PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

PAO Sovcomflot

Contents

Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and the Board of Directors of
PAO Sovcomflot

Opinion

We have audited the consolidated financial statements of PAO Sovcomflot and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Совершенствуя бизнес, улучшаем мир

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from contracts with customers	
Revenue recognition is a complex process given the significant volume of transactions and the extent of different revenue streams. This was a key audit matter because recognition of revenue involves accounting policy decisions, including assessment of effects of the adoption of IFRS 15 *Revenue from Contracts with Customers*, and judgements made by management based on the interpretation of contract terms, market conditions, and nature of services. The Group disclosed revenue recognition policies and practices in Notes 3, 4, 6 and 11 to the consolidated financial statements.	We analysed accounting policy in respect of revenue recognition, including changes that resulted from the adoption of IFRS 15 *Revenue from Contracts with Customers*. We analysed contracts and other supporting evidence for the revenue recognized from contracts with customers. We assessed the management's identification of performance obligations within contracts with customers, analysed management's determination of the transaction price, including variable consideration, analysed the management's allocation of the transaction price to the performance obligations, and assessed the timing of recognition of revenue determined by the management on the basis of transfer of control over goods and services to customers. We assessed the disclosures on revenue recognition in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of vessels	
Impairment testing of vessels, which is performed at the level of cash generating units, requires management make judgements and use assumptions in developing estimates. This was a key audit matter because the carrying amount of vessels was significant and value in use of the Group's Cash Generating Units (CGUs) was highly sensitive to changes in judgements and certain assumptions. Such judgements and assumptions comprise the management's trading strategies in respect of vessels, expected employment of vessels, estimates of future freight rates, discount rates, and other assumptions. The Group disclosed the information about the impairment testing of vessels, including the changes in certain assumptions, in Note 15 to the consolidated financial statements.	We analysed judgements and assumptions used to assess value in use of the Group's vessels and tested calculations of value in use, with the involvement of our valuation experts. We analysed the reasons for changes in certain assumptions used in the assessment of CGUs' value in use. We also analysed the disclosures of impairment test, including sensitivity of the impairment test's results to changes in certain assumptions used in the calculations.
Classification of time-charter agreements as finance or operating lease	
The Group and the charterers enter into long-term time-charter agreements in respect of vessels in operation. Classification of long-term time-charter agreements as finance or operating lease takes place as at the inception of a lease and requires management to make judgements with respect to allocation of risks and rewards incidental to ownership of vessels between the Group and the charterers. Such allocation is based on an analysis of contractual terms and evaluation of substance of operations. This was a key audit matter because revenue from time-charter agreements comprised a significant portion of the Group's revenue, and the conclusion on the classification of long-term time-charter agreements affects the recognition of revenue in the consolidated financial statements for many years in the future. The Group disclosed the information on long-term time-charter agreements in Note 44 to the consolidated financial statements.	We analysed the terms of long-term time-charter agreements and assessed management's analysis of allocation of risks and rewards incidental to ownership of vessels, including judgements made by management from evaluation of substance of operations. We assessed the disclosure of information about the time-charter agreements in the consolidated financial statements.

Other information included in the Annual Report 2018

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

R.G. Romanenko
Partner
Ernst & Young LLC

15 March 2019

Details of the audited entity

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

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2018

	Note	2018 $'000	2017 $'000
Revenue	6	1,519,937	1,435,365
Voyage expenses and commissions	7	(445,243)	(377,374)
Time charter equivalent revenues		1,074,694	1,057,991
Direct operating expenses			
Vessels' running costs	8	348,219	378,776
Charter hire payments	42	28,931	40,424
		(377,150)	(419,200)
Net earnings from vessels' trading		697,544	638,791
Other operating revenues	11	24,159	22,307
Other operating expenses	11	(11,933)	(14,041)
Depreciation, amortisation and impairment	9	(404,007)	(389,142)
General and administrative expenses	10	(111,752)	(116,703)
(Loss) / gain on sale of assets	15, 18, 19, 29	(8,590)	20,177
Loss on sale and dissolution of subsidiaries		(1,659)	-
Loss on sale of equity accounted investments		-	(5)
Allowance for credit losses		410	490
Share of profits in equity accounted investments	20	3,109	2,675
Operating profit		187,281	164,549
Other (expenses) / income			
Financing costs	13	(200,417)	(193,859)
Interest income		8,222	9,787
Other non-operating expenses	43	(3,179)	(78,718)
Gain on termination of hedge and hedge ineffectiveness	22	1,038	401
Foreign exchange gains		14,602	10,586
Foreign exchange losses		(29,695)	(10,343)
Net other expenses		(209,429)	(262,146)
Loss before income taxes		(22,148)	(97,597)
Income tax expense	23	(23,408)	(15,372)
Loss for the period		(45,556)	(112,969)
Loss attributable to:			
Owners of the parent		(41,642)	(109,670)
Non-controlling interests	33	(3,914)	(3,299)
		(45,556)	(112,969)
Earnings per share			
Basic loss per share for the period attributable to equity holders of the parent	24	($0.021)	($0.056)

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2018

	Note	2018 $'000	2017 $'000
Loss for the period		(45,556)	(112,969)
Other comprehensive income:			
Share of associates' other comprehensive income		(21)	6
Share of joint ventures' other comprehensive income	20	6,722	8,472
Exchange gain on translation from functional currency to presentation currency		3,769	2,112
Reclassification adjustment relating to foreign subsidiaries disposed of or dissolved during the period		1,597	-
Reclassification adjustment relating to derecognition of hedging instrument during the period	22	(590)	-
Net gain on derivative financial instruments credited to other comprehensive income	22	8,808	17,797
Other comprehensive income for the period, net of tax, to be reclassified to profit or loss in subsequent periods		20,285	28,387
Re-measurement losses on retirement benefit obligations	37	(659)	(461)
Other comprehensive income for the period, net of tax, not to be reclassified to profit or loss in subsequent periods		(659)	(461)
Total other comprehensive income for the period, net of tax		19,626	27,926
Total comprehensive income for the period		(25,930)	(85,043)
Total comprehensive income attributable to:			
Owners of the parent		(21,952)	(81,745)
Non-controlling interests		(3,978)	(3,298)
		(25,930)	(85,043)

PAO Sovcomflot

Consolidated Statement of Financial Position – 31 December 2018

	Note	2018 $'000	2017 $'000	2016 $'000
Assets				
Non-current assets				
Fleet	15	6,165,663	6,291,344	5,895,365
Vessels under construction	16	135,890	81,837	225,814
Intangible assets	17	6,772	8,659	3,961
Other property, plant and equipment	18	43,240	49,323	58,746
Investment property	19	545	7,924	864
Investments in associates		99	132	131
Investments in joint ventures	20	132,926	123,117	114,761
Equity instruments at fair value through profit or loss		754	523	760
Loans to joint ventures	21	66,069	55,511	45,574
Derivative financial instruments	22	20,899	35,909	7,146
Trade and other receivables	26	13,670	7,739	2,783
Deferred tax assets	23	4,089	8,162	4,663
Bank deposits	28	11,000	12,000	10,000
		6,601,616	6,682,180	6,370,568
Current assets				
Inventories	25	67,452	61,883	53,368
Loans to joint ventures	21	-	-	4,750
Derivative financial instruments	22	3,783	808	373
Trade and other receivables	26	108,210	146,922	173,022
Contract assets	6	31,020	-	-
Current tax receivable		4,032	6,487	4,089
Restricted cash	27	-	75,543	72,079
Cash and bank deposits	28	296,433	347,352	470,638
		510,930	638,995	778,319
Non-current assets held for sale	29	29,700	25,719	8,360
		540,630	664,714	786,679
Total assets		7,142,246	7,346,894	7,157,247
Equity and liabilities				
Capital and reserves				
Share capital	30	405,012	405,012	405,012
Reserves		2,808,596	2,860,208	3,048,858
Equity attributable to owners of the parent		3,213,608	3,265,220	3,453,870
Non-controlling interests	33	136,455	143,802	150,446
Total equity		3,350,063	3,409,022	3,604,316
Non-current liabilities				
Trade and other payables	34	24,777	28,413	37,504
Secured bank loans	35	2,261,672	2,262,821	1,903,365
Derivative financial instruments	22	14,071	12,812	21,624
Retirement benefit obligations	37	2,293	4,045	3,419
Other loans	38	899,312	902,412	737,076
Deferred tax liabilities	23	3,823	2,258	858
		3,205,948	3,212,761	2,703,846
Current liabilities				
Trade and other payables	34	236,173	285,574	214,784
Contract liabilities	6	16,086	-	-
Other loans	38	3,384	3,537	139,896
Secured bank loans	35	313,842	338,226	290,460
Finance lease liabilities	36	-	-	173,690
Current tax payable		1,124	4,890	14,809
Derivative financial instruments	22	15,626	17,370	15,446
Payable under high court judgement award	27	-	75,514	-
		586,235	725,111	849,085
Total liabilities		3,792,183	3,937,872	3,552,931
Total equity and liabilities		7,142,246	7,346,894	7,157,247

Approved by the Executive Board and authorised for issue on 15 March 2019

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 2018

	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 30)	(Note 30)	(Note 31)	(Note 20,22)				(Note 33)	
At 1 January 2017	**405,012**	**818,845**	**(834,490)**	**(43,568)**	**(46,435)**	**3,154,506**	**3,453,870**	**150,446**	**3,604,316**
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 translation from functional currency to presentation currency	-	-	-	-	2,062	-	2,062	50	2,112
Net gain on derivative financial instruments credited to other comprehensive income	-	-	-	17,797	-	-	17,797	-	17,797
Re-measurement losses on retirement benefit obligations (Note 37)	-	-	-	-	-	(412)	(412)	(49)	(461)
Total comprehensive income	-	-	-	26,269	2,068	(110,082)	(81,745)	(3,298)	(85,043)
Dividends (Note 32)	-	-	-	-	-	(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**
Adjustment on initial application of IFRS 15 (net of tax) (Note 4)	-	-	-	-	-	(3,674)	(3,674)	(229)	(3,903)
Adjustment on initial application of IFRS 9 (net of tax) (Note 4)	-	-	-	-	-	811	811	-	811
Adjusted balance at 1 January 2018	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,934,656**	**3,262,357**	**143,573**	**3,405,930**
Loss for the period	-	-	-	-	-	(41,642)	(41,642)	(3,914)	(45,556)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(21)	-	(21)	-	(21)
Share of joint ventures' other comprehensive income	-	-	-	6,722	-	-	6,722	-	6,722
Exchange gain / (loss) on translation from functional currency to presentation currency	-	-	-	-	3,912	-	3,912	(143)	3,769
Reclassification adjustment relating to foreign subsidiaries disposed of or dissolved during the period	-	-	-	-	1,449	-	1,449	148	1,597
Reclassification adjustment relating to derecognition of hedging instrument during the period	-	-	-	(590)	-	-	(590)	-	(590)
Net gain on derivative financial instruments credited to other comprehensive income	-	-	-	8,808	-	-	8,808	-	8,808
Re-measurement losses on retirement benefit obligations (Note 37)	-	-	-	-	-	(590)	(590)	(69)	(659)
Total comprehensive income	-	-	-	14,940	5,340	(42,232)	(21,952)	(3,978)	(25,930)
Dividends (Note 32)	-	-	-	-	-	(26,797)	(26,797)	(3,140)	(29,937)
At 31 December 2018	**405,012**	**818,845**	**(834,490)**	**(2,359)**	**(39,027)**	**2,865,627**	**3,213,608**	**136,455**	**3,350,063**

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2018

	Note	2018 $'000	2017 $'000
Operating Activities			
Cash received from vessels' operations		1,512,922	1,460,260
Other cash receipts		30,963	28,672
Cash payments for voyage and running costs		(828,041)	(794,276)
Other cash payments		(148,762)	(127,306)
Cash generated from operations	39	567,082	567,350
Interest received		5,320	8,203
Income tax paid		(19,718)	(29,709)
Net cash inflow from operating activities		552,684	545,844
Investing Activities			
Expenditure on fleet		(38,818)	(56,226)
Expenditure on vessels under construction	16	(379,301)	(556,663)
Interest capitalised	16	(4,858)	(4,045)
Expenditure on intangibles and other property, plant and equipment	17, 18	(1,999)	(5,058)
Loan repayments from joint ventures		-	1,924
Loans issued to joint ventures		(8,460)	(6,018)
Proceeds from sale of subsidiary net of cash disposed		673	-
Proceeds from sale of equity accounted investments		-	19
Proceeds from sale of vessels		78,461	-
Proceeds from sale of other property, plant and equipment		2,195	26,619
Capital element received on finance leases		-	220
Interest received on finance leases		-	446
Dividends received from equity accounted for investments	20	70	2,801
Bank term deposits	28	17	14,479
Restricted cash placed in court	27	-	(2,864)
Restricted cash placed in deposit	28	-	(3,000)
Net cash outflow used in investing activities		(352,020)	(587,366)
Financing Activities			
Proceeds from borrowings		564,198	851,642
Repayment of borrowings		(571,690)	(448,213)
Financing costs		(9,381)	(10,914)
Repayment of finance lease liabilities	36	-	(176,817)
Repayment of liquidated damages		(3,989)	-
Restricted deposits under loan agreements	28	1,000	-
Funds in retention bank accounts	28	(2,861)	(1,651)
Interest paid on borrowings		(186,760)	(173,161)
Interest paid on finance leases	36	-	(4,917)
Interest paid on liquidated damages		(1,491)	-
Dividends paid	32	(29,881)	(110,977)
Proceeds from the termination of interest rate swap		590	-
Net cash outflow used in financing activities		(240,265)	(75,008)
Decrease in Cash and Cash Equivalents		(39,601)	(116,530)
Cash and Cash Equivalents at 1 January	28	321,334	432,792
Net foreign exchange difference		(14,162)	5,072
Cash and Cash Equivalents at 31 December	28	267,571	321,334

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 41(c).

Notes to the Consolidated Financial Statements – 31 December 2018

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 131 vessels at the period end, comprising 108 tankers, 9 gas carriers, 10 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet, see also Notes 15, 16 and 29.

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

Ship management services for the Group's vessels are provided 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 40 to these consolidated financial statements. The ultimate controlling party of PAO Sovcomflot is the Russian Federation.

2. Directors and Management

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

The Board of Directors and the Executive Board as at the date of approval of these consolidated financial statements are:

Members of the Board of Directors	Initial date of appointment	
I.I. Klebanov (Chairman)	3 November 2011	Chairman of the Board of Directors of PAO Sovcomflot
W.A. Chammah	29 June 2015	Partner of "Chammah & Partners" LLC
I.F. Glumov	29 June 2015	Chief Executive Officer of AO Severneftegaz
A.Y. Klyavin	30 June 2012	President of the Russian Chamber of Shipping
D.G. Moorhouse	29 June 2010	Member of the Board of Directors of PAO Sovcomflot
V.A. Olersky	16 June 2017	Member of the Board of Directors of PAO Sovcomflot
A.V. Sharonov	30 June 2014	President of Moscow School of Management "Skolkovo"
O.V. Tarasenko	29 June 2018	Deputy Minister of Economic Development of the Russian Federation
S.O. Frank	10 November 2004	President and Chief Executive Officer of PAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 29 June 2018. Mr Klebanov was re-elected as a Chairman on 20 July 2018.

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

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

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries ("controlled investees") as at 31 December 2018. Control is achieved when the Group:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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

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

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

3. Significant Accounting Policies (Continued)

(c) Business combinations

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

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

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

(d) Segmental reporting

The 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. 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) Revenue

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

Freight revenues (revenues from voyage charters) are earned for the carriage of cargo on behalf of the charterer, in the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached the Group is compensated for the additional time incurred in the form of demurrage revenue. Demurrage is a variable consideration which is recognised, from the time it becomes probable, over the remaining time of the voyage.

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.

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

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

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

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

The Group performs acquisition and processing of seismic data (seismic services) under contracts for specific customers, whereby the seismic data is owned by the customers. Revenue from seismic services (included in revenues from contracts with customers) is recognised using the percentage of work completed based primarily on the input method for measurement of progress. Input method measures progress on the basis of inputs (for example, resources consumed, labour hours expended, bunker costs, mobilisation costs incurred) that are relative to the total expected inputs to the satisfaction of that performance obligation. Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Time charter equivalent revenues describe the earnings of any charter 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.

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

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

(h) Revenue (continued)

Contract liabilities

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

(i) Other operating revenues and operating expenses

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

Commercial and technical management, newbuilding supervision and ancillary services provided are considered to be contracts with customers under IFRS 15. Such contracts usually have one performance obligation satisfied over time. The Group recognises revenue from the commercial and technical management and from ancillary services over time using an output method and revenues from the newbuilding supervision of vessels over time using an input method to measure progress towards complete satisfaction of the service. This is because the customer simultaneously receives and consumes the benefits provided by the Group.

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

(j) Interest income

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

(k) Currency translation

Transactions and balances

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

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

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

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

Group companies

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

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

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

Exchange rates

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

	2018 Closing $1	**2018 Average $1**	**2017 Closing $1**	**2017 Average $1**	**2016 Closing $1**
Russian Roubles	69.4706	62.7078	57.6002	58.3529	60.6569
Pounds Sterling	0.7869	0.7498	0.7416	0.7770	0.8135
Euros	0.8743	0.8472	0.8364	0.8874	0.9506

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

(l) Borrowing costs

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

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

(m) Leasing

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

Group as lessee - Finance and operating lease payables

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

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

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.

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

(o) Property, plant and equipment and depreciation

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

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

Depreciation in respect of the Group's fleet is charged so as to write off the book value of the vessels, less an estimated residual value, on a straight line basis over the anticipated useful life of the vessels (from date of construction) which is as follows:

Oil, shuttle, product and chemical tankers	25 years
Arctic shuttle tankers	12 years
Ice breaking supply vessels	25 years
LNG carriers	35 years
LPG carriers	30 years
Bulk carriers	25 years

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:

	2018 $ per LWT	**2017 $ per LWT**	**2016 $ per LWT**
Oil, shuttle, product and chemical tankers	450	415	290
Arctic shuttle tankers	450	415	290
Ice breaking supply vessels	450	415	290
LNG carriers	510	465	330
LPG carriers	495	450	320
Bulk carriers	440	390	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.

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

(p) Intangible assets

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

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

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

(q) Drydocking and special survey costs

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

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

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

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

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

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

(r) Investment property

Investment property is stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided on the same basis as for other property, plant and equipment as described in Note 3(o).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised. Transfers to, or from, investment property are made only when there is a change in use evidenced by end of owner-occupation, for a transfer from owner-occupied property to investment property, commencement of owner-occupation, for a transfer from investment property to owner occupied property and commencement of development with a view to sell, for a transfer from investment property to inventories.

(s) Assets under construction

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

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

Interest payable attributable to finance newbuildings under construction, is added to the cost of those newbuildings, until such time as the newbuildings are ready for their intended use and are delivered to the Group. Upon completion the assets are transferred to the appropriate class of property, plant and equipment.

(t) Impairment of non-financial assets

At the end of each financial reporting period, the Group assesses whether there is any indication that its non-financial assets may have suffered an impairment loss. If any indication exists, the Group estimates the asset’s recoverable amount.

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

The first step in this process is the determination of the lowest level at which largely independent cash flows are generated, starting from the individual asset level. A CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets. 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.

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

(t) Impairment of non-financial assets (continued)

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.

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

<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 ("EIR") is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period, to its net carrying amount.

<u>Financial assets</u>

Initial recognition and measurement

Financial assets are classified, at initial recognition, as:

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

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

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

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

Subsequent measurement

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

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

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

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

(v) Financial instruments (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

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

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

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

(v) Financial instruments (continued)

Derecognition of financial assets (continued)

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Loans and borrowings

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

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

Derecognition or modification of financial liabilities

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

Offsetting of financial assets and liabilities

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

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

(v) Financial instruments (continued)

Derivative financial instruments and hedge accounting

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

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

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

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

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months.

The Group designates derivatives as hedges of interest rate risk and foreign currency exchange risk on its bank borrowings. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised in other comprehensive income and any ineffective portion is recognised immediately in the consolidated income statement.

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. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

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

(w) Taxation

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

Current tax

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

Deferred tax

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability is recognised on unremitted earnings of subsidiaries to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future.

Current and deferred tax for the period

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

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

Tonnage tax

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

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

(x) Provisions

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

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

Onerous contracts

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

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

(y) Insurance claims

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

(z) Earnings per share

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

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

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

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2018. The nature and the impact of each new standard or amendment is described below.

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. These amendments do not have an impact on the Group’s consolidated financial statements.

IFRS 7 (“Financial Instruments: Disclosures”) – “Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9”. The Group applied IFRS 9 prospectively without restating comparative information. Consequently, the revised requirements of the IFRS 7 have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior periods.

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.

These amendments do not have an impact on the Group’s consolidated financial statements.

IAS 39 (“Financial Instruments: Recognition and Measurement”) – “Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a 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”. The Group elected to continue applying the hedge accounting requirements of IAS 39.

IAS 40 (“Investment Property”) – “Amendments to clarify transfers of property to, or from investment property”. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments do not have an impact on the Group’s consolidated financial statements as the Group has always accounted for transfers of property to, or from investment property as per the amendments of IAS 40.

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. This Interpretation does not have an impact on the Group’s consolidated financial statements as the Group historically accounted for these transactions same as the requirements of IFRIC 22.

IFRS 15 (“Revenue from Contracts with Customers”) – IFRS 15 was issued in May 2014 and amended in April 2016, with earlier adoption permitted and supersedes IAS 18 (“Revenue”), and IAS 11 (“Construction Contracts”) and their related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. The standard permits either a full retrospective or a modified retrospective approach for application.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contact and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has applied IFRS 15 using the modified retrospective approach by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18 “Revenue” and related Interpretations. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not yet completed at this date. The Group elected to apply the modified retrospective approach only to the contracts that were not completed at the date of initial application. The Group did not apply any other practical expedient.

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

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

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

Set out below is the impact of each financial statement line item of adopting IFRS 15 as at 1 January 2018 and as at and for the period ended 31 December 2018. There is no impact on the consolidated statement of comprehensive income and consolidated statement of cash flows. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted.

Impact on the consolidated income statement:

	Note	IFRS 15 31/12/2018 $'000	IAS 18 31/12/2018 $'000	Effect 31/12/2018 $'000	IAS 18 31/12/2017 $'000
Revenue	4.1	1,519,937	1,523,239	(3,302)	1,435,365
Voyage expenses and commissions	4.1	(445,243)	(445,559)	316	(377,374)
Time charter equivalent revenues		1,074,694	1,077,680	(2,986)	1,057,991
Direct operating expenses		(377,150)	(377,150)	-	(419,200)
Net earnings from vessels' trading		697,544	700,530	(2,986)	638,791
Operating expenses		(510,263)	(510,263)	-	(474,242)
Operating profit		187,281	190,267	(2,986)	164,549
Net other expenses		(209,429)	(209,429)	-	(262,146)
Loss before income taxes		(22,148)	(19,162)	(2,986)	(97,597)
Income tax expense		(23,408)	(23,408)	-	(15,372)
Loss for the period		(45,556)	(42,570)	(2,986)	(112,969)
Loss attributable to:					
Owners of the parent		(41,642)	(38,610)	(3,032)	(109,670)
Non-controlling interests		(3,914)	(3,960)	46	(3,299)
		(45,556)	(42,570)	(2,986)	(112,969)
Earnings per share					
Basic loss per share for the period attributable to equity holders of the parent		($0.021)	($0.020)	($0.002)	($0.056)

Impact on the consolidated statement of financial position:

	Note	Amounts prepared under IFRS 15 31/12/2018 $'000	Amounts prepared under IAS 18 31/12/2018 $'000	Effect 31/12/2018 $'000	Amounts prepared under IFRS 15 31/12/2017 $'000	Amounts prepared under IAS 18 31/12/2017 $'000	Effect 31/12/2017 $'000
Assets							
Current assets							
Voyages in progress	4.1	-	39,471	(39,471)	-	25,972	(25,972)
Contract acquisition and voyage fulfilment costs	4.1	2,502	-	2,502	2,659	-	2,659
Accrued income	4.1 & 4.3	5,556	6,496	(940)	2,829	4,085	(1,256)
Trade and other receivables		108,210	146,119	(37,909)	122,353	146,922	(24,569)
Contract assets	4.1 & 4.3	31,020	-	31,020	20,724	-	20,724
Total current assets		540,630	547,519	(6,889)	660,869	664,714	(3,845)
Total assets		7,142,246	7,149,135	(6,889)	7,343,049	7,346,894	(3,845)
Equity and liabilities							
Capital and reserves							
Reserves	4.1	2,808,596	2,815,302	(6,706)	2,856,534	2,860,208	(3,674)
Equity attributable to owners of the parent	4.1	3,213,608	3,220,314	(6,706)	3,261,546	3,265,220	(3,674)
Non-controlling interests		136,455	136,638	(183)	143,573	143,802	(229)
Total equity		3,350,063	3,356,952	(6,889)	3,405,119	3,409,022	(3,903)
Deferred revenue	4.2 & 4.3	37,981	54,067	(16,086)	37,340	50,874	(13,534)
Contract liabilities	4.2 & 4.3	16,086	-	16,086	13,592	-	13,592
Current liabilities		586,235	586,235	-	725,169	725,111	58
Total liabilities		3,792,183	3,792,183	-	3,937,930	3,937,872	58
Total equity and liabilities		7,142,246	7,149,135	(6,889)	7,343,049	7,346,894	(3,845)

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

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

IFRS 15 (“Revenue from Contracts with Customers”) (continued)

4.1 Revenue from voyage charters (freight revenue)

Before the adoption of IFRS 15 freight revenue and voyages expenses were 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. For freight revenues under voyage charter parties the Group assessed that:

a) Normally, a voyage contract represents a single performance obligation. This is similar to the previous 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 is 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 is accounted for as an operating lease and is recognised on a straight line basis over the lease term (see Note 3(h)) and the service component is accounted for separately under IFRS 15.
d) 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 previous practice.
e) The performance obligation for a voyage charter begins to be satisfied only once the vessel arrives at the first loading port (from load to discharge). This is different from the previous practice of recognising revenue from discharge to discharge.
f) 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 based on the new practice explained above of load to discharge basis.
g) The Group decided to use the output method for measuring the progress towards satisfaction of a performance obligation, i.e. voyage revenue is recognised pro-rata based on time elapsed from the arrival to load port to the expected date of completion of the discharge.
h) Costs incurred to acquire a contract and contract fulfilment costs incurred between the time of signing the charter party and time of arrival at the loading port are capitalised and amortised over the period the performance obligation is satisfied. Costs to fulfil a voyage contract (i.e. port costs, canal dues, bunkers) from load port to discharge are expensed as incurred.

As at 1 January 2018, the application of IFRS 15 decreased voyages in progress by $26.0 million and gave rise to contract acquisition and voyage fulfilment costs and contract assets of $2.7 million and $20.7 million respectively. Also, retained earnings decreased by $3.9 million.

As at 31 December 2018, the application of IFRS 15, compared to the amounts, which would have been had IFRS 15 not been adopted, decreased voyages in progress by $39.5 million and gave rise to contract acquisition and voyage fulfilment costs and contract assets of $2.5 million and $30.1 million, respectively. For the period ended 31 December 2018, revenue decreased by $3.3 million and voyages expenses and commissions decreased by $0.3 million, compared to the amounts, which would have been had IFRS 15 not been adopted.

4.2 Revenue from time charters (hire revenue)

Before the adoption of IFRS 15, revenue from time charters (“hire revenue”) was considered as revenue from operating leases and recognised on a straight line basis over the rental periods of such charters, as service was performed. Under IFRS 15, the lease component and the service component need to be separately disclosed. The lease component continues to be accounted for as a lease (see Note 3(h)). The service component is accounted for separately under IFRS 15. Revenue recognised in respect of the service component under IFRS 15 did not change. Amounts that were presented previously as deferred income, in relation to the service component of hire revenue, are now presented as contract liabilities under IFRS 15. As at 1 January 2018 and 31 December 2018, IFRS 15 increased contract liabilities by $13.6 million and $14.8 million respectively. Deferred revenue under IAS 18 of $13.6 million and $14.8 million as of 1 January 2018 and 31 December 2018, respectively were derecognised. The Group is assessing the implications of IFRS 16 “Leases” effective on 1 January 2019.

4.3 Revenue from seismic services

The Group previously recognised revenue from seismic services using the percentage of completion method, consistent with the progress of the project, provided that all revenue recognition criteria are satisfied. Under IFRS 15, revenue from seismic services is recognised in the majority of cases as a single performance obligation, which is satisfied over time, using the percentage of work completed based primarily on an input method for measurement of progress. Amounts that were presented previously as deferred income are now presented as contract liabilities under IFRS 15. As at 1 January 2018, there is no impact from the adoption of IFRS 15 on revenue from seismic services. As at 31 December 2018, IFRS 15 increased contract assets and contract liabilities by $0.9 million and $1.3 million respectively. Accrued income of $0.9 million and deferred revenue of $1.3 million under IAS 18 were derecognised.

4.4 Other operating revenues

Other operating revenues disclosed in Note 11 includes revenues 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, which is in the scope of IFRS 15. These revenues have not been impacted as a result of the adoption of IFRS 15. Such contracts usually contain one distinct performance obligation, which is satisfied over time as the customer simultaneously receives and consumes the benefit from the Company’s performance. Revenues from the commercial and technical management and from ancillary services are recognised using the output method over time. Revenues from the newbuilding supervision of vessels are recognised over time using an input method based on the proportion of the current costs incurred to the total expected costs to satisfy the performance obligation as this method is the best reflection of progress towards satisfaction of performance obligations.

<u>IFRS 9 (“Financial Instruments”)</u> – IFRS 9 replaces IAS 39 Financial Instruments “Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 is bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

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

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

IFRS 9 (“Financial Instruments”) (continued)

The effect of adopting IFRS 9 as at 1 January 2018 was, as follows:

	Note	Amounts prepared under IAS 39 31/12/2017 $’000	IFRS 9 31/12/2017 $’000	Effect 31/12/2017 $’000
Equity and liabilities				
Capital and reserves				
Reserves		2,860,208	2,861,019	811
Equity attributable to owners of the parent		3,265,220	3,266,031	811
Non-controlling interests		143,802	143,802	-
Total equity		3,409,022	3,409,833	811
Other loans	38	902,412	901,601	(811)
Non-current liabilities		3,212,761	3,211,950	(811)
Total liabilities		3,937,872	3,937,061	(811)
Total equity and liabilities		7,346,894	7,346,894	-

The above adjustment relates to a new requirement of IFRS 9 relating to modifications of financial liabilities. IFRS 9 requires that if the modification is not substantial, the difference between the carrying amount of the liability before the modification and the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss. Under IAS 39 this modification gain or loss was recognised over time using the effective interest rate method. The above modification gain relates to the modification of a financial liability still outstanding as at 31 December 2017 and 31 December 2018.

a) Classification and measurement

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

The following are the changes in the classification of the Group’s financial assets:

- For trade and other receivables and loans due from joint ventures, the Group assessed whether, as at 1 January 2018, contractual cash flows from these balances are solely comprised of principal and interest, and concluded that they should be measured at amortised cost as they are held within a business model, with the objective to collect contractual cash flows that meet the SPPI criterion.
- Equity investments in non-listed companies previously classified as Available-for-sale financial assets are now classified and measured as Equity instruments designated at fair value through profit or loss. The Group elected to classify its non-listed equity investments under this category as it intends to dispose of these investments in the foreseeable future.

There is 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.

In summary, upon the adoption of IFRS 9, the Group had the following required or elected reclassifications:

		IFRS 9 measurement category	
IAS 39 measurement category	**1/1/2018 $’000**	**Fair value through profit or loss $’000**	**Amortised cost $’000**
Loans and receivables			
Trade and other receivables	154,661	-	154,661
Loans to joint ventures	55,511	-	55,511
Available for sale			
Non-listed equity investments	523	523	-
		523	210,172

b) Impairment

The adoption of IFRS 9 has changed the Group’s accounting for impairment losses for financial assets by replacing IAS 39’s incurred loss approach with a forward-looking ECL approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

In relation to the loans due from joint ventures, in order to calculate the ECL, the Group applied the 12-month ECL model and the general approach and concluded that the ECL is not material.

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

The adoption by the Group of ECL requirements for the period ended 31 December 2018 did not result in a material increase in allowance for credit losses.

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

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

IFRS 9 ("Financial Instruments") (continued)

c) Hedge accounting

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

New and revised IFRS 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.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no significant impact on the results and financial position presented in these financial statements except for the adoption of IFRS 16 "(Leases"). The Group is currently assessing the impact from the application of IFRS 16 on its consolidated financial statements.

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).

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

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

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Therefore, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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

According to a preliminary assessment made by the Group in respect of the Group's activities as lessee, on transition to IFRS 16, on 1 January 2019, there will be a one off recognition of non-current assets estimated between $60 million and $65 million and financial liabilities estimated at between $75 million and $80 million. After transition, operating profit will improve, while depreciation and interest expense will increase. The Group expects that the impact on the consolidated income statement will not be material. As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, the Group does not expect any significant impact on the consolidated financial statements in respect of recognition of the Group's activities as a lessor.

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

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

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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

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

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 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 has to 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 does not expect the interpretation to have a material impact on the consolidated financial statements.

IFRS 3 (''Business Combinations") – "Amendments to clarify the definition of a business" (effective for annual periods beginning on or after 1 January 2020).

IAS 1 (''Presentation of Financial Statements") and IAS 8 (''Accounting Policies, Changes in Accounting Estimates and Errors") – "Amendments regarding the definition of material" (effective for annual periods beginning on or after 1 January 2020).

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 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.

6. Revenue

	2018 $'000	2017 $'000
Lease revenue from time charters	557,411	533,431
Service revenue from time charters	296,154	284,701
Total revenue from time charters	853,565	818,132
Service revenue from voyage charters	666,372	617,233
	1,519,937	1,435,365

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

	Service revenue				
	Voyage charters	**Time charters**	**Total**	**Lease revenue from time charters**	**Revenue**
	2018	**2018**	**2018**	**2018**	**2018**
Segment	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Offshore development services	-	124,309	124,309	309,263	433,572
Gas transportation	608	35,125	35,733	147,299	183,032
Crude oil transportation	411,185	56,205	467,390	72,407	539,797
Oil products transportation	253,183	25,872	279,055	23,592	302,647
Other	1,396	54,643	56,039	4,850	60,889
Revenue from vessel operations	666,372	296,154	962,526	557,411	1,519,937
Other operating revenues from contracts with customers					
Other operating revenues (Note 11)			15,083		
Total revenue from contracts with customers			977,609		

6.1 Contract balances

	2018 $'000
Trade receivables from contracts with customers (Note 26)	57,091
Contract assets	31,020
Contract liabilities	16,086

Trade receivables from contracts with customers represent net amounts receivable from charterers of vessels owned or leased by the Group in respect of voyage charters and in respect of time charters for the non-lease (service component) of the receivable.

Contract assets represent the freight, demurrage, deviation and other amounts receivable from charterers for the completed voyage performance as at the period end.

Contract liabilities represent the performance due to a charterer for the remaining voyage as at the period end. This may happen in the case where the charterer has made an advance payment before the completion of the voyage as of the period end date.

Set out below is the amount of revenue recognised from:

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

6.2 Performance obligations

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

Revenue from voyage charters – Under IFRS 15, a voyage performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. A performance obligation for a voyage charter, under a valid contract, begins to be satisfied only once the vessel arrives at the first loading port and ends at the time the discharge of cargo is completed at the discharge port (load to discharge, which is when the contract with the customer expires). The Group previously recognised revenue from "discharge to discharge".

6. **Revenue (Continued)**

6.2 Performance obligations (continued)

Revenue from time charters – Under IFRS 15, the lease component and the service component of time charters need to be separately disclosed. The service component is accounted for separately under IFRS 15. The performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. Revenue recognised in respect of the service component under IFRS 15 did not change. The lease component continues to be accounted for as a lease (see Note 3(h)).

Seismic services revenue – The Group assessed that seismic revenue (which is included in service revenue from time charters), in the majority of cases, is recognised as a single performance obligation, which is satisfied over time, using the percentage of work completed based primarily on an input method for measurement of progress. Input method measures progress on the basis of inputs (for example, resources consumed, labour hours expended, bunker costs, mobilisation costs incurred) that are relative to the total expected inputs to the satisfaction of that performance obligation.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2018 **$'000**
Within one year	269,207
After one year but not more than five years	523,700
More than five years	746,518
	1,539,425

7. **Voyage Expenses and Commissions**

	2018 **$'000**	**2017** **$'000**
Bunkers	276,218	220,155
Port costs	134,138	139,301
Commissions	10,332	10,068
Seismic exploration and data processing	17,766	3,099
Other voyage costs	6,789	4,751
	445,243	377,374

8. **Vessels' Running Costs**

	2018 **$'000**	**2017** **$'000**
Crew costs	205,722	216,717
Technical costs	103,573	115,892
Insurance costs	17,560	23,839
Lubricating oils	11,477	12,160
Other costs	9,887	10,168
	348,219	378,776

9. **Depreciation, Amortisation and Impairment**

	2018 **$'000**	**2017** **$'000**
Vessels' depreciation (Note 15)	312,338	314,673
Vessels' drydock cost amortisation (Note 15)	37,280	40,352
Vessels' impairment provision (Notes 15 and 29)	48,514	28,970
Other depreciation and amortisation (Notes 17 and 18)	5,065	5,147
Other impairment (Note 18)	810	-
	404,007	389,142

10. **General and Administrative Expenses**

	2018 **$'000**	**2017** **$'000**
Administration expenses	93,077	97,975
Non-income based taxes	17,320	17,165
Bank charges and fees	1,355	1,563
	111,752	116,703

Administration expenses are analysed as follows:

	2018 **$'000**	**2017** **$'000**
Office costs and other general expenses	86,783	92,821
Legal and professional	3,707	2,776
Audit and accountancy	2,587	2,378
	93,077	97,975

10. General and Administrative Expenses (Continued)

Non-income based taxes are analysed as follows:

	2018 $'000	2017 $'000
Irrecoverable value added tax	16,084	15,967
Tonnage tax	1,236	1,198
	17,320	17,165

11. Other Operating Revenues and Expenses

	2018 $'000	2017 $'000
Other operating revenues from contracts with customers	15,083	15,974
Lease revenue	5,175	5,436
Other income	3,901	897
	24,159	22,307
Contract fulfilment costs	(4,934)	(4,987)
Other operating expenses	(6,860)	(8,760)
Investment property depreciation (Note 19)	(139)	(294)
	(11,933)	(14,041)
	12,226	8,266

Other operating revenues from contracts with customers comprise income from non-core non-vessel operating activities, 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:

	2018 $'000	2017 $'000
Seafarers		
- Short-term and other long-term employee benefits	168,669	177,902
- Payroll taxes	1,390	1,595
- Defined contribution pension plans	1,790	1,398
- Long-term service defined benefit plans	-	3
	171,849	180,898
Shore based staff		
- Short-term and other long-term employee benefits	60,339	65,297
- Payroll taxes	8,729	9,498
- Defined contribution pension plans	1,530	1,364
- Long-term service defined benefit plans	370	120
	70,968	76,279
Total employee costs	242,817	257,177

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 2018 and 31 December 2017 is based on actual performance vs. set KPI targets achieved as of 31 December 2017 over the entire LTIP evaluation period (2015-2017) and the recipient's continued employment with the Group, as stipulated by the LTIP bylaws. The calculation for the period ended 31 December 2016 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 34) in the consolidated 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

	2018 $'000	2017 $'000
Interest on secured bank loans	119,965	103,815
Interest on interest rate swaps and cross currency interest rate swaps	19,752	20,754
Interest on other loans	48,260	48,955
Interest on finance lease liabilities	-	4,304
Other interest	11,204	9,358
Other financing costs	1,236	6,673
	200,417	193,859

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 2018, this segment's fleet consisted of 16 shuttle tankers (2017 – 16), and 10 ice breaking supply vessels (2017 – 9).
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2018 and 31 December 2017, this segment's fleet consisted of 5 LNG carriers and 4 LPG carriers. The 4 LNG carriers owned through joint ventures are disclosed in Note 20.
- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2018 the Group's fleet in this segment consisted of 53 crude oil carriers (2017 – 59).
- 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 2018 the Group's fleet in this segment consisted of 39 petroleum product carriers (2017 – 40), including 18 chemical and oil carriers (2017 – 19). The 9 (2017 – 9) oil product tankers owned through joint ventures are disclosed in Note 20.
- Other. This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2018 and 31 December 2017, this segment's fleet consisted of 2 bulk carriers and 2 chartered in seismic vessels. This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

Management monitors the performance of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss directly associated with the vessels in each of the segments. However Group financing (including finance costs and 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 2018

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	433,572	183,032	539,797	302,647	60,889	1,519,937
Voyage expenses and commissions	(473)	(1,792)	(255,935)	(158,401)	(28,642)	(445,243)
Time charter equivalent revenues	433,099	181,240	283,862	144,246	32,247	1,074,694
Direct operating expenses						
Vessels' running costs	(73,950)	(29,984)	(128,682)	(93,422)	(22,181)	(348,219)
Charter hire payments	-	-	-	-	(28,931)	(28,931)
Net earnings / (losses) from vessels' trading	359,149	151,256	155,180	50,824	(18,865)	697,544
Vessels' depreciation	(120,512)	(35,977)	(98,728)	(51,627)	(5,494)	(312,338)
Vessels' drydock cost amortisation	(9,430)	(4,888)	(14,799)	(7,649)	(514)	(37,280)
Vessels' impairment provision	-	-	(22,098)	(26,416)	-	(48,514)
(Loss) / gain on sale of vessels	-	-	(10,120)	348	-	(9,772)
Non-income based taxes	(6,112)	-	-	-	-	(6,112)
Net foreign exchange gains / (losses)	1,145	-	-	(261)	(9,157)	(8,273)
Segment operating profit / (loss)	224,240	110,391	9,435	(34,781)	(34,030)	275,255
Unallocated						
General and administrative expenses						(105,640)
Financing costs						(200,417)
Other income and expenses (net)						15,474
Net foreign exchange losses						(6,820)
Loss before income taxes						(22,148)
Carrying amount of fleet in operation	1,965,115	1,197,158	2,007,929	926,754	68,707	6,165,663
Carrying amount of non-current assets held for sale	-	-	-	29,700	-	29,700
Deadweight tonnage of fleet used in operations ('000)	1,340	552	7,035	2,401	156	11,484

14. **Segment Information (Continued)**

Period ended 31 December 2017

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
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	-	-	(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
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

15. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2017	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 29)	(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
Expenditure in period	15,011	25,333	40,344
Transfer from vessels under construction (Note 16)	319,458	4,000	323,458
Transfer to non-current assets held for sale (Note 29)	(138,857)	(3,177)	(142,034)
Disposals in period	(200,691)	(4,977)	(205,668)
Write-off of fully amortised drydock cost	-	(40,645)	(40,645)
Exchange adjustment	(3,009)	(160)	(3,169)
At 31 December 2018	8,483,615	157,642	8,641,257
Depreciation, amortisation and impairment			
At 1 January 2017	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 29)	(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
Charge for the period	312,338	37,280	349,618
Impairment provision	48,514	-	48,514
Transfer to non-current assets held for sale (Note 29)	(100,382)	(2,106)	(102,488)
Disposals in period	(152,142)	(4,251)	(156,393)
Write-off of fully amortised drydock cost	-	(40,645)	(40,645)
Exchange adjustment	(532)	(107)	(639)
At 31 December 2018	2,391,321	84,273	2,475,594
Net book value			
At 31 December 2018	6,092,294	73,369	6,165,663
At 31 December 2017	6,208,178	83,166	6,291,344
At 31 December 2016	5,808,135	87,230	5,895,365

	2018	2017	2016
Market value ($'000)	5,264,000	5,157,750	4,491,000
Current insured values ($'000)	6,747,835	6,652,398	6,492,276
Total deadweight tonnage (dwt)	11,334,207	11,713,915	12,049,977

Summary of fleet at period end:

Type of vessel	Number of vessels		Dwt'000		Carrying value $ million	
	2018	2017	2018	2017	2018	2017
Oil tankers	53	55	7,035	7,227	2,008	2,001
Product carriers	36	40	2,257	2,449	927	1,027
LNG and LPG carriers	9	9	552	552	1,197	1,237
Shuttle tankers	16	16	1,301	1,301	1,086	1,163
Ice breaking supply vessels	10	9	39	35	879	787
Bulk carriers	2	2	150	150	58	60
Seismic equipment	-	-	-	-	11	16
	126	131	11,334	11,714	6,166	6,291
Vessels held for sale (Note 29)	3	4	144	426	30	26
	129	135	11,478	12,140	6,196	6,317

15. **Fleet (Continued)**

As at 31 December 2018, 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 ("FVLCD"), as assessed by management at the period end and supported by independent professional valuations, and their value in use ("VIU").

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

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

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

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 CGUs)	VIU	5.81%	15,214	13,398
Crude oil segment	Aframax crude oil tankers (2 CGUs)	FVLCD (level 1)	n/a	6,436	12,777
Oil product segment	MR oil product tankers (4CGUs)	VIU	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 MR oil product tankers, resulted from a change in estimate of operating revenues and operating expenses over the remaining life of the vessels.

Value in use calculations involve estimating the discounted future cash flows, which require judgements concerning long-term forecasts of future revenues and costs related to the vessels to be made by management as well as judgements about the discount rate used in the calculations. These forecasts are uncertain as they require assumptions to be made regarding demand for products and services, future market conditions and future technological developments. Value in use calculations are mainly sensitive to the freight rates and discount rates applied in the calculations. Significant and unanticipated changes in these assumptions could result in a material impairment provision in a future period.

The main inputs and assumptions used in performing the value in use calculations as at period end are as follows:

- Contracted hire rates, for vessels on time charter, until the expiry of the current agreements;
- Freight rate estimates in the years 2019 to 2021 based on the Group's approved revenue budgets;
- Freight rate estimates after 2021 based on the historical twenty year normalised earnings averages (adjusted for the highest 5% and lowest 5%) for each type of vessel, obtained from independent brokers' research. In prior periods, freight rate estimates were based on the historical ten year earnings averages. Due to the prolonged decline observed in the shipping markets and the significant deviation from the mean year-on-year, management concluded that it was no longer appropriate to base freight rate estimates on the ten year averages. Management believes that the historic twenty year normalised earnings averages are more reliable to be used as this addresses the impact of the prolonged depression in the shipping markets and deviation from the mean, which distorts the ten year averages;
- Operating expenses based on the Group's operating budget approved by the Group for 2019 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 life, unless the vessels are sold or planned to be sold; and
- Discount rates between 6.8% to 8.4% pre-tax (2017 – 5.8% to 7.3% pre-tax), depending on the remaining useful life of each vessel and the area it trades.

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

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of $3.3 million (2017– $47.4 million); and
- An increase in the discount rate of 1% would not result in an additional impairment provision to fleet (2017 – $3.8 million).

15. **Fleet (Continued)**

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 the estimated future revenue rates and vessel utilisation rates as well as expenses of the seismic vessels, for four years.

During the period ended 31 December 2018 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 $5.8 million (2017 – decrease of $10.9 million).

Expenditure in period, under vessels, includes an amount of $13.0 million (2017 – $31.6 million) of modifications relating to legislative requirements and other capital expenditure, of which $4.9 million (2017 – $7.9 million) of modifications have not yet been completed/delivered as of the end of the reporting period. In addition, included in expenditure in the year ended 31 December 2017 were $15.9 million worth of seismic equipment installed on board one of the Group's chartered in seismic vessels.

16. **Vessels Under Construction**

	2018 $'000	2017 $'000
At 1 January	81,837	225,814
Expenditure in period	377,511	584,932
Transfer to fleet (Note 15)	(323,458)	(728,909)
At 31 December	135,890	81,837
Total deadweight tonnage (dwt)	630,000	811,110

Vessels under construction at 1 January 2018 comprised one multifunctional ("MIB") standby vessel, six ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and one LNG carrier at a total contracted cost to the Group of $772.2 million.

Vessels delivered during the period comprised the following:

Vessel name	Vessel type	Segment	DWT	Delivery date
Yevgeny Primakov[1]	MIB standby vessel	Offshore	3,670	26 January 2018
Gagarin Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,170	30 July 2018
Lomonosov Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,226	2 October 2018
Mendeleev Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,159	28 November 2018

[1] delivered to charter on 23 March 2018

On 20 July and 18 October 2018, the Group exercised its available options for the construction of two 174,000 cubic metre LNG carriers. The vessels are scheduled for delivery in September 2020 and February 2021.

At 31 December 2018, vessels under construction comprised three ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and three LNG carriers scheduled for delivery between February 2019 and February 2021 at a total contracted cost to the Group of $820.3 million. As at 31 December 2018, $130.0 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 $5.0 million (2017 – $4.0 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 $4.3 million (2017 – $3.9 million) capitalised using a weighted average interest rate of 5.08% per annum (2017 – 4.17% per annum).

As at 31 December 2018 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**

	2018 $'000	2017 $'000
Cost		
At 1 January	12,989	7,053
Additions in period	431	5,852
Exchange adjustment	(972)	84
At 31 December	12,448	12,989
Amortisation		
At 1 January	4,330	3,092
Charge for the period	1,563	1,222
Exchange adjustment	(217)	16
At 31 December	5,676	4,330
Net book value		
At 31 December	6,772	8,659

Intangible assets comprise computer software.

18. Other Property, Plant and Equipment

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2017	61,491	40,712	102,203
Additions in period	236	1,560	1,796
Transfer (to) / from non-current assets held for sale (Note 29)	(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
Additions in period	40	1,528	1,568
Transfer to non-current assets held for sale (Note 29)	-	(1,345)	(1,345)
Disposals in period	(16)	(1,401)	(1,417)
Exchange adjustment	(1,002)	(2,808)	(3,810)
At 31 December 2018	50,902	37,656	88,558
Depreciation and impairment			
At 1 January 2017	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 29)	(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
Charge for the period	932	2,570	3,502
Impairment provision (Note 9)	810	-	810
Transfer to non-current assets held for sale (Note 29)	-	(352)	(352)
Disposals in period	(6)	(530)	(536)
Exchange adjustment	(619)	(1,726)	(2,345)
At 31 December 2018	14,792	30,526	45,318
Net book value			
At 31 December 2018	36,110	7,130	43,240
At 31 December 2017	38,205	11,118	49,323
At 31 December 2016	45,583	13,163	58,746

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 2018 and 31 December 2017, management carried out an assessment of whether there is any indication that other property, plant and equipment may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use and concluded that the cruise terminal in Sochi ("Cruise terminal" CGU) was impaired. The impairment recognised in the period ended 31 December 2018, based on value in use, in respect of the cruise terminal CGU, amounted to $0.8 million (recoverable amount $0.8 million). The main inputs and assumptions used in the value in use calculations were: revenues and expenses based on the Group's three year budgets, a terminal growth rate of 3% on both revenues and expenses, use of the asset until the end of 2025 year and a pre-tax discount rate of 15.5%. As at 31 December 2017, management concluded that the assets were not impaired.

19. Investment Property

	2018 $'000	2017 $'000
Cost		
At 1 January	13,272	20,488
Transfer (to) / from non-current assets held for sale (Note 29)	(7,388)	8,050
Disposals in period	(15)	(15,266)
Exchange adjustment	(662)	-
At 31 December	5,207	13,272
Depreciation		
At 1 January	5,348	19,624
Charge for the period (Note 11)	139	294
Transfer (to) / from non-current assets held for sale (Note 29)	(746)	533
Disposals in period	(15)	(15,103)
Exchange adjustment	(64)	-
At 31 December	4,662	5,348
Net book value		
At 31 December	545	7,924
Rental income from investment property	1,492	1,780
Direct operating expenses of investment property	514	965

During the period ended 31 December 2018, the Group classified as held for sale the exhibition centre in Sochi, Russia (see Note 29). As at 31 December 2018, investment property comprises buildings in Novorossiysk with a fair value (Level 2 hierarchy), as at 31 December 2018, equivalent to $17.4 million (2017 – equivalent to $30.2 million including the exhibition centre disposed of in 2018).

20. Investments in Joint Ventures

	2018 $'000	2017 $'000
At 1 January	123,117	114,761
Dissolution of joint venture	-	(17)
Share of profits in joint ventures	3,087	2,638
Share of joint ventures' other comprehensive income	6,722	8,472
Dividends receivable	-	(2,737)
At 31 December	132,926	123,117

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

	Percentage holding				
Name of entity	**2018**	**2017**	**2016**	**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

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

The Group through its joint ventures owns and operates 4 LNG carriers (2017 – 4) and 9 Panamax oil product tankers (LR1) (2017 – 9).

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

	2018 $'000	2017 $'000
Within one year	93,625	93,170
After one year but not more than five years	375,253	367,584
More than five years	319,243	403,653
	788,121	864,407

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Notes to the Consolidated Financial Statements – 31 December 2018 (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 2018	**LNG East West $'000**	**LNG North South $'000**	**NYK-SCF LNG 1 $'000**	**NYK-SCF LNG 2 $'000**	**SCF ST joint ventures $'000**	**Other $'000**	**Total $'000**
Total non-current assets	132,493	136,244	134,388	135,408	324,680	-	863,213
Total current assets	22,675	23,892	17,098	23,781	17,731	589	105,766
Total non-current liabilities	(112,154)	(115,789)	(18,992)	(94,943)	(194,808)	-	(536,686)
Total current liabilities	(8,100)	(11,138)	(87,168)	(15,136)	(43,334)	(21)	(164,897)
Net assets of the joint venture	34,914	33,209	45,326	49,110	104,269	568	267,396
Group's share in net assets of the joint venture	13,093	16,605	22,663	24,555	53,177	189	130,282
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	13,093	16,605	22,663	24,555	55,821	189	132,926
Cash and cash equivalents	3,010	1,223	243	4,908	1,668	434	11,486
Current financial liabilities	(7,953)	(10,923)	(82,568)	(13,057)	(44,009)	-	(158,510)
Non-current financial liabilities	(112,154)	(115,789)	(18,992)	(94,943)	(194,808)	-	(536,686)
Revenues	22,507	24,311	23,267	23,267	89,743	-	183,095
Depreciation, amortisation and impairment	(5,408)	(5,766)	(6,835)	(5,663)	(25,334)	-	(49,006)
Interest income	328	364	122	138	68	-	1,020
Interest expense	(7,116)	(6,738)	(5,668)	(5,913)	(12,063)	-	(37,498)
Income tax	(397)	(397)	-	-	-	-	(794)
Joint ventures' profits / (losses) for the period	5,734	7,362	7,134	8,121	(20,263)	(114)	7,974
Group's share of joint ventures' profits / (losses) for the period recognised	2,150	3,681	3,567	4,061	(10,334)	(38)	3,087
Joint ventures' other comprehensive income for the period	4,301	3,623	2,911	2,820	846	-	14,501
Group's share of joint ventures' other comprehensive income for the period recognised	1,613	1,812	1,456	1,410	431	-	6,722
Joint ventures' total comprehensive income for the period	10,035	10,985	10,045	10,941	(19,417)	(114)	22,475
Group's share of joint ventures' total comprehensive income for the period recognised	3,763	5,493	5,023	5,471	(9,903)	(38)	9,809

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Notes to the Consolidated Financial Statements – 31 December 2018 (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

21. Loans to Joint Ventures

	2018 $'000	2017 $'000	2016 $'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	33,273	30,583	32,197
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	32,796	24,928	18,127
	66,069	55,511	50,324
Less current portion (current assets)	-	-	(4,750)
Non-current portion (non-current assets)	66,069	55,511	45,574
Interest income during the period on loans due from joint ventures	2,171	1,353	1,160
Interest receivable at period end on loans due from joint ventures	4,712	3,299	2,505

The loans to joint ventures are unsecured and mature between December 2019 and January 2022, except for certain loans that repayment shall be made at the discretion of the joint ventures. There is no contractual repayment schedule for the loans. The joint ventures have the right to repay the loans in part or in full at any time before maturity date. This right is considered as closely related to the host contract.

To calculate the ECL on loans due from joint ventures, the Group applied the 12-month ECL model and the general approach and concluded that the ECL is not significant due to low probability of default and low loss given default.

22. Derivative Financial Instruments

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

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

	Interest Rate Swaps ("IRS")		Cross Currency Interest Rate Swaps ("CCIRS")		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Non-current asset	6,694	6,720	14,205	29,189	20,899	35,909
Current asset	3,783	808	-	-	3,783	808
Non-current liability	(8,268)	(12,151)	(5,803)	(661)	(14,071)	(12,812)
Current liability	(5,171)	(9,818)	(10,455)	(7,552)	(15,626)	(17,370)

Hedging instruments

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

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

On 30 July, 27 September and 21 November 2018, the Group entered into three seven year interest rate swap transactions with a financial institution, converting 3 month US LIBOR floating interest rates to fixed, to hedge the Group's future cash outflows resulting from the exposure to interest rate fluctuations associated with the interest payable on three secured bank loan facilities of $42.0 million each in connection with the financing of the Group's vessels.

On 14 December 2018, the Group terminated an IRS expiring on 12 December 2019, resulting in a gain recognised in the income statement of $0.6 million.

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

	IRS		CCIRS		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Amount recognised in hedging reserve	2,450	(1,387)	(34,709)	17,660	(32,259)	16,273
Reclassified from hedging reserve and debited to financing costs	8,929	16,096	12,895	4,099	21,824	20,195
Reclassified from hedging reserve and debited / (credited) to foreign exchange	-	-	19,243	(18,671)	19,243	(18,671)
Reclassification adjustment relating to derecognition of hedging instrument during the period	(590)	-	-	-	(590)	-
Total in other comprehensive income	10,789	14,709	(2,571)	3,088	8,218	17,797

22. **Derivative Financial Instruments (Continued)**

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

Interest Rate Swap contracts

	Weighted average contracted fixed interest rate		Notional principal value		Carrying amount of the hedging instrument assets / (liabilities)		Change in fair value used for calculating hedge ineffectiveness	
	2018	2017	2018	2017	2018	2017	2018	2017
Expiry date	**%**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
1 to 2 years	2.04%	0.89%	53,008	100,000	537	1,091	-	-
2 to 5 years	5.76%	4.94%	182,625	265,083	(10,528)	(19,257)	689	401
More than 5 years	2.28%	2.08%	627,212	551,567	7,029	3,725	-	-
			862,845	916,650	(2,962)	(14,441)	689	401

Cross Currency Interest Rate Swap contracts

	Weighted average contracted fixed interest rate		Notional principal value		Carrying amount of the hedging instrument assets / (liabilities)		Change in fair value used for calculating hedge ineffectiveness	
	2018	2017	2018	2017	2018	2017	2018	2017
Expiry date	**%**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
More than 5 years	5.51%	5.39%	338,779	263,079	(2,053)	20,976	(241)	-

Hedged items

	Nominal amount of the hedged item		Change in fair value used for calculating hedge ineffectiveness		Loss / (gain) in hedging reserve for continuing hedges		(Loss) / gain in hedging reserve for which hedge accounting is no longer applied	
	2018	2017	2018	2017	2018	2017	2018	2017
Hedged items	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Floating rate borrowings 3 month Libor	842,432	912,242	689	401	(3,432)	(14,017)	-	-
Floating rate borrowings 6 month Libor	40,000	46,667	-	-	1,732	1,528	-	-
Floating rate borrowings 3 month Euribor	336,585	281,126	(241)	-	517	3,088	-	-
	1,219,017	1,240,035	448	401	(1,183)	(9,401)	-	-

23. **Income Taxes**

	2018 $'000	2017 $'000
Russian Federation profit tax	17,629	16,162
Overseas income tax expense	744	1,230
Current income tax expense	18,373	17,392
Deferred tax	5,035	(2,020)
Total income tax expense	23,408	15,372

Russian Federation profits tax is payable at a tax rate of 20% (2017 – 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.

23. Income Taxes (Continued)

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.

The income tax expense for the period is reconciled to the expected tax expense based on the Russian Federation tax rate as follows:

	2018 $'000	2017 $'000
Loss before income taxes	(22,148)	(97,597)
Income tax charge using Russian Federation income tax rate of 20%	(4,430)	(19,519)
Difference in tax rates	5,643	23,852
Tax effect on intercompany dividends	5,056	7,761
Non-deductible expenses and non-taxable income	4,858	(117)
Tax effect of losses for which no deferred tax asset was recognised	11,119	3,305
Adjustments in respect of income tax of previous years	1,162	90
Income tax expense	23,408	15,372

Deferred Tax

	Opening balance $'000	Released / (charged) to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2018				
Deferred tax assets	8,162	(3,291)	(782)	4,089
Deferred tax liabilities	(2,258)	(1,744)	179	(3,823)
	5,904	(5,035)	(603)	266
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

Deferred tax relates to the following:

	Opening balance $'000	Released / (charged) to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2018				
Fleet	554	57	-	611
Drydock	(462)	(1,693)	264	(1,891)
Unused tax losses carried forward	3,851	(2,458)	(364)	1,029
Accounts receivable	(518)	484	10	(24)
Accounts payable	2,848	(294)	(193)	2,361
Other	(369)	(1,131)	(320)	(1,820)
	5,904	(5,035)	(603)	266
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

The Group has accumulated tax losses of $56.1 million (2017 – $16.5 million), for which a deferred tax asset of $11.2 million (2017 – $3.3 million) has not been recognised. There is no expiry date for tax losses carried forward, available for offsetting against future taxable profits of the companies in which they arose. In 2018 the Group derecognised deferred tax assets of $2.8 million, based on the projected results of those operations (2017 – $3.1 million recognised assets).

The deferred tax impact on the unremitted earnings of subsidiaries, joint ventures or associates is $2.5 million (2017 – $1.2 million) and is included in the reconciliation of tax expense above in line tax effect on intercompany dividends. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,822.7 million (2017 – $2,777.9 million).

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

24. Earnings Per Share

	2018 $'000	2017 $'000
Net loss attributable to equity holders of the parent for basic earnings	(41,642)	(109,670)

	2018	2017
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic loss per share for the period attributable to equity holders of the parent	($0.021)	($0.056)

25. Inventories

	2018 $'000	2017 $'000	2016 $'000
Bunkers	47,144	41,402	32,222
Lubricants	16,105	17,202	17,618
Victualling and slopchest	1,898	2,035	1,835
Spare parts and consumables	1,927	511	730
Other	378	733	963
	67,452	61,883	53,368

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

26. Trade and Other Receivables

	2018 $'000	2017 $'000	2016 $'000
Non-current assets			
Financial assets			
Other receivables (Note 29)	5,511	77	83
Receivables under High Court judgement award	2,700	2,700	2,700
Liquidated damages on vessels under construction receivable from shipyard	5,459	4,962	-
	13,670	7,739	2,783
Current assets			
Financial assets			
Amounts due from charterers	67,142	70,376	75,279
Allowance for credit losses	(2,500)	(3,469)	(3,520)
	64,642	66,907	71,759
Casualty and other claims	5,841	6,448	6,945
Agents' balances	2,710	3,242	2,756
Other receivables	10,455	17,192	24,031
Liquidated damages on vessels under construction receivable from shipyard	-	5,000	11,800
Amounts due from joint ventures	761	410	473
Amounts due from lessee for finance leases	-	-	764
Accrued income	5,556	4,085	3,426
Non-financial assets			
Prepayments	8,951	11,216	20,302
Voyages in progress	-	25,972	25,295
Contract acquisition and voyage fulfilment costs	2,502	-	-
Non-income based taxes receivable	6,792	6,450	5,471
	108,210	146,922	173,022

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

Amounts due from charterers represent amounts receivable from charterers of vessels owned or leased 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 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 under IAS 18 "Revenue" (see also Note 4).

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2018, $23.7 million (2017 – $25.1 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2018, charterers with a carrying amount of $40.9 million (2017 – $41.8 million) are past due at the reporting date. The Group has not provided for these receivables as there has not been a significant change in credit quality and the amounts outstanding are still considered recoverable.

26. Trade and Other Receivables (Continued)

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

	2018 $'000	2017 $'000	2016 $'000
Up to one month	23,650	17,481	18,898
One to two months	7,541	5,528	10,192
Two to three months	4,341	3,292	3,146
Three to four months	1,766	2,383	4,663
More than four months	3,582	13,096	17,458
	40,880	41,780	54,357

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

	2018 $'000	2017 $'000	2016 $'000
At 1 January	3,469	3,520	5,166
Amounts written off during the period	(552)	(387)	(1,354)
Amounts recovered during the period and recognised in the income statement	(277)	-	(319)
(Decrease) / increase in allowance recognised in the income statement	(140)	336	27
At 31 December	2,500	3,469	3,520

27. Restricted Cash

	2018 $'000	2017 $'000	2016 $'000
Current assets			
Financial assets			
Restricted cash	-	75,543	72,079
	-	75,543	72,079

Restricted cash in 2017 and 2016 represent funds paid into court, as security deposit, of judgment sum and payment on account of costs in relation to a legal claim for damages, pursued by certain defendants in a litigation case, said to have been suffered by virtue of freezing orders, to the extent that the freezing orders were in an amount in excess of the sums recovered by the Group under a court judgment. Following dismissal of the Group's appeal on the damages judgment in 2017, the Group recognised a liability and related expense for the period ended 31 December 2017 of $75.5 million in relation to this claim.

On 31 May 2018, the Supreme Court of the United Kingdom refused the Group permission to appeal and on 8 June 2018, following a consent order by the parties to the litigation, the Court of Appeal ordered that the Courts Funds Office to release and pay the defendants the funds paid into court by the Group. Consequently, funds paid into court, together with interest earned thereon, were applied to settle the payable under the London High Court judgment.

28. Cash and Bank Deposits

	2018 $'000	2017 $'000	2016 $'000
Non-current assets			
Bank deposits	11,000	12,000	10,000
Restricted deposits	(11,000)	(12,000)	(10,000)
Cash and cash equivalents	-	-	-
Current assets			
Cash and bank deposits	296,433	347,352	470,638
Bank deposits accessible on maturity	(504)	(521)	(15,000)
Retention accounts	(27,358)	(24,497)	(22,846)
Restricted deposits	(1,000)	(1,000)	-
Cash and cash equivalents	267,571	321,334	432,792

Cash and cash equivalents comprise cash in hand and on deposit with banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, normally with original maturity of three months or less.

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 35. These funds are accumulated to cover future loan principal and interest repayments.

Restricted deposits represent additional security for the purposes of certain secured loan agreements to ensure minimum liquidity for the duration of the relevant secured loan. Restricted deposits also include funds placed on deposit in relation to a chartered in seismic vessel.

Under the terms of the agreements, two subsidiaries of the Group, as guarantors of the secured bank loans of their respective subsidiaries, have to maintain consolidated freely available bank balances and cash in the amount of not less than $30 million and $25.0 million, respectively. In addition under the terms of the agreements, as at 31 December 2018, one of the two subsidiaries had to maintain minimum consolidated liquidity of $151.6 million (2017 – $146.3 million) of which $75.8 million (2017 – $73.1 million) had to be maintained in cash and cash equivalents.

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

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

	Property and other plant and equipment $'000	Fleet $'000	Total $'000
At 1 January 2017	8,360	-	8,360
Transfer from fleet (Note 15)	-	26,175	26,175
Transfer to investment property (Note 19)	(7,517)	-	(7,517)
Transfer from other property, plant and equipment (Note 18)	5,506	-	5,506
Impairment provision	-	(456)	(456)
Exchange adjustment	500	-	500
Disposals in period	(6,849)	-	(6,849)
At 31 December 2017	-	25,719	25,719
Transfer from fleet (Note 15)	-	39,546	39,546
Transfer from investment property (Note 19)	6,642	-	6,642
Transfer from other property, plant and equipment (Note 18)	993	-	993
Exchange adjustment	(426)	-	(426)
Disposals in period	(7,209)	(35,565)	(42,774)
At 31 December 2018	-	29,700	29,700

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. In addition, 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. The vessels were disposed of and delivered to their buyers, one in February and three in March 2018.

As at 31 December 2017, the exhibition centre in Sochi, Russia, as well as other related plant and equipment ("Exhibition Centre") that were previously classified as held for sale in 2016, 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.

In June 2018, the Group reassessed the classification of the Exhibition Centre and concluded that the sale is highly probable to be completed within one year from the date of classification. The Exhibition Centre was sold in September 2018 at Roubles 720.0 million including value added tax resulting in a profit of Roubles 75.2 million (equivalent to $1.1 million). An amount of Roubles 471.7 million (equivalent to $6.8 million) is outstanding as of the period end, of which $5.4 million is included in non-current trade and other receivables under other receivables (Note 26). The outstanding consideration is payable in quarterly instalments starting from November 2018 with a final balloon repayment in February 2020.

During the period ended 31 December 2018, the Group classified as held for sale one crude oil aframax tanker and three chemical oil product tankers. The vessels were actively marketed for sale at a price approximate to their market values and consequently transferred to non-current assets held for sale. The crude oil aframax tanker was disposed of and delivered to her buyer in October 2018.

30. **Share Capital**

	2018 $'000	2017 $'000	2016 $'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 31)	818,845	818,845	818,845

31. **Group Reconstruction Reserve**

	2018 $'000	2017 $'000	2016 $'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 30), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests' basis.

32. **Dividends**

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

33. Non-Controlling Interests

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2017	(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
Adjustment on initial application of IFRS 15 (net of tax) (Note 4)	-	(229)	(229)
Loss for the period	-	(3,914)	(3,914)
Other comprehensive income	5	(69)	(64)
Dividends	-	(3,140)	(3,140)
At 31 December 2018	(5,353)	141,808	136,455

34. Trade and Other Payables

	2018 $'000	2017 $'000	2016 $'000
Non-current liabilities			
Financial liabilities			
Liquidated damages for late delivery of vessels payable to charterer	18,203	19,386	1,119
Non-financial liabilities			
Employee benefit obligations (Note 12)	5,207	9,027	36,385
Provisions for drydocking	1,367	-	-
	24,777	28,413	37,504
Current liabilities			
Financial liabilities			
Trade payables	59,064	59,020	40,465
Other payables	33,527	29,942	39,653
Payables to shipyards for vessels under construction	-	11,800	-
Liquidated damages for late delivery of vessels payable to charterer	1,800	4,119	11,800
Dividends payable	10,742	12,801	15,986
Accrued liabilities	45,972	41,522	46,292
Accrued interest	19,330	17,049	17,299
Non-financial liabilities			
Deferred lease revenue	37,981	50,874	29,985
Employee benefit obligations (Note 12)	8,703	35,785	-
Non-income based taxes payable	19,054	22,662	13,304
	236,173	285,574	214,784

Liquidated damages represent penalties payable to two Russian State controlled entities, as charterers, in respect of four vessels (2017 – two charterers in respect of six vessels), for the late delivery of the vessels to charter.

35. Secured Bank Loans

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

	2018 $'000	2017 $'000	2016 $'000
Repayable			
- within twelve months after the end of the reporting period	313,842	338,226	290,460
- between one to two years	362,009	472,511	309,162
- between two to three years	382,540	281,837	390,830
- between three to four years	274,021	306,796	227,658
- between four to five years	264,461	201,323	246,686
- more than five years	978,641	1,000,354	729,029
	2,575,514	2,601,047	2,193,825
Less current portion	(313,842)	(338,226)	(290,460)
Non-current balance	2,261,672	2,262,821	1,903,365

35. **Secured Bank Loans (Continued)**

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

Contractual interest rates	Weighted average interest rate 2018	Weighted average interest rate 2017	Outstanding loans gross of direct issue costs 2018 $'000	Outstanding loans gross of direct issue costs 2017 $'000	Maturity
Floating rate loans in U.S. Dollar between 0.875% - 3.00% per annum	Libor+2.07%[1]	Libor+2.23%[1]	1,543,957	1,568,291	Between July 2019 - February 2027
Floating rates loans in Euro	Euribor+1.595%	Euribor+1.595%	336,585	281,126	Between March 2029 - January 2030
Fixed rate loans in U.S. Dollar between 4.15% - 7.50% per annum	6.71%	6.78%	721,950	776,632	Between July 2019 - October 2031
			2,602,492	2,626,049	

[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 2018, of $4,978.2 million (2017 – $4,990.2 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 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.

36. **Finance Lease Liabilities**

	2018 $'000	2017 $'000	2016 $'000
Repayable			
- within twelve months after the end of the reporting period	-	-	173,690
	-	-	173,690
Less current portion	-	-	(173,690)
Non-current balance	-	-	-

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, at a total price of $173.4 million. Legal ownership was transferred to the Group on 15 May 2017 and 22 May 2017.

37. **Retirement Benefit Obligations**

	2018 $'000	2017 $'000	2016 $'000
Post retirement pension benefit plans	2,256	2,145	2,105
Long-term service retirement benefit plans	37	1,900	1,314
Total obligations	2,293	4,045	3,419

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.

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

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

	2018 $'000	2017 $'000	2016 $'000
Defined benefit obligation at 1 January	2,145	2,105	1,757
Interest cost	146	183	185
Benefits paid	(246)	(280)	(259)
Exchange adjustment	(418)	111	354
Re-measurement losses recognised in other comprehensive income	629	26	68
Defined benefit obligation at 31 December	2,256	2,145	2,105

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

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

	2018 $'000	2017 $'000	2016 $'000
Defined benefit obligation at 1 January	1,900	1,314	1,310
Current service costs	-	34	31
Interest cost	47	89	84
Benefits paid	(575)	(68)	(203)
Exchange adjustment	(115)	96	112
Re-measurement losses / (gains) recognised in other comprehensive income	30	435	(20)
Losses on settlement and transfer to New Plan	323	-	-
Transfer of funds to New Plan	(1,573)	-	-
Defined benefit obligation at 31 December	37	1,900	1,314

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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current service cost	-	-	-	34	-	34
Interest cost	146	183	47	89	193	272
Losses on settlement and transfer to New Plan	-	-	323	-	323	-
Transfer of funds to New Plan	-	-	(1,573)	-	(1,573)	-
Exchange adjustment	(418)	111	(115)	96	(533)	207
Charged in the income statement	(272)	294	(1,318)	219	(1,590)	513
Experience adjustments on obligation	768	(65)	30	377	798	312
Actuarial changes arising from changes in financial assumptions	(139)	91	-	58	(139)	149
Re-measurement losses recognised in other comprehensive income	629	26	30	435	659	461

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

	2018	2017
Discount rate for cash flows in Russian Roubles	8.81%	7.44%
Discount rate for cash flows in U.S. Dollars	-	1.29%
Future salary increases in Russian Roubles	-	4.00%
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	6.6	7.2
The average duration of the defined benefit plan obligation for long-term service retirement pension benefit plans	-	7.3

The Group expect to make benefit payments of $0.2 million (2017 – $0.8 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 2018 and 31 December 2017 is as shown below:

	2018 (Decrease) / increase in net defined benefit obligation		2017 (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	(46)	45	(100)	93
Future salary increases	-	-	48	(45)

	2018		2017	
	100 bps increase $'000	100 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
Future pension cost increases	85	-	84	-

	2018		2017	
	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	90	(98)	84	(91)
Life expectancy of female pensioners	49	(53)	45	(48)

38. Other Loans

	2018 $'000	2017 $'000	2016 $'000
$800 million 5.375% Senior Notes due in 2017	-	-	139,896
$900 million 5.375% Senior Notes due in 2023	892,545	891,801	737,076
Other loan from related party	10,151	14,148	-
	902,696	905,949	876,972
Less current portion	(3,384)	(3,537)	(139,896)
Non-current balance	899,312	902,412	737,076

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.

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. The premium of $4.2 million arising from the issue is capitalised and amortised over the period to maturity of these Senior Notes.

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 2016 Notes amounted to $47.8 million. Interest charged in 2017 in relation to the 2010 Notes and 2016 Notes amounted to $48.5 million.

Other loan from related party as at 31 December 2018 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 $0.5 million (2017 – $0.4 million).

39. Cash Generated from Operations

	2018 $'000	2017 $'000
Loss for the period before income taxes	(22,148)	(97,597)
Share of profits in equity accounted investments	(3,109)	(2,675)
Depreciation, amortisation and impairment	404,007	389,142
Investment property depreciation	139	294
Loss / (gain) on sale of assets	8,590	(20,177)
Loss on sale and dissolution of subsidiaries	1,659	-
Loss on sale of equity accounted investments	-	5
Interest expenses and financing costs	200,417	193,859
Interest income	(8,222)	(9,787)
Gain on termination of hedge and hedge ineffectiveness	(1,038)	(401)
Foreign exchange differences	15,093	(243)
Change in allowance for credit losses	(410)	(490)
Losses on settlement and transfer of retirement benefit plan to a New Plan	323	-
Other long-term employee benefits	5,116	7,949
Operating cash flows before movements in working capital	600,417	459,879
Increase in inventories	(5,811)	(8,515)
(Increase) / decrease in trade and other receivables and contract assets	(175)	31,282
(Decrease) / increase in trade and other payables and contract liabilities	(27,349)	84,704
Cash generated from operations	567,082	567,350

40. **Significant Subsidiary Companies**

At 31 December 2018, the Group had 129 single vessel owning and operating subsidiaries (2017 – 135) 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

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 2018			At 31 December 2017		
	Ordinary shares	Preference shares	Total shares	Ordinary shares	Preference shares	Total shares
	%	%	%	%	%	%
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.29	1.48	89.46	98.29	1.48	89.46
Non-controlling shareholders	1.71	98.52	10.54	1.71	98.52	10.54
	100.00	100.00	100.00	100.00	100.00	100.00

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

	2018 $'000	2017 $'000
Summarised statement of financial position:		
Total non-current assets	1,286,469	1,356,536
Total current assets	150,121	197,898
Total non-current liabilities	(58,642)	(56,184)
Total current liabilities	(83,783)	(134,406)
Net assets at period end	1,294,165	1,363,844
Cash and cash equivalents	86,186	101,432
Current financial liabilities	23,941	51,368
Non-current financial liabilities	52,630	49,237
Summarised income statement:		
Revenues	345,910	380,052
Depreciation, amortisation and impairment	(81,841)	(108,159)
Interest income	5,290	4,178
Interest expense	(4,486)	(4,583)
Income tax	(6,345)	(7,361)
Loss for the period	(37,121)	(31,286)
Other comprehensive income for the period	(612)	16
Total comprehensive income for the period	(37,733)	(31,270)
Summarised statement of cash flows:		
Operating activities	45,081	65,208
Investing activities	17,206	(16,663)
Financing activities	(70,473)	(129,563)
Net decrease in cash and cash equivalents	(8,186)	(81,018)

41. **Financial Risk Management**

(a) Capital management

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

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

The Group reviews its capital structure and the capital structure of its subsidiaries on a quarterly basis. As part of this review, management makes adjustments to it in the light of changes in economic conditions and the risk characteristics relating to the Group's activities. In order to maintain or adjust its capital structure, the Group may repay existing secured term loans and revolving credit facilities, sell assets to reduce debt or inject additional capital into its subsidiaries. Management believes that such an approach provides an efficient capital structure and an appropriate level of financial flexibility.

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the market value of the fleet ("total adjusted capital"). Net debt is calculated as the total of secured bank loans (Note 35) and other loans (Note 38) less restricted cash (Note 27) and cash and bank deposits (Note 28). Total equity comprises all components of equity.

Certain of the Group's debt agreements, at subsidiary level, contain loan-to-value clauses which could require the Group, at its option, to post additional collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings under each of such agreements decrease below their current valuations. In addition, the financing agreements impose operating restrictions and establish minimum financial covenants, including limitations on the amount of total borrowings and secured debt, and provide for acceleration of payment under certain circumstances, including failure to satisfy certain financial covenants. Failure to comply with any of the covenants in the financing agreements could also result in a default under those agreements and under other agreements containing cross-default provisions.

During 2018 the Group's overall strategy remained unchanged from 2017. The net debt ratio at 31 December 2018 and at 31 December 2017 and the net adjusted debt ratio of the Group were as follows:

	2018 $'000	2017 $'000
Secured bank loans (Note 35)	2,575,514	2,601,047
Other loans (Note 38)	902,696	905,949
Less: restricted cash (Note 27)	-	(75,543)
Less: cash and bank deposits (Note 28)	(307,433)	(359,352)
Net debt	3,170,777	3,072,101
Total equity	3,350,063	3,409,022
Total capital	6,520,840	6,481,123
Net debt ratio	48.6%	47.4%
Total capital	6,520,840	6,481,123
Total adjusted capital	5,619,177	5,347,529
Net adjusted debt ratio	56.4%	57.4%

(b) Categories of financial assets and financial liabilities

	2018 $'000	2017 $'000
Cash and debt instruments at amortised cost		
Loans and other receivables (Note 26)	103,635	111,023
Loans to joint ventures (Note 21)	66,069	55,511
Restricted cash (Note 27)	-	75,543
Cash and bank deposits (Note 28)	307,433	359,352
Financial assets at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 22)	24,682	36,717
Equity instruments at fair value through profit or loss		
Investments in non-listed companies	754	523
Total financial assets	502,573	638,669
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 22)	29,697	30,182
Financial liabilities at amortised cost		
Secured bank loans (Note 35)	2,575,514	2,601,047
Other loans (Note 38)	902,696	905,949
Other liabilities measured at amortised cost (Note 34)	188,638	195,639
Total financial liabilities	3,696,545	3,732,817

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

(c) Changes in liabilities arising from financing activities

	1 January 2018 $'000	Cash flows $'000	Foreign exchange movement $'000	Other $'000	31 December 2018 $'000
Secured bank loans	2,601,047	(4,067) [1]	(19,490)	(1,976) [2]	2,575,514
Other loans	905,949	(3,425)	(572)	744	902,696
Dividends payable	12,801	(29,881)	(1,693)	29,515 [3]	10,742
Total liabilities from financing activities	3,519,797	(37,373)	(21,755)	28,283	3,488,952

[1] Includes proceeds of borrowings of $564.2 million and repayment of borrowings of $568.3 million.
[2] Includes direct issue costs of $8.1 million incurred during 2018 and direct issue costs amortisation of $6.1 million.
[3] Includes dividends declared during 2018 in the amount of $26.8 million (Note 32).

	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) [3]	2,601,047
Other loans	876,972	8,458 [2]	1,674	18,845 [4]	905,949
Finance lease liabilities	173,690	(176,817)	-	3,127	-
Dividends payable	15,986	(110,977)	(2,110)	109,902 [5]	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 proceeds of other borrowings of $154.1 million and repayment of other borrowings of $145.7 million.
[3] Includes direct issue costs of $11.8 million incurred during 2017 and direct issue costs amortisation of $5.4 million.
[4] Relates to the purchase seismic equipment disclosed in Notes 15 and 38.
[5] Includes dividends declared during 2017 in the amount of $106.9 million (Note 32).

(d) Fair value of financial assets and financial liabilities

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

	Carrying Value		Fair value hierarchy	Fair Value	
	2018 $'000	2017 $'000		2018 $'000	2017 $'000
Financial assets					
Loans to joint ventures	66,069	55,511	Level 2	64,127	53,232
Liquidated damages on vessels under construction receivable from shipyard	5,459	9,962	Level 2	5,459	9,962
Total financial assets	71,528	65,473		69,586	63,194
Financial liabilities					
Secured bank loans at fixed interest rates	711,274	765,028	Level 2	737,091	792,895
Secured bank loans at floating interest rates	1,864,240	1,836,019	Level 2	1,867,212	1,840,772
Other loans (Senior Notes due in 2023)	892,545	891,801	Level 1	873,000	932,625
Other loans	10,151	14,148	Level 2	10,468	14,703
Liquidated damages for late delivery of vessels payable to charterer	20,003	23,505	Level 2	20,003	23,505
Total financial liabilities	3,498,213	3,530,501		3,507,774	3,604,500

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.

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

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

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

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

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 2018				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	24,682	-	24,682
	-	24,682	-	24,682
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	29,697	-	29,697
	-	29,697	-	29,697
At 31 December 2017				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	36,717	-	36,717
	-	36,717	-	36,717
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	30,182	-	30,182
	-	30,182	-	30,182

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

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 2018				
Assets				
Non-current assets held for sale	-	29,700	-	29,700
	-	29,700	-	29,700
At 31 December 2017				
Assets				
Non-current assets held for sale	25,719	-	-	25,719
	25,719	-	-	25,719

(e) Financial risk factors

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. The Russian economy is particularly sensitive to oil and gas price fluctuations and has been negatively impacted by economic sanctions imposed on certain Russian legal entities and individuals by several countries.

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

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

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 2018, 90.1% of the Group's borrowings were denominated in U.S. Dollars (2017 – 91.7%) and 9.9% (2017 – 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 22 of these financial statements. As of 31 December 2018 the net exposure of the Group to foreign exchange rate fluctuations on its borrowing is limited to €8.9 million (equivalent to $10.2 million) (2017– €11.8 million (equivalent to $14.1 million)).

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

(e) Financial risk factors (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. There is a risk that currency exposure arising from the net assets of the Group's foreign operations will have a negative effect on the Group's cash flows. The Group has not entered into any forward contracts to hedge against this translation risk.

The carrying amounts of the Group's most significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Euro (EUR)	20,462	31,512	17,864	11,733
Russian Roubles (RUR)	37,872	90,743	74,341	104,469
Sterling Pounds (GBP)	2,423	2,016	4,439	13,682
Others	2,190	2,510	1,949	1,359

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	
	2018	2017	2018	2017
Euro (EUR)	11.0%	12.5%	7.0%	7.5%
Russian Roubles (RUR)	14.0%	11.0%	14.0%	11.0%
Sterling Pounds (GBP)	11.0%	11.0%	8.0%	7.0%
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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Euro (EUR)	(119)	1,009	1,031	1,781
Russian Roubles (RUR)	4,525	5,464	(564)	(702)
Sterling Pounds (GBP)	(157)	(610)	106	(460)
Others	(6)	94	27	11

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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Euro (EUR)	(92)	736	(783)	(1,300)
Russian Roubles (RUR)	5,998	6,816	749	874
Sterling Pounds (GBP)	(138)	(463)	(93)	349
Others	(7)	115	(33)	(13)

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 22 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:

	2018 $'000	2017 $'000
Total borrowings gross of direct issue costs (Notes 35 and 38)	3,512,643	3,540,197
Fixed rate borrowings gross of direct issue costs (Notes 35 and 38)	(1,621,950)	(1,676,632)
Total floating rate borrowings gross of direct issue costs (Notes 35 and 38)	1,890,693	1,863,565
Notional amount of floating borrowings to fixed rate swaps (Note 22)	(1,201,624)	(1,179,729)
Net exposure to interest fluctuations	689,069	683,836
% of floating rate borrowings exposed to interest rate fluctuations	36.4%	36.7%

41. **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	**2018** 100 bps increase $'000	**2018** 25 bps decrease $'000	**2017** 100 bps increase $'000	**2017** 25 bps decrease $'000
Change in fair value of interest rate swaps				
- Increase / (decrease) in other comprehensive income for the period	4,204	(8,391)	13,310	(3,380)
- Increase / (decrease) in profit or loss for the period	271	(70)	121	(31)
Increase / (decrease) in interest expense for the period excluding interest capitalised	2,727	(935)	5,792	(1,449)

Sensitivity of interest in relation to cross currency swaps

Change in fair value of cross currency interest rate swaps	**Increase / (decrease) in other comprehensive income for the period** 2018 $'000	2017 $'000
Increase in U.S. Dollar 3 month interest rates by 50bps and increase foreign exchange rate by 10%	45,973	39,437
Decrease in U.S. Dollar 3 month interest rates by 50bps and decrease foreign exchange rate by 10%	(46,294)	(39,732)
Increase in Euro cross currency curve by 50bps and increase in Euro 6 month interest rate by 50bps	(162)	(384)
Decrease in Euro cross currency curve by 50bps and decrease in Euro 6 month interest rate by 50bps	145	374

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 51.0% (2017 – 50.3%) of the vessels' total trading days were on time charter representing 79.4% (2017 – 77.3%) of time charter equivalent revenues of which 3.0% (2017 – 3.0%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2018, 51.1% (2017 – 53.3%) 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 and in accordance with the ECL method. As at 31 December 2018, there are no amounts due from charterers that represent over 10% of total amounts due (2017 – two charterers with a total balance of $18.7 million representing 28.0% of total amounts due).

As at 31 December 2018, total revenue included $248.9 million and $187.1 million (2017 – $242.6 million and $162.2 million) from two charterers individually representing 16.4% and 12.3% (2017 – 16.9% and 11.3%), respectively, of total revenue.

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

Operating segment	**2018** $'000	**2017** $'000
Offshore	283,770	131,563
Gas	54,717	107,810
Crude oil	48,502	113,904
Oil product	8,143	21,407
Other	40,822	30,164
	435,954	404,848

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, taking into account financing arrangements with the same counterparty, and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with three banks (2017 – three) representing 26.1%, 22.5% and 20.7% (2017 – 29.5%, 25.0% and 17.5%) of total deposits of $306.0 million (2017 – $357.9 million).

41. **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:

	Secured bank loans $'000	Secured revolving credit facilities $'000	Total available facilities $'000
At 1 January 2018	127,210	40,000	167,210
Exchange adjustment	1,787	-	1,787
Facilities settled	-	(35,000)	(35,000)
New facilities entered into during the period	786,492	79,896	866,388
Facilities drawn down	(555,320)	(8,878)	(564,198)
At 31 December 2018	360,169	76,018	436,187

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 2018 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 2018	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	151,105	18,203	-	169,308
Secured bank loans	319,436	1,298,231	984,825	2,602,492
Other loans	3,384	906,767	-	910,151
Interest payable on derivative instruments	18,847	41,935	21,681	82,463
Interest payable on secured loans	123,682	324,883	122,392	570,957
Interest payable on other loans	48,736	169,667	-	218,403
	665,190	2,759,686	1,128,898	4,553,774
At 31 December 2017				
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

42. **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		Land and buildings		Other assets		Total	Total
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Within one year	21,758	27,090	5,531	4,843	363	380	27,652	32,313
After one year but not more than five years	36,353	57,772	19,801	22,138	1,276	1,501	57,430	81,411
More than five years	-	-	26,069	33,534	10,854	13,447	36,923	46,981
	58,111	84,862	51,401	60,515	12,493	15,328	122,005	160,705
Expensed during the period	28,931	40,424	4,980	5,014	363	406	34,274	45,844

The Group charters in two seismic vessels with purchase options attached to the bareboat charter contracts as well as supply vessels for short term periods for their support. The firm period of the leases on the seismic have a remaining life of less than four months and less than four years, respectively. Leases for office buildings, occupied by the Group, expire between 3 and 8 years with various options attached. Other land and building leases and leases for other assets expire between 40 to 46 years. There are no restrictions placed upon the Group by entering into these leases.

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

The Group as Lessor

Contracted revenues from vessel operations and related guarantees

The Group through its subsidiaries entered into time charter agreements with aggregate hire receivables, comprising lease revenue and service revenue, as at period end, over the firm contract period receivable as follows:

	Lease revenue from time charters 2018 $'000	Service revenue from time charters 2018 $'000	Total 2018 $'000	Lease revenue from time charters 2017 $'000	Service revenue from time charters 2017 $'000	Total 2017 $'000
Within one year	524,256	212,625	736,881	537,090	199,894	736,984
After one year but not more than five years	1,997,076	649,507	2,646,583	1,941,152	619,845	2,560,997
More than five years	3,150,830	856,649	4,007,479	3,461,336	960,319	4,421,655
	5,672,162	1,718,781	7,390,943	5,939,578	1,780,058	7,719,636

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.

Lease revenue from other operations

	Land and buildings 2018 $'000	Land and buildings 2017 $'000
Within one year	1,827	2,168
After one year but not more than five years	8,522	9,724
More than five years	14,390	20,114
	24,739	32,006
Income during the period	2,230	2,396

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's onshore based facilities including leased in facilities. These leases expire between 7 and 27 years.

43. **Contingent Liabilities and Commitments**

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 2018			
Newbuilding contracts	341,059	349,244	690,303
	341,059	349,244	690,303
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

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

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Notes to the Consolidated Financial Statements – 31 December 2018 (Continued)

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

Contingent liabilities (continued)

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 $4.5 million) of which RUR284 million (equivalent to $4.1 million) of the RUR314 million paid, were included in other receivables under trade and other receivables as of 31 December 2017. Following a series of court hearings, court judgments and appeals, Customs returned the RUR221 million paid for the first vessel and the RUR93 paid for the second vessel in July and September 2018, respectively. Interest of these amounts totalling RUR72.3 million (equivalent to $1.0 million) is pending.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK and other companies of the Group filed claims at the Commercial Court in London in December 2006 and subsequently joined further defendants. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims, but after appeal unsuccessful on some claims against certain defendants. Some of the defendants in the unsuccessful claims have indicated an intention to pursue the Group for damages in respect of $90.0 million of security provided during the litigation. No claim for damages has been filed yet.

A total amount of $3.2 million (31 December 2017 – $78.7 million), relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims (see also Note 27), 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 42.

44. **Related Party Transactions**

Note 40 provides information about the Group's structure, including details of its significant 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 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 21 February 2018, the Group drew down an amount of $11.8 million.

In December 2018, the Group entered into a finance lease arrangement with a subsidiary of a State Controlled financial institution, at an effective interest rate of 5.0% per annum, for two ice-class LNG fuelled Aframax tankers commencing on delivery of the vessels from the shipyard in June and September 2022. The total commitments under the leases are $274.3 million, of which $25.2 million are payable over years 2022 and 2023 and the balance of $249.1 million in years 2024 through to September 2032. On expiration of the agreements legal title of the vessels passes to the Group. The Group has no obligation to the lessor until the vessels are delivered from the shipyard and accepted by the Group.

In September 2018, effective 28 December 2018 concurrently with the finance lease arrangement referred to above, the Group, as lessor, entered into time charter agreements with a Russian State controlled entity (the "Charterer") for the chartering out of the two ice-class LNG fuelled Aframax tankers. The charters are for a period of twenty years commencing upon delivery of the vessels from the shipyard and to the Charterer. On expiration of the time charter party the Charterer has the option to purchase the vessel at nominal amount. The time charters have been classified as finance leases. The aggregate lease hire receivable over the charter period are estimated at $623.8 million.

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)	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Transactions with Russian State controlled entities				
Revenue[1]	(441,960)	(353,979)	(21,684)	(24,489)
Voyage expenses and commissions	22,888	5,196	(3,080)	(1,819)
Administration expenses (pension contributions)	1,686	-	-	-
Other operating revenues	(3,702)	(3,081)	(1,948)	(2,017)
Other operating expenses	994	1,078	-	2
Other loans	514	406	(10,168)	(14,175)
Secured bank loans	48,660	44,193	(679,730)	(723,518)
Finance leases payable	-	4,304	-	-
Receivables from shipyard (liquidated damages for late delivery of vessels)	(496)	(40)	5,459	9,962
Payables to charterer (liquidated damages for late delivery of vessels)	1,977	1,022	(20,003)	(23,505)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	105,529	288,187
Cash at bank	(2,695)	(5,843)	111,343	144,289
Derivative financial instruments	(5,576)	23,786	(3,841)	20,976
Transactions with Joint Ventures				
Other operating revenues	(3,432)	(3,235)	761	410
Loans due from joint ventures	(2,171)	(1,353)	66,253	55,622
Compensation of Key Management Personnel				
Short-term benefits	8,154	8,242	(2,583)	(2,506)
Post-employment benefits	62	70	(3)	(18)
Long-term service benefits	2,278	2,938	(6,498)	(21,229)
	10,494	11,250	(9,084)	(23,753)

[1] Includes deferred revenues and contracted liabilities

45. Events After the Reporting Period

On 20 February 2019, the Group took delivery of an ice-class LNG fuelled Aframax crude oil tanker, the m/v Korolev Prospect. Effective on the same date, the Group entered into a seven year USD interest rate swap transaction with a financial institution to hedge the Group's cash flow exposure arising from interest rate fluctuations in respect of a $42.0 million secured bank loan facility in connection with the financing of the vessel.

On 21 February 2019, the Group signed bareboat charter agreements for the chartering in of two seismic vessels, for the performance of a 4D seismic project in the Far East of Russia. Bareboat charter hire payments payable, within one year, up to expected completion of the project are estimated to be $11.1 million.