PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

PAO Sovcomflot

Contents

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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 2020, 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 2020 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of vessels and right of use assets related to vessels	
Impairment testing of vessels and right of use assets related to vessels, which is performed at the level of cash generating units (CGUs), requires management to make judgements and use assumptions in developing estimates. This was a key audit matter because the carrying amount of vessels and right of use assets related to vessels was significant and value in use of the Group's CGUs was highly sensitive to changes in judgements and certain assumptions. Such judgements and assumptions comprise the management's trading strategies in respect of vessels, expected employment of vessels, estimates of future freight rates and seismic services rates, discount rates, CGU determination and other assumptions. The Group disclosed the information about the impairment testing of vessels and right of use assets related to vessels, including sensitivity of test's results to changes in certain assumptions, in Note 15, 28 and 36 to the consolidated financial statements.	We analysed judgements and assumptions used to assess value in use of the Group's vessels and right of use assets related to vessels and tested calculations of value in use, with the involvement of our valuation experts. We also analysed the disclosures of the impairment test, including sensitivity of the impairment test's results to changes in certain assumptions used in the calculations.

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Key audit matter	How our audit addressed the key audit matter
Classification and accounting for lease arrangements	
The Group through its subsidiaries and joint ventures entered into leasing arrangements whereby several vessels were ordered to serve under long-term time charter agreements. This was a key audit matter because the Group's commitments and guarantees under these arrangements are significant for the consolidated financial statements of the Group. Accounting and disclosure of the above mentioned arrangements requires analysis of the substance of the operations and contractual terms, as well as judgement in respect of the determination of the moment of transfer of control over the assets in the future, allocation of the risks and rewards and timing for the recognition of assets and corresponding liabilities at the level of the Group and its joint ventures. The Group disclosed the information on these arrangements in Notes 20 and 41 to the consolidated financial statements.	We analysed the terms of lease arrangements and guarantees and assessed management's judgements on whether the agreements contain a lease component as defined by IFRS 16 *Leases*. We also assessed management's judgement in respect of the determination of the moment of transfer of control over the assets which impacts recognition of assets and the related liabilities. We assessed the disclosure of information about the lease arrangements and the related performance guarantees in the consolidated financial statements.
Classification of time-charter agreements as finance or operating lease	
The Group, through its subsidiaries and joint ventures enters into long-term time-charter agreements in respect of vessels in operation. Classification of a lease component of long-term time-charter agreement as a finance or an operating lease takes place as at the inception of a lease and requires management to make judgements with respect to allocation of risks and rewards incidental to the ownership of vessels between the Group's subsidiaries, joint venture and the charterers. Such allocation is based on an analysis of contractual terms and evaluation of substance of operations. This was a key audit matter because revenue from long-term time-charter agreements, which include a lease component, comprises a significant portion of the Group's revenue and forms a significant disclosure of the contracted revenue, and therefore the conclusion on the classification of the lease component of these agreements as an operating lease or a finance lease affects the recognition of revenue and its disclosure in the consolidated financial statements for many years in the future. The Group disclosed the information on long-term time-charter agreements in Notes 20 and 36 to the consolidated financial statements.	We analysed the terms of long-term time-charter agreements and assessed management's judgements on whether the agreements contain a lease component as defined in IFRS 16 *Leases* and judgements made by management in the determination of the lease term, including analysis of terms in respect of the existence of options to extend or terminate a lease. We also assessed management's analysis of allocation of risks and rewards incidental to ownership and control over the vessels, including judgements made by management based on the evaluation of substance of operations. We assessed the disclosure of information about the long-term time-charter agreements in the consolidated financial statements.

Other information included in the Annual Report 2020

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 judgment and maintain professional skepticism 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, actions taken to eliminate threats or safeguards applied.

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

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

R.G. Romanenko
Partner
Ernst & Young LLC

11 March 2021

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, Saint-Petersburg, Moyka River Embankment, 3a.

Details of the auditor

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

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2020

	Note	2020 $'000	2019 $'000
Revenue	6	1,652,488	1,665,207
Voyage expenses and commissions	7	(301,866)	(399,710)
Time charter equivalent revenues		1,350,622	1,265,497
Direct operating expenses			
Vessels' running costs	8	366,897	356,327
		(366,897)	(356,327)
Net earnings from vessels' trading		983,725	909,170
Other operating revenues	11	22,925	43,106
Other operating expenses	11	(13,707)	(17,914)
Depreciation, amortisation and impairment	9	(421,266)	(411,849)
General and administrative expenses	10	(90,709)	(107,992)
(Loss) / gain on sale of non-current assets	18, 28	(2,344)	6,282
Allowance for expected credit losses		(4,108)	(173)
Share of profits in investments in joint ventures and associates	20	16,834	15,721
Operating profit		491,350	436,351
Other (expenses) / income			
Financing costs	13	(190,546)	(206,156)
Interest income		10,309	10,183
Other non-operating expenses		(2,734)	(1,946)
Hedge ineffectiveness and termination of hedge	22	(1,262)	(83)
Gain on derecognition of dividend liability		1,021	7,895
Foreign exchange gains		8,055	17,703
Foreign exchange losses		(20,742)	(9,563)
Net other expenses		(195,899)	(181,967)
Profit before income taxes		295,451	254,384
Income tax expense	23	(28,586)	(29,006)
Profit for the period		266,865	225,378
Profit attributable to:			
Shareholders of PAO Sovcomflot		267,337	221,629
Non-controlling interests	32	(472)	3,749
		266,865	225,378
Earnings per share			
Basic and diluted profit per share for the period attributable to shareholders of PAO Sovcomflot	24	$0.130	$0.113

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Consolidated Statement of Comprehensive Income
For the period ended 31 December 2020

	Note	2020 $'000	2019 $'000
Profit for the period		266,865	225,378
Other comprehensive income:			
Items to be reclassified to profit or loss in subsequent periods (net of tax):			
Share of associates' other comprehensive income		(17)	12
Share of joint ventures' other comprehensive income	20	(1,120)	3,007
Exchange (loss) / gain on translation from functional currency to presentation currency		(5,526)	413
Reclassification adjustment relating to derecognition of hedging instrument during the period	22	2,341	-
Net loss on derivative financial instruments debited to other comprehensive income	22	(37,601)	(32,710)
		(41,923)	(29,278)
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on retirement benefit obligations	37	(67)	(188)
		(67)	(188)
Other comprehensive income for the period, net of tax		(41,990)	(29,466)
Total comprehensive income for the period		224,875	195,912
Total comprehensive income attributable to:			
Shareholders of PAO Sovcomflot		225,322	192,177
Non-controlling interests		(447)	3,735
		224,875	195,912

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Consolidated Statement of Financial Position – 31 December 2020

	Note	2020 $'000	2019 $'000
Assets			
Non-current assets			
Fleet	15	6,176,675	6,121,734
Right of use assets	36	27,568	45,895
Vessels under construction	16	177,810	179,579
Intangible assets	17	2,926	5,891
Other property, plant and equipment	18	38,612	41,366
Investment property	19	3,523	4,435
Other non-current assets		1,883	-
Investments in associates		111	105
Investments in joint ventures	20	164,908	152,255
Equity instruments at fair value through profit or loss		360	480
Loans to joint ventures	21	52,162	50,341
Derivative financial instruments	22	10,266	4,718
Trade and other receivables	26	10,002	8,705
Deferred tax assets	23	5,231	5,250
Bank deposits	27	12,500	15,500
		6,684,537	6,636,254
Current assets			
Inventories	25	44,228	53,749
Loans to joint ventures	21	2,000	11,804
Derivative financial instruments	22	-	170
Trade and other receivables	26	78,109	100,739
Prepayments and other current assets	26	14,820	15,280
Contract assets	6	26,697	41,605
Current tax receivable		8,302	5,592
Bank deposits	27	18,263	26,865
Cash and cash equivalents	27	849,446	374,821
		1,041,865	630,625
Non-current assets held for sale	28	16,685	69,061
		1,058,550	699,686
Total assets		7,743,087	7,335,940
Equity and liabilities			
Equity			
Share capital	29	410,252	405,012
Reserves		3,571,879	2,967,860
Equity attributable to shareholders of PAO Sovcomflot		3,982,131	3,372,872
Non-controlling interests	32	116,266	131,709
Total equity		4,098,397	3,504,581
Non-current liabilities			
Trade and other payables	33	15,485	16,905
Other non-current liabilities	33	12,878	3,663
Secured bank loans	34	2,049,293	2,159,854
Other loans	35	895,585	897,106
Lease liabilities	36	27,656	41,180
Derivative financial instruments	22	42,233	30,233
Retirement benefit obligations	37	2,324	2,599
Provisions	38	-	3,895
Deferred tax liabilities	23	1,024	6,297
		3,046,478	3,161,732
Current liabilities			
Trade and other payables	33	185,503	161,924
Other current liabilities	33	71,872	72,519
Contract liabilities	6	17,746	14,741
Secured bank loans	34	282,075	378,955
Other loans	35	3,631	3,314
Lease liabilities	36	13,955	19,120
Current tax payable		137	394
Derivative financial instruments	22	20,799	18,660
Provisions	38	2,494	-
		598,212	669,627
Total liabilities		3,644,690	3,831,359
Total equity and liabilities		7,743,087	7,335,940

Approved by the Executive Board and authorised for issue on 11 March 2021

I.V. Tonkovidov
President and Chief Executive Officer

N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 31 December 2020

	Share capital $'000	Share premium $'000	Treasury shares $'000	Group reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Equity attributable to shareholders of PAO Sovcomflot $'000	Non-controlling interests $'000	Total $'000
	(Note 29)	(Note 29)	(Note 29)	(Note 30)	(Notes 20,22)				(Note 32)	
At 1 January 2019	**405,012**	**818,845**	**-**	**(834,490)**	**(2,359)**	**(46,876)**	**2,863,107**	**3,203,239**	**136,455**	**3,339,694**
Profit for the period	-	-	-	-	-	-	221,629	221,629	3,749	225,378
Other comprehensive income										
Share of associates' other comprehensive income	-	-	-	-	-	12	-	12	-	12
Share of joint ventures' other comprehensive income	-	-	-	-	3,007	-	-	3,007	-	3,007
Exchange gain on translation from functional currency to presentation currency	-	-	-	-	-	407	-	407	6	413
Net loss on derivative financial instruments debited to other comprehensive income	-	-	-	-	(32,710)	-	-	(32,710)	-	(32,710)
Remeasurement losses on retirement benefit obligations (Note 37)	-	-	-	-	-	-	(168)	(168)	(20)	(188)
Total comprehensive income	-	-	-	-	(29,703)	419	221,461	192,177	3,735	195,912
Effect of intragroup financing	-	-	-	-	-	-	404	404	(404)	-
Dividends (Note 31 and Note 32)	-	-	-	-	-	-	(22,948)	(22,948)	(8,077)	(31,025)
At 31 December 2019	**405,012**	**818,845**	**-**	**(834,490)**	**(32,062)**	**(46,457)**	**3,062,024**	**3,372,872**	**131,709**	**3,504,581**
Profit for the period	-	-	-	-	-	-	267,337	267,337	(472)	266,865
Other comprehensive income										
Share of associates' other comprehensive income	-	-	-	-	-	(17)	-	(17)	-	(17)
Share of joint ventures' other comprehensive income	-	-	-	-	(1,120)	-	-	(1,120)	-	(1,120)
Exchange (loss) /gain on translation from functional currency to presentation currency	-	-	-	-	-	(5,559)	-	(5,559)	33	(5,526)
Reclassification adjustment relating to derecognition of hedging instrument during the period	-	-	-	-	2,341	-	-	2,341	-	2,341
Net loss on derivative financial instruments debited to other comprehensive income	-	-	-	-	(37,601)	-	-	(37,601)	-	(37,601)
Remeasurement losses on retirement benefit obligations (Note 37)	-	-	-	-	-	-	(59)	(59)	(8)	(67)
Total comprehensive income	-	-	-	-	(36,380)	(5,576)	267,278	225,322	(447)	224,875
Issue of share capital	5,240	544,985	-	-	-	-	-	550,225	-	550,225
Acquisition of treasury shares	-	-	(47,180)	-	-	-	-	(47,180)	-	(47,180)
Transaction costs	-	(21,027)	(1,248)	-	-	-	-	(22,275)	-	(22,275)
Dividends (Note 31 and Note 32)	-	-	-	-	-	-	(96,833)	(96,833)	(14,996)	(111,829)
At 31 December 2020	**410,252**	**1,342,803**	**(48,428)**	**(834,490)**	**(68,442)**	**(52,033)**	**3,232,469**	**3,982,131**	**116,266**	**4,098,397**

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Consolidated Statement of Cash Flows
For the period ended 31 December 2020

	Note	2020 $'000	2019 $'000
Operating Activities			
Cash received from vessels' operations		1,710,039	1,656,133
Other cash receipts		19,311	48,894
Cash payments for voyage and running costs		(663,609)	(771,923)
Other cash payments		(106,994)	(116,144)
Cash generated from operations		958,747	816,960
Interest received		8,178	6,433
Income tax paid		(39,563)	(29,538)
Net cash from operating activities		927,362	793,855
Investing Activities			
Expenditure on fleet	15	(86,488)	(71,755)
Expenditure on vessels under construction	16	(352,945)	(352,001)
Interest capitalised	16	(3,107)	(3,766)
Expenditure on other non-current assets	17, 18, 19	(3,325)	(2,201)
Loan repayments by joint ventures		11,887	7,350
Loans issued to joint ventures		(2,550)	(1,122)
Proceeds from disposal and dissolution of investments		289	1,221
Proceeds from sale of vessels		48,464	8,942
Proceeds from sale of other property, plant and equipment		7,234	6,866
Dividends received from joint ventures and associates		3,017	124
Return / (placement) of bank term deposits	27	105	(61)
Net cash used in investing activities		(377,419)	(406,403)
Financing Activities			
Proceeds from issue of shares	29	550,225	-
Payment on acquisition of treasury shares	29	(47,180)	-
Transaction costs on issue of shares and on acquisition of treasury shares	29	(22,275)	-
Proceeds from borrowings		249,614	306,660
Repayment of borrowings		(490,936)	(338,742)
Financing costs		(6,460)	(6,588)
Repayment of lease liabilities	36	(15,734)	(23,932)
Repayment of liquidated damages		(1,841)	(1,681)
Release / (placement) of restricted deposits under loan and lease agreements	27	3,000	(3,500)
Release of funds in retention bank accounts	27	8,497	1,058
Interest paid on borrowings		(175,870)	(190,111)
Interest paid on lease liabilities	36	(4,478)	(7,732)
Interest paid on liquidated damages		(1,171)	(1,339)
Dividends paid to non-controlling interests		(4,631)	(2,115)
Dividends paid to shareholders of PAO Sovcomflot	31	(98,080)	(22,565)
Net cash used in financing activities		(57,320)	(290,587)
Increase in Cash and Cash Equivalents		492,623	96,865
Cash and Cash Equivalents at 1 January	27	374,821	267,571
Net foreign exchange difference		(17,998)	10,385
Cash and Cash Equivalents at 31 December	27	849,446	374,821

The Group has provided information of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, in Note 40(c).

Total interest paid on borrowings during the period, comprising interest paid on borrowings and interest capitalised, presented under financing and investing activities in the consolidated statement of cash flows, respectively, amounted to $179.0 million (2019 – $193.9 million).

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Notes to the Consolidated Financial Statements – 31 December 2020

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. Following an initial public offering of the Company's ordinary shares and listing on the Moscow Stock Exchange in October 2020, the Russian Federation holds 82.81% of the issued shares of the Company (see also Note 29) and remains the ultimate controlling party of PAO Sovcomflot.

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 132 vessels at the period end, comprising 53 crude oil carriers, 36 oil product carriers, 19 shuttle tankers, 11 gas carriers, 10 ice breaking supply vessels, 2 dry bulk carriers and 1 chartered in seismic vessel. For major changes in the period in relation to the fleet, see also Notes 15, 16 and 28.

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

A list of significant subsidiary companies is disclosed in Note 39 to these consolidated financial statements.

2. Directors and Management

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

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

Members of the Board of Directors	Initial date of election	
S.O. Frank (Chairman)	10 November 2004	Chairman of the Board of Directors of PAO Sovcomflot
A.S. Abramov	26 June 2019	Senior Advisor to the Board Chairman of the Central Union of Consumer Societies of the Russian Federation
W.A. Chammah	29 June 2015	Partner of "Chammah & Partners" LLC
V. P. Ivanov	4 August 2020	Member of the Board of Directors of PAO Sovcomflot
A.Y. Klyavin	30 June 2012	President of the Russian Chamber of Shipping
D.G. Moorhouse	29 June 2010	Member of the Board of Directors of PAO Sovcomflot
A.V. Sharonov	30 June 2014	President of Moscow School of Management "Skolkovo"
P.Y. Sorokin	26 June 2019	Deputy Minister of Energy of the Russian Federation
O.V. Tarasenko [1]	29 June 2018	Deputy Minister of Economic Development of the Russian Federation
Y.A. Tsvetkov	26 June 2019	Member of the Board of Directors of PAO Sovcomflot
I.V. Tonkovidov	23 September 2019	President and Chief Executive Officer of PAO Sovcomflot

[1] On 26 June 2019, O.V. Tarasenko left the Board of Directors and was elected Member of the Board of Directors again at the Extraordinary General Meeting of Shareholders on 23 September 2019.

Members of the Board of Directors are elected at the Annual General Meeting of Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 4 August 2020.

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

3. **Significant Accounting Policies**

(a) Basis of preparation and accounting

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 consolidated 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 consolidated 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 ("RUR") 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 2020. 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 shareholders of PAO Sovcomflot 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 intragroup 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 shareholders of the Company.

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

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

(c) Business combinations

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

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

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

(d) Segmental reporting

The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, which is defined as the Board of Directors of the Company, in order to allocate resources to the segment and assess its performance. Certain vessels in the fleet classified within one segment are also used intermittently as part of another segment. Figures presented herein treat these vessels as vessels classified within the segment they were initially classified, unless they have been permanently reclassified within that other segment. 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, other operating revenues, other operating expenses, vessels' drydock cost amortisation, vessels' depreciation, vessels' impairment provision and reversal thereof, intangible assets' impairment provision and reversal thereof, right of use assets' depreciation, right of use assets' impairment provision and reversal thereof, gains or losses on sale of vessels, share of profits or losses in investments in joint ventures and exchange differences. Non-current assets consist of the vessels used in the operation of each segment. Not allocated items primarily comprise assets and liabilities as well as revenues and expenses relating to the Group's administrative functions and investment activities, cash and bank balances, interest bearing debt, and income tax.

(e) Investments in associates and joint ventures

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

The results and assets and liabilities of associates and joint ventures are included in these consolidated financial statements from the date on which the investee becomes an associate or a joint venture, using the equity method of accounting. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. Investments in associates and joint ventures are carried in the consolidated statement of financial position at cost and adjusted for by post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any impairment in the value of individual investments (see Note 3(t) for the impairment policy). Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests, that in substance form part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

(f) Interests in joint operations

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

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

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

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

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.

Where events or circumstances extend the period to complete the sale beyond one year and where the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that management remains committed to its plan to sell the asset (or disposal group), the asset (or disposal group) continue to be classified as held for sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non–current asset is classified as held for sale.

(h) Revenue

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

Freight revenues (revenues from voyage charters) are earned for the carriage of cargo on behalf of the charterer, in the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo plus reimbursement of expenses incurred to the extent that these expenses are not included in the freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached the Group is compensated for the additional time incurred in the form of demurrage revenue. Demurrage is a variable consideration which is recognised when it is highly probable that a significant reversal of this revenue will not occur, over the remaining time of the voyage.

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

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

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are incurred by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid to third party brokers, seismic exploration and data processing expenses and charter hire payments on supply vessels chartered in from time to time for the support of the seismic vessels.

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

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

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

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

Time charter equivalent revenues describe the earnings of any charter and marine service contract once voyages expenses and commissions relating to the performance of the contract have been deducted from the gross revenues. The term is commonly used in the shipping industry to measure financial performance and to compare period to period changes in the performance irrespective of changes in the mix of charter types and marine service contracts under which the vessels may be employed.

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

(h) Revenue (continued)

Contract assets

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

Contract liabilities

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

(i) Other operating revenues and operating expenses

Other operating revenues and other operating expenses comprise income and directly related expenses from non-core non-vessel operating related activities, including agency revenues earned in arranging third parties' seismic exploration and data processing services, rental operations derived from investment properties, commercial and technical management and newbuilding supervision, as well as ancillary services provided by vessels in operation in the offshore segment.

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

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

(j) Interest income

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

(k) Currency translation

Transactions and balances

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

At the end of each reporting period, monetary assets and liabilities denominated in currencies other than the functional currencies are retranslated at the rates ruling at that date. Non-monetary items that are measured in terms of historical cost in currencies other than the functional currencies are not retranslated. Non-monetary items measured at fair value in currencies other than the functional currencies are translated using the exchange rates at the date when the fair value was determined.

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

Group companies

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

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

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

(k) Currency translation (continued)

Exchange rates

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

	2020 Closing $1	2020 Average $1	2019 Closing $1	2019 Average $1
Russian Roubles (RUR)	73.8757	72.1464	61.9057	64.7362
Pounds Sterling (GBP)	0.7384	0.7800	0.7629	0.7840
Euro (EUR or €)	0.8147	0.8774	0.8928	0.8931

(l) Borrowing costs

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

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated using the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, including borrowings made specifically for the purpose of obtaining a qualifying asset, provided that substantially all the activities necessary to prepare that qualifying asset for its intended use or sale are complete. The amount of borrowing costs that the Group capitalises during a period does not exceed the amount of borrowing costs incurred during that period. All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

(m) Leasing

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

Group as lessee

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

Right of use assets

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

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

Accounting for drydocking and special survey costs of chartered in vessels

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

Lease liabilities

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

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

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

(m) Leasing (continued)

Group as lessee (continued)

Short-term leases and leases of low-value assets

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

Group as lessor

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

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

Subleasing

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

(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 consolidated statement of financial position represents the present value of the defined benefit obligation.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave, and bonuses in the period the related service is rendered.

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

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

Termination benefits

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

(o) Property, plant and equipment and depreciation

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

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

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

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

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

Crude oil, shuttle, oil 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
Dry 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:

	2020 $ per LWT	2019 $ per LWT
Crude oil, shuttle, oil product and chemical tankers	360	380
Arctic shuttle tankers	360	380
Ice breaking supply vessels	340	380
LNG carriers	425	440
LPG carriers	410	425
Dry bulk carriers	340	370

Depreciation in respect of buildings and other property, plant and equipment is charged so as to write off their cost on a straight-line basis to its residual value over the anticipated useful lives of the assets concerned at a rate of between 2% and 5% and between 5% and 33% per annum, respectively. Land is not depreciated

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

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

The residual value and useful life of each asset is reviewed at each financial period end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the consolidated 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 consolidated 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 consolidated income statement in the period of change and future periods. Amortisation of the capitalised intangible assets is included in the depreciation, amortisation and impairment line in the consolidated income statement.

(q) Drydocking and special survey costs

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

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

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

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

(q) Drydocking and special survey costs (continued)

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

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

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

(r) Investment property

Investment property is stated in the consolidated statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided on the same basis as for buildings and 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 investment 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 investment property is derecognised. Transfers to, or from, investment property are made only when there is a change in use evidenced by end of owner-occupation, for a transfer from owner-occupied property to investment property, commencement of owner-occupation, for a transfer from investment property to owner occupied property and commencement of development with a view to sell, for a transfer from investment property to inventories.

(s) Assets under construction

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

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

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

(t) Impairment of non-financial assets

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

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

The first step in this process is the determination of the lowest level at which largely independent cash flows are generated, starting from the individual asset level. A CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets. The Group allocates the carrying amount of a right of use asset to CGUs it serves if this can be done in a reasonable and consistent basis, and tests the CGUs for impairment including these right of use assets. In identifying whether cash inflows from an asset or group of assets are largely independent, and therefore determining the level of CGUs, the Group considers many factors including management's trading strategies, how management makes decisions about continuing or disposing of the assets, nature and terms of contractual arrangements and actual and predicted employment of the vessels.

Based on the above, the Group has determined it has CGUs of varying sizes ranging from individual vessels to multiple vessels of the same class with similar or identical characteristics where a common employment strategy is followed.

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

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

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

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

(u) Inventories

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

(v) Financial instruments

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

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

Effective interest method

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as:

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

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

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

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

Subsequent measurement

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

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

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

(v) Financial instruments (continued)

Financial assets (continued)

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

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 consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement.

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

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

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

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

(v) Financial instruments (continued)

Financial liabilities and equity (continued)

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.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity including any directly attributable incremental costs (net of income taxes). No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, net of any directly attributable incremental transaction costs and the related income tax effects is recognised in the share premium.

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9 "Financial Instruments". 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 consolidated income statement.

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

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

Borrowings

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

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

Derecognition or modification of financial liabilities

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

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

Financial guarantees

Financial guarantees issued by the Group are those that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when due in accordance with the terms. Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

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. 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 same periods which the hedged item affects profit or loss, in the same line of the consolidated income statement where the effect of the hedged item is reflected. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

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

(w) Taxation

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

Current tax

The tax currently payable is based on taxable profits for the period, which are subject to the fiscal regulations of the countries in which the Company and its subsidiaries are incorporated. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other period and it further excludes items that are never taxable or deductible. Income taxes in respect of the Company are accounted for in accordance with Russian fiscal regulations. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. However where an asset and a liability is recognised at the same time, temporary differences are recognised to the extent that the transaction gives rise to equal amounts of deferred tax assets and liabilities.

A deferred tax liability is recognised on unremitted earnings of subsidiaries to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future. Deferred tax liabilities are not recognised for taxable temporary differences arising on investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

(w) Taxation (continued)

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tonnage tax

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

(x) Provisions

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

Contingent liabilities are not recognised in the consolidated 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 consolidated 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 PAO Sovcomflot by the weighted average number of shares outstanding during the period taking into account the weighted average effect of changes in treasury shares during the period. The weighted average number of shares outstanding during the period is the number of shares outstanding at the beginning of the period, adjusted by the number of shares issued or bought back during the period multiplied by the time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in 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 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 2020. The nature and the impact of each amendment is described below.

Conceptual Framework – "Amendments to References to the Conceptual Framework in IFRS Standards". The amendments introduce new definitions of assets and liabilities, as well as amended definitions of income and expenses. These amendments had no material impact on the consolidated financial statements of the Group.

IFRS 3 (''Business Combinations") – "Amendments to clarify the definition of a business". The amendments enhance the definition of a business with the aim to make its application less complicated. In addition, they introduce an optional concentration test that, if met, eliminates the need for further assessment. Under this concentration test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. Since the amendments apply prospectively to transactions or other events after the date of first application, they had no impact on the Group's consolidated financial statements on the date of transition.

IAS 1 (''Presentation of Financial Statements") and IAS 8 (''Accounting Policies, Changes in Accounting Estimates and Errors") – "Amendments regarding the definition of material". These amendments had no material impact on the consolidated financial statements of the Group.

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 7 ("Financial Instruments: Disclosures"), IFRS 9 ("Financial Instruments") and IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments regarding pre-replacement issues in the context of the IBOR reform". The amendments provide relief from certain requirements of hedge accounting, as their fulfilment can lead to discontinuation of hedge accounting due to uncertainty caused by the reform. The Group has applied the following reliefs and assumptions:

Reliefs applied

- When considering the 'highly probable' requirement, the Group has assumed that the U.S. Dollar LIBOR and EURIBOR on which the Group's hedged borrowings are based do not change as a result of IBOR reform;
- In assessing whether the hedging instruments are expected to be highly effective on a forward-looking basis the Group has assumed that U.S. Dollar LIBOR and EURIBOR on which the cash flows of the hedged borrowings and the hedging instruments that hedge these, are based, are not altered by IBOR reform;
- The Group has not recycled the hedging reserve relating to the period after the reforms are expected to take effect.

Assumptions made

In calculating the change in fair value attributable to the hedged risk of floating rate borrowings, the Group has made the following assumptions that reflect its current expectations:

- The U.S. Dollar LIBOR floating rate borrowings are expected to move to SOFR and the spread is expected to be similar to the spread included in the interest rate swap used as the hedging instrument. In relation to EURIBOR, the Group expects that it will continue to exist as a benchmark rate for the foreseeable future;
- No other changes to the terms of the floating rate borrowings are anticipated.

The Group has started discussions with banks to amend the U.S. Dollar LIBOR secured bank loans agreements so that the reference benchmark interest rate will change to SOFR, which will be further aligned with the corresponding Group's hedging instruments.

IFRS 16 ("Leases") – "Amendment to provide lessees with an exemption from assessing whether a Covid-19-Related Rent Concession is a lease modification". The amendment allows lessees to account for those rent concessions as if they were not lease modifications. This amendment had no material impact on the consolidated financial statements of the Group.

New and revised IFRS in issue but not yet effective

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

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

IFRS 3 (''Business Combinations") – "Amendments updating a reference to the Conceptual Framework" (effective for annual periods beginning on or after 1 January 2022). The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. Also, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the framework for the preparation and presentation of financial statements. Since the amendments apply prospectively to transactions or other events after the date of first application, they will not have an impact on the Group's consolidated financial statements on the date of transition.

IFRS 7 ("Financial Instruments: Disclosures"), IFRS 9 ("Financial Instruments"), IAS 39 ("Financial Instruments: Recognition and Measurement"), IFRS 4 ("Insurance contracts") and IFRS 16 ("Leases") – "Amendments regarding replacement issues in the context of the IBOR reform – Phase 2" (effective for annual periods beginning on or after 1 January 2021). The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to: changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and hedge accounting.

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. The Group expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

At 31 December 2020, the Group has $54.7 million of loans to joint ventures, $1,382.6 million and €243.1 million (equivalent to $298.4 million) of borrowings, gross of direct issue costs, linked to U.S. Dollar LIBOR and EURIBOR, respectively, that will be subject to IBOR reform.

The amendments provide exceptions to the hedge accounting requirements in the following areas:

i. Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform;
ii. When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the hedging reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined;
iii. When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to subgroups based on the benchmark rates being hedged;
iv. If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

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

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

IFRS 7 ("Financial Instruments: Disclosures"), IFRS 9 ("Financial Instruments"), IAS 39 ("Financial Instruments: Recognition and Measurement"), IFRS 4 ("Insurance contracts") and IFRS 16 ("Leases") (continued)

Note 22 indicates in a tabular format the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Group manages through hedging relationships. Whenever the replacement occurs, the Group expects to apply the amendments related to hedge accounting. However, there is uncertainty about when and how replacement may occur.

When the change occurs to the hedged item or the hedging instrument, hedging relationships may experience hedge ineffectiveness if there is a timing or other mismatch between the transition of the hedged item and that of the hedging instrument to SOFR. The Group does not expect that amounts accumulated in the hedging reserve will be immediately reclassified to profit or loss.

The amendments will also require the Group to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

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

IAS 1 ("Presentation of Financial Statements") – "Amendments regarding the classification of liabilities as current or non-current" (effective for annual periods beginning on or after 1 January 2023). These amendments are not expected to have an impact on the Group's consolidated financial statements as the Group already applies the criteria set by the amendments.

IAS 1 ("Presentation of Financial Statements") and IFRS Practice Statement 2 – "Amendments regarding the disclosure of accounting policies" (effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. These amendments are not expected to have a material impact on the Group's consolidated financial statements.

IAS 8 ("Accounting Policies, Changes in Accounting Estimates and Errors") – "Amendments regarding the definition of accounting estimates" (effective for annual periods beginning on or after 1 January 2023). These amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

IAS 16 ("Property, Plant and equipment") – "Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use" (effective for annual periods beginning on or after 1 January 2022). These amendments are not expected to have an impact on the Group's consolidated financial statements.

IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets") – "Amendments regarding the costs to include when assessing whether a contract is onerous" (effective for annual periods beginning on or after 1 January 2022). These amendments are not expected to have a significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2018–2020

The "May 2020 Annual Improvements to IFRSs" is a collection of amendment to IFRSs in response to four standards. These improvements are effective from 1 January 2022. It includes the following amendments, which are not expected to have an impact on the Group's consolidated financial statements:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards (simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent);
- IFRS 9 – Financial Instruments (clarifies the fees to be included for the purpose of performing the '10 per cent test' for derecognition of financial liabilities);
- IFRS 16 – Leases (removes the illustration of payments from the lessor relating to leasehold improvements); and
- IAS 41 – Agriculture (removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 "Fair Value Measurement").

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 consolidated financial statements.

Critical Accounting Judgements

<u>Classification of charter agreements as either finance or operating leases when the Group acts as a lessor</u>

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

<u>Determining the lease term of contracts with renewal options when the Group acts as a lessee</u>

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

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

<u>Determining the incremental borrowing rate</u>

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

To determine the incremental borrowing rate, the Group:

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

<u>Determination of cash generating units for value in use calculations</u>

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.

<u>Carrying amount of vessels and vessels under construction</u>

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 consolidated financial statements.

<u>Anticipated useful life of the fleet and the estimates of residual values</u>

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

	2020 $'000	2019 $'000
Lease revenue from time charters	696,467	615,824
Service revenue from time charters	294,577	262,028
Total revenue from time charters	991,044	877,852
Service revenue from voyage charters	603,033	708,406
Service revenue from marine services	58,411	78,949
	1,652,488	1,665,207

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

For the period ended 31 December 2020

	Service revenue					
	Voyage charters	**Time charters**	**Marine services**	**Total**	**Lease revenue from time charters**	**Revenue**
Segment	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Offshore services	5,045	132,662	-	137,707	344,467	482,174
Gas transportation	-	58,898	-	58,898	143,542	202,440
Crude oil transportation	382,607	66,363	-	448,970	162,329	611,299
Oil products transportation	213,607	33,496	-	247,103	41,614	288,717
Other	1,774	3,158	58,411	63,343	4,515	67,858
Revenue from vessel operations	603,033	294,577	58,411	956,021	696,467	1,652,488
Other operating revenues from contracts with customers						
Other operating revenues (Note 11)				17,894		
Total revenue from contracts with customers				973,915		

For the period ended 31 December 2019

	Service revenue					
	Voyage charters	**Time charters**	**Marine services**	**Total**	**Lease revenue from time charters**	**Revenue**
Segment	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Offshore services	4,222	127,752	-	131,974	325,269	457,243
Gas transportation	-	39,824	-	39,824	145,742	185,566
Crude oil transportation	420,682	72,440	-	493,122	120,237	613,359
Oil products transportation	282,888	18,343	-	301,231	18,764	319,995
Other	614	3,669	78,949	83,232	5,812	89,044
Revenue from vessel operations	708,406	262,028	78,949	1,049,383	615,824	1,665,207
Other operating revenues from contracts with customers						
Other operating revenues (Note 11)				36,372		
Total revenue from contracts with customers				1,085,755		

6.1 Contract balances

	2020 $'000	2019 $'000
Trade receivables from contracts with customers (Note 26)	34,251	62,088
Contract assets	26,697	41,605
Contract liabilities	17,746	14,741

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

Contract assets represent the freight, demurrage, deviation and other amounts receivable from charterers for the completed voyage performance as at the period end. The balances of contract assets vary from period to period and depend on the number of ongoing contracts with customers at the period end, the stage of progress towards satisfaction of a performance obligation and the level of service revenue associated with each contract.

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

6. **Revenue (Continued)**

6.1 Contract balances (continued)

Set out below is the amount of revenue recognised from:

	2020 $'000	2019 $'000
Amounts included in contract liabilities as at beginning of the year	14,741	16,086
Performance obligations satisfied in previous years	-	-

6.2 Performance obligations

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

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

Revenue from time charters – The performance obligation for the service component of time charters, which is accounted for separately from the lease component, is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. The lease component is accounted for as a lease (see Note 3(h)). Hire from time charters is receivable monthly in advance over the duration of the time charter voyage or as per any other contractual arrangement with the charterer.

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

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

	2020 $'000	2019 $'000
Within twelve months after the end of the reporting period	248,062	304,393
After one year but not more than five years	589,645	528,260
More than five years	948,411	675,006
	1,786,118	1,507,659

7. **Voyage Expenses and Commissions**

	2020 $'000	2019 $'000
Bunkers	166,237	239,739
Port costs	106,648	122,995
Commissions	9,377	10,289
Seismic exploration and data processing	6,785	15,212
Other voyage costs	12,819	11,475
	301,866	399,710

8. **Vessels' Running Costs**

	2020 $'000	2019 $'000
Crew costs	201,133	201,600
Technical costs	124,867	114,253
Insurance costs	20,256	19,362
Lubricating oils	10,784	11,282
Other costs	9,857	9,830
	366,897	356,327

9. **Depreciation, Amortisation and Impairment**

	2020 $'000	2019 $'000
Vessels' depreciation (Note 15)	348,564	326,154
Vessels' drydock cost amortisation (Note 15)	34,887	34,499
Vessels' impairment provision (Notes 15 and 28)	15,630	22,573
Vessels' reversal of impairment provision (Note 28)	-	(617)
Other depreciation and amortisation (Notes 17 and 18)	3,698	4,729
Other impairment provision (Notes 17 and 18)	2,562	891
Right of use assets' depreciation (Note 36)	13,233	22,894
Right of use assets' impairment provision (Note 36)	2,692	726
	421,266	411,849

10. General and Administrative Expenses

	2020 $'000	2019 $'000
Administration expenses	82,067	92,728
Non-income based taxes	7,686	14,255
Bank charges and fees	956	1,009
	90,709	107,992

Administration expenses are analysed as follows:

	2020 $'000	2019 $'000
Office costs and other general expenses	76,886	86,991
Legal and professional	2,791	3,420
Audit and accountancy	2,390	2,317
	82,067	92,728

Non-income based taxes are analysed as follows:

	2020 $'000	2019 $'000
Irrecoverable value added tax	6,501	13,130
Tonnage tax	1,185	1,125
	7,686	14,255

11. Other Operating Revenues and Expenses

	2020 $'000	2019 $'000
Other operating revenues from contracts with customers	17,894	36,372
Lease revenue	4,079	4,408
Other income	952	2,326
	22,925	43,106
Contract fulfilment costs	(11,001)	(12,554)
Other operating expenses	(2,435)	(4,262)
Investment property depreciation and impairment provision (Note 19)	(271)	(1,098)
	(13,707)	(17,914)
	9,218	25,192

Other operating revenues from contracts with customers comprise income from non-core non-vessel operating activities, including 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. For the period ended 31 December 2019 other operating revenues from contracts with customers also included agency revenues earned in arranging third parties' seismic exploration and data processing services.

12. Employee Costs

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

	2020 $'000	2019 $'000
Seafarers		
- Short-term and other long-term employee benefits	171,318	170,894
- Payroll taxes	1,352	1,483
- Defined contribution pension plans	490	1,773
	173,160	174,150
Shore based staff		
- Short-term and other long-term employee benefits	60,999	63,854
- Payroll taxes	9,338	9,574
- Defined contribution pension plans	1,424	1,517
	71,761	74,945
Total employee costs	244,921	249,095

12. Employee Costs (continued)

Effective 1 January 2020, the Group introduced a long-term employee benefit plan ("LTEBP") for a selected number of seafarers and shore based personnel. The total duration of the plan is three years with remuneration payable in years 2023, 2024 and 2025. The plan is unfunded.

Under the plans, employees will be eligible to receive remuneration 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 2020 is based on the assumption that the performance vs. set KPI targets achieved as of period end will be sustained over the entire plan evaluation period (2020-2022) and the recipient's continued employment with the Group, as stipulated by the plan regulation. Should this estimation proven inaccurate and the target KPIs not met, reversal of charges may arise.

The Group had previously operated a five-year (2015-2019) long-term incentive employee benefit plan for a selected number of seafarers and shore based personnel with awards payable in years 2018, 2019 and 2020. The plan was closed upon payment of the last award, in July 2020.

These benefits under the plans are accounted for as other long-term employee benefits and are included in payables and other liabilities (Note 33). 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 consolidated income statement.

The charge to profit and the corresponding liability in respect of key management personnel is disclosed in Note 42.

13. Financing Costs

	2020 $'000	2019 $'000
Interest on secured bank loans	95,838	121,070
Interest on interest rate swaps and cross currency interest rate swaps	28,410	17,687
Interest on other loans	47,956	48,094
Interest on lease liabilities (Note 36)	5,386	7,759
Other interest	10,437	9,996
Other financing costs	2,519	1,550
	190,546	206,156

14. Segment Information

For management purposes, the Group's operations are split between two core businesses: industrial and conventional shipping. These businesses are each divided into two segments, with the industrial business comprising the offshore services and gas transportation segments, and conventional shipping comprising the crude oil transportation and oil products transportation segments. Activities not falling within either of the Group's two core businesses are represented by the other segment. A description of each segment is set out below.

- Offshore services. This segment comprises the services provided by the Group's shuttle tankers and specialised supply or service vessels. The Group's shuttle tankers transport oil from offshore facilities to customers' receiving terminals or onward shipment hubs. The Group's icebreaking supply vessels provide services for dedicated offshore platforms and drilling rigs, in addition to early stage emergency response operations. This segment also provides additional services to offshore facilities, such as the management of Floating Storage and Offloading Units ("FSOs"), and logistical support. As of 31 December 2020 and 31 December 2019, this segment's fleet consisted of 19 shuttle tankers and 10 ice breaking supply vessels.

- Gas transportation. This segment transports LNG and LPG. As of 31 December 2020, this segment's fleet consisted of 7 LNG carriers (2019 – 5) and 4 LPG carriers (2019 – 4). This segment also includes 4 LNG carriers owned through joint ventures, as disclosed in Note 20.

- Crude oil transportation. This segment comprises the transportation of crude oil. As of 31 December 2020, this segment's fleet consisted of 53 crude oil carriers (2019 – 56).

- Oil products transportation. This segment comprises the transportation of refined petroleum and other oil products. As of 31 December 2020 and 31 December 2019, this segment's fleet consisted of 36 petroleum product carriers. This segment also includes 9 oil petroleum product carriers owned through joint ventures, as disclosed in Note 20.

- Other. This segment comprises dry bulk carriers and seismic research vessels. As of 31 December 2020, this segment's fleet consisted of 2 dry bulk carriers (2019 – 2) and 1 chartered in seismic vessel (2019 – 2). This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

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

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

14. **Segment Information (Continued)**

Period ended 31 December 2020

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	482,174	202,440	611,299	288,717	67,858	1,652,488
Voyage expenses and commissions	(2,939)	(623)	(179,714)	(93,915)	(24,675)	(301,866)
Time charter equivalent revenues	479,235	201,817	431,585	194,802	43,183	1,350,622
Direct operating expenses						
Vessels' running costs	(91,129)	(44,557)	(132,321)	(79,678)	(19,212)	(366,897)
Net earnings from vessels' trading	388,106	157,260	299,264	115,124	23,971	983,725
Other operating revenues	2,545	-	-	-	-	2,545
Other operating expenses	(2,144)	-	-	-	-	(2,144)
Vessels' depreciation	(138,622)	(42,087)	(113,096)	(50,600)	(4,159)	(348,564)
Vessels' drydock cost amortisation	(9,262)	(6,918)	(11,461)	(6,973)	(273)	(34,887)
Vessels' impairment provision	-	-	(6,649)	(2,802)	(6,179)	(15,630)
Intangible assets' impairment provision	-	-	-	-	(2,094)	(2,094)
Right of use assets' depreciation	-	-	-	-	(9,331)	(9,331)
Right of use assets' impairment provision	-	-	-	-	(1,792)	(1,792)
Loss on sale of vessels	-	-	(2,398)	-	-	(2,398)
Allowance for expected credit losses	-	(3,814)	(37)	(114)	(143)	(4,108)
Share of profits in investments in joint ventures	-	14,302	-	2,492	-	16,794
Net foreign exchange losses	(3,843)	-	-	-	(1,313)	(5,156)
Segment operating profit / (loss)	236,780	118,743	165,623	57,127	(1,313)	576,960
Unallocated						
General and administrative expenses						(90,709)
Financing costs						(190,546)
Other income and expenses (net)						7,277
Net foreign exchange losses						(7,531)
Profit before income taxes						295,451
Carrying amount of fleet in operation including right of use assets	1,909,303	1,484,238	1,936,205	792,230	66,815	6,188,791
Carrying amount of non-current assets held for sale	-	-	-	16,685	-	16,685
Deadweight tonnage of fleet used in operations ('000)	1,593	755	6,999	2,143	152	11,642

Period ended 31 December 2019

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	457,243	185,566	613,359	319,995	89,044	1,665,207
Voyage expenses and commissions	(2,577)	(1,115)	(221,270)	(142,266)	(32,482)	(399,710)
Time charter equivalent revenues	454,666	184,451	392,089	177,729	56,562	1,265,497
Direct operating expenses						
Vessels' running costs	(84,124)	(37,455)	(123,819)	(88,474)	(22,455)	(356,327)
Net earnings from vessels' trading	370,542	146,996	268,270	89,255	34,107	909,170
Other operating revenues	3,101	-	-	-	17,815	20,916
Other operating expenses	(2,161)	-	-	-	(2,082)	(4,243)
Vessels' depreciation	(127,461)	(36,176)	(108,232)	(48,444)	(5,841)	(326,154)
Vessels' drydock cost amortisation	(10,072)	(4,699)	(12,846)	(6,462)	(420)	(34,499)
Vessels' impairment provision	-	-	(19,913)	(2,660)	-	(22,573)
Vessels' reversal of impairment provision	-	-	-	617	-	617
Right of use assets' depreciation	-	-	-	-	(18,960)	(18,960)
Loss on sale of vessels	-	-	-	(171)	-	(171)
Non-income based taxes	(4,287)	-	-	-	-	(4,287)
Allowance for expected credit losses	-	(79)	234	(257)	(175)	(277)
Share of profits in investments in joint ventures	-	12,810	-	2,897	-	15,707
Net foreign exchange (losses) / gains	(2,176)	-	-	-	4,524	2,348
Segment operating profit	227,486	118,852	127,513	34,775	28,968	537,594
Unallocated						
General and administrative expenses						(103,705)
Financing costs						(206,156)
Other income and expenses (net)						20,859
Net foreign exchange gains						5,792
Profit before income taxes						254,384
Carrying amount of fleet in operation including right of use assets	2,032,948	1,169,841	2,018,225	837,699	91,621	6,150,334
Carrying amount of non-current assets held for sale	-	-	49,572	19,489	-	69,061
Deadweight tonnage of fleet used in operations ('000)	1,593	569	7,424	2,143	156	11,885

15. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2019	8,483,615	157,642	8,641,257
Expenditure in period	36,647	36,557	73,204
Transfer from vessels under construction (Note 16)	307,778	4,500	312,278
Transfer to non-current assets held for sale (Note 28)	(155,503)	(3,579)	(159,082)
Write-off of fully amortised drydock cost	-	(32,408)	(32,408)
Exchange adjustment	1,069	57	1,126
At 31 December 2019	8,673,606	162,769	8,836,375
Expenditure in period	50,430	39,664	90,094
Transfer from vessels under construction (Note 16)	345,421	12,100	357,521
Acquisitions during the period	2,084	-	2,084
Write-off of fully amortised drydock cost	-	(42,227)	(42,227)
Exchange adjustment	(55)	-	(55)
At 31 December 2020	9,071,486	172,306	9,243,792
Depreciation, amortisation and impairment			
At 1 January 2019	2,391,321	84,273	2,475,594
Charge for the period	326,154	34,499	360,653
Impairment provision	19,913	-	19,913
Transfer to non-current assets held for sale (Note 28)	(106,470)	(3,038)	(109,508)
Write-off of fully amortised drydock cost	-	(32,408)	(32,408)
Exchange adjustment	350	47	397
At 31 December 2019	2,631,268	83,373	2,714,641
Charge for the period	348,564	34,887	383,451
Impairment provision	11,251	-	11,251
Write-off of fully amortised drydock cost	-	(42,227)	(42,227)
Exchange adjustment	1	-	1
At 31 December 2020	2,991,084	76,033	3,067,117
Net book value			
At 31 December 2020	6,080,402	96,273	6,176,675
At 31 December 2019	6,042,338	79,396	6,121,734

	2020	2019
Market value ($'000)	5,390,000	5,714,000
Current insured values ($'000)	6,907,331	7,025,695
Total deadweight tonnage (dwt)	11,544,231	11,358,261

The table below summarises the number and deadweight per type of vessel included in fleet above, as of the period end, as well as of vessels classified as held for sale.

Type of vessel	**Number of vessels**		**Dwt'000**	
	2020	**2019**	**2020**	**2019**
Vessels included in fleet				
Crude oil carriers	53	53	6,999	6,999
Oil product carriers	34	34	2,047	2,047
LNG carriers	7	5	657	471
LPG carriers	4	4	98	98
Shuttle tankers	19	19	1,552	1,552
Ice breaking supply vessels	10	10	41	41
Dry bulk carriers	2	2	150	150
	129	127	11,544	11,358
Vessels classified as held for sale (Note 28)				
Crude oil carriers	-	3	-	425
Oil product carriers	2	2	96	96
	2	5	96	521
	131	132	11,640	11,879

15. **Fleet (Continued)**

As at 31 December 2020, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss. For CGUs with indications of impairment, management assesses their recoverable amount, which is the higher of their fair value less costs of disposal ("FVLCD"), as assessed by management at the period end and supported by independent professional valuations, and their value in use ("VIU").

Results of the impairment review for the period ended 31 December 2020

Reportable operating segment	CGU	Methodology	Applied pre tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Suezmax crude oil tankers (3 CGUs)	VIU	3.94%	5,071	49,826
				5,071	49,826

The impairment recognised in the period ended 31 December 2020, based on value in use for three crude oil suezmax tankers resulted from management's intention to dispose of these vessels before the end of their useful lives. The effect of this intention has been to increase the depreciation charge for the period by $2.6 million.

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

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

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

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. 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 2021 to 2023 based on the Group's approved revenue budgets;
- Freight rate estimates after 2023 based on the historical twenty year normalised earnings averages (adjusted for the highest 5% and lowest 5%) for each type of vessel, obtained from independent brokers' research. Management believes that the historic twenty year normalised earnings averages address the impact of prolonged depressions in the shipping markets and deviation from the mean, which distorts shorter period averages;
- Operating expenses based on the Group's operating budget approved by the Group for 2021 and increasing at a rate of 2.5% per annum (2019 – 2.6% per annum);
- Annual utilisation for each vessel of 363 days, except for the cases where the actual utilisation is expected to be less, 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 3.9% to 5.8% pre-tax (2019 – 5.8% to 7.0% 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 life of the vessels would result in an additional impairment provision to fleet of $4.2 million (2019 – $12.4 million);
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $0.5 million (2019 – $1.1 million); and
- A decrease of the useful life of the vessels by 5 years would result in an additional impairment provision to fleet of $86.6 million (2019 – $17.4 million).

As at, and during the period ended 31 December 2020, management carried out an assessment of whether there is any indication that equipment on board one of the chartered in seismic research vessels may have suffered an impairment loss. As at 30 June 2020, management concluded that it was necessary to recognise an impairment provision of $6.2 million, based on the value in use of the seismic vessel's cash generating unit ("CGU"), as the CGU's assets could no longer be used by the Group to generate revenues (the seismic vessel's CGU also included right of use assets, disclosed in Note 36, and related intangible assets, disclosed in Note 17). Management estimates that fair value less costs of disposal of the equipment will not result in any net cash inflows. The total impairment provision recognised in the period ended 31 December 2020 in respect of the CGU, amounted to $10.1 million, comprising impairment provision of seismic equipment of $6.2 million, right of use assets of $1.8 million (Note 36) and intangible assets of $2.1 million (Note 17).

15. **Fleet (Continued)**

During the period ended 31 December 2020, management have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to increase the depreciation charge by $3.1 million (2019 – increase of $4.6 million).

Expenditure in period, under vessels, includes an amount of $47.1 million (2019 – $22.1 million) of modifications relating to legislative requirements, of which $10.2 million (2019 – $6.0 million) have not yet been completed/delivered as of the end of the reporting period.

As at 31 December 2020, 71 vessels (2019 – 75) with an aggregate carrying value of $4,453.0 million (2019 – $4,459.9 million) are leased outside the Group under operating leases.

16. **Vessels Under Construction**

	2020 $'000	2019 $'000
At 1 January	179,579	135,890
Expenditure in period	355,752	355,967
Transfer to fleet (Note 15)	(357,521)	(312,278)
At 31 December	177,810	179,579
Total deadweight tonnage (dwt)	595,870	455,800

Vessels under construction at 1 January 2020 comprised three LNG carriers and two aframax crude oil shuttle tankers at a total contracted cost to the Group of $682.9 million.

Vessels delivered during the period comprised the following:

Vessel Name	Vessel Type	Segment	DWT	Delivery Date
SCF La Perouse	LNG carrier	Gas	92,924	10 February 2020
SCF Barents	LNG carrier	Gas	93,026	14 September 2020

Effective on 28 October 2020, the Group entered into shipbuilding contracts for the construction of three ice-breaking LNG carriers, scheduled for delivery between February 2023 to July 2023, at a total contracted cost of $872.1 million. The vessels are backed up by time charter agreements for firm periods of 30 years, with extension options attached in favour of the charterer, with total estimated receivable under contracts, over the firm period of the time charter agreements, of $4,234.8 million.

At 31 December 2020, vessels under construction comprised one LNG carrier, two aframax crude oil shuttle tankers and three ice-breaking LNG carriers scheduled for delivery between January 2021 and July 2023 at a total contracted cost to the Group of $1,205.5 million. As at 31 December 2020, $172.9 million of these contracted costs had been paid for. For vessel deliveries subsequent to the reporting period end see Note 43.

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 $2.8 million (2019 – $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 $0.7 million (2019 – $0.9 million) capitalised using a weighted average interest rate of 4.39% per annum (2019 – 4.20% per annum).

As at 31 December 2020, management carried out an assessment of whether there is any indication that the vessels under construction may have suffered an impairment loss, in accordance with the Group's policy (Note 3(t)). The assessment did not result in any such indication.

17. **Intangible Assets**

	2020 $'000	2019 $'000
Cost		
At 1 January	13,243	12,448
Additions in period	311	443
Exchange adjustment	(22)	352
At 31 December	13,532	13,243
Amortisation and Impairment		
At 1 January	7,352	5,676
Charge for the period	1,164	1,562
Impairment provision	2,094	-
Exchange adjustment	(4)	114
At 31 December	10,606	7,352
Net book value		
At 31 December	2,926	5,891

Intangible assets comprise computer software. During the period ended 31 December 2020, management concluded that intangible assets in respect of a chartered in seismic research vessel forming part of the CGU disclosed in Note 15 had been impaired resulting in the recognition of a $2.1 million impairment provision.

18. **Other Property, Plant and Equipment**

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2019	50,902	37,656	88,558
Additions in period	51	1,699	1,750
Transfer to non-current assets held for sale (Note 28)	(37)	(9)	(46)
Disposals in period	(230)	(3,084)	(3,314)
Exchange adjustment	1,144	1,516	2,660
At 31 December 2019	51,830	37,778	89,608
Additions in period	88	1,035	1,123
Transfer to investment property (Note 19)	(344)	-	(344)
Disposals in period	-	(1,944)	(1,944)
Exchange adjustment	(974)	(2,100)	(3,074)
At 31 December 2020	50,600	34,769	85,369
Depreciation and impairment			
At 1 January 2019	14,792	30,526	45,318
Charge for the period	947	2,220	3,167
Impairment provision	891	-	891
Transfer to non-current assets held for sale (Note 28)	(37)	(9)	(46)
Disposals in period	-	(3,055)	(3,055)
Exchange adjustment	1,055	912	1,967
At 31 December 2019	17,648	30,594	48,242
Charge for the period	968	1,566	2,534
Transferred to investment property (Note 19)	(325)	-	(325)
Impairment provision	468	-	468
Disposals in period	-	(1,904)	(1,904)
Exchange adjustment	(946)	(1,312)	(2,258)
At 31 December 2020	17,813	28,944	46,757
Net book value			
At 31 December 2020	32,787	5,825	38,612
At 31 December 2019	34,182	7,184	41,366

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, and during the period ended, 31 December 2020 and 31 December 2019, management carried out an assessment of whether there is any indication that other property, plant and equipment may have suffered an impairment loss. For CGUs with indications of impairment, management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use.

Based on this assessment, management concluded that the recreation centre Moryak in Novorossiysk ("Moryak CGU") was impaired. The Moryak CGU includes related right of use assets as disclosed in Note 36. The impairment recognised in the period ended 31 December 2020, based on fair value less costs of disposal (level 3 hierarchy) with a recoverable amount of $1.8 million, amounted to $0.6 million, of which $0.5 million is included above (2019 – no impairment was recognised).

Management also concluded that the cruise terminal in Sochi ("cruise terminal CGU") was further impaired during the period ended 31 December 2020. The cruise terminal CGU includes related investment property and right of use assets as disclosed in Note 19 and in Note 36, respectively. The impairment recognised in the period ended 31 December 2020 in respect of the cruise terminal CGU, amounted to $0.8 million (2019 – $2.5 million), none of which relates to other property plant and equipment (2019 – of which $0.9 million is included above) based on value in use and a recoverable amount of $2.6 million (2019 – $4.5 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 3.0% on both revenues and expenses (2019 – 3.0%), use of the asset until the end of year 2063 (2019 – 2063) and a pre-tax discount rate of 13.2% (2019 – 14.3%).

19. **Investment Property**

	2020 $'000	2019 $'000
Cost		
At 1 January	8,198	9,893
Lease modification	(37)	-
Additions in period	8	8
Transfer from other property, plant and equipment (Note 18)	344	-
Transfer to non-current assets held for sale (Note 28)	-	(2,231)
Disposals in period	(33)	-
Exchange adjustment	(793)	528
At 31 December	7,687	8,198
Depreciation and impairment		
At 1 January	3,763	4,662
Charge for the period	212	249
Impairment provision	59	849
Transfer from other property, plant and equipment (Note 18)	325	-
Transfer to non-current assets held for sale (Note 28)	-	(1,997)
Disposals in period	(33)	-
Exchange adjustment	(162)	-
At 31 December	4,164	3,763
Net book value		
At 31 December	3,523	4,435

19. **Investment Property (Continued)**

	2020 $'000	2019 $'000
Net book value of leased in investment property included above at 31 December	3,272	4,168
Rental income during the period from investment property	4,105	4,252
Direct operating expenses incurred during the period on investment property	1,712	1,697

As at 31 December 2020, investment property comprises land and buildings in Novorossiysk with a fair value (level 3 hierarchy) equivalent to $6.5 million (2019 – equivalent to $8.0 million) as well as leased in buildings in Sochi and in Limassol with a fair value (level 3 hierarchy) equivalent to $5.5 million (2019 – equivalent to $4.3 million). For a description of valuation techniques used for determining the above disclosed fair values under level 3 hierarchy see Note 40(d). The impairment provision recognised during the period ended 31 December 2020 and 31 December 2019 relates to the leased in building in Sochi, forming part of the cruise terminal CGU (see also Note 18).

20. **Investments in Joint Ventures**

	2020 $'000	2019 $'000
At 1 January	152,255	132,926
Investment in joint venture	-	808
Dissolution of joint ventures	-	(185)
Share of profits in joint ventures	16,794	15,703
Share of joint ventures' other comprehensive income	(1,120)	3,007
Dividends received	(3,000)	-
Currency retranslation difference	(21)	(4)
At 31 December	164,908	152,255

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

Name of entity	2020	2019	Country of incorporation	Principal activity
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Anubis Shipholding Limited	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Ltd.	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Ltd.	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Ltd.	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Ltd.	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Ltd.	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies
OOO SMART LNG	50.0%	50.0%	Russia	Leasing of ice-class LNG carriers

The Group considers that all of the above entities constitute jointly controlled entities based on existing contractual arrangements. The corporate charters and/or shareholders' agreements of these entities stipulate that strategic and/or key decisions of a financial, operating and capital nature require effectively the unanimous approval by all shareholders.

The Group through its joint ventures owns and operates 4 LNG carriers (2019 – 4) and 9 Panamax oil product tankers (LR1) (2019 – 9).

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

	2020 $'000	2019 $'000
Within twelve months after the end of the reporting period	95,871	93,636
Between one to two years	92,260	95,177
Between two to three years	95,871	91,571
Between three to four years	96,135	95,177
Between four to five years	69,620	95,438
More than five years	155,317	225,287
	605,074	696,286

In October 2019, the Group set up a joint venture, OOO SMART LNG ("SMART LNG"), equally owned (50/50) with a third party. The joint venture entered into lease arrangements with Russian state controlled entities, effective 30 January 2020 and 28 August 2020, in respect of four and ten ice-breaking LNG carriers, respectively.

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

The lease arrangements commence on delivery of the vessels from the shipyard, between September 2023 and December 2025, for lease terms of between 24.5 to 26.3 years. The total undiscounted commitments of the joint venture under the lease arrangements, including interest, are $8,931.9 million. At 31 December 2020, the shares of the joint venture were pledged in connection with the lease agreements.

The lease arrangements are backed up by time charter agreements, which are classified as finance leases, for firm periods of 30 years, with extension options attached in favour of the charterer, and with total receivable under contracts over the firm period of the time charter agreements, of $19,536.0 million, as follows:

	2020 $'000	**2019 $'000**
Between two to three years	11,601	-
Between three to four years	190,520	-
Between four to five years	414,605	-
More than five years	18,919,239	-
	19,535,965	-

For guarantees issued by the Group in relation to the joint ventures see Note 41.

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

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

At 31 December 2020	**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	120,980	123,958	126,040	126,414	302,949	1,159	801,500
Total current assets	18,339	36,896	12,834	20,986	23,206	278	112,539
Total non-current liabilities	(78,995)	(23,776)	(68,551)	(71,566)	(119,704)	(1)	(362,593)
Total current liabilities	(10,775)	(84,398)	(15,680)	(14,278)	(91,611)	(87)	(216,829)
Net assets of the joint venture	49,549	52,680	54,643	61,556	114,840	1,349	334,617
Group's share in net assets of the joint venture	18,581	26,340	27,322	30,778	58,568	675	162,264
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	18,581	26,340	27,322	30,778	61,212	675	164,908
Cash and cash equivalents	3,352	1,085	4,493	10,108	4,715	139	23,892
Current financial liabilities	(10,727)	(84,181)	(11,224)	(11,211)	(89,382)	-	(206,725)
Non-current financial liabilities	(78,995)	(23,776)	(68,551)	(71,566)	(119,704)	(1)	(362,593)
Revenues	24,234	24,515	23,569	20,308	91,942	-	184,568
Depreciation, amortisation and impairment	(5,826)	(5,823)	(6,269)	(5,862)	(17,817)	(11)	(41,608)
Interest income	-	-	51	51	45	23	170
Interest expense	(6,182)	(5,471)	(3,200)	(3,276)	(8,457)	-	(26,586)
Income tax	(673)	(652)	-	-	-	(28)	(1,353)
Joint ventures' profits / (losses) for the period	7,147	8,088	9,957	5,288	4,886	(90)	35,276
Group's share of joint ventures' profits / (losses) for the period recognised	2,680	4,044	4,979	2,644	2,492	(45)	16,794
Joint ventures' other comprehensive income for the period	2,680	2,599	(3,332)	(3,865)	342	-	(1,576)
Group's share of joint ventures' other comprehensive income for the period recognised	1,005	1,300	(1,666)	(1,933)	174	-	(1,120)
Joint ventures' total comprehensive income for the period	9,827	10,687	6,625	1,423	5,228	(90)	33,700
Group's share of joint ventures' total comprehensive income for the period recognised	3,685	5,344	3,313	711	2,666	(45)	15,674

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Notes to the Consolidated Financial Statements – 31 December 2020 (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 2019	**LNG East West $'000**	**LNG North South $'000**	**NYK-SCF LNG 1 $'000**	**NYK-SCF LNG 2 $'000**	**SCF ST joint ventures $'000**	**Other $'000**	**Total $'000**
Total non-current assets	126,806	129,782	132,145	130,286	307,927	34	826,980
Total current assets	30,226	30,872	13,850	39,254	25,749	1,612	141,563
Total non-current liabilities	-	(98,408)	(66,720)	(69,243)	(149,611)	-	(383,982)
Total current liabilities	(113,310)	(20,252)	(28,257)	(40,163)	(74,454)	(167)	(276,603)
Net assets of the joint venture	43,722	41,994	51,018	60,134	109,611	1,479	307,958
Group's share in net assets of the joint venture	16,396	20,997	25,509	30,067	55,902	740	149,611
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	16,396	20,997	25,509	30,067	58,546	740	152,255
Cash and cash equivalents	1,168	1,132	3,173	20,068	2,925	805	29,271
Current financial liabilities	(113,257)	(20,030)	(24,258)	(38,486)	(73,824)	-	(269,855)
Non-current financial liabilities	-	(98,408)	(66,720)	(69,243)	(149,611)	-	(383,982)
Revenues	24,167	24,662	21,053	23,417	104,363	-	197,662
Depreciation, amortisation and impairment	(5,708)	(5,677)	(6,356)	(5,834)	(17,335)	-	(40,910)
Interest income	366	374	103	140	82	1	1,066
Interest expense	(6,820)	(6,365)	(4,826)	(5,412)	(11,767)	-	(35,190)
Income tax	(652)	(653)	-	-	31	32	(1,242)
Joint ventures' profits / (losses) for the period	7,178	7,488	4,322	8,554	5,679	(138)	33,083
Group's share of joint ventures' profits / (losses) for the period recognised	2,692	3,744	2,161	4,277	2,896	(67)	15,703
Joint ventures' other comprehensive income for the period	1,629	1,296	1,369	2,469	(337)	-	6,426
Group's share of joint ventures' other comprehensive income for the period recognised	611	648	685	1,235	(172)	-	3,007
Joint ventures' total comprehensive income for the period	8,807	8,784	5,691	11,023	5,342	(138)	39,509
Group's share of joint ventures' total comprehensive income for the period recognised	3,303	4,392	2,846	5,512	2,724	(67)	18,710

21. **Loans to Joint Ventures**

	2020 $'000	2019 $'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	15,418	26,948
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	39,260	35,533
	54,678	62,481
Allowance for credit losses	(516)	(336)
	54,162	62,145
Less current portion (current assets)	(2,000)	(11,804)
Non-current portion (non-current assets)	52,162	50,341
Interest income during the period on loans due from joint ventures	1,425	2,599
Interest receivable at period end on loans due from joint ventures	7,354	6,286

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

	2020 $'000	2019 $'000
At 1 January	336	-
Increase in allowance recognised in the income statement	180	336
At 31 December	516	336

The loans to joint ventures are unsecured and mature between January 2021 and December 2023, except for certain loans that repayment shall be made at the discretion of the joint ventures. There is no contractual repayment schedule for the loans. The joint ventures have the right to repay the loans in part or in full at any time before maturity date. This right is considered as closely related to the host contract.

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

On 1 February 2021, loans to joint ventures of $39.3 million, bearing interest at U.S. Dollar Libor + 3.0% margin per annum, presented above, were contributed to equity.

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 consolidated statement of financial position as follows:

	Interest Rate Swaps ("IRS")		Cross Currency Interest Rate Swaps ("CCIRS")		Total	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Non-current asset	74	86	10,192	4,632	10,266	4,718
Current asset	-	170	-	-	-	170
Non-current liability	(35,503)	(16,194)	(6,730)	(14,039)	(42,233)	(30,233)
Current liability	(14,744)	(8,465)	(6,055)	(10,195)	(20,799)	(18,660)

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 U.S. Dollar LIBOR rate fluctuations, and interest payable on secured loans against EURIBOR rate and currency fluctuations, respectively.

In accordance with its hedging strategy, the Group matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments;
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation;
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items.

On 3 February 2020 and 19 June 2020 (effective 9 September 2020), the Group, entered into a seven year interest rate swap transaction and a seven year interest rate forward-start swap transaction, respectively, to hedge the Group's future cash outflows resulting from the exposure to interest rate fluctuations associated with the interest payable on two secured bank loan facilities of $148.5 million each, in connection with the financing of two of the Group's vessels, by converting 3-month U.S. Dollar LIBOR floating interest rate payable on the loans to fixed.

On 30 September 2020, as part of the refinancing of a secured bank loan (hedged item), the Group terminated an IRS expiring in March 2021, recognising a loss on termination of hedge of $2.3 million.

22. Derivative Financial Instruments (Continued)

During the period ended 31 December 2019, the Group entered into three seven-year interest rate swap transactions to hedge the Group's future cash outflows resulting from the exposure to interest rate fluctuations associated with the interest payable on the three secured bank loan facilities of $42.0 million each, in connection with the financing of the Group's vessels, by converting 3-month U.S. Dollar LIBOR floating interest rate payable on the loans to fixed.

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	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Amount recognised in hedging reserve	(35,378)	(22,971)	4,374	(31,154)	(31,004)	(54,125)
Reclassified from hedging reserve and debited to financing costs	7,845	1,243	11,765	13,151	19,610	14,394
Reclassified from hedging reserve and (credited) / debited to foreign exchange	-	-	(26,207)	7,021	(26,207)	7,021
Reclassification adjustment relating to derecognition of hedging instrument during the period	2,341	-	-	-	2,341	-
Total in other comprehensive income	(25,192)	(21,728)	(10,068)	(10,982)	(35,260)	(32,710)

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

Expiry date	Weighted average contracted fixed interest rate 2020 %	2019 %	Notional principal value 2020 $'000	2019 $'000	Carrying amount of the hedging instrument liabilities 2020 $'000	2019 $'000	Change in fair value used for calculating hedge ineffectiveness 2020 $'000	2019 $'000
Less than 1 year	-	2.04%	-	47,707	-	(133)	335	-
1 to 2 years	-	5.76%	-	158,475	-	(6,852)	-	287
2 to 5 years	2.29%	2.25%	512,501	233,206	(32,633)	(4,388)	-	-
More than 5 years	1.46%	2.35%	400,751	457,051	(17,540)	(13,030)	-	-
			913,252	896,439	(50,173)	(24,403)	335	287

Cross Currency Interest Rate Swap contracts

Expiry date	Weighted average contracted fixed interest rate 2020 %	2019 %	Notional principal value 2020 $'000	2019 $'000	Carrying amount of the hedging instrument liabilities 2020 $'000	2019 $'000	Change in fair value used for calculating hedge ineffectiveness 2020 $'000	2019 $'000
More than 5 years	5.51%	5.51%	276,637	307,705	(2,593)	(19,602)	744	(370)

Hedged items

Hedged items	Nominal amount of the hedged item 2020 $'000	2019 $'000	Change in fair value used for calculating hedge ineffectiveness 2020 $'000	2019 $'000	(Loss) / gain in hedging reserve for continuing hedges 2020 $'000	2019 $'000	(Loss) / gain in hedging reserve for which hedge accounting is no longer applied 2020 $'000	2019 $'000
Floating rate borrowings 3 month U.S. Dollar Libor	886,585	881,628	335	287	(48,221)	(23,939)	-	-
Floating rate borrowings 6 month U.S. Dollar Libor	26,667	33,333	-	-	(399)	511	-	-
Floating rate borrowings 6 month Euribor	294,818	299,317	744	(370)	(20,533)	(10,465)	-	-
	1,208,070	1,214,278	1,079	(83)	(69,153)	(33,893)	-	-

23. Income Taxes

	2020 $'000	2019 $'000
Current income tax expense	34,149	27,562
Deferred tax (income) / expense	(5,563)	1,444
Total income tax expense	28,586	29,006

Russian Federation profit tax is payable at a tax rate of 20% (2019 – 20%) on the taxable profits arising on Russian operations. Income taxes are also payable on the results of the Group's overseas management and agency subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

23. **Income Taxes (Continued)**

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions historically utilised in the shipping sector and a significant portion of the Group's profit is generated by these companies. Under the laws of the countries of incorporation and / or vessel registration, the majority of vessel owning and operating subsidiaries are subject to tonnage tax, in lieu of income tax, by reference to the registered tonnage of each vessel. Management is of the opinion that the Group is fully compliant with the respective tax regime of the countries of incorporation of the vessel owning companies and / or vessel registration.

In accordance with the Tax Code of the Russian Federation, the majority of the Group's Controlled Foreign Companies ("CFC") which generate more than 20% of their revenue from passive activities, subject to a maximum profit exemption, as defined by the Law, are subject to Russian profit tax on their undistributed profits generated after 1 January 2015, provided that such profits are not distributed as dividends until 31 December of the year following the period when the profits are generated.

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

	2020 $'000	**2019 $'000**
Profit before income taxes	295,451	254,384
Income tax charge using income tax rate of 20%	59,090	50,877
Tax effect of tonnage tax and different tax rates in other jurisdictions	(46,111)	(31,813)
Tax effect on intragroup dividends paid	19,526	9,920
Deferred tax effect on intragroup dividends	(5,665)	3,215
Tax effect on intragroup loans	772	508
Non-taxable income and non-deductible expenses (net)	(2,650)	(3,239)
Effect of tax losses for which no deferred tax asset was recognised / (utilised against taxable profits)	3,615	(668)
Adjustments in respect of income tax of previous years	9	206
Income tax expense	28,586	29,006

Deferred Tax

	Opening balance $'000	**Released / (charged) to profit or loss $'000**	**Released to exchange differences on translation of foreign operations in OCI $'000**	**Exchange differences in profit or loss $'000**	**Closing balance $'000**
At 31 December 2020					
Deferred tax assets	5,250	484	(83)	(420)	5,231
Deferred tax liabilities	(6,297)	5,079	-	194	(1,024)
	(1,047)	5,563	(83)	(226)	4,207
Analysed as follows:					
Fleet	767	(199)	-	-	568
Drydock	(1,691)	57	-	273	(1,361)
Unused tax losses carried forward	558	119	(13)	9	673
Accounts receivable	(130)	(61)		-	(191)
Accounts payable	3,454	(276)	(67)	(165)	2,946
Right of use assets	(3,164)	430	44	190	(2,500)
Lease liabilities	3,636	(131)	(47)	(253)	3,205
Unremitted earnings of subsidiaries and on dividends declared	(5,665)	5,665	-	-	-
Other	1,188	(41)	-	(280)	867
	(1,047)	5,563	(83)	(226)	4,207
At 31 December 2019					
Deferred tax assets	4,089	917	38	206	5,250
Deferred tax liabilities	(3,823)	(2,361)	-	(113)	(6,297)
	266	(1,444)	38	93	(1,047)
Analysed as follows:					
Fleet	611	156	-	-	767
Drydock	(1,891)	412	-	(212)	(1,691)
Unused tax losses carried forward	1,029	(495)	-	24	558
Accounts receivable	(24)	(106)	-	-	(130)
Accounts payable	2,361	1,007	38	48	3,454
Right of use assets	(3,859)	879	(33)	(151)	(3,164)
Lease liabilities	3,859	(423)	33	167	3,636
Unremitted earnings of subsidiaries and on dividends declared	(2,450)	(3,215)	-	-	(5,665)
Other	630	341	-	217	1,188
	266	(1,444)	38	93	(1,047)

As at the reporting period end, the Group has accumulated tax losses of $74.5 million (2019 – $58.4 million), for which a deferred tax asset of $14.9 million (2019 – $11.7 million) has not been recognised. There is no expiry date for tax losses carried forward, available for offsetting against future taxable profits of the company in which they arose. No assets were recognised or derecognised in 2020 or in 2019 based on the projected results of those operations.

The deferred tax impact on the unremitted earnings of subsidiaries, joint ventures or associates is included in the reconciliation of tax expense above in line tax effect on intercompany dividends. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,893.9 million (2019 – $2,835.2 million). There are no income tax consequences to the Group attached to the payment of dividends by the Company to its shareholders.

24. Earnings Per Share

	2020 $'000	2019 $'000
Profit attributable to shareholders of PAO Sovcomflot for basic and diluted earnings	267,337	221,629

	2020	2019
Weighted average number of ordinary shares for basic and diluted earnings per share (see also Note 29)	2,053,711,259	1,966,697,210
Basic and diluted profit per share for the period attributable to shareholders of PAO Sovcomflot	$0.130	$0.113

25. Inventories

	2020 $'000	2019 $'000
Bunkers	25,190	33,904
Lubricants	15,291	15,715
Victualling and slopchest	2,127	1,839
Spare parts and consumables	1,240	1,928
Other	380	363
	44,228	53,749

The amount of inventories recognised as an expense during the period are disclosed in Note 7, Voyage Expenses and Commissions, and Note 8, Vessels' Running Costs. All inventories above are stated at cost at period end based on the accounting policy in Note 3(u).

26. Receivables and Other Assets

Trade and other receivables

	2020 $'000	2019 $'000
Non-current assets		
Other receivables	695	-
Receivables under High Court judgement award	2,700	2,700
Liquidated damages receivable from shipyard	6,607	6,005
	10,002	8,705
Current assets		
Amounts due from charterers	46,102	71,412
Allowance for credit losses	(4,069)	(2,357)
	42,033	69,055
Casualty and other claims	21,387	10,443
Agents' balances	2,843	3,111
Other receivables	9,590	15,637
Amounts due from joint ventures	907	-
Accrued income	1,349	2,493
	78,109	100,739

Prepayments and other current assets

	2020 $'000	2019 $'000
Prepayments	10,320	8,944
Contract acquisition and voyage fulfilment costs	1,750	3,106
Non-income based taxes receivable	2,750	3,230
	14,820	15,280

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

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

During the year ended 31 December 2020, the Group made a detailed analysis of the coronavirus influence on the expected credit losses and did not identify significant effects. In general, COVID-19 did not negatively affect the Group's main receivables.

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

	2020 $'000	2019 $'000
At 1 January	2,357	2,500
Amounts written off during the period	(285)	(76)
Amounts recovered during the period and recognised in the income statement	-	(55)
Increase / (decrease) in allowance recognised in the income statement	1,997	(12)
At 31 December	4,069	2,357

27. Cash and Bank Deposits

	2020 $'000	2019 $'000
Non-current assets		
Restricted deposits	12,500	15,500
Bank deposits	12,500	15,500
Current assets		
Bank deposits accessible on maturity	460	565
Retention accounts	17,803	26,300
Bank deposits	18,263	26,865
Cash and cash equivalents	849,446	374,821
Cash and bank deposits	867,709	401,686

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 34. These funds are accumulated to cover future loan principal and interest payments.

Restricted deposits represent additional security required under certain secured loan agreements to ensure minimum liquidity for the duration of the relevant secured loan. As of 31 December 2019, restricted deposits also include $3.0 million of funds placed on deposit in relation to a chartered in seismic vessel released in the period ended 31 December 2020.

Under the terms of the agreements, a subsidiary of the Group, as guarantor of the secured bank loans of its respective subsidiaries, has to maintain consolidated cash and bank deposits and freely available undrawn amounts under revolving credit facilities with maturities in excess of 12 months in the amount of not less than $25.0 million. In addition under the terms of the agreements, as at 31 December 2020, another subsidiary of the Group had to maintain minimum consolidated liquidity of $120.8 million (2019 – $150.1 million) of which $60.4 million (2019 – $75.1 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.

28. Non-Current Assets Held for Sale

	Fleet $'000	Investment property $'000	Total $'000
At 1 January 2019	29,700	-	29,700
Transfer from fleet (Note 15)	49,574	-	49,574
Transfer from investment property (Note 19)	-	234	234
Expenditure in period	650	-	650
Impairment provision	(2,660)	-	(2,660)
Reversal of impairment provision	617	-	617
Disposals in period	(8,820)	(234)	(9,054)
At 31 December 2019	69,061	-	69,061
Impairment provision	(4,379)	-	(4,379)
Disposals in period	(47,997)	-	(47,997)
At 31 December 2020	16,685	-	16,685

As at 31 December 2019, the Group held for sale one crude oil aframax tanker, two crude oil suezmax tankers and two MR chemical oil product tankers. The two crude oil suezmax tankers and the crude oil aframax tanker were disposed of and delivered to their new owners in February 2020 and September 2020 respectively, realising a loss on disposal of $2.4 million. As at 31 December 2020, non-current assets held for sale, comprised of the two MR chemical oil product tankers. The vessels, were actively marketed for sale at a price approximate to their market values and their sale is still highly probable (see also Note 43).

During the period ended 31 December 2019, the Group also classified as held for sale land and buildings in Novorossiysk held as investment property, as well as other related property and equipment. These assets were actively marketed for sale at a price approximate to their fair value and were sold in October 2019 realising a gain on disposal of $6.4 million.

29. Share Capital

Authorised shares (ordinary shares of RUR 1 each)

	Number of shares 2020	Number of shares 2019
At 1 January	2,247,653,953	2,247,653,953
Increase in authorised share capital	374,608,992	-
At 31 December	2,622,262,945	2,247,653,953

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

29. **Share Capital (Continued)**

Ordinary shares issued and fully paid

	Number of shares	$'000
At 1 January 2019 and 31 December 2019	1,966,697,210	405,012
Issue of shares	408,296,691	5,240
At 31 December 2020	2,374,993,901	410,252

Share premium

	$'000
At 1 January 2019 and 31 December 2019	818,845
Premium on the issue of shares	544,985
Transaction costs on issue of shares	(21,027)
At 31 December 2020	1,342,803

Share premium as at 1 January 2019 and 31 December 2019 represents share premium that arose from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 30).

Treasury shares

	Number of shares	$'000
At 1 January 2019 and 31 December 2019	-	-
Acquisition of treasury shares	37,117,881	(47,180)
Transaction costs on acquisition of treasury shares	-	(1,248)
At 31 December 2020	37,117,881	(48,428)

In October 2020, PAO Sovcomflot has conducted an initial public offering (the "Offering" or the "IPO") of 408,296,691 newly issued ordinary shares of nominal value of RUR 1 each at a price of RUR 105 per ordinary share and listed them on the Moscow Exchange. The total gross proceeds of the IPO are RUR 42,871.2 million (equivalent to $550.2 million as of the date of issue). In November 2020, the underwriters of the shares exercised the repurchase option in full, which was granted to them in connection with the Offering in respect of 37,117,881 shares of the Company, which were purchased by the underwriters on Moscow Exchange in the course of stabilisation activities. As a result, such shares were repurchased by SCF Arctic, a wholly-owned subsidiary of the Company, at RUR 3,701.6 million (equivalent to $47.2 million as of the date of exercise of the repurchase option). These shares are held in treasury. Incremental costs directly attributable to the IPO, including execution of the repurchase option, of $22.3 million have been accounted for as a deduction from equity of which $10.2 million were charged by related parties. Following the settlement of the repurchase, the free float of shares of PAO Sovcomflot is 15.63% of the issued share capital, and the Russian Federation retains an 82.81% stake.

30. **Group Reconstruction Reserve**

	2020 $'000	2019 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)
	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 RUR ($1.40071) per share (see also Note 29), 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.

31. **Dividends**

The Group declares and pays dividends in Russian roubles. Dividends declared and paid in 2020 and 2019 to the shareholders of PAO Sovcomflot were as follows:

	Date of declaration	Date of payment	Dividend per share RUR	Total dividend RUR'000	Total dividend $000
Dividends declared in 2020 for 2019	4 August 2020	17 August 2020	3.65	7,181,000	96,833
Dividends declared in 2019 for 2018	26 June 2019	8 July 2019	0.73	1,434,795	22,948

The dividends are presented in U.S. Dollars at the exchange rate on the date of declaration.

32. **Non-Controlling Interests**

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2019	(5,353)	141,808	136,455
Profit for the period	-	3,749	3,749
Other comprehensive income	6	(20)	(14)
Dividends	-	(8,077)	(8,077)
Effect of intragroup financing	-	(404)	(404)
At 31 December 2019	(5,347)	137,056	131,709
Loss for the period	-	(472)	(472)
Other comprehensive income	33	(8)	25
Dividends	-	(14,996)	(14,996)
At 31 December 2020	(5,314)	121,580	116,266

33. Payables and Other Liabilities

Trade and other payables

	2020 $'000	2019 $'000
Non-current liabilities		
Liquidated damages for late delivery of vessels payable to charterer	15,485	16,905
	15,485	16,905
Current liabilities		
Trade payables	49,504	46,179
Other payables	49,792	38,776
Liquidated damages for late delivery of vessels payable to charterer	2,113	1,950
Amounts due to joint ventures	-	146
Dividends payable	18,160	9,970
Accrued liabilities	51,945	47,674
Interest payable	13,989	17,229
	185,503	161,924

Other liabilities

	2020 $'000	2019 $'000
Non-current liabilities		
Employee benefit obligations (Note 12)	6,776	646
Deferred lease revenue	6,102	3,017
	12,878	3,663
Current liabilities		
Deferred lease revenue	49,355	39,007
Employee benefit obligations (Note 12)	-	9,120
Non-income based taxes payable	22,517	24,392
	71,872	72,519

Liquidated damages represent penalties payable to a Russian State controlled entity, as charterer, in respect of three vessels, for the late delivery of the vessels to charter.

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

34. Secured Bank Loans

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

	2020 $'000	2019 $'000
Within twelve months after the end of the reporting period	282,075	378,955
Between one to two years	313,263	401,794
Between two to three years	304,965	293,355
Between three to four years	319,418	283,871
Between four to five years	351,702	297,051
More than five years	759,945	883,783
	2,331,368	2,538,809
Less current portion	(282,075)	(378,955)
Non-current balance	2,049,293	2,159,854

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

Contractual interest rates	Weighted average interest rate 2020	2019	Outstanding loans gross of direct issue costs 2020 $'000	2019 $'000	Maturity
Floating rate loans in U.S. Dollars between 1.70% - 3.00% per annum	Libor + 2.00%[1]	Libor + 2.01%[1]	1,382,608	1,518,586	Between September 2022 - January 2028
Floating rate loans in Euro	Euribor + 1.595%	Euribor + 1.595%	294,818	299,317	Between March 2029 - January 2030
Fixed rate loans in U.S. Dollars between 4.15% - 7.50% per annum	6.58%	6.65%	677,959	748,810	Between April 2025 - September 2031
			2,355,385	2,566,713	

[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.

34. **Secured Bank Loans (continued)**

As security for the loans, the lenders have first preferred mortgages on the Group's vessels with an aggregate carrying value, at 31 December 2020, of $4,425.3 million (2019 – $5,023.1 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.

35. **Other Loans**

	2020 $'000	2019 $'000
$900 million 5.375% Senior Notes due in 2023	895,585	893,792
Other loan from related party	3,631	6,628
	899,216	900,420
Less current portion	(3,631)	(3,314)
Non-current balance	895,585	897,106

The Senior Notes (the "Notes") are redeemable at par value and mature on 16 June 2023. Interest accrues at 5.375% and is payable semi-annually in arrears on 16 June and 16 December of each year. The Notes are included above net of direct issue costs. They are unsecured and guaranteed by Sovcomflot. There are no equity conversion rights or options attached to the Notes. Interest charged during the period amounted to $47.7 million (2019 – $47.7 million).

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

Other loan from related party, granted by a subsidiary of a Russian State controlled financial institution, in relation to the acquisition of seismic equipment, is payable in nine equal semi-annual instalments commencing on 15 December 2017 with final payment on 15 December 2021. The loan is secured over all present and future rights, title and interest in relation to the equipment which is fully impaired as at 31 December 2020 (2019 – carrying value of $7.9 million) (Note 15), and it is guaranteed by a subsidiary of the Group. Interest accrues at six month EURIBOR plus 4% margin per annum. Interest charged during the period amounted to $0.2 million (2019 – $0.4 million).

36. **Leases**

Group as lessee

As at 31 December 2020, the Group leases in one seismic research vessel (2019 – two seismic research vessels) with purchase options attached to the bareboat charter contract and a firm period expiring in 3 years. In March 2021, the Group agreed with the lessor to reduce the charter period by one year, to November 2022, with extension options in favour of the Group. The Group also leases supply vessels for short term periods for the support of the seismic research vessels while performing seismographic surveys. The Group also has lease contracts in respect of land and buildings, and other assets in various locations including Moscow, Sochi, London, Novorossiysk, Limassol and Dubai. Leases for land and buildings, expire between 1 and 47 years with various options attached. Leases for miscellaneous assets expire between 1 to 44 years. There are no restrictions placed upon the Group by entering into these leases.

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

	Fleet $'000	Land and buildings $'000	Miscellaneous $'000	Total right of use assets $'000
At 1 January 2019	31,552	19,143	2,248	52,943
Lease modification	13,734	18	27	13,779
Additions in period	-	68	18	86
Lease termination	-	-	(39)	(39)
Depreciation charge for the period	(18,960)	(3,836)	(98)	(22,894)
Impairment provision in period	-	-	(726)	(726)
Exchange differences	2,274	212	260	2,746
At 31 December 2019	28,600	15,605	1,690	45,895
Lease modification	13,869	(10)	573	14,432
Additions in period	-	511	-	511
Lease termination	(16,954)	-	-	(16,954)
Depreciation charge for the period	(9,331)	(3,832)	(70)	(13,233)
Impairment provision in period	(1,792)	(408)	(492)	(2,692)
Exchange differences	(2)	(136)	(253)	(391)
At 31 December 2020	14,390	11,730	1,448	27,568

As at 31 December 2020 and 31 December 2019, management carried out an assessment of whether there is any indication that right of use assets may have suffered an impairment loss or a previously recognised impairment loss should be reversed in accordance with the Group's policy (Note 3(t)).

In June 2020, management concluded that the bareboat charter in respect of a chartered in seismic research vessel (the "Ivan Gubkin"), which was included in fleet above, forming part of the CGU disclosed in Note 15, had become onerous as a result of expiration of the license to operate the equipment on board the vessel and rejection of the Ministry of Foreign Affairs of Norway of the Group's application for extension, and consequently had been impaired. The impairment recognised as at 30 June 2020 in relation to the Ivan Gubkin amounted to $18.7 million. The Group submitted an appeal in July 2020 and in late September 2020, the Ministry of Foreign Affairs of Norway accepted the Group's appeal and set out the conditions under which a new export license could be granted. As a result, previously recognised impairment loss of $16.9 million was reversed increasing the carrying amount of the Ivan Gubkin to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior periods. The net effect of $1.8 million is presented in the table above and recognised in the consolidated income statement. Subsequently, the lease of the Ivan Gubkin was terminated and the vessel was returned to its owner on 25 September 2020 under the terms of its charter. Concurrently with the termination of the lease for the Ivan Gubkin, as part of a linked transaction, the Group extended the bareboat charter-in arrangement for another seismic research vessel.

36. **Leases (continued)**

Group as lessee (continued)

In addition, during the period ended 31 December 2020, management also concluded that land and buildings and some of the miscellaneous right of use assets forming part of the Moryak CGU and the cruise terminal CGU, as disclosed in Note 18, had been impaired. The impairment provision recognised in the period in relation to the cruise terminal CGU miscellaneous right of use assets amounted to $0.5 million (2019 – $0.7 million) and to land and buildings right of use assets to $0.3 million. The impairment provision recognised in respect of the Moryak CGU land and buildings right of use assets amounted to $0.1 million (2019 – nil).

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

	2020 $'000	2019 $'000
At 1 January	60,300	69,403
Lease modification	19,319	13,779
Additions in the period	511	86
Accretion of interest	5,386	7,759
Payment of lease instalments	(20,212)	(31,664)
Lease termination	(22,427)	(38)
Exchange differences	(1,266)	975
At 31 December	41,611	60,300
Less current portion	(13,955)	(19,120)
Non-current balance	27,656	41,180

The following are the amounts recognised in profit or loss:

	2020 $'000	2019 $'000
Depreciation charge of right of use assets	13,233	22,894
Impairment provision of right of use assets	2,692	726
Interest expense on lease liabilities	5,386	7,759
Expense relating to short-term leases (included in voyage expenses)	7,368	4,964
Expense relating to leases of low-value assets (included in other running costs)	31	17
Total amount recognised in profit or loss	28,710	36,360

The Group had total cash outflows for leases of $27.1 million (including payments for short-term leases of $6.9 million) (2019 – $36.6 million including payments for short-term leases of $5.0 million). Payments for short-term leases are included in cash payments for voyage and running costs under operating activities, in the consolidated statement of cash flows. The Group did not have any cash outflows in respect of additions to right-of-use assets and lease liabilities. As at 31 December 2020, there are no lease commitments for short-term leases (2019 – $2.2 million).

The Group has certain lease contracts that include extension options. Management exercises judgement in determining whether these extension options are reasonably certain to be exercised (see Note 5). The undiscounted potential future rental payments relating to periods following the exercise date of extension options expected not to be exercised, and not included in the lease term, are $3.1 million (2019 – $4.2 million) within five years and $1.6 million (2019 – $2.3 million) after more than five years.

Group as lessor

Contracted revenues from vessel operations and related guarantees

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

	Undiscounted lease receipts 2020 $'000	Service revenue 2020 $'000	Total contract revenue[1] 2020 $'000	Undiscounted lease receipts 2019 $'000	Service revenue 2019 $'000	Total contract revenue[1] 2019 $'000
Within twelve months after the end of the reporting period	586,953	223,978	810,931	627,722	228,765	856,487
Between one to two years	534,970	193,856	728,826	536,747	171,729	708,476
Between two to three years	492,190	191,981	684,171	533,930	167,202	701,132
Between three to four years	419,502	162,519	582,021	511,507	160,492	671,999
Between four to five years	364,632	144,348	508,980	430,198	127,828	558,026
More than five years	2,575,840	1,361,480	3,937,320	3,381,821	927,812	4,309,633
	4,974,087	2,278,162	7,252,249	6,021,925	1,783,828	7,805,753

[1] Includes contracts that have not yet commenced as at period end of total undiscounted lease receipts of $636.4 million (2019 - $1,064.2 million) and service revenue of $521.5 million (2019 - $359.2 million)

The time charters referred to above have various charterers' purchase, termination and extension options. The Group obtained guarantees from a Russian State controlled entity in respect of the performance of the obligations by its subsidiary as charterer under two time charter agreements entered into by a subsidiary of the Group and the said subsidiary of the State controlled entity.

36. **Leases (Continued)**

Group as lessor (continued)

Contracted revenues from vessel operations and related guarantees (continued)

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

	Undiscounted lease receipts 2020 $'000	Service revenue 2020 $'000	Total receivable under contracts 2020 $'000	Undiscounted lease receipts 2019 $'000	Service revenue 2019 $'000	Total receivable under contracts 2019 $'000
Between one to two years	6,116	5,938	12,054	-	-	-
Between two to three years	69,601	84,714	154,315	6,505	5,549	12,054
Between three to four years	95,571	107,876	203,447	32,922	34,345	67,267
Between four to five years	95,310	120,360	215,670	38,464	41,246	79,710
More than five years	2,434,043	3,977,323	6,411,366	919,511	1,187,168	2,106,679
	2,700,641	4,296,211	6,996,852	997,402	1,268,308	2,265,710

Lease revenues from other operations

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's onshore-based facilities including leased in facilities. These leases expire between 1 year and 39 years (2019 – between 1 and 40 years). Future undiscounted lease receipts, from the inception date, over the lease term of operating leases are as follows:

	2020 $'000	2019 $'000
Within twelve months after the end of the reporting period	4,095	4,087
Between one to two years	3,616	3,257
Between two to three years	3,273	3,355
Between three to four years	3,254	3,460
Between four to five years	2,992	3,571
More than five years	8,295	12,627
	25,525	30,357

37. **Retirement Benefit Obligations**

A subsidiary of the Group operates a post retirement pension benefit plan. The post retirement service benefit plan stipulates payment of a fixed amount of monthly pension for all retired employees who have completed a specified period of service with the subsidiary. The pension is paid over the life of the pensioners. The benefit plan is unfunded and it does not have any assets.

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

	2020 $'000	2019 $'000
Defined benefit obligation at 1 January	2,599	2,256
Current service cost	217	-
Interest cost	143	213
Benefits paid	(282)	(337)
Exchange adjustment	(420)	279
Remeasurement losses recognised in other comprehensive income	67	188
Defined benefit obligation at 31 December	2,324	2,599

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

	2020 $'000	2019 $'000
Current service cost	217	-
Interest cost	143	213
Exchange adjustment	(420)	279
Charged in the income statement	(60)	492
Experience adjustments on obligation	(5)	(67)
Actuarial changes arising from changes in demographic assumptions	61	-
Actuarial changes arising from changes in financial assumptions	11	255
Remeasurement losses recognised in other comprehensive income	67	188

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

	2020	2019
Discount rate for cash flows in Russian Roubles	6.27%	6.41%
Future pension increases	1%	-
Life expectancy in years of a male pensioner retiring at the age of 65	15	15
Life expectancy in years of a female pensioner retiring at the age of 60	23	23
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	7.7	7.2

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

The Group expects to make benefit payments of $0.3 million (2019 – $0.3 million) in respect of the defined benefit plan in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2020 and 31 December 2019, by increasing and decreasing the discount rate by 50bps or increasing and decreasing the future salary increase by 100bps or increasing and decreasing the life expectancy of both male and female pensioners by one year, would have an insignificant effect on the Group.

38. **Provisions**

	2020 $'000	2019 $'000
Provisions for drydocking	2,494	3,895
Less current portion	(2,494)	-
Non-current balance	-	3,895

	Provisions for drydocking $'000	Onerous contract provision $'000	Total $'000
At 1 January 2019	3,796	400	4,196
Utilised during the period	-	(400)	(400)
Unwinding of discount (recognised as other interest in financing costs)	99	-	99
At 31 December 2019	3,895	-	3,895
Arising during the period	3,789	-	3,789
Utilised during the period	(1,295)	-	(1,295)
Reversed during the period	(3,962)	-	(3,962)
Unwinding of discount (recognised as other interest in financing costs)	67	-	67
At 31 December 2020	2,494	-	2,494

The provision for drydocking of $2.5 million as at 31 December 2020 (2019 – $3.9 million), represents the estimated cost of planned drydockings for replacement of certain components and major repairs and maintenance of other components during the lease term of vessels leased in by the Group. During the period ended 31 December 2020, provision for drydocking of $4.0 million (2019 – nil) was reversed as the lease for one of the vessels leased in was terminated (see also Note 36).

39. **Significant Subsidiary Companies**

At 31 December 2020, the Group had 130 vessel owning and operating subsidiaries (2019 – 131) incorporated in Liberia, Russia, Malta and Cyprus. The most significant subsidiaries of the Group, in which the Group's percentage holding remained unchanged from 2019, comprised:

Name	Country of incorporation	Effective 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
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
OOO SCF Arctic	Russia	100%	Holding company
OOO Sovcomflot Varandey	Russia	100%	Ship operation
OOO SCF Shelf	Russia	100%	Ship operation
OOO SCF Geo and its subsidiary	Russia	100%	Ship operation
OOO SCF Novy Port	Russia	100%	Ship operation
OOO SCF Prirazlomnoye	Russia	100%	Vessel owning and operation
SCF Management Services (Novorossiysk) Ltd.	Russia	100%	Ship management
SCF Management Services (Cyprus) Ltd	Cyprus	100%	Ship management
SCF Management Services (St. Petersburg) Ltd.	Russia	100%	Ship management
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Ship management and supervision of operations
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Capital Designated Activity Company	Ireland	100%	Financing

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 2020			At 31 December 2019		
	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

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

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

	2020 $'000	2019 $'000
Summarised statement of financial position:		
Total non-current assets	1,102,702	1,235,324
Total current assets	213,494	188,060
Total non-current liabilities	(26,034)	(47,788)
Total current liabilities	(187,449)	(126,451)
Net assets at period end	1,102,713	1,249,145
Cash and cash equivalents	167,311	126,259
Current financial liabilities	15,043	20,399
Non-current financial liabilities	15,000	32,292
Summarised income statement:		
Revenues	374,392	356,100
Depreciation, amortisation and impairment	(80,668)	(76,451)
Interest income	5,692	9,368
Interest expense	(3,018)	(4,568)
Income tax	(13,696)	(12,735)
(Loss) / profit for the period	(4,455)	35,571
Other comprehensive income for the period	256	(130)
Total comprehensive income for the period	(4,199)	35,441
Summarised statement of cash flows:		
Operating activities	117,529	110,217
Investing activities	18,117	(12,563)
Financing activities	(93,650)	(58,594)
Net increase in cash and cash equivalents	41,996	39,060

40. **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 shareholders 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 shareholders; 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 sell ordinary shares held in treasury, 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, other loans and lease liabilities, less cash and bank deposits comprising cash and cash equivalents and bank deposits. Total equity comprises all components of equity.

Certain of the Group's debt agreements, at subsidiary level, contain loan-to-value clauses which could require the Group, at its option, to post additional collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings under each of such agreements decrease below their current valuations. In addition, the financing agreements impose operating restrictions and establish minimum financial covenants, including limitations on the amount of 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 2020, the Group's overall strategy remained unchanged from 2019. The net debt ratio at 31 December 2020 and at 31 December 2019 and the net adjusted debt ratio of the Group were as follows:

	2020 $'000	2019 $'000
Secured bank loans (Note 34)	2,331,368	2,538,809
Other loans (Note 35)	899,216	900,420
Lease liabilities (Note 36)	41,611	60,300
Less: cash and bank deposits (Note 27)	(880,209)	(417,186)
Net debt	2,391,986	3,082,343
Total equity	4,098,397	3,504,581
Total capital	6,490,383	6,586,924
Net debt ratio	36.9%	46.8%
Total adjusted capital	5,703,708	6,179,190
Net adjusted debt ratio	41.9%	49.9%

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

(b) Categories of financial assets and financial liabilities

	2020 $'000	2019 $'000
Cash and debt instruments at amortised cost		
Trade and other receivables (Note 26)	88,111	109,444
Loans to joint ventures (Note 21)	54,162	62,145
Cash and bank deposits (Note 27)	880,209	417,186
Financial assets at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 22)	10,266	4,888
Equity instruments at fair value through profit or loss		
Investments in non-listed companies	360	480
Total financial assets	1,033,108	594,143
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 22)	63,032	48,893
Financial liabilities at amortised cost		
Secured bank loans (Note 34)	2,331,368	2,538,809
Other loans (Note 35)	899,216	900,420
Lease liabilities (Note 36)	41,611	60,300
Trade and other payables (Note 33)	200,988	178,829
Total financial liabilities	3,536,215	3,727,251

(c) Changes in liabilities arising from financing activities

	Secured bank loans and financing costs $'000	Other loans $'000	Interest payable $'000	Lease liabilities $'000	Liquidated damages payable to charterer $'000	Dividends payable $'000
Balance at 1 January 2019	2,575,514	902,696	19,330	69,403	20,003	10,742
Changes from financing cash flows						
Proceeds from cash flows	306,660	-	-	-	-	-
Repayments of cash flows	(335,422)	(3,320)	(190,111)	(31,664)	(3,020)	(24,680)
Repayment of financing costs	(6,588)	-	-	-	-	-
Total changes from financing cash flows	(35,350)	(3,320)	(190,111)	(31,664)	(3,020)	(24,680)
Other changes						
Non-cash movement on direct issue costs	5,662	1,247	-	-	-	-
Dividends declared	-	-	-	-	-	31,025
Gain on derecognition of dividend liability	-	-	-	-	-	(7,895)
Leases additions, modifications and terminations	-	-	-	13,827	-	-
Interest expense in the period	-	-	188,010	7,759	1,872	-
Foreign exchange movement	(7,017)	(203)	-	975	-	778
Total other related changes	(1,355)	1,044	188,010	22,561	1,872	23,908
Balance at 31 December 2019	2,538,809	900,420	17,229	60,300	18,855	9,970
Changes from financing cash flows						
Proceeds from cash flows	249,614	-	-	-	-	-
Repayments of cash flows	(487,460)	(3,476)	(175,870)	(20,212)	(3,012)	(102,711)
Repayment of financing costs	(6,460)	-	-	-	-	-
Total changes from financing cash flows	(244,306)	(3,476)	(175,870)	(20,212)	(3,012)	(102,711)
Other changes						
Non-cash movement on direct issue costs	10,347	1,793	-	-	-	-
Dividends declared	-	-	-	-	-	111,829
Gain on derecognition of dividend liability	-	-	-	-	-	(1,021)
Leases additions, modifications and terminations	-	-	-	(2,597)	-	-
Interest expense in the period	-	-	172,630	5,386	1,755	-
Foreign exchange movement	26,518	479	-	(1,266)	-	93
Total other related changes	36,865	2,272	172,630	1,523	1,755	110,901
Balance at 31 December 2020	2,331,368	899,216	13,989	41,611	17,598	18,160

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

(d) Fair value of financial assets and financial liabilities

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

	Carrying Value		Fair	Fair Value	
	2020 $'000	2019 $'000	value hierarchy	2020 $'000	2019 $'000
Financial assets					
Loans to joint ventures	54,162	62,145	Level 2	53,492	61,891
Total financial assets	54,162	62,145		53,492	61,891
Financial liabilities					
Secured bank loans at fixed interest rates	670,211	739,620	Level 2	673,221	765,368
Secured bank loans at floating interest rates	1,661,157	1,799,189	Level 2	1,625,283	1,806,728
Other loans (Senior Notes due in 2023)	895,585	893,792	Level 1	958,500	964,125
Other loans	3,631	6,628	Level 2	3,660	6,777
Total financial liabilities	3,230,584	3,439,229		3,260,664	3,542,998

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

Derivatives are valued using valuation techniques with market observable inputs; they comprise interest rate swaps and cross currency interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, the Group's non-performance risk, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves.

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

The following table provides an analysis of financial instruments as at 31 December 2020 and 31 December 2019 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 consolidated statement of financial position

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2020				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	10,266	-	10,266
	-	10,266	-	10,266
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	63,032	-	63,032
	-	63,032	-	63,032
At 31 December 2019				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	4,888	-	4,888
	-	4,888	-	4,888
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	48,893	-	48,893
	-	48,893	-	48,893

There were no transfers between Level 1 and 2 during the periods ended 31 December 2020 and 31 December 2019.

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2020				
Assets				
Non-current assets held for sale	7,865	8,820	-	16,685
	7,865	8,820	-	16,685
At 31 December 2019				
Assets				
Non-current assets held for sale	46,413	22,648	-	69,061
	46,413	22,648	-	69,061

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

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

Non-recurring fair value measurements recognised in the consolidated statement of financial position (continued)

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

Assets and liabilities for which fair values are disclosed

As at period end, the Group obtained reports from qualified independent valuation experts in relation to the fair values of its investment properties (Note 19) for owned and leased in buildings. These fair values, which have not been adjusted thereafter, are classified under level 3 fair value hierarchy. The techniques used by the valuation experts are based on the discounted cash flow method. This method includes unobservable inputs due to the fact that the market in Russia where the properties are situated is not active and is fragmented.

(e) Financial risk factors

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. The Russian economy is particularly sensitive to oil and gas price fluctuations and has been negatively impacted by economic sanctions imposed on certain Russian legal entities and individuals by several countries. A sustained depression in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy and lead to worsening economic conditions within Russia. This, in turn, may disrupt the Group's ability to conduct its business effectively, which could have a material adverse effect on its business, financial condition, prospects and results of operations.

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, vessels' operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Sterling Pound.

The Group is also exposed to foreign currency risk on its Euro denominated secured bank loans and other loans, and lease liabilities. As at 31 December 2020, 90.8% of the Group's secured bank loans and other loans (gross of direct issue costs) were denominated in U.S. Dollars (2019 – 91.2%) and 9.2% (2019 – 8.8%) 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 consolidated financial statements. As of 31 December 2020 the net exposure of the Group to foreign exchange rate fluctuations on its borrowings is limited to €3.0 million (equivalent to $3.6 million) (2019 – €5.9 million (equivalent to $6.6 million)). In addition as at 31 December 2020, 69.9% of the Group's lease liabilities were denominated in U.S. Dollars, 20.5% in Russian Roubles, 5.3% in Sterling Pounds and 3.6% in Euro (2019 – 76.6% in U.S. Dollars, 14.9% in Russian Roubles, 4.1% in Sterling Pounds and 3.5% in Euro).

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

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

	Liabilities		Assets	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Russian Roubles (RUR)	48,998	48,215	268,333	111,614
Euro (EUR)	17,460	20,733	12,122	17,173
Sterling Pounds (GBP)	4,829	4,967	1,689	1,599
Others	3,977	1,989	986	704

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

	Appreciation of U.S. Dollar		Depreciation of U.S. Dollar	
	2020	2019	2020	2019
Russian Roubles (RUR)	16.0%	11.0%	16.0%	13.0%
Euro (EUR)	10.0%	8.0%	9.0%	8.0%
Sterling Pounds (GBP)	10.0%	9.0%	10.0%	9.0%
Others	10.0%	10.0%	10.0%	10.0%

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

(e) Financial risk factors (continued)

Market risk (continued)

Foreign currency risk (continued)

The effect of an appreciation of the U.S. Dollar against the above currencies at 31 December is as follows:

	(Decrease) / increase in profit 2020 $'000	2019 $'000	(Decrease) / increase in pre-tax equity 2020 $'000	2019 $'000
Russian Roubles (RUR)	(25,995)	104	(4,258)	(5,594)
Euro (EUR)	390	323	94	(59)
Sterling Pounds (GBP)	1	(8)	282	291
Others	270	117	1	-

The effect of a depreciation of the U.S. Dollar against the above currencies at 31 December is as follows:

	Increase / (decrease) in profit 2020 $'000	2019 $'000	Increase / (decrease) in pre-tax equity 2020 $'000	2019 $'000
Russian Roubles (RUR)	35,898	(157)	5,878	8,436
Euro (EUR)	(424)	(378)	(103)	69
Sterling Pounds (GBP)	(1)	10	(342)	(349)
Others	(330)	(143)	-	-

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it also 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 consolidated 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:

	2020 $'000	2019 $'000
Lease liabilities and borrowings gross of direct issue costs (Notes 34, 35 and 36)	3,300,627	3,533,641
Lease liabilities and fixed rate borrowings gross of direct issue costs (Notes 34, 35 and 36)	(1,619,570)	(1,709,110)
Total floating rate borrowings gross of direct issue costs (Notes 34 and 35)	1,681,057	1,824,531
Notional amount of floating borrowings to fixed rate swaps (Note 22)	(1,189,889)	(1,204,144)
Net exposure to interest fluctuations	491,168	620,387
% of floating rate borrowings exposed to interest rate fluctuations	29.2%	34.0%

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

Sensitivity of interest rates	2020 100 bps increase $'000	2020 20 bps decrease $'000	2019 35 bps increase $'000	2019 35 bps decrease $'000
Change in fair value of interest rate swaps				
- Increase / (decrease) in other comprehensive income for the period	10,424	(2,085)	3,433	(3,445)
- Increase / (decrease) in profit or loss for the period	-	-	49	(50)
Increase / (decrease) in interest expense for the period excluding interest capitalised	5,653	(1,131)	1,588	(1,588)

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 2020 $'000	2019 $'000
Increase in U.S. Dollar 3 month interest rates by 50bps and increase foreign exchange rate by 10%	39,118	40,666
Decrease in U.S. Dollar 3 month interest rates by 50bps and decrease foreign exchange rate by 10%	(39,330)	(40,928)
Increase in Euro cross currency curve by 50bps and increase in Euro 6 month interest rate by 50bps	(40)	(94)
Decrease in Euro cross currency curve by 50bps and decrease in Euro 6 month interest rate by 50bps	3	78

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

(e) Financial risk factors (continued)

Market risk (continued)

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 59.3% (2019 – 53.5%) of the vessels' total trading days were on time charter representing 73.0% (2019 – 69.4%) of time charter equivalent revenues of which 0.2% (2019 – 0.5%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2020, 53.8% (2019 – 56.0%) of the vessels were on time charter.

Public health threats

Public health threats could affect the operations of the Group, the operations of the Group's customers, suppliers and shipyards. The spread of COVID-19 and the measures taken to contain or mitigate it have had dramatic adverse consequences for the global economy, as well as regional and national economies. The continued spread of COVID-19 has led to supply chain destabilisation, facility closures, workforce disruption and volatility in the global economy, and its full impact is impossible to predict. The main areas of concern for the Group were the safety and well-being of its staff, the ability to perform crew changes, lockdowns and delays in ports and at shipyards. The Group responded by developing a COVID-19 task force, implementing new standards, which focus on the health and safety of its seafarers and shore based staff and sustaining safe and efficient operations, while minimising any disruptions.

The extent to which COVID-19 may impact the Group will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, further actions to contain the virus or treat its impact, including the speed of roll-out of vaccines and their effectiveness, and the duration, timing and severity of the impact on global financial markets and the condition of the Russian economy, all of which are still highly uncertain and cannot be predicted.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from operating activities and from financing activities including derivative financial instruments and deposits with financial institutions and committed transactions.

Amounts due from charterers and contract assets

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience and in accordance with the ECL method. As at 31 December 2020, amounts due from charterers included three charterers (2019 – two) with a total amount of revenue due of $16.7 million (2019 – $15.1 million), representing 18.8%, 10.8% and 10.0% of total amounts due, respectively (2019 – 11.2% and 10.8%).

As at 31 December 2020, total revenue included $297.3 million and $164.6 million from two charterers (2019 – $270.8 million and $169.0 million) individually representing 18.0% and 10.0% (2019 – 16.3% and 10.2%), respectively, of total revenue.

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

Operating segment	2020 $'000	2019 $'000
Offshore services	243,672	227,500
Gas transportation	55,654	48,969
Crude oil transportation	100,279	105,241
Oil product transportation	48,230	47,659
Other	14,070	10,453
	461,905	439,822

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

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

	2020 Expected credit loss rate	2020 $'000	2019 Expected credit loss rate	2019 $'000
Contract assets	0.05%	26,697	0.07%	41,605
Amount due from charterers				
Current	0.05%	11,099	0.07%	25,119
Days past due				
Up to one month	0.11%	11,608	0.07%	31,394
One to two months	0.54%	3,696	1.04%	5,015
Two to three months	1.08%	1,206	0.77%	1,568
More than three months	3.17%	14,424	2.18%	5,959
		30,934		43,936

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

(e) Financial risk factors (continued)

Credit risk (continued)

Financial instruments and cash deposits

Management is of the opinion that the credit risk on liquid funds is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits, taking into account financing arrangements with the same counterparty, and takes appropriate action to minimise exposure to any one bank. Cash and cash equivalents and bank deposits include deposits with two banks (2019 – three) representing 56.3% and 17.3% (2019 – 42.8%, 16.2% and 10.9%) of total deposits of $879.0 million (2019 – $415.6 million). The Group did not recognise any expected credit loss on the above as the amount of credit loss is insignificant (2019 – insignificant).

Liquidity risk

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

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

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

	Secured bank loans $'000	Secured revolving credit facilities $'000	Total available facilities $'000
At 1 January 2020	349,458	84,896	434,354
Facilities drawn down	(244,614)	(5,000)	(249,614)
At 31 December 2020	104,844	79,896	184,740

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 2020, 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 2020	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	171,514	15,485	-	186,999
Secured bank loans	287,185	1,303,956	764,244	2,355,385
Other loans	3,631	900,000	-	903,631
Lease liabilities	17,034	26,168	36,650	79,852
Net amounts payable on cross currency interest rate swaps	8,173	17,330	862	26,365
Net amounts payable on interest rate swaps	14,880	39,483	2,720	57,083
Interest payable on secured loans	79,914	220,171	63,562	363,647
Interest payable on other loans	48,489	72,563	-	121,052
	630,820	2,595,156	868,038	4,094,014
At 31 December 2019				
Trade and other payables	144,695	16,905	-	161,600
Secured bank loans	384,734	1,292,249	889,730	2,566,713
Other loans	3,314	903,314	-	906,628
Lease liabilities	25,026	41,384	39,836	106,246
Net amounts payable on cross currency interest rate swaps	13,397	47,427	26,684	87,508
Net amounts payable on interest rate swaps	9,859	13,747	1,260	24,866
Interest payable on secured loans	108,501	274,011	91,931	474,443
Interest payable on other loans	50,620	121,126	-	171,746
	740,146	2,710,163	1,049,441	4,499,750

41. Contingent Liabilities and Commitments

Commitments under lease arrangements

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

	2020 $'000	2019 $'000
Between one to two years	9,325	-
Between two to three years	53,164	9,110
Between three to four years	58,248	51,703
Between four to five years	58,248	56,871
More than five years	983,156	1,022,877
	1,162,141	1,140,561

On expiration of the agreements, and settlement of all obligations under the arrangements, legal title of the vessels passes to the Group. The Group has no obligation to the lessor until the vessels are delivered from the shipyard and accepted by the Group.

Details of the Group's commitments under commenced leases are disclosed in Note 36.

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 2020			
Newbuilding contracts	239,669	792,967	1,032,636
At 31 December 2019			
Newbuilding contracts	365,144	143,100	508,244

Guarantees

The Group has issued guarantees on behalf of its joint ventures which own and operate LR1 vessels in respect of their obligations under secured bank loans and interest rate swaps, with an outstanding balance as of 31 December 2020, of $123.5 million (2019 – $145.0 million), gross of direct issue costs, to the extent of the Group's participation interest of 51% in these joint ventures, as disclosed in Note 20. The Group's share of the maximum exposure under the guarantees is $63.0 million (2019 – $73.9 million). As security, the lenders have first preferred mortgages on the vessels owned by these joint ventures with an aggregate market value, at 31 December 2020, of $182.0 million (2019 – $213.5 million), together with assignment of charter hire monies and all earnings and insurances of those vessels and pledges of shares in these companies. These secured bank loans and interest rate swaps will be fully repaid or will expire as follows: $82.2 million in 2021 and $41.3 million in 2022.

In addition, the Group has issued guarantees on behalf of its joint ventures which own and operate 4 LNG carriers, in respect of their obligations under interest rate swaps, with a fair value as of 31 December 2020, of $9.4 million (2019 – $7.2 million), to the extent of the Group's participation interest in these joint ventures, as disclosed in Note 20. The Group's share of the maximum exposure under the guarantees is $4.6 million (2019 – $3.2 million). These interest rate swaps will expire as follows: $0.9 million in 2021 and $8.5 million more than five years after the end of the reporting period.

In August 2020, the Group issued guarantees to the charterer, in respect of the performance and obligations of SMART LNG, for services under the time charter agreements relating to the leasing arrangements for ten vessels which became effective on 28 August 2020, to the extent of the Group's participation interest in the joint venture (Note 20).

The outflow of resources embodying economic benefits required to settle the obligations under the aforementioned guarantees issued by the Group is not probable. The guarantees are due immediately in all cases if they are called upon and the Group's maximum exposure to the guarantees are the outstanding balances mentioned above which are reducing in accordance with the agreed repayment schedule with the lenders.

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.

42. Related Party Transactions

Information about the Group's structure, including details of its significant subsidiaries, are disclosed in Note 39.

The Group's subsidiaries and the Group's joint ventures entered into leasing arrangements with Russian state controlled entities in respect of 6 and 14 vessels, respectively, ordered by Russian state controlled entities at Zvezda Shipbuilding Complex, another Russian state controlled entity. Details of the commitments are disclosed in Note 41 and Note 20 to these consolidated financial statements.

The Group's cross currency derivative financial instruments with a Russian State controlled financial institution are presented in Note 22 to these consolidated financial statements.

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

	Consolidated Income Statement (income) / expense		Consolidated Statement of Financial Position asset / (liability)	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Transactions with Russian State controlled entities				
Revenue[1]	(462,923)	(441,406)	(21,965)	(18,641)
Voyage expenses and commissions	23,597	38,479	(2,064)	(4,704)
Other operating revenues	(6,913)	(7,037)	(1,604)	(354)
Other operating expenses	-	1,985	-	(258)
Other loans	240	364	(3,637)	(6,640)
Secured bank loans	46,614	46,269	(650,525)	(714,910)
Lease liabilities	1,017	1,019	(7,785)	(7,864)
Receivables from shipyard (liquidated damages for late delivery of vessels)	(602)	(546)	6,607	6,005
Payables to charterer (liquidated damages for late delivery of vessels)	1,758	1,872	(17,598)	(18,855)
Cash at bank	(6,053)	(3,116)	583,233	217,896
Transactions with Joint Ventures				
Other operating revenues	(3,740)	(3,330)	907	(146)
Loans due from joint ventures	(1,425)	(2,599)	54,197	62,624
Compensation of Key Management Personnel				
Short-term benefits	8,531	9,317	(3,723)	(4,576)
Post-employment benefits	72	64	(4)	(3)
Long-term service benefits	1,204	1,979	(1,805)	(4,530)
Termination benefits	220	260	-	-
	10,027	11,620	(5,532)	(9,109)

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

43. Events After the Reporting Period

On 8 January 2021, the Group entered into a shipbuilding contract for the construction of one 174,000 cubic metre LNG carrier at a total contracted cost of $182.8 million. The vessel is backed up by a time charter agreement for a firm period of 5 years, with a two year extension option attached in favour of the charterer. The Group has also entered into an option agreement with the shipyard for up to two additional LNG carriers at the same construction cost. Each of the optional vessels are backed up by a time charter agreement, exercisable at the option of the charterer.

On 15 January 2021, the Group took delivery of an LNG carrier, the m/v SCF Timmerman. The Group also entered into a seven year U.S. Dollar interest rate swap transaction to hedge the Group's cash flow exposure arising from interest rate fluctuations in respect of a $148.5 million secured bank loan facility in connection with the financing of the vessel.

On 8 February 2021 one of the MR chemical oil product tankers classified as held for sale as at 31 December 2020 (see Note 28), was delivered to her buyer.