	63,081	226	120,473
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	9,329	11,111	17,641	19,085	65,725	226	123,117
Cash and cash equivalents	1,111	1,089	4,593	3,988	2,414	689	13,884
Current financial liabilities	(8,993)	(13,655)	(13,061)	(13,941)	(28,957)	-	(78,607)
Non-current financial liabilities	(120,277)	(123,298)	(104,085)	(107,787)	(215,781)	-	(671,228)
Revenues	22,510	23,495	21,179	21,100	81,060	215	169,559
Depreciation, amortisation and impairment	(5,295)	(5,830)	(6,699)	(6,005)	(18,001)	(82)	(41,912)
Interest income	190	153	73	98	34	-	548
Interest expense	(7,384)	(6,946)	(5,926)	(6,256)	(10,774)	-	(37,286)
Income tax	(299)	(312)	-	-	-	(353)	(964)
Joint ventures' profits / (losses) for the period	5,167	5,672	1,653	3,753	(9,286)	(278)	6,681
Group's share of joint ventures' profits / (losses) for the period recognised	1,938	2,836	827	1,877	(4,736)	(104)	2,638
Joint ventures' other comprehensive income for the period	4,705	4,090	3,992	4,164	1,147	-	18,098
Group's share of joint ventures' other comprehensive income for the period recognised	1,764	2,045	1,996	2,082	585	-	8,472
Joint ventures' total comprehensive income for the period	9,872	9,762	5,645	7,917	(8,139)	(278)	24,779
Group's share of joint ventures' total comprehensive income for the period recognised	3,702	4,881	2,823	3,959	(4,151)	(104)	11,110

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Notes to the Consolidated Financial Statements – 31 December 2017 (Continued)

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

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

At 31 December 2016	**LNG East West $'000**	**LNG North South $'000**	**NYK-SCF LNG 1 $'000**	**NYK-SCF LNG 2 $'000**	**SCF ST joint ventures $'000**	**Other $'000**	**Total $'000**
Total non-current assets	138,286	142,471	144,453	144,902	362,240	-	932,352
Total current assets	21,267	18,200	15,302	23,752	40,371	2,981	121,873
Total non-current liabilities	(129,012)	(135,940)	(110,809)	(120,116)	(225,401)	-	(721,278)
Total current liabilities	(9,583)	(12,271)	(19,310)	(18,285)	(45,382)	(470)	(105,301)
Net assets of the joint venture	20,958	12,460	29,636	30,253	131,828	2,511	227,646
Group's share in net assets of the joint venture	7,859	6,230	14,818	15,127	67,232	851	112,117
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	7,859	6,230	14,818	15,127	69,876	851	114,761
Cash and cash equivalents	1,790	1,281	3,251	4,960	4,956	2,825	19,063
Current financial liabilities	(9,554)	(12,058)	(14,702)	(15,888)	(27,890)	-	(80,092)
Non-current financial liabilities	(129,012)	(135,940)	(110,809)	(120,116)	(225,401)	-	(721,278)
Revenues	24,824	25,162	23,196	23,153	81,593	28,342	206,270
Depreciation, amortisation and impairment	(5,968)	(5,971)	(6,723)	(6,346)	(18,077)	(728)	(43,813)
Interest income	59	48	21	27	20	-	175
Interest expense	(7,654)	(7,273)	(6,294)	(6,679)	(10,900)	-	(38,800)
Income tax	(328)	(333)	-	-	-	38	(623)
Joint ventures' profits for the period	6,281	6,280	5,852	6,526	1,326	1,589	27,854
Group's share of joint ventures' profits for the period recognised	2,355	3,140	2,926	3,263	676	544	12,904
Joint ventures' other comprehensive income for the period	4,486	4,096	3,914	4,024	1,122	-	17,642
Group's share of joint ventures' other comprehensive income for the period recognised	1,682	2,048	1,957	2,012	572	4	8,275
Joint ventures' total comprehensive income for the period	10,767	10,376	9,766	10,550	2,448	1,589	45,496
Group's share of joint ventures' total comprehensive income for the period recognised	4,037	5,188	4,883	5,275	1,248	548	21,179

21. Loans to Joint Ventures

	2017 $'000	2016 $'000	2015 $'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	30,583	32,197	40,476
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	24,928	18,127	20,312
	55,511	50,324	60,788
Less current portion (current assets)	-	(4,750)	(8,320)
Non-current portion (non-current assets)	55,511	45,574	52,468
Interest income during the period on loans due from joint ventures	1,353	1,160	1,054
Interest receivable at period end on loans due from joint ventures	3,299	2,505	2,293

The loans to joint ventures are unsecured and mature between January 2019 and April 2020, except for certain loans that repayment shall be made at the discretion of the joint ventures. The joint ventures have the right to repay the loans in part or in full at any time before maturity.

22. Finance Lease Receivables

	2017 $'000	2016 $'000	2015 $'000
Gross finance lease receivable			
At 1 January	-	81,325	85,518
Finance lease interest receivable	-	11,458	12,562
Finance lease instalments receivable	-	(16,136)	(16,755)
Settlement of finance lease receivable	-	(67,572)	-
	-	9,075	81,325
Finance lease receivable written-off on settlement	-	(9,075)	-
At 31 December	-	-	81,325
Allowance for credit losses			
At 1 January	-	(9,494)	(9,856)
Release of allowance of credit losses	-	419	362
Release of allowance on settlement of finance lease receivable	-	9,075	-
At 31 December	-	-	(9,494)
Receivable net of provision	-	-	71,831
Less current finance lease receivables	-	-	(4,875)
Non-current finance lease receivables	-	-	66,956

Finance lease receivables comprised nine Escort tugs chartered out to a subsidiary of a Russian State controlled entity, a former associate, on fifteen year bareboat charters commencing on delivery of the tugs by the shipyards, at effective interest rates ranging from 11.96% to 18.39% per annum. The charter hires were receivable monthly in arrears at daily rates ranging from $3,411 to $7,083 through to expiration of the charters. The charterer had the option to acquire the tugs on any hire payment date through to the expiration of the charter, provided that the charterer had fulfilled all obligations under the bareboat charter agreements, at predetermined prices. In November 2016 the charterer exercised its option to acquire the tugs for a total consideration of $67.6 million. Legal ownership of the tugs was transferred to their new owners during December 2016.

Amounts invoiced in respect of charter hire but outstanding as at the period end are disclosed separately under trade and other receivables in Note 27.

23. Derivative Financial Instruments

The use of financial derivatives is governed by the Group's policies approved by the executive board, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy.

Derivative financial instruments are classified in the statement of financial position as follows:

	2017 $'000	2016 $'000	2015 $'000
Non-current asset	35,909	7,146	8,050
Current asset	808	373	-
Non-current liability	(12,812)	(21,624)	(32,135)
Current liability	(17,370)	(15,446)	(22,929)
	6,535	(29,551)	(47,014)

The Group entered into interest rate swap ("IRS") agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations.

On 2 March, 15 June and 27 October 2017, the Group entered into three twelve year Euro-USD cross currency interest rate swap transactions ("CCIRS") with a Russian State controlled financial institution to hedge the Group's cash flow exposure arising from currency and interest rate fluctuations in respect of Euro equivalent of $89.5 million, $85.1 million and $95.8 million loans respectively, in connection with the financing of three of the Group's vessels.

23. Derivative Financial Instruments (Continued)

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

	IRS		CCIRS		Total	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Amount recognised in hedging reserve	(1,387)	(6,442)	15,861	-	14,474	(6,442)
Reclassified from hedging reserve and debited to financing costs	16,096	22,873	5,115	-	21,211	22,873
Reclassified from hedging reserve and credited to foreign exchange	-	-	(17,888)	-	(17,888)	-
Total in other comprehensive income	14,709	16,431	3,088	-	17,797	16,431

As of 31 December 2017 the Group had the following IRS and CCIRS agreements amortising in accordance with the initial repayment schedules of the relevant loans (the principal amount of which is paid quarterly or semi-annually through to the expiry dates of the swaps) at fixed rates compared to U.S. Dollar three and six month LIBOR, and six month EURIBOR as follows:

U.S. Dollar LIBOR compared to fixed rate	Type	Notional amount 2017 $'000	Notional amount 2016 $'000	Fixed interest rate	Expiry date
Three month	IRS	-	21,000	2.02%	22 July 2017
Three month	IRS	100,000	150,000	0.89%	12 December 2019
Three month	IRS	13,722	14,970	2.02%	13 August 2020
Three month	IRS	13,722	14,970	2.01%	13 August 2020
Three month	IRS	30,864	33,670	2.07%	31 December 2020
Three month	IRS	206,775	230,925	5.76%	1 March 2021
Three month	IRS	118,500	129,033	2.44%	29 January 2024
Three month	IRS	123,453	133,960	2.27%	29 August 2024
Six month	IRS	46,666	53,333	1.63%	21 December 2024
Three month	IRS	130,146	140,770	1.98%	9 January 2025
Three month	IRS	132,802	143,426	1.86%	20 April 2025
		916,650	1,066,057		

EURIBOR compared to fixed rate	Type	Notional amount 2017 $'000	Notional amount 2016 $'000	Fixed interest rate	Expiry date
Six month	CCIRS	85,742	-	5.51%	2 March 2029
Six month	CCIRS	81,521	-	5.30%	15 June 2029
Six month	CCIRS	95,816	-	5.37%	29 October 2029
		263,079	-		

24. Income Taxes

	2017 $'000	2016 $'000
Russian Federation profit tax	16,162	22,929
Overseas income tax expense	1,230	644
Current income tax expense	17,392	23,573
Deferred tax	(2,020)	3,111
Total income tax expense	15,372	26,684

Russian Federation profits tax is payable at a tax rate of 20% (2016 – 20%) on the taxable profits arising on Russian operations. 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 realised 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 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 profits tax on their undistributed profits generated after 1 January 2015, provided that such profits are not distributed as dividends until 31 December of the year following the period when the profits are generated.

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:

	2017 $'000	2016 $'000
(Loss) / profit before income taxes	(97,597)	233,477
Income tax charge using Russian Federation income tax rate of 20%	(19,519)	46,695
Difference in tax rates in other jurisdictions	23,852	(31,859)
Tax effect on intercompany dividends[1]	7,761	14,686
Non-deductible expenses and non-taxable income	(117)	(2,790)
Tax effect of losses for which no deferred tax asset was recognised	3,305	-
Adjustments in respect of current income tax of previous years	90	(48)
Income tax expense	15,372	26,684

[1] Includes tax of $1.2 million on intercompany dividends to be declared and paid in 2018 out of profits for the period ended 31 December 2017. The comparative includes tax of $14.3 million on intercompany dividends declared during the period ended 31 December 2016 and paid in 2017.

Deferred Tax

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2017				
Deferred tax assets	4,663	3,445	54	8,162
Deferred tax liabilities	(858)	(1,425)	25	(2,258)
	3,805	2,020	79	5,904
At 31 December 2016				
Deferred tax assets	7,387	(3,137)	413	4,663
Deferred tax liabilities	(776)	26	(108)	(858)
	6,611	(3,111)	305	3,805

Deferred tax relates to the following:

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2017				
Fleet	818	(264)	-	554
Drydock	(701)	279	(40)	(462)
Unused tax losses carried forward	1,142	2,655	54	3,851
Accounts receivable	(162)	(354)	(2)	(518)
Accounts payable	2,481	327	40	2,848
Other	227	(623)	27	(369)
	3,805	2,020	79	5,904
At 31 December 2016				
Fleet	79	739	-	818
Drydock	(645)	65	(121)	(701)
Unused tax losses carried forward	3,968	(3,123)	297	1,142
Accounts receivable	167	(337)	8	(162)
Accounts payable	2,592	(178)	67	2,481
Gains on disposal of assets reinvested	(79)	79	-	-
Other	529	(356)	54	227
	6,611	(3,111)	305	3,805

The Group has tax losses which arose in Russia and in Spain of $16.5 million and $3.2 million respectively (2016 – $14.5 million in Spain), for which a deferred tax asset has not been recognised. There is no expiry date for tax losses carried forward in Russia, available for offsetting against future taxable profits of the companies in which they arose. Tax losses which arose in Spain have not been recognised on the basis that the company in which the losses arose ceased operations in 2016. In 2017 the Group recognised deferred tax assets of $3.1 million relating to certain operations in Russia, based on the projected results of those operations, supported by contracted revenues in subsequent periods. Some of the unused tax losses recognised in 2015 were offset against taxable profits generated in during the period ended 31 December 2016 resulting in a release of deferred tax assets in 2016 of $3.1 million.

There is no deferred tax impact on the unremitted earnings of subsidiaries, joint ventures or associates other than as disclosed in this note. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,777.9 million (2016 – $2,898.5 million).

There are no income tax consequences attached to the payment of dividends by the Group to its shareholder.

25. **Earnings Per Share**

	2017 $'000	2016 $'000
Net (loss) / profit attributable to equity holders of the parent for basic earnings	(109,670)	202,490
	2017	**2016**
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic (loss) / earnings per share for the period attributable to equity holders of the parent	($0.056)	$0.103

26. **Inventories**

	2017 $'000	2016 $'000	2015 $'000
Bunkers	41,402	32,222	17,644
Lubricants	17,202	17,618	17,168
Victualling and slopchest	2,035	1,835	1,595
Spare parts and consumables	511	730	476
Other	733	963	685
	61,883	53,368	37,568

The amounts expensed during the period are disclosed in Note 7, Voyage Expenses and Commissions, and Note 8, Vessels' Running Costs.

27. **Trade and Other Receivables**

	2017 $'000	2016 $'000	2015 $'000
Non-current assets			
Financial assets			
Other receivables	77	83	104
Receivables under High Court judgement award	2,700	2,700	2,708
Liquidated damages on vessels under construction receivable from shipyard	4,962	-	-
	7,739	2,783	2,812
Current assets			
Financial assets			
Amounts due from charterers	70,376	75,279	96,289
Allowance for credit losses	(3,469)	(3,520)	(5,166)
	66,907	71,759	91,123
Casualty and other claims	6,448	6,945	11,191
Agents' balances	3,242	2,756	2,606
Other receivables	17,192	24,031	21,135
Liquidated damages on vessels under construction receivable from shipyard	5,000	11,800	-
Amounts due from joint ventures	410	473	491
Amounts due from lessee for finance leases	-	764	1,423
Accrued income	4,085	3,426	5,365
Non-financial assets			
Prepayments	11,216	20,302	11,385
Voyages in progress	25,972	25,295	23,809
Non-income based taxes receivable	6,450	5,471	6,077
	146,922	173,022	174,605

Amounts due from charterers represent amounts receivable from charterers of vessels owned or leased by the Group in respect of voyage charters, time charters, and contracts of affreightment.

Freight from voyage charters and contracts of affreightment is receivable upon discharge of the vessel and hire from time charters is receivable monthly in advance over the duration of the time charter voyage or as per any other contractual arrangement with the charterer. Trade receivables are non-interest bearing. The estimated irrecoverable amounts due from charterers are provided for based on management's past experience.

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2017, $25.1 million (2016 – $17.4 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2017, charterers with a carrying amount of $41.8 million (2016 – $54.4 million) are past due at the reporting date. The Group has not provided for these receivables as either there has not been a significant change in credit quality or the recoverability of such amounts has been secured through the exercise of contractual liens over the cargo and its arrests, eventual sale of cargo based on court decisions, and settlement of the receivable through arbitration awards (see also Note 42(e) – credit risk) and therefore the amounts outstanding are still considered recoverable.

The ageing analysis of these past due receivables is as follows:

	2017 $'000	2016 $'000	2015 $'000
Up to one month	17,481	18,898	18,809
One to two months	5,528	10,192	6,452
Two to three months	3,292	3,146	2,535
Three to four months	2,383	4,663	1,450
More than four months	13,096	17,458	2,619
	41,780	54,357	31,865

27. Trade and Other Receivables (Continued)

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

	2017 $'000	2016 $'000	2015 $'000
At 1 January	3,520	5,166	4,214
Amounts written off during the period	(387)	(1,354)	(109)
Amounts recovered during the period and recognised in the income statement	-	(319)	(252)
Increase in allowance recognised in the income statement	336	27	1,313
At 31 December	3,469	3,520	5,166

The voyages in progress contain residual prepaid and accrued income and costs relating to the Group's policy of applying a rateable approach to the recognition of voyage charter results at each period end.

28. Restricted Cash

	2017 $'000	2016 $'000	2015 $'000
Non-current assets			
Financial assets			
Restricted cash	-	-	13,190
	-	-	13,190
Current assets			
Financial assets			
Restricted cash	75,543	72,079	-
	75,543	72,079	-

Restricted cash in 2017 and 2016 represents payment into court, as security deposit, of judgment sum and payment on account of costs in relation to the legal claims described in Note 44.

Restricted cash in 2015 related to an amount, including accrued interest, of $13.2 million that was held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, as a result of a claim advanced by the charterers of the vessel at the time, relating to the grounding of the vessel in the Suez canal in November 2004. Following arbitration in London, the Tribunal's Award was published in July 2016 which rejected charterer's claim. As a result, the security deposits, net of commission of $0.2 million charged by the American Courts have been returned to the Group in October 2016.

29. Cash and Bank Deposits

	2017 $'000	2016 $'000	2015 $'000
Non-current assets			
Bank deposits	12,000	10,000	10,000
Restricted deposits	(12,000)	(10,000)	(10,000)
Cash and cash equivalents	-	-	-
Current assets			
Cash and bank deposits	347,352	470,638	357,427
Bank deposits accessible on maturity	(521)	(15,000)	-
Retention accounts	(24,497)	(22,846)	(23,901)
Restricted deposits	(1,000)	-	(846)
Cash and cash equivalents	321,334	432,792	332,680

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 36. These funds are accumulated to cover future loan principal and interest repayments.

Restricted deposits represent additional security for the purposes of certain secured loan agreements and represent minimum liquidity for the duration of the relevant secured loan.

Under the terms of the agreements, two subsidiaries of the Group have to maintain freely available bank balances and cash in the amount of not less than $35.0 million and $25.0 million respectively. In addition under the terms of the agreements, as at 31 December 2017, one of the two subsidiaries had to maintain minimum liquidity of $146.3 million (2016 – $125.4 million) of which $73.1 million (2016 – $62.7 million) had to be maintained in cash and cash equivalents.

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

30. **Non-Current Assets Held for Sale**

	Property and other plant and equipment $'000	Fleet $'000	Total $'000
At 1 January 2016	-	28,130	28,130
Transfer from investment property (Note 19)	6,887	-	6,887
Transfer from other property, plant and equipment (Note 18)	1,232	-	1,232
Exchange adjustment	241	-	241
Disposals in period	-	(28,130)	(28,130)
At 31 December 2016	8,360	-	8,360
Transfer from fleet (Note 15)	-	26,175	26,175
Transfer to investment property (Note 19)	(7,517)	-	(7,517)
Impairment provision	-	(456)	(456)
Transfer from other property, plant and equipment (Note 18)	5,506	-	5,506
Exchange adjustment	500	-	500
Disposals in period	(6,849)	-	(6,849)
At 31 December 2017	-	25,719	25,719

During the period ended 31 December 2016, the Group classified as held for sale an exhibition centre in Sochi, Russia, and the international hall building of the port of Sochi, both held as investment property, as well as other related plant and equipment. The property and other plant and equipment were actively marketed for sale at a price approximate to their fair value. The international hall building of the port of Sochi, Russia was sold in January 2017. As at 31 December 2017, the exhibition centre in Sochi, Russia, as well as other related plant and equipment were reclassified to investment property and other fixed assets, respectively, as the sale was no longer considered as highly probable, due to the uncertainty as to whether the sale will be completed within one year from the date of classification to held for sale.

During the period ended 31 December 2017, the Group classified as held for sale two office buildings, one in Sochi, Russia, and one in Limassol, Cyprus. The buildings were actively marketed for sale at a price approximate to their market value. The two buildings were sold in July and September 2017 respectively.

During the period ended 31 December 2017, the Group classified as held for sale four crude oil Aframax tankers. These vessels were actively marketed for sale at a price which approximates to their market values and consequently were transferred to non-current assets held for sale. Three of the vessels were disposed of and delivered to their buyers, one in February and two in March 2018 (see also Note 46). The last vessel is expected to be delivered to her buyers by the end of March 2018.

31. **Share Capital**

	2017 $'000	2016 $'000	2015 $'000
Authorised 2,247,653,953 shares of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012	405,012
Share premium arising from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 32)	818,845	818,845	818,845

32. **Group Reconstruction Reserve**

	2017 $'000	2016 $'000	2015 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)	(843,450)
	(834,490)	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 Roubles ($1.40071) per share (see also Note 31), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests' basis.

33. **Dividends**

Dividends of Rouble 3.12 per share totalling Roubles 6,141.0 million, equivalent to $106.9 million were declared on 16 June 2017 and paid on 27 June 2017 (2016 – 3.04 Rouble per share totalling Roubles 5,972.7 million equivalent to $92.9 million).

34. **Non-Controlling Interests**

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2016	(5,417)	165,339	159,922
Profit for the period	-	4,303	4,303
Other comprehensive income	(11)	(5)	(16)
Dividends	-	(13,217)	(13,217)
Acquisition of non-controlling interest by equity holders	20	(566)	(546)
At 31 December 2016	(5,408)	155,854	150,446
Loss for the period	-	(3,299)	(3,299)
Other comprehensive income	50	(49)	1
Dividends	-	(3,346)	(3,346)
At 31 December 2017	(5,358)	149,160	143,802

35. **Trade and Other Payables**

	2017 $'000	2016 $'000	2015 $'000
Non-current liabilities			
Financial liabilities			
Liquidated damages for late delivery of vessels payable to charterer	19,386	1,119	-
Non-financial liabilities			
Employee benefit obligations (Note 12)	9,027	36,385	16,045
	28,413	37,504	16,045
Current liabilities			
Financial liabilities			
Trade payables	59,020	40,465	36,406
Other payables	41,742	39,653	46,384
Liquidated damages for late delivery of vessels payable to charterer	4,119	11,800	-
Dividends payable	12,801	15,986	7,604
Accrued liabilities	41,522	46,292	37,535
Accrued interest	17,049	17,299	20,436
Non-financial liabilities			
Deferred revenue	50,874	29,985	23,319
Employee benefit obligations (Note 12)	35,785	-	-
Non-income based taxes payable	22,662	13,304	9,992
	285,574	214,784	181,676

Liquidated damages represent the penalties payable to two Russian State controlled entities, charterers of six vessels, for the late delivery of vessels to charter (see also Note 45).

36. **Secured Bank Loans**

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

	2017 $'000	2016 $'000	2015 $'000
Repayable			
- within twelve months after the end of the reporting period	338,226	290,460	289,142
- between one to two years	472,511	309,162	238,866
- between two to three years	281,837	390,830	226,236
- between three to four years	306,796	227,658	359,061
- between four to five years	201,323	246,686	170,834
- more than five years	1,000,354	729,029	601,437
	2,601,047	2,193,825	1,885,576
Less current portion	(338,226)	(290,460)	(289,142)
Non-current balance	2,262,821	1,903,365	1,596,434

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

Contractual interest rates	Interest rate 2017	Interest rate 2016	Outstanding loans gross of direct issue costs 2017 $'000	Outstanding loans gross of direct issue costs 2016 $'000	Maturity
Floating rate loans in U.S. Dollar between 0.875%-3.00% per annum	Libor+2.23%[1]	Libor+2.15%[1]	1,568,291	1,807,030	Between January 2018 - April 2025
Floating rates loans in EURO	Euribor+1.595%	-	281,126	-	Between March 2029 - October 2029
Fixed rate	5.19%	5.19%	6,601	12,441	July 2019
Fixed rate	4.15%	4.15%	50,000	56,667	April 2025
Fixed rate	7.50%	7.50%	310,376	336,242	February 2029
Fixed rate	6.99%	-	242,103	-	July 2029
Fixed rate	5.70%	-	167,552	-	March 2027
			2,626,049	2,212,380	

[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 2017 of $4,990.2 million (2016 – $4,370.4 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 16 and pledges of shares in certain of the vessel owning companies.

The Group is subject to a number of covenants in relation to its borrowing facilities which if breached could result in its loans becoming immediately repayable. As at the period end the Group was not in default of any of its bank loan covenants.

37. Finance Lease Liabilities

	2017 $'000	2016 $'000	2015 $'000
Repayable			
- within twelve months after the end of the reporting period	-	173,690	10,120
- between one to two years	-	-	173,690
	-	173,690	183,810
Less current portion	-	(173,690)	(10,120)
Non-current balance	-	-	173,690

On 12 April 2017, the Group exercised its right under bareboat charter agreements to repurchase the two vessels sold and leased back in 2010 from a related party, classified as fleet as of 31 December 2016 (see Note 15), at a total price of $173.4 million. Legal ownership was transferred to the Group on 15 May 2017 and 22 May 2017.

38. Retirement Benefit Obligations

	2017 $'000	2016 $'000	2015 $'000
Post retirement pension benefit plans	2,145	2,105	1,757
Long-term service retirement benefit plans	1,900	1,314	1,310
Total obligations	4,045	3,419	3,067

A subsidiary of the Group operates two defined benefit retirement plans, a post retirement pension benefit plan and a long-term service retirement benefit plan for its seafarers and shore based staff.

Post retirement service benefit plans stipulate payment of a fixed amount of monthly pension for all retired employees who have completed a specified period of service with the subsidiary. The pension is paid over the life of the pensioners. In addition, the subsidiary has a long-term service retirement benefit plan stipulating payment of a lump sum to employees who have completed a specified period of service upon their retirement. All defined benefit plans are unfunded. The plans do not have any assets.

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

	2017 $'000	2016 $'000	2015 $'000
Defined benefit obligation at 1 January	2,105	1,757	2,036
Interest cost	183	185	212
Benefits paid	(280)	(259)	(328)
Exchange adjustment	111	354	(412)
Re-measurement of losses recognised in other comprehensive income	26	68	249
Defined benefit obligation at 31 December	2,145	2,105	1,757

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

	2017 $'000	2016 $'000	2015 $'000
Defined benefit obligation at 1 January	1,314	1,310	1,354
Current service costs	34	31	31
Interest cost	89	84	77
Benefits paid	(68)	(203)	(263)
Exchange adjustment	96	112	(190)
Re-measurement of losses / (gains) recognised in other comprehensive income	435	(20)	301
Defined benefit obligation at 31 December	1,900	1,314	1,310

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

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current service cost	-	-	34	31	34	31
Interest cost	183	185	89	84	272	269
Exchange adjustment	111	354	96	112	207	466
Charged in the income statement	294	539	219	227	513	766
Experience adjustments on obligation	(65)	(74)	377	(148)	312	(222)
Actuarial changes arising from changes in demographic assumptions	-	22	-	24	-	46
Actuarial changes arising from changes in financial assumptions	91	120	58	104	149	224
Re-measurement losses / (gains) recognised in other comprehensive income	26	68	435	(20)	461	48

38. Retirement Benefit Obligations (Continued)

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

	2017	2016
Discount rate for cash flows in Russian Roubles	7.44%	8.37%
Discount rate for cash flows in U.S. Dollars	1.29%	0.81%
Future salary increases in Russian Roubles	4.00%	5.00%
Future salary increases in U.S. Dollars	-	-
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 60	17	17
Life expectancy in years of a female pensioner retiring at the age of 55	27	27
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	7.2	7.1
The average duration of the defined benefit plan obligation for long-term service retirement pension benefit plans	7.3	5.8

The Group expects to make benefit payments of $0.8 million (2016 – $0.5 million) in respect of the defined benefit plans in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 and 31 December 2016 is as shown below:

	2017 (Decrease) / increase in net defined benefit obligation		2016 (Decrease) / increase in net defined benefit obligation	
	50 bps increase $'000	50 bps decrease $'000	50 bps increase $'000	50 bps decrease $'000
Discount rate	(100)	93	(80)	86
Future salary increases	48	(45)	37	(34)

	2017 (Decrease) / increase in net defined benefit obligation		2016 (Decrease) / increase in net defined benefit obligation	
	100 bps increase $'000	100 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
Future pension cost increases	84	-	84	-

	2017		2016	
	Increase by 1 year $'000	Decrease by 1 year $'000	Increase by 1 year $'000	Decrease by 1 year $'000
Life expectancy of male pensioners	84	(91)	75	(82)
Life expectancy of female pensioners	45	(48)	39	(42)

39. Other Loans

	2017 $'000	2016 $'000	2015 $'000
$800 million 5.375% Senior Notes due in 2017	-	139,896	799,089
$900 million 5.375% Senior Notes due in 2023	891,801	737,076	-
Other loan from related party	14,148	-	93,387
	905,949	876,972	892,476
Less current portion	(3,537)	(139,896)	(16,984)
Non-current balance	902,412	737,076	875,492

On 27 October 2010, the Group, through its subsidiary SCF Capital Designated Activity Company (formerly SCF Capital Limited) ("SCF Capital"), issued Senior Notes (the "2010 Notes") of $800 million, redeemable at par value, maturing on 27 October 2017. Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011.

On 16 June 2016, the Group, through SCF Capital, issued $750 million of Senior Notes (the "2016 Notes"), redeemable at par value, maturing on 16 June 2023. Interest accrues at 5.375% from 16 June 2016 and is payable semi-annually in arrears on 16 June and 16 December of each year, commencing on 16 December 2016. The 2016 Notes were used to partly refinance the 2010 Notes. A total amount of $660,045,000 of the 2010 Notes was tendered back to SCF Capital at a price of $104.125 per $100 par value. Of the $27.2 million premium paid on the tendered bonds, $18.1 million has been expensed and included in financing costs in the income statement for the period ended 31 December 2016. The balance of $9.1 million relating to refinancing of the 2010 Notes with the 2016 Notes has been netted off against the proceeds raised from the 2016 Notes.

On 10 April 2017, the Group, through its subsidiary SCF Capital, issued $150.0 million of Senior Notes, at a price of $102.768 per $100.000 par value, redeemable at par value, maturing on 16 June 2023, which were consolidated and form a single series with the $750 million 5.375% 2016 Notes due in 2023. Interest accrues at 5.375% from 16 June 2017 and is payable semi-annually in arrears on 16 June and 16 December of each year, commencing on 16 June 2017. The premium of $4.2 million arising from the issue is capitalised and amortised over the period to maturity of these Senior Notes.

39. Other Loans (Continued)

On 15 May 2017 the Group redeemed the outstanding balance of $139.955 million of the $800 million 5.375% Senior Notes maturing in October 2017 at an applicable premium of $16.79 per $1,000 principal amount. The total redemption price, consisting of the principal amount of such Notes, the applicable premium, and the interest accrued, in aggregate equal to $1,019.48 per $1,000.00 principal amount of such Notes, resulted in a total payment of $142.7 million. The premium of $2.4 million paid on redemption, has been expensed in the income statement and is included in the line financing costs.

The Notes are unsecured and guaranteed by Sovcomflot. There are no equity conversion rights or options attached to the Notes. Both the 2010 Notes and 2016 Notes are included above net of unamortised financing costs.

Interest charged during the period in relation to the 2010 Notes and 2016 Notes amounted to $48.5 million (2016 – $45.5 million).

Other loan from related party as at 31 December 2017 relates to an agreement entered into by the Group on 19 April 2017 to purchase seismic equipment ("Purchase Agreement") for a total consideration of €14.8 million equivalent to $15.9 million. On the same date, a consent and assignment agreement was signed between the Group, the seller of the equipment and a subsidiary of a Russian State controlled financial institution (the "Bank") to assign all present and future rights, title and interest in and to the Purchase Agreement to the Bank. A payment equal to 10% of the consideration was made to the Bank on 16 May 2017, and the remaining 90% of the consideration ("Deferred Consideration") will be paid in nine equal semi-annual instalments commencing on 15 December 2017 with final payment on 15 December 2021. The Deferred Consideration bears interest at six month EURIBOR plus 4% margin per annum. Interest charged during the period in relation to this loan amounted to $0.4 million.

40. Cash Generated From Operations

	2017 $'000	2016 $'000
(Loss) / profit for the period before income taxes	(97,597)	233,477
Share of profits in equity accounted investments	(2,675)	(12,939)
Depreciation, amortisation and impairment	389,142	355,790
Investment property depreciation	294	547
(Gain) / loss on sale of assets	(20,177)	483
Loss on sale of equity accounted investments	5	-
Interest expenses and financing costs	193,859	162,664
Interest income	(9,787)	(18,303)
Gain on ineffective hedging instruments	(401)	(1,032)
Foreign exchange differences	(243)	(18,936)
Change in allowance for credit losses	(490)	(84)
Other long-term employee benefits	7,949	20,079
Operating cash flows before movements in working capital	459,879	721,746
Increase in inventories	(8,515)	(15,800)
Decrease in trade and other receivables	31,282	17,910
Increase in trade and other payables	84,704	28,126
Cash generated from operations	567,350	751,982

41. Significant Subsidiary Companies

At 31 December 2017, the Group had 135 single vessel owning and operating subsidiaries (2016 – 131) incorporated in Liberia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of Incorporation	Percentage Holding	Principal Activity
PAO Novoship	Russia	89.46%	Holding company
SCF Overseas Holding Limited	Cyprus	100%	Holding company
SCF Tankers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Supply Vessels Limited and its subsidiaries	Cyprus	100%	Holding company
Intrigue Shipping Limited and its subsidiaries	Cyprus	89.46%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Arctic LLC	Russia	100%	Holding company
Sovcomflot Varandey LLC	Russia	100%	Ship operation
SCF Shelf LLC	Russia	100%	Ship operation
SCF Atlantic LLC	Russia	100%	Ship operation
SCF Geo LLC and its subsidiary	Russia	100%	Ship operation
SCF Novy Port LLC	Russia	100%	Ship operation
SCF Management Services (Novorossiysk) Ltd.	Russia	100%	Ship management
SCF Management Services (Cyprus) Ltd	Cyprus	100%	Ship management
SCF Management Services (St. Petersburg) Ltd.	Russia	100%	Ship management
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Ship management and supervision of operations
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Capital Designated Activity Company	Ireland	100%	Financing

41. **Significant Subsidiary Companies (Continued)**

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 2017			At 31 December 2016		
	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

In January 2016 Sovcomflot acquired 9,000 ordinary and 107,000 preference shares of Novoship from non-controlling shareholders. Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently, Sovcomflot holds an effective interest in Novoship of 89.46% as at 31 December 2017 (2016 – 89.46%).

Consolidated financial information of Novoship that has material non-controlling interests is provided below. This information is based on amounts before intercompany eliminations and reflect the change in functional currency of PAO Novoship in 2016, from the Russian Rouble to the U.S. Dollar, due to increase in U.S. Dollar denominated operations.

	2017 $'000	2016 $'000
Summarised statement of financial position:		
Total non-current assets	1,356,536	1,456,625
Total current assets	197,898	257,292
Total non-current liabilities	(56,184)	(110,522)
Total current liabilities	(134,406)	(176,546)
Net assets at period end	1,363,844	1,426,849
Cash and cash equivalents	101,432	180,944
Current financial liabilities	51,368	23,840
Non-current financial liabilities	49,237	100,515
Summarised income statement:		
Revenues	380,052	397,580
Depreciation, amortisation and impairment	(108,159)	(128,541)
Interest income	4,178	2,699
Interest expense	(4,583)	(3,795)
Income tax	(7,361)	(14,338)
(Loss) / profit for the period	(31,286)	40,807
Other comprehensive income for the period	16	(152)
Total comprehensive income for the period	(31,270)	40,655
Summarised statement of cash flows:		
Operating activities	65,208	175,312
Investing activities	(16,663)	(40,007)
Financing activities	(129,563)	(117,411)
Net (decrease) / increase in cash and cash equivalents	(81,018)	17,894

42. **Financial Risk Management**

(a) Capital management

The capital structure of the Group consists of net debt and equity. The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders;
- to enhance the ability of the Group to invest in future projects by sustaining a strong financial position and high borrowings capacity;
- to provide an adequate return to its shareholder; and
- to maintain and improve the Group's credit rating.

The Group reviews its capital structure and the capital structure of its subsidiaries on a quarterly basis. As part of this review, management makes adjustments to it in the light of changes in economic conditions and the risk characteristics relating to the Group's activities. In order to maintain or adjust its capital structure, the Group may repay existing secured term loans and revolving credit facilities, sell assets to reduce debt 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 excess or deficit of the market value of the fleet over/under its carrying amount ("total adjusted capital"). Net debt is calculated as the total of secured bank loans, finance lease liabilities and other loans disclosed in Notes 36, 37 and 39 of the financial statements, respectively, less restricted cash (Note 28) and cash and bank deposits (Note 29). Total equity comprises all components of equity.

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

(a) Capital management (continued)

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 2017 the Group's overall strategy remained unchanged from 2016. The net debt ratio at 31 December 2017 and at 31 December 2016 and the net adjusted debt ratio of the Group were as follows:

	2017 $'000	2016 $'000
Secured bank loans (Note 36)	2,601,047	2,193,825
Finance lease liabilities (Note 37)	-	173,690
Other loans (Note 39)	905,949	876,972
Less: restricted cash (Note 28)	(75,543)	(72,079)
Less: cash and bank deposits (Note 29)	(359,352)	(480,638)
Net debt	3,072,101	2,691,770
Total equity	3,409,022	3,604,316
Total capital	6,481,123	6,296,086
Net debt ratio	47.4%	42.8%
Total capital	6,481,123	6,296,086
Deficit of market value of fleet over carrying value	(1,133,594)	(1,404,365)
Total adjusted capital	5,347,529	4,891,721
Net adjusted debt ratio	57.4%	55.0%

(b) Categories of financial assets and financial liabilities

	2017 $'000	2016 $'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships (Note 23)	36,717	7,519
Restricted cash (Note 28)	75,543	72,079
Cash and bank deposits (Note 29)	359,352	480,638
Available-for-sale investments	523	760
Loans and other receivables (Note 27)	111,023	124,737
Loans to joint ventures (Note 21)	55,511	50,324
Total financial assets	638,669	736,057
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships (Note 23)	30,182	37,070
Secured bank loans (Note 36)	2,601,047	2,193,825
Finance lease liabilities (Note 37)	-	173,690
Other loans (Note 39)	905,949	876,972
Other liabilities measured at amortised cost (Note 35)	195,639	172,614
Total financial liabilities	3,732,817	3,454,171

(c) Changes in liabilities arising from financing activities

	1 January 2017 $'000	Cash flows $'000	Foreign exchange movement $'000	Other $'000	31 December 2017 $'000
Secured bank loans	2,193,825	394,971[1]	18,698	(6,447)[2]	2,601,047
Other loans	876,972	8,458	1,674	18,845[3]	905,949
Finance lease liabilities	173,690	(176,817)	-	3,127	-
Dividends payable	15,986	(110,977)	(2,110)	109,902[4]	12,801
Total liabilities from financing activities	3,260,473	115,635	18,262	125,427	3,519,797

[1] Includes proceeds of borrowings of $697.5 million and repayment of borrowings of $302.5 million.

[2] Includes direct issue costs of $11.8 million incurred during 2017 and direct issue costs amortisation of $5.4 million.

[3] Relates to the purchase seismic equipment disclosed in Notes 15 and 39.

[4] Includes dividends declared during 2017 in the amount of $106.905 million (Note 33).

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

(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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial assets				
Loans to joint ventures	55,511	50,324	53,232	48,256
Liquidated damages on vessels under construction receivable from shipyard	9,962	11,800	9,962	11,800
Total financial assets	65,473	62,124	63,194	60,056
Financial liabilities				
Secured bank loans at fixed interest rates	765,028	400,469	792,895	409,306
Secured bank loans at floating interest rates	1,836,019	1,793,356	1,840,772	1,794,306
Other loans	905,949	876,972	947,328	903,829
Finance lease liabilities	-	173,690	-	175,974
Liquidated damages for late delivery of vessels payable to charterer	23,505	12,919	23,505	12,919
Total financial liabilities	3,530,501	3,257,406	3,604,500	3,296,334

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within Level 1) from observable current market transactions and dealer quotes for similar instruments. The fair values of derivative instruments, including interest rate swaps, are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, 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 2017 and 31 December 2016 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 2017				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	36,717	-	36,717
	-	36,717	-	36,717
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	30,182	-	30,182
	-	30,182	-	30,182
At 31 December 2016				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	7,519	-	7,519
	-	7,519	-	7,519
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	37,070	-	37,070
	-	37,070	-	37,070

There were no transfers between Level 1 and 2 during the periods ended 31 December 2017 and 31 December 2016.

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 2017				
Assets				
Non-current assets held for sale	25,719	-	-	25,719
	25,719	-	-	25,719
At 31 December 2016				
Assets				
Fleet	-	52,470	-	52,470
	-	52,470	-	52,470

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2017				
Fair value of assets				
Investment property	-	30,201	-	30,201
Loans to joint ventures	-	53,232	-	53,232
Liquidated damages on vessels under construction receivable from shipyard	-	9,962		9,962
	-	93,395	-	93,395
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	792,895	-	792,895
Secured bank loans at floating interest rates	-	1,840,772	-	1,840,772
Other loans	932,625	14,703	-	947,328
Liquidated damages for late delivery of vessels payable to charterer	-	23,505	-	23,505
	932,625	2,671,875	-	3,604,500
At 31 December 2016				
Fair value of assets				
Investment property	3,378	22,188	-	25,566
Loans to joint ventures	-	48,256	-	48,256
Liquidated damages on vessels under construction receivable from shipyard	-	11,800	-	11,800
	3,378	82,244	-	85,622
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	409,306		409,306
Secured bank loans at floating interest rates	-	1,794,306	-	1,794,306
Other loans	903,829	-	-	903,829
Finance lease liabilities	-	175,974	-	175,974
Liquidated damages for late delivery of vessels payable to charterer	-	12,919	-	12,919
	903,829	2,392,505	-	3,296,334

(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. Over the last three years, the Russian economy has been negatively impacted by a decline in crude oil prices, as well as economic sanctions imposed on certain Russian legal entities and individuals by several countries.

The Group seeks to minimise potential adverse effects on the Group's financial performance by employing a sufficiently robust financial risk strategy to withstand prolonged adverse conditions in significant risk factors such as down-cycles in freight rates or unfavourable conditions in the financial markets.

The Group's results and cash flows are influenced by the success of the Group in managing these risk factors as detailed below.

Market risk

Foreign currency risk

The Group's economic environment is the international shipping market. This market utilises the U.S. Dollar as its functional currency. The majority of the Group's revenues and most of the operating expenses are in U.S. Dollars. Exposure to transaction risk arises because certain revenues from seismic operations, voyage expenses, vessel operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Sterling Pound.

The Group is also exposed to foreign currency risk on its Euro denominated secured bank loans and other loans. During 2017, 91.7% of the Group's borrowings were denominated in U.S. Dollars (2016 – 100%) and 8.3% 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 2017 the net exposure of the Group to foreign exchange rate fluctuations on its borrowing is limited to €11.8 million (equivalent to $14.1 million).

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.

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

(e) Financial risk factors (continued)

Market risk (continued)

Foreign currency risk (continued)

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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Euro (EUR)	31,512	6,059	11,733	12,944
Russian Roubles (RUR)	90,743	79,925	104,469	77,375
Sterling Pounds (GBP)	2,016	4,919	13,682	22,737
Others	2,510	2,150	1,359	921

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

	Increase		Decrease	
	2017	2016	2017	2016
Euro (EUR)	12.5%	10.0%	7.5%	10.0%
Russian Roubles (RUR)	11.0%	20.0%	11.0%	20.0%
Sterling Pounds (GBP)	11.0%	6.0%	7.0%	18.0%
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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Euro (EUR)	1,009	606	1,781	(78)
Russian Roubles (RUR)	5,464	5,558	(702)	(2,855)
Sterling Pounds (GBP)	(610)	640	(460)	(154)
Others	94	107	11	5

The effect of a decrease in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in pre-tax equity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Euro (EUR)	736	742	(1,300)	95
Russian Roubles (RUR)	6,816	8,337	874	4,282
Sterling Pounds (GBP)	(463)	2,482	349	596
Others	115	130	(13)	(6)

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.

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:

	2017 $'000	2016 $'000
Total borrowings gross of direct issue costs (Notes 36, 37 and 39)	3,540,197	3,276,185
Fixed rate borrowings gross of direct issue costs (Notes 36, 37 and 39)	(1,676,632)	(1,469,155)
Total floating rate borrowings gross of direct issue costs (Notes 36 and 39)	1,863,565	1,807,030
Notional amount of floating to fixed rate swaps qualifying under IAS32 / IAS39 (Note 23)	(1,179,729)	(1,066,057)
Net exposure to interest fluctuations	683,836	740,973
% of floating rate borrowings exposed to interest rate fluctuations	36.7%	41.0%

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

(e) Financial risk factors (continued)

Market risk (continued)

Cash flow interest rate risk (continued)

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

Sensitivity of interest rates	**2017** 100 bps increase $'000	**2017** 25 bps decrease $'000	**2016** 100 bps increase $'000	**2016** 25 bps decrease $'000
Change in fair value of hedging instruments				
- Increase / (decrease) in other comprehensive income for the period	19,675	5,385	40,455	(10,114)
- Increase / (decrease) in profit or loss for the period	121	(31)	588	(147)
Increase / (decrease) in interest expense for the period excluding interest capitalised	5,792	(1,449)	5,619	(1,405)

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 50.3% (2016 – 59.1%) of the vessels' total trading days were on time charter representing 77.3% (2016 – 75.0%) of time charter equivalent revenues of which 3.0% (2016 – 4.0%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2017, 53.3% (2016 – 55.6%) of the vessels were on time charter.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from derivative financial instruments and deposits with financial institutions as well as exposure to charterers, including receivables and committed transactions.

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2017, amounts due from charterers included two charterers (2016 – one) with a balance of freight and hire due of $18.7 million (2016 - $29.2 million), representing 28.0% of total amounts due (2016 – 40.7%).

In respect of the charterer with an amount due of $29.2 million as at 31 December 2016, the Group exercised contractual liens in 2016 over the cargo on board two of the vessels chartered out to this charterer and also obtained the court orders arresting same cargo. The cargoes on board of the two vessels were sold, based on court decisions, in October 2017 and proceeds from their sale amounting to $47.0 million were deposited in an escrow bank account. Settlements directly by the charterer or through arbitration awards from the escrow bank account, for amounts outstanding as of 31 December 2016 and charter hire due for the period ended 31 December 2017, amounted to $22.6 million in the period ended 31 December 2017. As at 31 December 2017, the balance on the escrow bank account was $22.9 million. Claimed amounts awarded and to be awarded through arbitration, and outstanding as at 31 December 2017, amounted to $11.2 million. Management believes that there is no further credit provision required in excess of the allowance for credit losses.

As at 31 December 2017, total freight and hire revenue included revenue of $242.6 million and $162.2 million (2016 – $181.5 million and $179.6 million) from two charterers individually representing 16.9% and 11.3% (2016 – 13.1% and 12.9%), respectively, of total freight and hire revenue.

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

Operating segment	**2017** $'000	**2016** $'000
Crude oil	113,904	112,689
Oil product	21,407	35,019
Gas	107,810	110,854
Offshore	131,563	54,690
Other	30,164	47,842
	404,848	361,094

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with three banks (2016 – five) representing 29.5%, 25.0% and 17.5% (2016 – 21.3%, 21.1%, 15.8%, 13.2% and 10.7%) of total deposits of $357.9 million (2016 – $479.0 million).

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

(e) Financial risk factors (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset and arises because of the possibility that the Group could be required to pay its liabilities earlier than expected.

Management has built an appropriate liquidity risk assessment framework for the purposes of short, medium and long-term funding and liquidity management requirements. Due to the dynamic nature of the shipping industry, the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve revolving credit facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Below is a table summarising additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk:

	Credit facilities $'000	Drawn down $'000	Available $'000
At 31 December 2017			
Secured bank loans	824,700	(697,490)	127,210
Secured revolving credit facilities	248,662	(208,662)	40,000
	1,073,362	(906,152)	167,210
At 31 December 2016			
Secured bank loans	1,260,129	(589,129)	671,000
Secured revolving credit facilities	248,662	(208,662)	40,000
	1,508,791	(797,791)	711,000

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 2017 all facilities above were available for drawdown.

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 2017	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	159,204	14,424	4,962	178,590
Secured bank loans	343,599	1,275,846	1,006,604	2,626,049
Other loans	3,537	10,611	900,000	914,148
Interest payable on derivative instruments	17,139	27,626	1,018	45,783
Interest payable on secured loans	112,207	316,477	143,547	572,231
Interest payable on other loans	48,376	193,500	24,187	266,063
	684,062	1,838,484	2,080,318	4,602,864
At 31 December 2016				
Trade and other payables	154,196	1,119	-	155,315
Minimum lease payments under finance leases	173,850	-	-	173,850
Secured bank loans	294,861	1,185,205	732,314	2,212,380
Other loans	139,955	-	750,000	889,955
Interest payable on derivative instruments	18,462	28,988	-	47,450
Interest payable on secured loans	83,066	249,585	100,645	433,296
Interest payable on other loans	47,836	161,250	60,469	269,555
Interest payable on finance leases	8,430	-	-	8,430
	920,656	1,626,147	1,643,428	4,190,231

43. **Operating Lease Arrangements**

The Group as Lessee

The Group has the following non-cancellable operating lease commitments as at the period end in respect of vessels and buildings in Novorossiysk, London, Moscow, Dubai and Limassol:

	Vessels		Buildings	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Within one year	27,090	23,555	4,843	1,351
After one year but not more than five years	57,772	23,522	22,138	18,251
More than five years	-	-	33,534	37,522
	84,862	47,077	60,515	57,124
Expensed during the period	40,424	25,791	5,014	5,155

The Group charters in two seismic vessels with various extension options attached to the bareboat charter contracts and purchase options. The firm period of the leases on the vessels have a remaining life of less than two and less than five years, respectively. The leases for the buildings expire between 4 and 9 years with various options attached and one lease expiring in 43 years. There are no restrictions placed upon the Group by entering into these leases.

43. **Operating Lease Arrangements (Continued)**

The Group as Lessor

	Buildings	
	2017 $'000	2016 $'000
Within one year	1,883	1,788
After one year but not more than five years	8,522	8,093
More than five years	6,914	9,176
	17,319	19,057
Income during the period	1,859	1,502

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's on shore based facilities in Novorossiysk and Sochi, Russia, including leased in facilities. The leases expire within 8 years.

44. **Contingent Liabilities and Commitments**

Contracted revenues and guarantees

The Group through its subsidiaries entered into time charter agreements with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2017 $'000	2016 $'000
Within one year	736,984	717,348
After one year but not more than five years	2,560,997	2,323,630
More than five years	4,421,655	4,605,660
	7,719,636	7,646,638

The time charters referred to above include various charterers' purchase, termination and extension options.

The Group obtained guarantees from a Russian State controlled entity in respect of the performance of the obligations by its subsidiary as charterer under two time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the State controlled entity. In addition the Group obtained guarantees from a subsidiary of the Russian State controlled entity in respect of the performance obligations by the subsidiary of the guarantor under three time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the guarantor.

The Group has also obtain guarantees valid until 30 April 2024 from a Russian state controlled entity in respect of the performance obligations by the subsidiary of the guarantor under the deed on deferred payment on part of liquidated damages amounting to $9.8 million, as a result of the delay delivery of vessel under the shipbuilding contract.

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 16, is summarised as follows:

	Less than 1 year $'000	1 to 5 years $'000	Total $'000
At 31 December 2017			
Newbuilding contracts	268,521	340,521	609,042
Newbuilding contracts with Russian State controlled shipyards	95,960	-	95,960
	364,481	340,521	705,002
At 31 December 2016			
Newbuilding contracts	222,512	-	222,512
Newbuilding contracts with Russian State controlled shipyards	416,000	-	416,000
	638,512	-	638,512

Contingent liabilities

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions traditionally utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Generally, in most jurisdictions the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction.

Management believes that the Group's shipping and holding companies are subject to taxation in their respective countries of incorporation in full compliance with local tax legislation. However, the concept of permanent establishment and tax residency for legal entities introduced by domestic and international law is subject to interpretation. As a result, there is a risk that the taxation authorities of certain jurisdictions may attempt to subject the Group's earnings from international shipping activities to income taxes. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions.

Effective 1 January 2015 the concept of beneficial ownership was introduced in the Russian tax code in respect of application of the provisions of double tax treaties to certain types of income. Given the lack of practice and uncertainty in application of the new rules by the Russian tax authorities, substantial tax liabilities might arise in case the tax authorities challenge compliance with the beneficial ownership confirmation requirements.

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

In 2015 and 2016 the Russian tax authorities challenged application of 0% value added tax ("VAT") rate charged by the Group's Russian subsidiaries on hire revenues earned from vessels time-chartered out and employed on international trade, requiring the subsidiaries to apply 18% VAT rate on hire revenue. Following clarification on the issue received from the Federal Russian tax authorities that the application of 0% VAT rate is appropriate, all enquiries have been stopped and the remaining balance of approximately RUR149 million (equivalent to $2.5 million), has been received in July 2017.

In 2015, the Russian customs alleged that one of the Group's Russian subsidiaries had breached the customs' regulations in respect of two of its vessels on the basis that it had not obtained the permission of customs prior to chartering out the vessels on time charter. The Russian customs had requested the Group to pay RUR314 million of custom fees (equivalent to $5.5 million) of which RUR284 million (equivalent to $4.9 million) of the RUR314 million paid, are included in other receivables under trade and other receivables. In October 2016 the courts have decided that customs illegally imposed the custom fee of RUR221 million (equivalent to $3.8 million) for the first vessel; such decision was confirmed by an appeal court in February 2017. Customs have submitted a further appeal and in June 2017 the higher appeal court overturned the previous decisions of the court's and confirmed correctness of the customs office claim. The case had been submitted by the Group to the Supreme Court in August 2017 and on 28 February 2018 the Supreme Courts found in favour of the Group, ratifying the initial decision of the courts. The courts have postponed the decision on the balance of the custom fee of RUR93 million (equivalent $1.6 million) relating to the second vessel pending outcome of the first case but the court proceedings will recommence in April 2018. The final judgment of the Russian courts for the second case and return of the RUR314 million paid is expected by the end of 2018.

During 2005 through to 2009, the Group's newly appointed management filed claims in London for losses arising out of various transactions that had taken place during 2000 through to 2004 (the "Fiona Litigation"). The trial for the claims filed commenced at the High Court in London in October 2009 and concluded in mid-2010. Judgment was handed down on 10 December 2010. The Group was successful on a number of claims, and unsuccessful on a number of others.

As a result of the Group recovering at trial an amount less than the total amount of the two freezing orders granted against some of the defendants in 2005 and 2007 in the course of the London proceedings in the Fiona Litigation, these defendants pursued a claim for damages said to have been suffered by virtue of the freezing orders to the extent that the freezing orders were in an amount in excess of the sums recovered under the Judgment.

In October 2016, the Court gave judgment and awarded the defendants damages of $59.8 million and interest on damages from December 2010 to 27 October 2016 of $11.0 million; a total sum of $70.8 million in relation to the 2005 freezing order claim that succeeded. The Court also ordered the Group to pay 50% of the defendants' costs estimated at £3.0 million (assessed on a standard basis) in relation to this claim and to make an interim payment of such costs of £1.0 million.

Following an application by the Group, the Court of Appeal granted permission to appeal on certain limited grounds and also ordered a stay of execution of the above judgment pending the outcome of the appeal conditional on the Group paying the above sums into Court. Those sums were paid into Court on 15 December 2016. The hearing of the Group's appeal took place on 4 October 2017 and the Judgement was handed down on 21 November 2017 dismissing the Group's appeal.

The Group applied to the Court of Appeal for permission to appeal to the Supreme Court but on 29 November 2017, the Court of Appeal refused permission to appeal. The Group has since applied to the Supreme Court for the permission to appeal. In the meantime, on 6 December 2017, the Court of Appeal ordered a further stay of execution until such application to the Supreme Court has been determined conditional upon the Group making further payments into Court of approximately $2.7 million and £0.1 million to cover interest accrued on the judgment sums since the original judgment in October 2016. The Group has recognised a liability and related expense for the period ended 31 December 2017 of $75.5 million in relation to this claim.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK and other companies of the Group filed claims at the Commercial Court in London in December 2006 and subsequently joined further defendants. The trial for these claims commenced on 16 May 2012 and concluded on 5 July 2012. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims, but after appeal unsuccessful on some claims against certain defendants. In respect of the successful claims, the Group has recognised an additional amount of $15.0 million, in settlement with one of the defendants, in the income statement for the period ended 31 December 2016.

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

A total amount of $78.7 million (2016 – $4.9 million), relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims, has been expensed in the income statement and is included in the line other non-operating expenses.

Details of the Group's commitments under operating leases are disclosed in Note 43.

45. **Related Party Transactions**

Note 41 provides information about the Group's structure, including details of its subsidiaries. In addition, the below are material transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes.

On 24 March 2017 and on 4 May 2017, the Group fully drew down from a loan facility granted by a Russian State controlled financial institution, a total amount of $253.7 million to finance the construction and delivery of the ice breaking LNG carrier referred to in Note 16.

The acquisition of the vessels under held under finance leases (Note 37) was financed by a credit facility with a Russian State controlled financial institution. The loan bears interest at 5.7% per annum and is repayable in 38 quarterly equal instalments, with a balloon payment of 36.0% of the amount drawn down under the facility in March 2027. The Group has the option to extend maturity of the loan for a further 5 years at an interest rate to be agreed at the time.

On 21 July 2017, the Group entered into a time charter agreement, with a Russian State controlled entity, for the chartering out of the Arctic shuttle tanker referred to in Note 16, scheduled for delivery in October 2019. The charter is for a 12-year firm period with various extension options attached in favour of the charterer. The time charter agreement has been classified as an operating lease. The aggregate hire receivable over the firm period of the charter is $274.7 million and it is included in contracted revenues disclosure (see Note 44).

45. **Related Party Transactions (Continued)**

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

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Transactions with Russian State controlled entities				
Freight and hire of vessels	(353,979)	(268,280)	4,446	7,617
Voyage expenses and commissions	5,196	1,471	(461)	(988)
Other operating revenues	(2,108)	(2,296)	(2,379)	(1,833)
Other operating expenses	1,078	839	2	(3)
Other loans	406	-	(14,175)	-
Secured bank loans	44,193	5,803	(723,518)	(336,242)
Finance leases payable	4,304	11,858	-	(173,690)
Receivables from shipyard (liquidated damages for late delivery of vessels)	-	-	9,962	11,800
Payables to charterer (liquidated damages for late delivery of vessels)	-	-	(23,505)	(12,919)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	288,187	104,000
Cash at bank	(5,843)	(5,233)	144,289	205,896
Finance leases receivable	-	(11,458)	-	764
Allowance for credit losses on finance lease receivables	-	(419)	-	-
Derivative financial instruments	12,773	-	(20,976)	-
Transactions with Joint Ventures				
Freight and hire of vessel	-	(7,044)	-	-
Other operating revenues	(3,235)	(3,186)	410	473
Loans due from joint ventures	(1,353)	(1,160)	55,622	50,324
Compensation of Key Management Personnel				
Short term benefits	8,242	9,437	(2,506)	(3,599)
Post-employment benefits	70	64	(18)	(10)
Long term service benefits	2,938	9,556	(21,229)	(18,203)
	11,250	19,057	(23,753)	(21,812)

46. **Events After the Reporting Period**

On 26 January 2018, the Group took delivery, from a Russian State controlled shipyard, a multifunctional ice-breaking standby vessel, the m/v Yevgeny Primakov. Effective on the same date, the Group entered into a twelve year Euro-USD cross currency interest rate swap transaction with a Russian State controlled financial institution to hedge the Group's cash flow exposure arising from currency and interest rate fluctuations in respect of a Euro equivalent of $102.5 million loan in connection with the financing of the vessel.

On 31 January 2018, the Group entered into a loan facility with a Russian State controlled financial institution totalling $106.2 million, to finance the construction of the Arctic shuttle tanker referred to in Note 16, at an interest rate of 5.6% per annum repayable in 48 quarterly instalments, commencing three months after the delivery of the vessel by the shipyard.

On 20 February 2018, the Group signed two time charter agreements, for the chartering out of two ice-class LNG fuelled Aframax crude oil tankers referred to in Note 16 for a 5 years firm period with various extension options attached in favour of the charterer. The aggregate hire receivable over the firm period of the charters of the ice-class LNG fuelled Aframax crude oil tankers is $87.2 million.

Three of the four crude oil Aframax tankers classified as held for sale (see Note 30) as at 31 December 2017, were delivered to their buyers, one in February and two in March 2018.