IMPORTANT NOTICE: You must read the following before continuing. The following applies to the offering memorandum following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

This offering memorandum has been prepared in connection with the proposed offer and sale of the securities described herein. The offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE OFFERING MEMORANDUM MAY ONLY BE DISTRIBUTED TO (A) INSTITUTIONAL AND QUALIFIED INDIVIDUAL INVESTORS IN THE RUSSIAN FEDERATION AND OTHERWISE TO INSTITUTIONAL INVESTORS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND (B) QUALIFIED INSTITUTIONAL BUYERS ("QIBS") IN ACCORDANCE WITH RULE 144A ("RULE 144A") UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF ORDINARY SHARES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE ORDINARY SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OF ANY OTHER JURISDICTION, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT TO PERSONS REASONABLY BELIEVED TO BE QIBS IN RELIANCE ON RULE 144A OR ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, OR OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE ORDINARY SHARES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT AND THE OFFERING WHEN MADE ARE ONLY ADDRESSED TO, AND DIRECTED AT, PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA OR IN THE UNITED KINGDOM WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(E) OF THE PROSPECTUS REGULATION (REGULATION (EU) 2017/1129) AND AMENDMENTS THERETO ("**QUALIFIED INVESTORS**"). IN ADDITION, IN THE UNITED KINGDOM, THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, QUALIFIED INVESTORS WHO: (I) ARE PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "**ORDER**"); OR (II) ARE PERSONS WHO ARE HIGH NET WORTH ENTITIES FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER; OR (III) ARE PERSONS TO WHOM THEY MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT MUST NOT BE ACTED ON OR RELIED ON (I) IN THE UNITED KINGDOM, BY PERSONS WHO ARE NOT RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA OTHER THAN THE UNITED KINGDOM, BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT RELATE IS AVAILABLE ONLY TO (I) IN THE UNITED KINGDOM, RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA OTHER THAN THE UNITED KINGDOM, QUALIFIED INVESTORS, AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS.

Information to Distributors: Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "**manufacturer**" (for the purposes of the Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for

distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the joint global coordinators and joint bookrunners and the co-manager will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

Confirmation of your representation: In order to be eligible to view the attached offering memorandum or make an investment decision with respect to the ordinary shares, you must be an institutional and qualified investor in the Russian Federation, an institutional investor outside the United States or a QIB within the United States.

By accepting the e-mail and accessing the offering memorandum, you shall be deemed to have represented to us that you are an institutional and qualified investor in the Russian Federation, an institutional investor outside the United States or a QIB within the United States; and that you consent to delivery of such offering memorandum by electronic transmission. You are reminded that the offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the offering memorandum to any other person.

Under no circumstances shall the offering memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of ordinary shares, in any jurisdiction in which such offer, solicitation or sale would be unlawful. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the managers or any affiliate of the managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the managers or such affiliate on behalf of the issuer in such jurisdiction.

The offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the joint global coordinators and joint bookrunners, the co-manager, or any persons who control the joint global coordinators and joint bookrunners or the co-manager, or any of their directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the joint global coordinators and joint bookrunners and the co-manager.

PAO "Sovcomflot"

(a public joint-stock company organized under the laws of the Russian Federation)

Offering of Ordinary Shares

(subject to a repurchase option in respect of up to 10% of such Ordinary Shares)

Offer Price Range: RUR 105 to RUR 117 per Offer Share

PAO "Sovcomflot" ("**SCF**") is offering new ordinary shares (the "**Offer Shares**"), each with a nominal value of RUR 1 to be issued through an open subscription (the "**New Shares Issuance**").

The Offer Shares to be issued in the New Shares Issuance are expected to be purchased by the Joint Global Coordinators and Joint Bookrunners (as defined below), on behalf of the Underwriters (as defined below), as initial purchasers for onward sale by the Underwriters to investors (the "**Offering**").

The number of Offer Shares to be issued and sold pursuant to the Offering and the price at which each of the Offer Shares is to be issued and sold under the Offering (the "**Offer Price**") will be published on or about October 7, 2020 (the "**Pricing Date**").

The Offering consists of an offering of the Offer Shares (i) to institutional and qualified individual investors in the Russian Federation and otherwise to institutional investors outside the United States in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and (ii) within the United States to "qualified institutional buyers" ("**QIBs**") as defined in, and in reliance upon, Rule 144A ("**Rule 144A**") under the Securities Act or pursuant to another exemption from registration under the Securities Act. See "*Plan of Distribution*."

In connection with the Offering, OOO SCF Arctic, a wholly-owned subsidiary of SCF ("**SCFA**"), on or about the Pricing Date, is expected to grant an option (the "**Repurchase Option**") to JSC VTB Capital (the "**Market Maker**"), exercisable only once (at any time during the period of thirty days after the announcement of the Offer Price (the "**Stabilization Period**") and no later than the third business day thereafter), to require SCFA to purchase the ordinary shares of SCF (the "**Ordinary Shares**" or the "**Shares**") acquired by the Market Maker as a result of stabilization transactions in a total number of up to 10% of the Offer Shares, at a price equal to the sum of (i) the total amount paid by the Market Maker to acquire such shares and (ii) any associated funding costs. See "*Plan of Distribution—Stabilization.*" SCFA will hold any Ordinary Shares it acquires pursuant to the Repurchase Option in treasury.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred within the United States, except to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Offer Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of these and certain further restrictions on offers, sales and transfers of the Offer Shares and the distribution of this Offering Memorandum, see "*Selling and Transfer Restrictions.*"

The Ordinary Shares were registered by the Federal Service for Financial Markets of the Russian Federation, whose administrative functions were subsequently transferred to the Central Bank of Russia (the "**CBR**"), under state registration number 1-01-10613-A. A statutory Russian prospectus in respect of the Offer Shares was registered by the CBR on November 28, 2018. The Ordinary Shares are expected to be admitted to trading on the "Level 1" part of the List of Securities Admitted to Trading on Moscow Exchange MICEX RTS (the **"Moscow Exchange**") under the symbol "FLOT" on or about the Pricing Date. Prior to the Offering, there has been no public market for the Ordinary Shares. No assurance can be given that thereafter the Ordinary Shares will continue to be admitted to trading on the Moscow Exchange. See "*Risk Factors."*

AN INVESTMENT IN THE OFFER SHARES INVOLVES A HIGH DEGREE OF RISK. THE OFFER SHARES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE PURCHASED AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. POTENTIAL INVESTORS SHOULD BE PREPARED TO BEAR THE RISK OF A TOTAL LOSS OF THEIR INVESTMENT. INFORMATION CONTAINED HEREIN MAY NOT CORRESPOND TO THE RISK PROFILE OF A PARTICULAR INVESTOR, DOES NOT TAKE IN ACCOUNT AN INVESTOR'S PERSONAL PREFERENCES AND EXPECTATIONS ON RISK AND/OR PROFITABILITY AND DOES NOT CONSTITUTE AN INDIVIDUAL INVESTMENT RECOMMENDATION FOR THE PURPOSES OF RUSSIAN LAW. FOR A DISCUSSION OF CERTAIN RISKS THAT SHOULD BE CONSIDERED BY POTENTIAL INVESTORS IN CONNECTION WITH AN INVESTMENT IN THE OFFER SHARES, SEE "*RISK FACTORS.*"

The Offer Shares will be priced in Russian rubles. It is expected that delivery of the Offer Shares to purchasers thereof and payment for the Offer Shares by the purchasers will take place on or about October 9, 2020 (the "**Closing Date**"). The Offer Shares are required to be paid in Russian rubles. Each purchaser of Offer Shares must pay for such Offer Shares by the date agreed with the Joint Global Coordinators and Joint Bookrunners and the Co-Manager (together, the "**Underwriters**"). The Offer Shares will be delivered to purchasers through the facilities of the National Settlement Depository (the "**NSD**"). Therefore, to take delivery of the Offer Shares, purchasers must have a depositary account with the NSD or a depo account with depositary that has a depositary account with the NSD.

The Offering may be extended or revoked at any time without cause. The Offer Shares are offered severally by the Underwriters, subject to receipt and acceptance by them of any order in whole or in part. The Underwriters reserve the right to reject any offer to purchase the Offer Shares, in whole or in part, and to sell to any prospective investor less than the amount of the Offer Shares sought by any such investor.

Joint Global Coordinators and Joint Bookrunners

VTB Capital **Citigroup Global Markets Limited**

Sberbank CIB **J.P. Morgan** **BofA Securities**

Co-Manager

ING

The date of this Offering Memorandum is September 28, 2020

TABLE OF CONTENTS

SUMMARY 1
IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM 10
RISK FACTORS 12
NOTICE TO CERTAIN INVESTORS 39
PRESENTATION OF FINANCIAL AND OTHER DATA 41
EXCHANGE RATE INFORMATION 44
ENFORCEABILITY OF JUDGMENTS 46
AVAILABLE INFORMATION 48
FORWARD-LOOKING STATEMENTS 49
USE OF PROCEEDS 51
DIVIDEND POLICY 52
INDUSTRY OVERVIEW 54
BUSINESS 78
REGULATORY OVERVIEW 109
SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION 119
OPERATING AND FINANCIAL REVIEW 126
MANAGEMENT AND CORPORATE GOVERNANCE 162
DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LAW 175
RELATED-PARTY TRANSACTIONS 189
PLAN OF DISTRIBUTION 191
TAX CONSIDERATIONS 193
SELLING AND TRANSFER RESTRICTIONS 204
SETTLEMENT AND DELIVERY 210
LEGAL MATTERS 211
INDEPENDENT AUDITORS 212
GLOSSARY 213
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS F-0

SUMMARY

This section contains a summary of the detailed information and financial statements included elsewhere in this Offering Memorandum. This overview may not contain all of the information that may be material to prospective investors and, therefore, should be read in conjunction with this entire Offering Memorandum, including the more detailed information regarding the Group's business and the financial statements and related notes included elsewhere in this Offering Memorandum. Prospective investors should also carefully consider the information set forth under the heading "Risk Factors." Certain statements in this Offering Memorandum include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements."

Summary of SCF

Overview

The Group is a global leader in seaborne energy transportation solutions and a leading provider of marine services for global energy suppliers, specializing in maritime operations in harsh environments. The Group owns and operates one of the largest tanker fleets in the world, according to Clarksons Research. As a fully integrated shipowner and manager, the Group provides specialist marine services and equipment to upstream oil and gas projects and complex high-end shipping services to the world's leading oil and gas companies for the worldwide transportation of crude oil, oil products and liquefied gas (LNG and LPG).

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 marine services segment. A description of each segment is set out below.

Industrial Business

Offshore services. This segment comprises the services provided by the Group's ice-class shuttle tankers and specialized supply or service vessels. The Group owned the world's largest ice-class shuttle tanker fleet and the largest ice-class supply vessel fleet as of July 1, 2020, according to Clarksons Research. The Group's shuttle tankers transport oil from offshore facilities to customers' receiving terminals or onward shipment hubs. The Group's ice-breaking 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. For the six months ended June 30, 2020, this segment generated US$245.8 million (31.4%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, this segment's fleet consisted of 19 shuttle tankers, with a further two vessels under order (see "*—Orderbook*"), with a total capacity of 1.6 million DWT (excluding vessels in the orderbook), as well as seven ice-breaking supply vessels and three ice-breaking supply standby vessels. As of June 30, 2020, this segment accounted for 32% of the Group's fleet net carrying value. The average fleet age in the offshore services segment as of June 30, 2020 was 10.0 years. All vessels in this segment are wholly-owned.

Gas transportation. This segment transports LNG and LPG. For the six months ended June 30, 2020, this segment generated US$96.4 million (12.3%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group operated a fleet of six LNG carriers (five of which are ice class) with a total capacity of 0.6 million DWT. In addition to the *SCF Barents*, which was delivered on September 14, 2020 (see "*Recent Developments—SCF Barents*"), there are a further two vessels under order (see "*—Orderbook*"). The Group also owns four LPG carriers (two of which are ice class) with a total capacity of 0.1 million DWT. As of June 30, 2020, this segment accounted for 22% of the Group's fleet net carrying value. The average fleet age in the gas transportation segment as of June 30, 2020 was 6.7 years. In addition, the Group jointly owns, with NYK Line, four LNG carriers (two of which are ice class) with a total capacity of 0.3 million DWT, with a further 14 ice-class LNG carriers under order in connection with the operations of SMART LNG, a joint venture with Novatek (– see "*—Orderbook*"). The Group also performs technical management of a third-party owned Floating Storage and Regasification Unit ("**FSRU**").

Conventional Shipping Business

Crude oil transportation. This segment comprises the transportation of crude oil. For the six months ended June 30, 2020, this segment generated US$285.7 million (36.5%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group's fleet in this segment consisted of 54 wholly-owned crude oil carriers, with a further two vessels under order (see "*—Orderbook*"), representing a total capacity of 7.1 million DWT. This business segment

accounted for 32% of the Group's fleet net carrying value as of June 30, 2020. The Group owned the largest Aframax tanker fleet in the world, as of June 30, 2020, according to Clarksons Research. The average fleet age in the crude oil transportation segment as of June 30, 2020 was 11.9 years.

Oil products transportation. This segment comprises the transportation of refined petroleum and other oil products. For the six months ended June 30, 2020, this segment generated US$122.7 million (15.7%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group's fleet in this segment consisted of 36 wholly-owned petroleum product carriers, with a further three vessels under order *(see "—Orderbook")*. The total capacity of the Group's existing vessels in this segment as of June 30, 2020 was 2.1 million DWT (excluding joint ventures and vessels under order), and this business segment accounted for 13% of the Group's fleet net carrying value as of June 30, 2020. The average fleet age of the wholly-owned vessels in the oil products transportation segment as of June 30, 2020 was 13.0 years. In this segment, the Group operates nine petroleum product carriers which are jointly-owned with third parties, representing a total capacity of 0.7 million DWT and an average fleet age as of June 30, 2020 of 9.1 years.

Other Activities

Other marine services. This segment comprises bulk cargo carriers and seismic research vessels. For the six months ended June 30, 2020, this segment generated US$32.0 million (4.1%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, this segment's fleet consisted of two dry cargo bulkers with a total capacity of 149,077 DWT and two chartered-in seismic research vessels, and the segment accounted for 1% of the Group's fleet net carrying value as of June 30, 2020.

The Group specializes in providing services in harsh weather environments and ice-water conditions with fleet vessels, management systems and personnel specialized in operating in such conditions and is a provider of critical infrastructure in the form of a floating pipeline for global energy suppliers to connect to their customers. A substantial portion of the Group's fleet consists of vessels with ice-class notations, spread across each of the Group's operating segments. These vessels, which are designed to withstand harsh weather and ice-water conditions and are specifically customized to the services they are required to perform and their operating geography, operate primarily along the harsh environment trade routes of the Baltic, Russian Arctic and sub-Arctic regions and the northern Far East of Russia. As of June 30, 2020, the Group's fleet consisted of 146 owned and chartered-in vessels of 12.6 million total DWT (13 of which, with 1.0 million DWT, are owned through the Group's joint ventures with third parties), including 83 ice-class vessels (representing 56.8% of the Group's fleet by number of vessels). The Group operated nine offices worldwide as of the same date. According to Clarksons Research, the Group was the only marine services provider with a leading market position in all ice-class shipping segments (including vessels under order) by number of vessels and DWT, with the largest fleet of ice-class shuttle tankers, ice-breaking supply vessels and ice-class LNG carriers in the world, as of July 1, 2020. The Group is also the largest Russian oil tanker owner by DWT capacity according to Clarksons Research. For the six months ended June 30, 2020, the Group generated time-charter-equivalent revenues of US$782.7 million and Adjusted EBITDA of US$578.6 million, with an Adjusted EBITDA margin of 73.9%.

Given SCF's status as a strategic asset of the Russian Federation providing marine transportation solutions and critical infrastructure for global energy suppliers, the Group has an important role in the development of Russia's energy sector, both as the leading energy shipping group in the Russian Federation and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's industrial business to be, in effect, a seaborne extension of the Russian pipeline infrastructure, which positions the Group to benefit from servicing Russian hydrocarbon exports. According to Clarksons Research, in 2019 the Russian Federation was the third-largest crude oil producing country in the world, and the second largest producer of natural gas in the world. The Russian Federation exports significant volumes of crude oil and refined oil products, accounting for the majority of seaborne exports crude oil and oil products from the FSU. According to Clarksons Research, the Russian Federation was estimated to be the second largest seaborne crude oil exporting country behind Saudi Arabia in 2019, and the largest exporter globally of volumes transported on Aframax tankers, which constituted approximately 70% of Russian seaborne crude exports. See "*Industry Overview—The Russian Oil and Gas Sector*." In 2019, the Group handled 19% of total oil and gas turnover at Russian seaports and transported a significant portion of the crude oil produced from offshore production platforms along the Russian coasts. Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of those oil and gas reserves that are exported by sea.

The Group's customers include major international oil and gas groups such as BP, Chevron, ExxonMobil, Shell and Total, as well as major Russian oil and gas groups, such as Gazprom, Lukoil, Novatek and Rosneft. In 2019, the portion of the Group's time-charter-equivalent revenues derived from Russian clients was approximately 45.6%. For the six months ended June 30, 2020, the time-charter-equivalent revenues derived from Russian clients was approximately

42.2% (Gazprom 17.5%, Sakhalin Energy 10.5%, Lukoil 8.5%, Novatek 4.2%, SIBUR 1.3% and Rosneft 0.2%). The Group's customers also include other national oil and gas companies, such as Petrochina, Repsol and ENI, and international commodity trading houses, such as Glencore, Gunvor, Trafigura and Vitol. Management believes that customers partner with the Group for logistically complex projects due to the Group's extensive operating capabilities, diverse service offering, high-quality fleet, reputation for first-class customer service and financial stability.

The following table shows revenues derived from the Group's major clients as a percentage of time-charter-equivalent revenues in the six months ended June 30, 2020:

	As a % of time-charter-equivalent revenues
Customer	**Six months ended June 30, 2020**
Gazprom	17.5%
Sakhalin Energy	10.5%
Lukoil	8.5%
Exxon Neftegas	5.9%
Exxon	5.8%
Trafigura	5.8%
Royal Dutch Shell	5.3%
Vitol	4.7%
Novatek	4.2%
Total	3.9%
TOTAL	72.1%

Since 2005, the Group has shifted its strategy from a pure tanker business and expanded into the industrial solutions space, providing critical infrastructure for global energy suppliers to connect to their customers. As a result, its industrial business has grown from 0% of the Group's time-charter-equivalent revenues in 2005 to 18.3% in 2010 to 50.5% in 2019. The Group has also expanded significantly through organic fleet growth, acquisitions and contributions to its charter capital and has grown from a mid-size tanker company to a global leader in energy shipping, providing complex marine logistical solutions. Under the current management team, the Group successfully weathered a significant downturn in the shipping industry between 2009 and 2014 and has broadened the range and capabilities of its vessels and services by entering new market segments in the energy industry, such as the transportation of LNG and LPG and the owning and operating of shuttle tankers and ice-breaking supply vessels to and from offshore exploration, production and transshipment facilities, all with a focus on providing services in harsh weather and ice-water conditions. Management believes that this operational expertise places the Group in a strong position to expand the range of transport and logistics services that it provides to its clients both in the Russian Federation and internationally.

Key Competitive Strengths

The Group's key competitive strengths are the following:

- a global leader in industrial marine transportation;
- a diversified business integrated into the energy value chain, with significant expertise in large-scale, harsh environment projects;
- highly visible long-term and growing infrastructure cash flows through industrial projects;
- long-established relationships with leading "blue-chip" international and national energy companies;
- a strong financial profile built on pillars of operational excellence, resilient financial performance and a strong growth pipeline;
- a resilient business model with upside potential from industrial investments and stable tanker market outlook;
- a culture of safety, environmental responsibility and innovation; and

- a highly regarded management team and strong governance.

Group Strategy

The Group intends to maintain its leadership in key segments of the global marine transportation market, with a particular focus on oil and gas projects in the Russian Federation and international LNG maritime transportation. The Group's development program sets forth the following strategies, which Management continues to monitor, develop and implement on an ongoing basis:

- maintain the Group's leading position in the export of Russian hydrocarbons;
- expand its industrial business;
- develop as an integrated offshore upstream services provider with a specific focus on operating in harsh environments and the ice water conditions of the Arctic and sub-Arctic regions;
- maintain the Group's status as a 'preferred carrier' for leading international and national energy companies by focusing on a diverse and high-quality service offering while maintaining strong brand recognition associated with quality and safety;
- strengthen the Group's market positions by renewing and selectively expanding its fleet;
- focus the Group's investment policy on the needs of core Russian and international oil and gas clients; and
- increase the environmental sustainability of the fleet through increasing the reliability and environmental safety of the services rendered.

Selected Consolidated Income Statements of SCF

	Year ended December 31,			**Six months ended June 30,**	
	2019	**2018**	**2017**	**2020**	**2019[(2)]**
			(US$'000)		
Revenue[(1)]	1,665,207	1,519,937	1,435,365	951,305	794,065
Voyage expenses and commissions	(399,710)	(445,243)	(377,374)	(168,605)	(200,090)
Time-charter-equivalent revenues	1,265,497	1,074,694	1,057,991	782,700	593,975
Direct operating expenses					
Vessels' running costs	356,327	348,219	378,776	170,525	170,811
Charter hire payments	-	28,931	40,424	-	-
	(356,327)	(377,150)	(419,200)	(170,525)	(170,811)
Net earnings from vessels' trading	909,170	697,544	638,791	612,175	423,164
Other operating revenues	43,106	23,835	21,962	10,585	21,559
Other operating expenses	(17,914)	(12,031)	(14,041)	(5,755)	(10,494)
Depreciation, amortization and impairment	(411,849)	(404,007)	(389,142)	(228,957)	(191,572)
General and administrative expenses	(107,992)	(111,752)	(116,703)	(46,048)	(54,538)
Gain/(loss) on sale of non-current assets	6,282	(8,590)	20,177	(449)	(136)
Loss on sale and dissolution of subsidiaries	-	(1,659)	-	-	-
Loss on sale of equity-accounted investments	-	-	(5)	-	-
Allowance for credit losses	(173)	410	490	(229)	(41)
Share of profits in equity-accounted investments	15,721	3,109	2,675	13,133	5,529
Operating profit	436,351	186,859	164,204	354,455	193,471
Other (expenses)/income					
Financing costs	(206,156)	(200,417)	(193,859)	(99,229)	(103,570)
Interest income	10,183	8,222	9,787	5,325	5,513
Other non-operating expenses	(1,946)	(3,179)	(78,718)	(951)	(1,106)
Hedge ineffectiveness and termination of hedge[(3)]	(83)	1,038	401	487	(276)
Gain on derecognition of dividend liability[(4)]	7,895	422	345	19	3,861
Foreign exchange gains	17,703	14,602	10,586	4,253	15,428
Foreign exchange losses	(9,563)	(29,695)	(10,343)	(15,847)	(6,920)
Net other expenses	(181,967)	(209,007)	(261,801)	(105,943)	(87,070)
Profit / (loss) before income taxes	254,384	(22,148)	(97,597)	248,512	106,401

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019(2)
Income tax expense	(29,006)	(23,408)	(15,372)	(22,142)	(15,438)
Profit / (loss) for the period	225,378	(45,556)	(112,969)	226,370	90,963
Profit / (loss) attributable to:					
Owners of the parent	221,629	(41,642)	(109,670)	224,915	90,043
Non-controlling interests	3,749	(3,914)	(3,299)	1,455	920
	225,378	(45,556)	(112,969)	226,370	90,963

(1) "Freight and hire revenue" in the 2017 Financial Statements.
(2) Please see Note 2 of the 2020 Half Year Financial Statements for information on the restatement of interim financials.
(3) "Gain on termination of hedge and hedge ineffectiveness" in the 2018 Financial Statements and "Gain / (loss) on hedge effectiveness" in the Half Year Financial Statements.
(4) "Gain on derecognition of dividend liability" presented in "Other operating revenues" in 2017 has been disaggregated to conform with the 2018 and 2019 presentation.

Selected Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2019	2018	2017	2020
	(US$'000)			
Assets				
Non-current assets				
Fleet	6,121,734	6,165,663	6,291,344	6,136,496
Right-of-use assets	45,895	-	-	15,151
Vessels under construction	179,579	135,890	81,837	161,613
Intangible assets	5,891	6,772	8,659	3,219
Other property, plant and equipment	41,366	43,240	49,323	39,383
Investment property	4,435	545	7,924	3,834
Investments in associates	105	99	132	106
Investments in joint ventures	152,255	132,926	123,117	161,820
Equity instruments at fair value through profit or loss(1)	480	754	523	361
Loans to joint ventures	50,341	66,069	55,511	50,902
Derivative financial instruments	4,718	20,899	35,909	762
Trade and other receivables	8,705	13,670	7,739	8,997
Deferred tax assets	5,250	4,089	8,162	3,848
Bank deposits	15,500	11,000	12,000	15,500
	6,636,254	6,601,616	6,682,180	6,601,992
Current assets				
Inventories	53,749	67,452	61,883	41,213
Loans to joint ventures	11,804	-	-	26
Derivative financial instruments	170	3,783	808	-
Trade and other receivables(2)	100,739	89,965	103,284	103,106
Prepayment and other current assets(2)	15,280	18,245	43,638	16,745
Contract assets	41,605	31,020	-	15,033
Current tax receivable	5,592	4,032	6,487	9,004
Restricted cash	-	-	75,543	-
Bank deposits(3)	26,865	28,862	26,018	22,730
Cash and cash equivalents(3)	374,821	267,571	321,334	672,518
	630,625	510,930	638,995	880,375
Non-current assets held for sale	69,061	29,700	25,719	30,380
	699,686	540,630	664,714	910,755
Total assets	7,335,940	7,142,246	7,346,894	7,512,747
Equity and liabilities				
Capital and reserves				
Share capital	405,012	405,012	405,012	405,012
Reserves	2,967,860	2,808,596	2,860,208	3,132,236
Equity attributable to the owners of the parent	3,372,872	3,213,608	3,265,220	3,537,248
Non-controlling interest	131,709	136,455	143,802	132,407
Total equity	3,504,581	3,350,063	3,409,022	3,669,655
Non-current liabilities				
Trade and other payables(2)	16,905	18,203	19,386	16,213
Other non-current liabilities(2)	3,663	5,207	9,027	7,201

	As of December 31,			As of June 30,
	2019	2018	2017	2020
	(US$'000)			
Secured bank loans	2,159,854	2,261,672	2,262,821	2,028,602
Other loans	897,106	899,312	902,412	896,340
Lease liabilities	41,180	-	-	34,246
Derivative financial instruments	30,233	14,071	12,812	68,418
Retirement benefit obligations	2,599	2,293	4,045	2,209
Provisions	3,895	1,367	-	3,945
Deferred tax liabilities	6,297	3,823	2,258	16,099
	3,161,732	3,205,948	3,212,761	3,073,273
Current liabilities				
Trade and other payables[(2)]	161,924	167,935	176,253	158,591
Other current liabilities[(2)]	72,519	65,738	109,321	62,074
Contract liabilities	14,741	16,086	-	10,244
Secured bank loans	378,955	313,842	338,226	490,069
Other loans	3,314	3,384	3,537	3,327
Lease liabilities	19,120	-	-	16,356
Current tax payable	394	1,124	4,890	713
Derivative financial instruments	18,660	15,626	17,370	28,445
Payable under high court judgement award	-	-	75,514	-
Provisions	-	2,500	-	-
	669,627	586,235	725,111	769,819
Total liabilities	3,831,359	3,792,183	3,937,872	3,843,092
Total equity and liabilities	7,335,940	7,142,246	7,346,894	7,512,747

(1) "Available-for-sale investments" in the 2017 Financial Statements.
(2) "Trade and other receivables" and "Trade and other payables" in 2017 and 2018 have been disaggregated to conform with the 2019 presentation.
(3) "Cash and bank deposits" in 2017 and 2018 have been disaggregated to "Bank deposits" and "Cash and cash equivalents" to conform with 2019 presentation.

Selected Consolidated Cash Flow Statements

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
	(US$'000)				
Operating activities					
Net cash from operating activities	793,855	552,684	545,844	585,091	382,509
Investing activities					
Net cash used in investing activities	(406,403)	(352,020)	(587,366)	(135,200)	(250,671)
Financing activities					
Net cash used in financing activities	(290,587)	(240,265)	(75,008)	(129,236)	(96,222)
Increase/(decrease) in cash and cash equivalents	96,865	(39,601)	(116,530)	320,655	35,616
Cash and cash equivalents at beginning of period	267,571	321,334	432,792	374,821	267,571
Net foreign exchange difference	10,385	(14,162)	5,072	(22,958)	7,290
Cash and cash equivalents at end of period	374,821	267,571	321,334	672,518	310,477

Summary of the Offering

The Company	PAO Sovcomflot ("**SCF**").
Offering	The Offering consists of an offering of the Offer Shares (i) to institutional and qualified individual investors in the Russian Federation and otherwise to institutional investors outside the United States in reliance on Regulation S under the Securities Act, and (ii) within the United States to QIBs as defined in, and in reliance upon, Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.
Stabilization	In connection with the Offering, VTB Capital plc, acting as a stabilizing manager (the "**Stabilizing Manager**"), on behalf of the Underwriters, will procure that the Market Maker shall, to the extent permitted by applicable laws, regulations and rules of the CBR and/or the Moscow Exchange, purchase, for stabilization purposes, the Ordinary Shares on the Moscow Exchange in a total number of up to 10% of the Offer Shares within the Stabilization Period, with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail in the open market, in accordance with the market-making agreement entered into between the Market Maker, SCF and the Moscow Exchange on or about the Pricing Date (the "**Market-Making Agreement**"). There will be no obligation on the Stabilizing Manager or any person acting on behalf of the Stabilizing Manager to effect stabilizing transactions and there is no assurance that stabilizing transactions will be undertaken. Such stabilization, if commenced, may be discontinued at any time without prior notice. Except as required by law or regulation, neither the Stabilizing Manager nor any person acting on behalf of the Stabilizing Manager intends to disclose the extent of any stabilization transactions conducted in relation to the Offering.
Repurchase Option	SCFA is expected to grant the Repurchase Option to the Market Maker, exercisable only once (at any time during the Stabilization Period and not later than the third business day thereafter), to require SCFA to purchase the Ordinary Shares acquired by the Market Maker as a result of stabilization transactions in a total number of up to 10% of the Offer Shares, at a price equal to the sum of (i) the total amount paid by the Market Maker to acquire such shares and (ii) any associated funding costs. SCFA will hold any Ordinary Shares it acquires pursuant to the Repurchase Option in treasury.
Joint Global Coordinators and Joint Bookrunners	VTB Capital plc, Citigroup Global Markets Limited, JSC Sberbank CIB and Sberbank CIB (UK) Limited, J.P. Morgan Securities plc and Merrill Lynch International.
Co-Manager	ING Bank N.V.
Underwriters	VTB Capital plc, Citigroup Global Markets Limited, JSC Sberbank CIB and Sberbank CIB (UK) Limited, J.P. Morgan Securities plc, Merrill Lynch International and ING Bank N.V.
Offer Price Range	RUR 105 - 117 per Share.

Share Capital	As of the date of this Offering Memorandum, SCF has a share capital of RUR 1,966,697,210, represented by 1,966,697,210 Ordinary Shares with a nominal value of RUR 1.00 each, which are issued, fully paid and outstanding. Our Shares are subject to applicable provisions of Russian corporate law and the SCF charter (the "**SCF Charter**") and have the rights described under "*Description of Share Capital and Certain Requirements of Russian Law.*"
Listing and Market for the Securities	The Ordinary Shares are expected to be admitted to trading on the "Level 1" part of the List of Securities Admitted to Trading on the Moscow Exchange on or about the Pricing Date.
Lock-Up	SCF has agreed for a period of 180 days after the Closing Date, not to, and to procure that its affiliates (excluding the Company's existing shareholder) do not, without the prior written consent of the Joint Global Coordinators and Joint Bookrunners (not to be unreasonably withheld), issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, Ordinary Shares or securities convertible or exchangeable into or exercisable for Ordinary Shares or warrants or other rights to purchase Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options representing the right to receive any such securities, in each case, except (i) as may be necessary or desirable in connection with any consolidation of SCF's ownership in PAO Novoship, whether by buy-back, exchange or otherwise or (ii) in relation to any issuance of securities pursuant to any long-term incentive plan of SCF. A representative of the Russian Federation has publicly announced that the Russian Federation does not intend to sell any further shares in SCF through a public offering for a period of 180 days following the Closing Date, although the Russian Federation has not entered into any legally binding agreement preventing the sale of any shares of SCF during that period. See "*Plan of Distribution.*"
Use of Proceeds	In the Offering, SCF aims to raise total gross proceeds of approximately RUR 42,250 million and total net proceeds (after deduction of commissions, fees and expenses incurred by SCF in connection with the Offering) of approximately RUR 40,800 million, in each case assuming the Repurchase Option is not exercised. See "*Use of Proceeds*."
Voting Rights	Voting at a general shareholders' meeting of SCF (the "**General Shareholders' Meeting**") is generally based on the principle of one vote per Ordinary Share, with the exception of the election of the board of directors (the "**Board of Directors**"), which is carried through cumulative voting.
Dividend Rights	Holders of the Ordinary Shares are entitled to receive amounts, if any, declared by SCF as dividends, subject to applicable law. See "*Dividend Policy*" and "*Description of Share Capital and Certain Requirements of Russian Law.*"
Taxation	For a discussion of certain Russian tax and United States federal income tax consequences of purchasing and holding the Offer Shares, see "*Tax Considerations.*"

Selling and Transfer Restrictions	The Offer Shares will be subject to certain sale and transfer restrictions set forth in "*Selling and Transfer Restrictions.*"
Settlement and Delivery	The Offer Shares will be priced in rubles. It is expected that delivery of the Offer Shares to purchasers thereof and payment for the Offer Shares by the purchasers will commence on or about the Closing Date. Each purchaser of Offer Shares must pay for such Offer Shares by the date agreed with the Underwriters. The Offer Shares will be delivered to purchasers through the facilities of the NSD. Therefore, to take delivery of the Offer Shares, purchasers must have a depositary account with the NSD or a depo account with a depositary that has a depositary account with the NSD. See "*Settlement and Delivery.*"
Risk Factors	Prospective investors should carefully consider the risks discussed under "*Risk Factors*."
ISIN:..	RU000A0JXNU8
Trading symbol:...	FLOT

IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

Each prospective investor, by accepting delivery of this Offering Memorandum, agrees that this Offering Memorandum is being furnished by SCF for the purpose of enabling a prospective investor to consider the purchase of the Offer Shares. Any reproduction or distribution of this Offering Memorandum, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares is prohibited, except to the extent that such information is otherwise publicly available.

SCF has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third-party source, to a certain degree, subjective. This information may at times be less complete or reliable than that of some of the more developed market economies of North America and Western Europe and may be produced on a basis that differs from those used in Western countries. Some official data released by the Russian government may also be inaccurate. Any discussion of matters relating to the Russian Federation herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information. While SCF believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by SCF approximately reflects the industry and the markets in which SCF operates, there is no assurance that SCF's own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of SCF's website do not form any part of this Offering Memorandum.

This Offering Memorandum is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of SCF or the Underwriters that any recipient of this Offering Memorandum should purchase the Offer Shares.

In making an investment decision, each person contemplating making an investment in the Offer Shares must conduct its own investigation and analysis of the creditworthiness of SCF and its consolidated subsidiaries (together, the "**Group**") and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. Any decision to buy the Offer Shares should be based solely on the information contained in this Offering Memorandum. No person has been authorized to provide any information or to make any representation in connection with the Offering other than those contained in this Offering Memorandum. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorized by or on behalf of SCF or the Underwriters or any of their respective affiliates, advisers or any other person. The information contained in this Offering Memorandum is only accurate as of the date on the front cover this Offering Memorandum. The delivery of this Offering Memorandum at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the delivery of this Offering Memorandum, nor the offering, sale or delivery of any Offer Shares shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of SCF or the Group since the date of this Offering Memorandum.

The Underwriters do not make any representation or warranty, express or implied, nor, to the fullest extent permitted by applicable law, do they accept any responsibility whatsoever as to the accuracy or completeness of any of the information in this Offering Memorandum or for any other statement made, or purported to be made, by it or any of them or on its or their behalf in connection with SCF, the Group or the Offering. The Underwriters and each of their respective affiliates accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or which they might otherwise have in respect of this Offering Memorandum or any such statement.

No prospective investor should consider any information in this Offering Memorandum to be investment, legal or tax advice. Each prospective investor should consult its own counsel, accountants and other advisors for legal, tax, business, financial and related advice regarding purchasing the Offer Shares. Neither SCF nor Underwriters makes any representation to the offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under appropriate investment or similar laws.

The Underwriters are not acting on behalf of any person in connection with the Offering and are not, and will not be, responsible to any person for providing advice in respect of the Offering or for providing the protections afforded to their respective clients.

In connection with the Offering, each of the Underwriters and any of their respective affiliates acting as an investor for its own account may take up the Offer Shares and in that capacity may retain, purchase or sell for its own account the Offer Shares and any of SCF's other securities or related investments and may offer or sell the Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in this Offering Memorandum to the Offer Shares being offered or placed should be read as including any offering or placement of securities to any of the Underwriters and any of their respective affiliates acting in such capacity. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps, warrants or contracts for differences) with investors in connection with which such Underwriter (or their affiliates) may from time to time acquire, hold or dispose of Offer Shares. None of the Underwriters intends to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, the Stabilizing Manager on behalf of the Underwriters will procure that the Market Maker shall, to the extent permitted by applicable laws, regulations and rules of the CBR and/or the Moscow Exchange, purchase, for stabilization purposes, the Ordinary Shares on the Moscow Exchange in a total number of up to 10% of the number of Offer Shares within the Stabilization Period with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail in the open market, in accordance with the Market-Making Agreement. However, there will be no obligation on the Stabilizing Manager or any person acting on behalf of the Stabilizing Manager to effect stabilizing transactions, and there is no assurance that stabilizing transactions will be undertaken. Such stabilization, if commenced, may be discontinued at any time without prior notice. Except as required by law or regulation, neither the Stabilizing Manager nor any person acting on behalf of the Stabilizing Manager intends to disclose the extent of any stabilization transactions conducted in relation to the Offering.

The distribution of this Offering Memorandum and the offer and sale of the Offer Shares may be restricted by law in certain jurisdictions. Neither SCF nor the Underwriters are making an offer to sell any Offer Shares to or is soliciting an offer to buy Offer Shares from any person in any jurisdiction except where such an offer or solicitation is permitted. This Offering Memorandum may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is unauthorized or unlawful. Each of SCF and the Underwriters requires persons into whose possession this Offering Memorandum comes to inform themselves about and observe such restrictions. Neither SCF nor the Underwriters has taken any action, other than as part of the Offering, that would permit an offering of or relating to the Offer Shares in any jurisdiction that requires action for that purpose. Further information with regard to restrictions on offers and sales of the Offer Shares is set forth under "*Plan of Distribution*" and "*Selling and Transfer Restrictions.*"

This Offering Memorandum is not a prospectus prepared or filed with any governmental authority in connection with the Offering, or prepared pursuant to any specific regulatory requirement.

RISK FACTORS

An investment in the Offer Shares involves a high degree of risk. You should carefully consider all of the information in this Offering Memorandum, including the following risk factors, before deciding to invest in the Offer Shares. The actual occurrence of any of the following events could have a material adverse effect on the Group's business, financial condition, prospects and results of operations, including the Group's contract backlog (as defined in "*Presentation of Financial and Other Data—Contract Backlog*")*, in which case the trading price of the Offer Shares could decline, and you could lose all or part of your investment. Most of these factors are contingencies that may or may not occur, and the Group is not in a position to express a view on the likelihood of any such contingency occurring. The risks described below are not exhaustive and are only those that management of the Group ("***Management***") believes are material, but these may not be the only risks and uncertainties that the Group faces. Additional risks that are not currently known or that are currently deemed immaterial may also have a material adverse effect on the Group's business, financial condition, prospects and results of operations or result in other events that could lead to a decrease in the trading price of the Offer Shares. You could therefore lose all or part of your investment in the Offer Shares. Consequently, an investment in the Offer Shares should only be considered by persons who can assume such risks.*

Risks Relating to the Group's Industry

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

Volumes of world seaborne trade have increased in recent years, in particular with seaborne crude oil and oil products trade increasing significantly in 2015 and 2016 as a result of the low oil price stimulating oil trade, demand from Chinese refineries and a slowdown in U.S. domestic crude oil production. Seaborne crude oil and oil products trade saw continued growth in 2017 and 2018, driven largely by continued expansion in Asian refining capacity. However, seaborne crude oil trade contracted in 2019, due to supply side disruptions in Iran and Venezuela, OPEC+ supply cuts and a sharp drop in U.S. imports against a backdrop of rising domestic production. Seaborne oil products trade also contracted sharply in 2019, reflecting a sharp decline in fuel oil trade and increased refinery maintenance ahead of the International Maritime Organization ("**IMO**") 2020 regulations and weaker economic conditions. As a result of impacts related to the COVID-19 pandemic, global seaborne oil trade has come under severe pressure in 2020 (decreasing by approximately 7% y-o-y in the first seven months of the year) as a result of the collapse in global oil demand, historic production cuts by OPEC+ and other major producers (both voluntary and forced shut-ins) and sharply lower refinery throughput globally. There is currently considerable uncertainty regarding the world economy and oil prices, particularly following the spread of COVID-19 and resulting tight government controls and containment measures implemented around the world, which have caused severe disruption to global supply chains and economic activity, led to dramatic rises in unemployment and reduced consumer demand, and prompted aggressive financial stimulus measures by governments, which could lead to financial deficits that could adversely impact further economic growth. Consequently, the credit and equity markets have entered a period of significantly increased volatility. See "*—A prolonged decrease in the price of oil and related commodities may affect demand for the Group's services, leading to a reduction in the Group's operating margins and a negative impact on the Group's business, financial condition and results of operations*" and "*—The global shipping industry has been adversely affected by, and may continue to be adversely affected by, the COVID-19 pandemic*."

In addition, since 2018, the administration of U.S. President Donald Trump has introduced tariffs and other trade barriers on China in an attempt to tackle what the Trump administration considers to be unfair trade practices. The Chinese government has introduced reciprocal measures targeting the United States, and the ongoing relationship between these two countries continues to deteriorate. The ongoing economic tension between the world's two largest economies has caused, and is likely to continue to cause, uncertainty and disruption in the international markets. Further, the United Kingdom's decision to withdraw from the European Union at the end of 2020 ("**Brexit**") following a referendum in June 2016 and the lack of clarity regarding the final terms of such withdrawal are expected to continue to exacerbate political uncertainty, stock market volatility and currency exchange rate fluctuations in Europe. During this period of uncertainty and beyond, the negative impact on European economies and, potentially, the broader global economy, could be significant.

Instability in the world economy could exacerbate the existing economic downturn or trigger a future economic downturn and result in a tightening in the credit markets, a low level of liquidity in financial markets and volatility in credit and equity markets. Such circumstances could negatively impact the Group's business and financial condition in ways that the Group is unable to predict and may also lead to a decline in customers' operations or ability to pay for the Group's services. This, in turn, could result in decreased demand for the Group's vessels and may cause customers to default on the Group's current contracts and charters. A decline in the amount of services requested by the customers or

their default on the Group's contracts with them could have a material adverse effect on the Group's business, financial condition and results of operations.

The tanker industry and the Group's business are subject to strong cyclical supply and demand variations which can lead to volatility in the Group's revenue and profitability.

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply and demand for tanker capacity, and the Group's ability to employ its vessels profitably depends upon, among other things, economic conditions in the tanker market. According to Clarksons Research (defined below), in the past 10 years, average tanker earnings have been volatile and experienced a number of downturns – for example, from 2009 to 2013, the average weighted tanker earnings was US$13,267 per day, falling to US$11,216 per day in 2018. Thereafter, improvements in demand and external factors such as tensions in the Middle East and updates to the U.S. sanctions list caused a market spike in the last quarter of 2019. Since 2019, there has been an upward trend in the average weighted tanker earnings, climbing from US$11,216 per day in 2018 to US$22,168 per day in 2019, and to US$39,160 per day during the first six months of 2020 (reaching a peak of US$98,094 per day on April 24, 2020). However, earnings have since weakened, driven by declines in global refinery runs, relatively high regional oil inventories owing to the impact of COVID-19 on oil demand, and a gradual decrease in the volume of product tankers employed in oil storage activity. Average weighted tanker earnings (for both crude and oil product tankers) fell to an average of approximately US$16,200/day in June 2020 and softened further to an average of US$11,654/day in August 2020. The demand for tanker capacity is influenced by a number of different factors, including the supply and demand for crude oil and oil products and transportation thereof, regional availability of refining capacity, global and regional economic conditions, the distance oil and oil products are to be moved by sea and changes in seaborne and other transportation patterns. Similarly, the supply of tanker capacity is influenced by a number of different factors, including the number of orders for new vessels, the scrapping rate of older vessels, conversion of tankers to other uses, the number of vessels that are out of service and environmental concerns and regulations. These and other factors affecting the supply and demand for tanker capacity may continue to cause significant volatility in charter rates and the volume of crude oil and oil products transported by sea.

If the tanker market is depressed, the consequent decrease in charter rates could have an adverse impact on the Group's earnings and cash flow, particularly with respect to the Group's tankers that are chartered on the spot market (the market for the trade of tankers in one-off transactions for near-term delivery), which are more exposed to volatility in charter rates. In aggregate, the crude oil and oil products segments accounted for 45.0%, 39.8%, 45.0%, 52.2% and 43.2% of the Group's time-charter-equivalent revenues for the years ended December 31, 2019, 2018 and 2017 and for the six months ended June 30, 2020 and 2019, respectively (see "*Operating and Financial Review—Factors Affecting the Group's Results—Revenue and Profitability Mix of the Group's Business*").

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

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

From its peak in mid-2014, the price of internationally traded Brent oil fell sharply, from approximately US$115 per barrel in June 2014 to approximately US$26 per barrel in January 2016, according to the IEA (defined below). This drop can be traced to a number of factors: increased production from unconventional supply methods such as fracking; a shift in the policy of the Organization of the Petroleum Exporting Countries ("**OPEC**") away from price targeting; the unwinding of certain geopolitical risks; the return of Iran to the international oil market following the partial lifting of sanctions in January 2016; and weakening global demand at various points during 2014 to 2016.

After January 2016, the price of internationally traded Brent oil had generally been increasing and reached approximately US$86 per barrel in October 2018, according to the IEA. Among other things, this increase resulted from the November 2016 OPEC agreement to cut oil production. Between October 2018 and January 2019, the price of internationally traded Brent again dropped sharply, to approximately US$51 per barrel, as a result of a combination of growing concerns over the health of the global economy, a significant uptick in global oil supply as OPEC producers raised output significantly (according to IEA data, global oil supply reached 102 million barrels per day in November 2018, the

highest on record) and the unexpected release of waivers by the United States to allow certain buyers to continue making purchases of Iranian crude oil after the imposition of sanctions in November 2018.

Since early 2019, oil prices have been volatile as a result of negative pressures from weak global oil demand and weak economic growth, U.S.-China trade tensions, countered by support from oil output curbs, U.S. sanctions on Iran and Venezuela and rising Middle East tensions including the attacks on key oil facilities in Saudi Arabia in September 2019 and deep output cuts by OPEC+ to prevent oversupply. This volatility has recently been exacerbated by the impact of the COVID-19 pandemic. See "*—The global shipping industry has been adversely affected by, and may continue to be adversely affected by, the COVID-19 pandemic*." In 2020, the price of internationally traded Brent oil traded in a narrow band of US$41 to US$44 per barrel from late June to early August as significant economic uncertainty and the continued spread of COVID-19, particularly in the United States, have cast doubt over the oil demand recovery. However, on August 5, 2020, the Brent near futures price rose above US$45 per barrel to close at the highest level since the collapse of the OPEC+ deal on March 3, 2020, according to the IEA.

The Russian Federation has, in the past, limited the amount of crude oil that can be exported by Russian producers by limiting the share of crude oil that may be transported for export and requiring them to sell a portion of the hard-currency proceeds from exports. The Russian Federation also determines the amounts of crude oil for delivery for state needs and to certain customers, such as the military, agricultural concerns and remote regions, which may take priority over sales in the ordinary course of business. Furthermore, since the Russian Federation produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market. 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 obtains almost all of its business from customers in the oil, gas and petrochemicals industries, including through the shipping of products, and the provision of supply ships for oil rigs. As a result, the Group's revenues are highly dependent on sustained demand for its services from these industries.

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

Vessel capacity changes in the tanker industry may exert downwards pressure on charter rates.

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

The global shipping industry has been adversely affected by, and may continue to be adversely affected by, the COVID-19 pandemic.

The COVID-19 pandemic has now spread to nearly all regions of the world. The outbreak and 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 destabilization, facility closures, workforce disruption and volatility in the global economy, and its full impact is impossible to predict. Social isolation measures imposed in response to the pandemic have reduced the demand for oil and oil products and negatively impacted the oil and gas industry. These impacts grew significantly during the second quarter of 2020 and may continue to expand in scope, type and severity.

Changes in consumer or investor sentiment as a result of the pandemic, as well as measures taken by the international community to combat it—which include closing factories and other places of work, imposing quarantine requirements, or otherwise restricting the assembly and movement of people—have had, and are expected to continue to have, a negative impact on the global economy. In particular, a significant number of ports across the world have been closed, or are restricting the goods which they may accept, and crewmembers are being forced to spend more time at sea as a result of quarantine restrictions. This has had a negative impact on the shipping industry. Demand for certain commodities, including oil, fell in the aftermath of the initial spread of COVID-19 in the first quarter of 2020 across the world, resulting in falling oil prices (for example, in April 2020 the price of Brent fell to US$9.1 per barrel). While the prices of oil have recovered somewhat, a prolonged period of economic slowdown or recession may cause global demand for commodities, including oil and gas, to continue to fall. As SCF is dependent on global demand for the maritime transportation of oil and gas, the impact of a global fall in demand for these commodities may have an adverse effect on the Group's business, results of operations, financial condition and prospects.

Other effects of the COVID-19 pandemic include, or may include:

- disruptions to the Group's operations as a result of the potential health impact on employees and crew, and on the workforces of customers and business partners;

- disruptions to the Group's business from, or additional costs related to, new regulations, directives or practices implemented in response to the pandemic, such as travel restrictions (including for any of the Group's onshore personnel or any of the crew members to timely embark or disembark from vessels), increased inspection regimes, hygiene measures (such as quarantining and physical distancing) or increased implementation of remote working arrangements;

- potential shortages or a lack of access to required spare parts for the Group's vessels, or potential delays in any repairs to, or scheduled or unscheduled maintenance or modifications or drydocking of, the Group's vessels, as a result of a lack of berths available by shipyards from a shortage in labor or due to other business disruptions;

- delays in vessel inspections and related certifications by class societies, customers or government agencies;

- potential reduced cash flows and financial condition, including potential liquidity constraints;

- reduced access to capital, including the ability to refinance any existing obligations, as a result of any credit tightening generally or due to continued declines in global financial markets, including to the prices of publicly traded securities of the Group, its peers and of listed companies generally;

- a reduced ability to opportunistically sell any of the Group's vessels on the second-hand market, either as a result of a lack of buyers or a general decline in the value of second-hand vessels;

- a decline in the market value of the Group's vessels, which may cause the Group to incur impairment charges or breach certain covenants under financing agreements;

- disruptions, delays or cancellations in connection with, among other things, vessel special surveys, installation of ballast water systems and scrubber installations, which could increase the Group's off-hire time and decrease revenues; and

- potential deterioration in the financial condition and prospects of the Group's customers or partners, which could adversely impact their ability or willingness to fulfil their obligations to the Group, or attempts by customers or

third parties to renegotiate existing agreements or invoke force majeure contractual clauses as a result of delays or other disruptions, such as the renegotiation of lease terms, including charter rates.

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, the actions to contain the virus or treat its impact, and the duration, timing and severity of the impact on global financial markets and the condition of the Russian economy, all of which are highly uncertain and cannot be predicted.

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

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

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

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

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, West Africa and the Gulf of Aden off the coast of Somalia. On May 5, 2010, the Group's vessel , the *Moscow University*, was captured by pirates off the coast of Somalia, carrying 23 crewmembers and approximately 86,000 tons of crude oil. The vessel was recaptured by Russian Special Forces the following day. A further pirate attack on a Group vessel could lead to, among other things, bodily injury, loss of life or vessel or other property damage. Such an attack could also increase the Group's onboard security costs to the extent the Group chooses to take additional security measures onboard its vessels, such as hiring onboard security guards or installing or renovating 'safe rooms' onboard the Group's vessels. The areas in which pirate attacks occur more regularly are considered by the Group's insurers to be 'areas of perceived enhanced risk,' and are included in the Joint War Committee Hull War, Piracy, Terrorism and Related Perils Listed Areas as of May 17, 2019. These designations require a vessel operator to pay higher premiums in order to maintain its insurance coverage while operating in these areas, and the crew of ships may refuse to enter such areas and demand repatriation, which could increase the Group's insurance or other costs.

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

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

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

The Group operates in a highly fragmented and competitive industry.

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

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

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

The charter hire rates of a vessel, along with its value and operational life, are determined by factors such as efficiency, operational flexibility and physical life. Efficiency is determined by vessel speed, fuel economy and speed of loading and unloading. Flexibility is related to the ability to enter harbors, compatibility with docking facilities and ease of passage through canals and straits. Physical life includes the original design and construction, together with ongoing maintenance and the impact of the stress of operations. If new vessels are developed that are more efficient or flexible, or have longer physical lives than the Group's vessels, competition from these more technologically advanced vessels could adversely affect the charter rates the Group receives for its vessels following the termination of their current charters and could also have a negative impact on resale value. As a result of competitive pressure and/or if the Group does not continue to develop innovative technologies (particularly those enhancing operational efficiency and environmental and navigational safety), the Group's business, financial condition, prospects and results of operations could be materially adversely affected.

The Group may be subject to risks relating to the non-renewal of charter contracts, and time-charter rates for vessels may fluctuate substantially over time and may be lower when the Group is attempting to re-charter its vessels.

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

The Group's ability to re-charter its vessels following the expiration (or termination before the expiration date) of existing time-charter contracts, as well as the rates payable upon any such renewal or replacement charters, will depend on, among other things, the state of the market at the time of such renewal or replacement charter. The energy

shipping industry is highly competitive and has experienced significant fluctuations in charter rates based on, among other things, the demand for oil, oil products, gas and vessels. In particular, a substantial or extended decline in demand for oil and oil products could materially adversely affect the Group's ability to re-charter its vessels at acceptable rates or to acquire and profitably operate new vessels. See "*—The tanker industry and the Group's business are subject to strong cyclical supply and demand variations which can lead to volatility in the Group's revenue and profitability*" and "*—A prolonged decrease in the price of oil and related commodities may affect demand for the Group's services, leading to a reduction in the Group's operating margins and a negative impact on the Group's business, financial condition and results of operations.*" For example, changes in the capacity of crude oil tankers or other vessels may reduce tanker charter rates significantly. See "*—Vessel capacity changes in the tanker industry may exert downwards pressure on charter rates*."

As of June 30, 2020, 40 of the Group's 47 conventional tanker time-charter contracts, including contracts that have not yet commenced, will expire in 2020 or 2021. If the Group were to attempt to replace or renew its long-term charters when the tanker market is depressed, it could require the Group to redeploy its vessels at less favorable time-charter rates or subject the Group's vessels to the spot market until charter rates recover, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations. Prolonged periods of low charter hire rates or low vessel utilization could also have a material adverse effect on the value of the Group's assets.

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

In the years ended December 31, 2019, 2018, 2017 and the six months ended June 30, 2020, the Group derived 45.0%, 39.8%, 45.0% and 52.2%, respectively, of its total time-charter-equivalent revenues from Group vessels that are chartered primarily on the spot market. These vessels include conventional crude oil tankers and oil products carriers operating on the spot tanker market or contracts of affreightment priced on a spot-market basis. Part of the Group's conventional Aframax and Suezmax tanker fleets and the Group's large and medium product tanker fleets are among the vessels that operate on the spot market. Given the Group's activity on the spot-charter market, declining spot rates in a given period have generally adversely affected the Group's operating results for that period. An increasing proportion of the LNG shipping market is being conducted on a spot-market basis, whereas the Group's LNG carriers are in long-term contracts. If the Group's LNG carriers were moved to the spot-charter market, this may reduce the profitability of the LNG carriers. See "*Industry Overview—Crude Oil Shipping—Rates*" and "*Industry Overview—Oil Products Shipping—Rates.*"

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

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

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

Seaborne vessels are required to operate within the rules and regulations adopted by the IMO, as well as within the environmental protection laws, health and safety regulations and other marine protection laws in each of the jurisdictions in which the Group's vessels operate. See "*Regulatory Overview—International Maritime Organization (IMO).*" Since the International Safety Management Code became effective in 1998, shipping companies and individual

vessels have been required to establish safety systems and have them certified by standardization bodies. In complying with current and future IMO rules and regulations, the Group may be required to incur additional costs in meeting new maintenance and inspection requirements, including ship modifications and changes in operating procedures; in developing contingency arrangements for potential contamination by vessels; and in obtaining, maintaining or renewing insurance coverage. Because such laws and regulations are often revised, the Group is unable to predict the timing or extent of the long-term costs of compliance.

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

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

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

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

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

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

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

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

Terrorist attacks, such as those that occurred in a number of European cities in recent years (including London in 2019), against the Abqaiq and Khurais oil-processing facilities in Saudi Arabia in 2019, and the current conflicts in Syria and the Middle East in general, continue to cause uncertainty in the world financial markets and may have an adverse effect on the Group's business, financial condition, prospects and results of operations. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in Europe, the United States, the Russian Federation or elsewhere, which may contribute further to economic instability. In addition, oil facilities, shipyards, vessels, pipelines and oil and gas fields could be targets of future terrorist attacks. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operating costs, including insurance costs, and the inability to transport oil and oil products to or from certain locations. Terrorist attacks and war or other events beyond the Group's control that have an adverse effect on the production, transportation or distribution of oil and oil products could entitle the Group's customers to terminate the Group's charter contracts, which would have an adverse effect on the Group's business, financial condition, prospects and results of operations.

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

Crewmembers, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel (and, in some jurisdictions, any vessel owned or controlled by the same owner) for unsatisfied debts, claims or damages, even when protection and indemnity insurance is available to cover any such debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of the Group's vessels could interrupt the Group's cash flow and require the Group to pay large sums to have the arrest or attachment lifted. Any such arrest or attachment of one or more of the Group's vessels could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

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

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

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

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

Risks Relating to the Group's Business

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

The Russian Federation has historically controlled the Group's operations through its share ownership in SCF and its representation on the board of directors ("**Board of Directors**") of SCF. Immediately prior to the Offering, the Russian Federation owned 100% of SCF's ordinary voting shares and managed this stake through the Federal Agency

for the Management of State Property ("**Rosimushchestvo**"). All 11 members of the Board of Directors, including SCF's chief executive officer and independent directors, were nominated and appointed by the government of the Russian Federation (the "**Russian Government**"). Following completion of the Offering, the Russian Federation will own at least 75% plus 1 Share and will be entitled to nominate a majority of the Board of Directors. Potential conflicts may arise where the Russian Federation may choose not to approve matters which are in the interest of the remaining shareholders. As the Group's largest shareholder, the Russian Federation has been, and after the Offering is expected to continue to be, able to exercise significant control over the Group's activities, including the disposition of virtually all matters submitted to a vote of shareholders, subject to certain exceptions. See "*Description of Share Capital and Certain Requirements of Russian Law*." In addition to its shareholdings and Board appointees, the Russian Federation may also exercise substantial influence over the Group's operations through its regulatory, taxation and legislative powers.

As a sovereign entity, the interests of the Russian Federation may not be aligned with the interests of private investors. Specifically, the Russian Federation may support policies that contribute to national and regional interests, such as policies intended to increase employment or to support projects and/or other state-owned enterprises or other entities, which may conflict with the interests of other holders of the Offer Shares. Future actions taken in support of government policy, which could include investments by the Group in non-core businesses or other projects, could adversely affect the interests of other holders of the Offer Shares or have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

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

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

The Group derives a significant portion of its revenues from a relatively small group of national and international oil and gas companies. The Group's largest customer accounted for 17.5% of the Group's time-charter-equivalent revenues for the six months ended June 30, 2020, and the Group's 10 largest customers, which include national and international oil and gas companies, accounted for 72.1% of the Group's time-charter-equivalent revenues over the same period. If one or more of the Group's key customers were to breach or terminate their charter contracts or renegotiate or renew them on terms less favorable than those currently in effect, or if any such customer decreases the amount of business it transacts with the Group, it could have a material adverse effect on the Group's business, financial condition, prospects and results of operations, including the Group's contract backlog (see "*Business—Contract Backlog*" for further information).

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

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

The Group is sensitive to changes in the price of marine bunker fuel. In the year ended December 31, 2019, marine bunker fuel accounted for 60.0% of the Group's voyage expenses and commissions. The price and supply of marine bunker fuel fluctuates based on events outside the Group's control, including economic and geopolitical developments, supply and demand for oil and gas, actions by the OPEC and other oil and gas producers, war and unrest in oil-producing countries and regions, regional production patterns and environmental concerns. Although the COVID-19 pandemic, and resultant decrease in oil prices, has led to a short-term decline of bunker fuel prices, any significant or sustained increase in the price of marine bunker fuel, including as result of a decrease in supply, could increase the Group's voyage expenses and have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

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

The Group's ability to make scheduled payments of interest and principal under its indebtedness will depend on, among other things, its future financial and operating performance and its ability to refinance its debt, which will be affected by prevailing economic conditions as well as financial, business, regulatory and other factors, many of which are beyond its control. In particular, although the Group itself is not subject to any economic sanctions, U.S. and European Union sanctions imposed in response to events in Ukraine and other international disputes may limit the Group's access to funding, from both Russian and Western sources. See "*—Risks Relating to the Russian Federation—Although no entity in the Group is currently a sanctioned person, sanctions imposed by the United States, the European Union and other states in relation to the Russian Federation may have a material adverse effect on the Group's business, financial condition, results of operations and liquidity.*" These factors could negatively impact the Group's ability to obtain financing, or significantly increase the costs of such financing. The Group cannot make assurances that it will be able to repay or refinance its loans upon maturity or that any such refinancings will be on favorable terms for the Group.

The Group's indebtedness could restrict the Group's operations. Among other things, the Group's indebtedness may:

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

Further, if the Group's operating income is not sufficient to service its current or future indebtedness, the Group will be forced to take actions such as reducing or delaying its business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing its debt or seeking additional equity capital. The Group may not be able to effect any of these remedies on satisfactory terms, or at all. For a discussion of the Group's existing indebtedness, see "*Operating and Financial Review—Liquidity and Capital Resources—Borrowings*."

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

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

- maintain or develop new and existing customer relationships;
- maintain the quality and diversity of the fleet;
- develop as a national offshore upstream services provider;
- secure engagements on major offshore projects, which are likely to present themselves infrequently and be subject to intense competition;
- obtain financing for its planned new vessels and acquisitions;

- successfully integrate and employ new vessels and acquisitions; and
- identify and act on new market opportunities.

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

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

The Group regularly contracts with shipyards to acquire new vessels. Any such new vessel projects are subject to the risk of delay or defaults by shipyards caused by, among other things, unforeseen quality or engineering problems, work stoppages, weather interference, unanticipated cost increases, delays in receipt of necessary equipment, inability to obtain the requisite permits or approvals and other factors that are beyond the Group's control. Moreover, the Group is required to deploy substantial sums in the form of down payments and progress payments during the construction of new vessels, but the Group does not derive any revenue from such vessels until after their delivery. There can be no assurance that the Group's current or future new vessels will be completed on schedule or at all. In accordance with industry practice, in the event any such shipyards are unable or unwilling to deliver the vessels on time or at all, the Group may not have substantial remedies. Failure to construct or deliver vessels by the shipyards or any significant delays could delay the redeployment of any prepaid amounts toward other uses or diminish the Group's future net income and cash flows and have a material adverse effect on the Group's business, financial condition, prospects and results of operations, including the Group's contract backlog (see "*Business—Contract Backlog*" for further information).

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

The market value of vessels fluctuates depending on a number of factors, including general economic and market conditions affecting the industry, demand for vessel capacity, the number, type, age and size of vessels in the world fleet, the price of new vessels (which is affected by availability of shipyard berths and financing), the level of vessel scrapping, the impact of any port congestion on fleet productivity, the cost of other modes of transportation and swings in the historically cyclical shipping industry. Declining vessel values could make it more difficult for the Group to raise cash by mortgaging vessels and could have a material adverse effect on the Group's liquidity. Declining vessel values could also lead to a breach of loan covenants by the Group's subsidiaries that are borrowers or guarantors under the borrowing facilities for the refinancing of the relevant vessels, which could give rise to events of default under these facilities. The market value of the Group's vessels represented 91.4% of their carrying value as at June 30, 2020. If the market value of the Group's vessels declines, the Group may also be required to recognize impairment losses, which could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

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

As at June 30, 2020, 81 of the Group's vessels (excluding vessels owned through the Group's joint ventures) were ice-class vessels. In addition, 12 ice-class vessels are under construction. Ice-class ships are specialized vessels that are generally constructed with more steel than conventional tankers to be able to withstand harsh weather and ice-water conditions safely. Such vessels typically also have more powerful engines than conventional tankers in order to navigate in ice-water conditions and to propel the heavier vessels effectively. As a result of such a design, ice-class vessels typically have higher voyage operating costs than conventional tankers, particularly due to significantly higher levels of fuel consumption. Consequently, such ice-class vessels are less profitable than conventional tankers in markets or regions without ice-water conditions, and there can be no assurance that the Group will not be required to redeploy ice-class vessels at unfavorable rates. Additionally, the Group's customers may terminate certain of the Group's time-charter contracts prior to their expiration under specified circumstances. Any idle time prior to the commencement of a new contract or the Group's inability to redeploy the vessels at acceptable rates may have an adverse effect on the Group's business, financial condition, prospects and operating results.

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

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Accordingly, the Group will incur increased costs as the age of its fleet increases. Newer vessels benefit from gradual improvements in engine technology and other features, meaning that older vessels tend to be less fuel efficient and more costly to maintain. Higher cargo insurance rates for older vessels make such vessels less desirable to charterers. Furthermore, governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to the Group's vessels and may restrict the type of activities in which the Group's vessels may engage. The Group's fleet of 146 owned and chartered-in vessels (excluding vessels in the orderbook), including 13 vessels owned by the Group's joint ventures with third parties and two chartered-in vessels, had an average age of 11.3 years as at June 30, 2020. According to Clarksons Research, the fleet of oil tankers (to which the Group has the largest exposure) owned by the five largest owner groups (in terms of DWT) had an unweighted average age of 10.2 years as of July 1, 2020. Should future market conditions be insufficient to justify the expenditures outlined above, or enable the Group to operate its vessels profitably, this may have an adverse effect on the Group's business, financial condition, prospects and operating results.

The Group is exposed to interest rate risk.

The Group is exposed to interest rate movements through its variable-rate financing arrangements. For instance, movements in the London Inter-Bank Offered Rate ("**LIBOR**") (or its replacement) or the yield curve (market interest rates at different maturities) impact the market value of the Group's bank loans and the interest that the Group pays on such loans. The Group uses interest rate derivative instruments, such as swap contracts, to manage interest rate exposure. As of June 30, 2020, the Group's carrying value of total variable-rate borrowings, gross of direct issue costs, amounted to US$1,836.2 million (52.5% of the Group's total borrowings, gross of direct issue costs), of which US$1,287.4 million, gross of direct issue costs, are hedged by interest rate swaps and cross-currency interest rate swaps. As a result, the Group is sensitive to changes in interest rates. The Group had an unamortized notional amount of interest rate derivatives of US$1,204.1 million as of December 31, 2019, compared to US$1,201.6 million as of December 31, 2018. If interest rates had been 35 basis points higher (or lower) and all other variables kept constant, the Group's total interest expense in the year ended December 31, 2019 would have increased (or decreased) by approximately US$1.6 million.

Interest rates are sensitive to numerous factors outside the Group's control including, but not limited to, government and central bank monetary policy in the jurisdictions in which the Group operates. An increase in interest rates could also cause the Group's interest obligations to increase and could have an adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group cannot give any assurance that it will continue any existing hedging strategies or that current or future hedging will sufficiently protect the Group from the adverse effects of interest rate movement. In addition, the Group potentially foregoes benefits that might result from fluctuations in interest rates by engaging in derivative contracts. For example, when the Group enters into interest rate swap agreements with third parties with respect to the Group's bank loans, Management seeks to fix the interest payable by the Group under such loans, which may be higher than the interest the Group would have achieved in the absence of such agreements if interest rates decline. While the Group manages counterparty risk by only conducting swaps with the respective lending banks, it is exposed to credit risk in the event of the failure of counterparties to meet their obligations under these arrangements. In the event of such a default, the Group may incur additional costs in connection with replacement transactions at current market prices, and the impact of such a default may have an adverse effect on the Group's results of operations.

Any factors affecting the Group's hedging strategies or exposure to interest rate risk could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group is exposed to exchange rate risks.

The Group's financial statements are presented in U.S. dollars, which is also the currency in which a majority of the Group's contracts are denominated and the functional currency of the Group's major subsidiaries. For the six months ended June 30, 2020, the Group generated 99.9% of the time-charter-equivalent revenues in U.S. dollars, but incurs some of its expenses, liabilities and capital expenditures in other currencies, primarily the ruble, the pound and the euro. As a result, exchange rate fluctuations could adversely affect the Group's financial condition and results of operations. In particular, the Group's operating margins are generally adversely affected by appreciation of the ruble, the pound sterling and the euro against the U.S. dollar, as this causes the Group's expenses, such as the salary the Group pays its personnel, to increase relative to the Group's revenue, which could have a material adverse effect on the Group's business, financial

condition, prospects and results of operations. The Group also 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 business, financial conditions, prospects and results of operations.

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

The Group's vessels, including vessels held through the Group's joint ventures, are currently registered under the flags of Liberia, Cyprus, Malta, Singapore and Russia. As of August 31, 2020, 108 vessels are registered under Liberia, 13 under Cyprus, two under Malta, two under Singapore and 21 under Russia. These jurisdictions, except Russia, impose taxes based on the tonnage capacity of each of the vessels registered under their flag. The tonnage taxes imposed by these countries could increase, which could cause the costs of the Group's operations to increase.

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

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

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

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

The Group may be unable to procure adequate insurance coverage at commercially reasonable rates in the future, particularly for operating in harsh weather and ice-water conditions. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. In addition, the Group's insurance may be voidable by the insurers as a result of certain of the Group's actions, such as the Group's ships failing to maintain certification with applicable maritime self-regulatory organizations. Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more expensive or impractical for the Group to obtain or maintain. In addition, the insurance that may be available may be significantly more expensive than the Group's existing coverage. Any uninsured or underinsured loss could adversely affect the Group's business, financial condition, prospects and results of operations.

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

The Group's growth has placed and will continue to place significant demands on the Group's management, operational and financial resources. As the Group expands its operations, the Group must effectively manage and monitor operations, control costs and maintain quality and control in geographically dispersed markets. The Group's future growth and financial performance will also depend on the Group's ability to identify new markets and achieve acceptance by new customers; effectively compete in new markets; identify and engage in suitable joint venture arrangements and acquisitions; recruit, train, manage and motivate employees to support expanded operations; continue to

improve customer support, financial controls and information systems; and take advantage of the economies of scale which may result from the operation of a large global fleet of vessels.

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

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

The Group may be unable to attract and retain key management personnel, crewmembers and other key employees, which would negatively affect the effectiveness of the Group's management, financial condition and results of operations. The Group's management makes key decisions to maximize the Group's revenue and earnings in a highly volatile and cyclical industry, and the Group's success will depend, in part, on the Group's ability to hire and retain key members of the Group's management team who can effectively lead the business. The loss of any one or more of these individuals could adversely affect the Group's business, financial condition, prospects or results of operations.

In crewing the Group's vessels, the Group requires technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crewmembers is intense. If the Group is unable to hire and retain qualified personnel and crewmembers, or if crew costs increase and the Group is unable to increase its charter rates to customers to compensate for any crew cost increases, the Group's business, financial condition, prospects and results of operations may be adversely affected.

Labor disruptions could adversely affect the Group's operations.

Most of the Group's seafarers belong to unions, and the Group has a collective bargaining agreement with the Seafarer's Union of Russia, an affiliate of the International Transport Workers' Federation (the "**ITF**"), that governs the employment of all seafarers serving on the Group's vessels. The terms of this agreement generally govern the wages paid to the Group's crew, minimum living conditions onboard the Group's vessels, as well as other benefits and conditions of the seafarers' employment. This agreement is subject to customary renegotiation, and the Group may also become subject to additional collective bargaining agreements in the future. While Management believes the Group's relationships with the ITF and other trade unions are good, if the Group's relations with its seafarers, the ITF or other trade unions deteriorate, or if the Group's employees or unions decide to strike or stop work for any other reason, the Group may be unable to operate its vessels, which could result in loss of revenues, increased costs and decreased cash flows. Further, the Group's collective bargaining agreements govern the wages paid by the Group to its seafaring employees, and there can be no assurance that future renegotiations will lead to wage levels acceptable to the Group. Any labor disruptions or significant increase in wages could harm the Group's operations and could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

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

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

SCF may be targeted by environmental NGOs, especially with criticism of expanding Arctic sea routes and increasing scrutiny of greenhouse gas emissions.

Since SCF is the world's leading operator and largest owner of vessels designed to operate in Arctic waters, according to Clarksons Research, its activity in the Arctic is targeted by environmental non-governmental organizations ("**NGOs**"), which creates a significant reputational risk for the Group. For example, the Ocean Conservancy states that the shipping traffic through the Arctic will exacerbate Arctic warming and it created The Arctic Shipping

Corporate Pledge, a voluntary commitment by companies to not allow vessels to use Arctic trans-shipment routes and to support the development of precautionary Arctic shipping practices. SCF has not signed the Arctic Shipping Corporate Pledge.

NGOs have also focused on reversing the environmental harm and other issues caused by certain ship recycling practices, including shipbreaking, across the industry in which SCF operates. SCF has environmental protection policies and procedures aimed at increasing environmental sustainability of the business, including a policy designed to ensure that any ship recycling is carried out in compliance with applicable legislation and industry best practice. Notwithstanding such policies and procedures, negative media speculation or other negative public statements relating to shipbreaking, and consequent risk of reputational harm to SCF, cannot be excluded.

In addition, the IMO, an agency of the United Nations, and its member states are working towards a ban of heavy fuel oil ("**HFO**") in the Arctic. The Clean Arctic Alliance, which has been a key NGO supporter of the potential IMO HFO ban, promotes banning both the use and carriage of HFO as fuel from ships operating in Arctic waters in order to avoid the risks of a catastrophic oil spill. Although SCF has publicly stated its plans to gradually switch from HFO to LNG, it has not supported a potential ban on HFO use in the Arctic.

Furthermore, environmental NGOs are becoming more focused on greenhouse gas ("**GHG**") emissions from shipping activities, which may lead to additional activism against SCF's operations, such as through incidents or campaigns of harassment, protest or other negative publicity, resulting in significant reputational risks for the Group. Environmental activists may also use social media platforms to publicize stories or perceptions about the marine shipping industry or the Group, which could adversely affect the Group's business, financial condition, prospects and results of operations.

Risks Relating to the Russian Federation

Emerging markets, including the Russian Federation, are subject to greater risks than more developed markets.

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

Investors should be aware that emerging markets such as the Russian Federation are subject to greater risk than more developed markets, including in some cases greater economic, political and social, and legal and legislative risks. As has happened in the past, including during the 2008 financial crisis and the economic and political developments affecting the Russian economy since 2014, financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies in those countries. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as funding sources are withdrawn. As an emerging economy, the Russian Federation remains particularly vulnerable to external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavored by international investors – so-called "contagion effects." The Russian Federation has been adversely affected by contagion effects in the past, and it is possible that the markets for Russian investments will be similarly affected in the future by negative economic or financial developments in other countries. Any financial turmoil in emerging or developing markets other than in the Russian Federation could also have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

Although no entity in the Group is currently a sanctioned person, sanctions imposed by the United States, the European Union and other states in relation to the Russian Federation may have a material adverse effect on the Group's business, financial condition, results of operations and liquidity.

The United States and the European Union (among others) have imposed a series of sanctions on certain Russian and Ukrainian persons and entities, as well as on the territory of Crimea and Sevastopol. These sanctions generally target and either prohibit or impose restrictions on dealings or activities with or involving specific persons and companies, certain entities linked to the Government of the Russian Federation, designated sectors of the Russian economy, and, in some instances, entities owned or controlled by sanctioned persons. These sanctions also impose restrictions on the export of certain goods and technology to Russia. The resulting prohibitions and restrictions generally apply to nationals of the countries imposing such sanctions and to nationals of other countries to the extent they act within the jurisdiction of the

country imposing the sanctions and may, particularly in the case of U.S. sanctions, have extraterritorial effect. Most of the Group's entities are neither U.S. persons nor EU persons, and therefore are subject to these sanctions prohibitions and restrictions only to the extent their dealings are subject to U.S. or EU jurisdiction. However, the Group does include some entities incorporated within the European Union and the United Kingdom, and the United States takes a broad view of its jurisdiction. Accordingly, there can be no assurance that compliance issues under U.S. and/or EU sanctions laws and regulations will not arise with respect to the Group's subsidiaries or their personnel.

The United States also maintains so-called "secondary" sanctions threatening the imposition of a range of sanctions against non-U.S. entities engaging in, among other activities, targeted activities involving Russia, certain sectors of the Russian economy, or sanctioned persons outside of U.S. jurisdiction. While the actual imposition of U.S. secondary sanctions requires affirmative action by the U.S. administration and is thus in practice discretionary, potential sanctions can be as severe as designation for blocking sanctions, which involves the complete blocking of all transactions and property of the blocked person or entity within U.S. jurisdiction, including U.S. dollar and securities clearing transactions.

No individual or entity within the Group is currently designated under U.S. or EU sanctions. However, U.S. sanctions authorize the designation of or, in some cases, the imposition of secondary sanctions on, any person that engages in sanctionable conduct or materially assists, sponsors or provides financial, material or technological support for, or goods or services to or in support of, sanctioned persons as well as persons engaged in targeted activities. The Group, like many major Russian company groups, has commercial relationships with entities that are subject to U.S. and EU sanctions. The Group is also active in sectors of the Russian economy, such as the energy sector, that have been targeted by U.S. and EU sanctions, and it is currently owned by the Russian Federation. SCF can give no assurance that it, any of its subsidiaries, individuals holding positions in SCF and its direct and indirect shareholders and controlling persons will not be affected by future sanctions designations or secondary sanctions.

If persons or entities collectively owning 50% or more of any Group entity or any Group entity is designated on U.S. sanctions lists, such sanctions would also automatically apply to any entity 50% or more owned by the designated persons or entities, whether or not such subsidiaries were separately designated. If the Group becomes subject to U.S. or EU sanctions, such sanctions will likely have a material adverse impact on its business, access to international financial markets, results of operations, financial condition and prospects. Moreover, investors subject to the jurisdiction of an applicable sanctions regime may become restricted in their ability to hold, deal in, or receive dividends with respect to, the Offer Shares, which could make such Offer Shares partially or completely illiquid and have a material adverse effect on their market value.

The future scope and application of U.S. sanctions in relation to the Russian Federation is impossible to predict and may be materially affected by political developments, including adoption of U.S. legislative proposals for imposition of additional sanctions related to Russia. Similarly, EU sanctions on the Russian Federation may continue to be extended and could also change in scope or application as a result of political developments. It is also possible that the United Kingdom could impose sanctions on the Russian Federation after the end of the Brexit transition period in December 2020.

The sanctions discussed above have had, and may in the future have, a material adverse effect on the Russian financial markets and investment climate and the Russian economy generally and, as a result, may materially adversely affect the Group's business, results of operations, financial condition and prospects.

Changes in government policy and other government actions could adversely affect the value of investments in Russia, including the Offer Shares.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which had a negative effect on Russia's business and investment climate. From 2001 until 2013, the political and economic situation in the Russian Federation became generally more stable and conducive to investment. This stability, however, has been negatively affected by the 2008 global financial crisis, the economic sanctions imposed on the Russian Federation by the United States, the European Union and some other states and the economic recession in the Russian Federation in recent periods. Changes in political leaders, high ranking officials or political parties as a result of governmental elections in the Russian Federation or in other circumstances may also affect the legal and regulatory regime in the Russian Federation to a greater extent than in certain more developed countries.

Any significant increase in political instability, uncertainty over the direction of future reforms or a reversal of the reform process could lead to another deterioration in the Russian Federation's investment climate that might

constrain the Group's ability to obtain financing in the international capital markets, limit its sales in the Russian Federation or otherwise have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion, fraud and related charges. In some cases, the result of these prosecutions has been the prolonged prison detention or imposition of prison sentences for individuals and significant fines and/or claims for unpaid taxes. Any similar actions by governmental authorities could lead to further negative effects on investor confidence in the Russian Federation's business and legal environment, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Political risks could adversely affect the Group's operations.

The Russian Federation is a federal state consisting of 85 constituent entities, or "subjects." The Constitution of the Russian Federation of 1993 (the "**Russian Constitution**") reserves some governmental powers for the Russian Government, some for the subjects and some for areas of joint competence. In addition, eight "federal districts" ("*federal'nye okruga*"), which are overseen by a plenipotentiary representative of the President, supplement the country's federal system. The delineation of authority among and within the subjects is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory matters. The subjects have enacted conflicting laws in areas such as privatization, land ownership and licensing. For these reasons, the Russian political system is vulnerable to tension and conflict between the authorities at the level of a state, a subject or a municipal entity. This tension creates uncertainties in the operating environment in Russia and could adversely affect the Group's ability to carry out its strategy effectively. In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Moreover, various acts of terrorism have been committed within the Russian Federation. In addition, negative media speculation or other negative public statements could adversely affect the reputation of the Russian Federation and companies associated with it, which in turn could adversely affect our business. The risks associated with these events or potential events, and related negative public speculation, could materially and adversely affect the investment environment and overall consumer and entrepreneurial confidence in the Russian Federation, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

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

The Russian economy has been subject to abrupt downturns in the past, for example, as a result of the Russian Federation's default on ruble-denominated securities in 1998, which resulted in severe ruble devaluation, increased inflation, a decline in the prices of Russian debt and equity securities and the near collapse of the Russian banking sector. More recently, while the Russian Government's anti-crisis measures softened the impact of the 2008 global financial and economic crisis on the Russian economy, the impact of issues including negative investor sentiment arising from the disturbances in eastern Ukraine, international sanctions imposed on Russian organizations, companies and individuals, and the substantial depreciation of the ruble against world currencies, have negatively impacted Russian GDP growth. See "—*Risks Relating to the Russian Federation—Although no entity in the Group is currently a sanctioned person, sanctions imposed by the United States, the European Union and other states in relation to the Russian Federation may have a material adverse effect on the Group's business, financial condition, results of operations and liquidity*." In the course of 2019, the Russian economy appeared largely stable, with GDP growing by 1.3%, according to the Russian Federal State Statistics Service. This may negatively change in 2020 due to the impact of the COVID-19 pandemic which has had, and continues to have, a material impact on economies around the world as well as on the Russian economy in particular. Should the COVID-19 pandemic continue to cause disruption to economic activity worldwide, there could be adverse impacts on the Group's business, results of operations, financial condition and prospects. See "—*Risks Relating to the Group's Industry—The global shipping industry has been adversely affected by, and may continue to be adversely affected by, the COVID-19 pandemic.*" The economic situation generally remains fragile, and negative investor sentiment may continue to negatively affect the Russian economy.

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

The Russian Federation continues to develop its legal framework in accordance with international standards and the requirements of a market economy. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Russian Constitution, the Civil Code of the Russian Federation (the "**Russian Civil Code**"), the Tax Code of the Russian Federation (the "**Russian Tax Code**") and other federal laws, resolutions, decrees, orders and regulations adopted and issued by the Russian Parliament, the Russian President, the Russian Government and federal ministries, which can be complemented by regional and local rules and regulations and adopted in certain spheres of regulation. In addition, in July 2020, the Russian Constitution was amended to include a number of changes, including

changes regarding presidential term limits, procedure of appointment and removal of federal judges and certain requirements for candidates to high-profile offices. The amendments to the Russian Constitution may trigger further changes in the Russian legal framework, and the impact of any such changes could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Several fundamental Russian laws have only recently become effective, including laws amending procedures for approval of major and interested party transactions, and there still remain gaps and inconsistencies in regulatory infrastructure. Consequently, certain areas of judicial practice are not yet fully settled and are therefore sometimes difficult to predict. Among the risks of the current Russian legal system are:

- inconsistencies among federal laws; decrees, orders and regulations issued by the President, the Russian Government, federal ministries and regulatory authorities; and regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges, courts and arbitration tribunals in interpreting new principles of Russian legislation, particularly business and corporate law;
- a lack of judicial independence from political, social and commercial forces;
- bankruptcy procedures that are still under development;
- difficulty in enforcing court judgments in practice;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation; and
- a high degree of unchecked discretion on the part of governmental and regulatory authorities.

Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions and the expropriation of property. The possibility of unlawful, selective or arbitrary governmental action, arising from the high degree of discretion afforded to state authorities in the markets in which the Group operates, also enhances opportunities for official corruption and extortion, as well as the penetration of organized crime into the economy, all of which is widely reported to be high in Russia.

Notwithstanding recent reforms of the Russian court system, the transitional state of the Russian legal system could affect the Group's ability to enforce its rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Shareholder rights provisions of Russian law may impose additional costs on the Group, which could cause the Group's financial results to suffer.

Under Russian law, shareholders that vote against or abstain from voting on some decisions may demand repurchase of all or some of their shares. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Share Capital Decrease and Share Repurchases*."

Although SCF's obligation to purchase shares, as well as similar obligations of SCF's subsidiaries that have minority shareholders, in these circumstances will be limited to 10% of SCF's or such subsidiaries' net assets as calculated under Russian Accounting Standards ("**RAS**") at the time the matter at issue is voted upon, any such repurchase requirements, if triggered, could have a material adverse effect on the Group's cash flow, as well as on the Group's business, financial condition, results of operations and prospects.

Russia's securities laws and regulations may limit the Group's ability to attract future investment and could subject the Group to fines or other enforcement measures despite its best efforts.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in the Russian Federation than in Western European jurisdictions or in the United States. Disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and duties of the directors to the

company are relatively new concepts in the Russian Federation and are unfamiliar to many Russian companies and managers.

In addition, Russian securities rules and regulations can change rapidly, which may adversely affect the Group's ability to conduct securities-related transactions. While some important transactions are subject to little or no oversight in the Russian Federation, other transactions are subject to requirements not found in other jurisdictions, resulting in delays in conducting securities offerings and accessing the capital markets. It is often unclear whether certain regulations, decisions and letters issued by the various regulatory authorities apply to SCF. Violation of reporting and other securities regulation requirements can result in the imposition of fines or difficulties in registering subsequent share issuances. SCF may be subject to fines or other enforcement measures despite its best efforts at compliance, which could adversely affect the Group's business, financial condition, results of operations and prospects.

SCF is included in the list of strategic enterprises and strategic joint-stock companies that have certain restrictions with respect to their share capital pursuant to a separate decree. In particular, any further issuance of Ordinary Shares is subject to prior approval by the Russian President. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Share Capital Increase*." In the absence of such approval by the Russian President, SCF will not be able to raise additional equity finance.

Corporate governance and disclosure requirements in the Russian Federation might significantly differ from those in other jurisdictions.

SCF will comply with corporate governance and public reporting standards applicable to publicly listed companies in Russia, which are not of the same standard as those applicable to companies listed on major stock exchanges in Western European jurisdictions or in the United States. Accordingly, there may be fewer protections for investors than would otherwise be the case if SCF were required to comply with corporate governance principles or standards applicable to public companies in such jurisdictions. In addition, the rights of shareholders and the responsibilities of members of supervisory councils/boards of directors and management boards under Russian law are different from, and may be subject to certain requirements not generally applicable to, companies organized in Western European jurisdictions or the United States. Despite recent initiatives to improve disclosure and corporate governance in Russia, there may be less publicly available information about the Group than for some comparable companies in Western European jurisdictions or the United States. Russian laws regulating corporate governance of Russian companies are relatively new and in many cases have not been tested in the courts. The relatively less transparent nature of corporate governance in the Russian Federation could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Russian banking system remains under ongoing development.

Russia's banking and other financial systems are in a period of ongoing development. There are currently a limited number of creditworthy Russian banks with the capacity to service companies of the Group's size. Although the CBR has the mandate and authority to suspend banking licenses of insolvent banks, there may be a time lag between such banks becoming insolvent and their licenses being revoked, during which time they may continue to operate. Some banks may not be fully compliant with existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet all internationally accepted norms. In late 2017, the CBR announced its decision to implement measures aimed at improving the financial stability of several Russian banks, including PJSC Bank Otkritie Financial Corporation, PJSC B&N Bank and PJSC Promsvyazbank (PSB). Liquidity difficulties on the market arose among the private and state owned banks in Russia, which undermined investors' confidence and led to instability of the Russian banking system. As of the date hereof, 16 Russian banks are subject to ongoing rehabilitation measures imposed by the CBR or the Deposit Insurance Agency. There can be no assurance that other banks will not be subject to rehabilitation measures by the CBR, which could further exacerbate difficulties in the banking sector and the local financial markets.

Further, the Group partially relies on debt financing from Russian banks. Accordingly, if a prolonged or serious banking crisis were to occur in Russia, the Group's ability to access this source of financing may be limited, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks as a result of, inter alia, the impact of COVID-19, may result in the banking sector being more susceptible to any worldwide credit market downturn and economic slowdown. Given the Group's reliance on the Russian banking sector, a prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could have a material

adverse effect on the Group's business.

The Russian taxation system is relatively underdeveloped.

The Russian Government is continually reforming the tax system by redrafting parts of the Tax Code of the Russian Federation (the "**Russian Tax Code**"). Since January 1, 2009, the corporate profits tax rate has been 20%. For individuals who are tax residents in the Russian Federation, the current personal income tax rate applicable to most types of income is 13%. Since January 1, 2019, the general rate of VAT has been 20%.

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

There is a possibility that the Russian Federation could impose arbitrary or onerous taxes and penalties in the future. For instance, regional legislatures are currently empowered to provide wide-ranging incentives such as reduced income tax rates for business units operating within a region's territory. However, in 2019, amendments to the Russian Tax Code reducing regional authority to enact preferential taxation came into force. Thus, a reduction of the corporate profits tax rate at the regional level is available solely for specific federally-defined taxpayers. The current reduced regional profits tax rates will remain in effect until no later than January 1, 2023. These conditions complicate tax forecasting and related business decisions. The consequent uncertainties could also expose the Group to significant fines and penalties and potentially severe enforcement measures despite the Group's best efforts at compliance, and could result in a greater than expected tax burden. This, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Generally, taxpayers are subject to tax audit for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit was taken. In certain circumstances, repeated tax audits (i.e., audits with respect to the same taxes and the same periods) are possible. Generally, the statute of limitations for a tax offense is three years after the date on which the tax offense was committed or from the date following the end of the tax period during which the tax offense was committed (depending on the nature of the tax offense). Nevertheless, according to the Russian Tax Code and based on current judicial interpretation, there may be cases where the statute of limitations for tax offences may extend beyond three years.

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

In October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued a resolution concerning judicial practice with respect to unjustified tax benefits. The resolution provides that where the true economic intent of business operations is inconsistent with the manner in which it has been taken into account for tax purposes, a tax benefit may be deemed to be unjustified. As a result, a tax benefit cannot be regarded as a separate business objective. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little case law applicable to distinguishing between lawful tax optimization and tax avoidance or evasion. The above Arbitrazh Court approach was, to a certain extent, further implemented in Article 54.1 of the Russian Tax Code and became effective on August 19, 2017. Under these provisions, a taxpayer is not able to reduce the tax base and/or the amount of tax payable by misrepresenting information regarding economic events or the objects of taxation which are required to be disclosed in a taxpayer's tax and/or accounting records or tax statements. As a result of these rules, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Recent developments show that the Russian tax authorities are scrutinizing various tax planning and mitigation techniques used by taxpayers, including international tax planning. In particular, the Russian Federation introduced "controlled foreign companies" rules, the concept of "tax residency for an organization" and the "beneficial ownership" concept, and is increasingly engaged in the international exchange of tax and financial information (including through country-by-country reporting standards and common reporting standards developed and approved by the Organization for Economic Co-operation and Development (the "**OECD**")). In 2017, the Russian Federation signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS ("**MLI**") implementing a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance. On October 1, 2019, the

Russian Federation ratified MLI. However, it will come into effect only after special conditions reflected in article 35 of MLI are met. In particular, both the Russian Federation and the relevant double tax treaty ("**DTT**") partner country are required to exchange notices and deliver a notice to the OECD, affirming completion of national MLI adoption legislative procedures. If these special conditions are fulfilled before the end of November 2020, MLI will become enforceable in the Russian Federation no earlier than January 1, 2021.

In March 2020, the president of Russia proposed to cancel tax benefits with certain DTT partner countries and increase the tax rates on income withholding on dividends and interest to 15%, noting that Russia is ready to withdraw from DTTs with countries that do not agree with such measures. The Russian Ministry of Finance has already renegotiated new DTT provisions with Malta and Cyprus and executed protocols of intent. In accordance with the final versions of the protocols, the 5% withholding tax rate on dividends will remain for certain categories of recipients of income, such as insurance companies and pension funds, some listed public companies and government authorities. It is expected that the amendments introduced by the protocols with Malta and Cyprus will enter into force on January 1, 2021. The Russian Ministry of Finance is working to renegotiate provisions of certain other DTTs, including DTTs with Luxembourg and the Netherlands. It is currently unclear whether any other tax treaties are planned to be revised by the Russian Ministry of Finance.

It is currently unclear how the Russian tax authorities will interpret and apply the new tax provisions and what will be the possible impact on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities if these changes are applied to transactions carried out by the Group.

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

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise for the Group.

All the aforesaid evolving tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including Management's resources.

Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities.

Certain transactions by the Group are subject to Russian transfer pricing rules. Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. The list of "controlled" transactions under the transfer pricing legislation includes transactions performed with related parties (excluding transactions between related parties that are located in Russia and apply the same corporate profits tax rate (i.e., 20%)) and certain types of cross-border transactions with unrelated parties. Legislation also shifts the burden of proving market prices from the Russian tax authorities to the taxpayer. Although Russian transfer pricing rules were modelled based on the transfer pricing principles developed by the OECD, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the Russian rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives.

Accordingly, due to uncertainties in the interpretation of the Russian transfer pricing legislation and undeveloped court practice, no assurance can be given that the Russian tax authorities will not challenge the Group's transfer pricing transactions and require adjustments which could adversely affect the Group's tax position. As such, the Russian transfer pricing rules could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

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

Russian legislation provides that a company ("**effective parent**") which can make decisions for another company ("**effective subsidiary**") bears joint and several responsibility for transactions entered into by the effective subsidiary in carrying out instructions of the effective parent, or upon approval of the effective parent. This rule does not

apply (i) if the relevant transaction is approved by the effective parent at the general shareholders' meeting of the effective subsidiary, or (ii) if the relevant transaction is approved by the governing body of the effective parent, provided that such approval is required under the charter of the effective subsidiary and/or the effective parent. Shareholders of the effective subsidiary may claim for damages incurred by the effective subsidiary as a result of the action or inaction of the effective parent. In addition, the effective parent is secondarily liable for the effective subsidiary's debts if the effective subsidiary becomes insolvent (bankrupt) as a result of the action or inaction of the effective parent. If SCF as the effective parent is found liable for the debts of its effective subsidiaries, this could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

Risks Relating to the Offer Shares and the Trading Market

There has been no prior public market for the Offer Shares, and liquidity and the trading price of the Offer Shares may be volatile.

Prior to the Offering, there has been no public trading market for the Offer Shares. There can be no assurance that, after completion of the Offering, a liquid market will develop for the Offer Shares. Although the Offer Shares are expected to be traded on the Moscow Exchange, an active liquid trading market may not develop or be sustained after the Offering. The lack of an active market may impair investors' ability to sell their Shares at the time they wish to sell them or at a price they consider reasonable. The lack of an active market may also reduce the market value of the Offer Shares. Active liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors.

The Russian stock markets have experienced and may continue to experience extreme price and volume volatility. The trading price of the Offer Shares may be subject to volatility in response to a number of factors, including: actual or anticipated variations in the Group's operating results and those of the Group's competitors and Russian companies; adverse business developments; changes in financial estimates by securities analysts and investors; variations in national and industry growth rates; changes in governmental legislation or regulation; regulatory actions that affect the Group's business; depth and liquidity of the market for the Offer Shares; general economic conditions within the business sector where the Group operates or in the Russian Federation; or extreme price and volume fluctuations on the Russian or other emerging market stock exchanges. Any of these events could have a material adverse effect on the trading price of the Offer Shares.

SCF may decide not to pay dividends in the future.

As a state-owned company, SCF is subject to certain requirements regarding a minimum level of dividend distribution. In particular, on January 24, 2019, the Prime Minister of the Russian Federation issued a new order No. DM-P13-5pr instructing the state authorities representing the Russian Federation in general shareholders' meetings of state-owned companies to procure distribution of at least 50% of the net profit as dividends for 2018. No statement has been made by the Russian Government with respect to dividends to be declared in respect of 2019. See "*Dividend Policy.*" If there are no consolidated profits, standalone reporting is considered to allow the payment of dividends in loss-making years. However, there is no guarantee that any minimum levels of dividend distribution will be set out by the Russian Government and/or other state authorities in the future.

SCF may in the future be unable or elect not to declare any dividends, or may decide to declare lower dividends compared to the previous periods. The payment of dividends, if any, by SCF to holders of the Offer Shares will depend on, among other things, Government policy in respect of state-owned companies, the Group's future profits, financial position and capital requirements, general economic conditions, and other factors that the members of the Board of Directors deem to be important from time to time. See "*Dividend Policy.*" Should the Board of Directors and/or the shareholders of SCF decide in the future against declaring dividends on the Offer Shares or decide to declare lower dividends compared to the previous periods, the trading price of the Offer Shares may be adversely affected.

Investors may face risks arising from the Company's dividend payments being made in rubles.

SCF intends to pay dividends, if any, on the Offer Shares in rubles. Currently, Russian currency control legislation does not prohibit payment of ruble dividends on shares to non-Russian residents. However, there can be no assurance that it will not be reversed in the future. The ability to convert rubles into U.S. dollars or other foreign currencies is subject to the availability of U.S. dollars or such other foreign currencies on Russia's currency markets. Although there is an existing market within the Russian Federation for the conversion of rubles into U.S. dollars or other foreign currencies, including the interbank currency exchange and over-the-counter and currency future markets, the market for the conversion of rubles into foreign currencies outside the Russian Federation is limited and, therefore, non-Russian holders of the Offer

Shares wishing to convert ruble dividends paid on the Offer Shares into local currencies outside the Russian Federation may not be able to do so at a favorable exchange rate, or at all.

Holders of the Offer Shares in certain jurisdictions may be subject to restrictions regarding the exercise of pre-emptive rights in future offerings.

In order to raise funding in the future, SCF may issue additional Ordinary Shares, subject to applicable Russian regulations, including relating to the status of SCF. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Share Capital Increase*." Generally, existing holders of shares in Russian public joint-stock companies (such as SCF) are in certain circumstances entitled to pre-emptive rights on the issue of new shares in that company as described in "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Pre-emptive Rights*." However, holders of Offer Shares in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights with respect to any new equity issuances by SCF unless the applicable securities law requirements in such jurisdiction (including, in the United States, in certain circumstances the filing of a registration statement under the Securities Act) are adhered to or an exemption from such requirements is available. SCF is unlikely to adhere to such requirements and an exemption from such requirements may not be available. Accordingly, such holders may not be able to exercise their pre-emptive rights on future issuances of Ordinary Shares and, as a result, their percentage ownership in SCF would be reduced.

Future sales of Offer Shares may adversely affect their market price.

Sales, or the possibility of sales, of substantial numbers of Shares following the Offering could have an adverse effect on the trading price of the Offer Shares or impair the Group's ability to raise equity capital in the future. SCF has agreed for a period of 180 days after the Closing Date, not to, and to procure that its affiliates (excluding the Company's existing shareholder) do not, without the consent of the Joint Global Coordinators and Joint Bookrunners (except in limited circumstances), issue, offer, sell or otherwise transfer any Ordinary Shares, or securities convertible or exchangeable into, or exercisable for, Ordinary Shares. In addition, a representative of the Russian Federation has publicly announced that the Russian Federation does not intend to sell any further shares in SCF through a public offering for a period of 180 days following the Closing Date, although the Russian Federation has not entered into any legally binding agreement preventing the sale of any shares of SCF during that period. See "*Plan of Distribution—Lock-up*." Sales, or the possibility of sales, of substantial numbers of Ordinary Shares by any of these persons could have an adverse effect on the trading price of the Offer Shares following the Offering or impair the Group's ability to raise equity capital in the future. Moreover, SCF may in the future issue additional Ordinary Shares or any other securities convertible or exchangeable into Ordinary Shares, subject to applicable Russian regulations, including relating to the status of SCF. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Share Capital Increase*." Any such issue could result in an effective dilution for investors purchasing the Offer Shares in the Offering and adversely affect the trading price of the Offer Shares.

The listing of the Offer Shares on the Moscow Exchange could be revoked or the level of listing could be downgraded, which could limit the investor base and adversely affect the price of the Offer Shares.

The Offer Shares are expected to be admitted on or around the Pricing Date to trading on the "Level 1" part of the List of Securities Admitted to Trading on the Moscow Exchange. In order to maintain its listing on the Moscow Exchange, SCF is required to comply with listing requirements, including, among others, compliance with Russian securities laws and CBR regulations, and with certain minimum corporate governance and free float requirements, as well as maintaining minimum trading volumes. These rules and requirements may change in the future. A failure to comply with the listing rules and requirements may constitute grounds for a downgrading of the Offer Shares to "Level 2" or "Level 3" (without quotation), or a delisting of the Offer Shares. A downgrading or a delisting may have a material adverse effect on the trading price and liquidity of the Offer Shares.

For some Russian institutional investors and certain international investors, the listing of the Offer Shares on the highest level of the quotation list of a relevant recognized stock exchange may be a requirement for the purchase or holding of such shares. The downgrade of the listing of the Offer Shares or their delisting from the Moscow Exchange could significantly limit SCF's investor base and have a material adverse effect on the trading price of the Offer Shares.

Russia's unpredictable recognition and enforcement of foreign judgments may give rise to significant uncertainties.

Final judgments rendered by a court in any jurisdiction outside the Russian Federation will be generally recognized and enforced by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is

rendered and/or a federal law is adopted in the Russian Federation that provides for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain jurisdictions (including the United States and the United Kingdom), and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

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

These limitations may deprive investors of effective legal recourse for claims related to their investment in the Offer Shares. SCF's presence outside the United Kingdom and the United States may limit the legal recourse of the investors against SCF and its directors and executive officers. SCF is incorporated under the laws of the Russian Federation. Most of the assets of SCF are located outside the United States and the United Kingdom. In addition, most of the directors and officers of SCF named in this Offering Memorandum reside outside the United States and the United Kingdom, and a substantial part of the assets of such persons are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process within the United States or the United Kingdom upon SCF or its directors and officers or to enforce against any of them court judgments obtained in United States and English courts. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon the United States securities laws or upon English laws. See "*Enforceability of Judgments*."

Any further decrease in the participation of the Russian Federation in the share capital of SCF may adversely affect the price of the Offer Shares.

Immediately prior to the Offering, the Russian Federation owned 100% of SCF's ordinary voting shares. Following completion of the Offering, the Russian Federation will own at least 75% plus 1 Share. SCF has agreed for a period of 180 days after the Closing Date, not to, and to procure that its affiliates (excluding the Company's existing shareholder) do not, without the consent of the Joint Global Coordinators and Joint Bookrunners (except in limited circumstances), issue, offer, sell or otherwise transfer any of its Ordinary Shares or securities convertible or exchangeable into or exercisable therefor. In addition, a representative of the Russian Federation has publicly announced that the Russian Federation does not intend to sell any further shares in SCF through a public offering for a period of 180 days following the Closing Date, although the Russian Federation has not entered into any legally binding agreement preventing the sale of any shares of SCF during that period. See "*Plan of Distribution—Lock-up*." Subject to applicable Russian regulation, including relating to the status of SCF, participation of the Russian Federation in the share capital of SCF may be further decreased in the future. See "*Description of Share Capital and Certain Requirements of Russian Law*." Substantial participation of the Russian Federation in the share capital of SCF may, in certain cases, have a positive impact on the demand for debt and equity instruments by certain investors, including due to the inclusion of certain instruments in 'quasi-sovereign' emerging market indices. As a result, any further decrease of the Russian Federation's participation in SCF may adversely affect the liquidity and the price of the debt and equity instruments of the Group, including the Offer Shares.

As at December 31, 2019, the Group had US$900 million in principal amount of Eurobonds due 2023 outstanding that give the noteholders the right to require the Group to repurchase their bonds at 100% of their principal amount together with accrued, but unpaid, interest (if any) if (i) the Russian Federation ceases to own or control (directly or indirectly) at least 50% plus one voting share of the issued and outstanding voting share capital of SCF, or no longer has the right to appoint or remove a majority of SCF's Board of Directors; or (ii) a person or persons acting in concert, other than the Russian Federation, becomes the legal or beneficial owner, or gains the ability to control (directly or indirectly) more than 25% of the issued and outstanding voting share capital of SCF. If these put options were to be triggered and exercised, the Group would be required to repay or refinance up to US$900 million in principal amount of eurobonds on short notice, which might not be possible on favorable terms or at all. Inability to repay or refinance the eurobonds on acceptable terms following exercise of the put options or an event of default, respectively, could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and trading price of the Offer Shares.

Investors in the Offering will suffer immediate and substantial dilution in combined net asset value per Ordinary Share, which may adversely affect such investors' positions in the event of SCF becoming insolvent.

The price at which the Ordinary Shares are being offered in the Offering is substantially higher than the Group's combined net asset value per Ordinary Share. Therefore, purchasers of the Offer Shares will incur immediate and substantial dilution in such implied combined net asset value per Ordinary Share. As the size of any distribution to shareholders upon insolvency of SCF would be determined by reference to the portion of SCF's net asset value represented by such shareholders, dilution of the net asset value per Ordinary Share adversely affects the position investors in the Offering would have in such circumstances.

The transfer of the Offer Shares is subject to restrictions under the securities laws of the United States and other jurisdictions.

The Offer Shares have not been and will not be registered under Securities Act or any U.S. state securities laws or any other jurisdiction outside the Russian Federation and are not expected to be registered in the future. As such, the Offer Shares may not be offered or sold except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and other applicable securities laws. See "*Selling and Transfer Restrictions*." In addition, there is no assurance that shareholders residing or domiciled in the United States will be able to participate in future capital increases or rights offerings.

Income in the form of material benefit from the acquisition of the Offer Shares below the fair market value may be subject to Russian personal income tax.

Generally, no Russian tax implications should arise for shareholders, whether resident in the Russian Federation or not, upon the purchase of the Offer Shares. However, in certain circumstances, taxable income in the form of a so-called material benefit (imputed income) may arise for shareholders who are individuals if the Offer Shares are purchased at a price below market value. The difference may become subject to Russian personal income tax at the rate of 13% (or such other tax rate as may be effective at the time of acquisition) for Russian Resident Holders—Individuals (as defined in "*Tax Considerations—Certain Russian tax considerations*") and, if treated as Russian-source income, 30% (or such other tax rate as may be effective at the time of acquisition) for Non-Resident Holders—Individuals (as defined in "*Tax Considerations—Certain Russian tax considerations*"), which may be subject to reduction or elimination under an applicable DTT. See "*Tax Considerations—Certain Russian tax considerations*."

Payment of dividends (if any) on the Offer Shares may be subject to Russian withholding tax.

In general, payments of dividends by the Company to a Russian Resident Holder (as defined in "*Tax Considerations—Certain Russian tax considerations*") that is an individual or a legal entity should generally be subject to tax in Russia, and such tax should not exceed 13% of the gross dividend amount payable to each Russian Resident Holder.

Dividends paid to Non-Resident Holders (as defined in "*Tax Considerations—Certain Russian tax considerations*") are subject to Russian withholding tax at a rate of 15%. Such Russian withholding tax may be subject to reduction pursuant to the terms of an applicable DTT between the Russian Federation and the country of tax residence of the Non-Resident Holder to the extent such Non-Resident Holder is the beneficial owner of the dividends received and is entitled to benefit from the relevant DTT. See "*Tax Considerations—Certain Russian tax considerations*."

However, no assurance can be given that any available DTT relief (or a refund of any taxes withheld) will be available for a Non-Resident Holder.

Capital gains from the sale of Offer Shares may be subject to Russian income tax.

The proceeds (capital gain) of a Non-Resident Holder—Legal Entity (as defined in "*Tax Considerations—Certain Russian tax considerations*") from the sale (or other disposal) of the Offer Shares should not be subject to Russian withholding tax provided that (a) the Offer Shares qualify as securities traded on an organized securities market as defined in the Russian Tax Code, or (b) not more than 50% of the asset base of the Company directly or indirectly consists of immovable property located in the Russian Federation. While the Company believes this to be the case, there is a risk that a Russian tax withholding agent may not have sufficient information with respect to the Company's asset base composition and may therefore seek to apply a 20% Russian withholding tax rate (or such other tax rate as may be effective at the time of such sale or other disposal) to the amount of consideration paid to, or capital gain realized by, a Non-Resident Holder—Legal Entity that sells (or otherwise disposes of) the Offer Shares.

Where the proceeds from the sale (or other disposal) of the Offer Shares are treated as received from a

source within the Russian Federation by a Non-Resident Holder—Individual (as defined in "*Tax Considerations—Certain Russian tax considerations*"), Russian personal income tax at the rate of 30% (or such other tax rate as is effective at the time of such sale or other disposal) will apply to the gross amount of proceeds from the sale or other proceeds from the disposition of the Offer Shares less any available deduction of expenses incurred by the shareholder (which includes the purchase price of the Offer Shares) subject to any available DTT relief.

The imposition or possibility of imposition of the above tax liabilities in the Russian Federation, as applicable, could adversely affect the value of the Offer Shares. See "*Tax Considerations—Certain Russian tax considerations.*" In addition, while some shareholders might be eligible for an exemption from or a reduction in Russian withholding tax under an applicable DTT, there is no assurance that such exemption or reduction will be available in practice.

NOTICE TO CERTAIN INVESTORS

Notice to EEA and UK Investors

This Offering Memorandum has been prepared on the basis that all offers of the Offer Shares in any member state of the European Economic Area and the United Kingdom (each a "**Relevant State**") will be made pursuant to an exemption under Article 1(4) of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Accordingly, any person making or intending to make any offer within a Relevant State of the Offer Shares may only do so in circumstances in which no obligation arises for SCF or any of the Underwriters to produce a prospectus pursuant to Article 3(1) of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case in relation to such offer. Neither SCF nor the Underwriters have authorized, or will authorize, the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of the Offer Shares contemplated in this Offering Memorandum.

In relation to each Relevant State, the Offer Shares which are the subject of the Offering contemplated by this Offering Memorandum have not and will not to be offered to the public in that Relevant State other than:

(a) to any legal entity which is a qualified investor as defined in Article 2(e) of the Prospectus Regulation (a "**Qualified Investor**");

(b) to fewer than 150 natural or legal persons (other than Qualified Investors) in that EEA Relevant State, subject to obtaining the prior consent of the Joint Global Coordinators and Joint Bookrunners; or

(c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Offer Shares shall require SCF or any of the Underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

Each person who initially acquires Offer Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to, and with SCF and the Underwriters, that it is a Qualified Investor within the meaning of Article 2(e) of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer to the public" in relation to the Offer Shares in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares so as to enable an investor to decide to purchase the Offer Shares.

In the case of any Offer Shares being offered to a financial intermediary as that term is used in Article 5(1) of the Prospectus Regulation, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Offer Shares acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Offer Shares to the public other than their offer or resale in a Relevant State to Qualified Investors or in circumstances in which the prior consent of the Joint Global Coordinators and Joint Bookrunners and the Co-Manager has been obtained to each such proposed offer or resale. SCF, the Underwriters, and their affiliates and others, will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Joint Global Coordinators and Joint Bookrunners of such fact in writing may, with the prior consent of the Joint Global Coordinators and Joint Bookrunners, be permitted to acquire Offer Shares in the Offering.

Notice to Distributors

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("MiFID II"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "MiFID II Product Governance Requirements"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "Target Market Assessment"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer Shares may decline and investors could lose all or part of

their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Underwriters will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

Notice to United States Investors

Because of the following restrictions, purchasers in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Offer Shares.

The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States, except to persons reasonably believed to be QIBs or outside the United States in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Any resale or other transfer, or attempted resale or other transfer, of such Offer Shares, made other than in compliance with the above-stated restriction, shall not be recognized by SCF. In addition, until 40 days after the commencement of the Offering of the Offer Shares, an offer or sale of Offer Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES NOR ANY OTHER U.S. REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE OFFER SHARES OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE OFFER SHARES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Notice to Singapore Investors

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the issuer has determined and hereby notifies all relevant persons (as defined in Section309A(1) of the SFA) that the Offer Shares are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

PRESENTATION OF FINANCIAL AND OTHER DATA

The audited consolidated financial statements of the Group as of and for the years ended December 31, 2019, 2018 and 2017 included in this Offering Memorandum have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"), and have been audited by Ernst & Young LLC, the Group's independent auditors who are members of the self-regulatory organization of auditors "Sodruzhestvo." The unaudited condensed consolidated interim financial statements as of and for the three and six months ended June 30, 2020 included in this Offering Memorandum have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the IASB.

In this Offering Memorandum, the Group uses the following metrics in the analysis of its business and financial position, certain of which are not defined by, or presented in accordance with, IFRS (such measures, "**Alternative Performance Measures**"). For further information, see "*Selected Consolidated Financial and Operating Information*."

"**EBITDA**" is defined as earnings before interest, taxes, depreciation, amortization and impairment and represents profit/(loss) for the period before financing costs net of interest income, income tax expense, depreciation, amortization and impairment.

"**Adjusted EBITDA**" represents EBITDA adjusted for other non-operating expenses; hedge ineffectiveness and termination of hedge; gain on derecognition of dividend liability; loss on sale and dissolution of subsidiaries; foreign exchange gains; foreign exchange losses; gain/loss on sale of equity accounted investments; other operating revenues and other operating expenses.

EBITDA and Adjusted EBITDA assist Management to measure the Group's financial performance from period to period on a more comparable basis against the financial performance of other companies in the Group's industry that also present EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation, amortization and impairment (and, in the case of Adjusted EBITDA, the other items specified above), which are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods.

EBITDA and Adjusted EBITDA are not calculated in accordance with IFRS or any other generally accepted accounting principles and should not be considered as an alternative to profit for the period, operating profit or any other measure of financial performance or liquidity presented in accordance with IFRS. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect profit or loss for the period and operating profit, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as defined above may not be comparable to similarly titled measures of other companies.

"**Adjusted EBITDA margin**" represents the ratio of Adjusted EBITDA to time-charter-equivalent revenue.

"**Ratio of net debt/Adjusted EBITDA**" is the ratio of net debt to Adjusted EBITDA. The ratio of net debt-to-Adjusted EBITDA is a measurement of leverage, calculated as the Group's total secured bank loans, other loans and lease liabilities after deducting cash and bank deposits, comprising cash and cash equivalents and bank deposits, and restricted cash, divided by its Adjusted EBITDA. The ratio of net debt-to-Adjusted EBITDA is a debt ratio that shows how many years it would take for the Group to pay back its debt if net debt and Adjusted EBITDA were held constant.

"**Contract backlog**," as of any date, is the total amount receivable by the Group under the Group's currently outstanding time-charter agreements as of such date, including arising from the Group's share in the joint ventures. It is presented either for a specified period or for the total term of such agreements, in each case excluding extension options. It is based on the applicable time-charter-equivalent rate as of such date and Management's estimate of the total trading days in the period for which it is presented (calculated as the total number of days for which the vessel is in possession of the owner less any scheduled or unscheduled maintenance or repairs during such period). The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Risk Factors*").

"**Working capital**" represents current assets less current liabilities.

"**Net working capital**" is calculated as current trade and other receivables and inventories less current trade and other payables. It measures the Group's ability to meet short-term day-to-day obligations, as well as fund the

Group's operations.

"**Net working capital margin**" represents the ratio of net working capital to time-charter-equivalent revenue.

"**Adjusted profit**" represents profit or loss for the period adjusted for impairment on fleet, right of use assets and other assets, other non-operating income and other non-operating expenses. Adjusted profit increases comparability between periods and companies by excluding the potentially disparate effects of the items aforementioned.

"**Net earnings from vessels' trading**" means time-charter-equivalent revenues less vessels' running costs and charter hire payments.

"**CAPEX**" represents cash used by the Group to acquire, upgrade, and appreciably extend the life, increase the earning capacity or improve efficiency or safety of vessels and other physical assets such as property, buildings, or equipment. CAPEX is calculated as expenditure on vessels under construction, expenditure on fleet, expenditure on intangibles and other property, plant and equipment and investment property.

"**Net CAPEX**" represents the difference between CAPEX and the cash proceeds from sale of assets including proceeds from sale of vessels, disposal and dissolution of investments and sale of property, plant and equipment and investment property and proceeds from sale of subsidiary net of cash disposed. Net CAPEX measures the level of capital expenditure for maintenance and growth of the Group's operations and business.

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

"**Time-charter-equivalent revenues**" means earnings of any charter and marine service contract once voyage expenses and commissions relating to the performance of the contract have been deducted from the gross revenues. Since shipping companies have varying degrees of time-charters, spot charters and other types of service contracts, Management believes that it is difficult to compare shipping companies on the basis of gross revenue. Instead, time-charter-equivalent revenues provide a more comparable basis, eliminating differences due solely to varying contract mixes of the companies being compared. The term is commonly used in the shipping industry to measure financial performance and to compare period-to-period changes in performance irrespective of changes in the mix of charter types and marine services contracts under which vessels may be employed.

The Group relies primarily on its IFRS consolidated financial statements and uses the Alternative Performance Measures only by way of supplement. The Alternative Performance Measures are not defined by, or presented in accordance with, IFRS. However, the Group believes that these measures provide useful supplementary information to Management to assess the Group's financial performance, financial position and liquidity. The Alternative Performance Measures as presented in this Offering Memorandum may not be comparable to similarly titled measures of performance presented by other companies. Such measures are not measurements of the Group's operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Group's liquidity. Prospective investors are advised to review the Alternative Performance Measures in conjunction with the Group's audited consolidated financial statements and accompanying notes, which are included in this Offering Memorandum. For reconciliations of the Alternative Performance Measures to the nearest IFRS measure, see "*Selected Consolidated Financial and Operating Information*."

In this Offering Memorandum:

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

- the “**Group**” refers, collectively, to SCF and its subsidiaries.

Market data used in this Offering Memorandum under the headings “*Summary Consolidated Financial Information and Operating Information*,” “*Risk Factors*,” “*Operating and Financial Review*,” “*Industry Overview*” and “*Business*” have been extracted from official, industry and internal sources and other sources the Group believes to be reliable. This Offering Memorandum also sets forth certain statistics from industry sources and other sources the Group believes to be reliable. Sources of such information, data and statistics include Russian federal authorities; the United States Energy Information Administration (“**EIA**”); International Energy Agency (“**IEA**”); International Monetary Fund (“**IMF**”); Clarksons Research Services Limited (“**Clarksons Research**”); BP Statistical Review of World Energy (“**BP Statistical Review**”); BP Energy Outlook 2020 and Oil & Gas Journal (Worldwide Look At Reserves And Production 2016) and all such sources have been named throughout this Offering Memorandum. Such information, data and statistics have been accurately reproduced, and, as far as the Group is aware and is able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. However, the official data published by Russian federal authorities may be substantially less complete or researched than those of more developed countries. Official statistics may also be produced on different bases than those used in Western European jurisdictions or in the United States. Any discussion of matters relating to the Russian Federation in this document must therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

In this Offering Memorandum, all references to “RUR” and “ruble” are to the currency of the Russian Federation, all references to “EUR” and “euro” are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community, all references to “GBP” and “pound sterling” are to the currency of the United Kingdom and all references to “US$,” “$,” “U.S. dollar” and “dollar” are to the currency of the United States.

In this Offering Memorandum, all references to:

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

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

EXCHANGE RATE INFORMATION

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

	RUR per US$			
Year ended December 31,	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate[(1)]**	**Period end**
2015	72.88	49.18	61.87	72.88
2016	83.59	60.27	66.48	60.66
2017	60.75	55.85	58.13	57.60
2018	69.97	55.67	63.08	69.47
2019	67.19	61.72	64.49	61.91

	RUR per US$			
	High Exchange Rate	**Low Exchange Rate**	**Average Exchange Rate[(1)]**	**Period end**
January 2020	63.04	60.95	61.81	63.04
February 2020	66.99	62.80	63.98	66.99
March 2020	80.88	66.08	73.72	77.73
April 2020	77.04	73.32	74.76	73.69
May 2020	74.12	70.75	72.50	70.75
June 2020	70.40	68.31	69.20	69.95
July 2020	73.36	70.44	71.29	73.36
August 2020	75.54	72.97	73.80	74.64
September 2020 (through September 24, 2020)	76.36	73.59	75.20	76.36

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

On September 24, 2020, the exchange rate quoted by the CBR between the ruble and the U.S. dollar was RUR 76.36 to US$1.00.

	GBP per US$			
Year ended December 31,	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate[(1)]**	**Period end**
2015	0.68	0.63	0.66	0.67
2016	0.82	0.68	0.75	0.81
2017	0.83	0.74	0.77	0.74
2018	0.80	0.70	0.75	0.78
2019	0.83	0.75	0.78	0.76

	GBP per US$			
	High Exchange Rate	**Low Exchange Rate**	**Average Exchange Rate[(1)]**	**Period end**
January 2020	0.77	0.76	0.77	0.76
February 2020	0.78	0.77	0.77	0.78
March 2020	0.87	0.76	0.81	0.81
April 2020	0.82	0.79	0.81	0.79
May 2020	0.83	0.80	0.81	0.81
June 2020	0.82	0.78	0.80	0.81
July 2020	0.80	0.76	0.79	0.76
August 2020	0.77	0.75	0.76	0.75

	GBP per US$			
	High Exchange Rate	Low Exchange Rate	Average Exchange Rate[(1)]	Period end
September 2020 (through September 24, 2020)	0.79	0.74	0.77	0.79

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

On September 24, 2020, the exchange rate quoted by the Bank of England between the U.S. dollar and the pound sterling was GBP 0.79 to US$1.00.

	EUR per US$			
Year ended December 31,	High Exchange Rate	Low Exchange Rate	Average Exchange Rate[(1)]	Period end
2015	0.95	0.83	0.91	0.92
2016	0.96	0.86	0.91	0.95
2017	0.96	0.83	0.88	0.83
2018	0.89	0.80	0.85	0.87
2019	0.92	0.87	0.89	0.89

	EUR per US$			
	High Exchange Rate	Low Exchange Rate	Average Exchange Rate[(1)]	Period end
January 2020	0.91	0.89	0.90	0.91
February 2020	0.93	0.90	0.92	0.91
March 2020	0.93	0.87	0.90	0.91
April 2020	0.93	0.91	0.92	0.92
May 2020	0.93	0.90	0.92	0.90
June 2020	0.90	0.88	0.89	0.89
July 2020	0.89	0.84	0.87	0.84
August 2020	0.85	0.84	0.85	0.84
September 2020 (through September 24, 2020)	0.86	0.83	0.85	0.86

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

On September 24, 2020, the exchange rate quoted by the European Central Bank between the U.S. dollar and the euro was EUR 0.86 to US$1.00.

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

ENFORCEABILITY OF JUDGMENTS

SCF is a public joint-stock company incorporated under the laws of the Russian Federation. Substantially all of SCF's assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located. In addition, the majority of SCF's directors and the majority of the members of SCF's senior management named in this Offering Memorandum are nationals or residents of jurisdictions other than the United Kingdom or the United States, and may not be nationals or residents of other jurisdictions in which investors may be located, and all or a substantial portion of their assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located.

It may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom or the United States, liabilities predicated upon English or U.S. securities laws. Courts in the Russian Federation will generally recognize judgments rendered by a court in any jurisdiction outside the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the jurisdiction where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions, including the United Kingdom and the United States, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. Although on July 2, 2019, the Russian Federation signed the final act on the adoption of the 2019 Convention on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters (the "**Hague Judgments Convention**"), the Hague Judgments Convention has not yet entered into force. Consequently, as at the date of this Offering Memorandum, the Russian Federation is not a party to any international treaty providing for the recognition and enforcement of judgments in civil cases rendered by the courts of the United Kingdom or the United States. As a result, new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against SCF or its officers or directors. These limitations, as well as the general procedural grounds set out in Russian legislation for the refusal to recognize and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgments or deprive the investors of effective legal recourse for claims related to the investment in the Offer Shares.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognized by a Russian court on the basis of reciprocity, if courts of the jurisdiction where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. In a number of recent instances, Russian courts have recognized and enforced a foreign court judgment (including English court judgments) on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which the Russian Federation and certain other jurisdictions, including the United Kingdom, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgment in the Russian Federation. In the absence of established court practice, however, no assurances can be given that a Russian court would be inclined in any particular instance to recognize and enforce a foreign court judgment on these or similar grounds. The existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognize and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom, the United States or other jurisdictions in which investors may be located, on SCF, certain directors or members of senior management of SCF;
- enforce judgments obtained in courts in the United Kingdom, the United States or other jurisdictions in which investors may be located, against SCF's assets and against certain directors or members of senior management of SCF; or
- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom, the United States or the laws of other jurisdictions in which investors may be located.

Recognition and enforceability of any arbitral award may be limited by mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The Arbitrazh (Commercial) Procedure Code of the Russian Federation (the "**Arbitrazh Procedure Code**") sets out the procedure for the recognition and enforcement of foreign awards by

Russian courts. The Arbitrazh Procedure Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the 1958 United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

In addition, Federal Law No. 382-FZ "On Arbitration in the Russian Federation" dated December 29, 2015 (the "**Law on Arbitration**") and the related amendments to the Russian legislation, which came into force in September 2016, introduced significant changes to the arbitrability of disputes and the way the arbitration process is regulated. In particular, such laws limit the arbitrability of corporate disputes to permanent arbitration institutions that have received the necessary regulatory approvals in the Russian Federation and meet certain formal criteria (including compliance of the rules of the permanent arbitration institution with the Law on Arbitration, existence of a recommended panel of arbitrators and reputational requirements). As a result, no assurance can be given that disputes relating to the Offer Shares will be arbitrable in the Russian Federation in accordance with the provisions of the relevant agreements or at all.

The above limitations may deprive investors of effective legal recourse for claims related to an investment in the Offer Shares.

Prospective investors should read the entire document and, in particular, the section headed "*Risk Factors*" when considering an investment in the Offer Shares.

AVAILABLE INFORMATION

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

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

FORWARD-LOOKING STATEMENTS

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

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

- materially adverse changes in political, economic or industry conditions globally, in the Russian Federation or in the markets served by the Group;

- materially adverse changes on the Group's business, results of operations, financial condition and prospects as a result of the COVID-19 pandemic;

- changes in the supply of and demand for and the price of shipping services, including charter rates and vessel values;

- changes in the price of oil and related commodities;

- changes in the costs of the materials required for the Group's services and equipment;

- changes in the Group's operating costs, including the costs of energy and transportation, crewing costs, drydocking costs and the costs of insurance;

- changes in the Group's capital expenditure requirements, including those relating to the Group's potential environmental liabilities, or the ability of the Group to fund its capital expenditure requirements through borrowing or otherwise;

- disruptions to the Group's operations due to the occurrence of maritime disasters, mechanical failures, acts of piracy and other similar events;

- intense competition in a highly fragmented industry;

- the Group's ability to successfully implement any of its business strategies;

- the punctual delivery of and availability of financing for the Group's new vessels;

- the Group's ability to obtain or extend the terms of the licenses necessary for the operation of the Group's business;

- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting the Group's operations and the costs associated with complying with these developments or changes;

- fluctuations in inflation, interest rates and exchange rates;

- the ability of the Group's customers to honor their existing vessel charter contracts;

- the Group’s ability to meet its debt obligations on a timely basis and compliance with covenants under its existing credit facilities;
- the Group’s ability to realize anticipated future revenues already subject to customer contracts;
- the Group’s ability to attract and retain qualified personnel at reasonable cost;
- targeting by environmental NGOs;
- disruptions to the Group’s information technology systems and other operating systems;
- the Group’s liability for the obligations of its subsidiaries;
- availability of funds and the sufficiency of operating cash flows to provide corporate liquidity;
- future growth prospects;
- other factors discussed in “*Risk Factors*,” “*Business*,” “*Operating and Financial Review*” and “*Industry Overview*;” and
- the Group’s success in accurately identifying future risks to its business and managing the risks of the aforementioned factors.

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

USE OF PROCEEDS

In the Offering, SCF aims to raise total gross proceeds of approximately RUR 42,250 million and total net proceeds (after deduction of commissions, fees and expenses incurred by SCF in connection with the Offering) of approximately RUR 40,800 million, in each case assuming the Repurchase Option is not exercised.

SCF intends to use net proceeds from the placement of the Offer Shares for general corporate purposes, including, without limitation, investments in new assets, with a focus on industrial projects, decarbonization and further deleveraging.

SCF expects to receive all proceeds from the Offering in Russian rubles.

DIVIDEND POLICY

Procedures for Dividends

The procedure for declaration and distribution of dividends by SCF is set out in the Joint-Stock Companies Law, the SCF Charter and the Dividend Policy adopted by the Board of Directors of SCF on December 14, 2012. The Joint-Stock Companies Law allows dividends on the Offer Shares to be paid only out of SCF's net profits derived from accounting records prepared in accordance with RAS. In accordance with the Joint-Stock Companies Law and the SCF Charter, SCF may distribute dividends on the Offer Shares based on first quarter, six-month, nine-month and/or annual results derived from accounting records prepared in accordance with RAS. For a dividend on the Offer Shares to be declared, the Board of Directors shall recommend to a General Shareholders' Meeting the amount of the proposed distribution and the record date for determining the list of persons entitled to receive dividends. Upon recommendation of the Board of Directors, the General Shareholders' Meeting may approve such amount and record date by a majority vote. The distribution amount may not be more than that recommended by the Board of Directors. The declaration and payment of dividends on the Offer Shares is subject to certain statutory restrictions. See "*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Dividends.*" Furthermore, SCF may decide not to pay dividends in the future. See "*Risk Factors—Risks Relating to the Offer Shares and the Trading Market—SCF may decide not to pay dividends in the future*."

Historical Dividends

The following table sets forth dividends per Share and the aggregate dividends declared by SCF in accordance with the decisions of the annual General Shareholders' Meetings in respect of the years ended December 31, 2019, 2018, 2017 and 2016 (converted from RUR to US$ using the exchange rate quoted by the CBR at the relevant date of declaration).

For the year ended December 31,	RUR per Share	Total RUR (million)	Total US$ (million)
2016	3.12	6,141	107
2017	0.86	1,696	27
2018	0.73	1,435	23
2019	3.65	7,181	97

Dividend Policy

On May 29, 2006, the Russian Government adopted Decree No. 774-r, pursuant to which state representatives in state owned companies shall procure dividend distribution at a level no lower than 25% of their net profit (excluding surplus from revaluation of financial investments) derived from standalone accounting reports prepared in accordance with RAS, unless otherwise specifically stated by relevant acts of the Russian Government.

Further, on December 14, 2012, the Board of Directors approved the Dividend Policy (further amended and restated on April 4, 2020) which sets forth recommendations on the size of dividends as well as SCF's obligations as to the payment of declared dividends and relevant disclosures. In accordance with the Dividend Policy, dividends shall be paid in cash at a level no lower than 25% of the profit for the period attributable to the equity stake, derived from the audited consolidated financial statements prepared under IFRS.

In addition, the Russian Government may set out requirements in its decrees for the minimum level of annual dividend distribution applicable to state owned companies such as the Group. The latest decree in this regard was issued on January 24, 2019 by the Prime Minister of the Russian Federation under order No. DM-P13-5pr instructing the state authorities representing the Russian Federation in general shareholders' meetings of state-owned companies to procure distribution of at least 50% of the net profit as dividends for 2018.

SCF targets paying dividends in the amount of 50% of its IFRS net profit, with dividend guidance for the year ended December 31, 2020 of US$225 million, subject to board and shareholder approval, and trading conditions in the six months ending December 31, 2020.

CAPITALIZATION

The following table shows the Group's capitalization as of June 30, 2020, on an actual basis. These figures have been prepared in a manner consistent with the Group's accounting practices. You should read this table together with the Group's financial statements included in this Offering Memorandum under "*Operating and Financial Review—Critical Accounting Policies and Estimates—Liquidity and Capital Resources*." There have been no material changes to the Group's capitalization since June 30, 2020.

	As of June 30, 2020[(1)]
	(US$'000)
Current debt	
Secured bank loans	490,069
Other loans from related party	3,327
Lease liabilities	16,356
Total current debt	509,752
Non-current debt	
Secured bank loans	2,028,602
5.375% Senior Notes due 2023	894,676
Other loans from related party	1,664
Lease liabilities	34,246
Total non-current debt	2,959,188
Total debt	3,468,940
Less cash and bank deposits	710,748
Net debt	2,758,192
Equity	
Share capital	405,012
Reserves	3,132,236
Equity attributable to the owners of the parent	3,537,248
Non-controlling interest	132,407
Total equity	3,669,655
Total capitalization	6,427,847

(1) In the Offering, SCF aims to raise total gross proceeds of approximately RUR 42,250 million and total net proceeds (after deduction of commissions, fees and expenses incurred by SCF in connection with the Offering) of approximately RUR 40,800 million, in each case assuming the Repurchase Option is not exercised. See "*Use of Proceeds*."

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

The global marine transportation industry provides a crucial worldwide connection between nations and regions through reliable, cost-effective international trade, and the industry has facilitated expansion of economic globalization and interdependence for centuries. The marine transportation industry incorporates transportation of any unitized seaborne cargo, which may include a broad range of wet and dry bulk products, such as coal, iron ore, grain, crude oil or its refined products, liquefied gases, containerized finished goods, automobiles and livestock. The key benefit of the marine transportation industry has been its ability to provide efficient transportation services that are technically and economically advantageous relative to alternative modes of transportation by land or air. Marine transportation also offers benefits from an environmental perspective, with the industry registering as the least CO2 intensive mode of freight transport when compared to air, road and rail in terms of CO2 emitted per ton mile of cargo moved.

The Group is principally engaged in providing seaborne transportation services to the global energy industry, encompassing the following marine transportation sectors: crude oil, oil products, LNG and LPG. In 2019, global marine transportation trade of energy commodities totaled an estimated 4.5bn tons, equivalent to 38% of all seaborne trade. In addition to these sectors, the Group provides infrastructure and logistical services to the oil and gas industry through shuttle tanker operations, offshore support and seismic vessel operations.

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

Global Energy Trends

Trends in global energy consumption are broadly impacted by developments in the global economy, along with changes in population and demographics, efficiency developments and changes in technology. According to the OPEC 2019 World Oil Outlook 2040, global energy consumption has continued to expand steadily in recent years, increasing by a compound annual growth rate ("**CAGR**") of 1.6% per year between 2010 and 2018. Over the past few decades, slowing population growth and improvements in energy efficiency have led to a significant slowdown in energy consumption growth in developed economies, while urbanization and faster population growth have led to developing nations becoming the key driver behind expansion in global energy demand. In 2010–18, energy demand in OECD countries declined marginally compared to annual growth of 2.6% in China and 6.7% in India.

Traditionally, global energy demand has been met by fossil fuels, namely oil, coal, and natural gas. While nuclear and renewables have also played a meaningful role for a number of decades, the share of fossil fuels remains relatively steady and dominant. Share of oil and gas in the global energy mix remained relatively stable at approximately 54%, growing at CAGRs of 1.3% and 2.3% per year between in 2010 and 2018, respectively. Meanwhile, growth in coal consumption has slowed notably as environmental concerns have grown, with closures of coal-fired power plants in Europe and the U.S., new policies such as the Emissions Trading Scheme in the EU and air pollution measures in China all impacting consumption. These measures along with other initiatives to increase the share of cleaner fuels in the global energy mix, including fuel efficiency regulations, have encouraged expansion in natural gas and renewable energy consumption. Natural gas is typically seen as a relatively cleaner fuel to coal given the low emissions of sulfur and particulate matter, and is often seen as a "bridging fuel" to replace coal in ongoing decarbonization efforts. The gas consumption share rose from approximately 22% in 2010 to approximately 24% in 2018, while the renewables share rose from approximately 13% to approximately 14% in the same period. Greater supply availability and increasing LNG export capacity is expanding the accessibility of gas, which is likely to keep prices low and increase the cost competitiveness of gas in power generation.

The COVID-19 pandemic is expected to have significant impact on the trajectory of energy demand

going forward. In the short-term, the IEA estimates that energy demand will fall by 6% in 2020. Oil and coal demand are expected to be the most heavily impacted, falling by approximately 8-9% and approximately.8% y-o-y, respectively, owing largely to restrictions to mobility and aviation, declines in electricity demand and industrial production. The impact on gas is expected to be more moderate, with natural gas demand currently projected to fall by 4% in 2020. While global energy demand is expected to improve from the trough seen this year and register y-o-y growth over the next decade, the reduction in total global GDP as a result of impacts from the pandemic may put some limits on the magnitude of its recovery. Non-OECD countries are expected to be the key area of the growth in energy demand going forward, given these countries are expected to account for most of the growth in population, urbanization and economic development in the foreseeable future.

Following the COVID-19 pandemic and its impacts on oil demand and supply, there is now the potential for natural gas to increase its share in the global energy mix more rapidly and also take over from oil as the largest energy source within this decade, as projected by DNV GL, particularly for power generation and as a transportation fuel. Oil demand is still expected to expand moderately over the next decade following its recovery from the collapse seen this year, although the rate of expansion in global oil demand is expected to be limited by improvements in fuel efficiency and uptake of electric vehicles going forward and a more accelerated transition towards decarbonization could moderate this further. While oil is projected to lose consumption market share between now and 2030, it is still expected to account for a significant share of global energy consumption (over 25%), with oil and gas together accounting for at least half of the global energy mix.

The Russian Oil and Gas Sector

The Russian Federation is a leading producer of oil and gas. According to the 2020 BP Statistical Review of World Energy, Russia's proven natural gas reserves stood at approximately 38tn cbm at the start of 2020, accounting for 19.1% of total global reserves. Meanwhile, Russia's proven oil reserves stood at approximately 107bn bbls, accounting for 6.2% of the global total. There may also be further unproven oil and gas resources in areas such as the Arctic.

Countries with Top-10 Oil Proved Reserves
(as of 2019 year end)

Rank	Country	Reserves, '000 mt
1	Venezuela	48.0
2	Saudi Arabia	40.9
3	Canada	27.3
4	Iran	21.4
5	Iraq	19.6
6	**Russian Federation**	**14.7**
7	Kuwait	14.0
8	United Arab Emirates	13.0
9	US	8.2
10	Libya	6.3

Countries with Top-10 Natural Gas Proved Reserves
(as of 2019 year end)

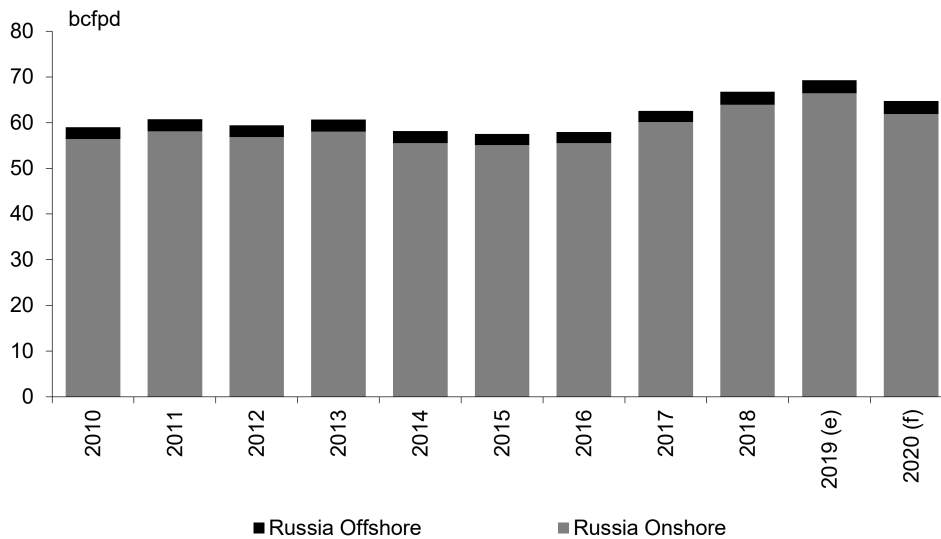
Rank	Country	Reserves, tn cbm
1	**Russian Federation**	**38.0**
2	Iran	32.0
3	Qatar	24.7
4	Turkmenistan	19.5
5	US	12.9
6	China	8.4
7	Venezuela	6.3
8	Saudi Arabia	6.0
9	United Arab Emirates	5.9
10	Nigeria	5.4

Source: BP Statistical Review of World Energy, December 31, 2020.

Natural Gas Supply

In 2019, Russia's total marketed natural gas production stood at an estimated 716bn cbm, according to Clarksons Research, accounting for approximately 17% of global marketed natural gas production, making the country the world's second largest producer of natural gas after the U.S.

Russian Gas Production

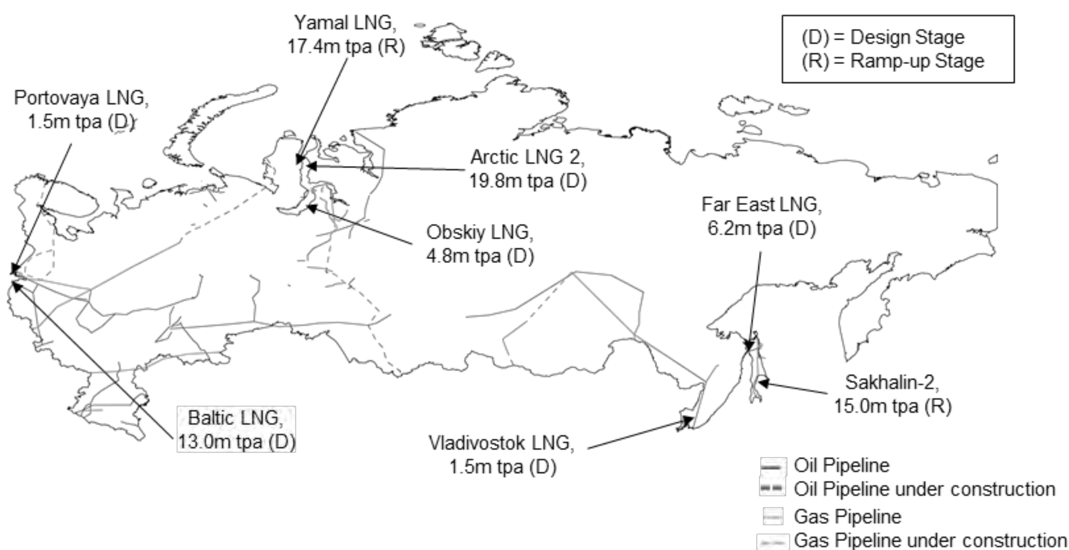


Source: Clarksons Research, July 2020.

The Russian Federation has significantly expanded its natural gas export capacity via LNG projects since the launch of the country's first LNG export terminal at Sakhalin in 2009. At the beginning of July 2020, Russia's LNG liquefaction capacity stood at an estimated 28mtpa, having more than doubled since 2009. Export capacity of Sakhalin LNG now stands at 11mtpa, in addition to 16.5mtpa at Yamal LNG. A further 22mtpa of liquefaction capacity is currently under construction in the Russian Federation including 20mtpa at Arctic 2 LNG, comprised of three liquefaction trains scheduled to start up between 2023 and 2026.

By 2030, Russia's LNG export capacity is expected to increase to 38mtpa. Russian LNG projects in the front end engineering and design stage have a combined LNG export capacity of 16mtpa, including 13mtpa of Baltic LNG, although these proposed projects may be subject to potential delays and cancellations. Indeed, the outbreak of COVID-19 has significantly impacted global LNG projects sanctioning sentiment against a backdrop of highly challenged energy markets and weak LNG prices. Spot LNG prices have reached record lows this year, with the Asian LNG spot price falling below US$2/mbtu at some points, down from around US$9/mbtu at the start of 2019. Nonetheless, most Russian LNG projects are proceeding as planned and long-term prospects should not be affected by the pandemic due to low cost nature of projects in Russia.

Selected Russian LNG Projects



Source: Clarksons Research, July 2020.

(1) Figures denote project full capacity, million tons per annum.

Oil Supply

In 2019, Russian oil (and lease condensate) production stood at an estimated 11.6m bpd, equivalent to approximately 12% of global oil production, making it the world's third largest oil producer, behind the U.S. and marginally behind Saudi Arabia. Commitment to global oil supply curbs as part of the OPEC+ production cut agreement is expected to result in a sharp drop in Russian oil production in 2020, albeit remaining the third largest oil producer globally. However, going forward (following a recovery in volumes as OPEC+ supply curbs are rolled back) against a backdrop of a large and mature project base, Russian oil supply is projected to remain broadly stable over the subsequent 5 years, with growth in natural gas liquids and condensates production, related to associated output from gas projects, and the emergence of some tight crude output slightly offsetting lower conventional crude output. In particular, Russian development of hydrocarbon supplies in the Arctic is expected to see a slew of new large gas and condensate field projects in the Kara Sea, Taz Bay and Barents Sea across 2022–26. Rosneft announced earlier this year that the giant Vostok Oil project could supply as much as 25 million tons of oil to global oil markets in 2024, potentially increasing to 50 million tons in 2027 and 115 million tons by 2030. Since this announcement, further oil and gas discoveries have been made as part of the project. Further ahead, other project start-ups extend as far out as 2031, with the Dolginskoye oil field in the Pechora sea adding 150,000 bpd to production.

The Russian Federation exports significant volumes of crude oil and refined oil products, accounting for the majority of seaborne exports crude oil and oil products from the Former Soviet Union (the "**FSU**"); approximately 79% of crude exported from the FSU in 2019 was seaborne. In 2019 Russian seaborne exports registered estimated growth of approximately 10% to 3.8m bpd (approximately 11% of global seaborne crude trade) according to customs data. As a result, the Russian Federation was estimated to stand as the second largest seaborne crude oil exporting country behind Saudi Arabia in 2019. However, in terms of estimated volumes transported on Aframax tankers, the Russian Federation stood as the largest exporter globally, with Aframaxes taking an approximate 70% share of Russian seaborne crude exports, compared to around 5% in Saudi Arabia and 1% in Iraq. As part of Russia's diversification of oil supply eastwards, an expansion of the East Siberia-Pacific Ocean oil pipeline began commercial operations at the start of 2018, doubling export capacity of Russian crude to China from 15mtpa to 30mtpa, with the intent of deepening energy cooperation between the Russian Federation and China and increasing Russia's market share in the world's top importer of crude oil. Indeed, Russia's crude exports to China rose by 20% y-o-y in 2018 to account for 15% of total Chinese imports and in terms of seaborne suppliers, the Russian Federation stood as China's fourth largest supplier in 2017–19 and moved into third position in 1H 2020, ahead of Angola. Going forward, given the significant share of new oil production projects located in the Arctic with access to the Northern Sea Route, and with other start-ups mainly located offshore in the Far East and Caspian in close proximity to key Asia-Pacific and Mediterranean markets, Russia's new oil supply is largely expected to favor marine transportation routes, further expanding Russian seaborne shipments.

Offshore Support

Shuttle Tankers

Shuttle tankers are specialized vessels designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries, and are equipped with sophisticated loading and dynamic positioning systems that allow vessels to load cargo safely and reliably from offshore oil field installations. Shuttle tankers are an integral part of the marine infrastructure for the upstream projects, and therefore the majority of vessels are chartered under long term contracts for the entire useful life of offshore fields.

Most of the world's shuttle tankers are serving offshore fields in the Arctic, Brazil, Canada, North Sea and Sakhalin. If a shuttle tanker is operating in cold weather conditions for extended periods of time it may be necessary for a shuttle tanker to have ice-class capabilities. As of July 1, 2020 there were 30 ice-class shuttle tankers in the world fleet and on order.

Top Ice-Class Shuttle Tanker Owners

Name	Fleet & Orderbook	
	Number	m DWT
SCF Group	**21**	**1.8**
Knutsen NYK	5	0.7
Gazpromneft Shpg	3	0.1
Rosneft	1	0.1
Grand Total	**30**	**2.7**

Top Owners of Shuttle Tankers

Name	Fleet & Orderbook	
	Number	DWT
Knutsen/NYK	34	4.3
Altera Infrastructure LP	29	3.7
Petronas	19	2.6
SCF Group	**21**	**1.8**
Viken MOL AS	5	0.5
Tsakos Group	3	0.5
Gazpromneft	3	0.1
OSG	3	0.1
European Navigation	2	0.3
Shanghai North Sea	2	0.1
Others	*7*	*0.9*
Grand Total	**128**	**14.9**

Source: Clarksons Research, Company data as of July 1, 2020. Note: "Ice-Class" includes all vessels with ice-class 1A and above basis Fi-Sw ice-class equivalent.

Support Vessels

Platform Supply Vessels (the "**PSVs**") are part of the offshore support vessels fleet. Their primary function is to support offshore rigs and platforms through delivery of materials from onshore locations. The PSV fleet is typically differentiated by capacity, either in DWT or deck area. The largest PSVs are commonly located in 'harsh' and deepwater environments such as the North Sea or deepwater U.S. Gulf of Mexico.

Ice breaking supply vessels (the "**IBSVs**") are specialized vessels which provide logistical and ice breaking support services to offshore oil and gas platforms which operate in the most challenging weather conditions. Support can include supply services, early stage firefighting and rescue operations and provision of standby services to offshore installations. These vessels are designed and built to suit the particular needs of a field and are typically utilized for the entire lifecycle of the project.

Top IBSVs Owners

Name	Fleet & Orderbook	
	Number	m DWT
SCF Group	**10**	**0.04**
Gazprom JSC	2	0.01
ECO	1	0.00
Total	**13**	**0.05**

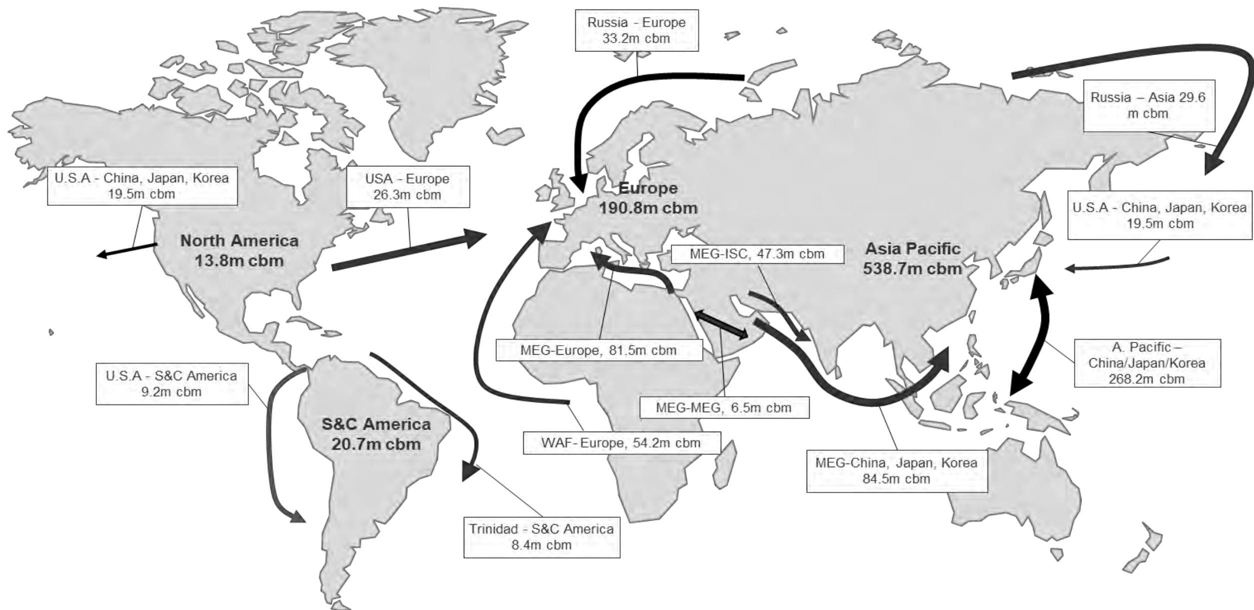
Source: Clarksons Research, Company data as of July 1, 2020.

LNG Shipping

Demand

Seaborne LNG trade routes are primarily determined by locations of LNG production. Moreover, demand for LNG is generally closely linked to direct demands of retail consumers and is more sensitive to changes in prices of alternative energy sources, such as coal, hydro, nuclear, petroleum and natural gas transported by pipeline. The following chart illustrates major seaborne LNG trade routes in 2019, as well as development of global seaborne LNG trade in terms of ton-miles.

Major Seaborne LNG Trade Routes in 2019

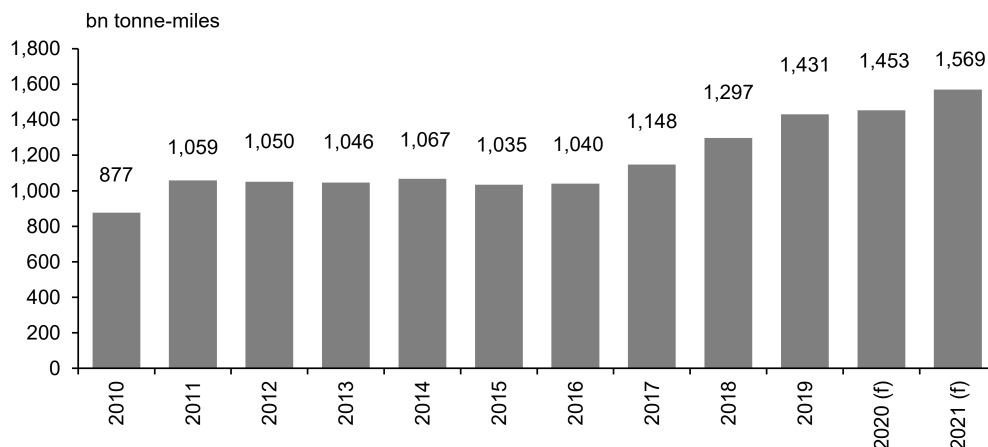


Source: Clarksons Research, July 2020.

Growth of seaborne LNG trade is a key underlying factor expected to facilitate the increasing share of gas in the global energy mix. Between 2010 and 2015, ton-mile LNG trade is estimated to have grown at a CAGR of 3.4%, accelerating to a CAGR of 9.3% between 2015 and 2019. Global LNG trade growth is expected to decelerate to approximately 1% y-o-y in 2020 amid substantial COVID-19 related impacts on global demand for natural gas and LNG. However, in 2021, current projections suggest firmer LNG trade growth of approximately 5% y-o-y and over 2019 to 2021. Global LNG trade is still currently projected to increase steadily by approximately 3% per year.

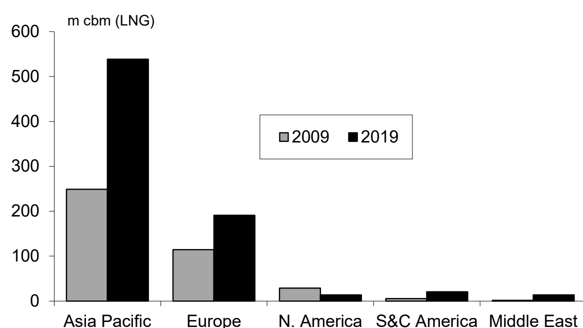
In the longer term, the outlook for LNG demand appears encouraging, with major forecasting agencies expecting growth of approximately 3-5% per year over the coming decade as LNG is expected to play a key role in facilitating the growing share of natural gas in the global energy mix. LNG demand is also increasingly supported by global environmental agenda and shift away from coal and heavy fuel oil in favor of 'clean' burning natural gas. Within the marine transportation industry itself, LNG is gaining traction as a marine fuel and is often seen as a 'bridging solution' as shipowners consider means to achieve the IMO 2050 CO_2 emissions target.

Global Seaborne LNG Trade, ton-miles

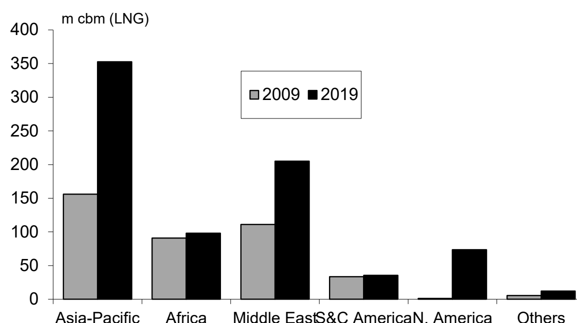


Source: Clarksons Research, July 2020.

Major Importers of LNG



Major Exporters LNG

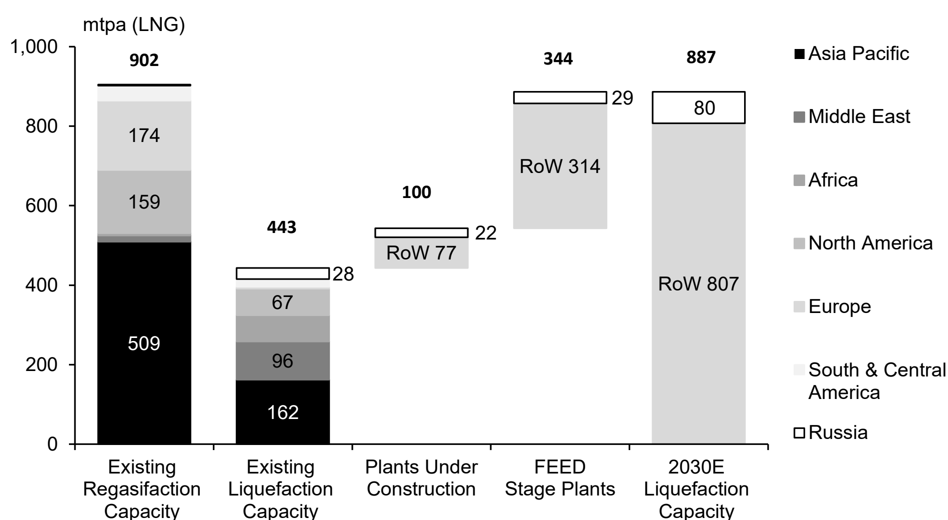


Source: Clarksons Research, July 2020.

At the start of July 2020, global LNG liquefaction capacity stood at an estimated 443mtpa, while global regasification capacity was estimated at 905mtpa.

Global liquefaction capacity is expected to grow further over the next decade, with an estimated 100mtpa of LNG liquefaction capacity under construction at the beginning of July 2020, and although some projects may face construction delays due to COVID-19 related challenges, most Russian LNG terminals currently under construction remain on schedule.

Global LNG Liquefaction and Regasification Capacity by Region



Source: Clarksons Research, July 2020.

(1) Excludes projects at the proposal stage as of July 1, 2020.

(2) Projections based on estimated start-up date. Start-up dates may slip and have done so in the past.

Supply

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

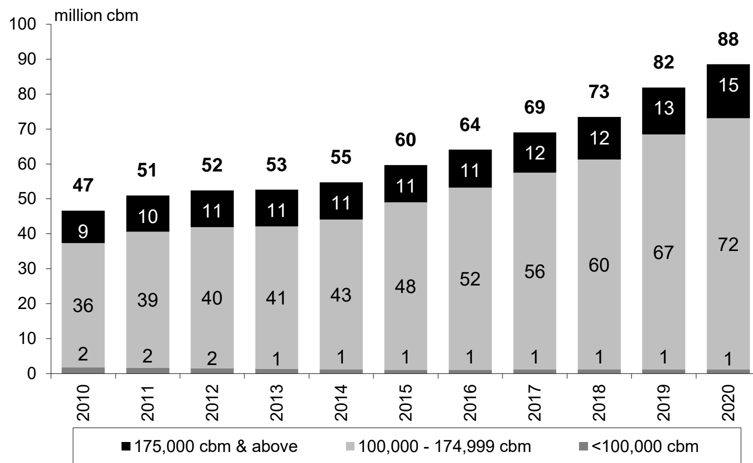
- Vessels with carrying capacity greater than 175,000 cbm. The majority of these vessels (approximately 60%) were constructed around 10 years ago to serve Qatari LNG terminals and have a carrying capacity greater than 200,000 cbm.

- Vessels with carrying capacity between 100,000 and 175,000 cbm. These vessels account for approximately 79% of the world fleet based on vessel numbers as of July 2020. These vessels, although often designed for specific load and discharge facilities, are generally capable of calling at most LNG facilities worldwide.

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

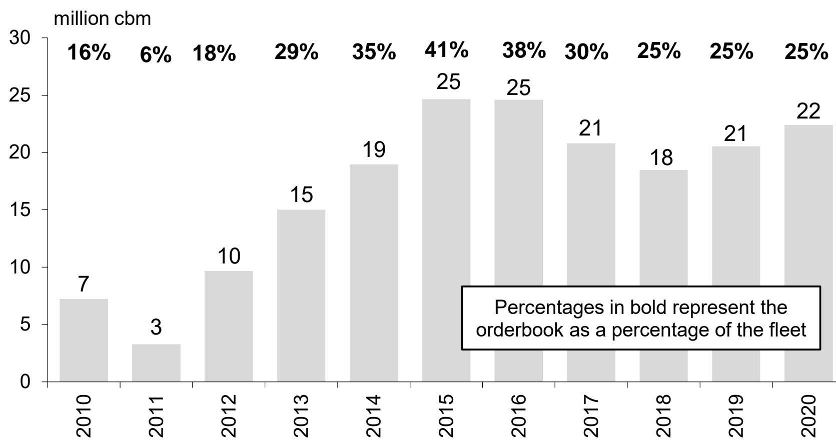
The following charts set forth development of LNG carrier fleet and orderbook (vessels on order at yards or presently under construction):

LNG Carrier Fleet Development



Source: Clarksons Research, July 2020.
Note: Data as at start period.

LNG Carrier Orderbook Development



Source: Clarksons Research, July 2020.
Note: Data as at start period.

Construction of a new LNG carrier typically requires between 18 months and three years from contract signing to delivery of the vessel by shipyard, depending on the schedule of the relevant shipyard's orderbook. The number of shipyards that are capable and willing to construct LNG carriers is limited, and during periods of intense contract ordering, the ability to construct an LNG carrier within a near-term time frame can become restricted. LNG carrier ordering has slowed dramatically in 2020, and by July 1, 2020 just six LNG carrier orders (3 >40,000cm) had been confirmed. Progress at LNG project developments, which underpin LNG carrier ordering, have been limited this year and LNG carrier contracting has therefore come under pressure. However, some project related orders may still emerge during the second half of 2020.

Historically, LNG carriers are employed to export cargoes from a specific LNG liquefaction terminal or terminals, in some cases for the majority of the vessel's lifetime. As a result, LNG carrier fleet growth has historically been closely associated with changes in global LNG liquefaction capacity. Between the start of 2010 and end of 2019, Clarksons Research estimates that the capacity of the LNG carrier fleet grew by a CAGR of 6.6%. LNG carrier fleet capacity growth has been particularly firm in the last two years, increasing by an estimated 11% in 2018 and 8.0% in 2019. However, the pace of LNG carrier deliveries is expected to slow dramatically in 2020. Construction delays at yards in Asia due to 'lockdown' restrictions, particularly in South Korea which dominates LNG carrier construction, and difficulty in securing components from Europe have contributed to the slippage of some deliveries previously scheduled in 2020. Meanwhile, travel restrictions have impacted the ability of some owners to take delivery of vessels, which has particularly impacted the LNG carrier sector (92% of LNG carriers on order are foreign owned).

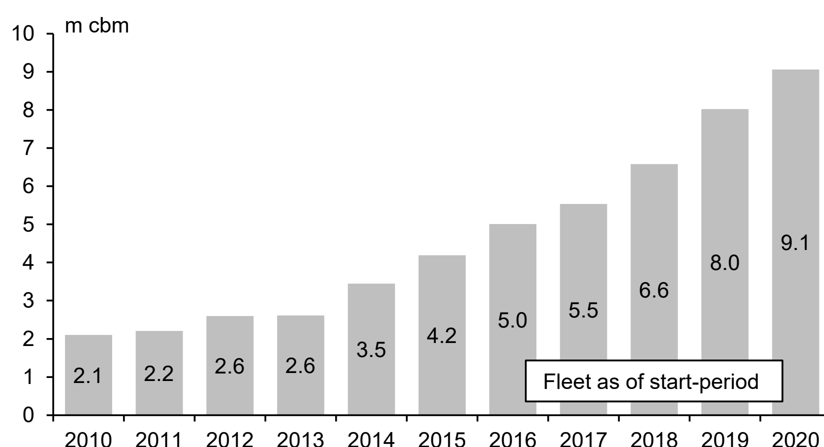
Rates

LNG is used principally in power and electricity generation and has been categorized historically by high capital costs resulting from development of production facilities, discharge facilities and vessels capable of transporting LNG. All three components of these high capital costs have historically been inextricably linked to each other, amounting to an integrated project capable of producing, liquefying, transporting, receiving and regasifying natural gas over the lifetime of a particular terminal. As a result, LNG marine transportation is generally categorized by time-charters of long duration (approximately 68% of LNG contracts in 2018 were for a duration of over a year) that perform dedicated transport services to either the production or receiving facilities.

Ice-Class LNG Carriers

Ice-class LNG carriers represent a relatively small proportion of the total LNG fleet and historically have often been purpose-built to facilitate exports from particular LNG liquefaction terminals. At the start of July 2020 there were seven ice-class LNG carriers in the Group's fleet, equivalent to approximately 10% of global ice-class LNG fleet. As of July 1, 2020, there were a total of 19 ice-class LNG carriers on order, equivalent to approximately 12% of vessels on the LNG carrier orderbook.

Ice-Class LNG Carriers Capacity Growth



Source: Clarksons Research, July 2020.
Note: Includes all vessels with ice-class 1C and above basis Fi-Sw ice-class equivalent.

Top Owners of Ice-Class LNG Carriers

Name	Fleet & Orderbook	
	Number	m cbm
SCF Group*	**22**	**3.7**
Dynacom Tankers	14	2.3
COSCOCS	6	1.0
Teekay, China LNG JV	6	1.0
CSET/MOL JV	3	0.5
Stena AB	3	0.5
NYK Line	3	0.5
Tokyo LNG	3	0.4
Golar LNG Ltd	2	0.3
Awilco AS	2	0.3
Others	*27*	*1.2*
Grand Total	**91**	**11.9**

Source: Clarksons Research, Company data as of July 1, 2020. Note: Includes 10 units on order via joint ventures.

Key Ice-Class Shipping Region

As a number of Russian ports and oil and gas projects are located in areas where sea ice is often present, either during winter months or all year round, the Russian Federation is a significant driver of demand for ice-class marine transportation, including oil tankers and offshore support vessels. To operate in ice affected waters, vessels require specialized features including strengthened hulls, enhanced propulsion and "winterization" features. In addition, operational experience is required. By virtue of their additional specifications, ice-class vessels are more expensive to build and operate than equivalent non-ice-class vessels.

Export facilities in the Russian East, at Sakhalin, require ice-class vessels, as do oil and product liftings from Primorsk, Vysostsk and Ust-Luga, and potentially, Portovaya. In addition, highly specialized ice-class offshore support vessels are required to support production fields in the Arctic and sub-Arctic regions, such as Sakhalin. Oil and gas export projects in the Arctic require even further ice-class specialization in terms of vessels and their operation. Projects such as Varandey, Prirazlomnoye, Novy Port and Yamal and new projects such as Arctic LNG, Obskiy require the construction of project-specific vessels adapted uniquely to the geography of operations and are typically utilized for the entire lifecycle of the project.

LPG Shipping

LPG carriers are employed in transportation of liquefied propane and butane as well as other ammonia and other petrochemical gases. Propane and butane are often used as petrochemical feedstocks, which is a fast-growing part of demand for LPG, particularly in Asia, and demand for their use as such is often dependent on the pricing compared to naphtha. The LPG fleet can be categorized by the vessel's method of containment, with approximately 30% of LPG carriers in the world fleet having fully refrigerated tanks (in numerical terms) as of July 1, 2020. Clarksons Research estimates that between 2009 and 2019, seaborne LPG trade (liquefied propane and butane) grew at a CAGR of 6.9%.

Crude Oil Shipping

Crude oil tankers transport crude oil or, where capable, certain refined crude oil products between oil production locations or reservoirs and oil consumption locations, typically in refineries or storage facilities.

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

- Very large crude carriers (the "**VLCC**"): these vessels are defined as those with capacity of 200,000 DWT and above, with carrying capacities of approximately 2m bbls or more of crude oil. According to Clarksons Research, VLCCs carry just under 50% of the global volume of crude oil transported by sea, with these vessels principally operating on long-haul voyages where the economies of scale provide the charterer with the lowest transportation costs per barrel of oil. However, port and terminal size and other geographical factors, such as channel depth and air draft limitations, restrict the range of places where VLCCs may trade.

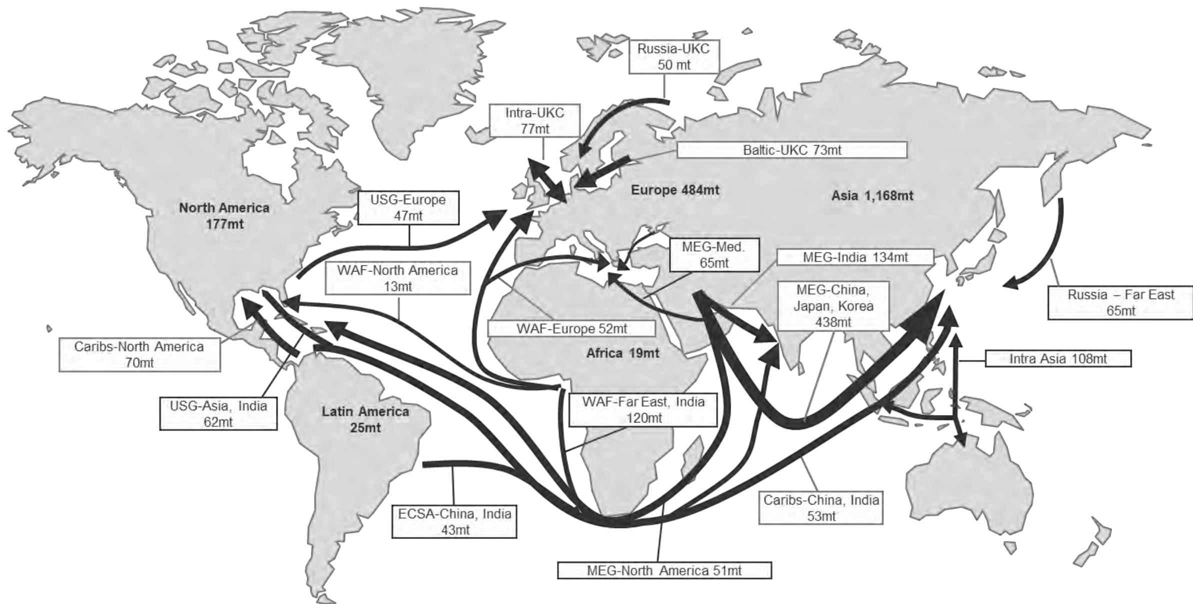
- Suezmax tankers: these vessels are defined as those with capacity of 125,000 DWT–199,999 DWT and have carrying capacities of approximately 1m bbls of predominantly crude oil cargoes. Suezmax tankers engage in both medium- and long-haul voyages where economies of scale provide the charterer with lower transportation costs per barrel of crude oil and where geographical or other restrictions prevent the use of VLCCs. The principal Suezmax routes are from West Africa to Europe and the U.S., from the Black Sea to the Mediterranean, intra-Mediterranean voyages and from the Middle East to the Mediterranean and India.

- Aframax tankers: these vessels are defined as those with capacity of 85,000–124,999 DWT in size and have carrying capacities of between 600,000 and 800,000 bbls of crude oil. Aframax tankers are utilized on short and medium-haul crude trades to serve ports and other locations that are unable to accommodate larger vessels. Principal routes include intra-regional routes in Europe and intra-regional routes in the Far East, e.g., from Russian Far East to Asia (predominantly, China). Aframaxes also serve crude trade routes from the Caribbean and Mexico to the U.S., from the Middle East to India, and more recently, growing volumes from the U.S. to Europe. Generally, Aframax tankers that transport both crude oil and refined oil products are restricted to carrying "dirty" refined products, such as fuel oil, vacuum gas oil, carbon black feedstock and low sulfur waxy residue.

Demand

The following charts illustrate the major seaborne crude oil trade routes in 2019.

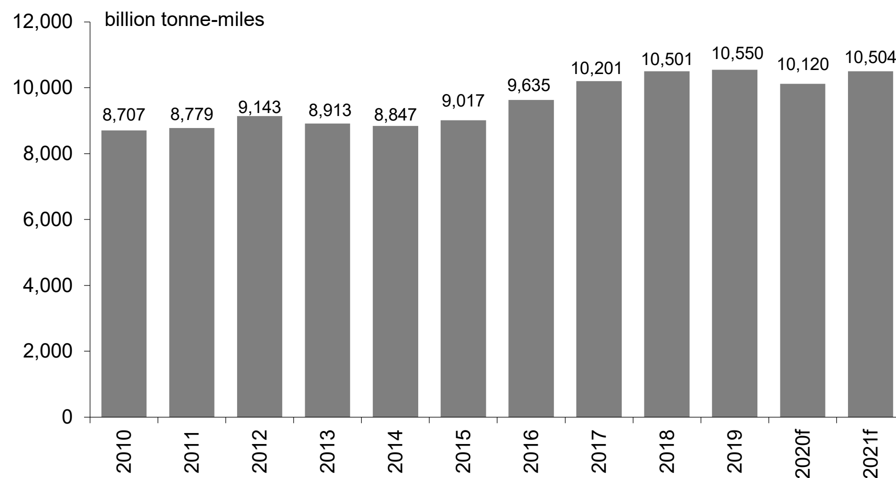
Major Seaborne Crude Oil Trade Routes In 2019



Source: Clarksons Research, July 2020.

In 2019, according to Clarksons Research, global seaborne crude trade declined by 1.1% to 40.0m bpd, equivalent to approximately 17% of world seaborne trade. Supply side disruptions in Iran and Venezuela as a result of U.S. sanctions and output cuts by OPEC and some non-OPEC oil producers exerted significant pressure on growth in crude shipment volumes in 2019. Meanwhile, seaborne imports into the U.S. fell by 27% y-o-y (approximately 1.1m bpd) in 2019, their sharpest drop on record, as rapid growth in domestic U.S. oil production has resulted in the decline of U.S. crude imports since 2016 (largely long-haul from the Middle East).

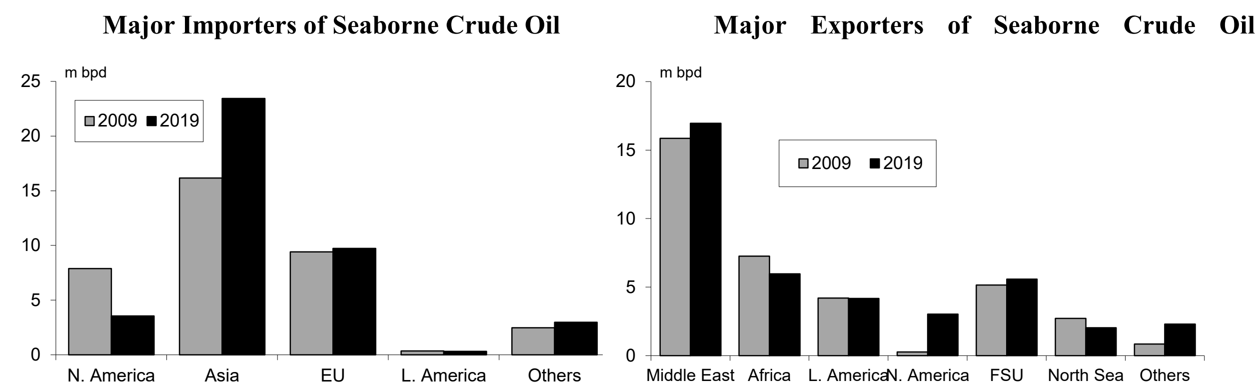
Global Seaborne Crude Oil Trade



Source: Clarksons Research, July 2020.

The rise in U.S. exports since 2017 has been the key driver of changes in seaborne crude oil trading patterns. Significant growth in long-haul voyages from the U.S. to Asia in particular have provided support to crude ton-mile demand and as a result, growth in crude ton-mile trade has outpaced crude trade growth in terms of tons by 2.2% per year since 2017. U.S. exports have also expanded rapidly on routes to Europe, lending support to demand for Aframax and Suezmax vessels. On the importer side, growth in Asian imports, largely to China and India, have been the key demand areas underpinning expansion in crude trade in recent years. Chinese seaborne crude imports have expanded at a CAGR of 10.3% in the past five years, on both long-haul voyages from the Middle East and

Atlantic as well as on shorter-haul routes such as from the Russian Far East, with 'teapot' refiners in China demonstrating a strong appetite for Russian crude. Growth on these shorter-haul routes has lent support to demand for Aframax tankers in particular.



Source: Clarksons Research, July 2020.

Clarksons Research forecasts that the volume of crude oil transported by sea will decline by 5–6% in tons in 2020 as historic cuts are made to global oil supply and refinery crude throughput is sharply reduced against a backdrop of a collapse in global oil demand (approximately 9% fall expected in 2020). OPEC and some associated non-OPEC producers agreed in April to curb output by 9.7m bpd in May–July 2020, with some countries such as Saudi Arabia undertaking additional voluntary cuts amounting to 1.2m bpd in June, in an effort to reduce the significant volume of oil oversupply caused by the sharp contraction in global oil demand as a result of impact from the COVID-19 pandemic. The supply cuts are due to moderate to approximately 7.7m bpd from August until December and then to approximately 5.8m bpd from January 2021 until April 2022. Major G20 producers, including Norway, Brazil, Canada and the U.S., also agreed to reduce output to some extent. Meanwhile, the IEA projects that global crude refinery throughput will fall by 6.4m bpd this year (-8% y-o-y), undermining imports into key regions. Nonetheless, the decline in seaborne crude ton-mile trade this year is expected to be somewhat moderated as growth in long-haul exports from the U.S. and South America to Asia, particularly China, this year provide support.

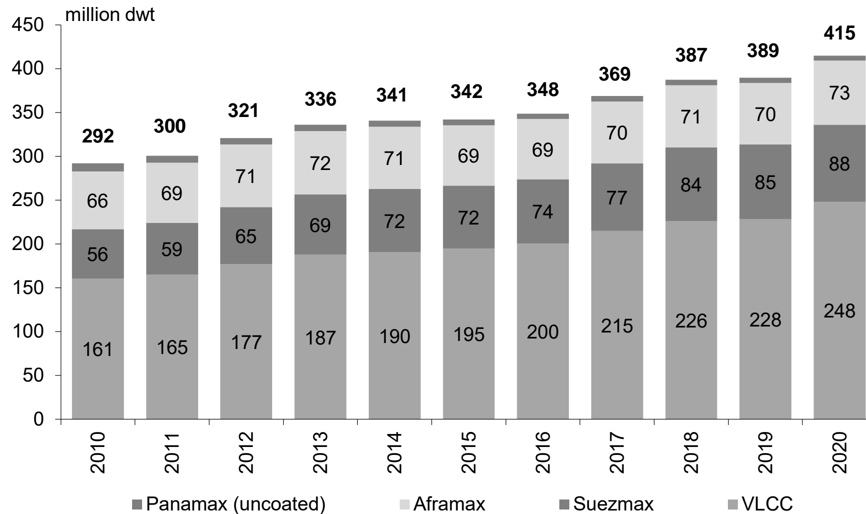
Seaborne crude trade volumes are expected to improve in 2021, with growth picking up to approximately 4% as refinery throughput recovers. However, uncertainty remains over the outlook, with high inventories in some regions and continued OPEC+ supply cuts potentially limiting further recovery. Nonetheless, there is still some potential for growth in long-haul U.S. exports to China next year, while recovering U.S. refinery utilization is expected to support firm growth in U.S. crude imports against a backdrop of softer domestic supply, particularly on long-haul routes from the Middle East as OPEC+ supply cuts moderate further, lending support to ton-mile trade growth. While oil demand is expected to recover in 2021, uncertainty remains over the recovery trajectory, with recent variation in regional trends and concerns over potential 'second waves' of COVID-19. According to Clarksons Research as of July 2020, in 2021 demand growth in the conventional business (crude oil and oil products) is expected to exceed supply growth by approximately 1.6%.

Supply

There are 2,151 crude tankers in the fleet, with those above 85,000 DWT accounting for 39% of the global oil tanker fleet (10,000+ DWT). Over the past 10 years, the crude fleet of 85,000 DWT and above has expanded by an average 3.8% per year, with recent rapid phase of expansion in 2016 and 2017 (+5.5% per year on average) resulting in a surplus of vessels which weighed on the market. The cumulative oversupply from these years partly led to crude tanker market conditions in 2018 falling to historical lows, in spite of crude tanker demolition in 2018 rising to the highest level in over 30 years (17.1m DWT of capacity was sold for recycling), leading to limited fleet growth of 0.6% y-o-y. However, the rate of fleet growth in Aframax tankers in the 2016–17 period was much less significant, averaging 1.7% y-o-y, and in 2018 the fleet contracted by 1.1%. The pace of growth in the crude tanker fleet accelerated once more in 2019 to 6.5% y-o-y (6.7% for crude tankers above 85,000 DWT), as crude tanker deliveries rose to their highest annual level since 2011, with 28.25m DWT of tonnage delivered. However, this expansion was focused largely in the VLCC sector, with the crude Aframax fleet expanding by a more moderate 4.2% y-o-y.

As of July 1, 2020, approximately 25% of crude oil tankers of 85,000 DWT and above were aged less than five years, while approximately 27% of the fleet was aged 15 years or more.

Crude Oil Tanker Fleet Development



Source: Clarksons Research, July 2020.
Note: Data as at start period, includes vessels of 55,000 DWT and above only.

Top Aframax Crude Tanker (85,000 - 124,999 dwt) Owners (of which Ice-Class)

Name	Fleet & Orderbook	
	Number	m DWT
SCF Group	**41 (17)**	**4.6**
Petronas	34	3.7
Minerva Marine	29 (13)	3.2
Thenamaris	25 (9)	2.7
Cardiff Marine	20 (6)	2.2
Tsakos Group	19 (4)	2.1
Eastern Pacific Shipping	19 (4)	2.1
Teekay Corporation	18 (1)	2.0
Sinokor Merchant	14	1.6
Zodiac Maritime	14	1.6
Others	*485 (42)*	*53.0*
Grand Total	**718 (102)**	**78.8**

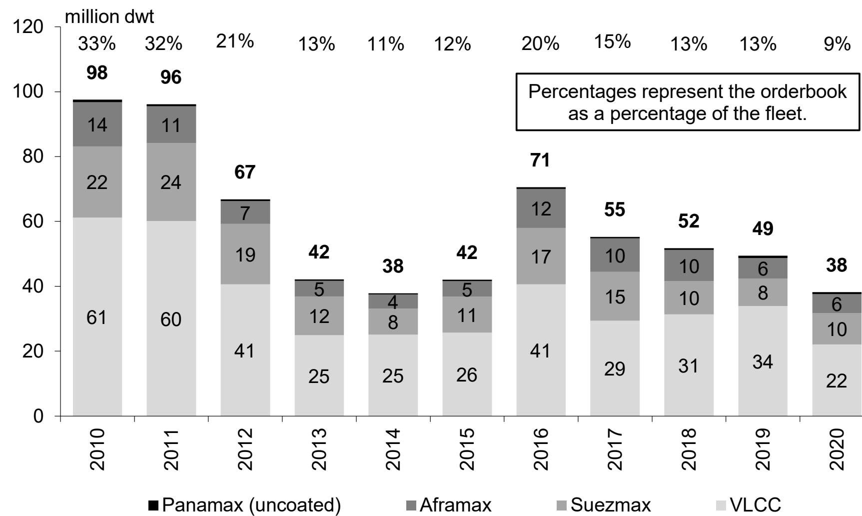
Top Ice-Class Crude Tanker (10,000 dwt+) Owners

Name	Fleet & Orderbook	
	Number	m DWT
SCF Group	**19**	**2.3**
COSCOCS	15	1.1
Minerva Marine	14	1.6
Euronav NV	13	2.1
Tsakos Group	12	1.8
Thenamaris	11	1.3
Marmaras Navigation	11	1.5
Rosneft JSC	7	0.8
Cardiff Marine Inc	6	0.7
Dynacom Tankers	4	0.6
Others	*49*	*5.6*
Grand Total	**161**	**19.2**

Source: Clarksons Research, Company data as of July 1, 2020.

New vessel demand is affected by new vessel prices in relation to current and anticipated charter market conditions. Following limited ordering in 2016, crude tanker contracting in 2017–2019 returned to relatively stable levels, averaging 19.4m DWT per year in 2018–2019 following a firm 24.8m DWT contracted in 2017. Nonetheless, this has remained subdued relative to the average of 27.1m DWT per year ordered in the 2000–2010 period, and far below the peak of 58.5m DWT in 2006. Contracting in 1H 2020 has been subdued owing to market uncertainty as a result of the COVID-19 pandemic, with 29 crude tankers of 5.8m DWT ordered in 1H 2020, the lowest since 1H 2016. As a result, the crude orderbook to fleet ratio has declined since the recent peak of 20.2% at the start of 2016 to reach just 8.4% on July 1, 2020, the lowest since February 1997 and compares to levels of approximately 47% in October 2008.

Crude Oil Tanker Orderbook Development



Source: Clarksons Research, July 2020.
Note: Data as at start period, includes vessels of 55,000 DWT and above only.

As of July 1, 2020, 57 crude tankers of 11.4m DWT were scheduled to be delivered before the end of the year. Activity at shipyards in China have been impacted by the recent outbreak of COVID-19 which could cause delays to new vessels scheduled for delivery in early 2020 (Chinese yards accounted for 34% of global output in CGT terms in 2019). The longer-term impact is still uncertain, with the extent to which yards can 'catch up' with potential delivery delays remaining unclear. Taking into account potential trends in non-delivery and scrapping, growth in the crude tanker fleet is projected to expand by 3.2% in 2020 in terms of DWT, with growth slowing to 2.0% in 2021. Growth of the fleet above 85,000 DWT is expected to follow a similar pattern.

IMO 2020

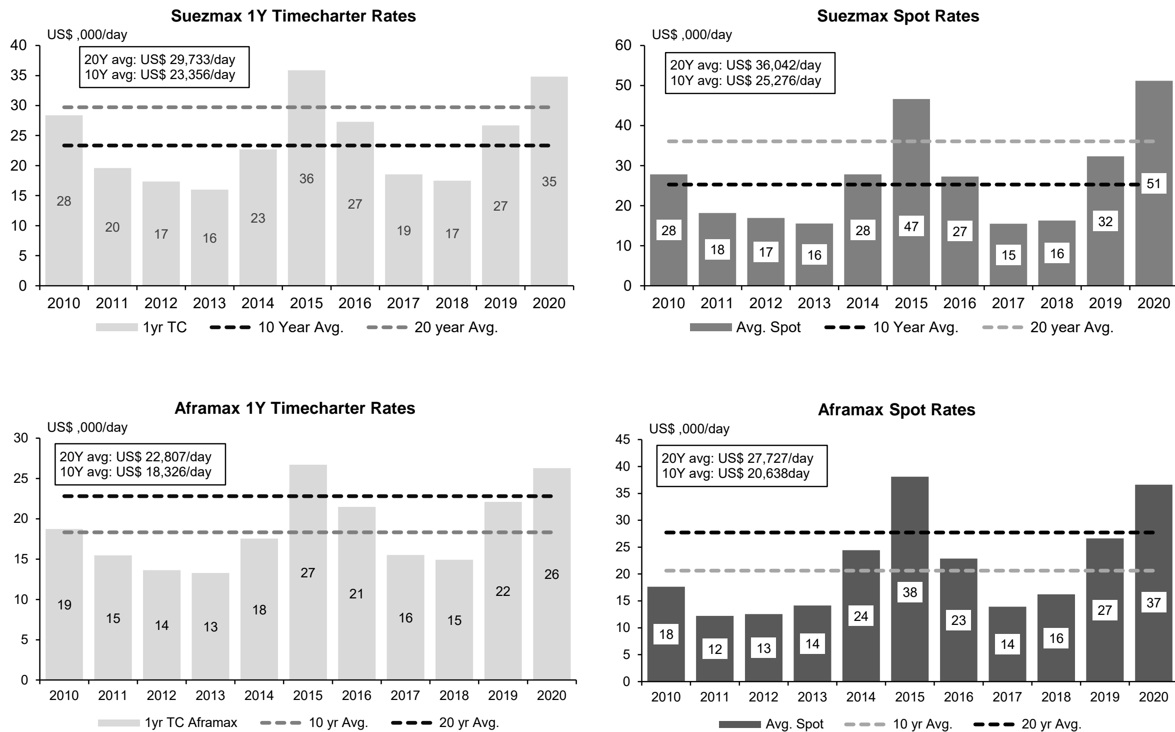
The introduction of the IMO 2020 global sulfur cap has had impacts on tanker supply in 2019 and 2020. Approximately 31% of the existing crude tanker fleet by capacity (85,000 DWT and above) had already had a sulfur oxides ("**SOx**") scrubber fitted or had a retrofit pending by mid-July. Vessel time 'out of service' for scrubber retrofit is currently estimated to have absorbed 1.2% of crude tanker fleet capacity across 2019, limiting growth in 'active' fleet capacity. The earnings differential between a scrubber fitted and non-scrubber fitted vessel has narrowed significantly in recent months as oil demand and prices collapsed. This led to a reduction in the share of the crude fleet 'out of service' from approximately 2% at the start of 2020 to 0.5% at the start of July, increasing 'active' supply relative to the start of the year. Current estimates are for 0.8% of crude tanker capacity to be absorbed across the balance of 2020. There is also the potential for the sulfur cap to lead to increased rationale for scrapping older vessels given their fuel efficiency and the economics of fitting scrubbers and an increased competitiveness for modern, fuel efficient vessels. In 2019, crude tankers employed in floating storage rose to account for over 5% of crude fleet DWT capacity by the end of the year (up from around 2.5% on average in 2018) partly related to use of tankers for storing compliant fuels in the run up to the implication of IMO 2020, although increased use of Iranian tankers for storage as a result of U.S. sanctions also had a significant impact. This year, despite the run down in IMO 2020 floating stocks, tanker floating storage levels built rapidly over March–May to historically high levels as a result of the significant global oil surplus owing to impacts from the COVID-19 pandemic, with the share of the crude fleet engaged in storage activities peaking at 12.3% in early May, tightening fleet supply. While this share has eased back from the peak, storage still remains at historically elevated levels and there is potential for additional logistical disruption as it unwinds to act to tighten the market in the short-term.

Rates

The charter market is highly competitive and based primarily on the offered charter rate, location and technical specification of the vessel and reputation of the vessel and its manager. Typically, the agreed terms are based on standard industry charter parties prepared to streamline the negotiation and documentation processes. The most common types of employment structures for a tanker are spot charters, which provide transport for a specific cargo from a load port to a discharge port; time-charters, where the charterer operates the vessel for a designated period of time; contracts of affreightment where a ship owner agrees to carry a series of cargo parcels for a fixed price; and pool employment. When employed in a pool, the vessel is part of a fleet of similar vessels, brought together by their owners in order to exploit efficiencies and benefit from a revenue sharing mechanism. The contracting in this sector can occur either directly between charterers and vessel operators or through the use of market intermediaries.

The following charts set forth the global average spot time-charter equivalent earnings for Suezmax and Aframax vessels in this sector over the last 10 years.

Historical Nominal Suezmax & Aframax Spot Earnings and One-Year Time-charter Rates (Modern Vessel)



Source: Clarksons Research, July 2020.

(1) Annual, 5, 10 and 20 year averages basis averages of monthly observations.

(2) 2020 ytd basis Jan–June.

(3) The vessels used in estimates are standard modern vessels in this market sector. Clarksons Platou Brokers estimate time-charter rates each week for these standard vessels, which is informed by transactions and ongoing negotiations associated with vessels of similar size. There is no guarantee that current rates are sustainable and rates may increase and decrease significantly over short periods of time.

Historical Crude Tanker Rates (Nominal)

US$/day	Average Spot Rates (TCE)		One Year Timecharter	
	Suezmax	Aframax	Suezmax	Aframax
2015	46,642	38,105	35,873	26,717
2016	27,260	22,885	27,299	21,491
2017	15,464	13,933	18,534	15,511
2018	16,291	16,233	17,477	14,923
2019	32,326	26,619	26,692	22,104
2020 ytd	51,176	36,630	34,823	26,298
5 Year Avg	27,861	23,090	25,340	20,379
10 Year Avg	25,276	20,638	23,356	18,326
15 Year Avg	33,263	25,336	28,944	22,153
20 Year Avg	36,042	27,727	29,733	22,807

Source: Clarksons Research, July 2020.

(1) Annual, 5, 10 and 20 year averages basis averages of monthly observations.

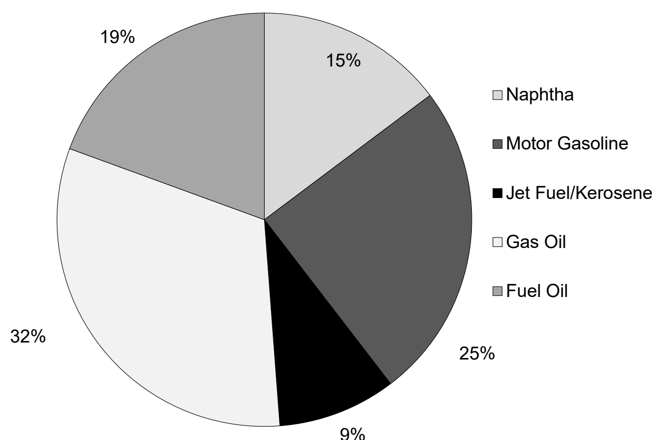
(2) 2020 ytd basis Jan–June.

Freight and hire rates for crude oil shipping vessels trading under spot charters are very sensitive to oil production trends and oil prices as well as demand for and supply of tankers. Rates are consequently volatile and are also strongly affected by seasonal fluctuations in demand from end consumers. In 2019, average annual spot earnings in the Suezmax and Aframax sectors were the highest since the spike in 2015, rising 92% and 62% y-o-y respectively from the bottom of cycle levels seen in 2018 and all stood over 30% higher than their averages since 2009. Average earnings across the crude market recorded their best half year period since 2008, driven by increased demand on floating storage tightening fleet supply. Earnings begun to ease back during May and June 2020, against a backdrop of lower cargo counts amidst crude supply cuts implemented from May 1, 2020 and as floating storage also begun to unwind, albeit still at around 8% of the crude fleet.

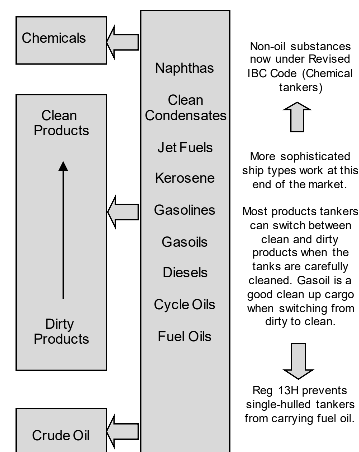
Oil Products Shipping

While crude tankers transport crude oil from points of production to oil refineries or storage locations, product tankers can carry both refined and unrefined petroleum products, including crude oil, as well as fuel oil and vacuum gas oil (often referred to as "dirty products") and gas oil, gasoline, jet fuel, kerosene and naphtha (often referred to as "clean products"). The major difference between the two is that clean products transportation will typically require a vessel with coated tanks. Product tankers are oil tankers typically with coated (often with epoxy) tanks. This tank coating allows vessels to transport various grades of refined petroleum products, vegetable oils and easy chemicals without degrading the vessel's steel or contaminating the cargo. "Dirty products," however, are transported by a mixture of coated and uncoated tankers, as trading patterns and market requirements dictate. Product tankers make up 59% of the combined crude and product tanker fleet (above 10,000 DWT) in terms of vessel numbers and 29% in terms of DWT and are a key part of the global tanker trade.

2019 Seaborne Oil Products Trade by Type (bpd)



Products Tanker Market



Source: Clarksons Research, July 2020.

Global oil products shipping fleet is generally divided into 4 main vessel types (MR, LR1, LR2, Handy) that are distinguished principally by vessel size and carrying capacity. SCF's fleet consists of:

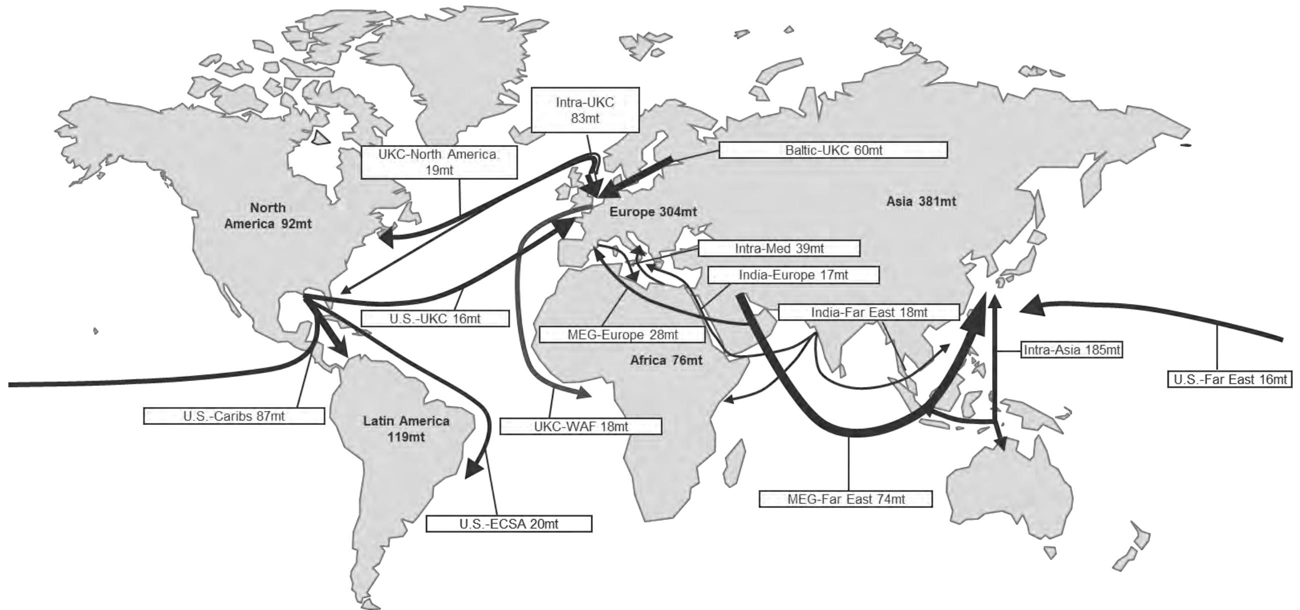
- Long range product tankers 1 ("**LR1**"): these vessels are generally between 55,000 DWT and 84,999 DWT in size and have cubic carrying capacities of approximately 55,000 metric tons of naphtha. LR1 tankers are utilized on medium- and long-haul voyages to transport both clean and dirty oil products where economies of scale provide charterers lower transportation costs but where geographic or other restrictions prevent the use of larger product tankers (LR2 with 85,000–124,999 DWT). Any switching between transport of clean oil products and dirty oil products occurs infrequently due to the costs of preparing vessel's tanks and lines for clean products after carrying dirty products. Principal trade routes for LR1s are from Europe to the West Atlantic, especially the U.S., and from the Middle East and India to Asia and Europe.

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

Demand

The following chart illustrates major seaborne oil products trade routes in 2019.

Major Seaborne Oil Products Trade Routes in 2019

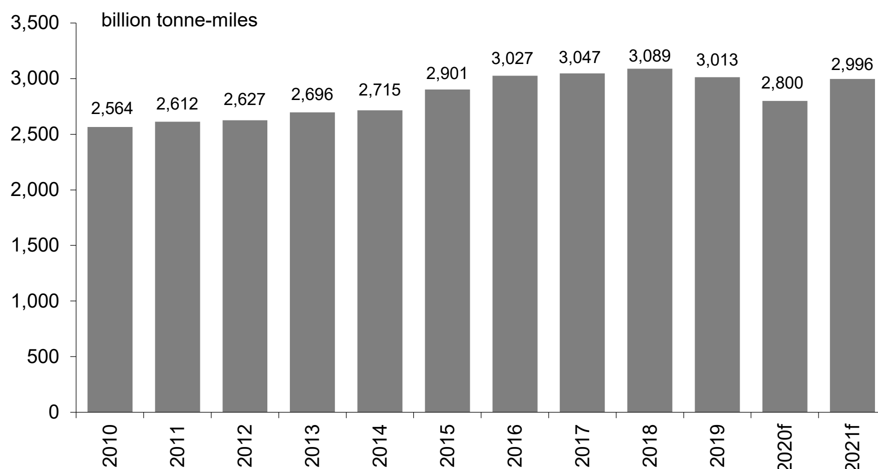


Source: Clarksons Research, July 2020.

Seaborne oil products trade in terms of ton-miles increased by a CAGR of 1.8% between 2010 and 2019, a similar pace to trade in tons. Increased exports from the U.S. have helped to support long-haul trade, with growth on routes to the Far East and Brazil. However, exports from the U.S. have grown most significantly to closer Latin American countries, counterbalancing the positive impact of global ton-miles growth.

Oil products trade fell in 2019 compared to the previous year by 2.4% to 3.0 trillion ton-miles (a 5% decline in terms of barrels per day to a total of 22.1m bpd). The drop in trade reflects a range of factors, including a sharp decline in fuel oil trade (approximately 15–20%), competition to naphtha from competitively priced LPG as a petrochemical feedstock, increased refinery maintenance ahead of IMO 2020, the economic impact from U.S.–China trade tensions and a warmer winter in South-East Asia. Current expectations are for a further decline in seaborne oil products trade in 2020 due to impacts from the COVID-19 pandemic as per current estimates. Trade is expected to contract by approximately 7% in both tons and ton-miles as imports into all key regions fall. Impacts from the IMO 2020 global sulfur cap were initially expected to provide some boost to seaborne oil trade in 2020, although in the first few months of 2020 the expected significant increase in middle distillate margins did not develop, and developments related to COVID-19 have now overridden previous expectations for increased gasoil trade volumes this year. Logistical issues including limitations to storage capacity are also expected to have an impact. While the extent and duration of the ‘shock’ to the global economy and oil demand from COVID-19 is uncertain, initial projections suggest a bounce back in seaborne oil products trade of 6–7% in 2021 in terms of tons and ton-miles, supported by improved oil demand growth and refinery runs. Exports from Asia and the Middle East are expected to rebound firmly as regional refinery capacity expands. Meanwhile, imports into Asia are currently expected to recover to above pre-virus levels as regional oil demand rebounds, with emerging economies, in particular developing Asia, expected to drive most of the economic and oil demand growth in the post-COVID-19 recovery. However, risks remain from winding down of inventories built up during 2020, and from a potentially more measured recovery in oil demand, as the global economy takes time to recover and as consumer behavior changes. According to Clarksons Research as of July 2020, in 2021 demand growth in the conventional business (crude oil and oil products) is expected to exceed supply growth by approximately 1.6%.

Global Oil Products Seaborne Trade

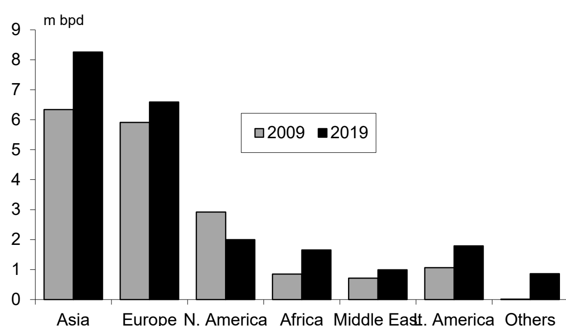


Source: Clarksons Research, July 2020.

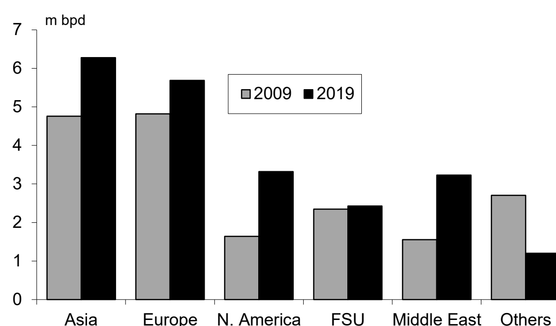
In recent years, key drivers of overall expansion in seaborne oil products trade have included increased imports into South East Asian/Asia Pacific, African and Middle Eastern countries, namely due to increasing oil demand in developing economies, many of which lack sufficient domestic refinery capacity to meet this growth in demand. Refinery closures have also lent support to product import demand in some regions, for example in OECD Europe, where refining capacity has contracted by approximately 0.8m bpd since 2010.

On the export side, growth in recent years has stemmed from increased shipments from the U.S., the Middle East and China. Exports from the U.S. rose by a CAGR of 5.8% in 2013–2018, supported by increased refinery capacity and by significant rise in domestic oil production, which led to higher availability of crude feedstock to refine. Meanwhile, Middle Eastern shipments expanded by a CAGR of 15.1% in 2013–2018, due in large part to the construction of new refinery facilities in the United Arab Emirates ("**UAE**") and Saudi Arabia. Chinese seaborne products exports grew by a CAGR of 20.2% in 2013–2018, also partly driven by significant expansion in refinery capacity. As a result, China transitioned from a net oil products importer to a net oil products exporter during this period.

Major Importers of Seaborne Oil Products



Major Exporters of Seaborne Oil Products

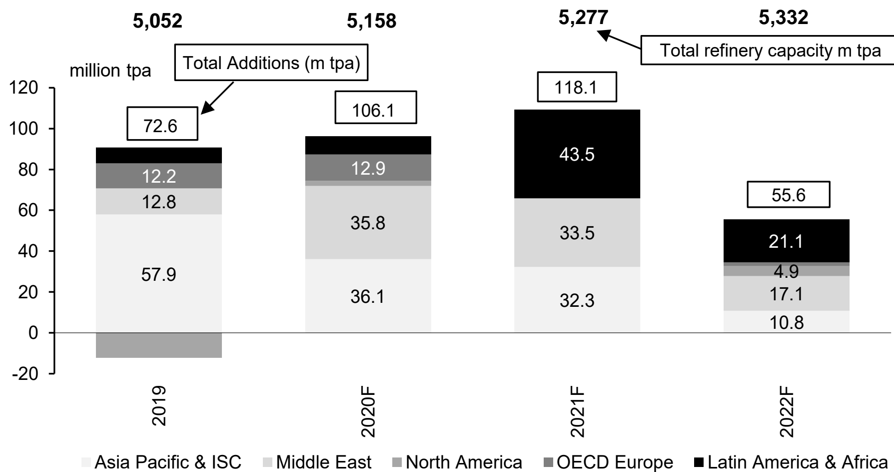


Source: Clarksons Research, July 2020.
Note: N. America includes U.S., Canada and Mexico.

Trends in refinery capacity and throughput levels are also a key driver of seaborne products trade patterns. At the end of 2019, global refinery capacity totaled an estimated 101.5 m bpd (5,051 tons per annum), with over a third of this capacity located in Asia and significant capacity also located in the U.S. and Europe. Global refinery capacity has expanded steadily over time in order to meet the continued growth in consumption of oil products. Refinery capacity additions in Asia, particularly China, have been a key driver of this expansion, with China adding 4.42m bpd of capacity since 2010. Construction of large-scale export-oriented plants in the Middle East has supported long-haul products trade to Asia and Europe. More recently, the U.S. and Indian refining sectors have also registered firm expansion, adding 1.0m bpd and 0.8m bpd of capacity, respectively, since 2014, while the refining industries in OECD nations in Europe and Japan have contracted as outdated capacity has been closed.

Further expansion in global refinery capacity in coming years is expected to be driven principally by refinery projects in the Middle East and Asia. Middle Eastern refinery capacity is projected to expand by 1.7m bpd between end 2019 and end 2022. Further expansion is also projected in China, in particular in the independent refining sector. A total 1.3m bpd of new capacity is expected to be added between end 2019 and end 2022. Indian refinery capacity is projected to expand by a further 0.5m bpd by end 2022 following expansions at a number of existing refineries to meet growing demand for oil products. However, in 2020, despite projected expansion of 2.1% in global refinery capacity to 103.6m bpd, impacts from the COVID-19 pandemic on oil demand are expected to significantly reduce global refinery throughput this year as refiners cut crude runs or shut-in capacity in order to adjust to falling oil products demand and curb product inventory builds.

Regional Refinery Capacity Growth



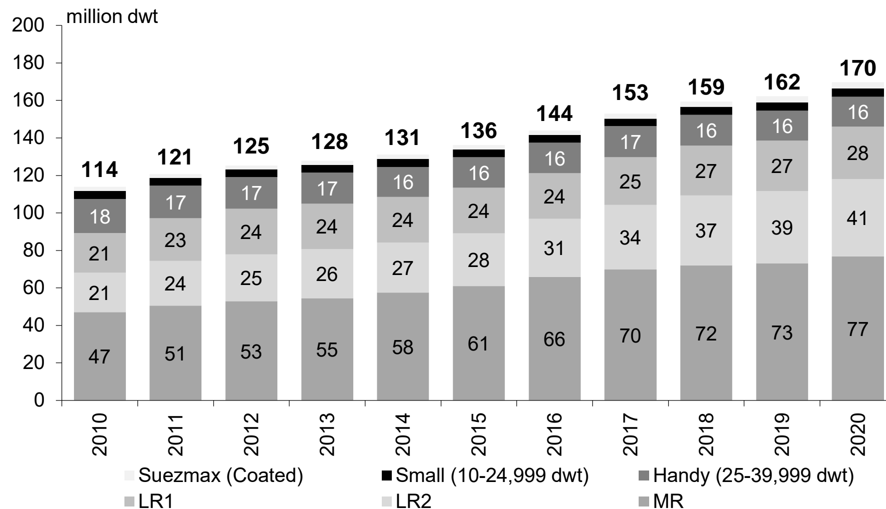
Source: Clarksons Research, Industry Sources, July 2020.

Developments in the oil price environment have also had a significant impact on seaborne oil products trade in recent years. Following the oil price crash in 2014–15 and again in 2016, improved refinery margins in a number of regions, including Europe and North America, supported refinery throughput and helped to boost seaborne oil products trade across a range of routes, in combination with increased end-user demand and inventory building. In the opposite trend, a higher oil price environment in 2018 put pressure on refinery margins and subdued the pace of oil demand growth relative to 2017 and also led to higher bunker prices which made many voyages uneconomical and limited arbitrage flows for much of the year. Oil prices were volatile in 2019, with negative pressures from weak oil demand growth and U.S.-China trade tensions countered by support from oil output curbs, U.S. sanctions and incidents in Saudi Arabia. This year, while the crash in oil prices might ordinarily have stimulated oil products trade growth, this supportive effect is expected to be overall outweighed by demand destruction related to the COVID-19 pandemic. However, low oil prices have supported inventory building, somewhat mitigating the loss in demand and lending market support through floating storage disruption.

Supply

The 3,159 product tankers make up 59% of the oil tanker fleet (vessels 10,000+ DWT) in numerical terms as of July 1, 2020, and are operationally critical to the oil tanker market. Between the start of 2010 and start 2015, product tanker fleet (vessels 10,000+ DWT) increased by a CAGR of 3.6% in terms of DWT capacity. Growth was low relative to a CAGR of 11.6% between the start of 2005 and start of 2010 reflecting the lower volume of new vessel orders that had been placed following the global financial crisis and tighter ship finance conditions. Growth increased to a CAGR of 5.4% between start 2015 and start 2018, before moderating to 3.2% between start 2018 and start 2020.

Oil Products Tanker Fleet Development



Source: Clarksons Research, July 2020.

(1) Data as at start period and includes oil products tankers between above 10,000 DWT.

Top Ice-Class Product Tanker (10,000 dwt +) Owners

Name	Fleet & Orderbook	
	Number	m DWT
SCF Group	**27**	**1.6**
Tsakos Group	21	1.1
Scorpio Group	26	1.1
Interorient Nav	19	0.7
Diamond S Shipping	14	0.7
Vitol Group	13	0.7
Stena AB	10	0.7
Minerva Marine	11	0.6
TORM A/S	12	0.6
German Tanker Shpg	13	0.5
Others	*205*	*2.4*
Grand Total	**371**	**10.6**

Top MR Product Tanker (40-54,999 dwt) Owners

Name	Fleet & Orderbook	
	Number	m DWT
Scorpio Group	63	3.1
TORM A/S	56	2.8
Diamond S Shipping	44	2.2
BW Group Ltd	43	2.1
Sinokor Merchant	42	2.1
China Merchants	38	1.8
COSCOCS	35	1.6
Mitsui OSK Lines	29	1.4
SCF Group	**28**	**1.4**
A.P. Moller Holding	24	1.2
Others	*1,336*	*64.2*
Grand Total	**1,738**	**83.9**

Top LR1 Product Tanker (55-84,999 dwt) Owners

Name	Fleet & Orderbook	
	Number	m DWT
BW Group	31	2.3
Prime Tanker Mgmt	25	1.8
China COSCO Shipping	13	1.0
Scorpio Group	12	0.9
Tsakos Group	12	0.9
Chemikalien Seetrans	11	0.8
Dynacom Tankers Mgmt	10	0.7
Navios Holdings	10	0.7
SCF Group	**9**	**0.7**
TORM A/S	9	0.7
Others	*245*	*18.0*
Grand Total	**387**	**28.5**

Top LR2 Product Tanker (85-124,999 DWT) Owners

Name	Fleet & Orderbook	
	Number	m DWT
Scorpio Group	38	4.2
Fredriksen Group	24	2.7
A.P. Moller Holding	17	1.9
TORM A/S	14	1.5
China COSCO Shipping	13	1.4
BoCom	12	1.4
Ocean Tankers	12	1.3
K. G. Jebsen (KGJS)	10	1.2
Latsco Shipping	9	1.0
SCF Group	**7**	**0.8**
Others	*263*	*29.1*
Grand Total	**423**	**47.0**

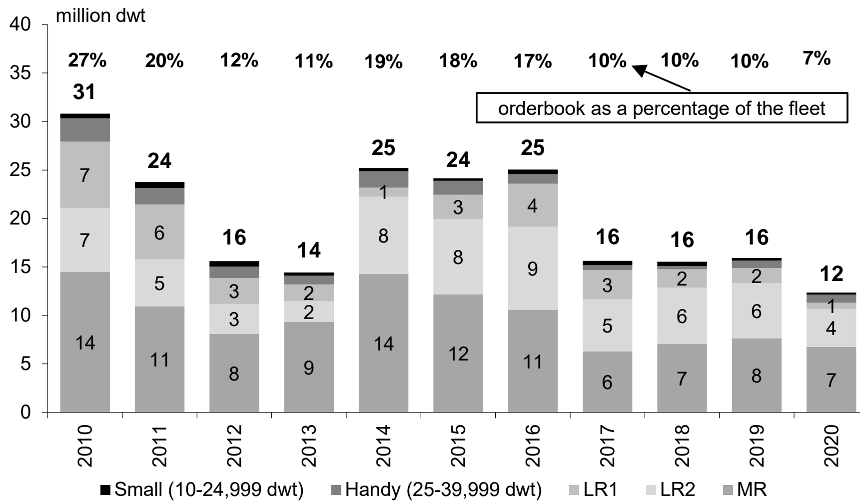
Source: Clarksons Research, Company data as of July 1, 2020. Note: Top Ice-Class Product Tanker table includes vessels with Fi-Sw ice-class equivalent of 1B and above only.

Product tanker demolition (vessels 10,000+ DWT) has averaged 2.0m DWT per year over the last 10 years, but increased from 0.8m DWT in 2016 to 1.9m DWT in 2017, and 2.9m DWT in 2018. Demolitions fell to just 1.0m DWT in 2019.

New vessel demand is affected by new vessel prices in relation to current and anticipated charter market conditions. Product tanker ordering has been relatively limited in recent years, averaging 5.4m DWT per year between 2016 and 2018, compared to 17.9m DWT in 2013 and 29.9m DWT in 2006. By the start of July 2020 the

product tanker orderbook (vessels 10,000+ DWT) totaled 200 vessels of 12.3m DWT. The orderbook to fleet ratio declined to 6.6% in DWT terms at the start of April 2020, representing the lowest ratio for over 20 years, and stood at 7.1% at the start of July 2020. Taking into account potential trends in non-delivery and scrapping, growth in the product tanker fleet (vessels 10,000+ DWT) is projected to slow to 1.7% in 2020. This slowdown is projected on the back of the limited product tanker orderbook and in part owing to COVID-19 related delivery disruptions.

Oil Products Tanker Orderbook Development

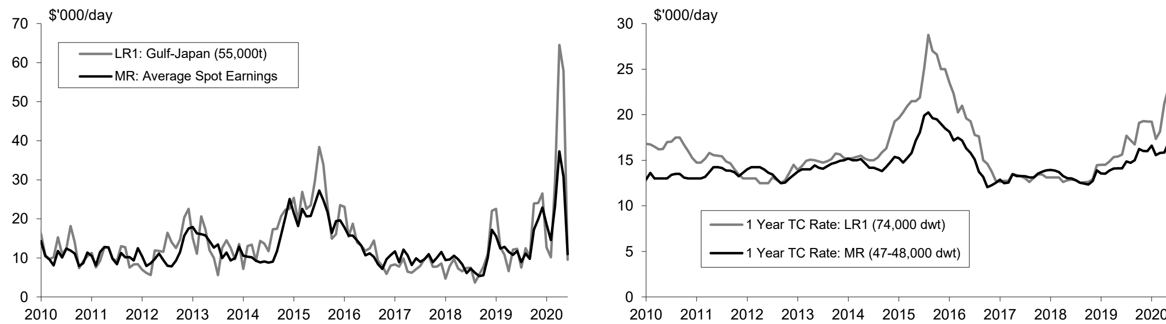


Source: Clarksons Research, July 2020.
(1) Data as at start period and includes oil products tankers above 10,000 DWT.

Rates

The following charts and tables set forth the global average spot time-charter equivalent earnings and time-charter rates for LR1 and MR vessels in the oil products sector over the last 10 years.

Historical Nominal Clean Product Spot Earnings and One-Year Time-charter Rates (Modern Vessels)



Note: The vessels used in estimates are standard modern vessels in the oil products sector. Clarksons Platou Brokers estimate time-charter rates each week for these standard vessels, which is informed by transactions and ongoing negotiations associated with vessels of similar size. There is no guarantee that current rates are sustainable and rates may increase and decrease significantly over short periods of time.
Source: Clarksons Research, July 2020.

US$/day	Average Spot Rates (TCE)			One Year Timecharter Rates		
	LR2: Gulf-Japan (75,000t)	LR1: Gulf-Japan (55,000t)	MR: Average Spot Earnings	LR2 (115,000 DWT)	LR1 (74,000 DWT)	MR (47-48,000 DWT)
2015	30,480	24,788	21,399	27,046	23,597	17,754
2016	16,434	12,856	12,083	20,972	18,127	15,078
2017	10,088	8,179	10,142	15,274	13,079	13,219
2018	10,946	8,434	8,792	14,931	12,970	13,131
2019	22,219	15,169	13,746	20,622	16,629	14,682
2020	45,002	30,730	22,594	26,956	19,255	15,853
5 Year Avg	19,702	14,503	13,366	20,030	16,711	14,754
10 Year Avg	18,002	14,200	12,975	19,517*	16,099	14,457
15 Year Avg	21,796	18,002	15,335		19,629	17,070
20 Year Avg	24,881	20,192	16,536		20,073**	17,153^

Source: Clarksons Research, July 2020.

(1) Annual, 5, 10 and 20 year averages basis averages of monthly observations.
(2) *Average basis March 2013 to June 2020, **basis start May 2000-June 2020, ^basis start Jan 2001-June 2020
(3) 2020 ytd basis Jan-June.

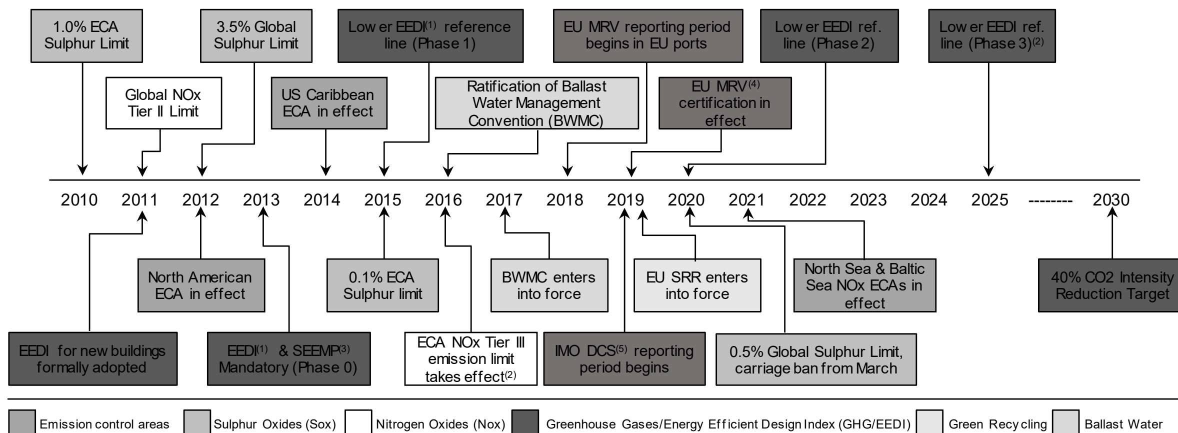
Freight and hire rates for product tankers trading under spot charters are very sensitive to fluctuating demand for and supply of vessels, and rates are consequently volatile. Market conditions have also been well correlated with crude oil tanker market developments, partly reflecting the fact that some crude and products tankers have the potential to act as 'swing tonnage' between the crude, dirty and clean markets.

Rates and earnings in the product tanker market have varied considerably over recent years. Product tanker earnings and time-charter rates generally fell to historically low levels after the global financial crisis, as the build-up of vessel oversupply exerted market pressure. MR earnings averaged US$12,418/day over the last 10 years, compared to a 20-year average of US$16,327/day. However, MR earnings in Q1 2020 averaged US$18,823/day, their highest quarterly average since 2015 (basis the vessel utilizing a low-sulfur bunker fuel oil) before registering a record spike in April, peaking at US$74,000/day. Similarly to the crude market, against a backdrop of a significant build in global oil inventories owing to impact from the COVID-19 pandemic, the rising numbers of product tankers employed in oil storage activity was a key driver of the market spike (equivalent to approximately 8% of the product tanker fleet in late April, up from 2% at the start of the month), while significant discharge delays and logistical issues exacerbated the impact. Earnings have since weakened, driven by declines in global refinery runs, relatively high regional oil inventories owing to the impacts from COVID-19 on oil demand, and a gradual decrease in the volume of product tankers employed in oil storage activity (5% of the fleet at the start of July 2020 compared to a peak of 9% in early May 2020). Earnings fell to approximately $8,000/day at the end of June and have softened further into July 2020. Market conditions in the LR product tanker sectors have followed a similar overall trend.

Similarly, the guideline one-year time-charter rate for an MR tanker fell from over US$27,000/day in mid-2007 to US$12,000/day by late 2009. Since 2010, the one-year MR time-charter rate averaged US$14,350/day. Market conditions weakened to historical lows in 2018 but since recovered and the one-year MR time-charter rate averaged US$16,038/day in Q1 2020 (rates are based on a 'modern' MR product tanker built circa 2010; vessels built more recently with 'eco' specifications are generally able to achieve an additional premium on these levels). In 2019, the one-year time-charter rate for an 'eco' MR tanker stood at 12% above the average for a 'modern' vessel of similar size. However, the differential has narrowed throughout 1H 2020 as time-charter rates have also moderated from impacts related to the COVID-19 pandemic. Market conditions in the LR product tanker sectors have followed a similar overall trend.

Environmental and Regulatory Issues

Shipping Environmental Timeline



Source: Clarksons Research, July 2020
(1) Energy efficiency design index;
(2) EEDI phase 3 requirements brought forward to 2022 for gas carriers, general cargo ships and container ships;
(3) Ship Energy Efficiency Management Plan;
(4) Monitoring, reporting and verification;
(5) International Maritime Organization - Fuel Data Collection System;
(6) Ship Recycling Regulation.

In recent years there have been an increased number of regulatory issues that the marine transportation industry has had to face. The 4 key issues are highlighted below.

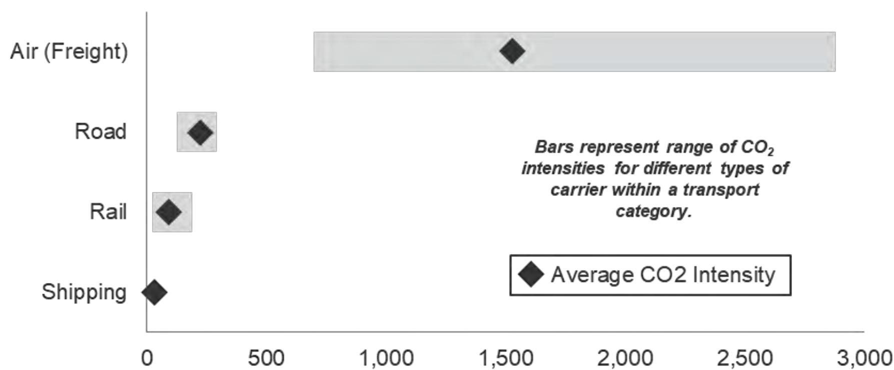
IMO 2020 Global Sulfur Cap

The IMO's global limit on the sulfur content of marine fuels of 0.5% from 3.5% was introduced at the start of 2020, with the aim of reducing the global shipping fleet's SOx emissions by 80%. Owners have had a range of options to comply with the IMO 2020 Sulfur Cap, including scrubber installation uptake, choice of low sulfur fuel or alternative fuel types such as LNG. The cap was initially expected to be a key factor shaping trends in seaborne trade of both crude and oil products in terms of volumes and trading patterns this year. However, the COVID-19 pandemic has since become the dominant factor influencing seaborne oil trade, significantly outweighing any impacts related to IMO 2020.

Greenhouse Gas Emissions

Marine transportation accounted for an estimated 2.4% of global CO2 emissions in 2019. However, its relative carbon intensity is lower than any other freight industry.

Average CO2 Intensity by Mode of Transport



Source: Clarksons Research, IMO, IATA, Global Carbon Project, February 2020.
Note: CO2 Intensity refers to tons of CO2 emitted per million ton miles of trade. Marine transportation CO2 intensity calculated basis average global merchant fleet (100+ GT) as per Clarksons Research models. CO2 intensities for Rail, Road and Air freight basis averages of a range of estimates provided in the IMO 2nd GHG study, 2009. Bars extend from the lowest estimate provided to highest estimate provided in the IMO 2nd GHG study, 2009. Note: total CO2 emissions for airline industry includes passenger as well as freight industry.

In line with energy transition and decarbonization, in April 2018, the IMO introduced GHG emissions targets for the marine transportation industry, aiming to reduce GHG emissions from international marine transportation with a view to phasing them out within the century. The three key targets set are to reduce:

- CO2 emissions per unit of transport work, as an average across international marine transportation, by at least 40% by 2030, relative to a 2008 baseline
- CO2 emissions per unit of transport work, as an average across international marine transportation, by 70% by 2050, relative to a 2008 baseline
- total annual GHG emissions by at least 50% by 2050, relative to a 2008 baseline, while pursuing efforts to phase them out by 2100 in a view consistent with the Paris Agreement temperature goals.

Along with aims to tighten energy efficiency design requirements for ships, with vessels built in 2025 and beyond required to be 30% more energy efficient than those built in 2014, these targets will have significant impact on the marine transportation industry in terms of owners' choices of alternative fuel types, uptake of new energy saving technologies and pressures on lenders to carry out more environmentally conscious investments. LNG is seen by many within the industry as a potential interim solution to reduce GHG emissions.

Top LNG Fuelled Oil Tankers (10,000 dwt+) Owners

Name	Fleet & Orderbook	
	Number	m DWT
BoCom Leasing	12	1.4
Sinokor Merchant	10	1.1
SCF Group	**11**	**1.1**
AET Tankers	4	0.8
Rosneft	5	0.6
Eastern Pacific Shpg	4	0.5
Grand Total	**51**	**6.0**

Source: Clarksons Research, Company data as of July 1, 2020.

Ballast Water & NOx Emissions

The Ballast Water Management Convention that the IMO ratified in September 2017 aims to prevent the transfer of invasive aquatic organisms through control and management of ships' ballast water and sediment. These, and other, developing governmental requirements and charterer criteria have tended to have an adverse effect on older and less efficient vessels. These trends could restrict supply of vessels available to charterers in the future as older vessels are removed from service, requiring vessel owners and operators to maintain more modern fleets.

Nitrogen oxide ("**NOx**") emissions limits have been introduced for diesel engines, set in three tiers dependent on year of build and maximum operating speed, with the strictest level, Tier III ("**Tier III**"), introduced for all ships with a keel laid from January 1, 2016 operating in the North American and U.S. Caribbean Sea Emission Control Areas (the "**ECAs**"). From January 1, 2021, this Tier III limit will be also imposed on all vessels with a keel laid from this point that operate in the Baltic and North Sea ECAs. In recent years, charterers have also begun to impose strict criteria on the quality of vessels used to transport seaborne oil, as well as operating and manning standards. The increasingly complex regulatory environment may benefit larger players due to the investment required to update vessels.

BUSINESS

Overview

The Group is a global leader in seaborne energy transportation solutions and a leading provider of marine services for global energy suppliers, specializing in maritime operations in harsh environments. The Group owns and operates one of the largest tanker fleets in the world, according to Clarksons Research. As a fully integrated shipowner and manager, the Group provides specialist marine services and equipment to upstream oil and gas projects and complex high-end shipping services to the world's leading oil and gas companies for the worldwide transportation of crude oil, oil products and liquefied gas (LNG and LPG).

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 marine services segment. A description of each segment is set out below.

Industrial Business

Offshore services. This segment comprises the services provided by the Group's ice-class shuttle tankers and specialized supply or service vessels. The Group owned the world's largest ice-class shuttle tanker fleet and the largest ice-class supply vessel fleet as of July 1, 2020, according to Clarksons Research. The Group's shuttle tankers transport oil from offshore facilities to customers' receiving terminals or onward shipment hubs. The Group's ice-breaking 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, and logistical support. For the six months ended June 30, 2020, this segment generated US$245.8 million (31.4%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, this segment's fleet consisted of 19 shuttle tankers, with a further two vessels under order (see "—*Orderbook*"), with a total capacity of 1.6 million DWT (excluding vessels in the orderbook), as well as seven ice-breaking supply vessels and three ice-breaking supply standby vessels. As of June 30, 2020, this segment accounted for 32% of the Group's fleet net carrying value. The average fleet age in the offshore services segment as of June 30, 2020 was 10.0 years. All vessels in this segment are wholly-owned.

Gas transportation. This segment transports LNG and LPG. For the six months ended June 30, 2020, this segment generated US$96.4 million (12.3%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group operated a fleet of six LNG carriers (five of which are ice class) with a total capacity of 0.6 million DWT. In addition to the *SCF Barents*, which was delivered on September 14, 2020 (see "*Recent Developments—SCF Barents*"), there are a further two vessels under order (see "*—Orderbook*"). The Group also owns four LPG carriers (two of which are ice class) with a total capacity of 0.1 million DWT. As of June 30, 2020, this segment accounted for 22% of the Group's fleet net carrying value. The average fleet age in the gas transportation segment as of June 30, 2020 was 6.7 years. In addition, the Group jointly owns, with NYK Line, four LNG carriers (two of which are ice class) with a total capacity of 0.3 million DWT, with a further 14 ice-class LNG carriers under order in connection with the operations of SMART LNG, a joint venture with Novatek (– see "*—Orderbook*"). The Group also performs technical management of a third-party owned Floating Storage and Regasification Unit.

Conventional Shipping Business

Crude oil transportation. This segment comprises the transportation of crude oil. For the six months ended June 30, 2020, this segment generated US$285.7 million (36.5%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group's fleet in this segment consisted of 54 wholly-owned crude oil carriers, with a further two vessels under order (see "*—Orderbook*"), representing a total capacity of 7.1 million DWT. This business segment accounted for 32% of the Group's fleet net carrying value as of June 30, 2020. The Group owned the largest Aframax tanker fleet in the world, as of June 30, 2020, according to Clarksons Research. The average fleet age in the crude oil transportation segment as of June 30, 2020 was 11.9 years.

Oil products transportation. This segment comprises the transportation of refined petroleum and other oil products. For the six months ended June 30, 2020, this segment generated US$122.7 million (15.7%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group's fleet in this segment consisted of 36 wholly-owned petroleum product carriers, with a further three vessels under order *(see "—Orderbook")*. The total capacity of the Group's existing vessels in this segment as of June 30, 2020 was 2.1 million DWT (excluding joint ventures and vessels under order), and this business segment accounted for 13% of the Group's fleet net carrying value as of June 30, 2020. The average fleet age of the wholly-owned vessels in the oil products transportation segment as of June 30, 2020 was 13.0 years. In this segment, the Group operates nine

petroleum product carriers which are jointly-owned with third parties, representing a total capacity of 0.7 million DWT and an average fleet age as of June 30, 2020 of 9.1 years.

Other Activities

Other marine services. This segment comprises bulk cargo carriers and seismic research vessels. For the six months ended June 30, 2020, this segment generated US$32.0 million (4.1%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, this segment's fleet consisted of two dry cargo bulkers with a total capacity of 149,077 DWT and two chartered-in seismic research vessels, and the segment accounted for 1% of the Group's fleet net carrying value as of June 30, 2020.

The Group specializes in providing services in harsh weather environments and ice-water conditions with fleet vessels, management systems and personnel specialized in operating in such conditions and is a provider of critical infrastructure in the form of a floating pipeline for global energy suppliers to connect to their customers. A substantial portion of the Group's fleet consists of vessels with ice-class notations, spread across each of the Group's operating segments. These vessels, which are designed to withstand harsh weather and ice-water conditions and are specifically customized to the services they are required to perform and their operating geography, operate primarily along the harsh environment trade routes of the Baltic, Russian Arctic and sub-Arctic regions and the northern Far East of Russia. As of June 30, 2020, the Group's fleet consisted of 146 owned and chartered-in vessels of 12.6 million total DWT (13 of which, with 1.0 million DWT, are owned through the Group's joint ventures with third parties), including 83 ice-class vessels (representing 56.8% of the Group's fleet by number of vessels). The Group operated nine offices worldwide as of the same date. According to Clarksons Research, the Group was the only marine services provider with a leading market position in all ice-class shipping segments (including vessels under order) by number of vessels and DWT, with the largest fleet of ice-class shuttle tankers, ice-breaking supply vessels and ice-class LNG carriers in the world, as of July 1, 2020. The Group is also the largest Russian oil tanker owner by DWT capacity according to Clarksons Research. For the six months ended June 30, 2020, the Group generated time-charter-equivalent revenues of US$782.7 million and Adjusted EBITDA of US$578.6 million, with an Adjusted EBITDA margin of 73.9%.

Given SCF's status as a strategic asset of the Russian Federation providing marine transportation solutions and critical infrastructure for global energy suppliers, the Group has an important role in the development of Russia's energy sector, both as the leading energy shipping group in the Russian Federation and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's industrial business to be, in effect, a seaborne extension of the Russian pipeline infrastructure, which positions the Group to benefit from servicing Russian hydrocarbon exports. According to Clarksons Research, in 2019 the Russian Federation was the third-largest crude oil producing country in the world, and the second largest producer of natural gas in the world. The Russian Federation exports significant volumes of crude oil and refined oil products, accounting for the majority of seaborne exports crude oil and oil products from the FSU. According to Clarksons Research, the Russian Federation was estimated to be the second largest seaborne crude oil exporting country behind Saudi Arabia in 2019, and the largest exporter globally of volumes transported on Aframax tankers, which constituted approximately 70% of Russian seaborne crude exports. See "*Industry Overview—The Russian Oil and Gas Sector*." In 2019, the Group handled 19% of total oil and gas turnover at Russian seaports and transported a significant portion of the crude oil produced from offshore production platforms along the Russian coasts. Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of those oil and gas reserves that are exported by sea.

The Group's customers include major international oil and gas groups such as BP, Chevron, ExxonMobil, Shell and Total, as well as major Russian oil and gas groups, such as Gazprom, Lukoil, Novatek and Rosneft. In 2019, the portion of the Group's time-charter-equivalent revenues derived from Russian clients was approximately 45.6%. For the six months ended June 30, 2020, the time-charter-equivalent revenues derived from Russian clients was approximately 42.2% (Gazprom 17.5%, Sakhalin Energy 10.5%, Lukoil 8.5%, Novatek 4.2%, SIBUR 1.3% and Rosneft 0.2%). The Group's customers also include other national oil and gas companies, such as Petrochina, Repsol and ENI, and international commodity trading houses, such as Glencore, Gunvor, Trafigura and Vitol. Management believes that customers partner with the Group for logistically complex projects due to the Group's extensive operating capabilities, diverse service offering, high-quality fleet, reputation for first-class customer service and financial stability.

The following table shows revenues derived from the Group's major clients as a percentage of time-charter-equivalent revenues in the six months ended June 30, 2020:

Customer	As a % of time-charter-equivalent revenues Six months ended June 30, 2020
Gazprom	17.5%
Sakhalin Energy	10.5%
Lukoil	8.5%
Exxon Neftegas	5.9%
Exxon	5.8%
Trafigura	5.8%
Royal Dutch Shell	5.3%
Vitol	4.7%
Novatek	4.2%
Total	3.9%
TOTAL	72.1%

Since 2005, the Group has shifted its strategy from a pure tanker business and expanded into the industrial solutions space, providing critical infrastructure for global energy suppliers to connect to their customers. As a result, its industrial business has grown from 0% of the Group's time-charter-equivalent revenues in 2005 to 18.3% in 2010 to 50.5% in 2019. The Group has also expanded significantly through organic fleet growth, acquisitions and contributions to its charter capital and has grown from a mid-size tanker company to a global leader in energy shipping, providing complex marine logistical solutions. Under the current management team, the Group successfully weathered a significant downturn in the shipping industry between 2009 and 2014 and has broadened the range and capabilities of its vessels and services by entering new market segments in the energy industry, such as the transportation of LNG and LPG and the owning and operating of shuttle tankers and ice-breaking supply vessels to and from offshore exploration, production and transshipment facilities, all with a focus on providing services in harsh weather and ice-water conditions. Management believes that this operational expertise places the Group in a strong position to expand the range of transport and logistics services that it provides to its clients both in the Russian Federation and internationally.

Recent Developments

SCF Barents

On September 14, 2020, SCF took delivery of *SCF Barents*, a new 170,000 cbm LNG carrier. *SCF Barents* is chartered to Shell under a long-term time-charter agreement.

SMART LNG

In August 2020, SMART LNG entered into leasing arrangements whereby 10 additional ice-breaking Arc7 LNG carriers were ordered to serve under long-term time charter agreements for the Arctic LNG 2 project (for further information, see "*—Orderbook*" and "*—Contract Backlog*").

COVID-19

The Group responded to the COVID-19 pandemic by developing a COVID-19 task force, implementing strict protection measures, which focus on the health and safety of its seafarers and shore-based staff and sustaining safe and efficient operations, while minimizing any disruptions. The Group has provided materially uninterrupted services for customers during the COVID-19 pandemic, with 96.9% fleet utilization for the six months ended June 30, 2020.

2019 Dividend

Dividends for the year ended December 31, 2019, of RUR 7,181.0 million (RUR 3.65 per share), equivalent to US$96.8 million at the exchange rate on the date of declaration, were declared on August 4, 2020. These dividends were paid on August 17, 2020.

Orderbook

As of the date hereof, the following vessels are under order in connection with the operations of the Group and its joint ventures:

Offshore services:

- Two vessels under order (both due to be delivered in 2022).

Gas transportation:[1]

- Two vessels under order (one due to be delivered in 2021 and one in 2023).
- 14 ice-class LNG carriers under order in connection with the operations of SMART LNG (four due to be delivered in 2023, five in 2024 and five in 2025).

Crude oil transportation:

- Two vessels under order (both due to be delivered in 2022).

Oil products transportation:

- Three vessels under order (one due to be delivered in 2022 and two in 2023).

For further information relating to the foregoing vessels, including the arrangements pursuant to which they have been ordered, see "*—Fleet*" and "*Operating and Financial review—Off-Balance Sheet Arrangement*s."

Contract Backlog

"**Contract backlog**," as of any date, is the total amount receivable by the Group under the Group's currently outstanding time-charter agreements as of such date, including arising from the Group's share in joint ventures. It is presented either for a specified period or for the total term of such agreements, in each case excluding extension options. It is based on the applicable time-charter-equivalent rate as of such date and Management's estimate of the total trading days in the period for which it is presented (calculated as the total number of days for which the vessel is in possession of the owner less any scheduled or unscheduled maintenance or repairs during such period). The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Risk Factors*").

As of June 30, 2020, the Group's total contract backlog was US$12,796.3 million (compared to US$9,918.7 million as of December 31, 2019), 91% of which was under contracts whose remaining terms exceeded five years in duration. The US$12,796.3 million total contract backlog consists of the following:

- Existing wholly-owned vessels: US$6,327.1 million
- Vessels under order (see "*—Orderbook*") in connection with the operations of the Group: US$3,377.9 million
- Existing vessels owned by joint ventures (Group's share): US$300.5 million
- Vessels under order (see "*—Orderbook*") in connection with the operations of joint ventures (Group's share): US$2,790.8 million

In August 2020, SMART LNG entered into leasing arrangements whereby 10 additional ice-breaking Arc7 LNG carriers were ordered to serve under long-term time charter agreements for the Arctic LNG 2 project (see "*—Recent Developments*"), with a total contract backlog of US$6,979.3 million as of August 31, 2020.

As of August 31, 2020, the Group's total contract backlog, including the Group's share in joint ventures, amounted to US$19,775.5 million, and the average contract length was 23 years.

[1] *SCF Barents*, an LNG carrier, was delivered on September 14, 2020 (see "*Recent Developments—SCF Barents*").

Key Competitive Strengths

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

Global leadership across industrial marine transportation

The Group is a leading diversified global marine energy transportation company that provides services to its customers in different market segments around the world. The Group provides energy transportation services globally to meet blue-chip customer requirements and has ongoing or completed projects in Russia, Canada, Indonesia, Brazil and Argentina.

As of June 30, 2020, the Group's fleet consisted of 146 owned and chartered-in vessels of 12.6 million total DWT (13 of which, with 1.0 million DWT, are owned through the Group's joint ventures with third parties), including the world's largest fleet of 83 ice-class vessels (see "*—A diversified business integrated into the energy value chain, with significant expertise in large-scale, harsh environment projects*").

The Group is a leader in offshore services and crude oil, oil products and gas transportation and has particular expertise in challenging ice-water conditions. It has a track record of excellent performance and close relationships with Russian and international energy companies and offers significant depth of experience and range of services. Management believes the Group's position as a market leader across the segments in which it operates enhances its reputation, which, together with the scale, diversity and quality of the Group's operations, provides it with further opportunities to retain and increase its market positions.

A diversified business integrated into the energy value chain, with significant expertise in large-scale, harsh environment projects.

Unlike the single-product shipping companies that make up a large proportion of the Group's publicly quoted competitors, the Group's business is diversified across industrial projects (offshore services and gas transportation), conventional shipping (crude oil transportation and oil products transportation) and other marine services. The unifying factors for the Group's operations are energy shipping and a focus on harsh environment operations, rather than ship size or carrying capacity. Management believes this renders the Group better able to expand the scope of its existing client relationships across the businesses.

In addition, the Group has significant expertise in large-scale, harsh environment projects, which Management believes gives the Group a significant competitive advantage. For example, in the offshore services segment the Group operates a fleet consisting of project specific ice-class vessels. These vessels are specifically designed for, and integral to the operation of, the upstream installations and equipment they service, often making them irreplaceable at short notice. Accordingly, charter contracts for these vessels tend to be for longer durations with fewer termination-for-cause provisions than is customary in the conventional offshore support vessel industry. The skillsets embedded within the Group's naval architecture team, the crews at sea and ship management ashore provide an integral part of the services provided beyond the vessels themselves. Management believes that this represents a significant barrier to competition entry and a compelling reason for customers to retain vessels following the end of the relevant initial charter period or engage SCF for additional services and vessels. As of July 1, 2020, the Group has invested US$6,184.0 million in an ice-class fleet designed to service harsh environment energy projects and has a leading ice-class training program with high standard pre-qualification and access to qualified seafarers.

According to Clarksons Research and Company data, as of July 1, 2020, the Group was (i) the world's largest owner of ice-class vessels (per rankings of owners of ice-class LNG carriers, ice-class shuttle tankers, IBSVs, ice-class crude tankers and ice-class oil products tankers); (ii) the world's largest owner of ice-class shuttle tankers and IBSVs (by number of vessels); (iii) the largest ice-class oil products carriers owner worldwide (by DWT); (iv) the largest ice-class LNG carrier owner worldwide (by number of vessels); and (v) the largest ice-class crude tanker owner worldwide (by number of vessels). The Group was also the world's largest owner of crude oil Aframax tankers by number of vessels as of July 1, 2020, according to Clarksons Research.

The majority of the Group's services are situated 'midstream' in the energy value chain, between the initial exploration and development of energy resources and the delivery of energy to end-consumers. As such, the Group's industrial business, in particular, forms an integral link in the global energy value chain, and its specialist equipment forms a critical element of the upstream projects' marine infrastructure.

Highly visible long-term and growing infrastructure cash flows through industrial projects.

The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of time-charter-equivalent revenues from fixed-rate time-charters. Management believes that the Group's fleet

deployment is well-balanced, with 65.3% for the six months ended June 30, 2020 and 69.4%, 74.7% and 77.3% for the years ended December 31, 2019, 2018 and 2017, respectively, of time-charter-equivalent revenues generated from time-charters, the majority of which are fixed-rate time-charters (the figures include a limited number of floating-rate time-charters). The Group is particularly focused on revenue derived from industrial projects under long-term time-charters, as the revenue generated from such long-term time-charters give the Group high visibility of cash flows. Most of the Group's LNG carriers, supply vessels and shuttle tankers are employed on long-term fixed-rate time-charters (certain of which provide for re-basing and/or indexation of operating expenses for purposes of protecting the Group against increases in such expenses in the future). Long-term contracts with fixed pricing (subject to such re-basing and/or indexation) create predictability of cash flows and reduce fluctuations in revenues, providing the Group with a stable customer base while at the same time enabling oil and gas clients to secure required delivery volumes. These industrial projects also provide the Group with significant potential for stable future business, in light of their long-term nature and potential for contract extension and project expansion. For a discussion of the Group's total contract backlog in the industrial business, see "*The Group's Operations—The Industrial Business.*"

Long-established relationships with leading "blue-chip" international and national energy companies.

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

Strong financial profile built on pillars of operational excellence, resilient financial performance and profitability and a strong growth pipeline.

The Group has been operationally resilient during the COVID-19 pandemic, as demonstrated by the lack of delays to existing projects and a 96.9% fleet utilization rate for the six months ended June 30, 2020. The resilience of the Group's business to external pressures was further demonstrated by the Group's operating profit of US$354.5 million for the six months ended June 30, 2020 compared to US$193.5 million for the six months ended June 30, 2019 and revenue of US$951.3 million for the six months ended June 30, 2020 compared to US$794.1 million for the six months ended June 30, 2019. In addition, as of the date hereof, the Group's total contract backlog is approximately US$20 billion (see "*—Contract Backlog*"). The Group generates substantial cash flow from its operations and has strong access to liquidity, as well as a conservative net debt-to-capitalization ratio, at 46.8% and 42.9% for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively. The Group aims to maintain this ratio at a level below 50%, as well as a net debt-to-Adjusted EBITDA ratio below 4.0.

The Group has a historically and consistently high Adjusted EBITDA margin of 65.0%, 54.0% and 51.6% for the years ended December 31, 2019, 2018 and 2017, respectively, and 73.9% and 63.0% for the six months ended June 30, 2020 and 2019. The Group also maintained strong cash inflows from operating activities of US$793.9 million, US$552.7 million and US$545.8 million for the years ended December 31, 2019, 2018 and 2017, respectively, and US$585.1 million and US$382.5 million for the six months ended June 30, 2020 and 2019.

The Group's strong cash flow generation, high liquidity and relatively low leverage ratio provide it with strategic flexibility to allocate capital for future growth and pay dividends. See "*Operating and Financial Review—Critical Accounting Policies and Estimates—Liquidity and Capital Resources*" and "*Selected Consolidated Financial and Operating Information*." See "*Dividend Policy*" for additional information on historical dividends.

Resilient business model with upside potential from industrial investments and stable tanker market outlook.

The Group has grown by increasing its number of contracted vessels and capitalizing on the global development of harsh environment projects. The Group believes it is well-positioned to capitalize on growing global LNG demand, with such demand forecasted, by Shell LNG Outlook 2020, to grow from 359 mtpa in 2019 to approximately 700 mtpa by 2040, and Russian LNG capacity forecasted to grow from approximately 28 mtpa in 2020 to approximately 80 mtpa by 2030. According to BP Statistical Review, the Russian Federation holds the largest natural gas reserves in the world and the sixth largest oil reserves in the world. Management estimates that the Group carried approximately 19% of total oil and gas turnover at Russian seaports in 2019 and transported a significant

portion of the crude oil produced from offshore production platforms along the Russian coasts. Given the Russian Federation's commitment to maintaining its central role in the global oil and gas industry and the IEA's expectation that crude oil production will remain stable, Management believes the Group is well positioned to maintain a leading position in servicing seaborne trade in hydrocarbons in the Russian Federation and to capture a significant portion of future growth in this market. In particular, the Group is the only Russian company experienced in operating and overseeing the construction of LNG carriers, according to Clarksons Research, which Management believes positions the Group to benefit from growing Russian natural gas production.

As part of its ongoing efforts to capitalize on growing LNG demand, as well as opportunities in the offshore services and gas transportation segments, as of June 30, 2020 the Group had projects under consideration worth US$10 billion (including an ongoing tender relating to an LNG project, the outcome of which is expected in the course of October 2020) and has set a 2025 time-charter-equivalent revenue contribution target for the industrial business of 70%.

In the conventional business, global seaborne crude oil trade demand is expected to recover to 2019 levels in 2021 while the global tanker orderbook remains at a historical low of 8% of global tanker capacity as of June 30, 2020 (compared to 13% in 2019) constraining total tanker supply in the coming years, according to Clarksons Research.

Culture of safety, environmental responsibility and innovation.

The Group's fleet includes crude oil tankers, oil products tankers, LNG and LPG carriers, ice-class shuttle tankers, ice-class supply vessels and seismic research vessels. Onboard this diverse group of vessels, the Group, often in partnership with its clients, continually seeks to develop and implement innovative technologies to increase the safety of its operations and living standards for the crew, increase the fuel efficiency of its vessels, seek to comply with existing and prospective environmental standards and reduce the operating and maintenance costs of its vessels. Examples of such innovations include redundant hull coatings to protect the underwater portion of the vessels' hulls, low-sulfur fuel supply systems, ballast water treatment systems, emissions control systems, systems for monitoring and controlling the vessels' energy consumption and comprehensive 'winterization' packages, which are designed to make vessel operation and crew living as safe and efficient as possible in ice-water conditions.

In addition to investing in innovative technology, the Group focuses on training and retaining personnel with extensive seafaring experience, including valuable expertise in navigating in ice-water conditions. This is reflected, for example, in the Group's 96% officer-retention rate for the year ended December 31, 2019 (against a rate of 94% for the year ended December 31, 2018) and the use of state-of-the-art bridge simulators at the Group's dedicated Saint Petersburg ice navigation training center. In addition, the Group's ship masters have, on average, over 11 years of prior experience in their profession. As a result of this culture of innovation and investment in human capital, Management believes that the Group is an industry leader in safety management. This is evidenced by the Group's total recordable lost time injury frequency rate of 0.45 cases per one million man-hours in the year ended December 31, 2019, compared to the Intertanko industry average of 0.5 over the same period; between the year ended December 31, 2010 and the year ended December 31, 2018, the Group's total recordable lost time injury frequency rate was 0.53 cases per one million man-hours against an industry average of 1.01. In Management's view, the diversity of the Group's fleet, combined with its broad technological and operational expertise, enables the Group to offer customers a comprehensive range of tailored, high-quality and safe energy transportation services at a competitive cost.

Highly regarded management team and strong governance.

The Group has a highly experienced management team and the Group's executive board (the "**Executive Board**") has an aggregate of more than 250 years of experience in the shipping industry, with the average amount of time spent working in the shipping industry by each member of the management team being greater than 25 years. Management has experience navigating through multiple economic cycles and expertise across commercial, technical, financial and other functional management areas of the Group's business. This helps the Group maintain its focus on operational excellence through in-house management and emphasize safety and high-quality, cost-efficient operations. Management believes the Group benefits from high quality control over the commercial and technical management of its vessels due to its in-house operational expertise in areas such as operational and technical support, tanker maintenance, crewing, shipyard supervision, insurance and financial management services. Moreover, management believes that the Group's current operations are scalable, primarily because its in-house training facilities and relationships with the Russian state maritime academies provide the Group with a continuous supply of highly qualified seamen. Under current Management, the size of the Group's fleet has grown almost threefold, while time-charter-equivalent revenues have grown by approximately four times since 2005.

The Company also adheres to strong corporate governance standards, with three independent Board of Directors members. In addition, key board committees, including the Compensation and Audit committees, consist of a majority of, and are chaired by, independent non-executive directors.

Group Strategy

On May 27, 2019, the Board of Directors of SCF approved the Group's strategy for 2019–2025 (the "**Group Strategy**"). SCF's Board of Directors and Management developed this strategic plan in line with programs and strategies that have been published by the Russian Government. The Group intends to maintain its leadership in key segments of the global marine transportation market, with a particular focus on oil and gas projects in the Russian Federation and international LNG maritime transportation. The Group's development program sets forth the following strategies, which Management continues to monitor, develop and implement on an ongoing basis:

Maintain the Group's leading position in the export of Russian hydrocarbons.

Immediately prior to the Offering, SCF was wholly-owned by the Russian Federation, and following completion of the Offering, the Russian Federation will own at least 75% plus one Share. Given SCF's status as a state-owned shipping company and a strategic asset of the Russian Government, the Group has an important role in the development of Russia's energy sector, both as the leading energy shipping group in the Russian Federation and as a key element of the Russian hydrocarbon transportation infrastructure. Management considers the Group's operations to be, in effect, a seaborne extension of the Russian pipeline infrastructure, which positions the Group to benefit from anticipated growth in Russian exports of hydrocarbons. See "*—Status as a Strategic Enterprise*" and "*Industry Overview—The Russian Oil and Gas Sector*." Management estimates that the Group carried approximately 19% of the total oil and gas turnover at Russian seaports in 2019, including a significant portion of the crude oil produced from offshore production platforms along the Russian coasts. The Group's strategy is to leverage its leading position to increase its market share in servicing Russian offshore upstream projects and exporting Russian hydrocarbons. For example, Management seeks to enhance the Group's cooperation with other key members of the Russian oil and gas industry, such as Gazprom, Lukoil, Novatek, Rosneft, Transneft and others by providing high-quality transportation services and marine logistics solutions for various oil and gas production projects. Moreover, Management intends to continue to develop the Group's fleet to meet the particular needs of exports from Russia, such as increasing the number of specialist ice-class vessels in the Group's fleet.

Expand its industrial business.

The Group intends to grow the percentage of its revenues which are derived from its industrial business, which has historically benefited from higher margins. See "*Operating and Financial Review—Factors Affecting the Group's Results—Revenue and Profitability Mix of the Group's Business*." The Group targets time-charter-equivalent revenue contribution by the industrial business of 70% by 2025. The segments making up the industrial business accounted for US$639.1 million, US$614.3 million, US$538.3 million, US$342.3 million and US$310.9 million, respectively, of the Group's time-charter-equivalent revenues for the years ended December 31, 2019, 2018 and 2017 and for the six months ended June 30, 2020 and 2019. By investing in the industrial business, Management expects the Group to increasingly benefit from the long-term and high-visibility cash-flows associated with complex projects for major clients, which Management also anticipates will increase such clients' demand for the Group's services with respect to new projects and other activities. In addition, SCF is also focusing on the further "industrialization" of the conventional business, with a view to benefiting from the long-term fixed-rate time-charters typically entered into as part of its industrial business (see "*Key Competitive Strengths—Highly visible long-term and growing infrastructure cash flows through industrial projects*"). For example, as of June 30, 2020 the Group had entered into leasing arrangements pursuant to which vessels were ordered for operation in the crude oil and oil products segments, backed up by 20-year time-charter contracts (including two LNG-fueled Aframax tankers chartered to Rosneft and three LNG-fueled MR tankers chartered to Novatek).

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

According to Clarksons Research, the Group was the largest owner in the world of ice-class oil tankers based on DWT capacity as of June 30, 2020. The Group currently operates a technologically advanced fleet that is able to serve large-scale integrated industrial projects, primarily in the Arctic and sub-Arctic regions. In particular, the Group provides supply vessel and shuttle tanker services to projects such as Sakhalin-1, Sakhalin-2, Prirazlomnoye, Novy Port and Varandey. These projects require highly specialized vessels and specifically trained crew to operate supply vessels and shuttle tankers, particularly in the harsh ice-water conditions of the Arctic and Far Eastern regions. As a result, the vessels in this segment earn a significant premium over traditional tankers and offshore supply vessels, and this specialized expertise provides a significant competitive advantage. Further, the Group's vessels servicing integrated industrial projects operate under long-term contracts, typically for 10 years or more, which contributes to predictability of the Group's cash flows. In addition, the cost, risk and potential delay associated with

switching providers for such specialist services may often deter customers from doing so. As the largest owner worldwide of ice-class tankers and a diversified energy shipping company, Management aims to leverage the Group's integrated expertise to gain market share in the Russian market for offshore oil and gas development and to provide its highly specialized transportation services on large-scale industrial projects. The Group continues to shift its principal focus from conventional tanker operations to an integrated model geared towards industrial projects with historically predictable cash flows and higher profitability.

Maintain the Group's status as a 'preferred carrier' for leading international and national energy companies by focusing on a diverse and high-quality service offering while maintaining strong brand recognition associated with quality and safety.

In addition to the Group's leading position in Russia, the Group was the third largest oil tanker owner in the world by number of vessels, as of June 30, 2020, according to Clarksons Research, and Management aims to maintain the Group's status as a preferred carrier for both Russian and international energy companies. Management aims to leverage the Group's large, modern and technologically advanced fleet, together with its integrated services offering, to meet the varying and complex needs of international oil and gas companies. Moreover, Management intends to leverage the Group's integrated services across the energy value chain to expand its existing relationships with Russian and international oil and gas companies by allowing such companies to depend on the Group as a single service provider for many of their energy transportation needs. Management intends to maintain and enhance the Group's reputation as a leader in safety management, which Management believes will continue to increase the Group's attractiveness to Russian and international oil and gas companies.

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

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

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

The Group's investment program has been designed to focus on the needs of the Group's core customers. The Group specifically focuses on long-term industrial projects that can deliver recurring and predictable cash flows, particularly in the Baltic, Arctic and Far Eastern regions of Russia, where the Group has competitive advantages due to its expertise in operating in harsh environments, setting clear double-digit investment return targets for such new projects. For example, in connection with the Novy Port oil development project, the Group invested in four highly specialized ice-class shuttle tankers to meet the particular demands of the project, and those vessels were immediately chartered to the project operator under long-term fixed-rate contracts. Management intends to remain consistent as regards the size of its annual investments in the coming years, with a particular focus on the growth of the industrial fleet. At the same time, Management expects to make periodic capital expenditures in the renewal of certain crude oil and oil products tankers to manage the age profile of the fleet and complement the services provided by the Group's industrial business, while maintaining a conservative debt-to-total-capitalization ratio. Due to its significant fleet size, the Group believes it is well positioned to capitalize on growing global LNG demand, with such demand forecasted, by Shell LNG Outlook 2020, to grow from 359 mtpa in 2019 to approximately 700 mtpa by 2040, and Russian LNG capacity forecasted to grow from approximately 28 mtpa in 2020 to approximately 80 mtpa by 2030.

Increase the environmental sustainability of the fleet and the Group through the reliability and environmental safety of the services rendered.

The Group's environmental protection policy is an integral component of its overall management system for the safe operation of ships and pollution prevention established in accordance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention, as amended (the "**ISM Code**"), which lays down the principles, goals, objectives and key areas of the company's environmental safety activities, and encompasses the activity of all employees of the Group, from ships' crews to top management. The Group is dedicated to environmental sustainability, and in March 2019 approved the Group's Green Charter, a declaration of commitments on sustainable development (the "**Green Charter**"). The Green Charter focuses on measures to fight climate change by using innovative technologies and raising personnel awareness on environmental protection, and

lays out the Group's commitment to develop an integrated management system based on compliance with industry-specific international regulations and standards. The Group is dedicated to reducing the carbon footprint of its fleet without eroding returns. The Group also intends to continue implementing energy saving technologies and to use transparent energy consumption calculation methods. For example, the Group continues to supplement its fleet with energy efficient and environmentally sustainable, new generation vessels which incorporate innovative technologies, such as developing a Ship Energy Efficiency Management Plan for each ship in order to control emissions of hazardous substances from exhaust fumes, and fulfilling EU Council Directive 2012/33/EU on the sulfur content of certain marine fuels by using ship fuel with a reduced sulfur content. Furthermore, SCF has received industry recognition for its "Green Funnel" initiative to adopt cleaner-burning LNG as a primary fuel for large-capacity oil tankers, and received the "Environmental Award" at Lloyd's List Global Awards 2018 for this initiative. The commissioning by SCF of a series of new generation vessels, the world's first Aframax tankers specially designed to run on LNG, has also significantly contributed to environmental protection. The tankers of this series have dual-fuel main and auxiliary engines and boilers, and have been fitted with selective catalytic reduction technology, which enables compliance with Tier III regulations governing NOx emissions even when running on diesel fuel.

History and Development

The Group was the first Russian shipping company established according to international business practices and governance standards. The Group's operations began in 1973 through the adoption of a special resolution by the government of the Union of Soviet Socialist Republics (the "**USSR**"). The state-owned foreign trade organization "Sovcomflot" was created to purchase modern and second-hand vessels through long-term leasing schemes known as 'bareboat charters.' The bareboat charter vessel operations continued to develop after a Currency Fund for Commercial Operations within the Ministry of the Marine Fleet of the USSR (the "**Fund for Commercial Operations**") was established in 1976. Over the next 15 years, the Group acquired more than 100 vessels under bareboat charters.

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

Over the past 25 years, the Group has developed into a leading maritime energy transportation company, Russia's largest shipping company and one of the world's largest oil tanker owners (based on the number of vessels) through organic growth, acquisitions, capital contributions and joint ventures. The Group's time-charter-equivalent revenues have increased from US$349.4 million in 1995 to US$353.9 million in 2004, US$895.3 million in 2009 (adjusted for joint ventures' share of time-charter-equivalent revenues to account for difference in accounting treatment, given that, prior to the adoption of IFRS 11 effective January 1, 2013, joint ventures were proportionately consolidated), US$1,142.2 million in 2016 and US$1,265.5 million in 2019. The Group's total DWT (excluding joint ventures) has increased from 3.2 million in 1995 to 3.3 million in 2004, 9.7 million in 2009, 12.0 million in 2016 and 11.9 million as of December 31, 2019.

In 1991, the Group initiated its own independent tanker operations through a joint venture, Unicom Management Services (Cyprus) Limited, and in 1994 the Group acquired a 100% interest in the company. In 2006, the Group started its own LNG operations through the acquisition of two LNG carriers and began its FSO operations through a joint venture with Rosneft.

The Group's transformation into a global leader in energy shipping and Russia's largest shipping company continued with the acquisition of Novoship in 2007. In particular, in December 2007, pursuant to Presidential Decree No. 784, dated June 20, 2007, and Government Resolution No. 964-r, dated July 20, 2007, the Russian Federation privatized its 50.3% interest in the charter capital of Novoship (equal to 67.1% of the ordinary shares and an effective interest of 66.5%) by transferring such interest to SCF in consideration for additionally issued shares of SCF. Following its acquisition of this interest in Novoship, and in accordance with the Joint-Stock Companies Law, SCF made a series of mandatory tender offers to Novoship's shareholders to acquire the remainder of the outstanding ordinary shares in Novoship. As a result of these tender offers and a series of open market transactions, SCF increased its effective interest in Novoship to 89.46% as of December 31, 2019. Novoship, founded in 1967, was the largest shipping company by DWT in southern Russia, managing bulk-oil fleets, product carriers and ports on the Russian coast of the Black Sea. This consolidation of Russian state-owned shipping assets enabled the Group to offer a full range of shipping services to Russian and international oil and gas companies and to continue development of the Group's LNG shipping and offshore projects.

In 2009, SCF entered the offshore supply segment by acquiring an ice-breaking platform supply vessel servicing the Sakhalin-2 project in the Russian Far East. This was followed by further acquisitions of ice-breaking platform supply vessels in 2010, 2016 and 2017.

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

From 2012 onward, SCF has bolstered its Arctic operations, setting up the SCF Arctic group in 2012, undertaking the first shipment of crude oil extracted from Russia's Arctic shelf in 2014 and taking delivery of three Arctic shuttle tankers in 2016 for year-round oil transportation in the Gulf of Ob.

In 2018, SCF took delivery of the world's first LNG-fueled Aframax oil tanker, the first in a series of 11 "Green Funnel" oil tankers that generate significantly less CO2 and SO2 than tankers fueled by bunker oil.

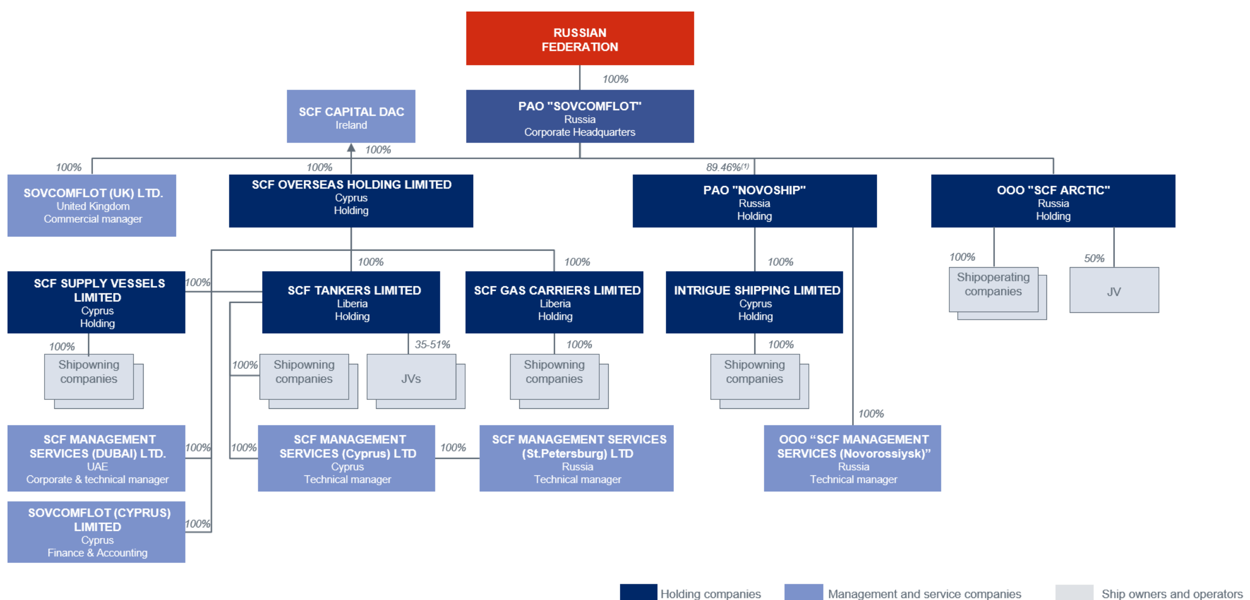
In 2019, SCF bolstered its LNG fleet, through a joint venture with Novatek, SMART LNG and agreements with the VEB.RF Group.

In 2020, SMART LNG entered into a leasing arrangement whereby a total of 14 ice-breaking Arc7 LNG carriers were ordered to serve under long-term time charter agreements for the Arctic LNG 2 project. The Group had entered into similar leasing arrangements for the lead ship in this series in 2019.

Organizational Structure

SCF is a holding company, and its various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are owned and financed by the vessel-holding companies of the Group's intermediate holding companies, Intrigue, SCF Gas Carriers, SCF Supply Vessels and SCF Tankers. When a vessel is chartered to one of the Group's customers, the charter contract is entered into directly with the customer by the relevant vessel-holding company, and the resulting cash flows run through that subsidiary. Part of the Group's existing indebtedness is incurred by the vessel-holding companies on a non- or limited-recourse basis or with guarantees provided by SCF Tankers, Intrigue or SCF Gas Carriers and is secured by mortgages over certain of the Group's vessels and pledges of the vessel holding companies' shares. See "*Operating and Financial Review—Liquidity and Capital Resources—Borrowings*." As of June 30, 2020, Group vessels with a carrying value of US$1,097.1 million (17.8%) remain unencumbered. 42 vessels out of 131 are unencumbered (32%). Ship management services for the Group's vessels are primarily provided by SCF's subsidiaries SCF Management Services (Dubai) Ltd. and SCF Management Services (St. Petersburg) Ltd.

The chart below sets forth the Group's organizational structure as of June 30, 2020:



The Company is considering options for consolidating its shareholding in PAO "Novoship," including by using some of the proceeds of the sale of the Offer Shares to purchase minority shareholders' interests or by issuing additional shares in the Company in exchange for such interests. See "*Use of Proceeds*."

Fleet

The table below sets forth a summary of all of the Group's vessels as of August 31, 2020, broken down by business segment and type:

Ship type	Wholly-owned	Owned through the Group's joint ventures	Orderbook	Total	Average age[1]
Crude Oil Transportation					
VLCC	2	-	-	2	6.5
Aframax oil tanker	39	-	2	41	11.9
Suezmax oil tanker	13	-	-	13	12.6
Oil Products Transportation					
Handysize product carrier	4	-	-	4	12.9
MR product carrier	25	-	3	28	13.9
LR1 product carrier	-	9	-	9	9.1
LR2 product carrier	7	-	-	7	10.0
Gas Transportation					
LNG gas fleet	6	4	17[2]	27	7.2
LPG gas fleet	4	-	-	4	10.4
Offshore Services					
Aframax shuttle tanker	10	-	2	12	13.9
Panamax shuttle tanker	5	-	-	5	11.2
MR shuttle tanker	4	-	-	4	3.0
Ice-breaking platform supply	7	-	-	7	10.9
Ice-breaking standby vessel	3	-	-	3	2.7
Other Marine Services		-			
Panamax bulker	2	-	-	2	7.5
Seismic research vessel[3]	2	-	-	2	8.4
TOTAL	133	13	24	170	11.3

(1) Average age excludes vessels in the orderbook. It includes wholly-owned vessels, vessels owned through the Group's joint ventures and chartered-in vessels and is weighted based on the DWT of such vessels.

(2) Includes *SCF Barents*, which was delivered on September 14, 2020 (see "*Recent Developments—SCF Barents*"). 14 of the 17 vessels will be operated by joint ventures.

(3) Chartered-in vessel.

The table below sets forth the delivery schedule for vessels under order as of August 31, 2020:

Vessel Type	Hull Number	Holding %[1]	Contract Delivery Date
Consolidated			
Ordered by the Group (wholly-owned)			
LNG Gas Carrier	8007	100	September 14, 2020[2]
LNG Gas Carrier	8008	100	February 26, 2021
Aframax Shuttle Tanker	2367	100	February 28, 2022
Aframax Shuttle Tanker	2368	100	March 31, 2022
Not ordered by the Group [3]			
LNG-fueled Crude Oil Aframax Tanker	131110	100	June 30, 2022
LNG-fueled Crude Oil Aframax Tanker	131120	100	September 30, 2022
LNG-fueled MR Product Carrier	036	100	December 1, 2022
LNG-fueled MR Product Carrier	037	100	February 28, 2023
LNG Gas Carrier	041	100	March 1, 2023
LNG-fueled MR Product Carrier	038	100	May 31, 2023
Equity-accounted (joint ventures)[3]			
LNG Gas Carrier	042	50	September 30, 2023
LNG Gas Carrier	043	50	October 30, 2023
LNG Gas Carrier	044	50	November 30, 2023
LNG Gas Carrier	045	50	December 31, 2023
LNG Gas Carrier	046	50	August 31, 2024
LNG Gas Carrier	047	50	September 30, 2024
LNG Gas Carrier	048	50	October 31, 2024
LNG Gas Carrier	049	50	November 30, 2024

LNG Gas Carrier..	050	50	December 31, 2024
LNG Gas Carrier..	051	50	August 31, 2025
LNG Gas Carrier..	052	50	September 30, 2025
LNG Gas Carrier..	053	50	October 31, 2025
LNG Gas Carrier..	054	50	November 30, 2025
LNG Gas Carrier..	055	50	December 31, 2025

(1) Represents percentage holding in vessel operating company.

(2) Refers to *SCF Barents*, which was delivered on September 14, 2020 (see "*Recent Developments—SCF Barents*").

(3) Vessels ordered by VEB RF Group, to be used for the operations of the Group or joint ventures pursuant to leasing arrangements. See "*Operating and Financial review—Off-Balance Sheet Arrangements*."

Management believes the Group's modern fleet is a key competitive advantage in the markets in which it operates, and Management continually seeks to renew portions of the Group's fleet to maintain the competitive profile of its vessels.

The Group's Operations

The Industrial Business

The Group's industrial business involves individual industrial projects with unique features and long-term contracts, and is a key focus of the Group. It comprises two segments: offshore services and gas transportation. Industrial projects can span both segments. The Group has completed industrial projects assignments in the United States, Brazil and Argentina, and has active projects in Greenland, the Russian Federation and Indonesia, including:

- Sakhalin-1 and Sakhalin-2: offshore services projects (and in the case of Sakhalin-2, also a gas transportation project) concerned with the development of oil and gas reserves in the Russian Far East;
- Varandey, Prirazlomnoye and Novy Port: offshore services projects concerned with the development of oil reserves in the far north of Russia;
- Tangguh: a gas transportation project concerned with the export of LNG from eastern Indonesia;
- Yamal: a gas transportation project concerned with the export of LNG from the far north of Russia; and
- Arctic LNG 2: a gas transportation project concerned with the export of LNG from the far north of Russia.

Further details of key projects are set out within the description of each segment below.

Offshore Services

Overview

Offshore oil and gas development projects are an important part of the world's oil and gas production infrastructure. Oil is one of the world's most important energy sources, and approximately 27% of global production was met by offshore activities in 2019, according to Clarksons Research. According to Clarksons Research, gas is the third-largest global energy source, after oil and coal, and approximately 32% of global natural gas production was met by offshore production in 2019. Oil and gas companies use a variety of drilling and production platforms and other offshore installations to drill wells and extract hydrocarbons. Once oil or gas is extracted, it may be sent via underwater pipes to the mainland or, where such a pipeline is not feasible, onward shipped via an FPSO or an FSO or fixed offshore terminals.

The projects to which the Group provides offshore services are served primarily by shuttle tankers (for crude oil shipments), IBSVs and ice-breaking Emergency Rapid Response Vessels ("**ERRV**"). Shuttle tankers are specialized ships designed to transport crude oil and condensates from offshore oil field installations, such as fixed offshore terminals or FPSOs, to onshore terminals, refineries and FSOs. Shuttle tankers are equipped with sophisticated loading systems and, in some cases, dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were originally developed in the North Sea as an alternative to pipelines and are often described as 'floating pipelines' because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor. Offshore production is increasing in the Russian Far East and Russian Arctic, where the construction of pipelines is economically unfeasible due to the geographical remoteness, harsh weather and ice conditions. The Group's shuttle tanker fleet operates primarily to service the Varandey and Prirazlomnoye projects

in the Pechora Sea, the Sakhalin-1 and Sakhalin-2 projects in the Russian Far East and the Novy Port project in the Yamalo-Nenets province, an autonomous *okrug* (district) situated in a northern peninsula of the Russian Federation.

IBSVs and ERRVs are specialized ships which provide logistical support services to offshore oil and gas platforms and installations located in waters that are commonly covered by ice in autumn, winter and spring. The IBSVs are able to perform the same normal functions as a platform supply vessel, including the provision of fuels, equipment, drilling muds and potable water and are typically differentiated by capacity either by DWT or deck area. The IBSV is also capable of providing certain ice-breaking support services to offshore platforms and installations, as well as operating in ice-water conditions without the assistance of ice breakers to the extent permitted by each vessel's ice-class notation. ERRVs are specialized vessels which provide standby services to offshore oil and gas platforms and installations. These vessels can provide a limited range of logistical support functions above their principal emergency response function as well as operating in ice-water conditions without the assistance of ice breakers to the extent permitted by each vessel's ice-class notation.

As of June 30, 2020, the Group's fleet in this segment consisted of 19 shuttle tankers (with a further two ordered vessels in progress), seven specialized ice-breaking supply vessels and three ice-breaking standby vessels, with a total capacity of 1.6 million DWT and making the Group the world's largest owner of ice-class shuttle tankers and ice-breaking supply vessels. All vessels in the Group's offshore services segment are wholly-owned by the Group. As of June 30, 2020, all of the Group's shuttle tankers and supply vessels were engaged on long-term time-charters. The average age of the vessels in this segment was 10.0 years as of June 30, 2020. The average remaining term of the Group's offshore services contracts was 6.9 years (excluding vessels under order) and 7.3 years (including vessels under order), as of June 30, 2020. The Group also provides other logistical support services to offshore development projects, such as the technical management and crewing of FSOs and FSRUs.

This segment generated US$454.7 million (35.9%) of the Group's time-charter-equivalent revenues in 2019 and US$245.8 million (31.4%) of the Group's time-charter-equivalent revenues in the six months ended June 30, 2020. The total contract backlog for this segment as of June 30, 2020 was US$3,855.8 million (excluding US$301.9 million total contract backlog in respect of two shuttle tankers under order). The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Risk Factors*").

The table below sets forth key performance measures for the offshore services segment for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019:

	Year ended December 31,			**Six months ended June 30,**	
	2019	**2018**	**2017**	**2020**	**2019**
Number of vessels[(1)]	29	26	25	29	27
Capacity (thousand DWT)	1,593	1,343	1,336	1,593	1,448
Time-charter-equivalent revenues (US$ millions)	454.7	433.1	373.1	245.8	221.4
Net earnings from vessels' trading (US$ millions)	370.5	359.2	300.7	208.1	185.3
Fleet utilization rate	98.0%	98.7%	96.2%	99.8%	99.0%

(1) *Governor Farkhutdinov* is classified as an offshore services vessel, but this vessel is also used intermittently as part of the crude oil transportation segment. Figures presented herein treat *Governor Farkhutdinov* as a vessel classified within the offshore services segment.

Competition

Competition for charters in this segment is based primarily upon price, technical design, age and condition of the vessel and the reputation of the vessel's technical manager. Technical sophistication of the vessel is especially important in harsh operating environments such as the Arctic and Far East regions. Other major shuttle tanker operators include Knutsen NYK KNOT Offshore, Altera Infrastructure and Viken MOL AS. Management believes the Group has significant competitive advantages in this niche shuttle tanker market as a result of the quality, type and dimensions of its vessels, combined with the Group's market share in the Arctic and Far East regions, its knowledge of, and standing within, the Russian market and the fact that none of the other major shuttle tanker operations focus on similar harsh environment operations.

Chartering and Customers

The Group's shuttle tankers and supply vessels are all subject to fixed-rate time-charter contracts for specific offshore oil fields. Pursuant to these contracts, a vessel is hired for a fixed period of time by the project

operator, and in certain cases, the charterers have the option to purchase the vessels at various points over the life of the charter. These charter contracts are typically for periods of 10 years or more, and rates are quoted per day, with adjustments for inflation in certain charter contracts.

The table below summarizes the chartering arrangements applicable to each of the Group's vessels in the offshore services segment, which are all wholly-owned by the Group, as of June 30, 2020:

Ship name	Client/ Project	Charter Start / Acquisition Date	Charter expiration	Term in years	Extension option	Contract backlog for June 30, 2020–December 31, 2024[(1)(2)]	Total contract backlog as of June 30, 2020[(1)(3)]
						US$ millions	
Captain Kostichev.......	Exxon Neftegas / Sakhalin-1	Jan-2006	Jan-2024	18	Up to 2 years	27.4	27.4
Pavel Chernysh	Exxon Neftegas / Sakhalin-1	Jan-2015	Jan-2021	6	n/a	4.2	4.2
Sakhalin Island............	Exxon Neftegas / Sakhalin-1	Jul-2019	Jul-2022	3	n/a	15.3	15.3
Zaliv Baikal	SEIC/ Sakhalin-2	Apr-2019	Jan-2024	5	Up to 2 years	33.2	33.2
Zaliv Vostok	SEIC/ Sakhalin-2	Aug-2019	Jan-2024	5	Up to 2 years	32.7	32.7
Zaliv Aniva	SEIC/ Sakhalin-2	Jun-2009	Jun-2024	15	Up to 2 years	34.0	34.0
Viktor Konetsky..........	Exxon Neftegas / Sakhalin-1	Dec-2005	Feb-2024	18	Up to 2 years5	27.0	27.0
Viktor Titov	Exxon Neftegas / Sakhalin-1	Sep-2006	Sep-2024	18	Up to 1 year	32.3	32.3
Yuri Senkevich	Exxon Neftegas / Sakhalin-1	Nov-2005	Feb-2024	18	Up to 2 years	27.8	27.8
Kapitan Gotsky	Lukoil / Varandey	Jul-2008	Jul-2023	15	Up to 10 years	68.2	68.2
Vasily Dinkov.............	Lukoil/ Varandey	Mar-2008	Mar-2023	15	Up to 10 years	57.6	57.6
Timofey Guzhenko	Lukoil/ Varandey	Apr-2009	Apr-2024	15	Up to 10 years	82.7	82.7
Kirill Lavrov	Gazprom Neft / Prirazlomnoye	Sep-2010	Sep-2035	25	n/a	89.1	298.2
Mikhail Ulyanov.........	Gazprom Neft / Prirazlomnoye	Feb-2010	Feb-2035	25	n/a	89.1	289.1
Shturman Albanov	Gazprom Neft / Novy Port	Sep-2016	Sep-2028	12	Up to 13 years	133.0	243.4
Shturman Malygin	Gazprom Neft / Novy Port	Oct-2016	Oct-2028	12	Up to 13 years	133.0	247.7
Shturman Ovtsyn	Gazprom Neft / Novy Port	Jan-2017	Jan-2029	12	Up to 13 years	133.0	253.4
Mikhail Lazarev..........	Gazprom Neft / Novy Port	Oct-2019	Oct-2031	12	Up to 13 years	102.1	257.5
SCF Endeavour...........	SEIC/ Sakhalin-2	Sep-2016	Jun-2026	10	Up to 5 years	60.7	80.8
SCF Endurance	SEIC/ Sakhalin-2	Oct-2016	Jul-2021	5	Up to 5 years	14.6	14.6
SCF Enterprise............	SEIC/ Sakhalin-2	Sep-2016	Nov-2026	10	Up to 5 years	60.7	86.4
SCF Sakhalin	Exxon Neftegas / Sakhalin-1	Jul-2010	Aug-2020	10	n/a	2.4	2.4
Aleksey Chirikov	Exxon Neftegas / Sakhalin-1	Jun-2013	Jun-2023	10	Up to 15 years	48.3	48.3
Vitus Bering................	Exxon Neftegas / Sakhalin-1	Mar-2013	Jun-2023	10	Up to 15 years	47.8	47.8
Gennadiy Nevelskoy...	SEIC/ Sakhalin-2	Apr-2017	Apr-2037	20	Up to 5 years	105.4	393.2
Stepan Makarov	SEIC/ Sakhalin-2	Jun-2017	Jun-2037	20	Up to 5 years	97.3	366.7
Fedor Ushakov............	SEIC/ Sakhalin-2	Dec-2017	Dec-2037	20	Up to 5 years	98.8	382.3
Yevgeny Primakov	SEIC/ Sakhalin-2	Mar-2018	Mar-2038	20	Up to 5 years	102.0	401.6
						1,759.7	3,855.8

(1) For a definition of contract backlog, see "*—Contract Backlog.*" The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Risk Factors*").

(2) Column shows contract backlog for the period from June 30, 2020–December 31, 2024.

(3) Column shows total contract backlog for the life of the Group's existing contracts. Figures exclude vessels under order.

Sakhalin-1 Project

The Sakhalin-1 project is an oil and gas development in the Russian Federation established in 1996 on the north-eastern shelf of *Sakhalin Island*, comprising the Chayvo, Odoptu and Arkutun-Dagi fields. Sakhalin-1 is operated by Exxon Neftegas Limited, a project company controlled by an international consortium consisting of affiliates of ExxonMobil Corporation, SODECO, Rosneft and ONGC Videsh Ltd., under a production-sharing agreement with the Russian Federation. A pipeline has been constructed from the producing oilfields to the DeKastri Export Terminal in the Tatar Straits, from where oil is shipped to international markets utilizing fully winterized ice-class oil tankers. The Group is the sole long-term provider of shuttle tankers and IBSVs to the project. Six highly specialized, purpose-built, ice-class Aframax tankers with bow-loading systems transport Sakhalin-1 oil from DeKastri under long-term contracts that expire in 2021–2024. Further, the Group has three IBSVs servicing the project under long-term time-charter contracts; the '*SCF Sakhalin*' until November 2020, and the '*Vitus Bering*' and '*Aleksey Chirikov*' until 2023, with certain charter extension options to extend the charter periods further. In the year ended December 31, 2019, production of the project was 13.0 million tons of oil and gas condensate. As of December 31, 2018, the project had potential reserves of over 300 mt of crude oil and approximately 485 billion cubic meters of natural gas. The Group has shipped 132 million tons of crude oil from the project since the beginning of the Group's involvement with the project in 2006 to June 30, 2020.

Sakhalin-2 Project

The Sakhalin-2 project is an oil, gas and condensate development in the Russian Federation on the north-eastern shelf of *Sakhalin Island*. The project is operated by SEIC, a joint venture among Gazprom, Shell, Mitsui and Mitsubishi under a product-sharing agreement with the Russian Federation. The Sakhalin-2 project is the Russian Federation's inaugural LNG project exporting gas to customers primarily in the Pacific Basin via the LNG plant and terminal at Prigorodnoye, Aniva Bay, in the south of *Sakhalin Island*. LNG production, which started in March 2009, produced approximately 11.5 million tons of LNG, approximately four million tons of crude oil and approximately 1.6 million tons of condensate in 2018. As of December 31, 2018, the project had extractable reserves of approximately 150 million tons of crude oil and approximately 500 billion cubic meters of gas. The Group has three shuttle tankers servicing the project, '*Zaliv Baikal*', '*Zaliv Vostok*' and '*Zaliv Aniva*'. The Group additionally owns four ice-breaking supply vessels and three ice-breaking supply standby vessels which service the project. The Group is the sole long-term provider of supply vessels to this project. The Group has shipped approximately 63 million tons of crude oil and 23 million tons of LNG from the project since the beginning of the Group's involvement with the project in 2008 to June 30, 2020.

Varandey Project

The Varandey project is a crude oil development in the Russian Federation operated by the Lukoil Group (with initial participation from ConocoPhilips). The project comprises the development of the Timano-Pechorskoe and other neighboring onshore oil fields, as well as the operation of the export terminal at Varandey in the harsh Arctic conditions of the Pechora Sea. As of December 31, 2019, the project had an annual production capacity of approximately 12.0 million tons of crude oil. The Group has three highly specialized super ice-class Panamax shuttle tankers of approximately 71,000 DWT each, constructed at Samsung Heavy Industries in South Korea. The vessels have been chartered to a Lukoil Group subsidiary under long-term time-charter contracts to provide seaborne transportation of crude oil from the Varandey project. Oil shipments from Varandey commenced in June 2008, and will expire in 2023 and 2024; in each case, the Lukoil Group exercised their right to extend these contracts for two successive periods of five years. The Group has shipped approximately 75 million tons of crude oil from the project since the beginning of the Group's involvement with the project in 2008 to June 30, 2020.

Prirazlomnoye Project

The Prirazlomnoye project is a crude oil development in the Russian Federation controlled by Gazprom Neft Shelf (formerly Sevmorneftegaz), a 100% subsidiary of Gazprom. The Prirazlomnoye oil field is located offshore in the Barents Sea. This industrially underdeveloped area is characterized by extremely low temperatures and strong ice loads. The project produced approximately 3.2 million tons of crude oil for each of the years ended December 31, 2019 and 2018, out of an approximate total production capacity of 5.5 million tons, and total reserves of approximately 70 million tons. The Group has two highly specialized super-ice-class Panamax shuttle tankers of approximately 70,000 DWT, each chartered to Gazprom Neft Shelf under long-term time-charter contracts to provide seaborne transportation of crude oil from the Prirazlomnoye project. Both time-charter contracts expire in 2035. The Group has shipped approximately 14 million tons of crude oil from the project since the beginning of the Group's involvement with the project in 2014 to June 30, 2020.

Novy Port Project

The Novy Port project is a crude oil development in the Russian Federation controlled by Gazprom Neft, a 100% subsidiary of Gazprom. The Novy Port offshore terminal is located in the estuary of the River Ob in the

Yamalo-Nenets province, an autonomous *okrug* (district) situated in a northern peninsula of the Russian Federation, an area characterized by a harsh environment and strong ice loads. The project produced approximately 7.3 million tons of crude oil in the year ended December 31, 2018, out of an approximate total production capacity of 8.0 million tons, and total reserves of approximately 189 million tons. The Group had four highly specialized super-ice-class shuttle tankers of approximately 41,000 DWT each, constructed at Samsung Heavy Industries in South Korea. The vessels have been chartered by Gazprom Neft under long-term time-charter contracts to provide seaborne transportation of crude oil from the Novy Port terminal, and three commenced operations from the Novy Port terminal in 2016, and one commenced operations in 2019. These long-term time-charters expire in 2028, and Gazprom Neft has the right in each case to extend these contracts. The Group has shipped approximately 13 million tons of crude oil from the project since the beginning of the Group's involvement with the project in 2016 to June 30, 2020.

Fleet

The table below sets forth the Group's shuttle tanker and supply vessels as of June 30, 2020, all of which were wholly-owned by the Group:

Ship Name	Vessel Type (Ice Class)	Capacity (DWT)	Year Built	Flag[(1)]
Shuttle Tankers				
Captain Kostichev	Aframax (1A/1C)	100,927	2005	Cyprus
Governor Farkhutdinov[(2)]	Aframax (1C)	108,078	2004	Cyprus
Pavel Chernysh	Aframax (1A/1C)	100,971	2005	Cyprus
Sakhalin Island	Aframax (1A/1C)	108,078	2004	Cyprus
Zaliv Baikal	Aframax (1C)	104,532	2009	Cyprus
Zaliv Vostok	Aframax (1C)	104,527	2009	Cyprus
Zaliv Aniva	Aframax (1A/1C)	102,946	2009	Cyprus
Viktor Konetsky	Aframax (1A/1C)	101,018	2005	Cyprus
Viktor Titov	Aframax (1A/1C)	100,899	2005	Cyprus
Yuri Senkevich	Aframax (1A/1C)	100,869	2005	Cyprus
Kapitan Gotsky	Panamax (ICE 15 (Arc6))	71,228	2008	Russia
Vasily Dinkov	Panamax (ICE 15 (Arc6))	71,254	2008	Russia
Timofey Guzhenko	Panamax (ICE 15 (Arc6))	71,266	2009	Russia
Kirill Lavrov	Panamax (ICE 15 (Arc6))	70,053	2010	Russia
Mikhail Ulyanov	Panamax (ICE 15 (Arc6))	69,830	2010	Russia
Shturman Albanov	MR (ARC7)	41,455	2016	Russia
Shturman Malygin	MR (ARC7)	41,542	2016	Russia
Shturman Ovtsyn	MR (ARC7)	41,551	2016	Russia
Mikhail Lazarev	MR (ARC7)	41,012	2019	Russia
Supply Vessels				
SCF Endeavour	IBSV (IceBreaker ICE 10)	4,482	2006	Russia
SCF Endurance	IBSV (IceBreaker ICE 10)	4,481	2006	Russia
SCF Enterprise	IBSV (IceBreaker ICE 10)	4,481	2006	Russia
SCF Sakhalin	IBSV (IceBreaker ICE 10)	4,298	2005	Russia
Aleksey Chirikov	IBSV (IceBreaker ICE 10)	4,749	2013	Russia
Vitus Bering	IBSV (IceBreaker ICE 10)	4,715	2012	Russia
Gennadiy Nevelskoy	IBSV (IceBreaker ICE 15)	3,259	2017	Russia
Stepan Makarov[(3)]	IBSV (IceBreaker ICE 15)	3,879	2017	Russia
Fedor Ushakov[(3)]	IBSV (IceBreaker ICE 15)	3,824	2017	Russia
Yevgeny Primakov[(3)]	IBSV (IceBreaker ICE 15)	3,670	2018	Russia

(1) Only Russian-flagged carriers are allowed to transport oil, natural gas, gas condensate and coal extracted from the Russian territory along the Northern Sea Route, subject to exemptions provided by the Russian Government.

(2) *Governor Farkhutdinov* is classified as an offshore services vessel, but this vessel is also used intermittently as part of the crude oil transportation segment. Figures presented herein treat *Governor Farkhutdinov* as a vessel classified within the offshore services segment.

(3) Ice-breaking supply standby vessels.

Gas Transportation

Overview

As of June 30, 2020, the Group operated a fleet of six LNG carriers (five of which are ice class) with a total capacity of 0.6 million DWT. In addition to the *SCF Barents*, delivered on September 14, 2020 (see "*Recent Developments—SCF Barents*"), there is another sister vessel under order, with both to serve under long-term time-charters with Shell. The Group also owns four LPG carriers (two of which are ice class) with a total capacity of

0.1 million DWT. In addition, the Group jointly owns with NYK Line four LNG carriers (two of which are ice class) with a total capacity of 0.3 million DWT. As of the date hereof, SMART LNG had entered into leasing arrangements whereby a total of 14 ice-breaking Arc7 LNG carriers were ordered to serve under long-term time charter agreements for the Arctic LNG 2 project. For further information, see "*—Orderbook.*"

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

The Group started gas carrier operations in 2004 and ordered its first LNG carrier in 2006. The principal routes served by the Group's LNG carriers are from *Sakhalin Island* to Asia, from Indonesia to South Korea and from West Africa and the Middle East to India and Asia. The Group's two fully refrigerated LPG carriers operate worldwide, predominantly carrying ammonia, and the Group's two ice-class semi-refrigerated LPG carriers operate predominantly within the Baltic Sea and northern Europe carrying LPG. The average age of the vessels in this segment, weighted by DWT, was 5.3 years as of June 30, 2020. The average remaining term of the Group's gas transportation contracts was 6.8 years (excluding vessels under order), as of June 30, 2020, 12.3 years (including vessels under order), as of June 30, 2020, and 17.9 years (including 10 vessels under order by SMART LNG), as of August 31, 2020.

This segment generated US$184.5 million (14.6%) of the Group's time-charter-equivalent revenues in 2019 and US$96.4 million (12.3%) of the Group's time-charter-equivalent revenues for the six months ended June 30 2020. The total contract backlog for this segment as of June 30, 2020 was US$2,216.3 million (excluding total contract backlog of US$1,822.1 million in respect of the three LNG carriers under order as of such date, total contract backlog of US$299.9 million in respect of the Group's share arising from its joint venture with NYK and total contract backlog of US$2,790.8 million in respect of the Group's share of four LNG carriers under order). In addition, the foregoing does not include total contract backlog of US$6,979.3 million in respect of the Group's share of 10 additional LNG carriers under order as of August 31, 2020, in connection with the operations of SMART LNG (see "*—Orderbook*" and "*—Contract Backlog*"). The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Risk Factors*").

The table below sets forth key performance measures for the gas transportation segment for the years ended December 31, 2019, 2018 and 2017, and the six months ended June 30, 2020 and 2019:

	Year ended December 31,			Six months ended June 30,	
	2019	**2018**	**2017**	**2020**	**2019**
Consolidated (wholly-owned)					
Number of vessels	9	9	9	10	9
Capacity (thousand DWT)	569	569	569	662	569
Time-charter-equivalent revenues (US$ millions)	184.5	181.2	165.2	96.4	89.5
Net earnings from vessels' trading (US$ millions)	147.0	151.3	134.2	75.6	72.1
Fleet utilization rate (excluding joint ventures)	89.7%	98.9%	97.1%	92.8%	97.1%
Equity-accounted (joint ventures)					
Number of vessels	4	4	4	4	4
Capacity (thousand DWT)	318	318	318	318	318
Time-charter-equivalent revenues (US$ millions)	93.2	93.3	87.0	45.2	45.0
Time-charter-equivalent revenues (Group's share) (US$ millions)	43.6	43.9	40.7	21.1	21.0
Net earnings from vessels' trading (US$ millions)	75.8	77.6	67.5	35.8	35.1
Net earnings from vessels' trading (Group's share) (US$ millions)	35.4	36.5	31.5	16.7	16.3
Fleet utilization rate	97.4%	98.1%	85.9%	94.5%	93.8%

Competition

The vessels in the Group's gas transportation segment compete in the LNG and LPG markets. In the LNG market, the Group competes principally with other private and state-controlled energy and utilities companies, which generally operate captive fleets, and independent shipowners and operators. There is a high barrier to operating in the Russian Federation under the Russian flag, and in the harsh environment space. The Group's expertise in these areas is unique, as it is the only Russian marine services provider with a leading market position in all ice-class shipping segments (ranking first in the number of ice-class shuttle tankers and ice-breaking supply vessels, and ranking second in the number of ice-class LNG carriers), according to Clarksons Research, as of July 1, 2020. As

such, the Group is well positioned to secure long term contracts and contract renewals.

Many major energy companies compete directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies have historically transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as major energy companies have continued to divest non-core businesses. The major operators of LNG carriers are Maran Gas, Mitsui O.S.K. Lines, Golar LNG, MISC, NYK Line, Qatar Gas Transport (Nakilat) and Teekay LNG.

Chartering and Customers

LNG carriers carry LNG predominantly pursuant to time-charter contracts, where a vessel is hired for a fixed period of time, usually between 7 and 25 years, and the charter rate is payable to the owner on a monthly basis at a fixed rate. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends to a large extent on long-range planning and coordination of project activities, including marine transportation. However, the spot and short-term time-charter market has continued to expand its share of LNG shipping over recent years. The Group's LNG carriers are all operated subject to long-term, fixed-rate time-charter contracts, and, in some cases, the charterers have the option, under certain conditions at specified times, to purchase the chartered vessel at specified prices. The Group provides LNG transportation services to both specific gas development projects, the Sakhalin-2 project and the Tangguh Project (see below), and to the "oil majors." Two vessels are on long-term charter to the Gazprom group until 2029, one is on time-charter to the Total Group until 2027 and two are on long-term charter to the Shell Group until 2025, providing services for Shell Group's own portfolio cargoes. All of these charters contain varying charter extension options.

LPG carriers are typically chartered to carry LPG, ammonia (NH3) and other petrochemical gases under spot and time-charter contracts. The two largest consumer groups for LPG are residential users and the petrochemical industry. Residential users, particularly in developing regions where electricity and gas pipelines are not developed, do not have fuel-switching alternatives and are not generally LPG-price sensitive. The petrochemical industry, however, has the ability to switch between LPG and other feedstock fuels depending on the price and availability of alternatives. The largest consumers of ammonia (NH_3) are fertilizer producers, with demand for product being governed by seasonal agricultural conditions. The Group's main customer in the LPG transportation market is Sibur International, with two vessels on 10-year charters which expire in 2023.

The table below summarizes the chartering arrangements applicable to each of the Group's operating vessels in the gas transportation segment, which includes those held by the consolidated subsidiaries of the Group and those which are held through equity-accounted joint ventures, as of June 30, 2020:

Ship name	Client/ Project	Holding (%)[1]	Charter start	Charter expiration	Term in years	Extension option	Contract backlog for June 30, 2020–December 31, 2024[2][3]	Total contract backlog as of June 30, 2020[2][4]
Consolidated (wholly-owned)							**US$ millions**	
Christophe de Margerie	Yamal LNG	100	Mar-2017	Dec-2045	29	Up to 10 years	221.2	1,252.5
Pskov	Gazprom	100	Aug-2014	Aug-2029	15	Up to 15 years	122.7	247.6
SCF Melampus ..	Shell	100	Jan-2015	Jan-2025	10	Up to 10 years	119.3	119.6
SCF Mitre	Shell	100	Apr-2015	Apr-2025	10	Up to 10 years	124.4	133.2
Veliky Novgorod	Gazprom	100	Jan-2014	Jan-2029	15	Up to 15 years	122.7	231.5
SIBUR Tobol	Sibur	100	Nov-2013	Nov-2023	10	Up to 5 years	34.8	34.8
SIBUR Voronezh	Sibur	100	Sep-2013	Sep-2023	10	Up to 5 years	33.1	33.1
SCF Tobolsk	Trammo DMCC	100	Sep-2019	Sep-2021	2	n/a	9.1	9.1
SCF Tomsk	SHV	100	Aug-2019	Dec-2020	1	n/a	3.7	3.7
SCF La Perouse..	Total Gas & Power Chartering Ltd	100	Feb-2020	Feb-2027	7	Up to 1 year	102.5	151.2
							893.5	2,216.3

Ship name	Client/ Project	Holding (%)[1]	Charter start	Charter expiration	Term in years	Extension option	Contract backlog for June 30, 2020–December 31, 2024[2][3]	Total contract backlog as of June 30, 2020[2][4]
Equity-accounted (joint ventures)							**US$ millions**	
Tangguh Batur ...	BP Berau / Tangguh	37.5	Feb-2009	Jan-2025	16	Up to 1 year	54.9	55.9
Tangguh Towuti.	BP Berau / Tangguh	50	Dec-2008	Oct-2028	20	Up to 1 year	40.7	74.5
Grand Aniva	SEIC / Sakhalin-2	50	Jan-2008	Jan-2028	20	Up to 10 years	51.2	85.5
Grand Elena	SEIC / Sakhalin-2	50	Oct-2007	Oct-2027	20	Up to 10 years	51.8	84
							198.6	299.9
							1,092.1	2,516.2

(1) Represents percentage holding in vessel owning company.

(2) For a definition of contract backlog, see "*—Contract Backlog.*" The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Risk Factors*").

(3) Column shows contract backlog for the period from June 30, 2020–December 31, 2024.

(4) Column shows total contract backlog for the life of the Group's existing contracts. Figures exclude vessels under order and *SCF Barents*, which was delivered on September 14, 2020 (see "*Recent Developments—SCF Barents*").

Sakhalin-2 Project

As discussed above, the Sakhalin-2 project is an oil, gas and condensate development on the northern and eastern shelves of *Sakhalin Island*. See "*—Offshore Services—Sakhalin-2 Project*." The Group, in a joint venture with NYK Line, owns and operates two ice-class LNG carriers to provide the project with seaborne LNG transportation services under long-term charters to SEIC. The time-charters for the '*Grand Aniva*' and the '*Grand Elena*' expire in 2027 and 2028, respectively, and, in each case, SEIC has the right to extend these contracts for two successive periods of five years. The Group's agreements with SEIC indicate that the LNG will be exported principally to customers in the Pacific basin countries, such as Japan, China and South Korea.

Tangguh Project

The Tangguh Project is a gas development in eastern Indonesia operated by The Tangguh Production Sharing Contractors ("**TPSC**"), which is controlled by an international consortium led by BP Berau, a subsidiary of BP. LNG production capacity was approximately 7.6 million tons of LNG in 2019. In 2009, it was estimated that the project had proven reserves of over 400 billion cubic meters of natural gas. The Group, in a joint venture with NYK Line owns and operates an LNG carrier, '*Tangguh Batur*,' and, in a joint venture with NYK Line and Samudera Shipping Line Ltd., owns and operates a second LNG carrier, '*Tangguh Towuti*', to provide the project with seaborne LNG transportation services under long-term charters to TPSC. Long-term sales agreements indicate that the LNG will be exported to markets in China, South Korea and the United States via Mexico (shipments have since been re-directed to meet domestic LNG demand within Indonesia). The time-charters for the '*Tangguh Batur*' and the '*Tangguh Towuti*' expire in 2025 and 2028, respectively, and in each case, TPSC has the right to extend these contracts for a period of one year.

Yamal Project

The Yamal Project is a gas development in the Yamalo-Nenets province, an autonomous *okrug* (district) situated in a northern peninsula of the Russian Federation, which is licensed to Yamal LNG, an entity controlled by an international consortium including Novatek, Total, CNPC and China's Silk Road Fund. As of December 31, 2019, the project had an annual production capacity of approximately 16.5 million tons, and proved natural gas reserves of approximately 683 billion cubic meters (as calculated under the SEC reserves methodology). The first LNG was shipped from the facility in the first quarter of 2018, according to Yamal LNG. The Group operates one LNG carrier to service the project, the *Christophe de Margerie*, the world's first ice-breaking LNG carrier. The Group developed the logistics for the project and is particularly qualified to operate here, given the Group's particular strengths in harsh environments and ice conditions.

Arctic LNG 2

The Arctic LNG 2 Project is a gas development at the Utrenneye Field in the Gydan Peninsular, part of the Yamalo-Nenets Autonomous District. The project was initiated in 2019 by an international consortium consisting of Novatek, Total, CNPC, CNOOC, Mistui and Jogmec, with the final investment decision being made in

September of that year. It is anticipated that by 2023 the project will have an annual production capacity of 19.3 million tons of LNG and 1.6 million tons of condensate, with reserves of 1.978 billion cubic meters of natural gas and 105 million tons of liquid hydrocarbons as of December 31, 2019 (calculated under the Russian reserves classification methodology). It is anticipated that the project will commence production in 2023. One of the Group's LNG carriers currently under construction and 14 of SMART LNG's LNG carriers have entered into contracts at this project, for a period of 30 years from the commencement of each charter.

Kaliningrad FSRU (management contract)

The Group provides technical management and crewing services for the Gazprom-owned *Marshal Vasilevsky* FSRU.

Fleet

The table below sets forth the Group's LNG and LPG carriers as of June 30, 2020:

Ship name	Vessel type	Capacity (cubic meters)	Ice class[1]	Holding (%)[2]	Year built	Flag
Gas Fleet						
Consolidated (wholly-owned)						
Christophe de Margerie........	LNG	172,600	Arc-7	100	2017	Cyprus
Pskov...................................	LNG	170,200	1C	100	2014	Liberia
SCF Melampus	LNG	170,200	1C	100	2015	Liberia
SCF Mitre	LNG	170,200	1C	100	2015	Liberia
Veliky Novgorod	LNG	170,200	1C	100	2014	Liberia
SCF La Perouse	LNG	174,000	-	100	2020	Liberia
SIBUR Tobol	LPG	20,600	1B	100	2013	Liberia
SIBUR Voronezh	LPG	20,311	1B	100	2013	Liberia
SCF Tobolsk	LPG	34,487	-	100	2006	Liberia
SCF Tomsk	LPG	34,487	-	100	2007	Liberia
Equity-accounted (joint ventures)						
Tangguh Batur	LNG	142,988	-	50	2008	Singapore
Tangguh Towuti....................	LNG	142,988	-	37.5	2008	Singapore
Grand Aniva.........................	LNG	145,000	1C	50	2008	Cyprus
Grand Elena	LNG	147,968	1C	50	2007	Cyprus

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

(2) Represents percentage holding in vessel owning company.

The Conventional Shipping Business

The Group's conventional shipping business comprises two segments: crude oil transportation and oil products transportation.

Crude Oil Transportation

Overview

The Group, through its subsidiaries, owns a crude oil tanker fleet that was the largest Aframax tanker fleet and the ninth-largest Suezmax tanker fleet in the world as of June 30, 2020, according to Clarksons Research. As of June 30, 2020, the Group's fleet in this segment consisted of 54 wholly-owned crude oil carriers with a further two vessels under order (see "—*Orderbook*"), with a total capacity of 7.1 million DWT. These vessels include 39 Aframax tankers (of which 15 carry ice-class notation and with two LNG-fueled tankers under order for 2022), 13 Suezmax tankers (of which two carry ice-class notation) and two VLCC tankers. Six of the Group's Aframax crude oil tankers are fueled by LNG. The average age of the Group's vessels in this segment, weighted by DWT, was 11.9 years as of June 30, 2020 (with an average age of 11.9 years for the Group's Aframax crude oil tankers, 12.5 years for the Group's Suezmax crude oil tankers and 6.5 years for the Group's VLCCs). The average remaining term of the Group's crude oil transportation contracts was 0.8 years (excluding vessels under order) and 2.2 years (including vessels under order), as of June 30, 2020. The Group's fleet of Aframax and Suezmax tankers operates primarily within the Atlantic basin, from the Baltic Sea, Black Sea and West Africa to Europe, from the Caribbean and South America to the United States and on intra-Mediterranean voyages. The ice-class Aframax tankers focus their services on Russian exports from the Baltic Sea and Murmansk. The two VLCCs operate worldwide under time-charters to the Petrochina Group and which

expire in November 2020 and February 2021, respectively, with three year extension options expiring in November 2023 and February 2024, respectively.

This segment generated US$392.1 million (31.0%) of the Group's time-charter-equivalent revenues for the year ended December 31, 2019 and US$285.7 million (36.5%) of the Group's time-charter-equivalent revenues for the six months ended June 30, 2020. The total contract backlog for this segment as June 30, 2020 was US$192.8 million (excluding a US$621.4 million total contract backlog in respect of the two Aframax crude oil tankers under order). The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Risk Factors*").

The table below sets forth key performance measures for the crude oil transportation segment for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019:

	Year ended December 31,			**Six months ended June 30,**	
	2019	**2018**	**2017**	**2020**	**2019**
Number of vessels	56	53	59	54	56
Capacity (thousand DWT)	7,424	7,085	7,653	7,106	7,424
Net earnings from vessels' trading (US$ millions)	268.3	155.2	161.0	220.9	113.9
Fleet utilization rate	97.8%	98.2%	95.9%	94.7%	98.8%
Time-charter-equivalent revenues (US$ millions)	392.1	283.9	321.1	285.7	174.9
Time-charter-equivalent rate (US$ per trading day):	19,852	14,247	15,548	30,348	17,906
Aframax	19,034	13,328	14,466	29,592	17,532
Suezmax	19,864	13,503	15,620	31,733	16,951
VLCC	36,795	37,125	36,890	37,089	34,325

This segment generated US$392.1 million, US$283.9 million, US$321.1 million, US$285.7 million and US$174.9 million in time-charter-equivalent revenues for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, respectively.

Competition

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

The Group's main competitors in this segment are other operators of crude oil tankers, ranging in size from Aframax to VLCCs, including Frontline Ltd, Euronav N.V., Nordic American Tankers, MISC (AET), Minerva Marine Inc., Thenamaris and Teekay Tankers.

Chartering and Customers

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

The Group's main customers in this segment include major international oil companies, such as Chevron, ExxonMobil, Total, Phillips66 and Shell, as well as other oil traders and national companies, including Glencore, ENI, Gazprom Neft, Trafigura and Vitol. In the year ended December 31, 2019, 46.0% of the Group's voyage days in this segment were engaged on time-charters. In the year ended December 31, 2019, 54.0% of the Group's voyage days in this segment were used on the spot market (including contracts of affreightment).

The table below sets forth the percentage of the time-charter-equivalent revenues derived from the spot market that constitutes the total time-charter-equivalent revenues for the segment for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019:

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
Time-charter-equivalent revenues derived from the spot market........	51.4%	55.1%	47.5%	55.1%	50.9%

Fleet

The table below sets forth the Group's crude oil carriers as of June 30, 2020, all of which were wholly-owned by the Group:

Ship name	Vessel type	Capacity (DWT)	Ice class[1]	Year built	Flag
Oil Tankers					
ADYGEYA	Aframax	105,927		2005	Liberia
GAGARIN PROSPECT	LNG-fueled Aframax	113,170	1A	2018	Liberia
GEORGY MASLOV.............................	Aframax	122,018		2012	Liberia
KALUGA	Aframax	115,707		2003	Liberia
KAZAN	Aframax	115,727		2003	Liberia
KOROLEV PROSPECT	LNG-fueled Aframax	113,232	1A	2019	Liberia
KRASNODAR	Aframax	115,605		2003	Liberia
KRYMSK..	Aframax	115,605		2003	Liberia
LIGOVSKY PROSPECT	Aframax	114,639	1B	2003	Liberia
LITEYNY PROSPECT	Aframax	114,546	1B	2003	Liberia
LOMONOSOV PROSPECT	LNG-fueled Aframax	113,226	1A	2018	Liberia
MENDELEEV PROSPECT	LNG-fueled Aframax	113,159	1A	2018	Liberia
MOSKOVSKY PROSPECT	Aframax	113,867	1B	2010	Liberia
NEVSKIY PROSPECT	Aframax	114,598	1B	2003	Liberia
NIKOLAY ZUYEV	Aframax	122,039		2012	Liberia
NS CAPTAIN..	Aframax	110,119		2006	Liberia
NS CENTURY	Aframax	109,989		2006	Liberia
NS CHALLENGER	Aframax	109,841		2005	Liberia
NS CHAMPION....................................	Aframax	110,084		2005	Liberia
NS CLIPPER	Aframax	109,908		2006	Liberia
NS COLUMBUS	Aframax	109,809		2007	Liberia
NS COMMANDER...............................	Aframax	109,987		2006	Liberia
NS CONCEPT.......................................	Aframax	109,857		2005	Liberia
NS CONCORD	Aframax	109,919		2005	Liberia
NS CONSUL	Aframax	109,716		2006	Liberia
NS CORONA	Aframax	110,066		2006	Liberia
NS CREATION.....................................	Aframax	109,819		2007	Liberia
NS LAGUNA	Aframax	115,831		2007	Liberia
NS LEADER	Aframax	115,857		2007	Liberia
NS LION	Aframax	115,831		2007	Liberia
NS LOTUS	Aframax	115,849		2008	Liberia
OLYMPIYSKY PROSPECT	Aframax	113,905	1B	2010	Liberia
PETROPAVLOVSK[2]	Aframax	106,532		2002	Liberia
PRIMORSKY PROSPECT	Aframax	113,860	1B	2010	Liberia
SAMUEL PROSPECT	LNG-fueled Aframax	113,095	1A	2019	Liberia
SCF BALTICA......................................	Aframax	117,153	1A Super	2005	Liberia
SUVOROVSKY PROSPECT	Aframax	113,820	1B	2011	Liberia
VERNADSKY PROSPECT..................	LNG-fueled Aframax	113,310	1A	2019	Liberia
ZALIV AMERIKA................................	Aframax	104,535	1C	2008	Liberia
ALEKSEY KOSYGIN	Suezmax	163,545	1A	2007	Liberia
NS BORA	Suezmax	156,697		2010	Liberia
NS BRAVO	Suezmax	156,694		2010	Liberia
NS BURGAS	Suezmax	156,572		2009	Liberia
LEONID LOZA.....................................	Suezmax	156,630		2011	Liberia
SCF BAIKAL	Suezmax	158,097		2010	Liberia

Ship name	Vessel type	Capacity (DWT)	Ice class[1]	Year built	Flag
SCF CAUCASUS	Suezmax	159,173		2002	Liberia
SCF PRIMORYE	Suezmax	158,070		2009	Liberia
SCF SAMOTLOR	Suezmax	158,070		2010	Liberia
SCF SAYAN	Suezmax	159,185		2002	Liberia
SCF SURGUT	Suezmax	158,097		2009	Liberia
SCF URAL	Suezmax	159,314		2002	Liberia
VLADIMIR TIKHONOV	Suezmax	162,362	1A	2006	Liberia
SCF SHANGHAI	VLCC	320,701		2014	Liberia
SVET	VLCC	321,039		2013	Liberia

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

(2) In September 2020, the *Petropavlovsk* was sold and delivered to its new owners.

Oil Products Transportation

Overview

The Group owns an oil products tanker fleet that was the third largest in the world in terms of DWT and largest in the world in terms of number of vessels and DWT with ice-class notations of 1B or above as of December 31, 2019, according to Clarksons Research. As of June 30, 2020, the Group's fleet in this segment consisted of 36 wholly-owned petroleum product carriers, with a further three vessels under order *(see "—Orderbook")*. The Group's existing fleet in this segment comprises seven LR2 oil products tankers (of which five carry an ice-class notation, and six currently trade as crude oil carriers), 25 MR oil products tankers (of which 15 carry an ice-class notation) and four Handysize oil products tankers (all of which carry an ice-class notation), with a total capacity, excluding the ordered vessels, of 2.1 million DWT. The average age of the Group's vessels in this segment, weighted by DWT, was 12.4 years as of June 30, 2020 (with an average age of 13.9 years for MR tankers, 12.9 years for Handysize tankers and 10.1 years for LR2 tankers). The average remaining term of the Group's oil products transportation contracts was 0.6 years (excluding vessels under order) and 3.5 years (including vessels under order), as of June 30, 2020. In addition, the Group has a 51% interest in joint ventures with Glencore which own nine LR1 oil products tankers (with a total capacity of 0.7 million DWT and an average age of 9.1 years). The fleet of oil products tankers operates on a worldwide basis operating in both the clean petroleum and dirty petroleum trades.

This segment generated US$177.7 million (14.0%) of the Group's time-charter-equivalent revenues in 2019 and US$122.7 million (15.7%) of the Group's time-charter-equivalent revenues for the six months ended June 30, 2020. The total contract backlog for this segment as of June 30, 2020 was US$60.5 million (excluding total contract backlog of US$632.5 million in respect of the three oil product carriers under order for delivery in 2022 and 2023 and total contract backlog of US$0.5 million in respect of the Group's share arising from its joint ventures with Glencore). The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Risk Factors*").

The table below sets forth key performance measures for the oil products transportation segment for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019:

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
Consolidated (wholly-owned)					
Number of vessels	36	39	40	36	37
Capacity (thousand DWT)	2,143	2,400	2,449	2,143	2,247
Time-charter-equivalent revenues (US$ millions)	177.7	144.2	154.7	122.7	81.8
Net earnings from vessels' trading (US$ millions)	89.3	50.8	60.6	85.4	34.8
Fleet utilization rate	92.9%	96.4%	98.3%	98.6%	91.7%
Equity-accounted (joint ventures)					
Number of vessels	9	9	9	9	9
Capacity (thousand DWT)	671	671	671	671	671
Time-charter-equivalent revenues (US$ millions)	55.7	38.2	41.0	36.9	26.5

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
Equity-accounted (joint ventures)					
Time-charter-equivalent revenues (Group's share) (US$ millions)	28.4	19.5	20.9	18.8	13.5
Net earnings from vessels' trading (US$ millions)	34.9	17.3	19.8	26.5	15.7
Net earnings from vessels' trading (Group's share) (US$ millions)	17.8	8.8	10.1	13.5	8.0
Fleet utilization rate	100.0%	99.9%	98.5%	99.1%	100.0%
Time-charter-equivalent rates (US$ per trading day):	14,083	10,282	10,774	18,986	12,917
Handysize	9,974	7,957	8,643	16,188	9,282
MR	12,925	10,609	10,946	16,850	12,357
LR1 (owned by joint ventures)	16,976	11,657	12,673	22,654	16,260
LR2	20,432	10,299	11,164	28,065	16,443

Competition

The Group's product carriers primarily compete in the MR, LR1 and LR2 tanker markets. Competition for charters in these markets is intense and is based on the price, location, size, age, condition and acceptability of the vessel (including which products have recently been carried by the vessel) and the reputation of the vessel's operator. The Group's competition in each of the size classes in which it competes is also affected by the availability of other size vessels that compete in that market. See "*—Crude Oil Transportation—Competition*." The Group's main competitors in this segment are other operators of oil products and chemical tankers, ranging in size from Handysize to LR2, including BW Pacific, China COSCO Shipping, Ardmore Shipping, Scorpio Tankers and Torm A/S.

Chartering and Customers

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

For the six months ended June 30, 2020, 35.9% of the Group's voyage days in this segment were engaged on time-charters and 64.1% of the Group's voyage days in this segment were used on the spot market (including contracts of affreightment). The table below sets forth the percentage of the time-charter-equivalent revenues derived from the spot market that constitutes the total time-charter-equivalent revenues for the segment for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019:

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
Time-charter-equivalent revenues derived from the spot market	79.3%	66.0%	65.6%	70.6%	80.2%

Fleet

The table below sets forth the Group's oil products and chemical carriers as of June 30, 2020:

Ship name	Vessel type	Capacity (DWT)	Ice class[(1)]	Holding (%)[(2)]	Year built	Flag
Consolidated (wholly-owned)						
MR Product Tankers						
NS PARADE	HANDYSIZE	40,199	1B	100	2008	Liberia
NS POINT	HANDYSIZE	40,149	1B	100	2008	Liberia
NS POWER	HANDYSIZE	40,161	1B	100	2006	Liberia

Ship name	Vessel type	Capacity (DWT)	Ice class[1]	Holding (%)[2]	Year built	Flag
NS PRIDE	HANDYSIZE	40,119	1B	100	2006	Liberia
NS SILVER	MR	47,197		100	2005	Liberia
NS SPIRIT	MR	46,941	1C	100	2006	Liberia
NS STELLA	MR	47,197		100	2005	Liberia
NS STREAM	MR	46,941	1C	100	2006	Liberia
ANICHKOV BRIDGE	MR	47,842	1A	100	2003	Liberia
ELBRUS	MR	46,655	1C	100	2004	Malta
HERMITAGE BRIDGE	MR	47,880	1A	100	2003	Liberia
PAMIR	MR	46,654	1C	100	2004	Malta
SCF AMUR	MR	47,095	1A	100	2007	Liberia
SCF ANADYR	MR	50,974	1A	100	2008	Liberia
SCF ANGARA	MR	50,956	1A	100	2008	Liberia
SCF DON	MR	50,923	1A	100	2009	Liberia
SCF IRTYSH	MR	50,975	1A	100	2009	Liberia
SCF NEVA	MR	47,125	1A	100	2006	Liberia
SCF PECHORA	MR	47,218	1A	100	2007	Liberia
SCF USSURI	MR	50,923	1A	100	2009	Liberia
SCF YENISEI	MR	47,187	1A	100	2007	Liberia
TAVRICHESKY BRIDGE	MR	46,697		100	2006	Liberia
TEATRALNY BRIDGE	MR	46,697		100	2006	Liberia
TORGOVY BRIDGE	MR	46,697		100	2005	Liberia
TOWER BRIDGE	MR	47,199		100	2004	Liberia
TRANSSIB BRIDGE	MR	46,564		100	2008	Liberia
TROITSKY BRIDGE	MR	47,199		100	2003	Liberia
TUCHKOV BRIDGE	MR	47,199		100	2004	Liberia
TVERSKOY BRIDGE	MR	46,564		100	2007	Liberia
LR2						
ANATOLY KOLODKIN	LR2	118,316	1C	100	2013	Liberia
NS AFRICA	LR2	111,682		100	2009	Liberia
NS ANTARCTIC	LR2	111,107	1B	100	2009	Liberia
NS ARCTIC	LR2	111,107	1B	100	2009	Liberia
NS ASIA	LR2	111,682		100	2009	Liberia
VIKTOR BAKAEV	LR2	118,175	1C	100	2013	Liberia
ZALIV AMURSKIY	LR2	104,542	1C	100	2008	Liberia
Equity-accounted (joint ventures)						
LR1						
SCF ALPINE	LR1	74,602		51	2010	Liberia
SCF PACIFICA	LR1	74,533		51	2011	Liberia
SCF PEARL	LR1	74,553		51	2011	Liberia
SCF PIONEER	LR1	74,602		51	2011	Liberia
SCF PLYMOUTH	LR1	74,606		51	2011	Liberia
SCF PRIME	LR1	74,602		51	2011	Liberia
SCF PROGRESS	LR1	74,588		51	2012	Liberia
SCF PROVIDER	LR1	74,548		51	2011	Liberia
SCF PRUDENCIA	LR1	74,565		51	2012	Liberia

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

(2) Represents percentage holding in vessel owning company.

Other Activities

Other Marine Services

Overview

In this segment, the Group operates two ice-class Panamax bulk carriers primarily for the transportation of minerals and dry bulk commodities within the North Atlantic, focusing on clients with imports and exports from the Baltic Sea and eastern Canada during winter and spring, when ice-water conditions have historically been present. More recently, the vessels have been engaged in the export of iron ore from Baffinland in the Canadian Arctic during the ice-free summer months (where the Group also acts as technical manager of six other bulk carriers owned by Nordic Bulk Carriers). The Group provides 3-D marine geophysical exploration services to its oil and gas

clients and operates two chartered-in seismic research vessels to provide such services. As of June 30, 2020, the Group's fleet in this segment consisted of two dry cargo carriers with a total capacity of 149,077 DWT and two seismic research vessels.

This segment generated US$56.6 million (4.5%) of the Group's time-charter-equivalent revenues in the year ended December 31, 2019 and US$32.0 million (4.1%) in the six months ended June 30, 2020.

Fleet

The table below sets forth the Group's vessels in this segment as of June 30, 2020:

Ship name	Vessel type	Capacity (DWT)	Ice class(1)	Year built	Flag
Dry Bulk					
NS Energy	Panamax	74,518	1B	2012	Liberia
NS Yakutia	Panamax	74,559	1B	2013	Liberia
Seismic					
Vyacheslav Tikhonov(2)	Seismic	2,053	1A	2011	Russia
Ivan Gubkin(2)(3)	Seismic	4,427	1A	2012	Russia

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

(2) Chartered-in vessel.

(3) Chartered-in vessel as of June 30, 2020. In September 2020, the *Ivan Gubkin* was returned to its owner.

Safety Management and Ship Operations

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

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

An integral part of the Group's safety management system is the Group's environmental protection policy, the main goals of which are to increase the environmental sustainability of the fleet and to ensure the reliable and safe provision of seaborne cargo transportation services. Maintenance of the Group's environmental protection policy is facilitated by the Group's environmental management system. For the year ended December 31, 2019, the Group emitted 39.3 thousand tons of sulfur oxides and 4.2 thousand tons of carbon dioxide, a decrease from 43.9 thousand tons and 4.4 thousand tons, respectively, for the year ended December 31, 2018. Moreover, the Group has increased the share of LNG engine fuel in its total ship fuel consumption, from 12% for the year ended December 31, 2018, to 15% for the year ended December 31, 2019 (including through owning the world's first LNG-fueled Aframax crude oil tankers). In addition, the Group reduced its CO_2 emissions by 5% for the year ended December 31, 2019 as compared with the year ended December 31, 2018. Moreover, there were no major spills of chemicals, oils or fuel in the year ended December 31, 2019 or the six months ended June 30, 2020.

The technical management services to the Group, such as the technical maintenance and repair of vessels, are provided by the following subsidiary companies:

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

The Group has the following branch offices:

- SCF Management Services (Cyprus) Ltd;

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

All of the Group's vessels are operated under a comprehensive and integrated safety management system that complies with the ISM Code for Ship Operations, ISO 9001 for Quality Assurance and ISO 14001 for Environment Management Systems. The Group's safety management system is certified by DNV GL, the Norwegian classification society. Although certification is valid for five years, compliance with the above-mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits and external verification audits by DNV GL and certain flag states. The Group has a strong track record in safety, with a total recordable lost time injury frequency rate of 0.45 cases per one million man-hours in 2019 (down 15% versus 2018), compared to the Intertanko industry average of 0.5, and a total recordable case frequency of 0.91 (down 11.7% versus 2018.)

The Group also provides certain ship management services, which can range from full technical management to selected management functions, to third-party owners or operators. Ship management services include such critical functions as vessel maintenance (including repairs and drydocking) and certification, crewing by competent seafarers, procurement of stores, bunker fuel and spare parts, management of emergencies and incidents, newbuilds supervision, insurance and financial management services of SCF's subsidiaries that are involved in the provision of ship management services.

Employees

The following table sets forth the number of seafaring employees of the Group as of the dates indicated, broken down by function:

	As of December 31,			As of June 30,	
	2019	2018	2017	2020	2019
Officers	2,909	3,245	3,339	2,876	2,744
Crew members	3,896	4,220	4,297	3,517	3,315
Shore-based staff	992	993	1,018	923	993
Total	7,797	8,458	8,654	7,316	7,052

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

As of June 30, 2020, the Group employed 7,316 employees, of whom 6,393 were seafarers and 923 were shore-based personnel. The slight decrease as of June 30, 2020 compared to December 31, 2019 was due to a lower number of voyages and subsequently fewer seafarers employed to cover such voyages. As of December 31, 2019, the Group employed 7,797 employees, of whom 6,805 were seafarers and 922 were shore-based personnel, compared to 8,458 employees as of December 31, 2018, of whom 7,465 were seafarers and 993 were shore-based personnel. The slight decrease in seafarers as of December 31, 2019 and December 31, 2018 compared to December 31, 2017 was the result of crew cost optimization changes that took place in 2019, where several junior officer positions were reduced, thus decreasing the seafarers on board each vessel by one seafarer on average.

The Group regards attracting and retaining motivated seagoing personnel as a top priority. Through the Group's crewing offices in St. Petersburg, Novorossiysk and Vladivostok, the Group offers its seafarers what it believes to be competitive employment packages and comprehensive benefits. Moreover, the Group has taken several measures to ensure the safety and wellbeing of its employees, including the introduction of additional staff aboard its vessels, the installation of fitness facilities onboard and offering contracts that reduce time at sea for commanding officers. In addition, the Group's crewing policy onboard its ships is that all crew and officers onboard a ship at a time must speak the same language to minimize the risk of miscommunications among the crew, as well as to promote social living conditions onboard the Group's vessels. Partly as a result of these and other efforts, the Group has what it believes to be a very low turnover rate, as illustrated by the fact that, in the year ended December 31, 2019, the retention rate for senior officers, officers and ratings (skilled seafarers who carry out support work for officers) was 98%, 96% and 94%, respectively.

Labor Relations

Most of the Group's seafarers belong to unions, and the Group has a collective bargaining agreement with the Seafarer's Union of Russia, an affiliate of the ITF that governs the Group's employment of seafarers serving on a substantial portion of the Group's vessels. The terms of this agreement generally govern the wages paid to the Group's crew, minimum living conditions onboard the Group's vessels, as well as other benefits and conditions of the seafarers' employment. This agreement is subject to customary renegotiation, and the Group may also become subject

to additional collective bargaining agreements in the future. The Group has never suffered from work stoppages as a result of labor disruptions, and Management believes the Group's relationships with the ITF and other trade unions are good.

Personnel Management and Training

The Group is committed to developing and training its personnel. Management selects the Group's personnel from highly qualified cadets at Russia's maritime educational establishments and other specialized professional schools for seafarers in St. Petersburg, Novorossiysk and Vladivostok. The Group is involved in the training of these cadets throughout their education, with candidates receiving training sessions as operators or technical superintendents in on-shore establishments. The Group hires or trains over 200 graduates from these maritime educational establishments annually.

Advanced maritime training continues throughout a seafarer's employment with the Group, including through the Group's own shipboard personnel training system. The Group benefits from strong relationships with Russia's maritime educational institutions, using their existing advanced training centers to train personnel, as some of the Group's top managers are members of academic councils of all three state maritime academies in Russia. The Group is presently engaged in establishing a "Floating Laboratory" in conjunction with Nevelskoy Maritime State University in the Russian Far East.

The Group runs a special program focusing on the training and retraining of personnel and enhancing the social security system for seamen. This program, "SCF-2021," which Management believes to be an example of the Group's continued commitment to crew development and advancement of on-shore personnel qualification, is expected to include training programs in ice–water conditions and onboard a variety of the Group's vessels.

Properties

The Group owns buildings in St. Petersburg, Novorossiysk and Sochi in Russia, as well a cruise terminal in Sochi. The Group also owns miscellaneous other property and equipment as well as other assets classified as investment property, including leased-in land and buildings. The Group also has lease contracts in respect of land, buildings and other assets in various locations including Dubai, Limassol, London, Moscow, Murmansk, Sochi, Vladivostok and Yuzhno-Sakhalinsk. As of December 31, 2019, all leases for land and buildings expire within two to 47 years, with various options attached. As of December 31, 2019, the total carrying value of other property, plant and equipment, investment property and right of use assets, in respect of leased-in land and buildings and miscellaneous assets, amounted to US$63.1 million. For further detail, see Notes 19, 20 and 37 of the 2019 Financial Statements.

Risk of loss and insurance

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

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

Management believes that the Group's current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of its business and that the Group maintains appropriate levels of environmental damage and pollution insurance coverage, consistent with industry norms.

Classification, Audits and Inspections

Generally, inspection procedures and requirements are a multi-layer quality control system, which includes internal reviews as well as external verification. The system starts from control of newbuild technical documentation and development, goes on to supervision during construction, crew selection and training; running the

vessel by the Group's crew; control of the vessels and crew by an onshore technical manager; and evaluations of technical managers, crew and vessels by various third parties, such as classification societies, flag states, ports, charterers and insurers.

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

The hull and machinery of all the Group's vessels have been 'classed' by one of the major classification societies: BV, DNV GL, Lloyd's Register of Shipping, Russian Maritime Register of Shipping or American Bureau of Shipping. In each case, the relevant classification society certifies that the vessel has been built and maintained in accordance with the rules of that classification society. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an "**Intermediate Survey**") and the fifth annual inspection being the most comprehensive survey (a "**Special Survey**"). The inspection cycle resumes after each Special Survey. Vessels also may be required to be drydocked at each Intermediate Survey and Special Survey for inspection of the underwater parts of the vessel in addition to a more detailed inspection of hull and machinery. Many of the Group's vessels have qualified with their respective classification societies for drydocking every five years in connection with the Special Survey and are no longer subject to drydocking at Intermediate Surveys. To qualify for this treatment, the Group was required to enhance the resiliency of the underwater coatings of each vessel hull to accommodate underwater inspections by divers.

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

Status as a Strategic Enterprise

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

In addition to the benefits SCF receives as a result of the Decree, SCF is also included on the list of strategic enterprises and strategic joint-stock companies that have certain restrictions with respect to their share capital, pursuant to a separate decree. See "*Description of Share Capital and Certain Requirements of Russian Law*." These restrictions will continue to apply to SCF following the Offering.

Legal Proceedings

Russian customs-related disputes

In January 2020, the Murmansk customs authorities carried out an audit of SCF's subsidiary, OOO SCF GEO ("**SCF GEO**"), focusing, in particular, on the operation of the seismic research vessel *Ivan Gubkin* and the chartered-in supply vessel *Guard Celena* during August 2018. As a result of the audit, the customs authorities launched an investigation into alleged administrative offenses in connection with the alleged non-declaration to the customs authorities of three arrivals and three departures of the supply vessel at and from the port of Murmansk while the vessel made cabotage calls there (the "**Administrative Offenses**"). Additionally, the customs authorities alleged that fuel supplied to the *Ivan Gubkin* had not been declared during similar cabotage calls which could lead to customs charges being imposed on SCF GEO (the "**Customs Charges**"). As a result of the audit, the Murmansk customs authorities (i) issued two decisions in connection with the Customs Charges imposing payment of minor custom taxes and duties upon SCF GEO and (ii) submitted six Administrative Offenses against SCF GEO for resolution in the Pervomaiskiy district court of Murmansk. The court issued a number of decisions in relation to the submitted Administrative Offenses, under one of which SCF GEO was obliged to pay a fine in the amount of approximately RUR 43.7 million (approximately US$575,000) (the "**Administrative Offense Decision**"). In August 2020, SCF GEO submitted an appeal to Murmansk District Court to challenge the Administrative Offense Decision, claiming that cabotage trade did not require additional customs clearance, and that SCF had a permit from the border service to call at the port without the need to declare the arrival or departure of the supply vessel. The appeal hearing in court is expected to be held in October 2020.

Certain non-Russian legal proceedings

Novoship (UK) Confidentiality Claims

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

Further litigation followed in connection with alleged breaches of the settlement agreements reached between (i) NOUK and the Group companies and (ii) certain defendants to the above claims, including a settlement entered into on September 26, 2016 (the "**September Settlement Agreement**"). On December 27, 2018, two companies which had been parties to the September Settlement Agreement, Maroil Trading Inc. and Sea Pioneer Shipping Corporation (the "**Confidentiality Claimants**"), filed a claim for damages for unauthorized disclosures against NOUK and the other Group companies at the High Court of Justice in London. The unauthorized disclosures which are the subject of the claim were allegedly made by a third party, the corporate intelligence services provider Burford Capital (UK) Limited and its employee Daniel Hall (the "**CISP**"), formerly retained by the Group. The Confidentiality Claimants allege that such disclosure of information was in breach of the September Settlement Agreement and led to proceedings being brought against them as a result of which they suffered significant losses.

The Confidentiality Claimants are claiming damages in an estimated amount of around US$60 million. The Group alleges that the CISP were responsible for the unauthorized disclosure of information, and joined them to the litigation.

The Confidentiality Claimants filed an application for summary judgment on certain points which was dismissed, while the Group's application for amendments to be introduced to the defense was allowed. Additionally, the Group applied for, and was granted, security for costs to cover the period up to the summary judgment application. A further application for security costs by the Group is pending.

A case management conference took place on July 3, 2020. The trial of the case is expected to start after May 1, 2022. The Group continues to defend the claim vigorously and has been advised by its counsel that the chances of the claim succeeding are small.

REGULATORY OVERVIEW

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

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

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

International Maritime Organization (IMO)

The IMO, an agency of the United Nations, is responsible for setting standards and creating an international regulatory framework to improve international shipping, to increase maritime safety and to prevent pollution from ships. The IMO has developed international treaties and conventions to regulate the international shipping industry, which are incorporated into each signatory state's legislation, that now apply to over 98% of the world's fleet. The below reflects a discussion of some of the most significant conventions and regulations, but is by no means exhaustive. The IMO continuously revises and updates its regulatory schemes.

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

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

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

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

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

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

Annex VI to MARPOL also sets limits on SOx, NOx and particulate matter emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances. It also regulates the emission of volatile organic compounds from cargo tankers and certain gas carriers, as well as shipboard incineration of specific substances. Annex VI also includes a global cap on the sulfur content of fuel oil with a lower cap on the sulfur content applicable inside emission control areas ("**ECAs**"), such as the Baltic Sea, the North Sea, including the English Channel, the North American area and the U.S. Caribbean Sea area. Effective January 1, 2020, the global cap on the

sulfur content of fuel oil is 0.5%. From January 1, 2015, the cap on the sulfur content of fuel oil for vessels operating in ECAs has been 0.1%. Effective March 1, 2020, amendments to Annex VI prohibit the carriage of non-compliant fuel oil for combustion purposes for propulsion or operation on board a ship unless the ship is equipped with an approved exhaust gas cleaning system.

China has established emission control areas ("**ECAs**") in the Pearl River Delta, the Yangtze River Delta and the Bohai Bay rim area with restrictions in the maximum sulfur content of the fuel to be used by vessels within those areas to apply from January 1, 2016 and to become progressively stricter over time, with key ports within the ECAs implementing low sulfur bunker requirements.

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

Annex VI to MARPOL provides for a three-tier reduction in NOx emissions from marine diesel engines, with Tier III applying to engines installed on vessels constructed on or after January 1, 2016 and which operate in the North American ECA or the U.S. Caribbean Sea ECA. The Tier III requirements would also apply to ECAs designated in the future by the IMO. In October 2016, the IMO's Marine Environment Protection Committee ("**MEPC**") approved the designation of the North Sea and the Baltic Sea as ECAs for NOx emissions. These 2 new NOx ECAs and the related amendments to Annex VI of MARPOL (with some exceptions) entered into force on January 1, 2019.

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

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

The BWM Convention, which entered into force on September 8, 2017, aims to prevent the spread of harmful aquatic organisms from one region to another by establishing standards and procedures for the management and control of vessels' ballast water and sediments. The BWM Convention's implementing regulations require vessels to conduct ballast water management in accordance with the standards set out in the convention, which include performance of ballast water exchange and the gradual phasing in of a ballast water performance standard which requires ballast water treatment and the installation of ballast water treatment systems on board the vessels. Under the BWM Convention, vessels are required to implement a ballast water and sediments management plan, carry a ballast water record book and have an international ballast water management certificate. Pursuant to the BWM Convention amendments that entered into force in October 2019, BWMSs installed on or after October 28, 2020, shall be approved in accordance with BWMS Code, while BWMSs installed before October 28, 2020, must be approved taking into account guidelines developed by the IMO or the BWMS Code. Ships sailing in U.S. waters are required to employ a type-approved BWMS which is compliant with United States Coast Guard ("**USCG**") regulations. The USCG has approved a number of BWMS.

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

The Recycling Convention deals with issues relating to ship recycling and aims to address the occupational health and safety, as well as environmental risks relating to ship recycling. It contains regulations regarding the design, construction, operation, maintenance and recycling of vessels, along with survey and certification requirements to ensure compliance with the Recycling Convention. In particular, it prohibits and/or restricts the installation or use of hazardous materials on vessels, requires an inventory of hazardous materials specific to each vessel and requires a ship-recycling plan to be developed for each vessel prior to its recycling. The Recycling Convention will enter into force 24 months after ratification by a specified minimum number of states with a combined gross tonnage and maximum annual recycling volume during the preceding 10 years.

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

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

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

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

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

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

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

SOLAS was also amended in May 2006 with respect to long-range identification and tracking of ships ("**LRIT**"). SOLAS regulation on LRIT establishes a multilateral agreement for sharing LRIT information, including the ship's identity, location and date and time of the position for security and search and rescue purposes. The amendment contains a phased-in implementation schedule for ships constructed before the entry into force of the amendment. The Group's ships are in compliance with the LRIT implementation schedule. At its 91st session, the IMO's Maritime Safety Committee ("**MSC**") adopted amendments to SOLAS to clarify requirements regarding portable radiotelephone apparatus and protection against noise. The IMO continues to review and introduce new regulations; as such, it is impossible to predict what additional regulations may be adopted by the IMO and what effect they may have on our operations.

In 1993, the IMO adopted the ISM Code, which became mandatory in July 1998, pursuant to SOLAS.

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

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

Another amendment of SOLAS, following the terrorist attacks of September 11, 2001, introduced special measures to enhance maritime security, including the International Ship and Port Facility Security Code (the "**ISPS Code**"), which came into force on July 1, 2004. The ISPS Code sets out measures for the enhancement of security of vessels and port facilities, such as the on-board installation of automatic information systems to enhance vessel-to-vessel and vessel-to-shore communications, the on-board installation of vessel security alert systems, the development of vessel security plans and the compliance with flag state security certification requirements.

Compliance of a vessel with the ISPS Code is evidenced by an international ship security certificate. All of the Group's vessels have obtained an international ship security certificate and are compliant with all applicable security requirements.

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

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

Other IMO Regulations

IMO regulations also include, specifically with respect to LNG and LPG carriers, the International Code for the Construction and Equipment of Ships Carrying Liquefied Gases in Bulk (the "**IGC Code**"). Each LNG and LPG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of the Group's LNG and LPG carriers is currently IGC Code-certified and each of the Group's LNG and LPG new vessel shipbuilding contracts requires compliance prior to delivery. The MSC has adopted a revised and updated IGC Code which entered into force on January 1, 2016, with an implementation/application date of July 1, 2016. Additional amendments to the IGC Code, aligning wheelhouse window fire-rating requirements with those in SOLAS, became effective January 1, 2020.

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

In addition, the International Code of Safety for Ships using Gases or other Low-flashpoint Fuels (the "**IGF Code**"), which entered into force on January 1, 2017, applies to ships fueled by gases or other low-flashpoint fuels and sets out mandatory provisions for the arrangement, installation, control and monitoring of machinery, equipment and systems using low-flashpoint fuel. Additional amendments regarding the loading limit for liquefied gas fuel tanks and the protection of the fuel supply for liquefied gas fuel tanks aimed at preventing explosions, among other items, will go into effect in 2024.

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

The IMO has also developed and adopted an International Code for Ships Operating in Polar Waters (the "**Polar Code**"), which deals with matters regarding the design, construction, equipment, operation, search and rescue and environmental protection in relation to ships operating in waters surrounding the poles. The Polar Code includes both safety and environmental provisions and will be mandatory, with the safety provisions becoming part of SOLAS and the environmental provisions becoming part of MARPOL. The Polar Code entered into force on January 1, 2017.

Non-compliance with IMO regulations

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

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

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

European Union Regulations

European Union regulations in relation to the maritime sector have generally been based on international regulations (mostly produced by the IMO) adopted by the member states of the European Union (each a "**Member State**"). However, in recent years the European Union has played an increasingly active role in promoting, developing and adopting regulations for the purposes of maritime safety and protection of the environment, sometimes establishing new or parallel (and often more stringent) regulatory frameworks which apply in addition to those established by the IMO. For example, the European Union adopted a more accelerated phasing-in scheme for the phasing-out of single-hull oil tankers than that set out under MARPOL. The below reflects a discussion of key applicable regulations.

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

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

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

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

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

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

The European Union has also adopted Regulation (EU) No 1257/2013, which lays down requirements for the recycling of vessels in an environmentally sound manner at approved recycling facilities which meet certain requirements, so as to minimize the adverse effects of recycling on human health and the environment. The Regulation also lays down rules for the control and proper management of hazardous materials on vessels and prohibits or restricts the installation or use of certain hazardous materials on vessels. The Regulation aims at facilitating the ratification of the Recycling Convention. In general, it applies to vessels flying the flag of a Member State. However, certain of its provisions apply to vessels flying the flag of a third country calling at a port or anchorage of a Member State. The Regulation is in force, although certain of its provisions are to apply at different stages, with some of them applicable from December 31, 2020. Pursuant to this Regulation, the EU Commission publishes from time to time a European List of approved ship recycling facilities meeting the requirements of the regulation. On

January 22, 2020, the EU Commission published an implementing decision which included an updated version of the European List.

Greenhouse Gas Emissions—Climate Change

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

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

In July 2011, the IMO adopted regulations imposing technical and operational measures for the reduction of greenhouse gas emissions. These new regulations formed a new chapter in Annex VI of MARPOL and became effective on January 1, 2013. The new technical and operational measures include the "Energy-Efficiency Design Index," which is mandatory for new vessels, and the "Ship Energy-Efficiency Management Plan," which is mandatory for all vessels. In October 2016, the MEPC adopted updated guidelines for the calculation of the Energy-Efficiency Design Index. In addition, the IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. In October 2016, the IMO adopted a mandatory data collection system under which vessels of 5,000 gross tonnage and above are to collect fuel consumption and other data and to report the aggregated data to their flag state at the end of each calendar year. The new requirements entered into force on March 1, 2018. In April 2018, the MEPC adopted an initial strategy on the reduction of greenhouse gas emissions from ships, which envisages a reduction in total greenhouse gas emissions from international shipping by at least 50% by 2050 compared to 2008.

The European Union also has indicated that it intends to propose an expansion of its existing emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries within the European Union may impose additional requirements. Regulation (EU) 2015/757 on the monitoring, reporting and verification of CO2 emissions from vessels (the "**MRV Regulation**") was published in the Official Journal on May 19, 2015 and entered into force on July 1, 2015. The MRV Regulation applies to all vessels over 5,000 gross tonnage (with a few exceptions, such as fish-catching or fish-processing vessels), irrespective of flag, in respect of CO2 emissions released during intra-EU voyages and EU incoming and outgoing voyages. The first reporting period commenced on January 1, 2018. The monitoring, reporting and verification system adopted by the MRV Regulation may be the precursor to a market-based mechanism to be adopted in the future. In fact, the European Union is currently considering a proposal for the inclusion of shipping in the EU Emissions Trading System (the "**ETS**"). While the proposal is still under consideration, July 2020 saw the European Parliament's Committee on Environment, Public Health and Food Safety vote in favor of the inclusion of vessels of 5000 gross tons and above in the ETS (in addition to voting for a revision to the monitoring, reporting and verification of CO2 emissions).

Other than as set out above, the Group does not expect any significant financial or operational impact on the Group's business relating to the passage of new climate control legislation or other regulatory initiatives by the IMO, European Union or countries in which the Group operates, restricting the emissions of greenhouse gases.

International Conventions in Relation to Liability and Compensation

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

The CLC sets out a liability regime in relation to oil pollution damage. Many countries are parties and have ratified either the original CLC or the 1992 protocol to it (the "**1992 Protocol**"). Under the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters or, under the 1992 Protocol, in the exclusive economic zone or equivalent area, of a contracting state by discharge of persistent oil, subject to certain defenses and subject to the right to limit liability. The original CLC applies to vessels carrying oil as cargo and not in ballast, whereas the CLC, as amended by the 1992 Protocol, applies to tanker vessels and combination carriers (i.e., vessels which sometimes carry oil in bulk and sometimes other cargoes) but only when the latter carry oil in bulk as cargo and during any voyage following such carriage (to the extent they have oil residues on board). The limits on liability are based on the use of the IMF currency unit of Special Drawing Rights ("**SDRs**"). Under the 2000

amendments to the 1992 Protocol to the CLC, which became effective on November 1, 2003, liability is limited (i) for vessels not exceeding 5,000 gross tons, to 4.51 million SDR; (ii) for vessels between 5,000 and 140,000 gross tons, to 4.51 million SDRs plus 631 SDRs for each additional gross ton over 5,000; and (iii) for vessels of over 140,000 gross tons, to 89.77 million SDRs. The exchange rate between U.S. dollars and SDRs was 1 U.S. dollar per 0.723947 SDR on July 7, 2020. Under the original CLC, the right to limit liability is forfeited where the incident causing the damage is caused by the owner's actual fault or privity and under the 1992 Protocol where the relevant incident is caused by the owner's personal act or omission, committed with the intent to cause such damage or recklessly and with knowledge that such damage would probably result. Vessels trading with states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In many jurisdictions where the CLC has not been adopted, other than the United States, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that of the CLC. The Group considers that its protection and indemnity insurance will cover the liability under the regime adopted by the IMO.

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

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

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

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

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

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

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

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

Environmental regulation—U.S. regulations

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

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

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

OPA 90 limits the liability of responsible parties. The limit for double-hulled tank vessels, effective November 12, 2019, is the greater of US$2,300 per gross ton or US$19.9 million for tankers greater than 3,000 gross tons, subject to possible further adjustment for inflation. These limits would not apply if the incident were proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. In addition, CERCLA, which applies to the discharge of hazardous substances (other than oil), imposes strict, joint and several liability without regard to fault upon owners, operators and bareboat charterers of vessels for clean-up costs and damages arising from discharges of hazardous substances, whether on land or at sea. Liability under CERCLA is limited to the greater of US$300 per gross ton or US$5 million for vessels over 300 gross tons, or is unlimited if the incident is caused by gross negligence, willful misconduct or a violation of certain regulations.

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

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

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

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

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

- address a 'worst case' scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a 'worst case discharge';

- describe crew training and drills; and

- identify a qualified individual with full authority to implement removal actions.

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

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

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

Environmental regulation—other environmental initiatives

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

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

The EPA enacted rules governing the regulation of ballast water discharges and other discharges incidental to the normal operation of vessels within U.S. waters. Under the rules, most commercial vessels 79 feet in length or longer, are required to obtain a CWA permit, which the EPA has designated as the vessel general permit for discharges incidental to the normal operation of vessels ("**VGP**"). The VGP incorporates the current U.S. Coast Guard requirements for ballast water management as well as supplemental ballast water requirements and includes limits applicable to specific discharge streams, such as deck runoff, bilge water and gray water. This VGP was effective to December 18, 2018. The Vessel Incidental Discharge Act ("**VIDA**") was signed into law on December 4, 2018, and establishes a new framework for the regulation of vessel incidental discharges under the CWA. VIDA requires the EPA to develop performance standards for incidental discharges by December 2020 and requires the USCG to develop regulations within two years of the EPA's promulgation of standards. Under VIDA, all provisions of the Vessel General Permit remain in force and effect as currently written until the USCG regulations are published.

Vessels that are constructed after December 1, 2013, are subject to the ballast water numeric effluent limitations. Several U.S. states have added specific requirements to the VGP and, in some cases, may require vessels to install ballast water treatment technology to meet biological performance standards.

Vessel security regulation

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

Inspection by Classification Societies

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

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

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

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

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

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

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

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

Novel Coronavirus (COVID-19)

Governments or other local governmental agencies may, from time to time, enact additional and/or temporary measures, nationally or regionally, in respect of COVID-19. For example, in March 2020, Customs and Border Protection in the United States issued temporary restrictions on crew leave in the Port of New Orleans, and the U.S. Coast Guard issued a Marine Safety Information Bulletin reminder that notification of deaths and illnesses of persons on board a vessel must be reported to the Coast Guard (and mandating immediate notification to the Coast Guard and the Center for Disease Control and Prevention of such death or illness related to COVID-19). Other jurisdictions have taken measures (and may from time to time take additional measures) that they consider necessary in response to COVID-19. The economic and financial impact of COVID-19 has yet to be determined.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected consolidated financial information as of and for the years ended December 31, 2019, 2018 and 2017 has been derived from the Group's audited consolidated financial statements included in this Offering Memorandum. The audited consolidated financial statements of the Group as of and for each of the years ended December 31, 2019 (the "**2019 Financial Statements**"), December 31, 2018 (the "**2018 Financial Statements**") and December 31, 2017 (the "**2017 Financial Statements**") included in this Offering Memorandum have been prepared in accordance with IFRS as issued by the IASB and have been audited by Ernst & Young LLC, the Group's independent auditors, who are members of the self-regulatory organization of auditors Association "Sodruzhestvo." The unaudited condensed consolidated interim financial statements as of and for the three and six months ended June 30, 2020 (the "**Half Year Financial Statements**") included in this Offering Memorandum have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the IASB.

Due to the adoption of IFRS 16 "Leases," the financial information presented as of and for the six months ended June 30, 2020, the six months ended June 30, 2019 and the year ended December 31, 2019 is not directly comparable to the financial information as of and for the years ended December 31, 2018 and 2017. There were certain other changes in the Group's accounting policies which affect the comparability of the financial information in the period under review. See "—*Impact of Changes in Accounting Policies*."

The selected financial and operating information set forth below should be read in conjunction with "*Operating and Financial Review*" included elsewhere in this Offering Memorandum and SCF's financial statements included in this Offering Memorandum.

Selected Consolidated Income Statements

	Year ended December 31,			Six months ended June 30,	
	2019	**2018**	**2017**	**2020**	**2019[(2)]**
			(US$'000)		
Revenue[(1)]	1,665,207	1,519,937	1,435,365	951,305	794,065
Voyage expenses and commissions	(399,710)	(445,243)	(377,374)	(168,605)	(200,090)
Time-charter-equivalent revenues	1,265,497	1,074,694	1,057,991	782,700	593,975
Direct operating expenses					
Vessels' running costs	356,327	348,219	378,776	170,525	170,811
Charter hire payments	-	28,931	40,424	-	-
	(356,327)	(377,150)	(419,200)	(170,525)	(170,811)
Net earnings from vessels' trading	909,170	697,544	638,791	612,175	423,164
Other operating revenues	43,106	23,835	21,962	10,585	21,559
Other operating expenses	(17,914)	(12,031)	(14,041)	(5,755)	(10,494)
Depreciation, amortization and impairment	(411,849)	(404,007)	(389,142)	(228,957)	(191,572)
General and administrative expenses	(107,992)	(111,752)	(116,703)	(46,048)	(54,538)
Gain/(loss) on sale of non-current assets	6,282	(8,590)	20,177	(449)	(136)
Loss on sale and dissolution of subsidiaries	-	(1,659)	-	-	-
Loss on sale of equity-accounted investments	-	-	(5)	-	-
Allowance for credit losses	(173)	410	490	(229)	(41)
Share of profits in equity-accounted investments	15,721	3,109	2,675	13,133	5,529
Operating profit	436,351	186,859	164,204	354,455	193,471
Other (expenses)/income					
Financing costs	(206,156)	(200,417)	(193,859)	(99,229)	(103,570)
Interest income	10,183	8,222	9,787	5,325	5,513
Other non-operating expenses	(1,946)	(3,179)	(78,718)	(951)	(1,106)
Hedge ineffectiveness and termination of hedge[(3)]	(83)	1,038	401	487	(276)
Gain on derecognition of dividend liability[(4)]	7,895	422	345	19	3,861
Foreign exchange gains	17,703	14,602	10,586	4,253	15,428
Foreign exchange losses	(9,563)	(29,695)	(10,343)	(15,847)	(6,920)
Net other expenses	(181,967)	(209,007)	(261,801)	(105,943)	(87,070)
Profit / (loss) before income taxes	254,384	(22,148)	(97,597)	248,512	106,401
Income tax expense	(29,006)	(23,408)	(15,372)	(22,142)	(15,438)
Profit / (loss) for the period	225,378	(45,556)	(112,969)	226,370	90,963
Profit / (loss) attributable to:					
Owners of the parent	221,629	(41,642)	(109,670)	224,915	90,043
Non-controlling interests	3,749	(3,914)	(3,299)	1,455	920
	225,378	(45,556)	(112,969)	226,370	90,963

(1) "Freight and hire revenue" in the 2017 Financial Statements.
(2) Please see Note 2 of the 2020 Half Year Financial Statements for information on the restatement of interim financials.
(3) "Gain on termination of hedge and hedge ineffectiveness" in the 2018 Financial Statements and "Gain / (loss) on hedge effectiveness" in the Half Year Financial Statements.
(4) "Gain on derecognition of dividend liability" presented in "Other operating revenues" for the year ended December 31, 2017 has been disaggregated to conform with the presentation of financial information for the years ended December 31, 2018 and 2019.

Selected Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2019	2018	2017	2020
	(US$'000)			
Assets				
Non-current assets				
Fleet	6,121,734	6,165,663	6,291,344	6,136,496
Right-of-use assets	45,895	-	-	15,151
Vessels under construction	179,579	135,890	81,837	161,613
Intangible assets	5,891	6,772	8,659	3,219
Other property, plant and equipment	41,366	43,240	49,323	39,383
Investment property	4,435	545	7,924	3,834
Investments in associates	105	99	132	106
Investments in joint ventures	152,255	132,926	123,117	161,820
Equity instruments at fair value through profit or loss[(1)]	480	754	523	361
Loans to joint ventures	50,341	66,069	55,511	50,902
Derivative financial instruments	4,718	20,899	35,909	762
Trade and other receivables	8,705	13,670	7,739	8,997
Deferred tax assets	5,250	4,089	8,162	3,848
Bank deposits	15,500	11,000	12,000	15,500
	6,636,254	6,601,616	6,682,180	6,601,992
Current assets				
Inventories	53,749	67,452	61,883	41,213
Loans to joint ventures	11,804	-	-	26
Derivative financial instruments	170	3,783	808	-
Trade and other receivables[(2)]	100,739	89,965	103,284	103,106
Prepayment and other current assets[(2)]	15,280	18,245	43,638	16,745
Contract assets	41,605	31,020	-	15,033
Current tax receivable	5,592	4,032	6,487	9,004
Restricted cash	-	-	75,543	-
Bank deposits[(3)]	26,865	28,862	26,018	22,730
Cash and cash equivalents[(3)]	374,821	267,571	321,334	672,518
	630,625	510,930	638,995	880,375
Non-current assets held for sale	69,061	29,700	25,719	30,380
	699,686	540,630	664,714	910,755
Total assets	7,335,940	7,142,246	7,346,894	7,512,747
Equity and liabilities				
Capital and reserves				
Share capital	405,012	405,012	405,012	405,012
Reserves	2,967,860	2,808,596	2,860,208	3,132,236
Equity attributable to the owners of the parent	3,372,872	3,213,608	3,265,220	3,537,248
Non-controlling interest	131,709	136,455	143,802	132,407
Total equity	3,504,581	3,350,063	3,409,022	3,669,655
Non-current liabilities				
Trade and other payables[(2)]	16,905	18,203	19,386	16,213
Other non-current liabilities[(2)]	3,663	5,207	9,027	7,201
Secured bank loans	2,159,854	2,261,672	2,262,821	2,028,602
Other loans	897,106	899,312	902,412	896,340
Lease liabilities	41,180	-	-	34,246
Derivative financial instruments	30,233	14,071	12,812	68,418
Retirement benefit obligations	2,599	2,293	4,045	2,209
Provisions	3,895	1,367	-	3,945
Deferred tax liabilities	6,297	3,823	2,258	16,099
	3,161,732	3,205,948	3,212,761	3,073,273
Current liabilities				
Trade and other payables[(2)]	161,924	167,935	176,253	158,591
Other current liabilities[(2)]	72,519	65,738	109,321	62,074
Contract liabilities	14,741	16,086	-	10,244
Secured bank loans	378,955	313,842	338,226	490,069

	As of December 31,			As of June 30,
	2019	2018	2017	2020
Other loans	3,314	3,384	3,537	3,327
Lease liabilities	19,120	-	-	16,356
Current tax payable	394	1,124	4,890	713
Derivative financial instruments	18,660	15,626	17,370	28,445
Payable under high court judgement award	-	-	75,514	-
Provisions	-	2,500	-	-
	669,627	586,235	725,111	769,819
Total liabilities	3,831,359	3,792,183	3,937,872	3,843,092
Total equity and liabilities	7,335,940	7,142,246	7,346,894	7,512,747

(1) "Available-for-sale investments" in the 2017 Financial Statements.
(2) "Trade and other receivables" and "Trade and other payables" in 2017 and 2018 have been disaggregated to conform with the 2019 presentation.
(3) "Cash and bank deposits" in 2017 and 2018 have been disaggregated to "Bank deposits" and "Cash and cash equivalents" to conform with 2019 presentation.

Selected Consolidated Cash Flow Statements

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
			(US$'000)		
Operating activities					
Net cash from operating activities	793,855	552,684	545,844	585,091	382,509
Investing activities					
Net cash used in investing activities	(406,403)	(352,020)	(587,366)	(135,200)	(250,671)
Financing activities					
Net cash used in financing activities	(290,587)	(240,265)	(75,008)	(129,236)	(96,222)
Increase/(decrease) in cash and cash equivalents	96,865	(39,601)	(116,530)	320,655	35,616
Cash and cash equivalents at beginning of period	267,571	321,334	432,792	374,821	267,571
Net foreign exchange difference	10,385	(14,162)	5,072	(22,958)	7,290
Cash and cash equivalents at end of period	374,821	267,571	321,334	672,518	310,477

Other Financial and Operating Data

Net Debt

	As of December 31,			As of June 30,
	2019	2018	2017	2020
			(US$'000)	
Secured bank loans	2,538,809	2,575,514	2,601,047	2,518,671
Other loans	900,420	902,696	905,949	899,667
Lease liabilities	60,300	-	-	50,602
Less: cash and bank deposits	(417,186)	(307,433)	(359,352)	(710,748)
Less: restricted cash	-	-	(75,543)	-
Net debt	3,082,343	3,170,777	3,072,101	2,758,192

Selected Operational Data

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
Total voyage days for fleet[(1)]	46,615	47,925	47,815	23,523	23,391
Total time-charter days for fleet	24,930	23,772	23,984	14,398	12,021
Total spot market days for fleet	21,685	24,153	23,831	9,126	11,370

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

EBITDA and related measures

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
	(US$'000)				
EBITDA	862,206	574,054	475,617	571,373	396,030
Adjusted EBITDA	823,008	580,721	545,430	578,582	373,978
Adjusted EBITDA margin	65.0%	54.0%	51.6%	73.9%	63.0%
Ratio of net debt/Adjusted EBITDA[1]	3.7	5.5	5.6	2.7[2]	*Not presented*

(1) Net debt includes total secured bank loans, other loans, and lease liabilities after deducting cash and bank deposits and restricted cash. Capitalization is the sum of net debt and total equity.
(2) Ratio of net debt/Adjusted EBITDA calculated on the basis of the last 12 months. The Adjusted EBITDA for the last 12 months is calculated by adding the Adjusted EBITDA for the six months ended June 30, 2020 to the Adjusted EBITDA for the year ended December 31, 2019 and subtracting the Adjusted EBITDA for the six months ended June 30, 2019.

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

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
	(US$'000)				
Reconciliation of EBITDA and Adjusted EBITDA to profit/(loss) for the period					
Profit/(loss) for the period	225,378	(45,556)	(112,969)	226,370	90,963
Income tax expense	29,006	23,408	15,372	22,142	15,438
Financing costs	206,156	200,417	193,859	99,229	103,570
Interest income	(10,183)	(8,222)	(9,787)	(5,325)	(5,513)
Depreciation, amortization and impairment	411,849	404,007	389,142	228,957	191,572
EBITDA	862,206	574,054	475,617	571,373	396,030
Other non-operating expenses	1,946	3,179	78,718	951	1,106
Hedge ineffectiveness and termination of hedge	83	(1,038)	(401)	(487)	276
Gain on derecognition of dividend liability	(7,895)	(422)	(345)	(19)	(3,861)
Loss on sale and dissolution of subsidiaries	-	1,659	-	-	-
Foreign exchange gains	(17,703)	(14,602)	(10,586)	(4,253)	(15,428)
Foreign exchange losses	9,563	29,695	10,343	15,847	6,920
Gain/(loss) on sale of equity-accounted investments	-	-	5	-	-
Other operating revenues	(43,106)	(23,835)	(21,962)	(10,585)	(21,559)
Other operating expenses	17,914	12,031	14,041	5,755	10,494
Adjusted EBITDA	823,008	580,721	545,430	578,582	373,978

Ratio of net debt/capitalization

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

	As at December 31,			As at June 30,
	2019	2018	2017	2020
	(US$'000)			
Reconciliation of the Group's ratio of net debt/capitalization				
Secured bank loans	2,538,809	2,575,514	2,601,047	2,518,671
Other loans	900,420	902,696	905,949	899,667
Lease liabilities	60,300	-	-	50,602
Less: cash and bank deposits	(417,186)	(307,433)	(359,352)	(710,748)
Less: restricted cash	-	-	(75,543)	-
Net debt	3,082,343	3,170,777	3,072,101	2,758,192
Total equity	3,504,581	3,350,063	3,409,022	3,669,655
Total capitalization	6,586,924	6,520,840	6,481,123	6,427,847
Ratio of net debt/capitalization	46.8%	48.6%	47.4%	42.9%

Adjusted Profit

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
			(US$'000)		
Adjusted Profit / (Loss)..............................	250,897	6,947	(5,281)	258,153	95,895

The following table reconciles the Group's adjusted profit to IFRS line item profit/(loss) for the period:

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
Reconciliation of Adjusted Profit			(US$'000)		
Profit/(loss) for the period..	225,378	(45,556)	(112,969)	226,370	90,963
Impairment on fleet, right of use assets and other assets..	23,573	49,324	28,970	30,832	3,826
Other non-operating expenses......................................	1,946	3,179	78,718	951	1,106
Adjusted Profit / (Loss)..	250,897	6,947	(5,281)	258,153	95,895

Net working capital

The following table reconciles the Group's net working capital to IFRS line items:

	As of December 31,			As of June 30,
	2019	2018	2017	2020
		(US$'000)		
Reconciliation of net working capital				
Trade and other receivables	100,739	89,965	103,284	103,106
Inventories	53,749	67,452	61,883	41,213
Trade and other payables	(161,924)	(167,935)	(176,253)	(158,591)
Net working capital..	(7,436)	(10,518)	(11,086)	(14,272)
Time-charter-equivalent revenues................................	1,265,497	1,074,694	1,057,991	782,700
Net working capital margin..	(0.6%)	(1.0%)	(1.0%)	(1.0%)[(1)]

(1) Net working capital margin is calculated on the basis of the last 12 months. The time-charter-equivalent revenues for the last 12 months are calculated by adding the time-charter-equivalent revenues for the six months ended June 30, 2020 to the time-charter-equivalent revenues for the year ended December 31, 2019 and subtracting the time-charter-equivalent revenues for the six months ended June 30, 2019.

Impact of Changes in Accounting Policies

As a result of certain changes in the accounting policies applied by the Group, the financial information for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019 is not directly comparable. This section summarizes certain such changes. For further information, including in respect of accounting standards in issue but not yet effective, see Note 5 to the 2019 Financial Statements and Note 4 to the 2018 Financial Statements.

Year ended December 31, 2019

IFRS 16 "Leases"

As at January 1, 2019, the Group adopted IFRS 16, which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The changes primarily relate to lease accounting. All leases result in the lessee recognizing the right to use an asset at the commencement of the lease and a lease liability representing its obligation to make lease payments. As a consequence, a lessee recognizes depreciation of the right of use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or financial leases (as was required by IAS 17), for lessees, and instead introduces a single lessee accounting model.

The Group adopted IFRS 16 using the modified retrospective approach, which requires recognition of the cumulative effect of initial application at the date of the initial application, being January 1, 2019. The Group

has not restated its financial information for the years ended December 31, 2018 and 2017 to reflect the impact of its adoption of IFRS 16, and so the financial information for the years ended December 31, 2019, 2018 and 2017 is not directly comparable. For further information on the impact of IFRS 16, see Note 5 of the 2019 Financial Statements.

The impact of IFRS 16 is as follows:

Impact on the consolidated income statement

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

Impact on the consolidated statement of financial position

	Amounts prepared under			Amounts prepared under		
	IFRS 16 31/12/2019 $'000	IAS 17 31/12/2019 $'000	Effect 31/12/2019 $'000	IFRS 16 01/01/2019 $'000	IAS 17 01/01/2019 $'000	Effect 01/01/2019 $'000
Assets						
Non-current assets						
Right of use assets	45,895	-	45,895	52,943	-	52,943
Investment property	4,435	267	4,168	5,231	545	4,686
Deferred tax assets	5,250	4,778	472	4,089	4,089	-
Total non-current assets	6,636,254	6,585,719	50,535	6,659,245	6,601,616	57,629
Current assets						
Prepayments and other current assets	15,280	16,073	(793)	17,470	18,245	(775)
Total current assets	699,686	700,479	(793)	539,855	540,630	(775)
Total assets	7,335,940	7,286,198	49,742	7,199,100	7,142,246	56,854
Equity and liabilities						
Capital and reserves						
Reserves	2,967,860	2,977,821	(9,961)	2,798,227	2,808,596	(10,369)
Equity attributable to owners of the parent	3,372,872	3,382,833	(9,961)	3,203,239	3,213,608	(10,369)
Non-controlling interests	131,709	131,559	150	136,455	136,455	-
Total equity	3,504,581	3,514,392	(9,811)	3,339,694	3,350,063	(10,369)
Non-current liabilities						
Lease liabilities	41,180	-	41,180	52,850	-	52,850
Provisions	3,895	2,187	1,708	3,796	1,367	2,429
Total non-current liabilities	3,161,732	3,118,844	42,888	3,261,227	3,205,948	55,279
Current liabilities						
Trade and other payables	161,924	164,211	(2,287)	166,653	167,935	(1,282)
Other current liabilities	72,519	72,687	(168)	64,511	65,738	(1,227)
Lease liabilities	19,120	-	19,120	16,553	-	16,553
Provisions	-	-	-	400	2,500	(2,100)

	Amounts prepared under			Amounts prepared under		
	IFRS 16 31/12/2019 $'000	**IAS 17 31/12/2019 $'000**	**Effect 31/12/2019 $'000**	**IFRS 16 01/01/2019 $'000**	**IAS 17 01/01/2019 $'000**	**Effect 01/01/2019 $'000**
Total current liabilities	669,627	652,962	16,665	598,179	586,235	11,944
Total liabilities	3,831,359	3,771,806	59,553	3,859,406	3,792,183	67,223
Total equity and liabilities	7,335,940	7,286,198	49,742	7,199,100	7,142,246	56,854

Impact on the consolidated statement of cash flow

Prior to the adoption of IFRS 16 as of January 1, 2019, lease payments were included in net cash from operating activities.

Years ended December 31, 2018 and 2017

IFRS 15 "Revenue from Contracts with Customers"

As at January 1, 2018, the Group applied IFRS 15 using the modified retrospective approach by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at January 1, 2018. Therefore, comparative 2017 information has not been restated and continues to be reported under IAS 18 "Revenue" and related interpretations. For further information on the impact of IFRS 15, see Note 4 to the 2018 Financial Statements.

IFRS 9 "Financial Instruments"

As at January 1, 2018, the Group adopted IFRS 9 relating to the accounting for financial instruments. The Group applied IFRS 9 prospectively, with an initial application date of January 1, 2018. The Group has not restated the comparative information for the year ended December 31, 2017, which continues to be reported under IAS 39. For further information on the impact of IFRS 9, see Note 4 to the 2018 Financial Statements.

OPERATING AND FINANCIAL REVIEW

Overview

The Group is a global leader in seaborne energy transportation solutions and a leading provider of marine services for global energy suppliers, specializing in maritime operations in harsh environments. The Group owns and operates one of the largest tanker fleets in the world, according to Clarksons Research. As a fully integrated shipowner and manager, the Group provides specialist marine services and equipment to upstream oil and gas projects and complex high-end shipping services to the world's leading oil and gas companies for the worldwide transportation of crude oil, oil products and liquefied gas (LNG and LPG).

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 marine services segment. A description of each segment is set out below.

Industrial Business

Offshore services. This segment comprises the services provided by the Group's ice-class shuttle tankers and specialized supply or service vessels. The Group owned the world's largest ice-class shuttle tanker fleet and the largest ice-class supply vessel fleet as of July 1, 2020, according to Clarksons Research. The Group's shuttle tankers transport oil from offshore facilities to customers' receiving terminals or onward shipment hubs. The Group's ice-breaking 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, and logistical support. For the six months ended June 30, 2020, this segment generated US$245.8 million (31.4%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, this segment's fleet consisted of 19 shuttle tankers, with a further two vessels under order (see "—*Orderbook*"), with a total capacity of 1.6 million DWT (excluding vessels in the orderbook), as well as seven ice-breaking supply vessels and three ice-breaking supply standby vessels. As of June 30, 2020, this segment accounted for 32% of the Group's fleet net carrying value. The average fleet age in the offshore services segment as of June 30, 2020 was 10.0 years. All vessels in this segment are wholly-owned.

Gas transportation. This segment transports LNG and LPG. For the six months ended June 30, 2020, this segment generated US$96.4 million (12.3%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group operated a fleet of six LNG carriers (five of which are ice class) with a total capacity of 0.6 million DWT. In addition to the *SCF Barents*, which was delivered on September 14, 2020 (see "*Recent Developments—SCF Barents*"), there are a further two vessels under order (see "—*Orderbook*"). The Group also owns four LPG carriers (two of which are ice class) with a total capacity of 0.1 million DWT. As of June 30, 2020, this segment accounted for 22% of the Group's fleet net carrying value. The average fleet age in the gas transportation segment as of June 30, 2020 was 6.7 years. In addition, the Group jointly owns, with NYK Line, four LNG carriers (two of which are ice class) with a total capacity of 0.3 million DWT, with a further 14 ice-class LNG carriers under order in connection with the operations of SMART LNG, a joint venture with Novatek (– see "—*Orderbook*"). The Group also performs technical management of a third-party owned Floating Storage and Regasification Unit.

Conventional Shipping Business

Crude oil transportation. This segment comprises the transportation of crude oil. For the six months ended June 30, 2020, this segment generated US$285.7 million (36.5%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group's fleet in this segment consisted of 54 wholly-owned crude oil carriers, with a further two vessels under order (see "—*Orderbook*"), representing a total capacity of 7.1 million DWT. This business segment accounted for 32% of the Group's fleet net carrying value as of June 30, 2020. The Group owned the largest Aframax tanker fleet in the world, as of June 30, 2020, according to Clarksons Research. The average fleet age in the crude oil transportation segment as of June 30, 2020 was 11.9 years.

Oil products transportation. This segment comprises the transportation of refined petroleum and other oil products. For the six months ended June 30, 2020, this segment generated US$122.7 million (15.7%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, the Group's fleet in this segment consisted of 36 wholly-owned petroleum product carriers, with a further three vessels under order *(see "—Orderbook")*. The total capacity of the Group's existing vessels in this segment as of June 30, 2020 was 2.1 million DWT (excluding joint ventures and vessels under order), and this business segment accounted for 13% of the Group's fleet net carrying value as of June 30, 2020. The average fleet age of the wholly-owned vessels in the oil

products transportation segment as of June 30, 2020 was 13.0 years. In this segment, the Group operates nine petroleum product carriers which are jointly-owned with third parties, representing a total capacity of 0.7 million DWT and an average fleet age as of June 30, 2020 of 9.1 years.

Other Activities

Other marine services. This segment comprises bulk cargo carriers and seismic research vessels. For the six months ended June 30, 2020, this segment generated US$32.0 million (4.1%) of the Group's time-charter-equivalent revenues. As of June 30, 2020, this segment's fleet consisted of two dry cargo bulkers with a total capacity of 149,077 DWT and two chartered-in seismic research vessels, and the segment accounted for 1% of the Group's fleet net carrying value as of June 30, 2020.

The Group specializes in providing services in harsh weather environments and ice-water conditions with fleet vessels, management systems and personnel specialized in operating in such conditions and is a provider of critical infrastructure in the form of a floating pipeline for global energy suppliers to connect to their customers. A substantial portion of the Group's fleet consists of vessels with ice-class notations, spread across each of the Group's operating segments. These vessels, which are designed to withstand harsh weather and ice-water conditions and are specifically customized to the services they are required to perform and their operating geography, operate primarily along the harsh environment trade routes of the Baltic, Russian Arctic and sub-Arctic regions and the northern Far East of Russia. As of June 30, 2020, the Group's fleet consisted of 146 owned and chartered-in vessels of 12.6 million total DWT (13 of which, with 1.0 million DWT, are owned through the Group's joint ventures with third parties), including 83 ice-class vessels (representing 56.8% of the Group's fleet by number of vessels). The Group operated nine offices worldwide as of the same date. According to Clarksons Research, the Group was the only marine services provider with a leading market position in all ice-class shipping segments (including vessels under order) by number of vessels and DWT, with the largest fleet of ice-class shuttle tankers, ice-breaking supply vessels and ice-class LNG carriers in the world, as of July 1, 2020. The Group is also the largest Russian oil tanker owner by DWT capacity according to Clarksons Research. For the six months ended June 30, 2020, the Group generated time-charter-equivalent revenues of US$782.7 million and Adjusted EBITDA of US$578.6 million, with an Adjusted EBITDA margin of 73.9%.

Given SCF's status as a strategic asset of the Russian Federation providing marine transportation solutions and critical infrastructure for global energy suppliers, the Group has an important role in the development of Russia's energy sector, both as the leading energy shipping group in the Russian Federation and as an integral part of the Russian infrastructure for developing, transporting and exporting Russian hydrocarbons. Management considers the Group's industrial business to be, in effect, a seaborne extension of the Russian pipeline infrastructure, which positions the Group to benefit from servicing Russian hydrocarbon exports. According to Clarksons Research, in 2019 the Russian Federation was the third-largest crude oil producing country in the world, and the second largest producer of natural gas in the world. The Russian Federation exports significant volumes of crude oil and refined oil products, accounting for the majority of seaborne exports crude oil and oil products from the FSU. According to Clarksons Research, the Russian Federation was estimated to be the second largest seaborne crude oil exporting country behind Saudi Arabia in 2019, and the largest exporter globally of volumes transported on Aframax tankers, which constituted approximately 70% of Russian seaborne crude exports. See "*Industry Overview—The Russian Oil and Gas Sector*." In 2019, the Group handled 19% of total oil and gas turnover at Russian seaports and transported a significant portion of the crude oil produced from offshore production platforms along the Russian coasts. Management believes that the Group's reputation and position in the Russian market will continue to allow the Group to carry a significant portion of those oil and gas reserves that are exported by sea.

The Group's customers include major international oil and gas groups such as BP, Chevron, ExxonMobil, Shell and Total, as well as major Russian oil and gas groups, such as Gazprom, Lukoil, Novatek and Rosneft. In 2019, the portion of the Group's time-charter-equivalent revenues derived from Russian clients was approximately 45.6%. For the six months ended June 30, 2020, the time-charter-equivalent revenues derived from Russian clients was approximately 42.2% (Gazprom 17.5%, Sakhalin Energy 10.5%, Lukoil 8.5%, Novatek 4.2%, SIBUR 1.3% and Rosneft 0.2%). The Group's customers also include other national oil and gas companies, such as Petrochina, Repsol and ENI, and international commodity trading houses, such as Glencore, Gunvor, Trafigura and Vitol. Management believes that customers partner with the Group for logistically complex projects due to the Group's extensive operating capabilities, diverse service offering, high-quality fleet, reputation for first-class customer service and financial stability.

The following table shows revenues derived from the Group's major clients as a percentage of time-charter-equivalent revenues in the six months ended June 30, 2020:

Customer	As a % of time-charter-equivalent revenues Six months ended June 30, 2020
Gazprom	17.5%
Sakhalin Energy	10.5%
Lukoil	8.5%
Exxon Neftegas	5.9%
Exxon	5.8%
Trafigura	5.8%
Royal Dutch Shell	5.3%
Vitol	4.7%
Novatek	4.2%
Total	3.9%
TOTAL	72.1%

Since 2005, the Group has shifted its strategy from a pure tanker business and expanded into the industrial solutions space, providing critical infrastructure for global energy suppliers to connect to their customers. As a result, its industrial business has grown from 0% of the Group's time-charter-equivalent revenues in 2005 to 18.3% in 2010 to 50.5% in 2019. The Group has also expanded significantly through organic fleet growth, acquisitions and contributions to its charter capital and has grown from a mid-size tanker company to a global leader in energy shipping, providing complex marine logistical solutions. Under the current management team, the Group successfully weathered a significant downturn in the shipping industry between 2009 and 2014 and has broadened the range and capabilities of its vessels and services by entering new market segments in the energy industry, such as the transportation of LNG and LPG and the owning and operating of shuttle tankers and ice-breaking supply vessels to and from offshore exploration, production and transshipment facilities, all with a focus on providing services in harsh weather and ice-water conditions. Management believes that this operational expertise places the Group in a strong position to expand the range of transport and logistics services that it provides to its clients both in the Russian Federation and internationally.

Factors Affecting the Group's Results

Our performance and results of operations have been and will continue to be affected by a number of factors. We believe that the key factors affecting our results of operations include the following.

Volatility in Tanker Charter Rates

As the Group derives a significant proportion of its revenue from the charter hires of the Group's owned and chartered-in vessels that are engaged on the spot market, time-charter market or under contracts of affreightment, the Group's results of operations are materially influenced by charter rates in the segments in which the Group operates. Moreover, because a substantial portion of the Group's costs are fixed in the short term, changes in the Group's charter rates have a significant effect on the Group's profit for the period. As a result, volatility in shipping charter rates may cause significant fluctuations in the Group's profit for the period and cash flows. The Group's exposure to such fluctuations is mitigated to a degree by time-charters (see "*—The Group's Vessel Employment Mix*"), which, for the years ended December 31, 2019, 2018, 2017 and the six months ended June 30, 2020 and 2019, contributed 69.4%, 74.7%, 77.3%, 65.3% and 70.4% respectively, of the Group's time-charter-equivalent revenues.

Shipping charter rates are closely tied to, and are significantly affected by developments in, the global economy and shifts in both the global and local markets. Historically, charter rates for tankers have been highly cyclical, experiencing volatility due to changes in the supply and demand for tanker capacity, which are influenced by a number of different factors, including the demand for and supply of crude oil and oil products, regional availability of refining capacity, global and regional economic conditions, the distance oil and oil products are to be moved by sea, changes in seaborne and other transportation patterns, the number of deliveries of newly-constructed vessels and scrapping of tankers from the global fleet. See "*Risk Factors—Risks Relating to the Group's Industry.*"

Most recently, the COVID-19 pandemic caused a fall in global demand for, and a corresponding increase in the use of tankers as storage for, crude oil and oil products, driving significant increases in the charter rates in these segments and, as a result, the revenue, operating profit and operating profit margin generated by them for the

six months ended June 30, 2020, an effect which may not be repeated in future periods (see "*—Revenue and Profitability Mix of the Group's Business*" and "*—Impact of COVID-19*").

See "*Industry Overview—Crude Oil Shipping—Rates*" and "*Industry Overview—Oil Products Shipping—Rates*" for information regarding average historical charter rates in certain of the segments in which the Group operates.

The Group's Vessel Employment Mix

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

As a result of these differences between spot charters, time-charters and contracts of affreightment, the Group's vessel employment mix has a significant effect on the Group's exposure to volatility in charter rates, and consequently on the Group's revenue, earnings and cash flows. The Group actively manages its vessel employment mix with a strong focus on deriving a significant portion of revenue from fixed-rate time-charters. See "*—Volatility in Tanker Charter Rates*" for the percentage of time-charter-equivalent revenues derived from fixed-rate time-charters. Management considers the Group's fleet deployment to be well balanced and believes that this vessel employment mix provides visibility in managing its fleet and stability in its operating cash flows, and Management continually re-evaluates its employment mix based on current market conditions. Further, Management places importance on security of income and counterparty creditworthiness. The Group has guidelines in place under its chartering risk management policies to help ensure that the Group's income is derived from a diverse group of counterparties. For the year ended December 31, 2019, no single client group accounted for more than 10% of Group time-charter-equivalent revenues, with the exception of Gazprom and SEIC, which accounted for 17.8% and 12.7% respectively. For the year ended December 31, 2018, Gazprom and SEIC accounted for 19.3% and 16.5%, respectively, of the Group's time-charter-equivalent revenues. For the year ended December 31, 2017, Gazprom and SEIC accounted for 20.0% and 9.1%, respectively, of the Group's time-charter-equivalent revenues.

Revenue and Profitability Mix of the Group's Business

The Group's financial performance depends on the proportion of time-charter-equivalent revenues generated, and operating profit contributed, by each of its segments.

The Group's industrial business generated the majority of its time-charter-equivalent revenues from long-term time-charters during the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019. Growth in this business was driven primarily by vessel additions, with the number of fleet available days (being the accumulated number of days for which vessels are in the possession of the owner) increasing by 1,361 days (1,276 days relating to the offshore services segment and 85 days relating to the gas transportation segment) for the year ended December 31, 2019 compared to the year ended December 31, 2017. The industrial business has historically benefited from stable operating profit margins: while its running costs are fixed in the short-term, the majority of long-term fixed-rate time-charters provide for the re-basing and/or indexation of operating expenses, protecting the Group, to a degree, against increases in such expenses in the future.

The Group's conventional business has running costs which are fixed in the short term and charges charter rates based on the spot market. As a result, the time-charter-equivalent revenues, operating profit and operating profit margins generated by this business are largely driven by tanker charter rates, which increased significantly during the six months ended June 30, 2020, largely as a result of the COVID-19 pandemic, which caused a fall in global demand for, and a corresponding increase in the use of tankers as storage for, crude oil and oil products (see "*—Volatility in Tanker Charter Rates*" and "*—Impact of COVID-19*").

The following table sets out the Group's time-charter-equivalent revenues by segment:

	Year ended December 31,						Six months ended June 30,			
	2019		2018		2017		2020		2019	
					(US$'000)					
Time-Charter-Equivalent Revenues		%		%		%		%		%
Offshore	454,666	35.9	433,099	40.3	373,117	35.2	245,848	31.4	221,430	37.3
Gas	184,451	14.6	181,240	16.9	165,155	15.6	96,443	12.3	89,472	15.1
Crude Oil	392,089	31.0	283,862	26.4	321,116	30.4	285,708	36.5	174,929	29.5
Oil Product	177,729	14.0	144,246	13.4	154,674	14.6	122,682	15.7	81,776	13.8
Other	56,562	4.5	32,247	3.0	43,929	4.2	32,019	4.1	26,368	4.4
Total	**1,265,497**	**100**	**1,074,694**	**100**	**1,057,991**	**100**	**782,700**	**100**	**593,975**	**100**

The following table sets out the Group's segment operating profit / (loss) for each of the Group's segments:

	Year ended December 31,						Six months ended June 30,			
	2019		2018		2017		2020		2019	
					(US$'000)					
Segment Operating Profit / (Loss)		%		%		%		%		%
Offshore	227,486	43.6	225,340	81.5	177,464	70.6	131,668	34.3	114,530	47.7
Gas	106,121	20.3	110,391	40.0	93,802	37.3	52,850	13.8	51,753	21.6
Crude Oil	127,279	24.4	9,435	3.4	11,312	4.5	159,361	41.5	55,353	23.1
Oil Product	32,135	6.2	(34,781)	(12.6)	(10,149)	(4.0)	56,231	14.6	4,321	1.8
Other	29,143	5.5	(34,030)	(12.3)	(21,225)	(8.4)	(16,167)	(4.2)	13,933	5.8
Total	**522,164**	**100**	**276,355**	**100**	**251,204**	**100**	**383,943**	**100**	**239,890**	**100**

The following table sets out segment operating profit margin (calculated as segment operating profit / (loss) divided by time-charter-equivalent revenues) for each of the Group's segments:

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
Segment Operating Profit Margin	%	%	%	%	%
Offshore	50.0	52.0	47.6	53.6	51.7
Gas	57.5	60.9	56.8	54.8	57.8
Crude Oil	32.5	3.3	3.5	55.8	31.6
Oil Product	18.1	(24.1)	(6.6)	45.8	5.3
Other	51.5	(105.5)	(48.3)	(50.5)	52.8

The operating profit margin of the offshore services and gas transportation segments was relatively stable for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019.

The following tables sets out Adjusted EBITDA and Adjusted EBITDA margin for the Group:

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
			(US$'000)		
Adjusted EBITDA	823,008	580,721	545,430	578,582	373,978
Adjusted EBITDA margin	65.0%	54.0%	51.6%	73.9%	63.0%

Additions to the Group's Fleet

The Group continues to construct and acquire vessels for its fleet, which is expected to drive further growth. In 2017, the Group took delivery of three IBSVs and an LNG carrier with an ice-class notation and a capacity of 107,742 DWT. In 2018, the Group took delivery of one IBSV and three LNG-fueled Aframax crude oil tankers with an ice-class notation and a total capacity of 343,225 DWT. In 2019, the Group took delivery of one MR shuttle tanker with an ice-class notation and a capacity of 41,012 DWT and three LNG-fueled Aframax crude oil tankers with an ice-class notation and a total capacity of 339,637 DWT). For a description of the vessels under order in connection with the operations of the Group and its joint ventures, see "*Business—Orderbook.*"

Additional contract backlog expected from additions to the Group's fleet, and the fleet of the Group's joint ventures, could be affected by a number of factors, such as:

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

Any or all of these factors could significantly impact the time-charter-equivalent revenues realizable from the Group's vessels under construction, and could affect the Group's cash flow and capital expenditure (see "*Risk Factors*").

Developments in Interest Rates

The Group is exposed to interest rate movements through its variable-rate financing arrangements. For example, movements in the yield curve impact the market value of the Group's secured bank loans and the interest that the Group pays on such loans. The Group uses interest-rate derivative instruments to manage interest rate exposure, such as swap contracts. As of June 30, 2020, the Group's carrying value of total variable-rate borrowings, gross of direct issue costs, amounted to US$1,836.2 million, compared to US$1,824.5 million as of December 31, 2019, of which US$1,287.4 million, gross of direct issue costs, were hedged by interest-rate derivatives as of June 30, 2020, compared to US$1,204.1 million as of December 31, 2019. As a result, the Group is sensitive to changes in interest rates. Interest rates are sensitive to numerous factors outside the Group's control, including, but not limited to, government and central bank monetary policy in the jurisdictions in which the Group operates. For further information, see "*Risk Factors—Risks Relating to the Group's Business—The Group is exposed to interest rate risk*."

Employee Costs

The Group's business relies on its shore-based and seafaring personnel and, accordingly, the Group regards attracting and retaining motivated and well qualified personnel as a top priority, particularly given the intense competition for suitably qualified crewmen. Employee costs account for a substantial portion of the Group's total operating expenses. In the years ended December 31, 2019, 2018, 2017 and the six months ended June 30, 2020 and 2019, employee costs were US$249.1 million, US$242.8 million, US$257.2 million, US$123.4 million and US$123.3 million, respectively. Employee costs are affected by a number of factors, such as:

- fluctuations in personnel headcount, which are often associated with the acquisition or disposal of vessels by the Group;
- foreign exchange rates, which affect the U.S. dollar cost of the compensation for shore-based staff, who are paid in local currency; and
- costs associated with employee benefits and incentive plans, such as the long-term incentive employee benefit plan (the "**LTIP**") put in place by the Group in 2015 and the long-term employee benefit plan put in place in 2020.

Impact of Fleet Trading Days and Fleet Utilization

The Group's business is affected by the variable number of "fleet trading days," defined as the accumulated days in which vessels are in adequate condition to perform trade, and calculated as fleet available days less any scheduled or unscheduled maintenance or repair periods. The number of fleet trading days can be affected by acquisition or disposal of vessels, repairs and maintenance and other exogenous factors discussed in "*Risk Factors—Risks Relating to the Group's Business—The aging of the fleet may result in increased operating costs in the future, which could adversely affect the Group's business, financial condition and operating results*." Fleet utilization, defined as fleet trading days divided by fleet available days, for each of the years ended December 31, 2019, 2018, 2017 and the six months ended June 30, 2020 and 2019 was over 96.0%.

Impact of COVID-19

The COVID-19 pandemic has had a significant impact on the Group's industry and the environment in which it operates (see "*Industry Overview—Global Energy Trends*").

As noted above, charter rates for product tankers trading under spot charters are very sensitive to fluctuating demand for and supply of vessels, and rates are consequently volatile (see "*—Volatility in Tanker Charter Rates*"). The COVID-19 pandemic caused a significant increase in global oil inventories in the six months ended June 30, 2020, resulting in greater demand for oil storage. With tanker supply and demand being otherwise well-balanced, the greater number of vessels employed in oil storage activity drove a significant increase in the spot rates in the crude oil and oil product segments, which led to a significant increase in the time-charter-equivalent revenues, operating profit and operating profit margin generated by the crude oil and oil products segments for the six months ended June 30, 2020. See "*Industry Overview—Crude Oil Shipping—Rates*" *and* "*Industry Overview—Oil Products Shipping—Rates*" for information regarding average historical charter rates in certain of the segments in which the Group operates. In the third quarter of 2020, there has been a downturn in the spot rates in the crude oil and oil products segments resulting from a reduced need for oil storage, due to refineries being able to deliver to customers and closure of the commercial arbitrage (see "*—Current Trading and Prospects*" and "*Risk Factors—Risks Relating to the Group's Industry—The tanker industry and the Group's business are subject to strong cyclical supply and demand variations which can lead to volatility in the Group's revenue and profitability*"). As the COVID-19 pandemic and its impact on the global economy and the Group's industry continues to evolve, continued volatility in spot and short-term time-charter rates is expected. For a discussion of the risks presented by the COVID-19 pandemic to the Group's business, see "*Risk Factors—Risks Relating to the Group's Industry—The global shipping industry has been adversely affected by, and may continue to be adversely affected by, the COVID-19 pandemic.*"

As an operational matter, the COVID-19 pandemic caused significant delays to repairs being made to two of the Group's vessels, the *SCF Melampus* and the *SCF Sayan* during the six months ended June 30, 2020. These two vessels experienced combined delays of 146 days during the six month ended June 30, 2020 (out of a total of 161 days of delay for the whole fleet during this period) resulting from the quarantine restrictions imposed at their respective places of repair during the course of drydocking. By contrast, during the six months ended June 30, 2020, the Group benefited from the fact that a significant proportion of its fleet operates from, and uses crews originating from, the Russian Federation, enabling the Group to minimize disruptions which might otherwise have arisen from needing to organize the collective embarkation and disembarkation of crews. The Company estimates that only a limited number of fleet available days were impacted by additional deviation from standard operating procedures and additional waiting times relating to crew changes, vessel delays and various port quarantine rules. These effects were not significant, and were more than offset by the increased spot rates relating to the conventional business described above. For a discussion of the Group's performance since June 30, 2020, see "*—Current Trading and Prospects.*"

Current Trading and Prospects

Conventional Business

- For the three months ending September 30, 2020, the Group's conventional business was impacted by the downturn in spot rates in the crude oil and oil products segments following the COVID-19 pandemic (see "*—Factors Affecting the Group's Results—Impact of COVID-19 pandemic*" and "*Risk Factors—Risks Relating to the Group's Industry—The tanker industry and the Group's business are subject to strong cyclical supply and demand variations which can lead to volatility in the Group's revenue and profitability*").

- This decrease in spot rates was also caused in part by seasonal fluctuations in demand in the tanker markets, which has historically tended to be relatively lower in the period from May to August and higher in the period from December to February, as a result of increased oil consumption in the northern hemisphere (see "*Risk Factors—Risks Relating to the Group's Industry—The tanker industry and the Group's operating results are subject to seasonal fluctuations").*

- The Group took proactive steps to manage its exposure to this decrease in spot rates by entering into a number of time-charter contracts relating to its conventional business operations during the six months ended June 30, 2020. As a result, 41% of all trading days (as estimated by Management) of the Group's conventional business fleet in the six months ending December 31, 2020 fall under such time-charter contracts, with a contract backlog of US$147 million for this period, as of the date hereof. The calculation of contract backlog (an operational measure) involves management judgment, and is subject to a number of risks and uncertainties (see "*Business—Contract Backlog*" and "*Risk Factors*").

- Overall, Management expects time-charter-equivalent revenues generated by the conventional business for the three months ending September 30, 2020 to be broadly in line with, or to exceed, the time-charter-equivalent revenues generated by the conventional business for the three months ended September 30, 2019.

- As the COVID-19 pandemic and its impact on the global economy and the Group's industry continue to evolve, further volatility in spot and short-term time-charter rates is expected. However, Management

considers tanker supply and demand to be otherwise well-balanced, and this is expected to support these rates in the medium- to long-term.

Industrial Business

- For the three months ending September 30, 2020, the Group's industrial business continued to be stable, with the fleet growing due to the delivery of the *SCF Barents* on September 14, 2020 (see "*Business—Recent Developments—SCF Barents*").

- Management expects time-charter-equivalent revenues generated by the industrial business for the three months ending September 30, 2020 to be broadly in line with, or to exceed, the time-charter equivalent revenues generated by the industrial business for the three months ended September 30, 2019.

Critical Accounting Policies and Estimates

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

While the Group provides information on the application of accounting principles being used in its financial statements, the following paragraphs describe a number of the critical accounting policies and estimates that Management considers most important for understanding the Group's financial condition, results of operations and cash flows. The critical accounting policies and estimates are more fully described in the Group's consolidated financial statements (see, in particular, Note 3 to the 2019 Financial Statements).

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 recognized 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 recognized 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 research vessels.

For voyage charter arrangements, costs incurred to acquire a contract and contract fulfillment costs incurred between the time of signing the charter party and time of arrival at the loading port are capitalized and amortized 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 recognized in line with satisfaction of the related performance obligation. Full provision is made for any time-charter-equivalent revenue 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 recognized on a straight-line basis over the rental periods of such charters, as service is performed, to the extent the lease payments are fixed. 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 "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. 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.

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 recognized 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, labor hours expended, bunker costs, mobilization costs incurred) that are relative to the total expected inputs to the satisfaction of that performance obligation.

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

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

Impairments

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 on 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 recognized equal to the amount required to reduce the carrying amount of the vessel or the CGU to its recoverable amount.

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

Drydocking

The vessels are required to undergo planned drydockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with 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**").

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

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

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

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

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

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

Depreciation of vessels is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Estimates of useful economic life of vessels are based on Management's experience and comparison to similar vessels in the industry. The Group uses the following estimated useful economic lives of its vessels when calculating depreciation:

Vessel type	Anticipated useful economic life in years
Oil, shuttle, product and chemical tankers	25
Arctic shuttle tankers	12
Ice-breaking supply vessels	25
LNG carriers	35
LPG carriers	30
Bulk carriers	25

The actual life of a vessel may be different from the estimates indicated above.

Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel. Residual values are calculated by reference to the value of steel as of the end of each of the previous reporting dates obtained from independent professional brokers. Changes to

estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

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 recognizes lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets.

The Group recognizes 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 recognized, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Right of use assets that meet the definition of investment property under IAS 40 are classified as investment property.

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

At the commencement date of the lease, the Group recognizes 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 recognized as expense in the period in 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 re-measured 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.

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 recognized as expense on a straight-line basis over the lease term.

Group as lessor

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased item. Leases that 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 realization of a residual value.

At the commencement of the lease term, amounts due from lessees are recognized as receivables in the statement of financial position at an 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 recognized 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.

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.

Results of Operations

Six Months Ended June 30, 2020 and June 30, 2019

	Six months ended June 30,		
	2020	2019(1)	Change
	(US$'000)		(%)
Revenue	951,305	794,065	19.8
Voyage expenses and commissions	(168,605)	(200,090)	(15.7)
Time-charter-equivalent revenues	782,700	593,975	31.8
Direct operating expenses(2)			
Vessels' running costs	170,525	170,811	(0.2)
	(170,525)	(170,811)	(0.2)
Net earnings from vessels' trading	612,175	423,164	44.7
Other operating revenues	10,585	21,559	(50.9)
Other operating expenses	(5,755)	(10,494)	(45.2)
Depreciation, amortization and impairment	(228,957)	(191,572)	19.5
General and administrative expenses	(46,048)	(54,538)	(15.6)
Loss on sale of non-current assets	(449)	(136)	230.1
Allowance for credit losses	(229)	(41)	458.5
Share of profits in equity-accounted investments	13,133	5,529	137.5
Operating profit	354,455	193,471	83.2
Other (expenses)/income			
Financing costs	(99,229)	(103,570)	(4.2)
Interest income	5,325	5,513	(3.4)
Other non-operating expenses	(951)	(1,106)	(14.0)
Gain / (loss) on hedge ineffectiveness	487	(276)	(276.4)
Gain on derecognition of dividend liability	19	3,861	(99.5)
Foreign exchange gains	4,253	15,428	(72.4)
Foreign exchange losses	(15,847)	(6,920)	129.0
Net other expenses	(105,943)	(87,070)	21.7
Profit before income taxes	248,512	106,401	133.6
Income tax expense	(22,142)	(15,438)	43.4
Profit for the period	226,370	90,963	148.9
Profit attributable to:			
Owners of the parent	224,915	90,043	149.8
Non-controlling interests	1,455	920	58.2
	226,370	90,963	148.9

(1) Please see Note 2 of the Half Year Financial Statements for information on the restatement of the Group's financial statements for the six months ended June 30, 2019.
(2) Please see Note 2 of the Half Year Financial Statements for information on the reclassification of charter hire payments.

Revenue

The Group's revenue was US$951.3 million for the six months ended June 30, 2020, compared to US$794.1 million for the six months ended June 30, 2019, which represents an increase of US$157.2 million, or 19.8%. This increase was primarily the result of the higher revenues from the crude oil and oil products transportation segments due to the improved state of the freight market for the six months ended June 30, 2020 compared to the six months ended June 30, 2019, and an increase in the offshore services and gas transportation segments relating to the revenue contribution for the six months ended June 30, 2020 of one shuttle tanker and one LNG carrier, both of which were delivered after June 30, 2019. In addition, total fleet available days increased in the offshore services and gas transportation segments by 9.8% and 9.3%, respectively, for the reasons set out below.

Voyage expenses and commissions

The Group's voyage expenses and commissions decreased from US$200.1 million for the six months ended June 30, 2019 to US$168.6 million for the six months ended June 30, 2020, a decrease of

US$31.5 million, or 15.7%. This decrease was primarily the result of a decrease in bunker costs from US$126.9 million to US$97.5 million, or 23.2%, and a decrease in port costs from US$57.8 million to US$51.6 million, or 10.7%, due to a decrease in the number of vessels operating in the spot market (for which, unlike vessels operating under fixed-rate time-charters, the Group bears voyage expenses) and a decline in bunker prices by 21.8% on average. For the six months ended June 30, 2020, vessels operated in the spot market for 9,126 days in total compared to 11,370 days for the six months ended June 30, 2019, a decrease of 2,244 days, or 19.7%.

Time-charter-equivalent revenues

The Group's time-charter-equivalent revenues were US$782.7 million for the six months ended June 30, 2020, compared to US$594.0 million for the six months ended June 30, 2019, which represents an increase of US$188.7 million, or 31.8%, for the reasons described above.

The following table sets forth the breakdown by segment of the Group's time-charter-equivalent revenues for the six months ended June 30, 2020 and 2019:

	Six months ended June 30,			
	2020	2019	Change	% Change
	(US$'000)			
Offshore	245,848	221,430	24,418	11.0
Gas	96,443	89,472	6,971	7.8
Crude oil	285,708	174,929	110,779	63.3
Oil products	122,682	81,776	40,906	50.0
Other	32,019	26,368	5,651	21.4
	782,700	593,975	188,725	31.8

Time-charter-equivalent revenues from the offshore services segment were US$245.8 million for the six months ended June 30, 2020 and US$221.4 million for the six months ended June 30, 2019, an increase of US$24.4 million, or 11.0%. This increase was due to an additional shuttle tanker being constructed and delivered in September 2019 and two vessels being converted into shuttle tankers and transferred from the oil products transportation segment (in April and August 2019), contributing an additional US$18.7 million of time-charter-equivalent revenues for the six months ended June 30, 2020 compared to the six months ended June 30, 2019. In addition, offshore segment trading days increased by 57 days, or 1.3%, during the six months ended June 30, 2020, exclusive of the abovementioned new vessels, due to an absence of drydocks during the six months ended June 30, 2020 (compared to a total of two drydocks taking place during the six months ended June 30, 2019).

Time-charter-equivalent revenues from the gas transportation segment were US$96.4 million for the six months ended June 30, 2020 and US$89.5 million for the six months ended June 30, 2019, an increase of US$6.9 million, or 7.8%. This increase was mainly due to the delivery of an LNG Carrier, the *SCF La Perouse*, which contributed an additional US$9.0 million of time-charter-equivalent revenues, and the LPG carriers *SCF Tomsk* and *SCF Tobolsk* commencing one-year time-charters, which led to the improvement of the time-charter-equivalent revenues of these vessels by US$3.5 million. The increase was partially offset by a decrease in time-charter-equivalent revenues from an LNG carrier, *SCF Melampus*, being removed from service for 124 days during the six months ended June 30, 2020 due to scheduled drydocking and subsequent technical engine-related issues, which are expected to be resolved by the end of 2020, and delays in repairs caused by the COVID-19 pandemic (see "*—Impact of COVID-19*").

Time-charter-equivalent revenues from the crude oil transportation segment were US$285.7 million for the six months ended June 30, 2020 and US$174.9 million for the six months ended June 30, 2019, an increase of US$110.8 million, or 63.3%. This increase was due to the positive dynamics of freight rates in all areas of the conventional tanker shipping market. The average daily time-charter-equivalent revenue rate ("**TCE rate**") for the segment was US$30,348 for the six months ended June 30, 2020, compared to US$17,906 for the six months ended June 30, 2019, an increase by 69.5% on average, driven by lower oil prices (creating increased demand to transfer and store oil, which in turn created increased demand for the Group's services). For further information, see "*Factors Affecting the Group's Results—Volatility in Tanker Charter Rates*."

Time-charter-equivalent revenues from the oil products transportation segment were US$122.7 million for the six months ended June 30, 2020 and US$81.8 million for the six months ended June 30, 2019, an increase of US$40.9 million, or 50.0%. This increase was due to the positive dynamics of freight rates in all segments of the conventional tanker shipping market. The average daily TCE rate for the segment was US$18,986 for the six months ended June 30, 2020, compared to US$12,917 for the six months ended June 30, 2019, an increase of 47.0%, driven by lower oil prices (creating increased demand to transfer and store oil, which in turn created increased

demand for the Group's services). For further information, see "*—Factors Affecting the Group's Results—Volatility in Tanker Charter Rates*."

Time-charter-equivalent revenues from the other marine services segment were US$32.0 million for the six months ended June 30, 2020 and US$26.4 million for the six months ended June 30, 2019, an increase of US$5.6 million, or 21.4%. This increase was the result of additional contributions by the two seismic research vessels. Time-charter-equivalent revenues derived from seismic research vessels were US$28.2 million for the six months ended June 30, 2020 and US$22.4 million for the six months ended June 30, 2019, an increase of US$5.8 million, or 25.9%.

Direct operating expenses

Direct operating expenses are made up of vessels' running costs (such as costs relating to insurance, technical maintenance costs, seafarers' costs and lubricants costs).

The Group's direct operating expenses were US$170.5 million for the six months ended June 30, 2020 and US$170.8 million for the six months ended June 30, 2019, a decrease of US$0.3 million, or 0.2%, for the reasons explained below on a segmental basis.

The following table sets forth the breakdown by segment of the Group's vessels' running costs for the six months ended June 30, 2020 and 2019:

	Six months ended June 30,			
	2020	**2019**	**Change**	**% Change**
	(US$'000)			
Offshore	37,790	36,167	1,623	4.5
Gas	20,871	17,409	3,462	19.9
Crude oil	64,832	61,021	3,811	6.2
Oil products	37,332	47,006	(9,674)	(20.6)
Other	9,700	9,208	492	5.3
	170,525	170,811	(286)	(0.2)

Vessels' running costs for the offshore services segment were US$37.8 million for the six months ended June 30, 2020 and US$36.2 million for the six months ended June 30, 2019, an increase of US$1.6 million, or 4.5%. This increase was primarily due to the addition of three vessels to the offshore segment's fleet, resulting in an increase of US$2.0 million in vessels' running costs, partially offset by lower maintenance costs resulting from no drydocks for the six months ended June 30, 2020 compared to two drydocks for the six months ended June 30, 2019.

Vessels' running costs for the gas transportation segment were US$20.9 million for the six months ended June 30, 2020 and US$17.4 million for the six months ended June 30, 2019, an increase of US$3.5 million, or 19.9%. This increase was primarily due to the delivery of one LNG carrier, the *SCF La Perouse*, which accounted for an additional 141 fleet available days for the six months ended June 30, 2020 compared to the six months ended June 30, 2019 that resulted in an additional US$1.5 million of running costs in the gas transportation segment and US$1.8 million of additional technical repair costs relating to another LNG carrier, the *Christophe De Margerie*.

Vessels' running costs for the crude oil transportation segment were US$64.8 million for the six months ended June 30, 2020 and US$61.0 million for the six months ended June 30, 2019, an increase of US$3.8 million, or 6.2%. This increase was due to an increase in fleet available days of 0.5%, coupled with an increase in technical costs as a result of two more drydock repairs that took place during the six months ended June 30, 2020 compared to the six months ended June 30, 2019. During the six months ended June 30, 2020, six vessels were drydocked compared to four vessels during the six months ended June 30, 2019.

Vessels' running costs for the oil products transportation segment were US$37.3 million for the six months ended June 30, 2020 and US$47.0 million for the six months ended June 30, 2019, a decrease of US$9.7 million, or 20.6%. This decrease was due to a decrease in fleet available days by 5.1% as a result of one vessel being disposed of in May 2019 and two vessels being transferred to the offshore segment in April and August 2019. In addition, technical costs decreased as a result of fewer drydock repairs during the six months ended June 30, 2020 (1 vessel drydocked) compared to the six months ended June 30, 2019 (6 vessels drydocked).

Vessels' running costs for the other marine services segment remained stable during the six months ended June 30, 2020 and June 30, 2019.

Net earnings from vessels' trading

The Group generated net earnings from vessels' trading of US$612.2 million for the six months ended June 30, 2020 and US$423.2 million for the six months ended June 30, 2019, an increase of US$189.0 million, or 44.7%, as a result of the foregoing reasons.

The following table sets forth the breakdown by segment of the Group's net earnings from vessels' trading for the six months ended June 30, 2020 and 2019:

	Six months ended June 30,				As % of time-charter-equivalent revenues, six months ended June 30,	
	2020	**2019**	**Change**	**% Change**	**2020**	**2019**
		(US$'000)				
Offshore	208,058	185,263	22,795	12.3	84.6	83.7
Gas..........................	75,572	72,063	3,509	4.9	78.4	80.5
Crude oil.................	220,876	113,908	106,968	93.9	77.3	65.1
Oil products	85,350	34,770	50,580	145.5	69.6	42.5
Other.......................	22,319	17,160	5,159	30.1	69.7	65.1
	612,175	423,164	189,011	44.7	78.2	71.2

Other operating revenues

The Group's other operating revenues were US$10.6 million for the six months ended June 30, 2020 and US$21.6 million for the six months ended June 30, 2019, a decrease of US$11.0 million, or 50.9%. This decrease was largely a result of a significant decrease in other operating revenues from contracts with customers for seismic operations, which were US$0 million for the six months ended June 30, 2020 and US$8.8 million for the six months ended June 30, 2019, together with a decrease in other operating revenues relating to various non-core non-vessel operating activities, which generated revenues of US$10.6 million for the six months ended June 30, 2020 compared to US$12.8 million for the six months ended June 30, 2019, a decrease of US$2.2 million, or 17.2%.

Other operating expenses

The Group's other operating expenses were US$5.8 million for the six months ended June 30, 2020 and US$10.5 million for the six months ended June 30, 2019, a decrease of US$4.7 million, or 45.2%. This decrease was a result of a decrease in contract fulfilment costs relating to seismic operations of US$1.2 million (as discussed above), a decrease of US$2.0 million due to a one-off out of court settlement agreement, which was entered into in the six months ended June 30, 2019 and a decrease in other operating expenses relating to various non-core non-vessel operating activities, which were US$5.8 million for the six months ended June 30, 2020 compared to US$7.3 million for the six months ended June 30, 2019, a decrease of US$1.5 million, or 20.5%.

Depreciation, amortization and impairment

Depreciation, amortization and impairment was US$229.0 million for the six months ended June 30, 2020 and US$191.6 million for the six months ended June 30, 2019, an increase of US$37.4 million, or 19.5%. This increase was primarily the result of an impairment provision of US$27.0 million in respect of a right of use asset recognized for one of the chartered-in seismic research vessels of the Group (the *Ivan Gubkin*), related to the seismic equipment on board such vessel for the six months ended June 30, 2020. The export license for this equipment expired in May 2020 and the Group's application for extension was rejected by the Ministry of Foreign Affairs of Norway, resulting in the vessel being unable to operate. The Group submitted an appeal in July 2020 that is under ongoing review by the Ministry of Foreign Affairs of Norway. The vessel was returned to its owner in September 2020 under the terms of its charter, with the seismic equipment temporarily stored on board.

In addition, vessels' depreciation was US$169.9 million for the six months ended June 30, 2020 and US$158.1 million for the six months ended June 30, 2019, an increase of US$11.8 million, or 7.5%, as a result of a decrease in the price of metal per lightweight ton by US$75 (thereby decreasing the residual and increasing the depreciable value of the Group's vessels), together with the delivery of one new LNG carrier, one new shuttle tanker and three new LNG-fueled Aframax tanker vessels, contributing an additional US$8.0 million of depreciation. The increase in vessels' depreciation was partially offset by the disposal of two crude oil Suezmax tankers in 2020 and one oil product MR tanker in 2019.

General and administrative expenses

General and administrative expenses were US$46.0 million for the six months ended June 30, 2020 and US$54.5 million for the six months ended June 30, 2019, a decrease of US$8.5 million, or 15.6%. This decrease was primarily due to a decrease in non-income based taxes, which were US$3.4 million for the six months ended June 30, 2020 and US$9.1 million for the six months ended June 30, 2019, a decrease of US$5.7 million, or 62.6%. This decrease was the result of a decrease in irrecoverable value added tax, which was US$2.8 million for the six months ended June 30, 2020 and US$8.5 million for the six months ended June 30, 2019, a decrease of US$5.7 million, or 67.0%, due to the termination of two charter party agreements that involved irrecoverable value added tax pricing and restructuring of intragroup agreements following changes in VAT legislation.

Loss on sale of non-current assets

The Group recognized a loss on sale of non-current assets for the six months ended June 30, 2020 of US$0.4 million compared to a loss of US$0.1 million for the six months ended June 30, 2019, due to the disposal of two crude oil Suezmax tankers in February 2020.

Share of profits in equity-accounted investments

The Group's share of profits in equity-accounted investments was US$13.1 million for the six months ended June 30, 2020 and US$5.5 million for the six months ended June 30, 2019, an increase of US$7.6 million, or 137.5%. This resulted from higher contributions from the share of profits from equity-accounted investments in the nine LR1 vessels of US$6.3 million as a result of an increase in time-charter-equivalent revenues. These increases were due to the improved state of the spot market, coupled with an increase from the share of profits from equity-accounted investments in the four LNG carriers as a result of lower financing costs, caused by a decrease in the net debt of the joint ventures.

Net other expenses

The Group's net other expenses were US$105.9 million for the six months ended June 30, 2020 and US$87.1 million for the six months ended June 30, 2019, an increase of US$18.8 million, or 21.7%. The increase was primarily due to the reasons explained below.

Financing costs were US$99.2 million for the six months ended June 30, 2020 and US$103.6 million for the six months ended June 30, 2019, a decrease of US$4.4 million, or 4.2%. Financing costs include interest expense on secured bank loans, interest on interest rate swaps and cross-currency interest rate swaps, interest on lease liabilities, interest on other loans and other costs related to financing. The decrease was primarily the result of a decrease in total interest on secured bank loans, interest rate swaps and cross-currency interest rate swaps, resulting from a decrease in the total amount of the Group's outstanding secured bank loans and a significant decrease in LIBOR rates.

The Group had a gain on hedge ineffectiveness of US$0.5 million for the six months ended June 30, 2020 and a loss on hedge ineffectiveness of US$0.3 million for the six months ended June 30, 2019, an increase of US$0.8 million. This increase was primarily due to increased ineffectiveness of effective hedge arrangements.

Gain on derecognition of dividend liability was US$0.02 million for the six months ended June 30, 2020 and US$3.9 million for the six months ended June 30, 2019, a decrease of US$3.8 million. The decrease was the result of dividends declared in prior periods not collected by certain non-controlling interests and derecognized in line with the relevant Russian legislation.

Foreign exchange gains were US$4.3 million for the six months ended June 30, 2020 and US$15.4 million for the six months ended June 30, 2019, a decrease of US$11.1 million, or 72.4%. The foreign exchange gains arose mostly from the Group's bank deposits and other assets held in rubles. This decrease was primarily due the weakening of the Russian ruble against the U.S. dollar during the six months ended June 30, 2020 compared to a strengthening of the Russian rubles against the dollar during the six months ended June 30, 2019. In addition, during the six months ended June 30, 2019, the functional currency of a Group subsidiary changed from the Russian ruble to the U.S. dollar, resulting in foreign exchange gains on intragroup balances not repeated for the six months ended June 30, 2020.

Foreign exchange losses were US$15.8 million for the six months ended June 30, 2020 and US$6.9 million for the six months ended June 30, 2019, an increase of US$8.9 million, or 129.0%, primarily due to the weakening of the ruble against the U.S. dollar described above.

Income tax expense

The Group's income tax expense was US$22.1 million for the six months ended June 30, 2020 and US$15.4 million for the six months ended June 30, 2019, an increase of US$6.7 million, or 43.4%. The increase was primarily the result of an increase in Russian Federation profit tax expense, which was US$10.7 million for the six months ended June 30, 2020 and US$9.0 million for the six months ended June 30, 2019, an increase of US$1.7 million, or 18.9%. This increase arose from a higher amount of taxable profit within the Russian Federation, and an increase in deferred tax expense, which was US$11.1 million for the six months ended June 30, 2020 and US$6.0 million for the six months ended June 30, 2019, an increase of US$5.1 million, or 85.0%, due to higher deferred tax liabilities recognized on estimated unremitted earnings to be distributed in the foreseeable future by some of the Group's subsidiaries as of June 30, 2020 compared to June 30, 2019.

Profit for the period

The Group profit for the period was US$226.4 million for the six months ended June 30, 2020 and US$91.0 million for the six months ended June 30, 2019, an increase of US$135.4 million, or 148.9%, for the reasons described above.

Years Ended December 31, 2019 and December 31, 2018

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

	Year ended December 31,		
	2019	**2018**	**Change**
	(US$'000)		**(%)**
Revenue	1,665,207	1,519,937	9.6
Voyage expenses and commissions	(399,710)	(445,243)	(10.2)
Time-charter-equivalent revenues	1,265,497	1,074,694	17.8
Direct operating expenses			
Vessels' running costs	356,327	348,219	2.3
Charter hire payments	-	28,931	(100.0)
	(356,327)	(377,150)	(5.5)
Net earnings from vessels' trading	909,170	697,544	30.3
Other operating revenues	43,106	23,835	80.9
Other operating expenses	(17,914)	(12,031)	48.9
Depreciation, amortization and impairment	(411,849)	(404,007)	1.9
General and administrative expenses	(107,992)	(111,752)	(3.4)
Gain / (loss) on sale of non-current assets	6,282	(8,590)	(173.1)
Loss on sale and dissolution of subsidiaries	-	(1,659)	(100.0)
Allowance for credit losses	(173)	410	(142.2)
Share of profits in equity-accounted investments	15,721	3,109	405.7
Operating profit	436,351	186,859	133.5
Other (expenses)/income			
Financing costs	(206,156)	(200,417)	2.9
Interest income	10,183	8,222	23.9
Other non-operating expenses	(1,946)	(3,179)	(38.8)
Hedge ineffectiveness and termination of hedge	(83)	1,038	(108.0)
Gain on derecognition of dividend liability	7,895	422	1,770.9
Foreign exchange gains	17,703	14,602	21.2
Foreign exchange losses	(9,563)	(29,695)	(67.8)
Net other expenses	(181,967)	(209,007)	(12.9)
Profit / (loss) before income taxes	254,384	(22,148)	(1,248.6)
Income tax expense	(29,006)	(23,408)	23.9
Profit / (loss) for the period	225,378	(45,556)	(594.7)
Profit / (loss) attributable to:			
Owners of the parent	221,629	(41,642)	(632.2)
Non-controlling interests	3,749	(3,914)	(195.8)
	225,378	(45,556)	(594.7)

Revenue

The Group's revenue was US$1,665.2 million for the year ended December 31, 2019, compared to US$1,519.9 million for the year ended December 31, 2018, which represents an increase of US$145.3 million, or 9.6%. This increase was primarily the result of an increase in revenues from the crude oil and oil product transportation segments in connection with the positive state of the freight market for the year ended December 31, 2019 compared to the year ended December 31, 2018, and an increase in revenue from the offshore services segment and crude oil transportation segment relating to the delivery of one offshore IBSV and three crude oil Aframax vessels during the year ended December 31, 2018, and one offshore shuttle tanker and three crude oil Aframax vessels during the year

ended December 31, 2019, which contributed an additional US$73.0 million of revenues in the year ended December 31, 2019 compared to the year ended December 31, 2018, and the fact that total fleet available days increased in the offshore services and other marine services segment by 5.6% and 4.4%, respectively.

As a result of the improved state of the freight market, the crude oil and oil products segments contributed an additional US$73.6 million and US$17.3 million of revenue, or 13.6% and 5.7% respectively, for the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase in revenue was partly due to an increase in average time-charter-equivalent rates from the crude oil and oil products segments (see "*Industry Overview—Crude Oil Shipping—Rates*" and "*Industry Overview—Oil Products Shipping—Rates*").

Voyage expenses and commissions

The Group's voyage expenses and commissions decreased to US$399.7 million for the year ended December 31, 2019 from US$445.2 million for the year ended December 31, 2018, a decrease of US$45.5 million, or 10.2%. This decrease was primarily the result of a decrease in bunker costs from US$276.2 million to US$239.7 million, or 13.2%, and a decrease in port costs from US$134.1 million to US$123.0 million, or 8.3%, due to a decrease in the number of vessels operating in the spot market and a decline in bunker prices by 4.1% on average. For the year ended December 31, 2019, vessels operated in the spot market for 21,685 days in total compared to 24,153 days for the year ended December 31, 2018, a decrease of 2,468 days, or 10.2%. Vessel acquisition and disposals resulted in 706 fewer trading days in the spot market for the year ended December 31, 2019 compared to the year ended December 31, 2018 for vessels trading in the spot market.

Time-charter-equivalent revenues

The Group's time-charter-equivalent revenues were US$1,265.5 million for the year ended December 31, 2019 and US$1,074.7 million for the year ended December 31, 2018, an increase of US$190.8 million, or 17.8%, for the reasons described above.

The following table sets forth the breakdown by segment of the Group's time-charter-equivalent revenues for the years ended December 31, 2019 and 2018:

	Year ended December 31,			
	2019	**2018**	**Change**	**% Change**
		(US$'000)		
Offshore	454,666	433,099	21,567	5.0
Gas	184,451	181,240	3,211	1.8
Crude oil	392,089	283,862	108,227	38.1
Oil products	177,729	144,246	33,483	23.2
Other	56,562	32,247	24,315	75.4
	1,265,497	1,074,694	190,803	17.8

Time-charter-equivalent revenues from the offshore services segment were US$454.7 million for the year ended December 31, 2019 and US$433.1 million for the year ended December 31, 2018, an increase of US$21.6 million, or 5.0%. This increase was due to an additional shuttle tanker being constructed and delivered and two vessels being converted into shuttle tankers and transferred from the oil products transportation segment in April and August 2019, contributing an additional US$14.8 million of time-charter-equivalent revenue.

Time-charter-equivalent revenues from the gas transportation segment were US$184.5 million for the year ended December 31, 2019 and US$181.2 million for the year ended December 31, 2018, an increase of US$3.3 million, or 1.8%. This increase was mainly due to the LPG carriers *SCF Tomsk* and *SCF Tobolsk* commencing one-year time-charters in August 2019 and September 2019, respectively, resulting in significantly better utilization of vessels during the year ended December 31, 2019, with a slight increase in TCE rates, as a result of improvement in market fundamentals, contributing an additional US$4.7 million of time-charter-equivalent revenues compared to the year ended December 31, 2018. This increase was also caused by an increase in time-charter-equivalent revenues of US$2.8 million contributed by the vessel *Christophe de Margerie* as a result of increases in her applicable TCE rate and the higher utilization of 2 other LPG carriers, which contributed an additional US$1.2 million of time-charter-equivalent revenues. This increase was partially offset by a US$5.8 million decrease in the contribution of 2 LNG carriers which were drydocked for the year ended December 31, 2019.

Time-charter-equivalent revenues from the crude oil transportation segment were US$392.1 million for the year ended December 31, 2019 and US$283.9 million for the year ended December 31, 2018, an increase of US$108.2 million, or 38.1%. This increase was due to the positive dynamics of freight rates in all areas of the

conventional tanker shipping market: the average TCE rate for the segment was US$19,852 for the year ended December 31, 2019, compared to US$14,247 for the year ended December 31, 2018, an increase of 39.3% on average, driven by the positive dynamics of the freight market during the year ended December 31, 2019. For further information, see "*—Factors Affecting the Group's Results—Volatility in Tanker Charter Rates*." This increase was partially offset by lower fleet utilization, due to more time spent for drydock repairs during the year ended December 31, 2019 compared to the year ended December 31, 2018. During the year ended December 31, 2019 vessels trading days were 19,750 compared to 19,925 during the year ended December 31, 2018, a decrease of 0.9%.

Time-charter-equivalent revenues from the oil products transportation segment were US$177.7 million for the year ended December 31, 2019 and US$144.2 million for the year ended December 31, 2018, an increase of US$33.5 million, or 23.2%. This increase was also due to the positive dynamics of freight rates in all segments of the conventional tanker shipping market. This increase was partially offset by lower fleet trading days, primarily due to the disposal of two vessels, one in late 2018 and one in May 2019, and transfer of two vessels from the oil products transportation segment to the offshore segment (in April and August 2019). During the year ended December 31, 2019, vessels trading days were 12,620 compared to 14,029 during the year ended December 31, 2018, a decrease of 10.0%.

Time-charter-equivalent revenues from the other marine services segment were US$56.6 million for the year ended December 31, 2019 and US$32.2 million for the year ended December 31, 2018, an increase of US$24.4 million, or 75.4%. This increase was the result of additional contributions by the two seismic research vessels due to higher time-charter-equivalent revenues received from seismic contracts as a result of higher utilization of the vessels, which contributed US$47.0 million for the year ended December 31, 2019 and US$23.3 million for the year ended December 31, 2018, an increase of US$23.7 million, or 101.7%.

Direct operating expenses

Direct operating expenses are made up of vessels' running costs (such as costs relating to insurance, technical maintenance costs, seafarers' costs and lubricants costs) and charter hire payments. Since the adoption of IFRS 16 as of January 1, 2019, lease-related expenses such as charter hire payments have been recorded as depreciation of right of use assets and interest expense. See "*Selected Consolidated Financial and Operating Information—Impact of Changes in Accounting Policies*." In addition, the Group reclassified charter hire payments in respect of seismic support vessels to voyage expenses. The Group's direct operating expenses were US$356.3 million for the year ended December 31, 2019 and US$377.2 million for the year ended December 31, 2018, a decrease of US$20.9 million, or 5.5%. This decrease in direct operating expenses was primarily the result of the absence of charter hire payments from this line item for the year ended December 31, 2019 compared to the year ended December 31, 2018, as a result of the adoption of IFRS 16 on January 1, 2019, as well as a decrease in crew costs, partially offset by an increase in insurance and technical costs, as described below.

The following table sets forth the breakdown of vessels' running costs by categories for the years ended December 31, 2019 and 2018.

	Year ended December 31,			
	2019	**2018**	**Change**	**% Change**
		(US$'000)		
Crew costs	201,600	205,722	(4,122)	(2.0)
Technical costs	114,253	103,573	10,680	10.3
Insurance costs	19,362	17,560	1,802	10.3
Lubricating costs	11,282	11,477	(195)	(1.7)
Other costs	9,830	9,887	(57)	(0.6)
	356,327	348,219	8,108	2.3

Vessels' running costs were US$356.3 million for the year ended December 31, 2019 and US$348.2 million for the year ended December 31, 2018, an increase of US$8.1 million, or 2.3%. This increase was primarily the result of an increase in technical costs, which were US$114.3 million for the year ended December 31, 2019 and US$103.6 million for the year ended December 31, 2018, an increase of US$10.7 million, or 10.3%, and an increase in insurance costs, which were US$19.4 million for the year ended December 31, 2019 and US$17.6 million for the year ended December 31, 2018, an increase of US$1.8 million, or 10.3%, partially offset by a decrease in crew costs which were US$201.6 million for year ended December 31, 2019 and US$205.7 million for the year ended December 31, 2018, a decrease of US$4.1 million, or 2.0%.

Technical costs increased as a result of higher maintenance costs in the gas transportation segment due to a main engine overhaul on one of the LNG carriers and higher drydock expenses due to an increased number

of planned drydocks and Special Surveys during the year ended December 31, 2019 compared to the year ended December 31, 2018. Crew costs decreased as a result of cost optimization changes that took place for the year ended December 31, 2019, where several junior officer positions were reduced, thus decreasing the seafarers on board each vessel by one seafarer on average.

The following table sets forth the breakdown by segment of the Group's vessels' running costs for the years ended December 31, 2019 and 2018:

	Year ended December 31,			
	2019	2018	Change	% Change
	(US$'000)			
Offshore	84,124	73,950	10,174	13.8
Gas...	37,455	29,984	7,471	24.9
Crude oil................................	123,819	128,682	(4,863)	(3.8)
Oil products	88,474	93,422	(4,948)	(5.3)
Other......................................	22,455	22,181	274	1.2
	356,327	348,219	8,108	2.3

Vessels' running costs for the offshore services segment were US$84.1 million for the year ended December 31, 2019 and US$74.0 million for the year ended December 31, 2018, an increase of US$10.1 million, or 13.8%. This increase was primarily due to the addition of three vessels to the offshore segment's fleet, resulting in an increase of US$5.5 million in vessels' running costs, and higher maintenance costs resulting from four drydocks for the year ended December 31, 2019 compared to three drydocks for the year ended December 31, 2018.

Vessels' running costs for the gas transportation segment were US$37.5 million for the year ended December 31, 2019 and US$30.0 million for the year ended December 31, 2018, an increase of US$7.5 million, or 24.9%. This increase was due to higher drydock survey costs due to three drydock surveys on LNG carriers for the year ended December 31, 2019 compared to two drydock surveys on LPG vessels for the year ended December 31, 2018, and higher technical maintenance costs on two LNG carriers as a result of main engine overhauls for the year ended December 31, 2019.

Vessels' running costs for the crude oil transportation segment were US$123.8 million for the year ended December 31, 2019 and US$128.7 million for the year ended December 31, 2018, a decrease of US$4.9 million, or 3.8%. This decrease was due to a decrease in fleet available days as a result of nine vessels being disposed of during the year ended December 31, 2018, which was partially offset by three new LNG-fueled Aframax vessels being delivered during the year ended December 31, 2019 and three delivered during the year ended December 31, 2018, coupled with a decrease in crew costs as a result of cost optimization measures.

Vessels' running costs for the oil products transportation segment were US$88.5 million for the year ended December 31, 2019 and US$93.4 million for the year ended December 31, 2018, a decrease of US$4.9 million, or 5.3%. This decrease was due to the disposal of one vessel and the transfer of two vessels to the offshore services segment to serve the Sakhalin Energy charter contract, and a decrease in crew costs as a result of cost optimization measures.

Vessels' running costs for the other marine services segment remained stable during the years ended December 31, 2019 and December 31, 2018 as a result of no changes in the number of vessels of this segment, and due to no drydockings taking place in the year.

Charter hire payments were US$0 million for the year ended December 31, 2019 and US$28.9 million for the year ended December 31, 2018 as a result of a difference in accounting treatment due to the introduction of IFRS 16 (see "*Selected Consolidated Financial and Operating Information—Impact of Changes in Accounting Policies*") and the reclassification of charter hire payments in respect of seismic support vessels to voyage expenses. Disregarding the impact of the introduction of IFRS 16, the charter hire payments would have been US$26.1 million for the year ended December 31, 2019, compared to US$28.9 million for the year ended December 31, 2018, a decrease of US$2.8 million, or 9.7%. The decrease was due to additional support vessels chartered for the year ended December 31, 2018 to support the two seismic research vessels operations, which were not chartered for the year ended December 31, 2019.

Net earnings from vessels' trading

The Group generated net earnings from vessels' trading of US$909.2 million for the year ended December 31, 2019, compared to net earnings from vessels' trading of US$697.5 million for the year ended

December 31, 2018, an increase of US$211.7 million, or 30.3%, as a result of the foregoing reasons.

The following table sets forth the breakdown by segment of the Group's net earnings from vessels' trading for the years ended December 31, 2019 and 2018:

	Year ended December 31,				As % of time-charter-equivalent revenues, year ended December 31,	
	2019	2018	Change	% Change	2019	2018
		(US$'000)				
Offshore	370,542	359,149	11,393	3.2	81.5	82.9
Gas.........................	146,996	151,256	(4,260)	(2.8)	79.7	83.5
Crude oil	268,270	155,180	113,090	72.9	68.4	54.7
Oil products	89,255	50,824	38,431	75.6	50.2	35.2
Other......................	34,107	(18,865)	52,972	280.8	60.3	(58.5)
	909,170	697,544	211,626	30.3	71.8	64.9

Other operating revenues

The Group's other operating revenues were US$43.1 million for the year ended December 31, 2019 and US$23.8 million for the year ended December 31, 2018, an increase of US$19.3 million, or 80.9%. This increase was largely a result of a significant increase in other operating revenues from contracts with customers for seismic operations, which were US$36.4 million for the year ended December 31, 2019 and US$15.1 million for the year ended December 31, 2018, an increase of US$21.3 million, or 141.1%. This increase in other operating revenues was partially offset by a decrease in lease revenue, which was US$4.4 million for the year ended December 31, 2019 and US$5.2 million for the year ended December 31, 2018, a decrease of US$0.8 million, or 15.4%, as a result of reduced lease revenue received from the Sochi port assets, and a decrease in other income, which was US$2.3 million for the year ended December 31, 2019 and US$3.6 million for the year ended December 31, 2018, a decrease of US$1.3 million, or 36.1%, as a result of one-off income received from two insurance claims in 2018 relating to a vessel sold in prior periods.

Other operating expenses

The Group's other operating expenses were US$17.9 million for the year ended December 31, 2019 and US$12.0 million for the year ended December 31, 2018, an increase of US$5.9 million, or 48.9%. This increase was the result of an increase in contract fulfilment costs relating to seismic operations and expenses on ship management activity, which were US$12.6 million for the year ended December 31, 2019 and US$4.9 million for the year ended December 31, 2018, an increase of US$7.7 million, or 157.1%, an increase of US$2.0 million due to a one-off out of court settlement and an increase in investment property depreciation and impairment, which was US$1.1 million for the year ended December 31, 2019 and US$0.1 million for the year ended December 31, 2018, an increase of US$1.0 million, as a result of an impairment provision recognized on lease-in property in the year ended December 31, 2019. These increases were partially offset by a decrease in other expenses, which were US$2.3 million for the year ended December 31, 2019 and US$7.0 million for the year ended December 31, 2018, a decrease of US$4.7 million, or 67.1%, due to a decrease in operating expenses.

Depreciation, amortization and impairment

Depreciation, amortization and impairment was US$411.8 million for the year ended December 31, 2019 and US$404.0 million for the year ended December 31, 2018, an increase of US$7.8 million, or 1.9%. This increase was primarily the result of an increase of US$23.6 million for the year ended December 31, 2019 in right of use assets' depreciation and right of use assets' impairment provisions due to the introduction of IFRS 16. See "*Selected Consolidated Financial and Operating Information—Impact of Changes in Accounting Policies*" and Note 37 to the 2019 Financial Statements. In addition, vessels' depreciation was US$326.2 million for the year ended December 31, 2019 and US$312.3 million for the year ended December 31, 2018, an increase of US$13.9 million, or 4.5%, as a result of a decrease in the price of metal per lightweight ton by US$70 (thereby decreasing the residual and increasing the depreciable value of the Group's vessels), coupled with the delivery of one new MR shuttle tanker and three new LNG-fueled Aframax tanker vessels in 2019 and three new LNG-fueled Aframax tanker vessels delivered in the second half of 2018.

The increase in vessels' depreciation and right of use assets' deprecation was partially offset by a decrease in vessels' impairment provision, which was US$22.6 million for the year ended December 31, 2019 and US$48.5 million for the year ended December 31, 2018, a decrease of US$25.9 million, or 53.4%, as a result of fewer

vessels being classified as held for sale or planned to be sold in the year ended December 31, 2019 compared to the year ended December 31, 2018, as well as impairment charges in 2018 on vessels in the conventional shipping business due to a change in estimate of operating revenues and operating expenses over the remaining life of those vessels. See Notes 16 and 29 to the 2019 Financial Statements and Notes 15 and 29 to the 2018 Financial Statements for further detail relating to impairments of fleet and to the non-current assets held for sale by the Group.

General and administrative expenses

General and administrative expenses were US$108.0 million for the year ended December 31, 2019 and US$111.8 million for the year ended December 31, 2018, a decrease of US$3.8 million, or 3.4%. This decrease was primarily due to a decrease in non-income based taxes, which were US$14.3 million for the year ended December 31, 2019 and US$17.3 million for the year ended December 31, 2018, a decrease of US$3.0 million, or 17.3%, which is the result of a decrease in irrecoverable value added tax, which was US$13.1 million for the year ended December 31, 2019 and US$16.1 million for the year ended December 31, 2018, a decrease of US$3.0 million, or 18.6%, due to the termination of two charter party agreements that involved irrevocable value added tax pricing and restructuring of intragroup agreements following changes in VAT legislation.

Gain / (loss) on sale of non-current assets

The Group recognized a gain on sale of non-current assets for the year ended December 31, 2019 of US$6.3 million compared to a loss of US$8.6 million for the year ended December 31, 2018. Over the course of 2019, the Group disposed of certain non-core assets realizing a gain on disposal of US$6.5 million partially offset by a loss on disposal from vessels of US$0.2 million, while in 2018 the Group disposed of nine Aframax crude oil tankers and one MR chemical tanker realizing a loss on disposal of US$9.8 million, partially offset by a gain of US$1.2 million realized upon the sale of certain non-core assets.

Share of profits in equity-accounted investments

The Group's share of profits in equity-accounted investments was US$15.7 million for the year ended December 31, 2019 and US$3.1 million for the year ended December 31, 2018, an increase of US$12.6 million, or 405.7%. This resulted from higher contributions from the share of profits from equity-accounted investments in the nine LR1 vessels of US$13.2 million as a result of an increase in time-charter-equivalent revenues due to the improved state of the spot market, together with a decrease in impairment provisions for the LR1 vessels for the year ended December 31, 2019 compared to the year ended December 31, 2018. For further information, see Note 21 to the 2019 Financial Statements.

Net other expenses

The Group's net other expenses were US$182.0 million for the year ended December 31, 2019 and US$209.0 million for the year ended December 31, 2018, a decrease of US$27.0 million, or 12.9%. The decrease was primarily due to the reasons explained below.

Financing costs were US$206.2 million for the year ended December 31, 2019, compared to US$200.4 million for the year ended December 31, 2018, an increase of US$5.8 million, or 2.9%. Financing costs include interest expense on borrowings, interest on interest rate swaps and cross-currency interest rate swaps, interest on lease liabilities, interest on other loans and other costs related to financing. The increase is primarily the result of interest expense on lease liabilities of US$7.8 million as a result of the adoption of IFRS 16. See "*Selected Consolidated Financial and Operating Information—Impact of Changes in Accounting Policies*."

Interest income was US$10.2 million for the year ended December 31, 2019 and US$8.2 million for the year ended December 31, 2018, an increase of US$2.0 million, or 23.9%. The increase was mainly the result of an increase in cash and bank deposits, which were US$417.2 million for the year ended December 31, 2019 and US$307.4 million for the year ended December 31, 2018, an increase of US$109.8 million, or 35.7%.

Other non-operating expenses were US$1.9 million for the year ended December 31, 2019 and US$3.2 million for the year ended December 31, 2018, a decrease of US$1.3 million, or 38.8%. Other non-operating expenses relate to legal costs relating to certain legal proceedings. See "*Business—Legal Proceedings*."

Gain on derecognition of dividend liability was US$7.9 million for the year ended December 31, 2019 and US$0.4 million for the year ended December 31, 2018, an increase of US$7.5 million. This increase was the result of dividends declared in prior periods not collected by certain non-controlling interests and derecognized in line with the relevant Russian legislation.

Foreign exchange gains were US$17.7 million for the year ended December 31, 2019 and US$14.6

million for the year ended December 31, 2018, an increase of US$3.1 million, or 21.2%. These foreign exchange gains, arising from the Group's bank deposits and other assets held in rubles, were primarily generated by the strengthening of the ruble versus the U.S. dollar at the end of the period. The proportion of the Group's cash in bank that was held in rubles was 22.3% as of December 31, 2019 and 18.6% as of December 31, 2018. In addition, during the year ended December 31, 2019, the functional currency of a subsidiary of the Group changed from the Russian ruble to the U.S. dollar. This subsidiary had major receivables in rubles which caused significant foreign exchange gains to be recognized.

Foreign exchange losses were US$9.6 million for the year ended December 31, 2019 and US$29.7 million for the year ended December 31, 2018, a decrease of US$20.1 million, or 67.8%, primarily due to the strengthening of the ruble against the U.S. dollar described above.

Income tax expense

The Group's income tax expense was US$29.0 million for the year ended December 31, 2019 and US$23.4 million for the year ended December 31, 2018, an increase of US$5.6 million, or 23.9%. The increase was primarily the result of an increase in Russian Federation profit tax expense, which was US$26.4 million for the year ended December 31, 2019 and US$17.6 million for the year ended December 31, 2018, an increase of US$8.8 million, or 50.0%, arising from a higher amount of taxable profit within the Russian Federation and higher tax effect on intercompany dividends paid during the year ended December 31, 2019. The increase was partially offset by a decrease in deferred tax, which was US$1.4 million for the year ended December 31, 2019 and US$5.0 million for the year ended December 31, 2018, a decrease of US$3.6 million, or 72.0%, due to lower utilization of unused tax losses and lower recognition of deferred tax liabilities on future drydock liabilities in the year ended December 31, 2019 compared to the year ended December 31, 2018.

Profit / (loss) for the period

The Group profit for the period was US$225.4 million for the year ended December 31, 2019 compared to a loss of US$45.6 million for the year ended December 31, 2018, an increase of US$271.0 million, for the reasons described above.

Years Ended December 31, 2018 and December 31, 2017

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

	Year ended December 31,		
	2018	2017	Change
	(US$'000)		(%)
Revenue	1,519,937	1,435,365	5.9
Voyage expenses and commissions	(445,243)	(377,374)	18.0
Time-charter-equivalent revenues	1,074,694	1,057,991	1.6
Direct operating expenses			
Vessels' running costs	348,219	378,776	(8.1)
Charter hire payments	28,931	40,424	(28.4)
	(377,150)	(419,200)	(10.0)
Net earnings from vessels' trading	697,544	638,791	9.2
Other operating revenues	24,159	22,307	8.3
Other operating expenses	(11,933)	(14,041)	(15.0)
Depreciation, amortization and impairment	(404,007)	(389,142)	3.8
General and administrative expenses	(111,752)	(116,703)	(4.2)
(Loss) / gain on sale of assets	(8,590)	20,177	(142.6)
Loss on sale and dissolution of subsidiaries	(1,659)	-	(100)
Loss on sale on equity-accounted investments	-	(5)	(100)
Allowance for credit losses	410	490	(16.3)
Share of profits in equity-accounted investments	3,109	2,675	16.2
Operating profit	187,281	164,549	13.8
Other (expenses)/income			
Financing costs	(200,417)	(193,859)	3.4
Interest income	8,222	9,787	(16.0)
Other non-operating expenses	(3,179)	(78,718)	(96.0)
Gain on termination of hedge and hedge ineffectiveness	1,038	401	158.9
Foreign exchange gains	14,602	10,586	37.9
Foreign exchange losses	(29,695)	(10,343)	187.1
Net other expenses	(209,429)	(262,146)	(20.1)
Loss before income taxes	(22,148)	(97,597)	(77.3)
Income tax expense	(23,408)	(15,372)	52.3
Loss for the period	(45,556)	(112,969)	(59.7)

	Year ended December 31,		
	2018	2017	Change
	(US$'000)		(%)
Loss attributable to:			
Owners of the parent	(41,642)	(109,670)	(62.0)
Non-controlling interests	(3,914)	(3,299)	18.6
	(45,556)	(112,969)	(59.7)

Revenue

The Group's revenue was US$1,519.9 million for the year ended December 31, 2018 and US$1,435.4 million for the year ended December 31, 2017, an increase of US$84.5 million, or 5.9%. This increase was primarily the result of increased revenues from the offshore services and gas transportation segments in connection with the delivery of four IBSVs and one LNG carrier in the years ended December 31, 2018 and 2017, and the fact that available days increased in the gas transportation and offshore services segments by 2.7% and 8.6%, respectively.

Voyage expenses and commissions

The Group's voyage expenses and commissions were US$445.2 million for the year ended December 31, 2018 and US$377.4 million for the year ended December 31, 2017, an increase of US$67.8 million, or 18.0%. This increase was primarily due to an approximate 30% increase in the average price of fuel over the course of the year ended December 31, 2018 which resulted in an increase of US$56.1 million in bunker costs. Fuel costs represented 62.0% of voyage expenses and commissions for the year ended December 31, 2018, compared with 58.3% for the year ended December 31, 2017. In addition, voyages expenses connected with seismic exploration and data processing increased total voyage expenses in the other marine services segment by US$14.7 million for the year ended December 31, 2018. These increases were partially offset by a decrease in port costs, which were US$134.1 million for the year ended December 31, 2018 and US$139.3 million for the year ended December 31, 2017, a decrease of US$5.2 million, or 3.7%, due to a decrease in the average cost charged per port visit.

Time-charter-equivalent revenues

The Group's time-charter-equivalent revenues were US$1,074.7 million for the year ended December 31, 2018 and US$1,058.0 million for the year ended December 31, 2017, an increase of US$16.7 million, or 1.6%, for the reasons described above. The following table sets forth the breakdown by segment of the Group's time-charter-equivalent revenues for the years ended December 31, 2018 and 2017:

	Year Ended December 31,			
	2018	2017	Change	% Change
	(US$'000)			
Offshore	433,099	373,117	59,982	16.1
Gas	181,240	165,155	16,085	9.7
Crude oil	283,862	321,116	(37,254)	(11.6)
Oil products	144,246	154,674	(10,428)	(6.7)
Other	32,247	43,929	(11,682)	(26.6)
	1,074,694	1,057,991	16,703	1.6

Time-charter-equivalent revenues from the offshore services segment were US$433.1 million for the year ended December 31, 2018 and US$373.1 million for the year ended December 31, 2017, an increase of US$60.0 million, or 16.1%. This increase was primarily the result of the delivery of four ice class IBSVs in the years ended December 31, 2018 and 2017, which contributed an additional US$60.4 million time-charter-equivalent revenues for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Time-charter-equivalent revenues from the gas transportation segment were US$181.2 million for the year ended December 31, 2018 and US$165.2 million for the year ended December 31, 2017, an increase of US$16.0 million, or 9.7%. This increase was due to the delivery of the ice-class LNG carrier *Christophe De Margerie* in 2017, which contributed an additional US$13.9 million in time-charter-equivalent revenues for the year ended December 31, 2018 compared to the year ended December 31, 2017, and also the result of an increase in fleet utilization for the year ended December 31, 2018 due to fewer days spent for drydocking.

Time-charter-equivalent revenues from the crude oil transportation segment was US$283.9 million for the year ended December 31, 2018 and US$321.1 million for the year ended December 31, 2017, a decrease of US$37.2 million, or 11.6%. This decrease was the result of a 3.5% reduction in fleet trading days for the year ended

December 31, 2018 compared with the year ended December 31, 2017 and an 8.4% decrease in average time-charter-equivalent rates for the segment over the same period.

Time-charter-equivalent revenues from the oil products transportation segment were US$144.2 million for the year ended December 31, 2018 and US$154.7 million for the year ended December 31, 2017, a decrease of US$10.5 million, or 6.7%. This decrease was the result of a 2.3% reduction in fleet trading days for the year ended December 31, 2018 compared with the year ended December 31, 2017, due to an increased number of days spent on drydock surveys and maintenance for the year ended December 31, 2018 compared to the year ended December 31, 2017, and the disposal of one vessel for the year ended December 31, 2018, and a 4.6% decrease in average time-charter-equivalent rates for the segment over the same period.

Time-charter-equivalent revenues from the other marine services segment were US$32.2 million for the year ended December 31, 2018 and US$43.9 million for the year ended December 31, 2017, a decrease of US$11.7 million, or 26.6%. This decrease was primarily the result of lower revenue generated by the seismic research vessels coupled with increased voyages expenses in connection with seismic exploration and data processing for the seismic research vessel employed in the other marine services segment. The decrease was partially offset by a 3.4% increase in time-charter-equivalent revenues contribution from the two Panamax dry bulk vessels employed in this segment for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Direct operating expenses

The Group's direct operating expenses were US$377.2 million for the year ended December 31, 2018 and US$419.2 million for the year ended December 31, 2017, a decrease of US$42.0 million, or 10.0%. This decrease was primarily due to a decrease in vessels' running costs and charter hire payments as described below.

The following table sets forth the breakdown of direct operating expenses by categories for the years ended December 31, 2018 and 2017.

	Year ended December 31,			
	2018	**2017**	**Change**	**% Change**
	(US$'000)			
Crew costs	205,722	216,717	(10,995)	(5.1)
Technical costs	103,573	115,892	(12,319)	(10.6)
Insurance costs	17,560	23,839	(6,279)	(26.3)
Lubricating costs	11,477	12,160	(683)	(5.6)
Other costs	9,887	10,168	(281)	(2.8)
Vessels' running costs	348,219	378,776	(30,557)	(8.1)
Charter-hire payments	28,931	40,424	(11,493)	(28.4)
Direct operating expenses	377,150	419,200	(42,050)	(10.0)

Direct operating expenses were US$377.2 million for the year ended December 31, 2018 and US$419.2 million for the year ended December 31, 2017, a decrease of US$42.0 million, or 10.0%. This decrease was primarily the result of cost optimization measures introduced over the course of 2018 and a decrease in fleet available days. Crew costs represented 59.1% and 57.2% of total vessels' running costs in the years ended December 31, 2018 and 2017, respectively. Decreases in vessels' running costs in the crude oil, oil products, gas and other marine services segments were partially offset by increases in vessels' running costs in the offshore services segment, as indicated in the table below.

The following table sets forth the breakdown by segment of the Group's vessels' running costs for the years ended December 31, 2018 and 2017:

	Year ended December 31,			
	2018	2017	Change	% Change
	(US$'000)			
Offshore	73,950	69,058	4,892	7.1
Gas	29,984	30,960	(976)	(3.2)
Crude oil	128,682	160,158	(31,476)	(19.7)
Oil products	93,422	94,074	(652)	(0.7)
Other	22,181	24,526	(2,345)	(9.6)
	348,219	378,776	(30,557)	(8.1)

Vessels' running costs for the offshore services segment were US$74.0 million for the year ended December 31, 2018 and US$69.1 million for the year ended December 31, 2017, an increase of US$4.9 million, or 7.1%. This increase was due to the delivery of four IBSVs which resulted in an increase in fleet available days by 8.6% and an increase in vessels' running costs by US$5.2 million for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Vessels' running costs for the gas transportation segment were US$30.0 million for the year ended December 31, 2018 and US$31.0 million for the year ended December 31, 2017, a decrease of US$1.0 million, or 3.2%. Although one LNG carrier was delivered at the end of March 2017 resulting in an increase in running costs of US$1.9 million, or 6.1%, for the year ended December 31, 2018 compared to the year ended December 31, 2017, this increase was offset by lower running costs from vessels in the gas transportation segment as a result of cost optimization measures introduced for the year ended December 31, 2018.

Vessels' running costs for the crude oil transportation segment were US$128.7 million for the year ended December 31, 2018 and US$160.2 million for the year ended December 31, 2017, a decrease of US$31.5 million, or 19.7%. This decrease was primarily due to (i) a reduction in the number of vessels in this segment for the year ended December 31, 2018 compared to the year ended December 31, 2017 and (ii) lower running costs resulting from the cost optimization measures introduced for the year ended December 31, 2018. Fleet available days fell by 5.8% for the year ended December 31, 2018 compared to the year ended December 31, 2017 as a result of the net reduction of six in the number of vessels in the segment for the year ended December 31, 2018.

Vessels' running costs for the oil products transportation segment were US$93.4 million for the year ended December 31, 2018 and US$94.1 million for the year ended December 31, 2017, a decrease of US$0.7 million, or 0.7%. This decrease was primarily due to a reduction of 0.3% in fleet available days and the cost optimization measures introduced for the year ended December 31, 2018.

Vessels' running costs for the other marine services segment were US$22.2 million for the year ended December 31, 2018 and US$24.5 million for the year ended December 31, 2017, a decrease of US$2.3 million, or 9.6%. This decrease was primarily the result of a US$2.1 million reduction in the running costs of the Group's seismic research vessels for the year ended December 31, 2018, compared to the year ended December 31, 2017 due to lower technical repairs and maintenance costs for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Charter hire payments relate to expenses for chartered-in seismic research vessels and seismic support vessels and in addition, for the year ended December 31, 2017 an IBSV which temporarily served the offshore transportation operations. Charter hire payments were US$28.9 million for the year ended December 31, 2018 and US$40.4 million for the year ended December 31, 2017, a decrease of US$11.5 million, or 28.4%. The decrease in charter hire payments was due to the chartering-in of a seismic research vessel, together with a seismic support vessel, during the year ended December 31, 2017 to perform a seismic survey, resulting in an increase in charter hire payments of US$9.9 million, which were not repeated in the year ended December 31, 2018 and the reduction in the charter hire daily rates of one of the seismic research vessels as a result of the renegotiation of lease terms, resulting in a decrease of US$1.3 million in charter hire payments. In addition, charter hire payments decreased as a result of the redelivery of the IBSV chartered in temporarily as a replacement vessel following the delivery of new vessels, resulting in a decrease in charter hire payments of US$3.4 million for the year ended December 31, 2018. This decrease was partially offset by an increase in charter hire payments relating to a second seismic research vessel that was chartered in April 2017 (and so payments were made in respect of this vessel for only part of the year ended December 31, 2017, compared to a full year for the year ended December 31 2018) resulting in an increase in charter hire payments of US$3.6 million during the year ended December 31, 2018.

Net earnings from vessels' trading

The Group generated net earnings from vessels' trading of US$697.5 million for the year ended December 31, 2018 and US$638.8 million for the year ended December 31, 2017, an increase of US$58.7 million, or 9.2%, primarily due to the increase in time-charter-equivalent revenues and the decrease in direct operating expenses, as described above. Increases in net earnings from vessels' trading in the offshore services and gas transportation segments were partially offset by a decrease in net earnings from vessels' trading in the crude oil, oil products and other marine services segments, as indicated in the table below.

The following table sets forth the breakdown by segment of the Group's net earnings from vessels' trading for the years ended December 31, 2018 and 2017:

	Year ended December 31,				As % of time-charter-equivalent revenues, year ended December 31,	
	2018	**2017**	**Change**	**% Change**	**2018**	**2017**
		(US$'000)				
Offshore	359,149	300,658	58,491	19.5	82.9	80.6
Gas.............................	151,256	134,195	17,061	12.7	83.5	81.3
Crude oil....................	155,180	160,958	(5,778)	(3.6)	54.7	50.1
Oil products	50,824	60,600	(9,776)	(16.1)	35.2	39.2
Other..........................	(18,865)	(17,620)	(1,245)	(7.1)	(58.5)	(40.1)
	697,544	638,791	58,753	9.2	64.9	60.4

Other operating revenues

The Group's other operating revenues were US$24.2 million for the year ended December 31, 2018 and US$22.3 million for the year ended December 31, 2017, an increase of US$1.9 million, or 8.3%. This increase was primarily a result of an increase in other income, which was US$3.9 million for the year ended December 31, 2018 and US$0.9 million for the year ended December 31, 2017, an increase of US$3.0 million, due to US$2.6 million of income received from two insurance claims in 2018 relating to vessels disposed of in prior periods.

Other operating expenses

The Group's other operating expenses were US$11.9 million for the year ended December 31, 2018 and US$14.0 million for the year ended December 31, 2017, a decrease of US$2.1 million, or 15.0%. This decrease was primarily a result of a decrease in other expenses from US$8.8 million to US$6.9 million, or 21.6%, due to one-off arbitration settlement expenses of US$1.1 million paid in respect of a charter as a result of two LNG carriers not being able to trade in certain ports.

Depreciation, amortization and impairment

Vessels' depreciation, amortization and impairment were US$404.0 million for the year ended December 31, 2018 and US$389.1 million for the year ended December 31, 2017, an increase of US$14.9 million, or 3.8%. This increase was primarily the result of an increase of US$19.5 million in vessels' impairment provision for the year ended December 31, 2018 compared to the year ended December 31, 2017, the primary reason for which was the disposal of nine crude oil tankers and one oil products tanker. The increase in vessels' depreciation, amortization and impairment was partially offset by a decrease in depreciation and drydock amortization expenses of US$2.4 million and US$3.1 million, respectively, between the years ended December 31, 2018 and December 31, 2017, due to an 8.4% increase in the price of metal per lightweight ton to US$34 (thereby increasing the residual and depreciable value of the Group's vessels) and the disposal of vessels that took place during the year ended December 31, 2018.

General and administrative expenses

General and administrative expenses were US$111.8 million for the year ended December 31, 2018 and US$116.7 million for the year ended December 31, 2017, a decrease of US$4.9 million, or 4.2%. General and administrative expenses decreased due to the devaluation of the ruble, which is the currency in which the Group incurs the majority of its administrative expenses, versus the functional currency of the Group's major subsidiaries, the U.S. dollar.

(Loss) / gain on sale of assets

The Group recognized a loss on sale of assets for the year ended December 31, 2018 of US$8.6 million compared to a gain on sale of assets of US$20.2 million recognized for the year ended December 31, 2017. During the year ended December 31, 2017, the Group disposed of certain non-core assets realizing a gain on disposal of US$20.2 million, while for the year ended December 31, 2018 the Group disposed of nine Aframax crude oil tankers and one MR chemical tanker, realizing a loss on disposal of US$9.8 million and also certain non-core assets, realizing a gain on disposal of US$1.2 million.

Share of profits in equity-accounted investments

The Group's share of profits in equity-accounted investments was US$3.1 million for the year ended December 31, 2018 and US$2.7 million for the year ended December 31, 2017, an increase of US$0.4 million, or 16.2%. This increase was the result of a higher share of profits from equity-accounted investments for LNG carriers of US$6.0 million as a result of (i) an increase in time-charter-equivalent revenues by US$6.3 million for the year ended December 31, 2018 compared to the year ended December 31, 2017 and (ii) a decrease in direct operating expenses of US$3.8 million as a result of the vessels having been off-hired in December 31, 2017 due to planned drydocking. This increase was partially offset by a decrease in the results of the equity accounted investments for LR1 vessels, because of an increase in the provision for impairment on the carrying values of those vessels of US$7.7 million and an increase in the financing costs of LR1 vessels by US$1.3 million.

Net other expenses

The Group's net other expenses were US$209.4 million for the year ended December 31, 2018 and US$262.1 million for the year ended December 31, 2017, a decrease of US$52.7 million, or 20.1%. The decrease was primarily due to the reasons explained below.

Financing costs were US$200.4 million for the year ended December 31, 2018 and US$193.9 million for the year ended December 31, 2017, an increase of US$6.5 million, or 3.4%. The increase in financing costs was the result of a 105 basis-point increase in average 3-month U.S.-dollar LIBOR for the year ended December 31, 2018 to 231 basis points versus 126 basis points for the year ended December 31, 2017, which affected the Group due to its floating rate debt and an increase in the Group's average outstanding secured bank loans, gross of direct issue costs, by US$195.1 million to US$2,614.3 million for the year ended December 31, 2018 compared with US$2,419.2 million for the year ended December 31, 2017.

The Group's interest income was US$8.2 million for the year ended December 31, 2018 and US$9.8 million for the year ended December 31, 2017, a decrease of US$1.6 million, or 16.0%. The decrease was mainly the result of a decrease in bank deposits of US$52.0 million to US$307.4 million as of December 31, 2018 compared to US$359.4 million as of December 31, 2017.

Other non-operating expenses were US$3.2 million for the year ended December 31, 2018 and US$78.7 million for the year ended December 31, 2017, a decrease of US$75.5 million, or 96.0%. Other non-operating expenses relate to legal costs in relation to certain legal proceedings (see "*Business—Legal Proceedings*") and legal costs and provisions of US$3.1 million and US$78.3 million for the years ended December 31, 2018 and 2017, respectively, and eventual settlement in the year ended December 31, 2018, in relation to a legal claim for damages, pursued by certain defendants in a litigation case that was concluded in that year. For further information, see Note 44 to the 2017 Financial Statements and Note 27 to the 2018 Financial Statements.

Foreign exchange gains were US$14.6 million for the year ended December 31, 2018 and US$10.6 million for the year ended December 31, 2017, an increase of US$4.0 million, or 37.9%. The foreign exchange gains were generated primarily on ruble-denominated balances and bank deposits, caused by the weakening of the ruble at the tail-end of the year ended December 31, 2018 compared to the year ended December 31, 2017 and exposure to bank deposits and other assets in rubles.

Foreign exchange losses were US$29.7 million for the year ended December 31, 2018 and US$10.3 million for the year ended December 31, 2017, an increase of US$19.4 million, or 187.1%. The foreign exchange losses were primarily generated on ruble-denominated outstanding payable balances and bank deposits. The increase was primarily due to the weakening of the ruble at the end of 2018 compared to 2017 and exposure to bank deposits and other assets in rubles.

The volatility of the foreign exchange gains and losses is a result of net assets of foreign operations held in other currencies and, to a lesser extent, due to transactions being invoiced in other currencies. Exposure to transaction risk arises because certain time-charter-equivalent 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, ruble and pound.

Income tax expense

The Group's income tax expense was US$23.4 million for the year ended December 31, 2018 and US$15.4 million for the year ended December 31, 2017, an increase of US$8.0 million, or 52.3%. The increase in income tax expense was the result of an increase in profit tax expense in the Russia Federation, which was US$17.6 million for the year ended December 31, 2018 and US$16.2 million for the year ended December 31, 2017, an increase of US$1.4 million, or 8.6%, as a result of higher taxable profit in the Russian Federation, together with an increase in deferred tax (deferred tax losses of US$5.0 million for the year ended December 31, 2018 and a deferred tax gain of US$2.0 million for the year ended December 31, 2017) as a result of taxes that would be payable on unremitted earnings of certain subsidiaries of the Group.

Loss for the period

The Group's loss for the period was US$45.6 million for the year ended December 31, 2018 and US$113.0 million for the year ended December 31, 2017, a decrease of US$67.4 million, or 59.7%, for the reasons described above.

Liquidity and Capital Resources

Overview

The Group's liquidity requirements relate to funding working capital (including vessel maintenance expenses), capital expenditures (including funding investments in vessels), debt service and maintaining cash reserves.

Net cash flows from operations are the main source of liquidity for the Group. Additional sources of liquidity include credit facilities and issuances of debt securities. The Group operates in a capital-intensive industry requiring substantial investment in vessels. Capital expenditures are funded primarily from the Group's internally generated funds and borrowings, although as part of the Group's aim to diversify its financing sources, the Group may consider debt and equity issuances in the international capital markets. After funding its working capital, the Group's primary use of cash is for capital expenditures, and in particular new vessels. Management expects to continue to apply cash to regular debt servicing and repayment as well as to consider debt prepayments as opportunities arise. For a discussion of the Group's dividend policy, see "*Dividend Policy*."

Net working capital (calculated as current trade and other receivables and inventories less current trade and other payables—see "*Selected Consolidated Financial and Operating Information—Financial and Other Data—Net Working Capital*") was stable in the period under review, being negative US$7.4 million, negative US$10.5 million, negative US$11.1 million and negative US$14.3 million as of December 31, 2019, 2018, and 2017 and June 30, 2020, respectively. The Group's net working capital has historically been negative due to proactive working capital management, which aims to ensure that current trade and other receivables are converted to cash at a faster rate than trade and other payables, and also due to accrual of liabilities, at each period end which have not yet been invoiced by suppliers and therefore do not yet fall due for payment.

Management believes that the Group's financial resources are sufficient to meet its liquidity needs and that its existing capital resources, along with available sources of external financing, will be sufficient to meet its currently anticipated capital expenditures for the next 12 months.

Cash Flows

The following table sets forth a summary of the Group's consolidated cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2018	2017	2020	2019
			(US$'000)		
Operating activities					
Net cash from operating activities..........................	793,855	552,684	545,844	585,091	382,509
Investing activities					
Net cash used in investing activities	(406,403)	(352,020)	(587,366)	(135,200)	(250,671)

	Year ended December 31,			Six months ended June 30,	
	2019	**2018**	**2017**	**2020**	**2019**
			(US$'000)		
Financing activities					
Net cash used in financing activities	(290,587)	(240,265)	(75,008)	(129,236)	(96,222)
Increase/(decrease) in cash and cash equivalents	96,865	(39,601)	(116,530)	320,655	35,616
Cash and cash equivalents at beginning of period	267,571	321,334	432,792	374,821	267,571
Net foreign exchange difference	10,385	(14,162)	5,072	(22,958)	7,290
Cash and cash equivalents at end of period	374,821	267,571	321,334	672,518	310,477

Operating activities

Net cash from operating activities was US$585.1 million in the six months ended June 30, 2020 and US$382.5 million in the six months ended June 30, 2019. The increase of US$202.6 million, or 53.0%, in net cash from operating activities in the six months ended June 30, 2020 compared to the six months ended June 30, 2019 was primarily due to an increase in cash received from vessels' operations of US$177.1 million and a decrease in cash payments for voyage and running costs of US$48.3 million for the reasons set forth above (see "*—Results of Operations—Six Months Ended June 30, 2020 and June 30, 2019*"). Net cash from operating activities in the six months ended June 30, 2020 was equal to 101.1% of Adjusted EBITDA and 102.3% in the six months ended June 30, 2019.

Net cash from operating activities was US$793.9 million in the year ended December 31, 2019, US$552.7 million in the year ended December 31, 2018 and US$545.8 million in the year ended December 31, 2017. Net cash from operating activities in the year ended December 31, 2019 was equal to 96.5% of Adjusted EBITDA, 95.2% in the year ended December 31, 2018 and 100.1% in the year ended December 31, 2017. The increase of US$241.2 million, or 43.6% in net cash from operating activities for the year ended December 31, 2019 compared to the year ended December 31, 2018 was primarily due to an increase in cash received from vessels' operations of US$143.2 million, a decrease in cash payments for voyage and running costs of US$56.1 million, an increase in other cash receipts of US$17.9 million and a decrease in other cash payments of US$32.6 million for the reasons set forth above (see "*—Results of Operations—Years Ended December 31, 2019 and December 31, 2018*"). Prior to the adoption of IFRS 16 as of January 1, 2019, lease payments on operating leases were included in cash payments for voyage and running costs for charter hire payments and in other cash payments in relation to other leases (and so reflected in net cash from/used in operating activities). The increase of US$6.9 million, or 1.3%, in net cash from operating activities for the year ended December 31, 2018 compared to the year ended December 31, 2017, was primarily due to an increase in cash received from vessels' operations of US$52.7 million, partially offset by an increase in cash payments for voyage and running costs of US$33.8 million (see "*—Results of Operations—Years Ended December 31, 2018 and December 31, 2017*") and an increase in other cash payments of US$21.5 million as a result of payment of employee benefit obligations outstanding as of December 31, 2017.

Investing activities

Net cash used in investing activities was US$135.2 million for the six months ended June 30, 2020 and US$250.7 million for the six months ended June 30, 2019. The decrease of 46.1% in net cash used in investing activities between these periods was primarily due to a decrease in expenditure on vessels under construction to US$158.9 million for the six months ended June 30, 2020 from US$225.1 million for the six months ended June 30, 2019, a decrease in expenditure on fleet to US$26.4 million for the six months ended June 30, 2020 from US$32.5 million for the six months ended June 30, 2019 and an increase in proceeds on sale of vessels to US$38.3 million for the six months ended June 30, 2020 from US$8.9 million for the six months ended June 30, 2019.

Net cash used in investing activities was US$406.4 million for the year ended December 31, 2019, US$352.0 million for the year ended December 31, 2018 and US$587.4 million for the year ended December 31, 2017. The increase in net cash used in investing activities between the years ended December 31, 2018 and 2019 was primarily due to a decrease in proceeds from the sale of vessels to US$8.9 million for the year ended December 31, 2019 from US$78.5 million for the year ended December 31, 2018. The Group's total expenditure on its fleet and vessels under construction was flat, at US$423.8 million for the year ended December 31, 2019 compared to US$418.1 million for the year ended December 31, 2018. The increase was also partially offset by the increase of proceeds from the sale of other property, plant and equipment of US$6.9 million for the year ended December 31, 2019 compared to US$2.2 million for the year ended December 31, 2018 and loan repayment received from joint ventures of US$7.4 million for the year ended December 31, 2019 compared to US$0 million for the year ended December 31, 2018.

The decrease of 40.1% in net cash used in investing activities between the years ended December 31, 2018 and 2017 was primarily due to a decrease in expenditure on vessels under construction to US$379.3 million for the year ended December 31, 2018 from US$556.7 million for the year ended December 31, 2017 and a decrease in expenditure on fleet to US$38.8 million for the year ended December 31, 2018 from US$56.2 million for the year ended December 31, 2017.

Financing activities

Net cash used in financing activities was US$129.2 million for the six months ended June 30, 2020 and US$96.2 million for the six months ended June 30, 2019. The increase of 34.3% in net cash used in financing activities was due to net cash outflow on borrowings and lease liabilities of US$125.7 million for the six months ended June 30, 2020 compared to net cash outflow on borrowings and lease liabilities of US$89.2 million for the six months ended June 30, 2019, and due to US$44.8 million less proceeds received from borrowings for the six months ended June 30, 2020 compared to the six months ended June 30, 2019, as a result of less payments made for vessels under construction. Net cash outflow/inflow on borrowings and lease liabilities is calculated as the sum of proceeds from borrowings, repayment of borrowings, repayment of lease liabilities, interest paid on borrowings and interest paid on lease liabilities.

Net cash used in financing activities was US$290.6 million for the year ended December 31, 2019, US$240.3 million for the year ended December 31, 2018 and US$75.0 million for the year ended December 31, 2017. The increase of 20.9% in net cash used in financing activities between the years ended December 31, 2019 and 2018 was primarily due to higher net cash outflow on borrowings and lease liabilities of US$253.9 million for the year ended December 31, 2019 compared to net cash outflow on borrowings of US$194.3 million for the year ended December 31, 2018. Prior to the adoption of IFRS 16 as of January 1, 2019, lease payments on operating leases were included in net cash from operating activities. The increase in net cash outflow was due to less proceeds received from new borrowings, as a result of less payments made for vessels under construction, partially offset by a decrease in dividends paid of US$5.2 million for the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase in net cash used in financing activities between the years ended December 31, 2018 and 2017 was primarily due to higher net cash outflow on borrowings of US$194.3 million for the year ended December 31, 2018 compared to net cash inflow on borrowings and finance leases of US$48.5 million for the year ended December 31, 2017. The increase in net cash outflow on borrowings was primarily due to US$287.4 million less proceeds received from borrowings as a result of fewer payments made for vessels under construction, partially offset by a decrease of US$81.1 million in dividends paid for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Capital Expenditures

The following table sets forth a breakdown of the Group's net cash capital expenditure ("**CAPEX**"), as well as a breakdown by segment of the Group's capital expenditure on acquiring new vessels and second-hand vessels for the periods indicated:

CAPEX composition	**Year ended December, 31**			**Six months ended June 30,**	
US$m	**2019**	**2018**	**2017**	**2020**	**2019**
Expenditure on vessels under construction	352.0	379.3	556.7	158.9	225.1
Expenditure on fleet[(1)]............	71.8	38.8	56.2	26.4	32.5
Expenditure on intangibles and other PP&E and investment property	2.2	2.0	5.1	0.5	0.8
Gross CAPEX	426.0	420.1	618.0	185.8	258.4
Proceeds from sale of assets[(2)]	(17.0)	(81.3)	(26.6)	(40.4)	(10.4)
Net CAPEX	409.0	338.8	591.4	145.4	248.0

(1) Corresponds to maintenance capex, which includes (1) expenditures for conversions and major improvements which appreciably extend the life, increase the earning capacity or improve efficiency or safety of the vessels; and (2) drydocking and Special Survey costs to the extent that they are incurred directly to meet regulatory requirements. See "*—Critical Accounting Policies and Estimates—Drydocking*."

(2) Including proceeds from sale of vessels, disposal and dissolution of investments and sale of property, plant and equipment and investment property and proceeds from sale of subsidiary net of cash disposed.

CAPEX payments to shipyards[1]	Year ended December 31,			Six months ended June 30,
US$m	2019	2018	2017	2020
Offshore	92.8	129.6	271.5	15.9
Gas	122.2	52.4	227.2	139.7
Crude Oil	126.3	192.3	42.0	-
Total CAPEX payments to shipyards	341.3	374.3	540.7	155.6

(1) CAPEX payments to shipyards do not include other costs capitalized during the course of construction, such as interest, supervision and spares.

CAPEX payments to shipyards were US$341.3 million for the year ended December 31, 2019, of which US$215.0 million, or 63.0%, related to the industrial business and US$126.3 million, or 37.0%, related to the conventional shipping business. For the year ended December 31, 2018, CAPEX payments to shipyards were US$374.3 million, of which US$182.0 million, or 48.6%, related to the industrial business and US$192.3 million, or 51.4%, related to the conventional shipping business. For the year ended December 31, 2017, CAPEX payments to shipyards were US$540.7 million, of which US$498.7 million, or 92.2%, related to the industrial business and US$42.0 million, or 7.8%, related to the conventional shipping business.

Commitments

Commitments for leases that have not yet commenced—the Group as Lessee

The Group has the following undiscounted lease commitments, including interest, to subsidiaries of VEB RF Group, in respect of two ice-class crude oil LNG-fueled Aframax tankers, three ice-class LNG-fueled MR oil product tankers and one ice-breaking Arc7 LNG carrier, ordered by VEB RF Group, commencing upon delivery of the vessels from the shipyard, between June 2022 and May 2023, for lease contracts entered into prior to June 30, 2020, as follows:

Payments due by period		Segment (US$'000)		
	Total	Gas	Crude oil	Oil product
2020	-	-	-	-
2021	-	-	-	-
2022	9,110	-	6,870	2,240
2023	51,703	18,148	18,320	15,235
2024	56,871	24,196	18,320	14,355
2025 and after	1,022,877	598,858	230,821	193,198
	1,140,561	641,202	274,331	225,028

On expiration of the lease agreements with VEB RF Group, and settlement of all obligations under the arrangements, legal title to the vessels will pass to the Group. The Group has no obligation to the lessor until the vessels are delivered from the shipyard and accepted by the Group. For further information, see Notes 42 and 43 to the 2019 Financial Statements.

The lease in the gas transportation segment is backed up by a 30-year time-charter contract, with extension options attached in favor of the charterer, and will operate on the Arctic LNG 2 Project, upon delivery from the shipyard (due in 2023). The leases in the crude oil and oil products segments are backed up by 20-year time-charter contracts. For a discussion of the contract backlog relating to these arrangements, see "*Business—Contract Backlog*."

For information on the Group's leases commitments that have commenced and are recognized on the statement of financial position, see Note 37 to the 2019 Financial Statements and Note 17 to the Half Year Financial Statements.

Commitments for leases that have not yet commenced—SMART LNG as Lessee (equity-accounted)

SMART LNG has the following undiscounted lease commitments, including interest, to subsidiaries of VEB RF Group, in respect of the 14 ice-breaking Arc7 LNG carriers ordered by VEB RF Group, commencing upon delivery of the vessels from the shipyard for lease contracts entered into in January 2020 and August 2020, as follows:

Payments due by period	Gas transportation Segment (US$'000)		
	Total	Ordered January 2020 4 vessels	Ordered August 2020 10 vessels
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	12,300	12,300	-
2024	118,921	98,149	20,772
2025 and after	8,800,678	2,453,733	6,346,945
	8,931,899	2,564,182	6,367,717

On expiration of the lease agreements, and settlement of all obligations under the arrangements, legal title to the vessels will pass to SMART LNG. SMART LNG has no obligation to the lessor until the vessels are delivered from the shipyard and accepted by SMART LNG.

All leases are backed up by 30-year time-charter contracts, with extension options attached in favor of the charterer, and will operate on the Arctic LNG 2 Project, upon delivery from the shipyard, four vessels are due to be delivered in 2023, five in 2024 and five in 2025. For a discussion of the contract backlog relating to these arrangements, see "*Business—Contract Backlog*."

For a discussion of the Group's lease commitments arising through its participation in joint ventures, see "*—Off-Balance Sheet Arrangements*."

Capital Commitments

The payment of the Group's contractual commitments under its newbuilding program for vessels ordered by the Group in respect of two LNG carriers and two Aframax shuttle tankers, as of June 30, 2020, is summarized as follows:

Payments due by period	Segment (US$'000)		
	Total	Gas	Offshore
Remainder of 2020	104,773	104,773	-
2021	152,473	104,773	47,700
2022	95,400	-	95,400
	352,646	**209,546**	**143,100**

Borrowings

As of June 30, 2020, the Group's carrying value of total borrowings included secured bank term loans, secured revolving credit facilities, eurobonds and lease liabilities and amounted to US$3,468.9 million. As of June 30, 2020, the Group had US$2,518.7 million in secured bank term loans outstanding (including the current portion of US$490.1 million) and US$349.5 million was available and undrawn under the secured bank term loans. The Group's secured bank term loans are collateralized by first-priority mortgages over 89 of the Group's vessels. In addition, as of June 30, 2020, US$2,330.6 million of the Group's secured bank term loans were guaranteed by SCF Tankers, Intrigue or SCF Gas Carriers and US$188.1 million were structured without corporate recourse.

As of June 30, 2020, the Group had three multi-borrower secured revolving credit facilities available, which provided for borrowings of US$109.9 million in aggregate, of which US$84.9 million was undrawn, with an outstanding amount of US$25.0 million. The Group's secured revolving credit facilities are collateralized by mortgages over 24 of the Group's vessels. In addition, as of June 30, 2020, all of the Group's secured revolving credit facilities were guaranteed by SCF Tankers or Intrigue.

As of June 30, 2020, US$1,831.2 million, or 72.0%, of the Group's secured bank loans, gross of direct issue costs, were subject to variable interest rates, of which 70.3% was hedged by interest rate and cross currency swaps. As of June 30, 2020, 88.8% of the Group's secured bank loans were denominated in U.S. dollars and 11.2% in euros. As of June 30, 2020, the Group had outstanding 5.375% eurobonds due 2023 with par value of

US$900.0 million (US$894.7 million net of direct issue costs).

As of June 30, 2020, the Group had US$50.6 million in lease liabilities outstanding, with durations of the leases ranging from 2-47 years.

Financial covenants are given by the borrowing special purpose companies and facility guarantors, SCF Tankers and Intrigue and aim to assess the companies' change in liquidity, net asset position or forewarn of decreases in the market values of the Group's vessels. As of June 30, 2020, all of the Group's companies were in compliance with their respective covenants and maintained comfortable levels of headroom. In addition, as of June 30, 2020, the Group had unencumbered vessels, and properties with net carrying value of US$1,131.3 million.

Carrying and Market Value of the Group's Vessels

Carrying value represents the original cost of the vessels at time of purchase less depreciation and impairment charges, whereas the market value is based on current market prices of second-hand vessels on a charter-free basis. The prices of second-hand vessels are in turn influenced by a number of factors, including general economic and market conditions, charter rates, demand for vessel capacity, the number, type, age and size of vessels in the world fleet, the price of new vessels (which is affected by availability of shipyard berths and financing), the level of vessel scrapping, the impact of any port congestion on fleet productivity, the cost of other modes of transportation and swings in the historically cyclical shipping industry.

As many of the Group's vessels are (i) not of a type frequently traded in the secondary market given their specialized nature and (ii) engaged on long-term fixed-rate charters, the carrying value of the Group's vessels (including vessels under construction) may not represent their market value at any point in time. See "*—Factors Affecting the Group's Results—The Group's Vessel Employment Mix*." The market value of the Group's fleet represented 93.3%, 85.4%, 82.0% and 91.4% of its carrying value as of December 31, 2019, 2018 and 2017 and June 30, 2020, respectively.

Management reviews the Group's vessels (including vessels under construction) for indicators of impairment at the end of each reporting period and whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable (see Note 3(t) to the 2019 Financial Statements). 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 recognized in future periods. As the value of the Group's fleet accounts for a significant portion of the Group's assets (83.4%, 86.3%, 85.6% and 81.7% as of December 31, 2019, December 31, 2018, December 31, 2017, and June 30, 2020, respectively), impairment losses may be significant.

Furthermore, the Group's existing debt as of December 31, 2019 was secured by the value of certain of the Group's vessels. A decline in the market value of the Group's vessels could limit the amount of such assets available for the purposes of granting security and could prevent the Group from borrowing under certain existing secured credit facilities or may trigger a collateral call or default under its covenants.

Schedule of Obligations

The following table shows the Group's remaining contractual obligations as of December 31, 2019 and June 30, 2020, based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay:

	Payments due by period			
	(US$'000)			
As of June 30, 2020	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Total**
Trade and other payables	142,620	16,213	-	158,833
Secured bank loans	495,637	1,239,593	809,398	2,544,628
Other loans	3,327	901,664	-	904,991
Lease liabilities	23,321	32,253	34,452	90,026
Net amounts payable on cross currency interest rate swaps	9,528	28,140	8,181	45,849
Net amounts payable on interest rate swaps	19,692	44,293	5,364	69,349
Interest payable on secured loans	88,627	235,195	80,539	404,361
Interest payable on other loans	24,372	120,974	-	145,346
	807,124	2,618,325	937,934	4,363,383

	Payments due by period			
	(US$'000)			
As of December 31, 2019	Less than 1 year	1-5 years	More than 5 years	Total
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

Off-Balance Sheet Arrangements

Consolidated

In December 2018, the Group entered into lease arrangements with subsidiaries of VEB RF Group to lease two ice-class LNG-fueled Aframax tankers. The vessels are being built at the Zvezda Shipbuilding Complex. The leases commence on delivery of the vessels from the shipyard, in June and September 2022 for lease terms of 10 years each. On expiration of the lease agreements, and settlement of all obligations under the arrangements, legal title to the vessels will pass to the Group. The Group has no obligation to the lessor until the vessels are delivered from the shipyard and accepted by the Group. The total undiscounted commitments under the leases, including interest, are US$274.3 million.

In addition, in November 2019, the Group entered into lease arrangements with subsidiaries of VEB RF Group to lease in three ice-class LNG-fueled product carriers. The vessels are being built at the Zvezda Shipbuilding Complex. The leases commence on delivery of the vessels from the shipyard, between December 2022 and May 2023 for lease terms of 10 years each. On expiration of the lease agreements, and settlement of all obligations under the arrangements, legal title to the vessels will pass to the Group. The Group has no obligation to the lessor until the vessels are delivered from the shipyard and accepted by the Group. The total undiscounted commitments under the leases, including interest, are US$225.0 million.

Furthermore, in December 2019 the Group entered into a lease arrangement with a subsidiary of VEB RF Group, to lease one ice-breaking LNG carrier for the Arctic LNG 2 project. The vessel is being built at the Zvezda Shipbuilding Complex. The lease commences on delivery of the vessel from the shipyard in March 2023, for a lease terms of 26.5 years. On expiration of the lease agreement and settlement of all obligations under the arrangement, legal title to the vessel will pass to the Group. The total undiscounted commitments under the lease, including interest, are US$641.2 million.

For further information, see Notes 42 and 44 to the 2019 Financial Statements.

Equity-accounted joint ventures

SMART LNG entered into lease arrangements with subsidiaries of VEB RF Group, effective January 2020, to lease four ice breaking LNG carriers for the Arctic LNG 2 project. The vessels are being built at the Zvezda Shipbuilding Complex. The leases commence on delivery of the vessels from the shipyard between September and December 2023, for lease terms of approximately 26 years each. On expiration of the lease agreements, and settlement of all obligations under the arrangements, legal title to the vessels will pass to SMART LNG. The total undiscounted commitments under the leases, including interest, are US$2,564.2 million. See Note 8 to the Half Year Financial Statements.

In addition, SMART LNG entered into lease arrangements with VEB RF Group, effective August 2020, to lease in an additional 10 ice breaking LNG carriers for the Arctic LNG 2 project. The vessels are being built at the Zvezda Shipbuilding Complex. The leases commence on delivery of the vessels from the shipyard, between August 2024 and December 2025, for lease terms of between 24 to 26 years. On expiration of the lease agreements, and settlement of all obligations under the arrangements, legal title to the vessels will pass to SMART LNG. The total undiscounted commitments under the leases, including interest, are US$6,367.7 million.

Quantitative and Qualitative Disclosures about financial risks

For a discussion of the market, credit and liquidity risks affecting the Group, please see Note 41(e) to the 2019 Financial Statements.

MANAGEMENT AND CORPORATE GOVERNANCE

Governance Bodies

In accordance with the Joint-Stock Companies Law and the SCF Charter, SCF's principal governance bodies are the General Shareholders' Meeting, the Board of Directors, the Executive Board and the General Director, being at the same time the head of the Executive Board (the "**CEO**").

General Shareholders' Meeting

The General Shareholders' Meeting is SCF's highest governing body. An annual General Shareholders' Meeting shall be held between March 1 and June 30 of each year, and an extraordinary General Shareholders' Meeting may be called by the Board of Directors on its own initiative, or at the request of the Internal Audit Commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

Powers of the General Shareholders' Meeting

The powers of a General Shareholders' Meeting are set out in the Joint-Stock Companies Law and in the SCF Charter. A General Shareholders' Meeting may not decide issues that are not included in the list of its authority under the Joint-Stock Companies Law. The following matters, among others, are within the competence of the General Shareholder's Meeting:

- amendments to the SCF Charter;
- the re-organization or liquidation of SCF and the appointment of a liquidation commission, and approval of interim and final liquidation balances;
- election of members of the Board of Directors and early termination of the tenure of the Board of Directors, approval of the amount of remuneration payable to members of the Board of Directors;
- appointment of the CEO and early termination of his or her appointment;
- determining the number, nominal value and class/type of the authorized shares and the rights attached to such shares;
- increasing share capital by increasing the nominal value of shares or issuing additional shares;
- decreasing share capital by decreasing the nominal value of shares or reducing the number of shares, including by way of share repurchases or cancellations;
- the appointment and early termination of the tenure of the members of the Internal Audit Commission and approval of the amount of remuneration and compensation payable to the members of the Internal Audit Commission;
- appointment of an independent auditor;
- approval of certain interested-party transactions and major transactions;
- distribution of profits, including approval of dividends (provided that the amount of any dividend cannot exceed the amount recommended by the Board of Directors);
- repurchase of issued shares in circumstances provided for by the Joint-Stock Companies Law;
- participation in financial and industrial groups, associations and other types of commercial organizations;
- approval of annual reports and financial statements;
- splitting and consolidation of the share capital;
- determining General Shareholders' Meeting procedure;
- approval of certain internal documents and regulations; and

- any other matter which, according to the Joint-Stock Companies Law and the SCF Charter, is within the powers of the General Shareholders' Meeting.

Voting and Quorum

Immediately prior to the Offering, the Russian Federation owned 100% of the voting shares of SCF, and Rosimushchestvo, in accordance with Resolution No. 738 of the Russian Government dated December 3, 2004, "On Management of Shares of Joint-Stock Companies Being the Federal Property and Exercise of a Special Right of the Russian Federation to Participate in Management of Joint-Stock Companies ('Golden Share')" (as amended) ("**Resolution No. 738**"), exercised the rights of SCF's sole shareholder. Accordingly, decisions of the General Shareholders' Meeting were taken in the form of Resolutions passed by Rosimushchestvo and the rules of the Joint-Stock Companies Law determining the procedure and terms for preparation, convocation and holding of a General Shareholders' Meeting, except for the rules on the terms for holding a meeting, were not applicable. Following completion of the Offering, the Russian Federation will own at least 75% plus one Share. Accordingly, the general rules of the Joint-Stock Companies Law regarding the procedure and terms for preparation, convocation and holding of a General Shareholders' Meeting, as described below, will apply.

Under the Joint-Stock Companies Law, voting at a General Shareholders Meeting is generally based on the principle of 1 vote per voting share, with the exception of the election of the Board of Directors, which is carried through cumulative voting. Voting shares comprise ordinary shares and, in certain cases, preferred shares. Decisions are generally passed by a majority vote of the voting shares present at a General Shareholders Meeting. However, Russian law requires a three-quarter majority vote of the voting shares present at a General Shareholders' Meeting to approve, *inter alia*, the following:

- SCF Charter amendments;
- re-organization or liquidation of SCF and the appointment of the liquidation commission, and approval of interim and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of SCF;
- determination of the number, nominal value and type of authorized shares and the rights attached to such shares;
- repurchase of issued shares in cases provided for by the Joint-Stock Companies Law;
- any issuance of shares or securities convertible into ordinary shares by closed subscription; or
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting more than 25% of the number of ordinary shares outstanding at the time.

A decision approving termination of the public status of SCF would require a 95% majority vote of all shareholders.

The quorum requirement for SCF's General Shareholders' Meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another General Shareholders' Meeting with the same agenda may (and, in case of an annual General Shareholders' Meeting, must) be scheduled and the quorum requirement will be satisfied if shareholders' (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

According to the Joint-Stock Companies Law, the Board of Directors must convene the annual General Shareholders' Meeting between March 1 and June 30 of each year, and the agenda must include the following items:

- election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of annual dividends;
- approval of an independent auditor; and
- election of the members of the Internal Audit Commission.

A shareholder or a group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual General Shareholders' Meeting and may nominate candidates for the Board of Directors and the Internal Audit Commission and a candidate for the position of the CEO. Under the SCF Charter, any agenda proposals or nominations must be provided to SCF no later than 90 days after the preceding financial year-end.

Under the Joint-Stock Companies Law, certain shareholders' resolutions relating to a company's re-organization, an increase or decrease of share capital or a splitting or consolidation of shares may provide that they only remain valid for a specific period of time (the "**Validity Period**"). However, in the event such shareholders' resolutions are not implemented within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions are no longer enforceable.

Extraordinary General Shareholders' Meeting may be called by the Board of Directors on its own initiative, or at the request of the Internal Audit Commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A General Shareholders' Meeting may be held in a form of a meeting or by absentee ballot. In a meeting, the adoption of resolutions is carried out through the attendance of shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda. SCF may use telecommunications technologies in order to enable shareholders to participate in a meeting remotely. General Shareholders' Meeting can also be held by absentee ballot, where SCF collects ballots completed and mailed to it by its shareholders; in such cases no physical meeting is held.

The following issues cannot be decided by a General Shareholders' Meeting by absentee ballot:

- election of the members of the Board of Directors;
- election of the Internal Audit Commission;
- approval of an independent auditor; and
- approval of the annual report, the annual financial statements, including balance sheet and profit and loss statement.

Notice and Participation

Under the Joint-Stock Companies Law and the SCF Charter, all shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in a form of a meeting or by absentee ballot, not less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if, among other things, the meeting in question is an extraordinary General Shareholders' Meeting to elect the Board of Directors or to terminate its tenure early, shareholders must be notified at least 50 days prior to the date of such a meeting. Only those items that were set out in the agenda sent to shareholders may be voted upon at a General Shareholders' Meeting. A General Shareholders' Meeting is not entitled to change its agenda.

The list of persons entitled to participate in a General Shareholders' Meeting is to be compiled on the basis of data in its shareholders' register on the date determined by the Board of Directors, which date shall neither be earlier than 10 days following the date of adoption of the resolution to hold a General Shareholders' Meeting nor more than 25 days before the date of the meeting (or, in the case of an extraordinary General Shareholders' Meeting to elect the Board of Directors or to terminate its tenure early, not more than 55 days before the date of such General Shareholders' Meeting).

Shareholders may exercise their right to participate in a General Shareholders' Meeting by:

- personal attendance;
- attendance of a duly authorized representative (by proxy);
- remote participation through telecommunication technologies;
- absentee ballot; or
- delegating the right to fill out the absentee ballot to a duly authorized representative.

Board of Directors

The Board of Directors is responsible for the general management of SCF's activities and meets several times each year.

Composition of the Board of Directors

The Joint-Stock Companies Law requires at least a 5-member Board of Directors for all joint-stock companies, at least a 7-member Board of Directors for a joint-stock company with more than 1,000 holders of voting shares, and at least a 9-member Board of Directors for a joint-stock company with more than 10,000 holders of voting shares. Under the SCF Charter, the Board of Directors shall consist of nine members, and it currently consists of 11 such members. Three members of the current Board of Directors are independent.

All members of the current Board of Directors were nominated by the Russian Federation as the sole shareholder on August 4, 2020, and will remain in office until the next annual General Shareholders' Meeting unless removed as a group before the expiration of their term by a majority vote of a General Shareholders' Meeting. After the completion of the Offering, members of the Board of Directors will be elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on the Board of Directors, and each shareholder may give all such votes to one candidate or distribute them among two or more candidates.

The Board of Directors elects the Chairman of the Board of Directors from its members and has the right to remove its Chairman at any time. However, SCF's CEO may not be elected as the Chairman of the Board of Directors. The Chairman of the Board of Directors organizes its work, calls and presides over meetings of the Board of Directors and performs other functions provided for by Russian law and SCF's internal documents. The Chairman of the Board of Directors also has the casting vote in the case of a tied vote.

Powers of the Board of Directors

The Joint-Stock Companies Law generally prohibits the Board of Directors from acting on issues that fall within the exclusive authority of a General Shareholders' Meeting. SCF's Board of Directors has the power to perform the general management of SCF, and to decide, among other things, the following issues:

- determination of its business priorities;
- approval of its business plans and budgets;
- determination of its long-term developmental strategy;
- convening annual and extraordinary General Shareholders' Meeting, except in certain circumstances specified in the Joint-Stock Companies Law;
- approval of the agenda of a General Shareholders' Meeting with a right to include additional questions in the agenda at its own discretion and determination of the record date which establishes the shareholders that are entitled to participate in a General Shareholders' Meeting;
- election of the Executive Board;
- establishment of committees of the Board of Directors and election of members of the committees;
- placement of bonds and other securities;
- determination of the price of property and securities to be placed or repurchased, as provided for by the Joint-Stock Companies Law;
- repurchase of shares, bonds and other securities in accordance with the Joint-Stock Companies Law and the SCF Charter;
- determination of the amount of remuneration and compensation payable to members of the Executive Board;
- recommendations to the General Shareholders' Meeting on the amount of remuneration and compensation to be paid to members of the Internal Audit Commission;
- determination of the fees payable for the services of an independent auditor;

- recommendations to the General Shareholders' Meeting on the amount of any dividend payable on shares and the record date for determining the list of persons entitled to receive dividends (the "**Dividend Payment Record Date**");

- use of the reserve fund and other funds;

- approval of its internal documents, except for those documents whose approval falls within the competence of other governing bodies;

- creation and liquidation of branches and representative offices;

- approval of major and interested-party transactions in the cases provided for by the Joint-Stock Companies Law;

- submission for consideration by the General Shareholders' Meeting of certain major transactions;

- appointment of its share registrar;

- approval of its participation (or termination of such participation) in other organizations except when it falls within the competence of the General Shareholders' Meeting; and

- any other matter which, according to the Joint-Stock Companies Law and the SCF Charter, is within the competence of the Board of Directors.

Meetings: Voting and Quorum

The Board of Directors meets as needed but at least once per quarter. Meetings of the Board of Directors are called by its chairman on his own initiative or upon request of a member the Board of Directors, Internal Audit Commission, the independent auditor, CEO or as otherwise prescribed by the Joint-Stock Companies Law.

A meeting of the Board of Directors generally has a quorum if at least half of the elected members of the Board of Directors are present at the meeting or have filed their voting ballots in case of absentee voting. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Under the SCF Charter, decisions on recommendation to the General Shareholders' Meeting on the amount of dividends payable on shares, listing of shares and determination of SCF's long-term developmental strategy shall be adopted by a majority vote of all the elected directors.

Certain decisions require either the unanimous vote of all members of the Board of Directors (for example, major transactions with a value of 25% or more but equal to or less than 50% of SCF's assets as reported under RAS) or a majority vote of the disinterested and otherwise eligible for voting directors (for example, related-party transactions with a value of less than 10% of its assets). See "*Description of Share Capital and Certain Requirements of Russian Law—Certain Requirements of Russian Legislation—Major Transactions*" and "*Description of Share Capital and Certain Requirements of Russian Law—Certain Requirements of Russian Legislation — Interested-Party Transactions.*"

Members of the Board of Directors

The following table sets forth the name, year of birth, the year of initial election and position of each of SCF's directors as of the date hereof.

Name	Year of birth	Board Member since	Position (Independence)
Sergey Frank	1960	2004	Chairman of the Board of Directors
Walid Chammah	1954	2015	Member (Independent)
Alexey Klyavin	1954	2012	Member (Independent)
David Moorhouse	1947	2010	Member
Alexander Abramov	1957	2019	Member
Andrey Sharonov	1964	2014	Member (Independent)
Oksana Tarasenko	1983	2018[(1)]	Member
Pavel Sorokin	1985	2019	Member
Igor Tonkovidov	1964	2019	Member
Yury Tsvetkov	1965	2019	Member
Viktor Ivanov	1950	2020	Member

(1) On June 26, 2019, Oksana Tarasenko left the Board of Directors and was elected Member of the Board of Directors again at the

Extraordinary General Meeting of Shareholders on September 23, 2019.

Certain biographical information and key positions held by the members of SCF's Board of Directors are set forth below. SCF was the first Russian state-owned entity to have independent directors on its board.

Sergey Frank

Mr. Frank was born in Novosibirsk in 1960. He graduated from the Far East Nautical Engineering College where he majored in maritime navigation and later undertook postgraduate studies at the Far East State University, Faculty of Law. Mr. Frank has worked in the maritime transportation industry since 1984. He occupied positions as the Deputy Head of the Far East Nautical Engineering College and as the Head of the Foreign Economic Relations Department, Deputy Head and Chief Financial Officer of the Far East Shipping Company ("**FESCO**"). Between 1995 and 2004, he served at the Ministry of Transport of the Russian Federation as Deputy Director of the Maritime Transport Department (Maritime Administration of Russia), Deputy, First Deputy of the Minister of Transport and was then appointed as the Minister of Transport. From 2002 to 2003, he served as the Chairman of Aeroflot. He currently serves as the chairman of the Board of Directors of SCF as a member of the Board of Directors of JSC United Shipbuilding Corporation and as a member of the Board of Directors of JSC Russian Railways.

Mr. Frank was elected to the Board of Directors of SCF on November 10, 2004.

Walid Chammah

Mr. Chammah was born in 1954. He graduated from the American University of Beirut with a Bachelor of Business Administration in 1976 and received a Master's Degree in International Management from the American Graduate School of International Management in 1977. Mr. Chammah is the former Co-President of Morgan Stanley & Co. and Chairman and CEO of Morgan Stanley International. He retired from the firm in early 2012 after serving Morgan Stanley for over 19 years, including overseeing the firm's Global Institutional Securities business and operations and serving as a member of both the Management and Operating Committees. Mr. Chammah is currently founder and partner of Chammah and Partners. Mr. Chammah is also a member of the Board of Trustees of the American University of Beirut. Mr. Chammah is an International Advisory Board member at HEC Montreal, Advisor of Signa Holding GmbH, a Director of Augmenta Capital and a Board member of the IMF's Financial Institutions Consultative Group and the British-American Business Counsel.

Mr. Chammah was elected to the Board of Directors of SCF on June 29, 2015.

Alexey Klyavin

Mr. Klyavin was born in 1954. He graduated from the Kaliningrad Higher Engineering Maritime Institute specializing as engineer-navigator. From 2003 to 2011, Mr. Klyavin held different state offices and worked as assistant to the Russian Minister of Transport, Head of the Department for Shipping Policy, Deputy Director, Acting Director and then Director of the Department for State Policy for Rail, Sea and River Transport at the Russian Transport Ministry. From 2011 to 2013, he occupied the position of the President of the Systems Operator Association of Shipping Companies. Since 2013, he has served as the President of the Russian Chamber of Shipping.

Mr. Klyavin was elected to the Board of Directors of SCF on June 30, 2012.

David Moorhouse

Mr. Moorhouse was born in London in 1947. He graduated from the University of Southampton. In 2005, Mr. Moorhouse was awarded an Honorary Doctorate of the University of Southampton. He started his career in 1975 at John Brown Engineering and Constructors Ltd and was appointed the Chairman of the Board of Directors at John Brown plc in 1986. In 1989, Mr. Moorhouse was appointed to the Board of Directors of Trafalgar House Engineering, and in 1992, he was appointed to the position of CEO of Trafalgar. In 1996, Mr. Moorhouse was appointed Chairman and CEO of the Process Division of Kvaerner (Norway). After that, he was appointed a Head of Lloyd's Register in 1999 and performed duties of the CEO from 2000 to 2007. Currently, Mr. Moorhouse serves as a trustee director of Trafalgar House Pensions and as a Vice Chairman of the Mission to Seafarers.

Mr. Moorhouse was elected to the Board of Directors of SCF on June 29, 2010.

Andrey Sharonov

Mr. Sharonov was born in 1964. He graduated from the Ufa State Aviation Technical University. From 2008 to 2011, he was a member of the Board in OJSC Russian Railways, OJSC RusHydro and OJSC OGK-2. From 2010 to 2013, he served as deputy mayor of Moscow for Economic Policy. Currently, Mr. Sharonov holds the

position of the President of the Moscow School of Management Skolkovo. He is also a chairman of the Board of Directors of LLC NefteTransService.

Mr. Sharonov was elected to the Board of Directors of SCF on June 30, 2014.

Alexander Abramov

Mr. Abramov was born in 1957. He graduated from the Moscow Institute of Railway Engineers and the Institute for Retraining and Advanced Training of the Government of the Russian Federation. From 1997 to 1999, he was deputy chairman of the Executive Board of Alfa Bank. From 1999 to 2004, he was deputy chief of staff at the Presidential Administration of the Russian Federation. From 2000 to 2012, he served as the secretary of the State Council of the Russian Federation. From 2004 to 2012, he served as an aide to the President of the Russian Federation and from 2012 to 2013 as an advisor to the President of the Russian Federation. Currently, he is a senior advisor to the Chairman of the Board of the Central Union of Consumer Societies of the Russian Federation.

Mr. Abramov was elected to the Board of Directors of on June 26, 2019.

Pavel Sorokin

Mr. Sorokin was born in 1985. He graduated from the Plekhanov Russian University of Economics and the University of London. In 2005, he was senior auditor for the oil and gas sector at Ernst & Young. From 2007 to 2012, he held various management positions in the analysis department at Alfa Bank and Unicredit. From 2012 to 2015, he was a vice president for Russia and Eastern Europe oil and gas sector at Morgan Stanley. From 2015 to 2018, he was head of the FES Analytical Center of the Russian Energy Agency of the Ministry of Energy of the Russian Federation. He is currently the Deputy Minister of Energy of the Russian Federation and a member of the Board of Directors of JSC Zarubezhneft.

Mr. Sorokin was elected to the Board of Directors on June 26, 2019.

Oksana Tarasenko

Ms. Tarasenko was born in 1983. She graduated in law from Lomonosov Moscow State University and has a doctoral-equivalent degree in jurisprudence from Lomonosov Moscow State University. From 2013 to 2015, she held various board positions at OAO Innopolis, OAO Novosibirsk Refinery, OAO Executive Directorate of Printing, OAO Prioksky Precious Metals Refinery, OAO First Exemplary Printing House, OAO Far East Energy Management Company, OAO Executive Directorate of the Ministry of Culture of Russia, OAO Yantarny Skaz, and OAO Innovative Scientific and Production Center for the Textile and Light Industry. From 2013 to 2015, she was head of the Department for Social and Cultural Organizations and Foreign Property and head of the Department for Sectoral Organisations and Foreign Property at the Federal Agency for State Property Management. From 2015 to 2016, she was a member of the board of directors at AO Russian Agency for Export Credit and Investment Insurance. From 2015 to 2018, she was director and assistant to the Minister at the Department for Coordination, Development and Regulation of Foreign Economic Activity at the Ministry of Economic Development of the Russian Federation. She is currently a member of the board of directors of AO Russian Hippodromes and Deputy Minister for Economic Development of the Russian Federation.

Ms. Tarasenko was elected to the Board of Directors on June 29, 2018. On June 26, 2019, Ms. Tarasenko departed the Board. She was re-elected to the Board of Directors on September 23, 2019.

Igor Tonkovidov

Mr. Tonkovidov was elected to the Board of Directors of SCF on September 23, 2019.

For additional information regarding Mr. Tonkovidov, see "*—Executive Board—Members of the Executive Board*."

Yury Tsvetkov

Mr. Tsvetkov was born in 1965. He graduated from the Admiral Makarov Leningrad Higher Maritime Engineering School, the Academy of National Economy of the Government of the Russian Federation, the Maastricht School of Management and Columbia Business School. From 1988 to 1993, he served as an officer aboard vessels of the Baltic Shipping Company. From 1993 to 1996, he was the Lead Engineer and head of the Commercial Center at Kvant Production Association. From 1996 to 2008, he held various positions at the Accounts Chamber of the Russian Federation. From 2008 to 2009, he was Senior Vice-President of the United Shipbuilding Corporation.

From 2009 to 2012, he was a vice president and head of the internal audit department at SCF. From 2012 to 2018, he was President and Chairman of the Executive Board of PAO Novoship and a member of the SCF executive board. From 2012 to 2019, he was also a member of the PAO Novoship board of directors. From 2018 to 2019, he was Deputy Minister for Transport of the Russian Federation and head of the Federal Agency for Maritime and River Transport. He is currently the Deputy Minister for Transport of the Russian Federation and a member of the Board of Directors of PJSC Novorossiysk Commercial Sea Port and International Chamber of Shipping.

Mr. Tsvetkov was elected to the Board of Directors of SCF on June 26, 2019.

Viktor Ivanov

Mr. Ivanov was born in 1950. He graduated from the Bonch-Bruevich Leningrad Electrotechnical Institute of Telecommunication. In 1994, he became head of the directorate at the St. Petersburg Mayor's Office. From 1996 to 1998, he was Director General of CJSC Teleplus, a joint Russian-American enterprise. From 1998 to 2016, he held various management positions in state administrative bodies, including the Presidential Executive Office from 2000–2008. Today he serves as President of the "Russian House of international scientific and technical Cooperation" Association. Mr. Ivanov has considerable experience in corporate governance; in particular, from 2004 to 2008 he was Chairman of the PJSC Aeroflot Board of Directors. He is currently a member of the Board of Directors of JSC VIS Group, a Russian holding company implementing infrastructure projects based on concession agreements, and Chairman of the Sages Council under the Russian-Chinese Committee of Friendship, Peace and Development (Russian division).

Mr. Ivanov was elected to the Board of Directors of SCF on August 4, 2020.

Executive Board

Details of the Executive Board

The Executive Board is a collective executive body responsible for SCF's day-to-day management. The CEO is the Chairman of the Executive Board. Members of the Executive Board, except for the CEO, are nominated by the CEO and are appointed by the Board of Directors. The Board of Directors has the right to terminate the powers of the Executive Board at any time and appoint a new Executive Board. The number of members of the Executive Board is not fixed and is determined by the Board of Directors on a case-by-case basis. Currently, the Executive Board consists of 10 members. According to the SCF Charter, the duties of the Executive Board include, among other things:

- development of the Group's business operations policy;
- coordination of SCF's subdivisions (departments);
- decisions on the most important issues of the day-to-day management of SCF;
- recommendations to the CEO on entering into proposed transactions;
- reporting to the Board of Directors on the financial standing of SCF, on the implementation of priority projects, transactions and decisions that may have a material effect on SCF's business; and
- other issues related to day-to-day management of SCF's business.

The Executive Board regulation requires a majority vote of the members of the Executive Board present for an action to pass, provided that minimum half of the elected members are present at the meeting.

The Executive Board holds its meetings in accordance with the internal schedule agreed on a quarterly basis and may also hold meetings when necessary. Usually the Executive Board meets several times a month. In addition, there are nine committees of the Executive Board.

Members of the Executive Board

The following table sets forth the name, year of birth, year of initial election and position of each of the Group's Executive Board members as of the date hereof.

Name	Year of birth	Board Member since	Position
Igor Tonkovidov	1964	2011	Chairman of the Executive Board, Chief Executive Officer
Evgeniy Ambrosov	1957	2009	Senior Executive Vice-President of SCF
Vladimir Emelianov...........	1969	2011	Vice-President of SCF, Chief Strategy Officer
Nikolay Kolesnikov	1963	2005	Executive Vice-President of SCF, Chief Financial Officer
Callum Ludgate	1969	2007	Managing Director of Sovcomflot (UK) Ltd.
Marios Orphanos	1972	2010	Managing Director of Sovcomflot (Cyprus) Limited
Alexey Ostapenko..............	1972	2012	Vice-President of SCF, Chief Legal Counsel
Sergey Popravko	1961	2005	Executive Vice-President of SCF, Chief Operating Officer

Certain biographical information about each of the Group's current Executive Board members is set forth below.

Igor Tonkovidov—Executive Board Chairman, CEO

Mr. Tonkovidov was born in 1964. He graduated from the Odessa Institute of Marine Engineers and the University of London, in addition to completing the AVIRA program for senior executives at INSEAD. He began his career as an engineer on vessels owned by the Amur River Shipping Company and the Sakhalin Shipping Company. From 1994 to 2003, he held various fleet management positions at SCF. From 2003 to 2006, he was the Technical Director of OAA Volga-Baltic Shipping Company. From 2006 to 2008, he was CEO of the Volga-Baltic Shipping Company. From 2008 to 2009, he was the Vice President for fleet operations at OAO Novoship. From 2009 to 2012, he was the president of OAO Novoship. From 2012 to 2019, he was the Executive Vice President and Chief Operating / Chief Technical Officer of SCF. He was appointed President and Chief Executive Officer of SCF on September 23, 2019.

Evgeniy Ambrosov—Senior Executive Vice-President of SCF

Mr. Ambrosov was born in Vladivostok in 1957. In 1979, he graduated from the navigation faculty of the Far Eastern Higher Engineer Academy. He began his career as a cargo officer on board liner vessels of FESCO and continued to work for the Head office of FESCO for the following 17 years as a clerk and then as the Head of Fleet Operation Department. Mr. Ambrosov occupied several leadership positions in the maritime transportation industry as FESCO's Vice-President, Director of the Fleet Operation Department between 1997 and 2000, President of FESCO from 2002 to 2007 and President of FESCO Transportation Group from 2008 to 2009.

After serving as Senior Vice-President of SCF between 2000 and 2002, Mr. Ambrosov was appointed Senior Executive Vice-President of SCF in 2009.

Vladimir Emelianov—Vice-President of SCF, Chief Strategy Officer

Mr. Emelianov was born in Moscow in 1969. In 1990, he graduated from the Moscow Finance Institute with a degree in international economic relations. In 1993, he completed the joint MBA program of Madrid Business School and University of Houston. He previously worked as McKinsey & Co., and, from 2003 to 2011, he was the managing partner of Gibov, Emelianov and Partners LLC. From 2011 to 2014, Mr. Emelianov occupied the position of Executive Board member and Deputy Chief Executive Officer of SCF.

In 2014, Mr. Emelianov was appointed Vice-President of SCF, Chief Strategy Officer.

Nikolay Kolesnikov—Executive Vice-President and Chief Financial Officer

Mr. Kolesnikov was born in Moscow in 1963. He graduated with honors from the Moscow Institute of Finance with a degree in economics and later studied at the Instituto de Empresa, Madrid, where he received an International Executive MBA in 2002, and completed Columbia Business School's Senior Executive Programme. Throughout his career, Mr. Kolesnikov has occupied several investment positions centered in the marine and energy

industries. Between 1985 and 1992, he served as the Deputy Director of the Morinvest Department of VVO "Sovfracht" of the USSR Ministry of Merchant Marine, and from 1993 to 1999, he worked at Morgan Grenfell/Deutsche Bank (last position—Vice President and Head of Investment Banking at Deutsche Bank in Moscow). From 1999 to 2005, Mr. Kolesnikov served as Vice President at the Investment Banking Division of J.P. Morgan Securities Ltd., Senior Banker at the European Bank for Reconstruction & Development's Energy Business Group and Executive Director at the Investment Banking Division of United Financial Group.

In 2007, Mr. Kolesnikov was appointed Vice-President of SCF, Chief Financial Officer.

Callum Ludgate—Managing Director of Sovcomflot (UK) Ltd

Mr. Ludgate was born in Great Britain in 1969. He graduated from the University of Southampton and began his career at SCF in May 1993 as a professional ship broker. In 2007, he was appointed Executive Board member of SCF.

In 2004, Mr. Ludgate was appointed Managing Director of Sovcomflot UK Ltd. (London).

Marios Orphanos—Managing Director of Sovcomflot (Cyprus) Limited

Mr. Orphanos was born in Cyprus in 1972. He graduated from the University of Manchester with a First Class Bachelor of Arts degree in Economics and Social Studies. In 1998, he became a qualified Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales. Mr. Orphanos worked for several years at Moore Stephens, Chartered Accountants in London. Between 2000 and 2005, he occupied the position of Group Chief Accountant at Unicom Management Services (Cyprus) Limited. Mr. Orphanos has served as a member of the Executive Board of SCF since 2010.

In 2006, Mr. Orphanos was appointed Managing Director of Sovcomflot (Cyprus) Limited.

Alexey Ostapenko—Vice-President of SCF, Chief Legal Counsel

Mr. Ostapenko was born in 1972. He graduated from the Moscow State Institute of International Relations with a degree in international law; in 2008, he graduated from the Financial Academy under the Government of Russian Federation with a degree in economy, and in 2012, he received a degree in maritime law in London Metropolitan University. From 1997 to 2001, he was employed at SCF as senior legal adviser. From 2002 to 2004, he worked at Lukoil-Arctic-Tanker LLC as Vice-President for Legal Matters and from 2005 to 2006, Mr. Ostapenko served as a Senior Legal Adviser in Lukoil International GmbH (Vienna). From 2006 to 2014, he held the positions of the Director of Legal Department and Secretary of the Board of Directors of SCF. He has served as a member of the Executive Board since 2012.

Mr. Ostapenko was appointed Vice-President of SCF in 2014.

Sergey Popravko—Managing Director of SCF Management Services (Cyprus) Ltd, Chief Operating Officer

Mr. Popravko was born in Mikhailovka, Primorsky region in 1961. In 1984, he graduated from the Far East Higher Engineering Marine School with a degree in maritime navigation, and in 1993, he received a Master of Science in Technical Management of Shipping Companies from the World Maritime University. Mr. Popravko worked as an Able Seaman, Deck Officer, Chief Officer and Master on the vessels for Primorsk Shipping Company ("**PRISCO**") from 1984 to 1992. Between 1994 and 1997, he served as Manager of the Chartering Department of PRISCO and Sinchart Shipping Pte., Ltd. (Singapore) and became General Manager of PRISCO's Fleet Operations and Management in 1997. Between 2001 and 2004, Mr. Popravko occupied the position of First Vice-President of PRISCO and then served as President and CEO of PRISCO between 2004 and 2005. In 2005, Mr. Popravko was appointed Executive Vice-President and Chief Operating Officer of SCF.

In 2005, he was appointed Managing Director of Unicom Management Services (Cyprus) Limited (subsequently renamed to SCF Management Services (Cyprus) Ltd).

Other Information

The business address of each of the members of the Group's Board of Directors and Executive Board is 6 Gasheka Street, Moscow 125047, Russian Federation.

There are no current or potential conflicts of interest between the private interests and/or other duties

of any member of SCF's Board of Directors or Executive Board and the duties of the members of SCF's Board of Directors and Executive Board to SCF.

CEO

SCF's CEO is also the chairman of the Executive Board and is responsible for its day-to-day activities. The CEO exercises executive authority over all SCF's activities, except for issues specifically reserved for the exclusive authority of the General Shareholders' Meeting, Board of Directors and the Executive Board. Under the SCF Charter, the General Shareholders' Meeting appoints the CEO for the period of up to five years and may re-appoint him or her an unlimited number of times. Mr. Tonkovidov, the CEO of SCF as of the date of this Offering Memorandum, has been appointed for a term that expires on September 22, 2022.

Under the SCF Charter, the CEO has the authority to act on behalf of SCF without power of attorney and his powers include, among other things, the following:

- implementation of resolutions of the General Shareholders' Meeting and the Board of Directors;
- day-to-day management;
- entering into transactions on behalf of it and disposal of its property except when it requires approval by the General Shareholders' Meeting or the Board of Directors;
- acting on behalf of it without the need to obtain specific authorization, representing SCF vis-à-vis public authorities, organizations, legal entities and third parties in general, opening bank accounts and executing powers of attorney;
- approval of the staff schedules;
- executing of employment contracts with its employees;
- adopting orders and giving instructions to be carried out by all employees of SCF; and
- performing certain other activities.

Interest of Directors and Officers

Compensation

According to the SCF Charter, the amount of remuneration and compensation payable to the members of the Executive Board shall be determined by the Board of Directors. The General Shareholders' Meeting decides on the amount of remuneration and compensation payable to the members of the Board of Directors.

Accrued compensation amounts of the members of the Board of Directors and the Executive Board for the years ended December 31, 2019, 2018 and 2017 and the six months ended June 30, 2020 and 2019, were as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2019	2018	2017	2020	2019
			(US$'000)		
Short-term benefits	9,317	8,154	8,242	4,650	4,420
Post-employment benefits	64	62	70	36	32
Other long-term service benefits	1,979	2,278	2,938	608	980
Termination benefits	260	-	-	-	-
Total	11,620	10,494	11,250	5,294	5432

(1) Part of the long-term benefits for the years ended December 31, 2019, 2018 and 2017, respectively, in the amount of US$2.0 million, US$2.3 million and US$2.8 million, respectively, was subject to fulfilment of target key performance indicators set as part of SCF's strategy and conditional upon the recipient's continued employment with the Group, as set out in the LTIP and effective from January 1, 2015. The total duration of the LTIP was 5 years with awards payable in years 2018, 2019 and 2020.

Share Ownership of Directors and Executive Board Members

As of the date of this Offering Memorandum, none of the members of the Board of Directors or the Executive Board hold any shares in SCF.

Loans and Guarantees

As of June 30, 2020, SCF did not have outstanding loans and guarantees to the members of the Board of Directors and the Executive Board.

D&O Liability Insurance

SCF maintains a directors and officers (D&O) liability insurance policy with AIG Insurance Company CJSC, executed on December 13, 2019. The policy stipulates a limitation of liability on all claims of US$25 million or more. The policy is valid until December 9, 2020. The policy provides for a standard set of exceptions, including for intentional criminal activity, unlawful profit and pollution-related claims.

Litigation Statement about Directors and Officers

At the date of this Offering Memorandum, for at least the previous five years, none of the members of the Board of Directors or the Executive Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Corporate Governance

In November 2015, the Board of Directors of SCF adopted the Code of Corporate Governance (the "**Code**") which, *inter alia*, is based on OECD Principles of Corporate Governance, the Code of Corporate Governance approved by the CBR and listing requirements of Russian and foreign stock exchanges. The Code replaces the Corporate Governance Code adopted by the Group in 2007 and sets out key principles of corporate governance of SCF, and it contains provisions on shareholders' rights, Board of Directors, corporate secretary, remuneration of the directors and officers, risk management and internal control, information disclosure and material corporate actions.

Strategy Committee of the Board of Directors

The Strategy Committee is responsible for the initial discussion and analysis of issues in connection with SCF's strategic development, and for the provision of recommendations to the Board of Directors for increasing SCF's assets, profitability and investment attractiveness. This committee currently has seven members, two of which are independent non-executive directors, consisting of Alexander Abramov, Viktor Ivanov, Alexey Klyavin, Oksana Tarasenko, Yury Tsvetkov, Andrey Sharonov and Pavel Sorokin. The Strategy Committee is chaired by Viktor Ivanov.

Audit Committee of the Board of Directors

The Audit Committee coordinates SCF's policies regarding internal controls and audit services, monitors the work of SCF's independent auditors and controls SCF's financial and operational activities. This committee currently has three members, two of which are independent non-executive directors, consisting of Walid Chammah, David Moorhouse and Andrey Sharonov. The Audit Committee is chaired by Andrey Sharonov.

Human Resources and Compensation Committee of the Board of Directors

The Human Resources and Compensation Committee advises the Board of Directors on policies regarding the appointment of executive officers and the remuneration to be paid to executive officers of SCF and other HR-related matters. This committee currently has three members, two of which are independent non-executive directors, consisting of Walid Chammah, David Moorhouse and Andrey Sharonov. The Human Resources and Compensation Committee is chaired by Walid Chammah.

Committee for Innovative Development and Technical Policy of the Board of Directors

The Committee for Innovative Development and Technical Policy provides recommendations to the Board of Directors on approval of policies and programs for innovative development of SCF, approval of research and development projects, as well as the results of such research and development projects, and analyzing modern innovative technologies to be implemented at SCF. This committee currently has four members, one of which is an independent non-executive director, consisting of Alexey Klyavin, David Moorhouse, Igor Tonkovidov and Yury Tsvetkov. The Committee for Innovative Development and Technical Policy is chaired by David Moorhouse.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LAW

Below is the description of SCF's share capital, the material provisions of the SCF Charter in effect at the date hereof and certain requirements of Russian law. This description, however, is not complete and is qualified in its entirety by reference to the SCF Charter and any applicable Russian law.

Corporate Purpose

Pursuant to Article 4.1 of the SCF Charter, the primary purposes of SCF include the following: earning profit and creating conditions for earning profit by the subsidiaries; ensuring growth of SCF's market capitalization; development as the largest national carrier with a leading position in the Russian shipping industry and in strategic segments of the Russian cargo base; and securing SCF's strategic role in the Russian shipping industry as a center of the leading commercial expertise and training of qualified personnel.

Description of Share Capital

General Matters

SCF was originally incorporated in 1988 as a joint-stock commercial enterprise under the Fund for Commercial Operations within the USSR Ministry of Marine Fleet. In 1995, SCF was reorganized into a Russian joint-stock company and, from this year through the date of this Offering Memorandum, the Russian Federation owned 100% of the Ordinary Shares. As a result of changes in the Russian Civil Code that came into force on September 1, 2014, which abolished, amongst others, the concept of open joint-stock companies (OAO) and introduced the concept of public joint-stock companies (PAO), SCF introduced the relevant amendments to the SCF Charter and re-registered on December 9, 2014 changing its name from OAO "Sovcomflot" to PAO "Sovcomflot."

Pursuant to the Joint-Stock Companies Law, SCF has the right to issue registered ordinary shares, preferred shares and other securities. Under Russian law, share capital refers to the aggregate nominal value of the issued and outstanding shares. Immediately prior to the Offering, the share capital of SCF consisted of 1,966,697,210 issued, fully paid and outstanding Ordinary Shares, each with a nominal value of one ruble. In addition, SCF is authorized by the SCF Charter to issue an additional 655,565,735 Ordinary Shares. Subject to certain requirements of Russian law, when issued, such Ordinary Shares will be identical to, and fully fungible with, SCF's currently issued and outstanding Ordinary Shares. No preferred shares are currently authorized or outstanding. Preferred shares may only be issued if relevant amendments have been made to the SCF Charter pursuant to a resolution of the General Shareholders' Meeting.

The Joint-Stock Companies Law requires SCF to dispose of any of its treasury shares that SCF acquires within one year of their acquisition or, failing that, reduce its share capital by the respective amount. Russian legislation does not allow voting rights or payment of dividends in relation to treasury shares. As at the date of this Offering Memorandum, SCF does not have any treasury shares (as referred to herein). Shares owned by subsidiaries of SCF (if any) are not considered treasury shares under Russian law (i.e., they are considered outstanding shares), and such subsidiaries are able to exercise voting rights and receive dividends relating to such shares and dispose of such shares.

By Decree of the Russian President No. 1009 dated August 4, 2004 ("**Decree No. 1009**"), SCF was included on the Russian Federation's list of strategic enterprises and strategic joint-stock companies that are subject to certain restrictions with respect to their share capital. This Decree required that 100% of SCF's share capital be state-owned, and, until 2010, when the relevant amendments to Decree No. 1009 were made, privatization of SCF's shares was not permitted. Pursuant to this Decree and Federal Law No. 178-FZ "On Privatization of the State and Municipal Property" dated December 21, 2001, any decision to privatize entities included into the list is the exclusive competence of the Russian President and the Russian Government. SCF is not entitled to sell or otherwise transfer, or to enter into transactions that may result in transfer of or introduction of trust management with respect to, the shares that were contributed to the share capital of SCF (including Novoship) without prior consent of the Russian Government or other authorized authorities. Any such transaction executed without prior consent of the Russian Government or other authorized authorities is void. Further, any decrease in the federal interest in a strategic company as a result of issuing additional shares must be approved by the Russian President.

Decree of the Russian President No. 762 dated June 18, 2010 ("**Decree No. 762**") amended Decree No. 1009 and allowed privatization of up to 25% minus one share of the share capital of SCF. Further, Decree of the Russian President No. 887 dated July 5, 2011 ("**Decree No. 887**") allowed SCF's share capital to be increased and privatized by up to 25% minus one share. Following Decree No. 762, under the Forecast Plan of Federal Property Privatization and Principal Directions for Federal Property Privatization for the years 2011-2013, adopted by the Russian Government on November 27, 2010 (as amended), the Russian Federation contemplated privatization of up to 50% minus one share and targeted its partial withdrawal from SCF's share capital by 2016. Further, the Forecast

Plan of Federal Property Privatization and Principal Directions for Federal Property Privatization for the years 2014-2016, adopted by the Russian Government on July 1, 2013 (as amended), and the Forecast Plan of Federal Property Privatization and Principal Directions for Federal Property Privatization for the years 2017-2019, adopted by the Russian Government on February 8, 2017, and the Forecast Plan of Federal Property Privatization and Principal Directions for Federal Property Privatization for the years 2020-2022, adopted by the Russian Government on December 31, 2019, contemplated privatization of up to 75% minus one share of SCF.

On June 30, 2014, the General Shareholders' Meeting resolved to increase the share capital of SCF by 280,956,743 Ordinary Shares, following Decree No. 887 of the Russian President dated July 5, 2011, that allowed SCF to issue new shares with the Russian Federation retaining at least 75% plus one share (the "**First Capital Increase Resolution**"). On December 17, 2014, the Board of Directors approved an additional issue of shares to be placed by open subscription (the "**First Issuance Decision**") along with respective Prospectus (the "**First Russian Prospectus**"). The First Issuance Decision and the First Russian Prospectus were registered with the CBR on March 12, 2015. Since the additional shares were not placed within one year from the date of the registration of the First Issuance Decision, on January 27, 2016, the Board of Directors of SCF extended the term for the relevant placement of additional shares through March 12, 2017, and adopted further amendments to the First Issuance Decision and the First Russian Prospectus, which amendments were registered with the CBR on February 25, 2016. On February 28, 2017, the Board of Directors of SCF further extended the term for the relevant placement of additional shares through March 12, 2018, and adopted the respective amendments to the First Issuance Decision and the First Russian Prospectus, which amendments were registered with the CBR on April 6, 2017.

On March 1, 2018, the General Shareholders' Meeting passed a resolution to cancel the placement provided for by the First Capital Increase Resolution, and to increase the charter capital by placing 280,956,743 additional ordinary registered uncertificated shares (hereinafter, the "**Second Capital Increase Resolution**"). On August 28, 2018, the Board of Directors approved an additional issue of shares to be placed by open subscription (the "**Second Issuance Decision**") along with respective prospectus (the "**Russian Prospectus**"). The Second Issuance Decision and the Russian Prospectus were registered with the CBR on November 22, 2018. On November 12, 2019, the Board of Directors of SCF extended the term for the relevant placement of additional shares for one additional year, and adopted further amendments to the Second Issuance Decision and the Russian Prospectus, which amendments were registered with the CBR on December 30, 2019. On May 6, 2020, the General Shareholders' Meeting passed a resolution to amend the Second Capital Increase Resolution to increase the charter capital by placing 655,565,735 Ordinary Shares. On June 23, 2020, the Board of Directors of SCF adopted respective further amendments to the Second Issuance Decision and the Second Russian Prospectus, which amendments were registered with the CBR on August 6, 2020.

History of SCF's Share Capital

The following table sets forth the changes in SCF's share capital that have occurred from the date of its incorporation to the date of this Offering Memorandum.

Date of event	Type of shares	Par value	Number of shares	Event
August 22, 1996	Ordinary Shares	RUR 1,000	1,364,538,517	Allotment to the founder (the Russian Federation) in relation to the reorganization into a joint-stock company.
August 17, 1998	Ordinary Shares	RUR 1	1,364,538,517	Decrease of share capital through decrease of par value of shares.
November 27, 2007	Ordinary Shares	RUR 1	602,158,693	Closed subscription[(1)].

(1) Pursuant to Presidential Decree No. 784 dated June 20, 2007, and Government Resolution No. 964-r dated July 20, 2007, the Russian Federation privatized its 50.3% interest in the charter capital of Novoship by transferring such interest to SCF in consideration for additionally issued shares of SCF.

Rights Attaching to Ordinary Shares

Holders of Ordinary Shares of SCF have the right to vote at all General Shareholders' Meetings. As required by the Joint-Stock Companies Law and the SCF Charter, all of SCF's Ordinary Shares have the same nominal value and grant to their holders identical rights. Each fully paid ordinary share, except for treasury shares, gives its holder the right to:

- freely transfer the Ordinary Shares without the consent of other shareholders;

- receive dividends;
- participate in General Shareholders' Meetings and vote on all matters within the competence of the General Shareholders' Meeting;
- transfer rights to vote in a General Shareholders' Meeting to a representative pursuant to a power of attorney;
- if holding, alone or with other holders, 1% or more of the Ordinary Shares, to access the list of persons entitled to participate in the General Shareholders' Meeting and to sue in court, on SCF's behalf, members of the Board of Directors, the CEO and members of the Executive Board for damages incurred by SCF as a result of their wrongful actions or failures to act;
- if holding, alone or with other holders, 2% or more of the voting shares, within 90 days after the end of SCF's fiscal year, make proposals for the annual General Shareholders' Meeting and nominate candidates to the Board of Directors and the Internal Audit Commission;
- if holding, alone or with other holders, 10% or more of the voting shares, demand that the Board of Directors call an extraordinary General Shareholders' Meeting or an unscheduled audit by the Internal Audit Commission;
- demand repurchase by SCF of all or some of the voting shares in SCF held by the shareholder if that shareholder voted against or did not participate in the voting on, the decision approving any of the following actions:
    - a corporate reorganization,
    - a conclusion of a major transaction involving assets valued in excess of 50% of the balance sheet value of SCF's assets;
    - amendments to the SCF Charter or the adoption of a new version of the SCF Charter in a manner that restricts shareholders' rights;
    - termination of the public status of SCF and delisting of shares and/or securities convertible into shares.
- upon SCF's liquidation, receive an amount of its residual assets (after fulfilment of its obligations to creditors) proportionate to their shareholding;
- have access to certain of SCF's documents, receive copies for a reasonable fee, and if holding alone or with other shareholders, 25% or more of the voting shares, have free access to minutes of the Executive Board and accounting documents; and
- exercise other shareholder rights, provided by the SCF Charter and Russian legislation.

Pre-emptive Rights

SCF has the right to issue shares or securities convertible into shares by way of offering them to the public (an open subscription) or by way of offering them to its shareholders and/or certain third parties determined in the issuance decision (a closed subscription). The Joint-Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares issued through an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint-Stock Companies Law provides SCF's shareholders with a pre-emptive right to purchase new shares or securities convertible into shares issued through a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. Pre-emptive rights are not available in relation to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares (or securities convertible into shares) in proportion to their existing shareholdings. In both cases, SCF must notify the shareholders in writing of the opportunity to exercise their pre-emptive rights and the period during which such pre-emptive rights may be exercised. As a general rule, such period may not be less than 45 days from the date when the notification is published or sent to the shareholders, and in certain cases it may be shortened to 20 days or, subject to further requirements, eight working days if the price of the offered shares or securities convertible into shares is not set out in the issuance decision, and to 12 working days if such price is set out in the issuance decision.

Dividends

The Joint-Stock Companies Law and the SCF Charter set out the procedure for determining the

dividends that SCF distributes to its shareholders.

Under the Joint-Stock Companies Law and the SCF Charter, SCF may declare dividends based on first quarter, six-month, nine-month or annual results. A decision on quarterly, six-month and nine-month dividends must be taken within three months of the end of the respective quarter at a General Shareholders' Meeting. The Board of Directors shall recommend to the General Shareholders' Meeting an amount of the proposed distribution and the Dividend Payment Record Date. Upon recommendation of the Board of Directors, the General Shareholders' Meeting may approve such amount and the Dividend Payment Record Date by a majority vote. The distribution amount may not be more than that recommended by the Board of Directors.

SCF shall pay dividends to shareholders and the central depository entitled to receive dividends as of the Dividend Payment Record Date (the "**Central Depository**"). Under the Securities Market Law, upon receipt of the dividends the Central Depository must transfer them to depositary account holders who are entitled to receive dividends as of the Dividend Payment Record Date. Dividends are not paid on treasury shares.

Under the Joint-Stock Companies Law, the Dividend Payment Record Date shall not be earlier than 10 days prior to and not later than 20 days following the date of the shareholders' decision on dividend payments. The dividends must be paid to the Central Depository within 10 working days and to shareholders within 25 working days following the Dividend Payment Record Date. Dividends are paid by way of wire transfer to bank accounts of the shareholders and the Central Depository. If there is no data on bank accounts of the shareholders that are physical persons, the dividends are paid in cash by postal orders.

The Joint-Stock Companies Law allows dividends to be declared only out of net profits calculated under RAS and as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- the company is not insolvent on the date of adoption of the decision to pay dividends (and would not become insolvent as a result of the proposed dividend payment);
- the value of the company's net assets, calculated under RAS, on the date of adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- other requirements of Russian legislation have been fulfilled.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; or
- otherwise prohibited by Russian legislation.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint-Stock Companies Law and the SCF Charter allow SCF to be liquidated:

- by a three-quarters majority vote of a General Shareholders' Meeting; or
- by a court order.

Following a decision to liquidate SCF, the right to manage its affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a General Shareholders' Meeting and, in an

involuntary liquidation, is appointed by the court. Under the Joint-Stock Companies Law and the SCF Charter, as long as the Russian Federation holds any shares in SCF, the liquidation commission shall also include a representative of Rosimushchestvo. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Russian Civil Code gives creditors the following order of priority during liquidation:

- first priority: to individuals owed compensation for injuries or deaths or compensation above damages in certain cases provided by law;
- second priority: to employees and copyright claims;
- third priority: to federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- fourth priority: to other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property shall be satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of those creditors of the first and second orders of priority arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth priority creditors.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- distribution of the remaining assets of a company between the holders of ordinary and preferred shares on a *pro rata* basis.

Liability of Shareholders

The Russian Civil Code and the Joint-Stock Companies Law generally provide that shareholders in a Russian joint-stock company are not liable for the obligations of a joint-stock company and only bear the risk of loss of their investments. However, this may not be the case when 1 person (the "**effective parent**") is capable of determining decisions made by another entity (the "**effective subsidiary**") by way of giving binding instructions to the effective subsidiary. If the effective subsidiary is a joint-stock company, the effective parent bears joint and several liability for transactions entered into by the effective subsidiary if: (i) the effective parent caused the effective subsidiary to conclude the transaction, and (ii) the ability of the effective parent to give binding instructions is provided for in the charter of the effective subsidiary or in a contract between such entities.

If the effective subsidiary is a Russian limited liability company, the effective parent bears joint and several liability if the effective parent caused the effective subsidiary to conclude the transaction (regardless of how the effective parent's ability to determine decisions of the effective subsidiary arises).

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective subsidiary.

Accordingly, the shareholders will not be personally liable for SCF's debts or those of its effective subsidiaries unless such shareholders control its business and/or its effective subsidiaries, and the conditions set out above are met.

In addition, an effective parent may be held secondarily liable for the debts of an effective subsidiary if the latter becomes insolvent (bankrupt) as a result of the action or inaction of the former. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint-stock company, then the effective parent will have secondary liability only if the effective parent caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent will be held secondarily

liable if the effective subsidiary's insolvency is caused by the willful misconduct or negligence of such effective parent, subject to the insufficiency of the effective subsidiary's assets to cover its obligations.

Shareholders of an effective subsidiary that is a joint-stock company may also claim compensation for the effective subsidiary's losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in the effective subsidiary's loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its willful misconduct or negligence caused the effective subsidiary to take any action, or fail to take any action, that resulted in a loss.

Share Capital Increase

SCF may increase its share capital by:

- issuing new shares, or
- increasing the nominal value of its previously issued shares.

Under the SCF Charter, a decision on increasing the share capital is within the competence of the General Shareholders' Meeting. Such decision may only be adopted upon request of the Board of Directors. A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of Ordinary Shares or securities convertible into Ordinary Shares constituting more than 25% of the number of issued Ordinary Shares, requires a three-quarters majority vote of the General Shareholders' Meeting. In addition, the issuance of shares above the number of authorized and non-issued shares provided for in the SCF Charter necessitates a Company Charter amendment, which requires a three-quarters majority vote of the General Shareholders' Meeting.

The Joint-Stock Companies Law requires that the placement price of the newly issued shares be determined by the Board of Directors based on their market value but not less than their nominal value. Placement price for existing shareholders exercising a pre-emptive right to purchase shares may be less than the price paid by third parties, but in any event no more than by 10% of the price paid by third parties. Fees of an intermediary participating in the placement of shares cannot exceed 10% of the share price. The Board of Directors may, but is not required to, involve an appraiser to set the placement price of the shares. There is a specific requirement for determining the placement price of securities, for which prices are regularly published, that the Board of Directors shall take into account such prices. The Board of Directors shall value any in-kind contributions for new shares, based on the appraisal report of an appraiser.

Russian securities laws and regulations set out detailed procedures for the issuance and registration of shares of a Russian joint-stock company. These procedures require:

- adoption of a decision to increase capital by placing additional shares;
- adoption of a decision on share issuance (and in certain cases of a prospectus);
- prior registration of a share issuance (and in certain cases of a prospectus) with the CBR;
- placement of the shares;
- registration of the report or filing of the notice on the results of the share issuance; and
- public disclosure of information at the required stages of the issuance.

Pursuant to Federal Law No. 178-FZ "On Privatization of the State and Municipal Property" dated December 21, 2001, issuance by open subscription and listing of shares of a joint-stock company included in the list of strategic enterprises and joint-stock companies, such as SCF, as well as offering of such shares abroad requires a decision of the Russian President approving the increase of the share capital of such company and determining the remaining interest of the state in the share capital. Decree No. 887 allowed SCF's share capital to be increased, and privatized on the condition that the Russian Federation continues to own at least 75% plus one share. Any further issuance of new shares is subject to prior approval by the Russian President.

Share Capital Decrease and Share Repurchases

SCF has the right to, and under certain circumstances, is statutorily required to, decrease its share capital.

The Joint-Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which is RUR 100,000 (approximately US$1,300) for a public joint-stock company. The Joint-Stock Companies Law requires that any decision to reduce the share capital of a company, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, be made by a General Shareholders' Meeting. In addition, within three business days of a decision to reduce a company's share capital, such company should notify the competent authority on adoption of such decision, and then twice publish a notification on the decrease of the share capital in specially designated mass media with regularity of once in a month.

The Joint-Stock Companies Law allows a company to decrease the share capital through a reduction in the nominal value of the shares only if the following conditions have been met:

- the company's share capital has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares;
- the company is not insolvent on the date of adoption of the decision to decrease the share capital and would not become insolvent as a result of the proposed decrease of share capital;
- the value of a company's net assets on the date of adoption of the decision to decrease the share capital is not less (and would not become less as a result of the proposed decrease of share capital) than the sum of its share capital, the reserve fund and the difference between the liquidation value and nominal value of the company's issued and outstanding preferred shares;
- the company has paid all declared and unpaid dividends; and
- other requirements of Russian legislation have been fulfilled.

Russian legislation provides that a company's shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions, subject to certain exemptions set out in the Joint Stock Companies Law:

- a reorganization of the company;
- a conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of the assets of the company;
- amendments to the charter or approval of a new version of the charter in a manner that restricts the shareholder's rights; or
- termination of the public status of a company and delisting of shares and/or securities convertible into shares.

The company may spend up to 10% of its net assets calculated under RAS on a share redemption demanded by the shareholders. As a general rule, if the value of shares in respect of which the shareholders have exercised their right to demand repurchase exceeds 10% of the net assets of the company, the company will repurchase shares from each such shareholder on a *pro rata* basis.

The decision on termination of the public status of a company along with delisting of shares and/or securities convertible into shares requires a 95% majority vote of the General Shareholders' Meeting. Under the Joint-Stock Companies Law, such decision enters into force if the aggregate number of shares in respect of which the shareholders have exercised their right to demand repurchase does not increase the number of shares that can be repurchased by the company given that the company may spend only up to 10% of its net assets calculated under RAS. Otherwise, the decision of the General Shareholders' Meeting does not enter into force and the application is not approved.

Registration and Transfer of Shares

SCF's shares comprise its Ordinary Shares in registered form. Russian legislation requires that a

joint-stock company hold a register of its shareholders. Under the amendments to the Russian Civil Code that entered into force on October 1, 2013, a register of shareholders must be held by a specialized licensed registrar. Ownership of SCF's shares is evidenced by entries made in the shareholders' register, and after the Offering, on the books of a relevant depositary.

Pursuant to the Central Depository Law which sets out a legal framework for establishment and operation of the Central Depository, the sole nominal holder who can be registered in the shareholders' register is the Central Depository. NSD, having the status of the Central Depository, opened its nominal holder account in SCF's register of shareholders on April 17, 2017. The Central Depository Law provides that other nominal holders (depositaries) must open depositary accounts with the Central Depository to carry out operations with securities.

Any of SCF's shareholders may obtain an extract from the register of shareholders maintained by the registrar or from their respective depositary, as the case may be, certifying the number of shares that such shareholder holds. SCF is also entitled to obtain an extract from its shareholders' register which sets out all of its shareholders registered directly therein. In addition, SCF is entitled to obtain a list of nominal holders that opened depositary accounts with the Central Depository as well as a list of entities that have accounts opened with the nominal holders, given that such list is provided by the relevant nominal holder. However, after the Offering, SCF will be unable to monitor transfers of its shares that are held on the books of depositaries registered with the Central Depository, because underlying shareholders have no obligation to reveal and such depositaries have no obligation to notify SCF about such transfers. As a result, SCF will be able to identify its actual shareholders only in a limited number of cases when such possibility is provided for by Russian law, including when requesting its registrar and the Central Depository to compile a list of shareholders of record for the General Shareholders' Meeting.

However, SCF's shareholders and beneficial owners of its shares shall notify it and the CBR of an acquisition of 5% or more of its voting shares or of an acquisition of the right to vote on 5% or more of its voting shares by virtue of an agreement or otherwise, and of any subsequent change in the number of such voting shares above or below certain thresholds, and SCF is required to disclose such information in accordance with Russian securities regulations. See "*—Certain Requirements of Russian Legislation—Notification of Acquisition of Significant Interest*" and also "*—Disclosure of Information*."

Since July 2, 2013, JSC "Independent Registrar Company R.O.S.T." located at 18-5b Stromynka Street, office IX, Moscow 107076, Russian Federation, has maintained SCF's shareholder register.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholders' register, or the registration of the transfer with a depositary if shares are held through a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to register a transfer of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, and such refusals may be challenged in court.

Listing

In accordance with Regulation of the CBR No. 534-P dated February 24, 2016, and Moscow Exchange listing rules, there are three listing levels for securities: premium Level 1 with quotation, Level 2 with quotation and Level 3 without quotation. Listing rules set forth, among others, certain trading, reporting and corporate governance requirements for each of Level 1 and Level 2 listings.

Reserve Fund

Russian legislation requires each joint-stock company to establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The Joint-Stock Companies Law and the SCF Charter provide for a minimum reserve fund of 5% of SCF's share capital, funded through mandatory annual transfers of at least 5% of net profits of SCF until the reserve fund has reached the 5% requirement. SCF also may establish special purpose funds upon a decision of a General Shareholders' Meeting. Decisions on the composition, formation and use of such funds shall be approved by SCF's Board of Directors.

Disclosure of Information

In accordance with Russian securities regulations, as a public company, SCF is required to make the following public disclosures and filings on a periodical basis:

- publishing on the website quarterly issuer's reports containing information about us, its shareholders, the structure of its management bodies, the members of the Board of Directors and Executive Board, its branches and representative offices, its shares, bank accounts and statutory auditors, important developments during the reporting quarter, and other information about its financial and business activity (this requirement will cease to be applicable from October 1, 2020);
- publishing on a newswire as well as on its website any information concerning material facts and changes in its financial and business activity, including among other things:
    - its reorganization;
    - certain changes in the amount of its assets;
    - certain facts related to share issuances;
    - decisions of the General Shareholders' Meeting;
    - acquisition by a person of 5% or more of its voting shares or an acquisition of the right to vote on 5% or more of the voting shares by virtue of an agreement or otherwise, and any subsequent change in the number of such voting shares above or below any of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% threshold;
    - the information on the receipt of any of (i) a voluntary offer (including any competing offer), (ii) a mandatory offer (including any competing offer), (iii) notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of the voting shares, and (iv) a demand that minority shareholders sell their shares to the person that has acquired more than 95% of the voting shares;
- disclosing information at various stages of share issuances through publication of certain data as required by securities regulations;
- disclosing its annual report and annual financial statements;
- disclosing on its website on a quarterly basis a list of its affiliated persons; and
- other information as required by applicable Russian securities legislation.

Certain Requirements of Russian Legislation

Interested-Party Transactions

The Joint-Stock Companies Law contains special requirements with respect to entering into interested-party transactions. "Interested-party transactions" include transactions involving a member of the Board of Directors, a member of the Executive Board, the CEO, a controlling person of the company (as defined by the Joint-Stock Companies Law) or any person who is able to direct the actions of SCF, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or persons or entities under their control, are:

- a party to, or beneficiary of, a transaction with SCF, or act as a representative or intermediary in such transaction;
- the controlling person of a legal entity that is a party to, or beneficiary of, a transaction with SCF, or acts as a representative or intermediary in such transaction; or
- a member of any management body of a company that is a party to, or beneficiary of, a transaction with SCF, or acts as a representative or intermediary in such transaction, or a member of any management body of a management organization of such a company.

Pursuant to an express provision of Joint-Stock Companies Law, the Russian Federation is not considered as a controlling person for the purposes of interested-party transactions.

The Joint-Stock Companies Law requires that SCF notify (i) its Board of Directors, (ii) members of the Executive Board; and, in certain cases, (iii) shareholders of any planned interested-party transaction at least 15 days prior to its execution.

SCF's CEO, a member of the Board of Directors, a member of the Executive Board or a shareholder owning at least 1% of the voting shares of SCF, are entitled to call for consent for execution of the transaction by the Board of Directors or General Shareholders' Meeting.

Consent is to be provided by a majority of shareholders present at the meeting who are not interested in the transaction if:

- the value of such transaction or a number of interrelated transactions is 10% or more of the balance sheet value of the company's assets calculated under RAS;
- the transaction or a number of interrelated transactions involves the sale of Ordinary Shares in an amount exceeding 2% of the company's issued Ordinary Shares and ordinary shares into which issued convertible securities may be converted;
- the transaction or a number of interrelated transactions involves the sale of preferred shares in an amount exceeding 2% of the company's issued shares and ordinary shares into which issued convertible securities may be converted; or
- the number of directors who are not interested in the transaction and otherwise eligible for giving consent for the execution of the transaction is not sufficient to constitute a quorum.

Notification on execution and consent in respect of an interested-party transaction is not required if, *inter alia*:

- transactions are conducted in the ordinary course of business of the company on terms similar to terms of previous non-interested transactions on this type;
- the company has only one shareholder that simultaneously performs the functions of the company's sole executive body;
- all shareholders of the company are deemed interested in the transaction, provided that other persons are not interested in the transaction;
- transactions are conducted in connection with placement of the company's shares and other securities, convertible to shares;
- transactions are conducted in connection with a public offering of bonds or the repurchase of issued bonds;
- the company is repurchasing its issued shares;
- transactions are conducted in connection with a reorganization of the company;
- the company is required by law to enter into the transaction, and settlements under such transactions are made pursuant to prices set by the Russian government on or pursuant to tariffs and prices established by appropriate state authorities authorized by the Russian government;
- transactions are concluded on the terms of a preliminary agreement, provided such preliminary agreement was duly approved or;
- transactions involve the acquisition or disposal of property having a value of less than 0.1% of the balance sheet value of the assets of a company calculated under RAS.

Upon a claim by a Company, member of the Board of Directors or shareholder owning at least 1% of the voting shares of SCF, a court may invalidate any interested-party transaction, provided that: (i) the transaction is executed at the expense of the company's interests; and (ii) the counterparty has been proven to have known and should have known that the transaction constituted an interested-party transaction with respect to the company and the respective consent has not been received. However, pursuant to Joint-Stock Companies Law, a court shall dismiss the claim seeking to invalidate an interested-party transaction entered into in breach of the above-mentioned requirement in certain instances.

Major Transactions

The Joint-Stock Companies Law defines a major transaction as a transaction or (a series of interrelated transactions) conducted outside the ordinary course of business of the company and involving the acquisition or disposal (including temporary transfer), or the possibility of disposal, directly or indirectly of property having the value of 25% or more of the balance sheet value of the assets of the company calculated under RAS, with the exception of, *inter alia*:

- transactions performed by the company which has only one shareholder that simultaneously performs the functions of the company's sole executive body;
- transactions in connection with the placement (public offering) and/or organization of the placement of shares through a subscription (sale of shares), or with the placement of securities convertible into shares;
- transactions in connection with a reorganization of the company;
- transactions that are mandatory pursuant to Russian law requirements, and settlements under which transactions are made pursuant to prices set by the Russian government or pursuant to tariffs and prices established by appropriate state authorities authorized by the Russian government;
- transactions aimed at the acquisition of securities under the terms of a mandatory offer; and
- transactions concluded on the terms of a preliminary agreement, provided such preliminary agreement was duly approved.

Major transactions involving the acquisition or disposal (including temporary transfer), or the possibility of disposal, directly or indirectly, of assets ranging from 25% to 50% of the balance sheet value of the assets of the company requires the unanimous consent of all the members of the Board of Directors. If the transaction fails to receive such consent, it can be provided by a simple majority vote of the shareholders present at the General Shareholders' Meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarter majority vote of shareholders present at the General Shareholders' Meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court following an action brought by the company, its directors or its shareholders owning at least 1% of the company's voting shares.

Shareholders' Agreements

The Joint-Stock Companies Law provides for the possibility of entering into shareholders' agreements in respect of Russian joint-stock companies. Thus, the Joint-Stock Companies Law stipulates that shareholders may enter into an agreement under which they undertake to exercise their shareholder rights in a certain manner or to refrain from exercising their shareholder rights, including, *inter alia*:

(i) to vote in a certain manner at a General Shareholders' Meeting;

(ii) to coordinate voting with other shareholders;

(iii) to acquire or dispose of shares at a pre-determined price or upon occurrence of certain circumstances;

(iv) to refrain from disposing of shares until the occurrence of certain circumstances; and

(v) to perform jointly other actions relating to the company's management, activities, reorganization and liquidation.

The provisions of the Joint-Stock Companies Law in respect of shareholders' agreements are generic, rather vaguely drafted and remain largely untested. It remains to be seen how this new regulation is implemented and enforced in practice.

Approval of the Russian Federal Antimonopoly Service

Pursuant to Federal Law No. 135 "On Protection of Competition" dated July 26, 2006, acquisitions of voting shares of a joint-stock company, involving companies with a combined asset value or annual revenues exceeding a certain threshold under RAS, and which would result in a shareholder (or a group of shareholders, as

defined under Russian law) holding more than 25%, 50% or 75% of the voting shares of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount, or obtaining rights to determine the conditions of business activity of an entity or to exercise the authorities of its executive body must be approved in advance by the FAS. Such transactions executed between members of a group of companies may require only a subsequent notification to the FAS if the list of the members of the group of companies has been filed with the FAS within 30 days prior to the date of the transaction's settlement and the composition of such group has not changed.

Foreign Ownership

Federal Law No. 57-FZ "On the Procedure for Foreign Investment in Companies with Strategic Impact on National Defense and Security of the Russian Federation" dated April 29, 2008, as amended (the "**Foreign Strategic Investments Law**") establishes procedures for obtaining approval by foreign investors prior to purchasing (directly or indirectly) a blocking or controlling number of shares in certain entities (the "**Strategic Entity**"). In particular, a foreign investor who is acquiring more than 50 percent of voting shares in a Strategic Entity, or a right to elect the sole executive body or more than half of its board of directors or the executive board, should obtain a clearance for such acquisition from a governmental commission. Any transactions completed in breach of applicable requirements of the Foreign Strategic Investments Law are null and void and may therefore be unwound by Russian courts.

At the date of this Offering Memorandum, SCF does not conduct any strategic activities pursuant to the Foreign Strategic Investments Law, and, therefore, SCF does not have the status of a Strategic Entity, and acquisition of its shares is not subject to the requirements of the Foreign Strategic Investments Law.

In addition, organizations that are taxpayers and individuals registered as individual entrepreneurs, in Russia who acquire more than 10% of shares in a Russian joint-stock company must notify the Russian tax authorities within one month after such acquisition. Accordingly, foreign persons registered as individual entrepreneurs in Russia and foreign companies may need to notify the Russian tax authorities within one month after such acquisition if they are already registered with the Russian tax authorities at the time of the acquisition. However, the notification procedure for a foreign company that is not yet registered with such tax authorities at the time of their acquisitions is unclear.

Notification of Acquisition of Significant Interest

Pursuant to Russian securities legislation, each holder of voting shares of a joint-stock company that has issued securities and registered a prospectus in respect of such securities in the Russian Federation must notify the company and the CBR of an acquisition of 5% or more of the company's voting shares or of an acquisition of the right to vote on 5% or more of the voting shares by virtue of an agreement or otherwise, and of any subsequent change in the number of such voting shares above or below any of 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% thresholds. Each notification should contain the name of the acquirer, the name of the company and the number of the voting shares acquired (or votes that can be cast). Such notifications must be generally given within five days after the voting shares have been transferred to such shareholder's securities account or after the acquisition of the right to cast votes attached to such voting shares.

Change of Control and Anti-takeover Protection

The Joint-Stock Companies Law provides for anti-takeover protection measures applicable under Russian law.

A person intending to acquire more than 30% of a public joint-stock company's ordinary shares and certain preferred shares, including shares already owned by such person and its affiliates, has the right to make a public offer to purchase the remaining shares from other shareholders (voluntary offer). A voluntary offer may be made at any price (although the price should be the same for all tendering shareholders).

Within 35 days after acquisition by any means of more than 30%, 50% or 75% of ordinary shares and certain preferred shares or 35 days from the date when the acquirer learned or should have learned that it, either independently or together with its affiliates, owns such number of shares, the acquirer is required to make a public offer to purchase the remaining shares from other shareholders (mandatory offer). A mandatory offer should be made at a price that is the higher of: (i) the highest acquisition value that the offeror or its affiliate paid or agreed to pay for the target securities in any transaction in the six months preceding the date of the mandatory offer launch, or (ii) in the case of a publicly traded joint-stock company, the weighted average price of the target securities on the Russian stock exchange during the six months preceding the date of the mandatory offer filing with the CBR and, if the company is not publicly traded or is traded for less than six months, the price determined as "market value" by an appraiser.

While the offeror is required to make an all-cash voluntary or mandatory offer, it may also offer securities or a mix of cash and securities as an alternative, in which case tendering shareholders have the right to choose between cash consideration and consideration in the form of securities (or mixed consideration).

If, as a result of either voluntary or a mandatory offer, the acquirer purchases more than 95% of the ordinary shares and certain preferred shares, including shares owned by its affiliates, it is required to notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares. The purchase price in a buy-out offer is determined in accordance with the rules applicable to mandatory tender offers and shall not be lower than (i) the price paid in the voluntary offer or mandatory offer that resulted in passing the 95% threshold and (ii) the highest price that the 95% shareholder or its affiliates paid or agreed to pay for the target securities after the end of the voluntary offer or mandatory offer that resulted in passing the 95% threshold.

Instead of giving notice, the acquirer may deliver a buy-out demand, binding on the minority shareholders, that they sell their shares if the acquirer crossed the 95% threshold by acquiring at least 10% of the voting shares in a voluntary or mandatory offer at a price that may not be lower than: (i) the price paid in the voluntary offer or the mandatory offer that resulted in passing the 95% threshold, and (ii) determined as "market value" by an appraiser, and (iii) the highest price that the 95% shareholder or its affiliates paid or agreed to pay for securities after the end of the voluntary offer or the mandatory offer that resulted in passing the 95% threshold.

An offer of the kind described in the preceding four paragraphs must be accompanied by an irrevocable bank guarantee of payment (except for a buy-out demand) and certain other documents. Moreover, a notice of the offer must be filed with the CBR at least 15 days prior to delivering the offer to the company. The CBR may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or mandatory offer, as applicable) to purchase shares in the quantity of and at the price that is greater than or equal to the quantity and the price offered in the initial voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the initial voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the voluntary or mandatory offer has been received by a company and until the expiration of a 20-day period after the expiration of the period for acceptance of the voluntary or mandatory offer, the General Shareholders' Meeting will have the exclusive power to make decisions on a share capital increase through an additional share issuance, on approval of interested-party and certain other transactions and on certain other significant matters. The Joint-Stock Companies Law provides for instances when the mandatory offer may not be made, which include, *inter alia*, the following:

- acquisition of the company's shares was performed in the course of its establishment or reorganization;
- partial redemption of its shares by the company;
- acquisition of shares by a company's shareholder as a result of using respective pre-emptive rights;
- shares of the company were earlier acquired under the voluntary offer;
- shares of the company were earlier acquired under another mandatory offer;
- transfer of shares between shareholder of the company and its affiliates;
- acquisition of shares by contribution thereof to the share capital of the company by the Russian Federation, its region or municipality provided the Russian Federation, its region or municipality is or becomes owner of more than 50% of the company's share capital as a result of such transaction; and
- acquisition of shares by contribution thereof as a payment for newly issued shares placed under closed subscription of a public joint-stock company included in the list of strategic enterprises and strategic joint-stock companies pursuant to Decree No. 1009.

Currency control

Russian currency control restrictions with regard to instruments such as ordinary shares are set out in Federal Law No. 173-FZ "On Currency Regulations and Currency Control" (the "**Currency Law**") and respective regulations of the CBR. Pursuant to the Currency Law, currency operations with ordinary shares between residents

and non-residents may be conducted without limitations in both rubles and in foreign currencies. Under the Currency Law, currency operations with securities between non-residents may be conducted either in rubles or in foreign currencies, subject to compliance with Russian securities and competition laws and regulations. Finally, non-residents may receive dividends declared by Russian companies both in foreign currencies (confirmed by the CBR in its Information Letter No. 31 dated March 31, 2005) and rubles. Dividends declared and paid in rubles may be freely converted through Russian authorized banks and remitted outside of the Russian Federation.

RELATED-PARTY TRANSACTIONS

For the purposes of IFRS, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial or operational decisions, as defined by IAS 24 'Related-Party Disclosures.'

State-controlled entities are exempt from disclosing transactions and balances with other state-controlled entities and bodies. They are however required to disclose the nature and amount of each individually significant transaction and for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Since SCF is, prior to the Offering, a wholly state-owned entity, the nature of SCF's relationships with the related parties with whom the Group entered into significant transactions or had significant balances outstanding as of December 31, 2019 and 2018 and June 30, 2020 are described below.

Transactions with the Government, state controlled entities and joint ventures

The ultimate controlling party of SCF is the Russian Federation. Any transactions with Russian state controlled entities are disclosed as transactions with related parties.

The Group's subsidiaries, and the Group's joint ventures, entered into leasing arrangements with VEB RF Group, a Russian state controlled financial institution in respect of 20 vessels ordered by VEB RF Group at Zvezda Shipbuilding Complex, a Russian state controlled entity (see "*Operating and Financial Review—Off-Balance Sheet Arrangements*").

The following tables show the outstanding balances and total amount of transactions that have been entered into with related parties as of December 31, 2019 and 2018 and in the years then ended and as of June 30, 2020 and for the six-month period ended June 30, 2020 and 2019. For information on the Group's cross-currency derivative financial instruments with a Russian state controlled financial institution, see Note 23 of the 2019 Financial Statements, Note 22 of the 2018 Financial Statements, Note 23 of the 2017 Financial Statements and Note 9 of the Half Year Financial Statements. For further information, see Note 43 of the 2019 Financial Statements, Note 44 of the 2018 Financial Statements, Note 45 of the 2017 Financial Statements and Note 20 of the Half Year Financial Statements.

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

(1) Statement of Financial Position includes deferred lease revenues and contract liabilities

	Income Statement (income) / expense for the six months ended		Statement of Financial Position asset / (liability) as at
	30/06/2020	**30/06/2019**	**30/06/2020**
	$'000	**$'000**	**$'000**
Transactions with Russian state controlled entities			
Revenue[1]	(236,055)	(203,533)	(21,605)
Voyage expenses and commissions	13,316	13,439	(1,371)
Other operating revenues	(3,542)	(3,355)	(290)
Other operating expenses	-	1,991	-
Other loans	133	199	(4,999)
Secured bank loans	23,735	22,680	(682,633)
Lease liabilities	506	501	(8,166)
Receivables from shipyard (liquidated damages for late delivery of vessels)	(292)	(264)	6,297
Payables to charterer (liquidated damages for late delivery of vessels)	889	942	(18,237)
Cash at bank	(2,921)	(1,287)	253,165
Transactions with joint ventures			
Other operating revenues	(1,810)	(1,690)	606
Loans due from joint ventures	(849)	(1,356)	50,993
Compensation of key management personnel			
Short-term benefits	4,650	4,420	(2,140)
Post-employment benefits	36	32	(4)
Long-term service benefits	608	980	(5,083)
	5,294	5,432	(7,227)

(1) Statement of Financial Position includes deferred lease revenues and contract liabilities

PLAN OF DISTRIBUTION

Description of the Distribution

The Offering consists of an offering of Offer Shares by SCF (i) to institutional and qualified individual investors in the Russian Federation and otherwise to institutional investors outside the United States in reliance on Regulation S and (ii) within the United States to QIBs, as defined in, and in reliance upon, Rule 144A under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements thereunder.

The Offer Shares are expected to be sold by SCF to the Joint Global Coordinators and Joint Bookrunners, on behalf of the Underwriters, pursuant to the Underwriting Agreement (as defined below) and the offer and acceptance of the offer for such Offer Shares pursuant to the New Share Issuance documentation for the purpose of onward sale by the Underwriters to investors.

The Underwriters' commitment to purchase the Offer Shares pursuant to the Underwriting Agreement is as follows:

Joint Global Coordinators and Joint Bookrunners	**Percentage of Offer Shares**
VTB Capital plc	25.95%
Citigroup Global Markets Limited	25.95%
JSC Sberbank CIB and Sberbank CIB (UK) Limited	15.6%
J.P. Morgan Securities plc	15.6%
Merrill Lynch International	15.6%
Co-Manager	
ING Bank N.V.	1.3%
Total	100%

The Offer Price Range is RUR 105 to RUR 117 per Offer Share.

The Ordinary Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "*Selling and Transfer Restrictions*."

Underwriting Agreement

SCF and the Underwriters are expected to enter into an underwriting agreement and an underwriting support agreement (together, the "**Underwriting Agreement**") on or about the Pricing Date. Under the terms of, and subject to, the conditions contained in the Underwriting Agreement, the Underwriters have agreed to purchase, at the Offer Price, the number of Offer Shares in the amounts indicated above.

In the Underwriting Agreement, SCF has made certain representations and warranties and has agreed to indemnify the Underwriters against certain liabilities, including liability under the Securities Act.

The obligation of the Underwriters pursuant to the terms of the Underwriting Agreement is subject to the satisfaction of certain conditions precedent contained in the Underwriting Agreement, such as the receipt by the Underwriters of officers' certificates and customary legal opinions. The Underwriting Agreement may be terminated upon written notice by the Joint Global Coordinators and Joint Bookrunners, upon the occurrence of certain events, including the suspension or limitation of trading on the Moscow Exchange or breach of the representations and warranties given by SCF.

Lock-up

SCF has agreed for a period of 180 days after the Closing Date, not to, and to procure that its affiliates (excluding the Company's existing shareholder) do not, without the prior written consent of the Joint Global Coordinators and Joint Bookrunners (not to be unreasonably withheld), issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, Ordinary Shares or securities convertible or exchangeable into or exercisable for Ordinary Shares or warrants or other rights to purchase Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying

securities, including equity swaps, forward sales and options representing the right to receive any such securities, in each case, except (i) as may be necessary or desirable in connection with any consolidation of SCF's ownership in PAO Novoship, whether by buy-back, exchange or otherwise or (ii) in relation to any issuance of securities pursuant to any long-term incentive plan of SCF.

A representative of the Russian Federation has publicly announced that the Russian Federation does not intend to sell any further shares in SCF through a public offering for a period of 180 days following the Closing Date, although the Russian Federation has not entered into any legally binding agreement preventing the sale of any shares of SCF during that period.

Stabilization

In connection with the Offering the Stabilizing Manager, on behalf of the Underwriters, will procure that the Market Maker (as defined below) shall, to the extent permitted by applicable laws, regulations and rules of the CBR and/or the Moscow Exchange, purchase, for stabilization purposes, the Ordinary Shares on the Moscow Exchange in a total number of up to 10% of the Offer Shares within the Stabilization Period, with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail in the open market, in accordance with the Market-Making Agreement.

There will be no obligation on the part of the Stabilizing Manager or any person acting on behalf of the Stabilizing Manager to effect stabilizing transactions and there is no assurance that stabilizing transactions will be undertaken. Such stabilization, if commenced, may be discontinued at any time without prior notice. Except as required by law or regulation, neither the Stabilizing Manager nor any person acting on behalf of the Stabilizing Manager intends to disclose the extent of any stabilization transactions conducted in relation to the Offering.

SCFA is expected to grant the Repurchase Option to the Market Maker, exercisable only once (at any time during the Stabilization Period and not later than the third business day thereafter), to require SCFA to purchase the Ordinary Shares acquired by the Market Maker as a result of stabilization transactions in a total number of up to 10% of the Offer Shares, at a price equal to the sum of (i) the total amount paid by the Market Maker to acquire such shares and (ii) any associated funding costs.

SCFA will hold any Ordinary Shares it acquires pursuant to the Repurchase Option in treasury.

Other relationships

The Underwriters are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Group from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Group in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments. In particular, the Underwriters may enter into foreign exchange hedging transactions with SCF with respect to the proceeds received by it from the Offering.

VTB Capital plc has engaged Xtellus Capital Partners Inc. ("Xtellus") to act as its agent pursuant to Rule 15a-6 under the U.S. Securities Exchange Act of 1934 in connection with securities transactions effected by VTB Capital plc with U.S. investors. Xtellus is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority with address at 452 Fifth Avenue, 3rd Floor, New York NY 10018.

TAX CONSIDERATIONS

The following is a general description of certain tax considerations relating to the Offer Shares and does not purport to be a comprehensive discussion of the tax treatment of the Offer Shares. Prospective holders of the Offer Shares should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Offer Shares in light of their particular circumstances, including but not limited to the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as at the date hereof, and of any actual changes in applicable tax laws after such date.

Certain Russian tax considerations

General

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Offer Shares. This overview is based on the laws of the Russian Federation in effect on the date of this Offering Memorandum, which are subject to potential change (possibly with retrospective effect). This overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Offer Shares, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Offer Shares that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences of investing in, owning or disposing of the Offer Shares pertinent to any particular holder of the Offer Shares ("**Holder**") is made hereby.

Many aspects of Russian tax laws are subject to significant uncertainty and a lack of interpretive guidance, resulting in the inconsistent interpretation and application of such laws. Further, provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable changes (possibly with retrospective effect) and inconsistent interpretation than in jurisdictions with better developed capital markets or taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates, and relevant interpretations may continually change. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated in the Russian Tax Code. Similarly, in the absence of binding precedents, court rulings on tax or other related matters taken by different Russian courts relating to the same or similar facts and circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term "**Russian Resident Holder**" means:

(a) a Holder which is a legal entity or an organization and is:

   (i) a Russian legal entity;

   (ii) a foreign legal entity or organization treated as a Russian tax resident based on Russian domestic law (i.e., if the Russian Federation is treated as the place of management of such legal entity or organization as determined in the Russian Tax Code unless otherwise envisaged by an applicable double tax treaty);

   (iii) a foreign legal entity or organization treated as a Russian tax resident based on the provisions of an applicable double tax treaty (for the purposes of application of such double tax treaty); or

   (iv) a foreign legal entity or organization which holds and/or disposes of the Offer Shares through its permanent establishment in the Russian Federation (a "**Russian Resident Holder—Legal Entity**"), or

(b) a Holder who is an individual and is actually present in the Russian Federation for a total of 183 calendar days or more in any period comprised of 12 consecutive months (a "**Russian Resident Holder—Individual**"). An individual who is present in the Russian Federation for a total of 90 to 182 days over the period from January 1, 2020 till December 31, 2020 may apply to be considered a Russian tax resident (i.e., Russian tax residence in such circumstances may be established at the individual's discretion).

Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) from the Russian Federation for medical treatment or educational purposes as well as for employment or other duties related to the performance of services on offshore hydrocarbon fields. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that, for tax withholding purposes, an individual's tax residence status should be determined on the date of the payment (based on the number of days in the Russian Federation in the 12-month period preceding the date of the payment). An individual's final tax liability in the Russian Federation for any reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year.

For the purposes of this overview, the term "**Non-Resident Holder**" means any Holder (including any individual (a "**Non-Resident Holder—Individual**") and any legal entity or an organization (a "**Non-Resident Holder—Legal Entity**")) that does not qualify as a Russian Resident Holder.

Holders of the Offer Shares should seek professional advice on their tax status in Russia.

Taxation of the Offer Shares

Taxation of the Acquisition of the Offer Shares

The acquisition of the Offer Shares by a Russian Resident Holder—Legal Entity or a Non-Resident Holder—Legal Entity should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Offer Shares should not trigger any Russian tax implications for a Russian Resident Holder—Legal Entity or a Non-Resident Holder—Legal Entity.

In certain circumstances, acquisition of the Offer Shares by a Russian Resident Holder—Individual may constitute a taxable event for Russian personal income tax purposes. In particular, if the acquisition price of the Offer Shares is below fair market value (calculated under a specific procedure for the determination of the market price of securities for Russian personal income tax purposes), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to material benefit (imputed income) received by individuals as a result of acquiring securities. Such difference may be subject to the Russian personal income tax at a rate of 13% for a Russian Resident Holder—Individual.

The taxation of income of a Non-Resident Holder—Individual will depend on whether the income is characterized as received from a Russian or non-Russian source. Although the Russian Tax Code does not contain any provisions as to how the source of a material benefit should be determined, in practice the Russian tax authorities may treat such income as Russian source income if the Offer Shares are purchased "in the Russian Federation." In the absence of any additional guidance as to what should be considered as a purchase of securities in the Russian Federation, the Russian tax authorities could apply various criteria, including looking at the place of the acquisition transaction, the location of the seller, or other similar criteria. In such a case, if the acquisition price of the Offer Shares is below fair market value, a Non-Resident Holder—Individual could be subject to Russian personal income tax at a rate of 30% on an amount equal to the difference between the fair market value (calculated under the Russian Tax Code) and the purchase price of the Offer Shares.

The tax may be withheld at source of payment or, if the tax is not withheld, a Non-Resident Holder—Individual may be required to declare his or her income in the Russian Federation by filing a tax return and paying the tax on a self-assessment basis or based on a tax assessment received from the Russian tax authorities, depending on the circumstances.

In certain circumstances, a Russian Resident Holder—Legal Entity acquiring the Offer Shares must fulfil the responsibilities of a tax agent (i.e., a legal entity resident in the Russian Federation for tax purposes which pays taxable Russian source income to a non-resident legal person, organization or non-resident individual and is responsible for withholding Russian tax) with respect to withholding tax from the sales proceeds for the Offer Shares to be transferred to a Non-Resident Holder disposing of the Offer Shares. Holders of the Offer Shares should consult their own tax advisers with respect to the tax consequences of acquiring the Offer Shares.

Taxation of Dividends

Russian tax on dividends is withheld and remitted to the Russian budget by a Russian company that, in accordance with the provisions of the Russian Tax Code, is regarded as a tax agent. The applicable withholding tax rate will depend on the status of the dividend recipient unless the Offer Shares are held through the Russian depositary in its foreign nominal holder deposit account, a foreign authorized holder deposit account or a depositary receipt program deposit account, in which case the withholding tax rate applicable will also depend on the disclosure of information to such Russian custodian in respect of the persons executing rights attached to the relevant Offer Shares

and on the jurisdiction where such persons are resident for tax purposes.

The following sections summarize the taxation of dividends paid by SCF in respect of the Offer Shares held other than through foreign accounts.

<u>Russian Resident Holders</u>

Payments of dividends by SCF to a Russian Resident Holder that is either an individual or a legal entity, other than a legal entity or organization not organized under Russian law that holds the Offer Shares through a permanent establishment in the Russian Federation, discussed below, should generally be subject to tax in Russia, and such tax should not exceed 13% of the gross dividend amount payable to each Russian Resident Holder.

Payments of dividends by SCF to a Holder that is a legal entity or organization not organized under Russian law that holds the Offer Shares through a permanent establishment in the Russian Federation should generally be subject to Russian withholding tax at a rate of 15%. A Holder that is a legal entity or organization not organized under Russian law that holds the Offer Shares through a permanent establishment in the Russian Federation is entitled to pay this tax to the Russian budget on its own behalf (i.e., without the withholding of tax by the Russian entity distributing the dividends to such holder) if such Holder provides the Russian entity distributing the dividends as the Russian tax agent with special documentary evidence confirming the fact that this dividend income is attributable to a permanent establishment of the Holder in Russia.

This evidence includes (a) a notarized copy of the form confirming registration of the Holder with the Russian tax authorities and (b) notification from the Holder that such dividend income is attributable to the permanent establishment of the Holder in Russia. The Russian Tax Code does not provide any formal guidance as to the required format of the notification. In addition, the document confirming the fact that this dividend income is attributable to the permanent establishment of the Holder in the Russian Federation should be issued by the Russian tax authorities at the holder's place of tax registration.

It is possible that payments of dividends in respect of the Offer Shares made by SCF to a Holder which is a legal entity or organization not organized under Russian law that holds the Offer Shares through a permanent establishment may be subject to Russian withholding income tax, not at 15%, but at a rate of up to 13% of the gross dividend amount. This lower rate could apply to each such Holder of the Offer Shares through a permanent establishment in the Russian Federation if the applicable double tax treaty between the Russian Federation and the country of the tax residence of such Holder provides for the non-discrimination of tax residents of such country as compared with Russian tax residents. In such case, the rate applicable to Russian legal entities should be applied with respect to the gross dividend amount payable to such Holder to the extent such Holder is entitled to benefits under such double tax treaty and provided further that such Holder satisfies the Russian tax documentation requirements (i.e., the requirement that a holder should provide annually advance confirmation of tax residency and verification that it is the beneficial owner of the relevant income or proceeds before payment of such income or proceeds). However, there can be no assurance that such double tax treaty relief will be available to a Holder that is a legal entity or organization, in each case not organized under Russian law and that holds the Offer Shares through a permanent establishment in Russia.

Russian Resident Holders should consult their own tax advisers with respect to the tax consequences of the receipt of dividend income in respect of the Offer Shares.

<u>Non-Resident Holders</u>

In general, payment of a dividend by a Russian entity to a Non-Resident Holder is subject to Russian withholding tax at a rate of 15%. Such Russian withholding tax may generally be subject to reduction pursuant to the terms of an applicable double tax treaty between the Russian Federation and the country of tax residence of the Non-Resident Holder to the extent such Non-Resident Holder is entitled to benefit from this double tax treaty and the corresponding tax reliefs provided by such treaty.

Payment of a dividend on the Offer Shares made by SCF to a Non-Resident Holder may be subject to withholding tax at a reduced rate if such reduction is provided for by an applicable double tax treaty, provided that the Russian tax documentation requirements are satisfied. It should be noted that in March 2020 the President of the Russian Federation proposed to cancel tax benefits with certain DTT partner countries and increase the tax rates on income withholding on dividends and interest to 15%, noting that the Russian Federation is ready to withdraw from DTTs with countries that do not agree with such measures. The Russian Ministry of Finance has already renegotiated new DTT provisions with Malta and Cyprus and executed protocols of intent. In accordance with the final versions of the protocols, the 5% withholding tax rate on dividends will remain for certain categories of recipients of income, such as insurance companies and pension funds, some listed public companies and government authorities. It is

expected that the amendments introduced by the protocols with Malta and Cyprus will enter into force on January 1, 2021. The Russian Ministry of Finance is working to renegotiate provisions of certain other DTTs, including DTTs with Luxembourg and the Netherlands. It is currently unclear whether any other tax treaties are planned to be revised by the Russian Ministry of Finance.

For Non-Resident Holders—Legal Entities, such documentation would include an annual confirmation of the Holder's tax residency to be presented to the Russian tax resident acting as a tax agent prior to payment of such income and other documents confirming the eligibility of the Non-Resident Holders—Legal Entities for the benefits of the double tax treaty (the Russian tax authorities may, in practice, require a wide variety of documentation). In addition to a tax residency certificate, the Russian Tax Code obliges Non-Resident Holders—Legal Entities to provide the tax agent with a confirmation that it is the beneficial owner of the relevant income or proceeds in advance of payment of such income or proceeds. As of the date of this Offering Memorandum, there has been no guidance on the form of such confirmation in the Russian Tax Code. Due to, *inter alia*, these requirements there can be no assurance that treaty relief at source will be available in practice for a Non-Resident Holder—Legal Entity.

A Non-Resident Holder——Individual should confirm to the tax agent that he or she is a tax resident of a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of the foreign resident, or (ii) another document envisaged by an applicable federal law or recognized as a personal identity document of the foreign resident in accordance with an international treaty, and (iii) if such passport/document does not confirm the individual's tax resident status in such foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status as a tax resident of the respective country. A notarized Russian translation of such official confirmation is required. If a Non-Resident Holder—Individual does not obtain double tax treaty relief at the time the dividend is paid and income tax is withheld by a tax agent, such Non-Resident Holder—Individual may apply for a refund generally within three years from the end of the tax period during which the tax was withheld. There can be no assurance that such double tax treaty relief or tax refund will be available to a Non-Resident Holder—Individual.

Non-Resident Holders should consult their own tax advisers with respect to the tax consequences of the receipt of dividends from the Offer Shares.

The following sections summarize the taxation of dividends paid by SCF in respect of the Offer Shares held through foreign nominal accounts.

Special requirements are provided by the Russian Tax Code with respect to the taxation of dividends in respect of securities of Russian issuers which are held in certain types of accounts with Russian custodians as described below, including Offer Shares held in special accounts for foreign nominal holders (i.e., foreign custodians, depositaries, foreign authorized holders (e.g., foreign brokers)) or depositary receipt programs.

This tax regime introduces, *inter alia*, disclosure of tax-related information on an aggregate basis by a foreign nominal holder to the Russian custodian acting as a tax agent in respect of persons executing rights in respect of Offer Shares issued by SCF held with Russian custodians in foreign nominal holder deposit accounts, foreign authorized holder deposit accounts and foreign depositary receipt program deposit accounts. When the Russian custodian transfers dividends in respect of the Offer Shares, Russian withholding tax is calculated and withheld by such Russian custodian acting as a tax agent based on the disclosure of the aggregated information about the persons executing rights in respect of the relevant Offer Shares.

The Russian custodian acting as a tax agent can, *prima facie*, withhold the tax from the dividends payable under the Offer Shares held in the above types of accounts at a rate of 15%. If the required information is properly disclosed in accordance with the Russian Tax Code, the Russian custodian can withhold Russian withholding tax at the tax rate stipulated in the Russian Tax Code or as determined by a relevant double tax treaty, but only if the application of such reduced tax rate provided by such double tax treaty does not require compliance with any additional requirements.

If the tax is withheld at a rate higher than that established by a relevant double tax treaty, a Non-Resident Holder—Legal Entity that meets certain additional requirements set by the relevant double tax treaty can claim a reduced withholding income tax rate for dividends established by such treaty by claiming a refund from the Russian budget (provided such Non-Resident Holder is viewed as the "beneficial owner" of such dividends under the Russian Tax Code and subject to the eligibility for treaty benefits of such Non-Resident Holder).

In order to claim advance double tax treaty relief, a Non-Resident Holder—Individual should confirm to a tax agent that he or she is a tax resident of a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of the foreign resident, or (ii) another document

envisaged by an applicable federal law or recognized as a personal identity document of the foreign resident in accordance with an international treaty, and (iii) if such passport/document does not confirm the individual's tax resident status in such foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status as a tax resident of the respective country. A notarized Russian translation of such official confirmation is required. See "*—Tax Treaty Procedures and Refund of Tax Withheld*."

As mentioned above, it should be noted that in March 2020 the President of the Russian Federation proposed to cancel tax benefits with certain DTT partner countries and increase the tax rates on income withholding on dividends and interest to 15%, noting that the Russian Federation is ready to withdraw from DTTs with countries that do not agree with such measures. The Russian Ministry of Finance has already renegotiated new DTT provisions with Malta and Cyprus and executed protocols of intent. In accordance with the final versions of the protocols, the 5% withholding tax rate on dividends will remain for certain categories of recipients of income, such as insurance companies and pension funds, some listed public companies, government authorities. It is expected that the amendments introduced by the protocols with Malta and Cyprus will enter into force on January 1, 2021. The Russian Ministry of Finance is working to renegotiate provisions of certain other DTTs, including DTTs with Luxembourg and the Netherlands. It is currently unclear whether any other tax treaties are planned to be revised by the Russian Ministry of Finance.

Both Russian Resident Holders and Non-Resident Holders should therefore consult their own tax advisers with respect to the tax consequences of their receipt of dividends in respect of the Offer Shares registered in the above accounts.

Taxation of Capital Gains

The following sections summarize the taxation of capital gains in respect of a disposal of the Offer Shares.

<u>Russian Resident Holders</u>

A Russian Resident Holder—Legal Entity should, *prima facie*, be subject to Russian profits tax at a rate of up to 20% on the capital gains realized on a disposal of the Offer Shares. The applicable Russian profits tax rate could be reduced to zero provided that (a) at the date of sale (or other disposal) of the Offer Shares, the Offer Shares continuously belonged to the Russian Resident Holder—Legal Entity on the basis of legal ownership or other proprietary right for more than five years, and (b) not more than 50% of the asset base of SCF directly or indirectly consists of immovable property located in the Russian Federation. Generally, Russian Resident Holders—Legal Entities are required to submit Russian profits tax returns and assess and pay tax on capital gains. The taxable capital gain from disposal of the Offer Shares is generally determined by a Russian Resident Holder—Legal Entity as the gross proceeds from the disposal of the Offer Shares less the cost of acquisition of such Offer Shares and expenses incurred by such Russian Resident Holder in relation to the acquisition, holding and sale of the Offer Shares (provided that the cost of acquisition of the Offer Shares and the other expenses can be confirmed by appropriate primary documents).

Russian Resident Holders—Legal Entities should consult their own tax advisers with respect to the tax consequences of gains derived from a disposal of the Offer Shares.

A Russian Resident Holder—Individual should generally be subject to personal income tax at a rate of 13% on the gross proceeds from a disposal of the Offer Shares less any available deductions (including the cost of acquisition of the Offer Shares, expenses incurred by such Russian Resident Holder in relation to the acquisition, holding and sale of the Offer Shares (provided that the cost of acquisition of the Offer Shares and the other expenses can be confirmed by appropriate primary documents) and material benefit resulted from the acquisition of the Offer Shares provided that Russian personal income tax was paid from such material benefit). The applicable personal income tax rate could be reduced to zero provided that (a) at the date of sale (or other disposal) of the Offer Shares, the Offer Shares continuously belonged to the Russian Resident Holder—Individual on the basis of legal ownership or other proprietary right for more than five years, and (b) not more than 50% of the asset base of SCF directly or indirectly consists of immovable property located in the Russian Federation. Other tax reliefs may apply depending on the circumstances; please consult with a professional tax advisor on this matter. If such income is paid to a Russian Resident Holder—Individual by a tax agent, the applicable Russian personal income tax should be withheld at source by such tax agent (including a licensed broker or an asset manager who carries out operations on behalf of the Russian Resident Holder—Individual under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement or a Russian legal entity or an individual entrepreneur making payments to the Russian Resident Holder—Individual under relevant sell-purchase or share exchange agreement). If the Russian personal income tax has not been withheld (if there was no tax agent), a Russian Resident Holder—Individual is required to submit an annual personal income tax return, assess and pay the tax.

Russian Resident Holders—Individuals should consult their own tax advisers with respect to the tax consequences of gains derived from a disposal of the Offer Shares.

Non-Resident Holders

A Non-Resident Holder—Legal Entity generally should not be subject to any Russian taxes on the capital gains realized on a disposal of the Offer Shares.

The proceeds (capital gain) of a Non-Resident Holder—Legal Entity from a sale (or other disposal) of the Offer Shares could be subject to Russian withholding tax if (a) the Offer Shares are not qualified as securities traded on an organized securities market as defined in the Russian Tax Code, and (b) more than 50% of the asset base of SCF directly or indirectly consists of immovable property located in the Russian Federation. In such case, the gross proceeds of such disposal less any available deductions (including, but not limited to, the purchase price of the Offer Shares and associated transaction costs) may be subject to withholding income tax in the Russian Federation at a rate of 20%. The above withholding tax rate is subject to any available double tax treaty relief. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to be presented by a Non-Resident Holder—Legal Entity to the tax agent prior to any payment being made to confirm the applicability of the double tax treaty under which benefits are claimed. A Non-Resident Holder—Legal Entity that disposes of the Offer Shares through a permanent establishment in the Russian Federation is entitled to pay this tax to the Russian budget on its own behalf (that is, without the withholding of tax). In such case, the Non-Resident Holder—Legal Entity must provide the tax agent with documentary evidence confirming the fact that the income from the disposal of the Offer Shares is attributable to a permanent establishment of the Non-Resident Holder—Legal Entity in Russia. This evidence includes a notarized copy of the form confirming the registration of the Holder with the Russian tax authorities.

Non-Resident Holders—Legal Entities should consult their own tax advisers with respect to the possibility of being subject to Russian taxes on the capital gains realized on a disposal of the Offer Shares.

A Non-Resident Holder—Individual generally should not be subject to any Russian taxes on the capital gains realized from a disposal of the Offer Shares outside the Russian Federation, provided the proceeds of such disposal of the Offer Shares are not received from a source within the Russian Federation. According to an opinion of the Ministry of Finance of the Russian Federation, such proceeds shall be treated as income received from a source within the Russian Federation if the depository or registry, which keep records about transactions resulting in the transfer of ownership of shares, is located in Russia. In the absence of any additional guidance as to what should be considered as a source within the Russian Federation, the Russian tax authorities may apply various criteria in order to determine the source of the sale (or other disposal) of the Offer Shares, including the place where the transaction was concluded, the location or tax residency of the buyer, the location of the register where the transfer of title to the Offer Shares takes place, or other similar criteria. If proceeds from the disposal of the Offer Shares are treated as received from a Russian source as discussed above, a Non-Resident Holder—Individual will generally be subject to Russian personal income tax at a rate of 30% (which could be reduced to zero if certain criteria are met as discussed above for a Russian Resident Holder—Individual) in respect of the gross proceeds from such sale, redemption or other disposal less any available deduction of expenses incurred by the Holder (which includes the purchase price of the Offer Shares) subject to any available double tax treaty relief and the discussion above in "*Taxation of the Acquisition of the Offer Share*s." If the sale (or other disposal) of the Offer Shares is made by a Non-Resident Holder—Individual through a Russian tax agent, Russian personal income tax should be withheld at source by such tax agent (including a licensed broker or an asset manager which carries out operations on behalf of the Non-Resident Holder—Individual under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement). If the Offer Shares are not sold through a Russian tax agent, generally no Russian personal income tax should be withheld at source.

If a Non-Resident Holder—Individual does not obtain double tax treaty relief at the time the proceeds from the disposal of the Offer Shares are paid to such Non-Resident Holder—Individual, and income tax is withheld by the Russian payer of such income, the Non-Resident Holder—Individual generally may apply for a refund within three years from the end of the tax period during which the tax was withheld, as discussed below. However, no assurance could be given that any available double tax treaty relief (or the refund of any taxes withheld) will be available for a Non-Resident Holder—Individual.

Non-Resident Holders—Individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a disposal of the Offer Shares and the possibilities of benefiting from any double tax treaty relief to obtain the refund of any taxes withheld.

Tax Treaty Procedures and Refund of Tax Withheld

Advance Relief

The Russian Federation has concluded double tax treaties with a number of countries. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income or proceeds received by Non-Resident Holders from a source within Russia, which would include income or proceeds from the sale, redemption or other disposal of the Offer Shares. To the extent double tax treaty relief is available and the Russian Tax Code requirements are met (i.e., the "beneficial ownership" concept and the concept of "tax residency"), a non-resident holder must comply with the information, documentation and reporting requirements which are then in force in the Russian Federation to obtain such relief.

A Non-Resident Holder—Legal Entity which is the beneficial owner of income or proceeds for the purposes of an applicable double tax treaty and the Russian Tax Code must provide the payer of the income or proceeds with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of such income or proceeds in order to obtain relief from Russian withholding taxes under a double tax treaty. This certificate should confirm that the respective Non-Resident Holder—Legal Entity is a tax resident of the relevant double tax treaty country in the particular calendar year during which the income or proceeds is paid. This certificate should be apostilled or legalized and needs to be renewed on an annual basis. A notarized Russian translation of the certificate may be required. However, in practice, the payer of the income or proceeds may request additional documents confirming the eligibility of a Non-Resident Holder—Legal Entity for the benefits of the double tax treaty. In addition, in order to enjoy benefits under an applicable double tax treaty, the person claiming such benefits must be the beneficial owner of the relevant income or proceeds according to the requirements of the Russian Tax Code. In addition to a certificate of tax residency, the Russian Tax Code obliges a Non-Resident Holder—Legal Entity to provide the tax agent with a confirmation that it is the beneficial owner of the relevant income or proceeds in advance of the payment of such income or proceeds. As of the date of this Offering Memorandum, there has been no guidance on the form of such confirmation and it is at the moment unclear how these measures will be applied in practice. Due to, *inter alia*, the introduction of these changes, there can be no assurance that treaty relief at source will be available in practice for non-resident holders, which are either legal entities or individuals.

Currently, in order to obtain a full or partial exemption from taxation in the Russian Federation under an applicable double tax treaty at source, a Non-Resident Holder—Individual must confirm to a tax agent that he or she is a tax resident of a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of the foreign resident, or (ii) another document envisaged by an applicable federal law or recognized as a personal identity document of the foreign resident in accordance with an international treaty, and (iii) if such passport/document does not confirm the individual's tax resident status in such foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status as a tax resident of the respective country. A notarized Russian translation of such official confirmation is required. The above provisions are intended to provide a tax agent with the opportunity of applying reduced withholding tax rates or exemptions under an applicable double tax treaty at source.

The treaty relief procedure as described above does not apply if dividends are paid in respect of the Offer Shares which are registered in special accounts (i.e., foreign nominal holder deposit account, foreign authorized holder deposit account or foreign depositary receipt program deposit account) opened with a Russian custodian.

In this case, a foreign nominal holder of the above accounts should present tax-related information on an aggregate basis to a Russian custodian acting as the tax agent (the format and the deadlines are established by the Russian Tax Code). Subject to receipt of such information, the Russian custodian can apply Russian withholding tax at the tax rate in the Tax Code, or as determined by a relevant double tax treaty but not applying any reduced tax rate which is subject to special conditions (percentage of shareholding, threshold of investments to the capital of a Russian legal entity or a holding period) under the relevant double tax treaty (a reduced tax rate that is subject to conditions can only be obtained through a tax refund). However, there can be no assurance that tax relief at source will be available in practice for the holders with respect to dividends paid on the Offer Shares, which are held in certain types of accounts with Russian custodians.

Non-Resident Holders and Russian Resident Holders should consult their own tax advisers with respect to the applicability of tax relief under a double tax treaty and the relevant procedures required in the Russian Federation to claim such relief.

Refund of Tax Withheld

For a Non-Resident Holder—Legal Entity for which double tax treaty relief is available, if Russian income tax was withheld at the source on a payment at a rate which is higher than the applicable rate established by a relevant double tax treaty, a claim for refund of such tax is possible within three years from the end of the tax period

during which the tax was withheld.

To reclaim the tax, the following documents must be submitted to the Russian tax authorities by the Non-Resident Holder—Legal Entity:

- An application for a refund of the withheld tax (the form of such application is established by the Order of the Ministry of the Russian Federation for Taxes and Levies);
- Confirmation of residence of the income recipient; and
- Copies of the relevant contracts or other documents based upon which the income was paid, as well as payment documents confirming the payment of the tax that was withheld and paid to the appropriate Russian authorities.

For a Non-Resident Holder—Individual for whom double tax treaty relief is available, if Russian income tax was withheld by the source on a payment at a rate higher than the applicable rate established by a relevant double tax treaty, a refund of such tax may be filed with the tax agent generally within three years from the end of the tax period during which the tax was withheld. In the absence of a tax agent who withheld the Russian personal income tax, such an application for a refund may be filed with the Russian tax authorities within three years from the end of the tax period during which the tax was withheld if it is accompanied by a Russian tax return, a tax residency certificate and documentation proving the tax was withheld and paid to the Russian authorities. To obtain a refund, documentation confirming the right of the recipient of the income to double tax treaty relief is required.

Certain additional documentation requirements were introduced into the Russian Tax Code in order to claim a refund of excess withholding tax. In particular, to process a claim for a refund of such excess withholding tax the Russian tax authorities additionally require a number of documents, including: a document confirming that the applicant exercised his/her rights under the Russian securities; a document confirming the amount of income paid in respect of the Russian securities; information about the custodian (custodians) that transferred dividend to the foreign company (the holder of the relevant account with the Russian custodian); and a document confirming that the applicant satisfies any additional conditions under the Russian Tax Code or the relevant double tax treaty for application of the reduced tax rate (if applicable).

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty or the right to receive a zero tax rate under Russian domestic tax law. Such documentation, in practice, may not be explicitly required by the Russian Tax Code and in particular could include documents confirming the eligibility of the holder claiming a refund of tax to be treated as the "beneficial owner" of such dividend under the Russian Tax Code. Obtaining a refund of Russian tax withheld may be a time-consuming process and involve considerable difficulties.

The treaty relief and refund procedures with respect to a dividend paid to special accounts, as discussed above, are ambiguous and may be subject to different interpretation by the Russian tax authorities.

Stamp duties

No Russian stamp duty should be payable by the Holders upon any of the transactions with the Offer Shares discussed in this section of the Offering Memorandum (e.g., on a purchase or sale of the Offer Shares), except for transactions involving the receipt of the Offer Shares by way of inheritance.

Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that are likely to be relevant to the purchase, ownership and disposition of Offer Shares by a U.S. Holder (as defined below).

This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), and regulations, rulings and judicial interpretations thereof, in force as of the date hereof, and the income tax treaty between the United States and the Russian Federation effective as of January 1, 1994 (the "**Treaty**"). Those authorities may be changed at any time, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below.

This summary is not a comprehensive discussion of all of the tax considerations that may be relevant to a particular investor's decision to purchase, hold or dispose of Offer Shares. In particular, this summary is directed only to U.S. Holders that hold Offer Shares as capital assets and does not address particular tax consequences that may be applicable to U.S. Holders who may be subject to special tax rules, such as banks, brokers or dealers in securities or currencies, traders in securities electing to mark to market, financial institutions, life insurance companies,

tax-exempt entities, regulated investment companies, entities or arrangements that are treated as partnerships for U.S. federal income tax purposes (or partners therein), holders that own or are treated as owning 10% or more of the Offer Shares by vote or value, persons holding Offer Shares as part of a hedging or conversion transaction or a straddle, or persons whose functional currency is not the U.S. dollar. Moreover, this summary does not address U.S. state, local or non-U.S. taxes, the U.S. federal estate and gift taxes, or the Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Holders, or alternative minimum tax consequences of acquiring, holding or disposing of Offer Shares.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Offer Shares that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of such Offer Shares and that is fully eligible for benefits under the Treaty.

YOU SHOULD CONSULT YOUR OWN TAX ADVISORS ABOUT THE CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE OFFER SHARES, INCLUDING THE RELEVANCE TO YOUR PARTICULAR SITUATION OF THE CONSIDERATIONS DISCUSSED BELOW AND ANY CONSEQUENCES ARISING UNDER NON-U.S., U.S. STATE, LOCAL OR OTHER TAX LAWS.

Taxation of Dividends

Subject to the discussion below under "—*Passive Foreign Investment Company*," the gross amount of any distribution of cash or property with respect to Offer Shares (including any amount withheld in respect of Russian taxes) that is paid out of SCF's current or accumulated earnings and profits (as determined for United States federal income tax purposes) will generally be includible in a holder's taxable income as ordinary dividend income on the day on which the holder receives the dividend and will not be eligible for the dividends-received deduction allowed to corporations under the Code.

SCF does not expect to maintain calculations of its earnings and profits in accordance with U.S. federal income tax principles. U.S. Holders therefore should expect that distributions generally will be treated as dividends for U.S. federal income tax purposes.

For a U.S. Holder, dividends paid in a currency other than U.S. dollars generally will be includible in the U.S. Holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received. Any gain or loss on a subsequent sale, conversion or other disposition of such non-U.S. currency by such U.S. Holder generally will be treated as ordinary income or loss and generally will be income or loss from sources within the United States.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the Offer Shares will be subject to taxation at a preferential rate if the dividends are "qualified dividends." Dividends paid on the Offer Shares will be treated as qualified dividends if:

- the Offer Shares are readily tradable on an established securities market in the United States or SCF is eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program; and

- SCF was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company (a "**PFIC**").

The U.S. Treasury has determined that the Treaty meets the requirements for reduced rates of taxation, and SCF believes it is eligible for the benefits of the Treaty. Based on its audited financial statements and relevant market and shareholder data, SCF believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to SCF's 2019 taxable year. In addition, based on its audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, SCF does not anticipate becoming a PFIC for its current taxable year or in the foreseeable future. U.S. Holders should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Dividend distributions with respect to the Offer Shares generally will be treated as "passive category" income from sources outside the United States for purposes of determining a U.S. Holder's U.S. foreign tax credit limitation. Subject to the limitations and conditions provided in the Code and the applicable U.S. Treasury Regulations, a U.S. Holder may be able to claim a foreign tax credit against its U.S. federal income tax liability in respect of any Russian income taxes withheld at the appropriate rate applicable to the U.S. Holder from a dividend paid to such U.S. Holder. Alternatively, the U.S. Holder may deduct such Russian taxes from its U.S. federal taxable income, provided that the U.S. Holder elects to deduct rather than credit all foreign income taxes for the relevant

taxable year. The rules with respect to foreign tax credits are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

U.S. Holders that receive distributions of additional Offer Shares or rights to subscribe for Offer Shares as part of a *pro rata* distribution to all SCF's shareholders generally will not be subject to U.S. federal income tax in respect of the distributions, unless the U.S. Holder has the right to receive cash or property, in which case the U.S. Holder will be treated as if it received cash equal to the fair market value of the distribution.

Taxation of a Sale, Exchange or other Disposition of Offer Shares

Subject to the discussion below under "—*Passive Foreign Investment Company*," upon a sale, exchange or other disposition of Offer Shares, U.S. Holders will realize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the disposition and the U.S. Holder's adjusted tax basis in the Offer Shares, as determined in U.S. dollars as discussed below. Such gain or loss will be capital gain or loss, and generally will be long-term capital gain or loss if the Offer Shares have been held for more than one year. Long-term capital gain realized by a U.S. Holder that is an individual generally is subject to taxation at a preferential rate. The deductibility of capital losses is subject to limitations.

Gain, if any, realized by a U.S. Holder on the sale, exchange or other disposition of the Offer Shares generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if a Russian tax is imposed on the sale, exchange or other disposition of the Offer Shares, a U.S. Holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Russian taxes. U.S. Holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the Offer Shares.

If a U.S. Holder sells or otherwise disposes of the Offer Shares in exchange for currency other than U.S. dollars, the amount realized generally will be the U.S. dollar value of the currency received at the spot rate in effect on the date of sale or other disposition (or, if the shares are traded on an established securities market at such time, in the case of cash basis and electing accrual basis U.S. holders, the settlement date). An accrual basis U.S. Holder that does not elect to determine the amount realized using the spot exchange rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of the sale or other disposition and the settlement date. A U.S. Holder generally will have a tax basis in the currency received equal to the U.S. dollar value of the currency received at the spot rate in effect on the settlement date. Any currency gain or loss realized on the settlement date or the subsequent sale, conversion or other disposition of the non-U.S. currency received for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss, and will not be eligible for the reduced tax rate applicable to long-term capital gains. If an accrual basis U.S. Holder makes the election described in the first sentence of this paragraph, it must be applied consistently from year to year and cannot be revoked without the consent of the IRS. A U.S. Holder should consult its own tax advisors regarding the treatment of any foreign currency gain or loss realized with respect to any currency received in a sale or other disposition of the Offer Shares.

Passive Foreign Investment Company

Special tax rules apply to U.S. Holders if SCF is classified as a PFIC. In general, SCF will be classified as a PFIC in a particular taxable year if either 75 percent or more of its gross income for the taxable year is passive income, or the average percentage of the value of its assets that produce or are held for the production of passive income is at least 50 percent. The determination of whether SCF is a PFIC depends on the composition of its income and assets and the manner in which it conducts its business. Whether SCF is a PFIC is a factual determination made annually, and its status could change depending, among other things, upon changes in the composition of its gross income and the relative quarterly average value of its assets. Although no assurance can be given, SCF does not expect to be classified as a PFIC for the current taxable year or for any taxable year in the foreseeable future.

In the event that, contrary to our expectation, SCF is classified as a PFIC for the current taxable year or for a future taxable year during which U.S. Holders own Offer Shares, U.S. Holders will be subject to a special tax at ordinary income rates on certain distributions and on gain recognized on the sale, exchange or other disposition of their Offer Shares. In addition, the amount of income tax on any excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period a U.S. Holder holds Offer Shares. Classification as a PFIC may also have other adverse tax consequences and subject a U.S. Holder to certain reporting requirements. If SCF is classified as a PFIC for its current taxable year or in future taxable years, U.S. Holders may be able to make certain elections that would mitigate the consequences of SCF's status as a PFIC, including by electing to mark Offer Shares to market annually. U.S. Holders should consult their own tax advisor regarding the U.S. federal income tax considerations discussed above.

Foreign Financial Asset Reporting

Certain U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of USD 50,000 on the last day of the taxable year or more than USD 75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the Offer Shares) that are not held in accounts maintained by financial institutions. The understatement of income attributable to "specified foreign financial assets" in excess of U.S.$5,000 extends the statute of limitations with respect to the tax return to six years after the return was filed. U.S. Holders who fail to report the required information could be subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible application of these rules, including the application of the rules to their particular circumstances.

Backup Withholding and Information Reporting

Dividends paid on, and proceeds from the sale or other disposition of, the Offer Shares to a U.S. Holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the U.S. Holder provides an accurate taxpayer identification number and makes any other required certification or otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a refund or credit against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the U.S. Internal Revenue Service in a timely manner.

A holder that is not a U.S. Holder may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offer Shares, or possession or distribution of this Offering Memorandum or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Offering Memorandum comes should inform themselves about and observe any restrictions on the distribution of this Offering Memorandum and the offer and sale of the Offer Shares offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Offering Memorandum does not constitute an offer to subscribe for or buy any of the Offer Shares offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

The Offer Shares have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S. The Underwriting Agreement provides that the Underwriters may directly or through their respective U.S. broker-dealer affiliates, arrange for the offer and resale of the Offer Shares within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Offering of the Offer Shares, an offer or sale of Offer Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

This Offering Memorandum is being distributed only to, and is directed only at, persons who are outside the United Kingdom, or if in the United Kingdom: (i) have professional experience in matters relating to investments falling within the 210 definition of "investment professionals" in Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (ii) are high net worth bodies corporate, unincorporated associations and partnerships and the trustees of high value trusts, as described in Article 49(2) of the Order; (iii) SCF believes on reasonable grounds to be persons to whom Article 43(2) of the Order applies for these purposes; or (iv) other persons to whom it may lawfully be communicated (all such persons being referred to in (i), (ii), (iii) and (iv) are defined as "**Relevant Persons**"). In the United Kingdom, any investment or investment activity to which this Prospectus relates is only available to and will only be engaged in with Relevant Persons. Any other persons who receive this Prospectus should not rely on or act upon it.

EEA and the United Kingdom

In relation to each Member State of the EEA and the United Kingdom (each, a "**Relevant State**"), an offer to the public of any Offer Shares which are the subject of the Offering contemplated herein may not be made in that Relevant State, except that an offer to the public in that Relevant State may be made at any time under the following exemptions under the Prospectus Regulation:

- to any legal entity which is a qualified investor as defined in Article 2(e) of the Prospectus Regulation (a "**Qualified Investor**");
- to fewer than 150 natural or legal persons (other than Qualified Investors in that Relevant State), subject to obtaining the prior consent of the Joint Global Coordinators and Joint Bookrunners for any such offer; or
- in any other circumstances falling within Article 1(4) of the Prospectus Regulation,
- provided that no such offer of Offer Share shall result in a requirement for the publication by SCF or any Joint Bookrunner of a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant State means the communication in any form and by any means of sufficient information of the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Offer Shares, and the expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

In the case of any Offer Shares being offered to a financial intermediary, as that term is used in Article 5(1) of the Prospectus Regulation, each such financial intermediary will be deemed to have represented, acknowledged and agreed with SCF and the Underwriters that the Offer Shares acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Offer Shares to the public other than their offer or resale in a Relevant State to qualified investors in circumstances in which the prior consent of the Joint Global Coordinators and Joint Bookrunners and the Co-Manager has been obtained to each such proposed offer or resale. SCF, the Underwriters, their respective affiliates, and others will rely (and SCF acknowledges that the Underwriters and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Joint Global Coordinators and Joint Bookrunners of such fact in writing may, with the consent of the Joint Global Coordinators and Joint Bookrunners, be permitted to subscribe for or purchase Offer Shares.

Canada

The Offer Shares may be sold in Canada only to purchasers resident or located in the Provinces of Ontario, Québec, Alberta and British Columbia, purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts ("**NI 33-105"),** the Underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Switzerland

The offering of the Offer Shares in Switzerland is exempt from requirement to prepare and publish a prospectus under the Swiss Financial Services Act ("**FinSA**") because the Offer Shares have a minimum denomination of CHF 100,000 (or equivalent in another currency) or more and the Offer Shares will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Offering Memorandum does not constitute a prospectus or a similar document pursuant to FinSA or pursuant to the art. 652a or art. 1156 of the previous version of the Swiss Code of Obligations or pursuant to art. 27 et seq. of the SIX Listing Rules entered into force on January 1, 2020, and no such prospectus has been or will be prepared for or in connection with the offering of the Offer Shares.

Cyprus

Each Underwriter and each further Underwriter to be appointed:

- has not offered or sold and will not offer or sell any Offer Shares, except in conformity with the provisions of the Public Offer and Prospectus Law, Law 114(I)/2005 and the provisions of the Cyprus Companies Law, Cap. 113 (as amended);

- has not and will not offer or sell any Offer Shares other than in compliance with the provisions of the Investment Services and Activities and Regulated Markets Law, Law 144(I)/2007 (the "**Cyprus Investment Services Law**"); and

- has not and will not distribute copies of the Underwriting Agreement or this Offering Memorandum or any other offering material to the information distribution channels or the public in Cyprus, nor (when distributed by a duly licensed investment firm established or operating through a branch in Cyprus) to any person in Cyprus other than a "professional client" as defined in the Cyprus Investment Services Law;
- has not used the material and disclosure statements in the Underwriting Agreement or in this Offering Memorandum for solicitation purposes for or in connection with the acquisition of the Offer Shares in circumstances under which is unlawful under Cyprus laws to make such an offer or solicitation; and
- will not be providing from or within Cyprus any "investment services," "investment activities" and "non-core services" (as such terms are defined in the Cyprus Investment Services Law) in relation to the Offer Shares or will be otherwise providing investment services, investment activities and non-core services to residents or persons domiciled in Cyprus and will not be concluding in Cyprus any transaction relating to such investment services, investment activities and non-core services in contravention of the Cyprus Investment Services Law and/or any applicable regulations adopted pursuant thereto or in relation thereto.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the "**FIEL**"). This Offering Memorandum is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organized under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exception from the registration requirements under the FIEL, and otherwise in compliance with, the FIEL and other relevant laws and otherwise in compliance with such law and any other applicable laws, regulations or ministerial guidelines of Japan.

Australia

This Offering Memorandum: (i) does not constitute a prospectus or a product disclosure statement under the Australian Corporations Act 2001 of the Commonwealth of Australia (Cth), as amended, (the "**Australian Corporations Act**"); (ii) does not purport to include the information required of a prospectus under Part 6D.2 of the Australian Corporations Act or a product disclosure statement under Part 7.9 of the Australian Corporations Act; has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission (ASIC), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (iii) may not be provided in Australia other than to select investors ("**Exempt Investors**") who are able to demonstrate that they: (a) fall within one or more of the categories of investors under Section 708 of the Australian Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Australian Corporations Act; and (b) are "wholesale clients" for the purpose of Section 761G of the Australian Corporations Act.

The Offer Shares may not be directly or indirectly offered for subscription or purchase or sold, and no invitations to subscribe for, or buy, the Offer Shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any Offer Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Australian Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Offer Shares, each prospective investor in Offer Shares represents and warrants to SCF, the Underwriters and their affiliates that such prospective investor is an Exempt Investor.

United Arab Emirates

This Offering Memorandum is strictly private and confidential and is being issued to a limited number of investors who are exempt from the requirements of the Securities and Commodities Authority ("**SCA**") Board of Directors' Chairman Decision No.(3/R.M.) of 2017 on the Regulation of Promotion and Introduction ("**PIRs**"). No Offer Shares have been or are being publicly offered, sold, promoted or advertised in the UAE in accordance with the PIRs. The Offer Shares will be sold outside the UAE and are not part of a public offering. This Offering Memorandum and the relevant documents have not been reviewed, approved or licensed by the UAE Central Bank, SCA or any other relevant licensing authorities or governmental agencies in the UAE. This Offering Memorandum is strictly private and confidential and has not been reviewed, deposited or registered with any licensing authority or governmental agency in the UAE. This Offering Memorandum must not be shown, made available or provided to any person other than the original recipient and may not be reproduced or used for any other purpose. The Offer Shares may not be offered or sold directly or indirectly to the public in the UAE. If you do not understand the contents of this Offering Memorandum you should consult an authorized financial adviser. The Offer Shares have not been and will not be offered, sold or publicly promoted or advertised in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

This Offering Memorandum relates to an exempt offer ("**Exempt Offer**") in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "**DFSA**"). This Offering Memorandum is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Memorandum nor taken steps to verify the information set forth herein and has no responsibility for this Offering Memorandum. The Offer Shares to which this Offering Memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this Offering Memorandum you should consult an authorized financial advisor.

Qatar

This Offering Memorandum may not be distributed in Qatar and does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, the Offer Shares in Qatar or the Qatar Financial Centre. In particular, the Offer Shares offered under this Offering Memorandum have not been and will not be registered under the applicable laws of Qatar (including the laws and regulations of the Qatar Financial Centre and the Qatar Financial Centre Regulatory Authority) or before the Qatar Financial Markets Authority or the Qatar Stock Exchange. This Offering Memorandum and the underlying instruments have not been reviewed, approved, registered or licensed by any regulator in Qatar (including the Qatar Financial Centre Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Financial Markets Authority, the Qatar Stock Exchange and the Qatar Central Bank).

Hong Kong

No Offer Shares have been offered or sold or will be offered or sold in Hong Kong, by means of any document, other than: (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**Hong Kong Securities and Futures Ordinance**") and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provision) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Offer Shares has been issued or has been in the possession of any person for the purposes of issue, nor will any such advertisement, invitation or document be issued or be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Hong Kong Securities and Futures Ordinance and any rules made under the Hong Kong Securities and Futures Ordinance.

Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Bookrunner has not offered or sold any Offer Shares or caused the Offer Shares to be made the subject of an invitation for subscription or purchase and will not offer or sell any Offer Shares or cause the Offer Shares to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Offer Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, SCF has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Offer Shares are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12): Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products.

Transfer Restrictions

Each purchaser of Offer Shares within the United States pursuant to Rule 144A, by its acceptance of delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged as follows:

The purchaser (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such Offer Shares has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such Offer Shares for its own account or for the account of one or more QIBs and (iv) if it is acquiring such Offer Shares for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.

The purchaser understands that the Offer Shares are being offered and sold in the United States only in a transaction not involving any public offering within the meaning of the Securities Act and that the Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (a) to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

The purchaser understands that the Offer Shares (to the extent they are in certificated form), unless otherwise determined by SCF in accordance with applicable law, will bear a legend substantially to the following effect:

THE OFFER SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION

STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE ORDINARY SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE OFFER SHARES REPRESENTED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE OFFER SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

For so long as the Offer Shares are restricted securities, it will not deposit such Offer Shares into any depositary receipt facility in respect of Offer Shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.

SCF, the Underwriters and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that sellers of the Offer Shares purchased within the United States pursuant to Rule 144A may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

SETTLEMENT AND DELIVERY

The Offer Shares will be priced in rubles. It is expected that delivery of the Offer Shares to purchasers thereof and payment for the Offer Shares by the purchasers will commence on or about the Closing Date. Each purchaser of Offer Shares must pay for such Offer Shares by the date agreed with the Underwriters. The Offer Shares will be delivered to purchasers through the facilities of the NSD. Therefore, to take delivery of the Offer Shares, purchasers must have a depositary account with the NSD or a depo account with a depositary that has a depositary account with the NSD.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for SCF in respect of the laws of England and the United States by Cleary Gottlieb Steen & Hamilton LLP and in respect of the laws of the Russian Federation by Cleary Gottlieb Steen & Hamilton LLC. Certain legal matters with respect to the Offering will be passed upon for the Underwriters in respect of the laws of England and the United States by Linklaters LLP and in respect of the laws of the Russian Federation by Linklaters CIS.

INDEPENDENT AUDITORS

The audited consolidated financial statements of the Group as of and for the years ended December 31, 2019, December 31, 2018 and December 31, 2017 included in this Offering Memorandum have been audited by Ernst & Young LLC, the Group's independent auditors, who are members of the self-regulatory organization of auditors "*Sodruzhestvo*." The unaudited condensed consolidated interim financial statements as of and for the three and six months ended June 30, 2020 included in this Offering Memorandum have been reviewed by Ernst & Young LLC.

GLOSSARY

The following terms used in this Offering Memorandum have the meanings assigned to them below:

"**Aframax**"	Aframax oil tankers are generally between 85,000 DWT and 124,999 DWT and have carrying capacities of between 600,000 and 750,000 barrels of crude oil. The term is based on the Average Freight Rate Assessment tanker rate system developed by Shell Oil in 1954. Aframax tankers are the largest ships under that classification system. Aframax tankers are largely used in the basins of the Black Sea, the North Sea, the Caribbean Sea, the China Sea and the Mediterranean.
"**Bareboat charter**"	A bareboat charter is an arrangement for the hiring of a boat, whereby no crew or provisions are included as part of the agreement but rather the persons who rent the boat from the owner are responsible for taking care of such things.
"**Brent**"	Brent crude oil comes from the North Sea and is a light, sweet crude with an API gravity of 38.06 and a specific gravity of 0.835. The sulfur content is 0.37%. The price of Brent crude oil is used to set prices for roughly 2/3 of the world's oil. It is mostly refined in northwest Europe and is also called Brent Blend, London Brent and Brent petroleum.
"**Bulk cargo carrier**"	A bulk carrier, bulk freighter or bulker is a merchant ship designed especially to transport unpackaged bulk cargo, such as grain, coal, ore and cement in its cargo holds.
"**Chemical carrier**"	A chemical carrier or chemical tanker is a type of tanker designed to transport chemicals in bulk. Ocean-going chemical tankers generally range from 5,000 DWT to 40,000 DWT, which is considerably smaller than the average size of other tanker types, due to the specialized nature of their cargoes and the size restrictions of the port terminals where they call.
"**Contract of affreightment**"	A series of spot charters for a vessel operator to carry a specified quantity of cargo over a given period of time, using vessels as determined by the vessel operator.
"**Crude oil tanker**"	A crude oil tanker or crude oil carrier moves large quantities of unrefined crude oil from its point of extraction to refineries.
"**Dry cargo carrier**"	A cargo ship or freighter that carries cargo other than liquid cargo or cargo requiring temperature control.
"**DWT**"	Deadweight tonnage is the displacement at any loaded condition minus the lightship weight. It includes the crew, passengers, cargo, fuel, water and stores.
"**Dynamic positioning**"	Dynamic positioning is a computer controlled system to automatically maintain a vessel's position and heading by using its own propellers and thrusters.
"**FPSO**"	Floating production, storage and offloading unit.
"**FSO**"	Floating storage and offloading unit.
"**Handysize**"	Although there is no official definition in terms of exact tonnages, Handysize typically refers to a dry bulk vessel (or, less commonly, to a product tanker) ranging from 10,000 DWT to 39,999 DWT.
"**Heavy fuel oil**"	Fuel oil is classified into six classes, numbered one through six, according to its boiling point, composition and purpose. Number 5 fuel oil and Number 6 fuel oil, the remainder of the crude oil after gasoline and the distillate fuel oils are extracted through distillation, are called heavy fuel oils.
"**Ice-class**"	Ice-class vessels have a strengthened hull to enable them to navigate through sea ice.
"**Ice-breaking supply vessel**"	Ice-breaking supply vessels are designed for operation in cold and ice-water environments. The tasks of ice breaking supply vessels are the supply of offshore platforms, drilling rigs and vessels with stores, materials and equipment according to a buyer's specifications, ice breaking, early stage firefighting and rescue operations and the provision of standby services to offshore installations.
"**LNG**"	Liquefied natural gas.
"**LNG carrier**"	An LNG carrier is a tanker ship designed for transporting LNG.

"**LPG**" .... Liquefied petroleum gas.

"**LPG carrier**" .... An LPG carrier is a tanker ship designed for transporting LPG.

"**Off-hire**" .... The time during which a vessel is not available for service.

"**Oil tanker**"................................... An oil tanker, also known as a petroleum tanker, is a ship designed for the bulk transport of oil. There are two basic types of oil tankers: the crude oil tanker and the oil product tanker. Crude oil tankers move large quantities of unrefined crude oil from its point of extraction to refineries. Oil product tankers, which are generally much smaller than crude oil tankers, are designed to move oil products from refineries to points near consuming markets.

"**OPEC+**"....................................... Cooperation between OPEC members and the world's major non-OPEC oil-exporting nations to regulate the supply of oil in order to set the price on the global market.

"**Panamax**" .... Panamax is a naval architecture term for the largest ships capable of transiting the Panama Canal fully loaded. The allowable size is limited by the width and length of the available lock chambers, by the depth of the water in the canal and by the height of the Bridge of the Americas.

"**Product tanker**" .... A product tanker or product carrier, generally much smaller, is designed to move petrochemicals from refineries to points near consuming markets.

"**Shuttle tanker**"............................ Vessels designed to transport crude oil and condensates from offshore oil field installations, such as fixed offshore terminals, FSOs or FPSOs, to onshore terminals and refineries.

"**Spot charter**"............................... A charter in which the charterer pays for the use of a vessel's cargo capacity for one, or sometimes more than one, voyage between specified ports. Under this type of charter, the shipowner pays all the operating costs of the vessel, including bunker fuel, canal and port charges, pilotage, towage and vessel's agency.

"**Suezmax**" .... Suezmax is a naval architecture term for the largest ships capable of transiting the Suez Canal fully loaded, and is almost exclusively used in reference to tankers.

"**Super ice-class**" .... In the Finnish-Swedish (DNV GL) ice-class rules, merchant ships operating in the Baltic Sea are divided into six ice classes, based on requirements for hull structural design, engine output and performance in ice. Vessels of the highest ice class, 1A Super, can operate in difficult ice conditions, mainly without icebreaker assistance, and their design requirement is equivalent to a minimum speed of five knots in brash ice channels with a thickness of one meter in the middle and a consolidated ice layer of 0.1 meters. Ice classes 1A, 1B and 1C have lower design requirements and ships of these ice classes usually rely on icebreaker assistance.

"**Supply vessel**".............................. These ships range from 65 to 350 feet in length and accomplish a variety of tasks. The primary function for most of these vessels is the transportation of goods and personnel to and from offshore oil platforms and other offshore structures.

"**Time-charter contract**" .... A type of contract under which the charterer pays for the use of a vessel's cargo capacity for a specified period of time. The shipowner provides the vessel with crew, stores and provisions, ready in all aspects to load cargo and proceed on a voyage as directed by the charterer. The charterer typically pays for bunkering and all voyage-related expenses, including canal tolls and port charges.

"**Voyage days**"............................... The total days the Group's vessels are in the Group's possession for the relevant period, net of off-hire days associated with major repairs, drydockings or special or intermediate surveys.

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Audited consolidated financial statements of PAO Sovcomflot as of and for the year ended December 31, 2019 .... F-1

Audited consolidated financial statements of PAO Sovcomflot as of and for the year ended December 31, 2018 .... F-64

Audited consolidated financial statements of PAO Sovcomflot as of and for the year ended December 31, 2017 .... F-129

Unaudited condensed consolidated interim financial statements of PAO Sovcomflot as of and for the three and six months ended June 30, 2020 F-183

PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

PAO Sovcomflot

Contents

Report of Independent Registered Public Accounting Firm		**2**
Consolidated Income Statement		**8**
Consolidated Statement of Comprehensive Income		**9**
Consolidated Statement of Financial Position		**10**
Consolidated Statement of Changes in Equity		**11**
Consolidated Statement of Cash Flows		**12**
Notes to the Consolidated Financial Statements		
1.	Organisation and Trading Activities	13
2.	Directors and Management	13
3.	Significant Accounting Policies	14
4.	Revision of Classification in Interim Financial Statements	26
5.	Adoption of New and Revised International Financial Reporting Standards	27
6.	Critical Accounting Judgements and Key Sources of Estimation Uncertainty	30
7.	Revenue	31
8.	Voyage Expenses and Commissions	33
9.	Vessels' Running Costs	33
10.	Depreciation, Amortisation and Impairment	33
11.	General and Administrative Expenses	33
12.	Other Operating Revenues and Expenses	33
13.	Employee Costs	34
14.	Financing Costs	34
15.	Segment Information	34
16.	Fleet	36
17.	Vessels Under Construction	38
18.	Intangible Assets	38
19.	Other Property, Plant and Equipment	39
20.	Investment Property	39
21.	Investments in Joint Ventures	40
22.	Loans to Joint Ventures	43
23.	Derivative Financial Instruments	43
24.	Income Taxes	44
25.	Earnings Per Share	46
26.	Inventories	46
27.	Receivables and Other Assets	46
28.	Cash and Bank Deposits	47
29.	Non-Current Assets Held for Sale	47
30.	Share Capital	47
31.	Group Reconstruction Reserve	48
32.	Dividends	48
33.	Non-Controlling Interests	48
34.	Payables and Other Liabilities	48
35.	Secured Bank Loans	49
36.	Other Loans	49
37.	Leases	49
38.	Retirement Benefit Obligations	51
39.	Provisions	52
40.	Significant Subsidiary Companies	53
41.	Financial Risk Management	54
42.	Contingent Liabilities and Commitments	60
43.	Related Party Transactions	61
44.	Events After the Reporting Period	62

EY
Совершенствуя бизнес, улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827
ОГРН: 1027739707203
ИНН: 7709383532

Independent auditor's report

To the Shareholder and the Board of Directors of
PAO Sovcomflot

Opinion

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

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

Basis for opinion

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

Key audit matters

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

A member firm of Ernst & Young Global Limited

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

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

Совершенствуя бизнес, улучшаем мир

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

Other information included in the Annual Report 2019

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

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

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

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

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

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

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

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

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

A member firm of Ernst & Young Global Limited

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

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

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

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

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

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

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

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

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

A member firm of Ernst & Young Global Limited

Совершенствуя бизнес,
улучшаем мир

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

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

R.G. Romanenko
Partner
Ernst & Young LLC

12 March 2020

Details of the audited entity

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

Details of the auditor

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

A member firm of Ernst & Young Global Limited

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2019

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

PAO Sovcomflot

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

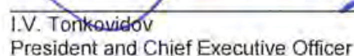
	Note	2019 $'000	2018 $'000
Profit / (loss) for the period		225,378	(45,556)
Other comprehensive income:			
Items to be reclassified to profit or loss in subsequent periods:			
Share of associates' other comprehensive income		12	(21)
Share of joint ventures' other comprehensive income	21	3,007	6,722
Exchange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

PAO Sovcomflot

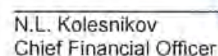
Consolidated Statement of Financial Position – 31 December 2019

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

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



I.V. Tonkovidov
President and Chief Executive Officer



N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 31 December 2019

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

PAO Sovcomflot

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

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

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

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

1. Organisation and Trading Activities

PAO Sovcomflot ("Sovcomflot" or "the Company") is a public joint stock company organised under the laws of the Russian Federation and was initially registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The Company's registered office address is 3A Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation.

The Company, through its subsidiaries (the "Group"), is engaged in ship owning and operating on a world-wide basis with a fleet of 134 vessels at the period end, comprising 56 oil tankers, 36 product carriers, 19 shuttle tankers, 9 gas carriers, 10 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet, see also Notes 16, 17 and 29.

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

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

2. Directors and Management

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

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

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

Members of the Board of Directors are elected at the Annual General Meeting of Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Extraordinary General Meeting on 23 September 2019.

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

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

3. Significant Accounting Policies

(a) Basis of preparation and accounting

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

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

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

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

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

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

The financial statements are presented in U.S. Dollars, which is also the currency of the Group's primary economic environment and the functional currency of the major and majority of the Group's subsidiaries. The Group also prepares consolidated financial statements in Russian Roubles as required by the Russian Federal Law No. 208 – FZ "On consolidated financial reporting" dated 27 July 2010.

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

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries ("controlled investees") as at 31 December 2019. Control is achieved when the Group:

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

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

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

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

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

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

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

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

(c) Business combinations

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

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

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

(d) Segmental reporting

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

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

(e) Investments in associates and joint ventures

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

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

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

(f) Interests in joint operations

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

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

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

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

(g) Non-current assets held for sale

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

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

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

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

(h) Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Other operating revenues and operating expenses

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

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

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

(j) Interest income

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

(k) Currency translation

Transactions and balances

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

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

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

Group companies

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

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

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

Exchange rates

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

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

(l) Borrowing costs

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

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

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

(m) Leasing

Policy applicable after 1 January 2019

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

Group as lessee

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

Right of use assets

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

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

Accounting for drydocking and special survey costs of chartered in vessels

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

Group as lessor

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

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

Subleasing

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

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

(m) Leasing (continued)

Policy applicable before 1 January 2019

Group as lessee - Finance and operating lease payables

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

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

Group as lessor - Finance lease receivables

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

(n) Employee benefits

Retirement benefit costs

The Group operates a number of retirement benefit schemes for its shore-based staff and seafarers.

Defined contribution retirement benefit plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit retirement benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation.

Long-term service retirement benefit plans

The Group's net obligation in respect of long-term service retirement benefit plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method. The long-term service benefit obligation recognised in the statement of financial position represents the present value of the defined lump-sum benefit obligation.

The Group recognises all gains and losses arising from the remeasurement of both defined benefit retirement benefit plans and long-term service retirement benefit plans in other comprehensive income in the period in which they arise.

The discount rate used to calculate the present value is the yield, at the end of the financial reporting period, on government bonds that have maturity dates which approximate the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Past service cost is recognised immediately in profit or loss.

Short-term and other long-term employee benefits

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

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

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

Termination benefits

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

(o) Property, plant and equipment and depreciation

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

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

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

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

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

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

The residual value for each vessel is calculated by reference to its lightweight tonnage and the estimated price of steel per lightweight tonne. The price of steel per lightweight tonne used to calculate residual values as of the end of each reporting period was as follows:

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

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

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

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

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

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

(p) Intangible assets

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

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

(q) Drydocking and special survey costs

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

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

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

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

(q) Drydocking and special survey costs (continued)

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

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

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

(r) Investment property

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

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

(s) Assets under construction

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

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

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

(t) Impairment of non-financial assets

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

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

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

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

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

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

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

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

(u) Inventories

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

(v) Financial instruments

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

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

Effective interest method

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as:

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

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

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

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

Subsequent measurement

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

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Financial assets at fair value through profit or loss

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

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

(v) Financial instruments (continued)

Financial assets (continued)

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

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

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

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

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

(v) Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Borrowings

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

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

Derecognition or modification of financial liabilities

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

Offsetting of financial assets and liabilities

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

(v) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

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

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

(w) Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the period

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

Tonnage tax

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

(x) Provisions

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

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

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

(x) Provisions (continued)

Onerous contracts

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

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

(y) Insurance claims

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

(z) Earnings per share

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

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

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

Consolidated income statement (unaudited)

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

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

Consolidated statement of cash flows (unaudited)

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

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

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

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2019. The nature and the impact of each new standard or amendment is described below.

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

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

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

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

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

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

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

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

Annual Improvements to IFRSs 2015–2017 Cycle

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

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

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

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

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

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

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

IFRS 16 ("Leases") (continued)

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

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

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

a) Nature of the effect of adoption of IFRS 16

Leases previously accounted for as operating leases

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

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

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

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

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

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

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

Impact on the consolidated statement of financial position

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

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

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

IFRS 16 (“Leases”) (continued)

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

Impact on the consolidated statement of financial position (continued)

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

Impact on the consolidated income statement

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

Impact on the consolidated statement of comprehensive income

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

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

New and revised IFRS in issue but not yet effective

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

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

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

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

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

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

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

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

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

Critical Accounting Judgements

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

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

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

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

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

Determining the incremental borrowing rate

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

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

Critical Accounting Judgements (continued)

Determining the incremental borrowing rate (continued)

To determine the incremental borrowing rate, the Group:

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

Determination of cash generating units for value in use calculations

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

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

Key Sources of Estimation Uncertainty

Carrying amount of vessels and vessels under construction

The carrying amount of vessels and vessels under construction may not represent their fair market value at any point in time. The market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. Management reviews vessels, including vessels under construction, for indicators of impairment whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable. Impairment testing requires an estimate of future cash flows over the period of expected use of the vessels and the choice of a suitable discount rate and an assessment of recoverable amount based on comparable market transactions. If actual results differ from the estimates and assumptions used in estimating future cash flows then this could result in potential impairment losses recognised in future periods. Additional information is disclosed in Note 16 to these financial statements.

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

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

7. **Revenue**

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

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

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

7. **Revenue (Continued)**

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

7.1 Contract balances

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

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

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

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

Set out below is the amount of revenue recognised from:

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

7.2 Performance obligations

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

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

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

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

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

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

8. Voyage Expenses and Commissions

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

9. Vessels' Running Costs

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

10. Depreciation, Amortisation and Impairment

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

11. General and Administrative Expenses

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

Administration expenses are analysed as follows:

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

Non-income based taxes are analysed as follows:

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

12. Other Operating Revenues and Expenses

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

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

13. Employee Costs

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

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

Effective 1 January 2015, the Group introduced a long-term incentive employee benefit plan ("LTIP"), approved by the Company's board of directors, for a selected number of seafarers and shore based personnel. The total duration of the plan is five years with awards payable in years 2018, 2019 and 2020. The plan is unfunded.

Under the LTIP employees will be eligible to receive awards subject to the fulfilment of target key performance indicators ("KPIs") set as part of the Company's strategy (long-term development programme).

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

These benefits are accounted for as other long-term employee benefits and are included in payables and other liabilities (Note 34). Current service costs and related social charges, recognised as employee benefits under the programme, for the period, are included in crew costs under vessels' running costs and in administration expenses under general and administrative expenses in the income statement.

14. Financing Costs

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

15. Segment Information

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

- Offshore services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. As of 31 December 2019, this segment's fleet consisted of 19 shuttle tankers (2018 – 16), and 10 ice breaking supply vessels (2018 – 10).
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2019 and 31 December 2018, this segment's fleet consisted of 5 LNG carriers and 4 LPG carriers. The 4 LNG carriers owned through joint ventures are disclosed in Note 21.
- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2019 the Group's fleet in this segment consisted of 56 crude oil carriers (2018 – 53).
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2019 the Group's fleet in this segment consisted of 36 petroleum product carriers (2018 – 39), including 17 chemical and oil carriers (2018 – 18). The 9 (2018 – 9) oil product tankers owned through joint ventures are disclosed in Note 21.
- Other. This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2019 and 31 December 2018, this segment's fleet consisted of 2 bulk carriers and 2 chartered in seismic vessels. This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

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

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

15. **Segment Information (Continued)**

Period ended 31 December 2019

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

Period ended 31 December 2018

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

16. **Fleet**

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

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

Summary of fleet at period end:

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

16. **Fleet (Continued)**

As at 31 December 2019, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss. For CGUs with indications of impairment, management assesses their recoverable amount, which is the higher of their fair value less costs of disposal ("FVLCD"), as assessed by management at the period end and supported by independent professional valuations, and their value in use ("VIU").

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

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

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

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

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

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

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

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

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

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

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of $12.4 million (2018 – $3.3 million);
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $1.1 million (2018 – nil); and
- A decrease of the useful economic life of the vessels by 5 years would result in an additional impairment provision to fleet of $17.4 million.

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

16. **Fleet (Continued)**

During the period ended 31 December 2019, management have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to increase the depreciation charge by $4.6 million (2018 – decrease of $5.8 million).

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

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

17. **Vessels Under Construction**

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

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

Vessels delivered during the period comprised the following:

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

[1] Delivered to charter on 27 October 2019

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

At 31 December 2019, vessels under construction comprised three LNG carriers and two aframax crude oil shuttle tankers scheduled for delivery between February 2020 and March 2022 at a total contracted cost to the Group of $682.9 million. As at 31 December 2019, $174.6 million of the contracted costs had been paid for.

In accordance with the terms of the shipbuilding contracts, in the event of termination of the new building contracts due to the Group's default, the shipyard has the right to retain all instalments paid up to the date of termination, in order to recover their losses and damages, as well as to retain the full benefit and property of the vessel constructed. Any proceeds from the sale of the vessel by the shipyard after satisfaction of the shipyard's losses, damages and costs of sale shall belong to the Group.

Included in expenditure in the period is an amount of $4.0 million (2018 – $5.0 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)). The interest capitalised includes interest on general borrowings of $0.9 million (2018 – $4.3 million) capitalised using a weighted average interest rate of 4.20% per annum (2018 – 5.08% per annum).

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

18. **Intangible Assets**

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

Intangible assets comprise computer software.

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

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

Buildings comprise offices in St. Petersburg, Novorossiysk and Sochi in Russia, as well as a cruise terminal in Sochi. Miscellaneous category comprises a yacht marina, office equipment, motor vehicles, fixtures and fittings and leasehold improvements of leased premises.

As at 31 December 2019 and 31 December 2018, management carried out an assessment of whether there is any indication that other property, plant and equipment may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use.

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

20. **Investment Property**

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

20. Investment Property (Continued)

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

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

21. Investments in Joint Ventures

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

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

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

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

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

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

PAO Sovcomflot

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

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

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

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

PAO Sovcomflot

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

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

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

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

22. Loans to Joint Ventures

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

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

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

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

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

23. Derivative Financial Instruments

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

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

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

Hedging instruments

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

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

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

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

23. Derivative Financial Instruments (Continued)

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

Interest Rate Swap contracts

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

Cross Currency Interest Rate Swap contracts

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

Hedged items

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

24. Income Taxes

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

Russian Federation profit tax is payable at a tax rate of 20% (2018 – 20%) on the taxable profits arising on Russian operations. Income taxes are also payable on the results of the Group's overseas management and agency subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

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

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

24. **Income Taxes (Continued)**

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

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

Deferred Tax

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

Deferred tax relates to the following:

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

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

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

25. Earnings Per Share

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

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

26. Inventories

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

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

27. Receivables and Other Assets

Trade and other receivables

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

Prepayments and other current assets

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

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

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

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

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

28. Cash and Bank Deposits

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

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

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

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

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

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

29. Non-Current Assets Held for Sale

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

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

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

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

30. Share Capital

	2019 $'000	2018 $'000
Authorised 2,247,653,953 shares of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012
Share premium arising from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 31)	818,845	818,845

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

31. Group Reconstruction Reserve

	2019 $'000	2018 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)
	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 Roubles ($1.40071) per share (see also Note 30), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests' basis.

32. Dividends

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

33. Non-Controlling Interests

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

34. Payables and Other Liabilities

Trade and other payables

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

Other liabilities

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

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

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

35. **Secured Bank Loans**

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

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

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

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

[1] Weighted average margin for the period

The Group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on the Group's vessels with an aggregate carrying value, at 31 December 2019, of $5,023.1 million (2018 – $4,978.2 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 17 and pledges of shares in certain of the vessel owning companies.

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

36. **Other Loans**

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

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

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

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

37. **Leases**

Group as lessee

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

37. **Leases (Continued)**

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

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

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

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

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

The following are the amounts recognised in profit or loss:

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

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

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

Group as lessor

Contracted revenues from vessel operations and related guarantees

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

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

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

37. **Leases (Continued)**

Group as lessor (continued)

Contracted revenues from vessel operations and related guarantees (continued)

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

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

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

Lease revenues from other operations

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

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

38. **Retirement Benefit Obligations**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

39. **Provisions**

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

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

Provisions for drydocking

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

40. Significant Subsidiary Companies

At 31 December 2019, the Group had 131 vessel owning and operating subsidiaries (2018 – 129) incorporated in Liberia, Russia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of incorporation	Percentage holding	Principal activity
PAO Novoship	Russia	89.46%	Holding company
SCF Overseas Holding Limited	Cyprus	100%	Holding company
SCF Tankers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Supply Vessels Limited and its subsidiaries	Cyprus	100%	Holding company
Intrigue Shipping Limited and its subsidiaries	Cyprus	89.46%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Arctic LLC	Russia	100%	Holding company
Sovcomflot Varandey LLC	Russia	100%	Ship operation
SCF Shelf LLC	Russia	100%	Ship operation
SCF Geo LLC and its subsidiary[1]	Russia	100%	Ship operation
SCF Novy Port LLC	Russia	100%	Ship operation
SCF Prirazlomnoye LLC	Russia	100%	Vessel owning and operation
SCF Management Services (Novorossiysk) Ltd.	Russia	100%	Ship management
SCF Management Services (Cyprus) Ltd	Cyprus	100%	Ship management
SCF Management Services (St. Petersburg) Ltd.	Russia	100%	Ship management
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Ship management and supervision of operations
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Capital Designated Activity Company	Ireland	100%	Financing

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

The share capital of Novoship comprises voting ordinary shares and non-voting preference shares. Ownership of the shares is analysed as follows:

	At 31 December 2019			At 31 December 2018		
	Ordinary shares %	Preference shares %	Total shares %	Ordinary shares %	Preference shares %	Total shares %
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.29	1.48	89.46	98.29	1.48	89.46
Non-controlling shareholders	1.71	98.52	10.54	1.71	98.52	10.54
	100.00	100.00	100.00	100.00	100.00	100.00

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

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

41. **Financial Risk Management**

(a) Capital management

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

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

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

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the market value of the fleet ("total adjusted capital"). Net debt is calculated as the total of secured bank loans (Note 35), other loans (Note 36) and lease liabilities (Note 37), less cash and bank deposits (Note 28) comprising cash and cash equivalents and bank deposits. Total equity comprises all components of equity.

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

During 2019, the Group's overall strategy remained unchanged from 2018. The net debt ratio at 31 December 2019 and at 31 December 2018 and the net adjusted debt ratio of the Group were as follows:

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

(b) Categories of financial assets and financial liabilities

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

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

(c) Changes in liabilities arising from financing activities

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

(d) Fair value of financial assets and financial liabilities

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

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

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

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

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

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

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

Recurring fair value measurements recognised in the statement of financial position

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

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

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

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

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

Assets and liabilities for which fair values are disclosed

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

(e) Financial risk factors

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

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

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

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

(e) Financial risk factors (continued)

Market risk

Foreign currency risk

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

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

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

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

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

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

	Increase		**Decrease**	
	2019	**2018**	**2019**	**2018**
Russian Roubles (RUR)	11.0%	14.0%	13.0%	14.0%
Euro (EUR)	8.0%	11.0%	8.0%	7.0%
Sterling Pounds (GBP)	9.0%	11.0%	9.0%	8.0%
Others	10.0%	10.0%	10.0%	10.0%

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

	Increase / (decrease) in profit		**Increase / (decrease) in pre-tax equity**	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Russian Roubles (RUR)	104	4,525	(5,594)	(564)
Euro (EUR)	323	(119)	(59)	1,031
Sterling Pounds (GBP)	(8)	(157)	291	106
Others	117	(6)	-	27

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

	Increase / (decrease) in profit		**Increase / (decrease) in pre-tax equity**	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Russian Roubles (RUR)	(157)	5,998	8,436	749
Euro (EUR)	(378)	(92)	69	(783)
Sterling Pounds (GBP)	10	(138)	(349)	(93)
Others	(143)	(7)	-	(33)

Cash flow interest rate risk

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

The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate and cross-currency interest rate swaps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 23 of these financial statements.

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

(e) Financial risk factors (continued)

Market risk (continued)

Cash flow interest rate risk (continued)

The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at period end was as follows:

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

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

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

Sensitivity of interest in relation to cross currency swaps

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

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 53.5% (2018 – 51.0%) of the vessels' total trading days were on time charter representing 69.4% (2018 – 79.4%) of time charter equivalent revenues of which 0.5% (2018 – 3.0%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2019, 56.0% (2018 – 51.1%) of the vessels were on time charter.

Public health threats

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

Credit risk

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

Amounts due from charterers and contract assets

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience and in accordance with the ECL method. As at 31 December 2019, amounts due from charterers included two charterers with a total amount of revenue due of $15.1 million, representing 11.2% and 10.8% of total amounts due respectively (2018 – no charterer exceeded 10% of total amounts due).

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

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

(e) Financial risk factors (continued)

Credit risk (continued)

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

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

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

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

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

Financial instruments and cash deposits

Management is of the opinion that the credit risk on liquid funds is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits, taking into account financing arrangements with the same counterparty, and takes appropriate action to minimise exposure to any one bank. Cash and cash equivalents and bank deposits include deposits with three banks (2018 – three) representing 42.8%, 16.2% and 10.9% (2018 – 26.1%, 22.5% and 20.7%) of total deposits of $415.6 million (2018 – $306.0 million). The Group did not recognise any expected credit loss on the above as the amount of credit loss is insignificant (2018 – insignificant).

Liquidity risk

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

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

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

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

Availability of secured revolving credit facilities is subject to compliance with the relevant loan to value covenants of each of the facilities based on the market value of the vessels used as collateral. As of 31 December 2019 all facilities above were available for drawdown.

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

(e) Financial risk factors (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
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
At 31 December 2018				
Trade and other payables	148,605	18,203	-	166,808
Secured bank loans	319,436	1,298,231	984,825	2,602,492
Other loans	3,384	906,767	-	910,151
Net amounts payable on cross currency interest rate swaps	13,433	34,389	21,204	69,026
Net amounts payable on interest rate swaps	5,414	7,546	477	13,437
Interest payable on secured loans	123,682	324,883	122,392	570,957
Interest payable on other loans	48,736	169,667	-	218,403
	662,690	2,759,686	1,128,898	4,551,274

42. **Contingent Liabilities and Commitments**

Lease commitments - the Group as Lessee

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

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

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

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

Capital commitments

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

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

Guarantees

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

Contingent liabilities

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

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

Contingent liabilities (continued)

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

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

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

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

43. **Related Party Transactions**

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

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

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

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

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

44. **Events After the Reporting Period**

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

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

PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

PAO Sovcomflot

Contents

Independent auditor's report		**2**
Consolidated Income Statement		**8**
Consolidated Statement of Comprehensive Income		**9**
Consolidated Statement of Financial Position		**10**
Consolidated Statement of Changes in Equity		**11**
Consolidated Statement of Cash Flows		**12**
Notes to the Consolidated Financial Statements		
1.	Organisation and Trading Activities	13
2.	Directors and Management	13
3.	Significant Accounting Policies	14
4.	Adoption of New and Revised International Financial Reporting Standards	26
5.	Critical Accounting Judgements and Key Sources of Estimation Uncertainty	32
6.	Revenue	33
7.	Voyage Expenses and Commissions	34
8.	Vessels' Running Costs	34
9.	Depreciation, Amortisation and Impairment	34
10.	General and Administrative Expenses	34
11.	Other Operating Revenues and Expenses	35
12.	Employee Costs	35
13.	Financing Costs	35
14.	Segment Information	36
15.	Fleet	38
16.	Vessels Under Construction	40
17.	Intangible Assets	40
18.	Other Property, Plant and Equipment	41
19.	Investment Property	41
20.	Investments in Joint Ventures	42
21.	Loans to Joint Ventures	45
22.	Derivative Financial Instruments	45
23.	Income Taxes	46
24.	Earnings Per Share	48
25.	Inventories	48
26.	Trade and Other Receivables	48
27.	Restricted Cash	49
28.	Cash and Bank Deposits	49
29.	Non-Current Assets Held for Sale	50
30.	Share Capital	50
31.	Group Reconstruction Reserve	50
32.	Dividends	50
33.	Non-Controlling Interests	51
34.	Trade and Other Payables	51
35.	Secured Bank Loans	51
36.	Finance Lease Liabilities	52
37.	Retirement Benefit Obligations	52
38.	Other Loans	54
39.	Cash Generated from Operations	54
40.	Significant Subsidiary Companies	55
41.	Financial Risk Management	56
42.	Operating Lease Arrangements	61
43.	Contingent Liabilities and Commitments	62
44.	Related Party Transactions	63
45.	Events After the Reporting Period	64

EY
Совершенствуя бизнес, улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

To the Shareholders and the Board of Directors of
PAO Sovcomflot

Opinion

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

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

Basis for opinion

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

A member firm of Ernst & Young Global Limited

Key audit matters

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

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

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

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

Совершенствуя бизнес,
улучшаем мир

Other information included in the Annual Report 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

A member firm of Ernst & Young Global Limited

Совершенствуя бизнес,
улучшаем мир

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

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

R.G. Romanenko
Partner
Ernst & Young LLC

15 March 2019

Details of the audited entity

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

Details of the auditor

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

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2018

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

PAO Sovcomflot

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

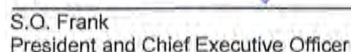
	Note	2018 $'000	2017 $'000
Loss for the period		(45,556)	(112,969)
Other comprehensive income:			
Share of associates' other comprehensive income		(21)	6
Share of joint ventures' other comprehensive income	20	6,722	8,472
Exchange gain on translation from functional currency to presentation currency	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

PAO Sovcomflot

Consolidated Statement of Financial Position – 31 December 2018

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

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



S.O. Frank
President and Chief Executive Officer

N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 31 December 2018

	Share capital $'000	Share premium $'000	Reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
	(Note 30)	(Note 30)	(Note 31)	(Note 20,22)				(Note 33)	
At 1 January 2017	**405,012**	**818,845**	**(834,490)**	**(43,568)**	**(46,435)**	**3,154,506**	**3,453,870**	**150,446**	**3,604,316**
Loss for the period	-	-	-	-	-	(109,670)	(109,670)	(3,299)	(112,969)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	6	-	6	-	6
Share of joint ventures' other comprehensive income	-	-	-	8,472	-	-	8,472	-	8,472
Exchange gain on translation from functional currency to presentation currency	-	-	-	-	2,062	-	2,062	50	2,112
Net gain on derivative financial instruments credited to other comprehensive income	-	-	-	17,797	-	-	17,797	-	17,797
Re-measurement losses on retirement benefit obligations (Note 37)	-	-	-	-	-	(412)	(412)	(49)	(461)
Total comprehensive income	-	-	-	26,269	2,068	(110,082)	(81,745)	(3,298)	(85,043)
Dividends (Note 32)	-	-	-	-	-	(106,905)	(106,905)	(3,346)	(110,251)
At 31 December 2017	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,937,519**	**3,265,220**	**143,802**	**3,409,022**
Adjustment on initial application of IFRS 15 (net of tax) (Note 4)	-	-	-	-	-	(3,674)	(3,674)	(229)	(3,903)
Adjustment on initial application of IFRS 9 (net of tax) (Note 4)	-	-	-	-	-	811	811	-	811
Adjusted balance at 1 January 2018	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,934,656**	**3,262,357**	**143,573**	**3,405,930**
Loss for the period	-	-	-	-	-	(41,642)	(41,642)	(3,914)	(45,556)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(21)	-	(21)	-	(21)
Share of joint ventures' other comprehensive income	-	-	-	6,722	-	-	6,722	-	6,722
Exchange gain / (loss) on translation from functional currency to presentation currency	-	-	-	-	3,912	-	3,912	(143)	3,769
Reclassification adjustment relating to foreign subsidiaries disposed of or dissolved during the period	-	-	-	-	1,449	-	1,449	148	1,597
Reclassification adjustment relating to derecognition of hedging instrument during the period	-	-	-	(590)	-	-	(590)	-	(590)
Net gain on derivative financial instruments credited to other comprehensive income	-	-	-	8,808	-	-	8,808	-	8,808
Re-measurement losses on retirement benefit obligations (Note 37)	-	-	-	-	-	(590)	(590)	(69)	(659)
Total comprehensive income	-	-	-	14,940	5,340	(42,232)	(21,952)	(3,978)	(25,930)
Dividends (Note 32)	-	-	-	-	-	(26,797)	(26,797)	(3,140)	(29,937)
At 31 December 2018	**405,012**	**818,845**	**(834,490)**	**(2,359)**	**(39,027)**	**2,865,627**	**3,213,608**	**136,455**	**3,350,063**

PAO Sovcomflot

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

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

The amendments to IAS 7 require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has provided the information in Note 41(c).

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2018

1. Organisation and Trading Activities

PAO Sovcomflot ("Sovcomflot" or "the Company") is a public joint stock company organised under the laws of the Russian Federation and was initially registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The Company's registered office address is 3A Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation.

The Company, through its subsidiaries (the "Group"), is engaged in ship owning and operating on a world-wide basis with a fleet of 131 vessels at the period end, comprising 108 tankers, 9 gas carriers, 10 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet, see also Notes 15, 16 and 29.

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

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

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

2. Directors and Management

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

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

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

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

Members of the Executive Board	Date of appointment	
S.O. Frank (Chairman)	4 October 2004	President and Chief Executive Officer of PAO Sovcomflot
E.N. Ambrosov	13 July 2009	Senior Executive Vice-President of PAO Sovcomflot
V.N. Emelianov	12 September 2011	Vice-President and Chief Strategy Officer of PAO Sovcomflot
N.L. Kolesnikov	19 July 2005	Executive Vice-President and Chief Financial Officer of PAO Sovcomflot
C.B. Ludgate	22 February 2007	Managing Director of Sovcomflot (UK) Ltd
M.C. Orphanos	12 May 2010	Managing Director of Sovcomflot (Cyprus) Limited
A.V. Ostapenko	16 October 2012	Vice President and Chief Legal Counsel of PAO Sovcomflot
S.G. Popravko	19 July 2005	Managing Director of SCF Management Services (Cyprus) Ltd
I.V. Tonkovidov	14 January 2011	Executive Vice-President and Chief Operating / Chief Technical Officer of PAO Sovcomflot

3. Significant Accounting Policies

(a) Basis of preparation and accounting

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

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

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

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

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

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

The financial statements are presented in U.S. Dollars, which is also the currency of the Group's primary economic environment and the functional currency of the major and majority of the Group's subsidiaries. The Group also prepares consolidated financial statements in Russian Roubles as required by the Russian Federal Law No. 208 – FZ "On consolidated financial reporting" dated 27 July 2010.

(b) Basis of consolidation

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

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

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

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

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

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

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

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

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

(c) Business combinations

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

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

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

(d) Segmental reporting

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

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

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

(e) Investments in associates and joint ventures

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

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

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

(f) Interests in joint operations

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

The Group recognises in relation to its interest in a joint operation its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

The Group's share of the assets, liabilities, income and expenses of joint operations are recognised within the equivalent items in the consolidated financial statements on a line-by-line basis.

3. **Significant Accounting Policies (Continued)**

(g) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, an active programme to locate a buyer and complete the sale must be initiated and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. These criteria have to be met at the reporting period end for classification as held for sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non–current asset is classified as held for sale.

(h) Revenue

Revenue includes service revenue from voyage and time charters, seismic research contracts and lease revenue from time charters derived from the Group's shipping operations, and represents vessel earnings during the period.

Freight revenues (revenues from voyage charters) are earned for the carriage of cargo on behalf of the charterer, in the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached the Group is compensated for the additional time incurred in the form of demurrage revenue. Demurrage is a variable consideration which is recognised, from the time it becomes probable, over the remaining time of the voyage.

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid to third party brokers by the Group.

For voyage charter arrangements, costs incurred to acquire a contract and contract fulfilment costs incurred between the time of signing the charter party and time of arrival at the loading port are capitalised and amortised over the period the performance obligation is satisfied. Costs incurred from the discharge date of the previous voyage until the date of reaching a binding agreement for the next voyage are expensed as incurred. Costs to fulfil a voyage contract (i.e. port costs, canal dues, bunkers), from load port to discharge, are recognised in line with satisfaction of the related performance obligation. Full provision is made for any losses expected on voyages in progress at the end of the financial reporting period.

In applying its revenue recognition method, management believes that satisfaction of a performance obligation for a voyage charter begins when the vessel arrives at the loading port and ends at the time the discharge of cargo is completed at the discharge port (load to discharge, which is when the contract with the customer expires).

The Group uses the output method for measuring the progress towards satisfaction of a performance obligation, i.e. voyage revenue is recognised pro-rata based on time elapsed from loading to the expected date of completion of the discharge.

Hire revenues (revenues from time charters) are earned for exclusive use of the services of the vessel and the crew by the charterer for an agreed period of time. Revenues from time charters comprise a lease component and a service component. The revenues allocated to the lease component continue to be accounted for as leases and are recognised on a straight line basis over the rental periods of such charters, as service is performed, to the extent the lease payments are fixed. Variable lease payments are recognised when the variability is removed. The time-charter revenue is allocated to the service component based on the relative fair value of the component, which is estimated with a reference to a "cost-plus" methodology and reflects crew costs, technical maintenance and insurance of a vessel with operating expenses escalation, and fees for ad hoc additional services. The service component in a time-charter usually includes a single performance obligation, where the charterer simultaneously receives and consumes the benefits over the time-charter period. Any contractual rate changes over the contract term, to the extent they relate to the firm period of the contract, are taken into account when calculating the daily hire rate. Revenues from variable hire arrangements allocated to the service components of a time-charter are recognised to the extent the variable amounts earned beyond an agreed fixed minimum hire are determinable at the reporting date and it is not probable that a significant reversal will occur, if all other revenue recognition criteria are met. Revenues from time charters received in the period and relating to subsequent periods are deferred and recognised separately as either deferred lease revenue in trade and other payables, to the extent they relate to the lease component of the hire received, or as contract liabilities, to the extent that they relate to the service component of the hire received.

The Group performs acquisition and processing of seismic data (seismic services) under contracts for specific customers, whereby the seismic data is owned by the customers. Revenue from seismic services (included in revenues from contracts with customers) is recognised using the percentage of work completed based primarily on the input method for measurement of progress. Input method measures progress on the basis of inputs (for example, resources consumed, labour hours expended, bunker costs, mobilisation costs incurred) that are relative to the total expected inputs to the satisfaction of that performance obligation. Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Time charter equivalent revenues describe the earnings of any charter contract once voyages expenses and commissions relating to the performance of the contract have been deducted from the gross revenues. The term is commonly used in the shipping industry to measure financial performance and to compare revenue generated from a voyage charter to revenue generated from a time charter.

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs, by transferring goods or services to a customer, before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

3. **Significant Accounting Policies (Continued)**

(h) Revenue (continued)

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(i) Other operating revenues and operating expenses

Other operating revenues and other operating expenses comprise income and directly related expenses from non-core non-vessel operating related activities, rental operations derived from investment properties, commercial and technical management and newbuilding supervision, as well as ancillary services provided by vessel in operation in the offshore segment.

Commercial and technical management, newbuilding supervision and ancillary services provided are considered to be contracts with customers under IFRS 15. Such contracts usually have one performance obligation satisfied over time. The Group recognises revenue from the commercial and technical management and from ancillary services over time using an output method and revenues from the newbuilding supervision of vessels over time using an input method to measure progress towards complete satisfaction of the service. This is because the customer simultaneously receives and consumes the benefits provided by the Group.

Rental income from investment properties is accounted for as operating lease income. These revenues are accounted for on a straight line basis over the rental periods of such properties.

(j) Interest income

Bank and other interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(k) Currency translation

Transactions and balances

Transactions during the period in currencies other than the functional currencies of the various Group entities have been translated into their functional currencies (mostly the U.S. Dollar) at rates ruling at the time of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in currencies other than the functional currencies are retranslated at the rates ruling at that date.

Non-monetary items that are measured in terms of historical cost in currencies other than the functional currencies are not retranslated. Non-monetary items measured at fair value in currencies other than the functional currencies are translated using the exchange rates at the date when the fair value was determined.

In determining the spot exchange rate to use on initial recognition of the asset, expense or income (or part of it) on the derecognition of a non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Group companies

The assets and liabilities of the Group's entities that have functional currencies other than the U.S. Dollar are translated from their functional currency into U.S. Dollars at the rate of exchange ruling at the reporting date. Income and expenses are translated into U.S. Dollars at the average rate of exchange for the period unless exchange rates fluctuate significantly in which case they are translated, for significant transactions, at the exchange rate ruling at the date of the transaction, and, for other transactions, the average rate of exchange for shorter periods, depending on the fluctuation of the exchange rates.

Differences arising on retranslation of their opening net assets and results for the period are dealt with as movements in other comprehensive income. On disposal of an entity with a functional currency other than the U.S. Dollar, the deferred cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

Any goodwill arising on the acquisition of an entity with a functional currency other than the U.S. Dollar and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the acquired entity. They are expressed in the functional currency of the acquired entity and are translated at the rate of exchange ruling at the reporting date.

Exchange rates

For the purposes of these consolidated financial statements, the exchange rates used are as follows:

	2018 Closing $1	**2018 Average $1**	**2017 Closing $1**	**2017 Average $1**	**2016 Closing $1**
Russian Roubles	69.4706	62.7078	57.6002	58.3529	60.6569
Pounds Sterling	0.7869	0.7498	0.7416	0.7770	0.8135
Euros	0.8743	0.8472	0.8364	0.8874	0.9506

3. **Significant Accounting Policies (Continued)**

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset (see also Note 3(s)). To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period (with consideration to the effect of effective hedging of floating rate debt) less any investment income on the temporary investment of those borrowings.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated using the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalises during a period does not exceed the amount of borrowing costs incurred during that period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(m) Leasing

Finance leases are leases which transfer substantially all the risks and rewards incidental to ownership of the leased item. Leases which do not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. The determination of whether a lease is a finance lease or an operating lease depends on the substance of the arrangement rather than the form of the contract at the inception of the lease. In determining the substance of the transaction the Group considers amongst others the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions, expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

Group as lessee - Finance and operating lease payables

Finance leases are recorded in the financial statements of the Group at the lower of fair value of the leased property and net present value of the minimum lease payments, each determined at the inception of the lease. The present value of the minimum lease payments is calculated by discounting the total minimum lease payments outstanding, at the date of the lease agreement, at the interest rate implicit in the lease. Finance costs are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Group as lessor - Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(n) Employee benefits

Retirement benefit costs

The Group operates a number of retirement benefit schemes for its shore-based staff and seafarers.

Defined contribution retirement benefit plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit retirement benefit plans

The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation.

Long-term service retirement benefit plans

The Group’s net obligation in respect of long-term service retirement benefit plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method. The long-term service benefit obligation recognised in the statement of financial position represents the present value of the defined lump-sum benefit obligation.

The Group recognises all gains and losses arising from the remeasurement of both defined benefit retirement benefit plans and long-term service retirement benefit plans in other comprehensive income in the period in which they arise.

The discount rate used to calculate the present value is the yield, at the end of the financial reporting period, on government bonds that have maturity dates which approximate the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Past service cost is recognised immediately in profit or loss.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash flows expected to be made by the Group in respect of services provided by the employees up to the reporting date. Re-measurements of the long-term employee benefit liability are recognised in profit or loss when they occur.

3. **Significant Accounting Policies (Continued)**

(o) Property, plant and equipment and depreciation

The Group's property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Cost comprises of the acquisition or construction cost of the asset, after deducting trade discounts and rebates, and any costs directly attributable to the acquisition or construction up to the time that the asset is ready for its intended use. Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised as part of the cost of the asset. Subsequent expenditures for conversions and major improvements are capitalised when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise they are charged to profit or loss as incurred.

Depreciation in respect of the Group’s fleet is charged so as to write off the book value of the vessels, less an estimated residual value, on a straight line basis over the anticipated useful life of the vessels (from date of construction) which is as follows:

Oil, shuttle, product and chemical tankers	25 years
Arctic shuttle tankers	12 years
Ice breaking supply vessels	25 years
LNG carriers	35 years
LPG carriers	30 years
Bulk carriers	25 years

The residual value for each vessel is calculated by reference to its lightweight tonnage and the estimated price of steel per lightweight tonne. The price of steel per lightweight tonne used to calculate residual values as of the end of each reporting period was as follows:

	2018 $ per LWT	**2017 $ per LWT**	**2016 $ per LWT**
Oil, shuttle, product and chemical tankers	450	415	290
Arctic shuttle tankers	450	415	290
Ice breaking supply vessels	450	415	290
LNG carriers	510	465	330
LPG carriers	495	450	320
Bulk carriers	440	390	305

Depreciation in respect of buildings and other property, plant and equipment is charged so as to write off their cost on a straight-line basis to its residual value over the anticipated useful lives of the assets concerned at a rate of between 2% and 5% and between 5% and 33% per annum, respectively. Land is not depreciated.

Equipment acquired and installed on-board chartered in vessels is included within fleet and is depreciated to its residual value over the shorter of its anticipated useful life and the non-cancellable operating lease period of the chartered in vessel to which they relate. Leasehold improvements are included within other property, plant and equipment and are depreciated over the non-cancellable period of the operating lease to which they relate.

The residual value and useful life of each asset is reviewed at each financial period end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the income statement in the period of the change and future periods. An increase in the residual value of an asset will decrease the depreciation charge for the period and future periods and vice versa until the residual value is reassessed.

Revenue from sale of property plant and equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the property plant and equipment. There is usually no credit term related to the payment as the delivery is only made upon receipt of the relevant sales proceeds. However in determining the transaction price for the sale of property plant and equipment, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any). Significant financing component exists if there is a significant benefit of financing the transfer of property plant and equipment to the customer. The transaction price for such contracts is discounted (to take into account the time value of money), using a rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component. Any gain or loss arising on the disposal or retirement of the property plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the property plant and equipment and is recognised in profit or loss.

(p) Intangible assets

Intangible assets comprise computer software. Computer software is carried in the statement of financial position at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is charged so as to write-off the cost of the computer software on a straight line basis over the useful life of the software concerned at a rate between 10% and 33%.

The amortisation period of each intangible is reviewed at each financial period end. Any changes in the expected useful life are treated as a change in accounting estimate and are accounted for prospectively in the income statement in the period of change and future periods. Amortisation of the capitalised intangible assets is included in the depreciation, amortisation and impairment line in the consolidated income statement.

3. **Significant Accounting Policies (Continued)**

(q) Drydocking and special survey costs

The vessels are required to undergo planned drydockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an ''Intermediate Survey'') and the fifth annual inspection being the most comprehensive survey (a ''Special Survey''). The inspection cycle resumes after each Special Survey. Vessels are typically required to undergo special surveys, which include inspection of underwater parts ("bottom survey"), every 60 months.

Drydocking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for bottom surveys and for repairs related to inspections. An in-water survey may be permitted in lieu of a drydocking for the intermediate survey, although the vessel must carry out a drydocking in conjunction with a special survey.

Drydocking and special survey costs, to the extent that they are incurred directly to meet regulatory requirements, are capitalised as a separate component of vessel cost and are amortised on a straight line basis over the estimated period to the next drydocking. Amortisation of the capitalised drydocking costs is included in the depreciation, amortisation and impairment line in the consolidated income statement. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred.

Drydocking costs may include the costs associated but not limited to the service and replacements of main engine and propulsion machinery, boilers, engine room tanks, auxiliary machinery, various gears and systems of shaft seals, safety and navigation equipment, anchor and deck machinery, turbo chargers, steering gears, electrical equipment, controls and automated systems, cargo, fuel and ballast tanks and applying of antifouling and hull paint.

Where a vessel is acquired new, or constructed, a proportion of the cost of the vessel is allocated to the components expected to be replaced at the next drydocking based on the expected costs related to the first-coming drydocking, which is based on experience and past history of similar vessels.

For second hand vessels, the actual cost of the previous drydocking component is used, amortised to the date of acquisition, taking into account the drydocking cycle of the vessel. Where the actual cost of the previous drydocking is not known, the expected costs related to the first-coming drydocking, amortised to the date of acquisition is used as an indication of the cost of the previous drydocking component, which is again based on experience and past history of similar vessels.

(r) Investment property

Investment property is stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided on the same basis as for other property, plant and equipment as described in Note 3(o).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised. Transfers to, or from, investment property are made only when there is a change in use evidenced by end of owner-occupation, for a transfer from owner-occupied property to investment property, commencement of owner-occupation, for a transfer from investment property to owner occupied property and commencement of development with a view to sell, for a transfer from investment property to inventories.

(s) Assets under construction

Assets under construction are carried at cost, less any recognised impairment loss. Cost comprises shipyard payments, after deducting any trade discounts and rebates, and any other costs directly attributable to the construction including supervision fees and expenses, professional fees and capitalised borrowing costs.

Certain shipbuilding contracts contain clauses whereby the Group is eligible for compensation from the shipyard, in the form of liquidated damages, for delay in construction and late delivery of the vessel to the Group. Liquidated damages receivable are accounted for as a reduction in the value of the vessel under construction. Where liquidated damages are both receivable from the shipyard and payable to the charterer of a vessel under construction once the vessel is delivered, the net amount of liquidated damages is accounted for as a reduction in the value of the vessel under construction on the basis that liquidated damages receivable and payable are triggered by the delay in construction of the vessel and are negotiated collectively by the Group, the shipyard, and the charterer.

Interest payable attributable to finance newbuildings under construction, is added to the cost of those newbuildings, until such time as the newbuildings are ready for their intended use and are delivered to the Group. Upon completion the assets are transferred to the appropriate class of property, plant and equipment.

(t) Impairment of non-financial assets

At the end of each financial reporting period, the Group assesses whether there is any indication that its non-financial assets may have suffered an impairment loss. If any indication exists, the Group estimates the asset's recoverable amount.

The assessment of whether there is an indication that an asset is impaired is made with reference to trading results, predicted trading results, market rates, technical and regulatory changes and market values. If any such indication exists, the recoverable amount of the asset or cash generating unit (CGU) is estimated in order to determine the extent of any impairment loss.

The first step in this process is the determination of the lowest level at which largely independent cash flows are generated, starting from the individual asset level. A CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets. In identifying whether cash inflows from an asset or group of assets are largely independent, and therefore determining the level of CGUs, the Group considers many factors including management's trading strategies, how management makes decisions about continuing or disposing of the assets, nature and terms of contractual arrangements and actual and predicted employment of the vessels. Based on the above, the Group has determined it has CGUs of varying sizes ranging from individual vessels to multiple vessels of the same class with similar or identical characteristics.

3. **Significant Accounting Policies (Continued)**

(t) Impairment of non-financial assets (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is determined as the amount at which assets may be disposed of on a willing seller, willing buyer basis, less directly associated costs of disposal. In estimating fair value, the Group considers recent market transactions for similar assets, and the views of reputable shipbrokers.

If the recoverable amount is less than the carrying amount of the asset or the CGU, the asset is considered impaired and an expense is recognised equal to the amount required to reduce the carrying amount of the vessel or the CGU to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior periods. Such reversal is recognised in the income statement.

(u) Inventories

Inventories are stated at the lower of cost or net realisable value and comprise bunkers (where applicable), luboils, victualing and slopchest stocks, other inventories and spares and consumables purchased for or acquired on board bareboat chartered in vessels. Cost is calculated using the first in first out method. Other stores and spares relating to vessel operations are charged to running costs when purchased and no account is taken of stocks remaining on board at the end of the period.

(v) Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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).

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, loans to joint ventures and bank deposits.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Group elected to classify irrevocably its non-listed equity investments under this category.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due, in accordance with the contract, and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next twelve months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group applies the simplified approach for trade receivables, contract assets and bank deposits in relation to the calculation of ECLs. In particular for trade and other receivables, contract assets and bank deposits that are due within twelve months, the 12-month ECLs are the same as the lifetime ECLs. By using the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Derecognition of financial assets (continued)

Where an existing financial asset is exchanged by another from the same borrower on substantially different terms, or the terms of an existing asset are substantially modified, such an exchange or modification is treated as derecognition of the original asset and the recognition of a new asset. Similarly, the Group accounts for substantial modification of terms of an existing asset or part of it as an extinguishment of the original financial asset and the recognition of a new asset. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial asset. If the modification is not substantial, the difference between: (i) the carrying amount of the asset before the modification; and (ii) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the fair value of the proceeds received, net of direct issue costs.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of other loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, other loans and borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as financing costs in the consolidated income statement.

Derecognition or modification of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, eliminated, sold, cancelled or expired. Where an existing financial liability is exchanged by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (i) the carrying amount of the liability before the modification; and (ii) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements and foreign currency exchange movements on its bank borrowings.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months.

The Group designates derivatives as hedges of interest rate risk and foreign currency exchange risk on its bank borrowings. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised in other comprehensive income and any ineffective portion is recognised immediately in the consolidated income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

(w) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the Company and its subsidiaries are incorporated. Income taxes in respect of the Company are accounted for in accordance with Russian fiscal regulations. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability is recognised on unremitted earnings of subsidiaries to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the consideration transferred on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tonnage tax

Tonnage tax is payable by the Group in the countries of registration of its vessels by reference to the registered tonnage of each vessel. Tonnage tax is not a tax on income as defined by IAS 12 "Income Taxes" and is therefore included in general and administrative expenses under non-income based taxes.

3. **Significant Accounting Policies (Continued)**

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect of discounting is material.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements unless recovery is virtually certain but are disclosed when an inflow of economic benefits is only probable.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(y) Insurance claims

Amounts for insurance claims are recognised when amounts are virtually certain to be received, based on the management's judgement and estimates of independent adjusters as to the amount of the claims.

(z) Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit or loss for the period available to equity holders of the parent by the weighted average number of shares outstanding during the period.

4. **Adoption of New and Revised International Financial Reporting Standards**

Amendments to IFRS and the new Interpretations that are mandatorily effective for the current period

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2018. The nature and the impact of each new standard or amendment is described below.

IFRS 2 ("Share Based Payment") – "Classification and Measurement of Share-based Payment Transactions". The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments do not have an impact on the Group's consolidated financial statements.

IFRS 7 ("Financial Instruments: Disclosures") – "Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9". The Group applied IFRS 9 prospectively without restating comparative information. Consequently, the revised requirements of the IFRS 7 have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior periods.

IAS 28 ("Investments in Associates and Joint Ventures") – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss; and
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments do not have an impact on the Group's consolidated financial statements.

IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception". The Group elected to continue applying the hedge accounting requirements of IAS 39.

IAS 40 ("Investment Property") – "Amendments to clarify transfers of property to, or from investment property". The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have an impact on the Group's consolidated financial statements as the Group has always accounted for transfers of property to, or from investment property as per the amendments of IAS 40.

IFRIC 22 ("Foreign Currency Transactions and Advance Consideration") – Clarifies the accounting for transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency before the entity recognises the related asset, expense or income. This Interpretation does not have an impact on the Group's consolidated financial statements as the Group historically accounted for these transactions same as the requirements of IFRIC 22.

IFRS 15 ("Revenue from Contracts with Customers") – IFRS 15 was issued in May 2014 and amended in April 2016, with earlier adoption permitted and supersedes IAS 18 ("Revenue"), and IAS 11 ("Construction Contracts") and their related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. The standard permits either a full retrospective or a modified retrospective approach for application.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contact and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has applied IFRS 15 using the modified retrospective approach by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18 "Revenue" and related Interpretations. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not yet completed at this date. The Group elected to apply the modified retrospective approach only to the contracts that were not completed at the date of initial application. The Group did not apply any other practical expedient.

4. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

Amendments to IFRS and the new Interpretations that are mandatorily effective for the current period (continued)

IFRS 15 ("Revenue from Contracts with Customers") (continued)

Set out below is the impact of each financial statement line item of adopting IFRS 15 as at 1 January 2018 and as at and for the period ended 31 December 2018. There is no impact on the consolidated statement of comprehensive income and consolidated statement of cash flows. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted.

Impact on the consolidated income statement:

	Note	IFRS 15 31/12/2018 $'000	IAS 18 31/12/2018 $'000	Effect 31/12/2018 $'000	IAS 18 31/12/2017 $'000
Revenue	4.1	1,519,937	1,523,239	(3,302)	1,435,365
Voyage expenses and commissions	4.1	(445,243)	(445,559)	316	(377,374)
Time charter equivalent revenues		1,074,694	1,077,680	(2,986)	1,057,991
Direct operating expenses		(377,150)	(377,150)	-	(419,200)
Net earnings from vessels' trading		697,544	700,530	(2,986)	638,791
Operating expenses		(510,263)	(510,263)	-	(474,242)
Operating profit		187,281	190,267	(2,986)	164,549
Net other expenses		(209,429)	(209,429)	-	(262,146)
Loss before income taxes		(22,148)	(19,162)	(2,986)	(97,597)
Income tax expense		(23,408)	(23,408)	-	(15,372)
Loss for the period		(45,556)	(42,570)	(2,986)	(112,969)
Loss attributable to:					
Owners of the parent		(41,642)	(38,610)	(3,032)	(109,670)
Non-controlling interests		(3,914)	(3,960)	46	(3,299)
		(45,556)	(42,570)	(2,986)	(112,969)
Earnings per share					
Basic loss per share for the period attributable to equity holders of the parent		($0.021)	($0.020)	($0.002)	($0.056)

Impact on the consolidated statement of financial position:

	Note	Amounts prepared under IFRS 15 31/12/2018 $'000	IAS 18 31/12/2018 $'000	Effect 31/12/2018 $'000	Amounts prepared under IFRS 15 31/12/2017 $'000	IAS 18 31/12/2017 $'000	Effect 31/12/2017 $'000
Assets							
Current assets							
Voyages in progress	4.1	-	39,471	(39,471)	-	25,972	(25,972)
Contract acquisition and voyage fulfilment costs	4.1	2,502	-	2,502	2,659	-	2,659
Accrued income	4.1 & 4.3	5,556	6,496	(940)	2,829	4,085	(1,256)
Trade and other receivables		108,210	146,119	(37,909)	122,353	146,922	(24,569)
Contract assets	4.1 & 4.3	31,020	-	31,020	20,724	-	20,724
Total current assets		540,630	547,519	(6,889)	660,869	664,714	(3,845)
Total assets		7,142,246	7,149,135	(6,889)	7,343,049	7,346,894	(3,845)
Equity and liabilities							
Capital and reserves							
Reserves	4.1	2,808,596	2,815,302	(6,706)	2,856,534	2,860,208	(3,674)
Equity attributable to owners of the parent	4.1	3,213,608	3,220,314	(6,706)	3,261,546	3,265,220	(3,674)
Non-controlling interests		136,455	136,638	(183)	143,573	143,802	(229)
Total equity		3,350,063	3,356,952	(6,889)	3,405,119	3,409,022	(3,903)
Deferred revenue	4.2 & 4.3	37,981	54,067	(16,086)	37,340	50,874	(13,534)
Contract liabilities	4.2 & 4.3	16,086	-	16,086	13,592	-	13,592
Current liabilities		586,235	586,235	-	725,169	725,111	58
Total liabilities		3,792,183	3,792,183	-	3,937,930	3,937,872	58
Total equity and liabilities		7,142,246	7,149,135	(6,889)	7,343,049	7,346,894	(3,845)

4. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

Amendments to IFRS and the new Interpretations that are mandatorily effective for the current period (continued)

IFRS 15 (“Revenue from Contracts with Customers”) (continued)

4.1 Revenue from voyage charters (freight revenue)

Before the adoption of IFRS 15 freight revenue and voyages expenses were apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. For freight revenues under voyage charter parties the Group assessed that:

a) Normally, a voyage contract represents a single performance obligation. This is similar to the previous identification of revenue applied by the Group under IAS 18.
b) In the majority of cases, a voyage charter party does not contain a lease as either the charterer does not have a substantive right to direct how and for what purpose the vessel is used or the Group has a substantive right to substitute the vessel i.e. the Group is practically able to do so and it would benefit economically from the right of substitution, in which case an identified vessel does not exist.
c) When a voyage charter contains a lease, the lease component is accounted for as an operating lease and is recognised on a straight line basis over the lease term (see Note 3(h)) and the service component is accounted for separately under IFRS 15.
d) The voyage performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. This treatment is also consistent with the previous practice.
e) The performance obligation for a voyage charter begins to be satisfied only once the vessel arrives at the first loading port (from load to discharge). This is different from the previous practice of recognising revenue from discharge to discharge.
f) Demurrage is a variable consideration (and not a separate performance obligation), which is to be recognised from the time it becomes probable over the remaining time of the voyage based on the new practice explained above of load to discharge basis.
g) The Group decided to use the output method for measuring the progress towards satisfaction of a performance obligation, i.e. voyage revenue is recognised pro-rata based on time elapsed from the arrival to load port to the expected date of completion of the discharge.
h) Costs incurred to acquire a contract and contract fulfilment costs incurred between the time of signing the charter party and time of arrival at the loading port are capitalised and amortised over the period the performance obligation is satisfied. Costs to fulfil a voyage contract (i.e. port costs, canal dues, bunkers) from load port to discharge are expensed as incurred.

As at 1 January 2018, the application of IFRS 15 decreased voyages in progress by $26.0 million and gave rise to contract acquisition and voyage fulfilment costs and contract assets of $2.7 million and $20.7 million respectively. Also, retained earnings decreased by $3.9 million.

As at 31 December 2018, the application of IFRS 15, compared to the amounts, which would have been had IFRS 15 not been adopted, decreased voyages in progress by $39.5 million and gave rise to contract acquisition and voyage fulfilment costs and contract assets of $2.5 million and $30.1 million, respectively. For the period ended 31 December 2018, revenue decreased by $3.3 million and voyages expenses and commissions decreased by $0.3 million, compared to the amounts, which would have been had IFRS 15 not been adopted.

4.2 Revenue from time charters (hire revenue)

Before the adoption of IFRS 15, revenue from time charters (“hire revenue”) was considered as revenue from operating leases and recognised on a straight line basis over the rental periods of such charters, as service was performed. Under IFRS 15, the lease component and the service component need to be separately disclosed. The lease component continues to be accounted for as a lease (see Note 3(h)). The service component is accounted for separately under IFRS 15. Revenue recognised in respect of the service component under IFRS 15 did not change. Amounts that were presented previously as deferred income, in relation to the service component of hire revenue, are now presented as contract liabilities under IFRS 15. As at 1 January 2018 and 31 December 2018, IFRS 15 increased contract liabilities by $13.6 million and $14.8 million respectively. Deferred revenue under IAS 18 of $13.6 million and $14.8 million as of 1 January 2018 and 31 December 2018, respectively were derecognised. The Group is assessing the implications of IFRS 16 “Leases” effective on 1 January 2019.

4.3 Revenue from seismic services

The Group previously recognised revenue from seismic services using the percentage of completion method, consistent with the progress of the project, provided that all revenue recognition criteria are satisfied. Under IFRS 15, revenue from seismic services is recognised in the majority of cases as a single performance obligation, which is satisfied over time, using the percentage of work completed based primarily on an input method for measurement of progress. Amounts that were presented previously as deferred income are now presented as contract liabilities under IFRS 15. As at 1 January 2018, there is no impact from the adoption of IFRS 15 on revenue from seismic services. As at 31 December 2018, IFRS 15 increased contract assets and contract liabilities by $0.9 million and $1.3 million respectively. Accrued income of $0.9 million and deferred revenue of $1.3 million under IAS 18 were derecognised.

4.4 Other operating revenues

Other operating revenues disclosed in Note 11 includes revenues from the commercial and technical management and newbuilding supervision of vessels as well as from ancillary services provided by the Group’s vessels in operation in the offshore segment, which is in the scope of IFRS 15. These revenues have not been impacted as a result of the adoption of IFRS 15. Such contracts usually contain one distinct performance obligation, which is satisfied over time as the customer simultaneously receives and consumes the benefit from the Company’s performance. Revenues from the commercial and technical management and from ancillary services are recognised using the output method over time. Revenues from the newbuilding supervision of vessels are recognised over time using an input method based on the proportion of the current costs incurred to the total expected costs to satisfy the performance obligation as this method is the best reflection of progress towards satisfaction of performance obligations.

IFRS 9 (“Financial Instruments”) – IFRS 9 replaces IAS 39 Financial Instruments “Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 is bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

4. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

Amendments to IFRS and the new Interpretations that are mandatorily effective for the current period (continued)

IFRS 9 (“Financial Instruments”) (continued)

The effect of adopting IFRS 9 as at 1 January 2018 was, as follows:

	Note	Amounts prepared under IAS 39 31/12/2017 $'000	IFRS 9 31/12/2017 $'000	Effect 31/12/2017 $'000
Equity and liabilities				
Capital and reserves				
Reserves		2,860,208	2,861,019	811
Equity attributable to owners of the parent		3,265,220	3,266,031	811
Non-controlling interests		143,802	143,802	-
Total equity		3,409,022	3,409,833	811
Other loans	38	902,412	901,601	(811)
Non-current liabilities		3,212,761	3,211,950	(811)
Total liabilities		3,937,872	3,937,061	(811)
Total equity and liabilities		7,346,894	7,346,894	-

The above adjustment relates to a new requirement of IFRS 9 relating to modifications of financial liabilities. IFRS 9 requires that if the modification is not substantial, the difference between the carrying amount of the liability before the modification and the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss. Under IAS 39 this modification gain or loss was recognised over time using the effective interest rate method. The above modification gain relates to the modification of a financial liability still outstanding as at 31 December 2017 and 31 December 2018.

a) Classification and measurement

The Group continues measuring at fair value all financial assets currently held at fair value. Loans and trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group had developed a thorough process to apply the business model and the SPPI test and concluded that the contractual cash flow characteristics of these instruments meet the criteria for amortised cost measurement under IFRS 9 therefore reclassification for these instruments is not required.

The following are the changes in the classification of the Group’s financial assets:

- For trade and other receivables and loans due from joint ventures, the Group assessed whether, as at 1 January 2018, contractual cash flows from these balances are solely comprised of principal and interest, and concluded that they should be measured at amortised cost as they are held within a business model, with the objective to collect contractual cash flows that meet the SPPI criterion.
- Equity investments in non-listed companies previously classified as Available-for-sale financial assets are now classified and measured as Equity instruments designated at fair value through profit or loss. The Group elected to classify its non-listed equity investments under this category as it intends to dispose of these investments in the foreseeable future.

There is no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

In summary, upon the adoption of IFRS 9, the Group had the following required or elected reclassifications:

		IFRS 9 measurement category	
IAS 39 measurement category	**1/1/2018 $'000**	**Fair value through profit or loss $'000**	**Amortised cost $'000**
Loans and receivables			
Trade and other receivables	154,661	-	154,661
Loans to joint ventures	55,511	-	55,511
Available for sale			
Non-listed equity investments	523	523	-
		523	210,172

b) Impairment

The adoption of IFRS 9 has changed the Group’s accounting for impairment losses for financial assets by replacing IAS 39’s incurred loss approach with a forward-looking ECL approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

In relation to the loans due from joint ventures, in order to calculate the ECL, the Group applied the 12-month ECL model and the general approach and concluded that the ECL is not material.

In relation to contract assets, trade and other receivables and bank deposits, the Group applied the standard’s simplified approach and calculated ECLs based on lifetime expected credit losses. The Group established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward looking factors specific to the receivables and the economic environment.

The adoption by the Group of ECL requirements for the period ended 31 December 2018 did not result in a material increase in allowance for credit losses.

4. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

Amendments to IFRS and the new Interpretations that are mandatorily effective for the current period (continued)

IFRS 9 (“Financial Instruments”) (continued)

c) Hedge accounting

At the date of initial application the Group elected to continue applying IAS 39 hedge accounting for all its hedging relationships.

New and revised IFRS in issue but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group’s operations were in issue but not yet effective. The Group does not intend to adopt any standard, interpretation or amendment that has been issued but is not yet effective before their effective date.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no significant impact on the results and financial position presented in these financial statements except for the adoption of IFRS 16 “(Leases”). The Group is currently assessing the impact from the application of IFRS 16 on its consolidated financial statements.

IFRS 9 (‘‘Financial Instruments’’) – “Amendments for prepayment features with negative compensation and modifications of financial liabilities” (effective for annual periods beginning on or after 1 January 2019).

IFRS 10 (“Consolidated Financial Statements”) and IAS 28 (“Investments in Associates and Joint Ventures”) – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”. The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 16 (“Leases”) – IFRS 16 was issued in January 2016 and it replaces IAS 17 (“Leases”), IFRIC 4 (“Determining whether an Arrangement contains a Lease”), SIC-15 (“Operating Leases-Incentives”) and SIC-27 (“Evaluating the Substance of Transactions Involving the Legal Form of a Lease”).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the commencement of the lease and a lease liability representing its obligation to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Therefore, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The standard permits either a full retrospective or a modified retrospective approach for application. The Group will adopt IFRS 16 using the modified retrospective approach, which presumes recognition of the cumulative effect of initial application at the date of the initial application i.e. 1 January 2019.The Group will also elect to apply the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

According to a preliminary assessment made by the Group in respect of the Group’s activities as lessee, on transition to IFRS 16, on 1 January 2019, there will be a one off recognition of non-current assets estimated between $60 million and $65 million and financial liabilities estimated at between $75 million and $80 million. After transition, operating profit will improve, while depreciation and interest expense will increase. The Group expects that the impact on the consolidated income statement will not be material. As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, the Group does not expect any significant impact on the consolidated financial statements in respect of recognition of the Group’s activities as a lessor.

IAS 19 (“Employee benefits”) – The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

4. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

New and revised IFRS in issue but not yet effective (continued)

IAS 28 (''Investments in Associates and Join Ventures'') – "Amendments in relation to long term interests in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2019).

IFRIC 23 ("Uncertainty over Income Tax Treatment") – The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the Interpretation from its effective date. The Group does not expect the interpretation to have a material impact on the consolidated financial statements.

IFRS 3 (''Business Combinations") – "Amendments to clarify the definition of a business" (effective for annual periods beginning on or after 1 January 2020).

IAS 1 (''Presentation of Financial Statements") and IAS 8 (''Accounting Policies, Changes in Accounting Estimates and Errors") – "Amendments regarding the definition of material" (effective for annual periods beginning on or after 1 January 2020).

Annual Improvements to IFRSs 2015–2017 Cycle

The "December 2017 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to four standards. These improvements are effective from 1 January 2019. It includes the following amendments:

- IFRS 3 – Business Combinations (re-measurement of previously held interest);
- IFRS 11 – Joint Arrangements (re-measurement of previously held interest);
- IAS 12 – Income Taxes (income tax consequences on dividends); and
- IAS 23 – Borrowing Costs (borrowing costs eligible for capitalisation).

5. **Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the end of the reporting period that have the most significant effect on the amounts recognised in the financial statements.

Critical Accounting Judgements

Classification of charter agreements as either finance or operating leases

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed unless the provisions of the contract were changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a “substance over form” approach is used. In determining the substance of the transaction the Group considers amongst others the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions, expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

Investments in joint arrangements and associates

Judgement is exercised upon classification of an investment as a joint operation or a joint venture. This is determined by reference to the type of the joint arrangement and judgement is exercised on whether the Group has rights to the assets and obligations for the liabilities of that arrangement (joint operation) or if the Group has rights to the net assets of the arrangement (joint venture).

Investments in associates and joint ventures are recognised using the equity method of accounting. The classification of entities partly owned by other enterprises depends amongst other things on the individual conditions and clauses in shareholders’ agreements and other contractual documents. The exercise of judgement as to the influence and level of control on these conditions and clauses in the agreements determines whether a particular entity should be accounted for as joint operation or under the equity method.

The Group consolidates its share of losses of associates and joint ventures to the extent that it is believed that the Group has a constructive obligation to do so. The determination of the presence of a constructive obligation requires the exercise of judgement, as invariably such an obligation is not contained within any legal agreement and may take the form of an implied commitment to, or an expectation of, a third party.

Determination of cash generating units for value in use calculations

In determining the CGUs the Group considers various factors including management’s trading strategies, nature and terms of contractual arrangements and actual and predicted employment of the vessels. The Group also considers other factors such as investment and discontinuance decisions, and how management monitors financial performance.

The determination as to whether the cash inflows of groups of vessels which form a CGU are largely dependent on each other requires judgement to be exercised in assessing all the available data and information noted above, particularly with reference to assumptions and judgements with regard to future planned and expected employment of the vessels within a CGU. Should these judgements be proven, through the passage of time, to be incorrect or subject to change or amendment in future periods it is possible that additional impairment charges may arise, or reversals of impairments may occur.

Key Sources of Estimation Uncertainty

Carrying amount of vessels and vessels under construction

The carrying amount of vessels and vessels under construction may not represent their fair market value at any point in time. The market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. Management reviews vessels, including vessels under construction, for indicators of impairment whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable. Impairment testing requires an estimate of future cash flows over the period of expected use of the vessels and the choice of a suitable discount rate and an assessment of recoverable amount based on comparable market transactions. If actual results differ from the estimates and assumptions used in estimating future cash flows then this could result in potential impairment losses recognised in future periods. Additional information is disclosed in Note 15 to these financial statements.

Anticipated useful economic life of the fleet and the estimates of residual values

Depreciation of vessels is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Estimates of useful life of vessels are based on managements’ experience by comparison to similar vessels in the industry. However, the actual life of a vessel may be different. Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel. Residual values are calculated by reference to the value of steel as of the end of each of the previous quarterly reporting dates, obtained from independent professional brokers. Changes to estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

6. Revenue

	2018 $'000	2017 $'000
Lease revenue from time charters	557,411	533,431
Service revenue from time charters	296,154	284,701
Total revenue from time charters	853,565	818,132
Service revenue from voyage charters	666,372	617,233
	1,519,937	1,435,365

Disaggregation of the Group's revenue from contracts with customers:

	Service revenue				
	Voyage charters 2018	Time charters 2018	Total 2018	Lease revenue from time charters 2018	Revenue 2018
Segment	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Offshore development services	-	124,309	124,309	309,263	433,572
Gas transportation	608	35,125	35,733	147,299	183,032
Crude oil transportation	411,185	56,205	467,390	72,407	539,797
Oil products transportation	253,183	25,872	279,055	23,592	302,647
Other	1,396	54,643	56,039	4,850	60,889
Revenue from vessel operations	666,372	296,154	962,526	557,411	1,519,937
Other operating revenues from contracts with customers					
Other operating revenues (Note 11)			15,083		
Total revenue from contracts with customers			977,609		

6.1 Contract balances

	2018 $'000
Trade receivables from contracts with customers (Note 26)	57,091
Contract assets	31,020
Contract liabilities	16,086

Trade receivables from contracts with customers represent net amounts receivable from charterers of vessels owned or leased by the Group in respect of voyage charters and in respect of time charters for the non-lease (service component) of the receivable.

Contract assets represent the freight, demurrage, deviation and other amounts receivable from charterers for the completed voyage performance as at the period end.

Contract liabilities represent the performance due to a charterer for the remaining voyage as at the period end. This may happen in the case where the charterer has made an advance payment before the completion of the voyage as of the period end date.

Set out below is the amount of revenue recognised from:

	2018 $'000
Amounts included in contract liabilities as at beginning of the year	13,592
Performance obligations satisfied in previous years	-

6.2 Performance obligations

Information about the Group's performance obligations are summarised below:

Revenue from voyage charters – Under IFRS 15, a voyage performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. A performance obligation for a voyage charter, under a valid contract, begins to be satisfied only once the vessel arrives at the first loading port and ends at the time the discharge of cargo is completed at the discharge port (load to discharge, which is when the contract with the customer expires). The Group previously recognised revenue from "discharge to discharge".

6. **Revenue (Continued)**

6.2 Performance obligations (continued)

Revenue from time charters – Under IFRS 15, the lease component and the service component of time charters need to be separately disclosed. The service component is accounted for separately under IFRS 15. The performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. Revenue recognised in respect of the service component under IFRS 15 did not change. The lease component continues to be accounted for as a lease (see Note 3(h)).

Seismic services revenue – The Group assessed that seismic revenue (which is included in service revenue from time charters), in the majority of cases, is recognised as a single performance obligation, which is satisfied over time, using the percentage of work completed based primarily on an input method for measurement of progress. Input method measures progress on the basis of inputs (for example, resources consumed, labour hours expended, bunker costs, mobilisation costs incurred) that are relative to the total expected inputs to the satisfaction of that performance obligation.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2018 $'000
Within one year	269,207
After one year but not more than five years	523,700
More than five years	746,518
	1,539,425

7. **Voyage Expenses and Commissions**

	2018 $'000	2017 $'000
Bunkers	276,218	220,155
Port costs	134,138	139,301
Commissions	10,332	10,068
Seismic exploration and data processing	17,766	3,099
Other voyage costs	6,789	4,751
	445,243	377,374

8. **Vessels' Running Costs**

	2018 $'000	2017 $'000
Crew costs	205,722	216,717
Technical costs	103,573	115,892
Insurance costs	17,560	23,839
Lubricating oils	11,477	12,160
Other costs	9,887	10,168
	348,219	378,776

9. **Depreciation, Amortisation and Impairment**

	2018 $'000	2017 $'000
Vessels' depreciation (Note 15)	312,338	314,673
Vessels' drydock cost amortisation (Note 15)	37,280	40,352
Vessels' impairment provision (Notes 15 and 29)	48,514	28,970
Other depreciation and amortisation (Notes 17 and 18)	5,065	5,147
Other impairment (Note 18)	810	-
	404,007	389,142

10. **General and Administrative Expenses**

	2018 $'000	2017 $'000
Administration expenses	93,077	97,975
Non-income based taxes	17,320	17,165
Bank charges and fees	1,355	1,563
	111,752	116,703

Administration expenses are analysed as follows:

	2018 $'000	2017 $'000
Office costs and other general expenses	86,783	92,821
Legal and professional	3,707	2,776
Audit and accountancy	2,587	2,378
	93,077	97,975

10. General and Administrative Expenses (Continued)

Non-income based taxes are analysed as follows:

	2018 $'000	2017 $'000
Irrecoverable value added tax	16,084	15,967
Tonnage tax	1,236	1,198
	17,320	17,165

11. Other Operating Revenues and Expenses

	2018 $'000	2017 $'000
Other operating revenues from contracts with customers	15,083	15,974
Lease revenue	5,175	5,436
Other income	3,901	897
	24,159	22,307
Contract fulfilment costs	(4,934)	(4,987)
Other operating expenses	(6,860)	(8,760)
Investment property depreciation (Note 19)	(139)	(294)
	(11,933)	(14,041)
	12,226	8,266

Other operating revenues from contracts with customers comprise income from non-core non-vessel operating activities, income from the commercial and technical management and newbuilding supervision of vessels belonging to joint ventures and third party owners performed by the Group as well as from ancillary services provided by the Group's vessels in operation in the offshore segment.

12. Employee Costs

Employee costs recorded within Vessels' Running Costs, General and Administrative Expenses and Other Operating Revenues and Expenses, are analysed as follows:

	2018 $'000	2017 $'000
Seafarers		
- Short-term and other long-term employee benefits	168,669	177,902
- Payroll taxes	1,390	1,595
- Defined contribution pension plans	1,790	1,398
- Long-term service defined benefit plans	-	3
	171,849	180,898
Shore based staff		
- Short-term and other long-term employee benefits	60,339	65,297
- Payroll taxes	8,729	9,498
- Defined contribution pension plans	1,530	1,364
- Long-term service defined benefit plans	370	120
	70,968	76,279
Total employee costs	242,817	257,177

Effective 1 January 2015, the Group introduced a long-term incentive employee benefit plan ("LTIP"), approved by the Company's board of directors, for a selected number of seafarers and shore based personnel. The total duration of the plan is five years with awards payable in years 2018, 2019 and 2020. The plan is unfunded.

Under the LTIP employees will be eligible to receive awards subject to the fulfilment of target key performance indicators ("KPIs") set as part of the Company's strategy (long-term development programme).

The calculation for the period ended 31 December 2018 and 31 December 2017 is based on actual performance vs. set KPI targets achieved as of 31 December 2017 over the entire LTIP evaluation period (2015-2017) and the recipient's continued employment with the Group, as stipulated by the LTIP bylaws. The calculation for the period ended 31 December 2016 was based on the assumption that the performance vs. set KPI targets achieved as of period end will be sustained over the entire LTIP evaluation period.

These benefits are accounted for as other long-term employee benefits included in trade and other payables (Note 34) in the consolidated statement of financial position. Current service costs and related social charges, recognised as employee benefits under the programme, for the period, are included in crew costs under vessels' running costs and in administration expenses under general and administrative expenses in the income statement.

13. Financing Costs

	2018 $'000	2017 $'000
Interest on secured bank loans	119,965	103,815
Interest on interest rate swaps and cross currency interest rate swaps	19,752	20,754
Interest on other loans	48,260	48,955
Interest on finance lease liabilities	-	4,304
Other interest	11,204	9,358
Other financing costs	1,236	6,673
	200,417	193,859

14. **Segment Information**

For management purposes, the Group is organised into business units (operating segments) based on the main types of activities and has five reportable operating segments as follows:

- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. As of 31 December 2018, this segment's fleet consisted of 16 shuttle tankers (2017 – 16), and 10 ice breaking supply vessels (2017 – 9).
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2018 and 31 December 2017, this segment's fleet consisted of 5 LNG carriers and 4 LPG carriers. The 4 LNG carriers owned through joint ventures are disclosed in Note 20.
- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2018 the Group's fleet in this segment consisted of 53 crude oil carriers (2017 – 59).
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2018 the Group's fleet in this segment consisted of 39 petroleum product carriers (2017 – 40), including 18 chemical and oil carriers (2017 – 19). The 9 (2017 – 9) oil product tankers owned through joint ventures are disclosed in Note 20.
- Other. This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2018 and 31 December 2017, this segment's fleet consisted of 2 bulk carriers and 2 chartered in seismic vessels. This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

Management monitors the performance of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss directly associated with the vessels in each of the segments. However Group financing (including finance costs and finance income), general and administrative expenses and income taxes are managed on a Group basis and are not allocated to operating segments. No operating segments have been aggregated to form the above reportable operating segments.

Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Period ended 31 December 2018

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	433,572	183,032	539,797	302,647	60,889	1,519,937
Voyage expenses and commissions	(473)	(1,792)	(255,935)	(158,401)	(28,642)	(445,243)
Time charter equivalent revenues	433,099	181,240	283,862	144,246	32,247	1,074,694
Direct operating expenses						
Vessels' running costs	(73,950)	(29,984)	(128,682)	(93,422)	(22,181)	(348,219)
Charter hire payments	-	-	-	-	(28,931)	(28,931)
Net earnings / (losses) from vessels' trading	359,149	151,256	155,180	50,824	(18,865)	697,544
Vessels' depreciation	(120,512)	(35,977)	(98,728)	(51,627)	(5,494)	(312,338)
Vessels' drydock cost amortisation	(9,430)	(4,888)	(14,799)	(7,649)	(514)	(37,280)
Vessels' impairment provision	-	-	(22,098)	(26,416)	-	(48,514)
(Loss) / gain on sale of vessels	-	-	(10,120)	348	-	(9,772)
Non-income based taxes	(6,112)	-	-	-	-	(6,112)
Net foreign exchange gains / (losses)	1,145	-	-	(261)	(9,157)	(8,273)
Segment operating profit / (loss)	224,240	110,391	9,435	(34,781)	(34,030)	275,255
Unallocated						
General and administrative expenses						(105,640)
Financing costs						(200,417)
Other income and expenses (net)						15,474
Net foreign exchange losses						(6,820)
Loss before income taxes						(22,148)
Carrying amount of fleet in operation	1,965,115	1,197,158	2,007,929	926,754	68,707	6,165,663
Carrying amount of non-current assets held for sale	-	-	-	29,700	-	29,700
Deadweight tonnage of fleet used in operations ('000)	1,340	552	7,035	2,401	156	11,484

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2018 (Continued)

14. **Segment Information (Continued)**

Period ended 31 December 2017

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	373,928	166,551	552,425	286,980	55,481	1,435,365
Voyage expenses and commissions	(811)	(1,396)	(231,309)	(132,306)	(11,552)	(377,374)
Time charter equivalent revenues	373,117	165,155	321,116	154,674	43,929	1,057,991
Direct operating expenses						
Vessels' running costs	(69,058)	(30,960)	(160,158)	(94,074)	(24,526)	(378,776)
Charter hire payments	(3,401)	-	-	-	(37,023)	(40,424)
Net earnings / (losses) from vessels' trading	300,658	134,195	160,958	60,600	(17,620)	638,791
Vessels' depreciation	(109,193)	(34,747)	(110,338)	(55,736)	(4,659)	(314,673)
Vessels' drydock cost amortisation	(8,727)	(5,646)	(17,202)	(8,021)	(756)	(40,352)
Vessels' impairment provision	-	-	(22,106)	(6,864)	-	(28,970)
Non-income based taxes	(6,073)	-	-	-	-	(6,073)
Net foreign exchange gains / (losses)	799	-	-	(128)	1,810	2,481
Segment operating profit / (loss)	177,464	93,802	11,312	(10,149)	(21,225)	251,204
General and administrative expenses						(110,630)
Financing costs						(193,859)
Other income and expenses (net)						(42,074)
Net foreign exchange losses						(2,238)
Loss before income taxes						(97,597)
Carrying amount of fleet in operation	1,949,641	1,236,549	2,001,751	1,027,099	76,304	6,291,344
Carrying amount of non-current assets held for sale	-	-	25,719	-	-	25,719
Deadweight tonnage of fleet used in operations ('000)	1,336	552	7,653	2,449	156	12,146

15. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2017	7,898,931	177,658	8,076,589
Expenditure in period	46,052	28,686	74,738
Transfer from vessels under construction (Note 16)	720,409	8,500	728,909
Transfer to non-current assets held for sale (Note 29)	(175,722)	(4,700)	(180,422)
Transfer from other fixed assets (Note 18)	2,257	-	2,257
Write-off of fully amortised drydock cost	-	(32,922)	(32,922)
Exchange adjustment	(224)	46	(178)
At 31 December 2017	8,491,703	177,268	8,668,971
Expenditure in period	15,011	25,333	40,344
Transfer from vessels under construction (Note 16)	319,458	4,000	323,458
Transfer to non-current assets held for sale (Note 29)	(138,857)	(3,177)	(142,034)
Disposals in period	(200,691)	(4,977)	(205,668)
Write-off of fully amortised drydock cost	-	(40,645)	(40,645)
Exchange adjustment	(3,009)	(160)	(3,169)
At 31 December 2018	8,483,615	157,642	8,641,257
Depreciation, amortisation and impairment			
At 1 January 2017	2,090,796	90,428	2,181,224
Charge for the period	314,673	40,352	355,025
Impairment provision	28,514	-	28,514
Transfer to non-current assets held for sale (Note 29)	(150,485)	(3,762)	(154,247)
Write-off of fully amortised drydock cost	-	(32,922)	(32,922)
Exchange adjustment	27	6	33
At 31 December 2017	2,283,525	94,102	2,377,627
Charge for the period	312,338	37,280	349,618
Impairment provision	48,514	-	48,514
Transfer to non-current assets held for sale (Note 29)	(100,382)	(2,106)	(102,488)
Disposals in period	(152,142)	(4,251)	(156,393)
Write-off of fully amortised drydock cost	-	(40,645)	(40,645)
Exchange adjustment	(532)	(107)	(639)
At 31 December 2018	2,391,321	84,273	2,475,594
Net book value			
At 31 December 2018	6,092,294	73,369	6,165,663
At 31 December 2017	6,208,178	83,166	6,291,344
At 31 December 2016	5,808,135	87,230	5,895,365

	2018	2017	2016
Market value ($'000)	5,264,000	5,157,750	4,491,000
Current insured values ($'000)	6,747,835	6,652,398	6,492,276
Total deadweight tonnage (dwt)	11,334,207	11,713,915	12,049,977

Summary of fleet at period end:

Type of vessel	Number of vessels		Dwt'000		Carrying value $ million	
	2018	2017	2018	2017	2018	2017
Oil tankers	53	55	7,035	7,227	2,008	2,001
Product carriers	36	40	2,257	2,449	927	1,027
LNG and LPG carriers	9	9	552	552	1,197	1,237
Shuttle tankers	16	16	1,301	1,301	1,086	1,163
Ice breaking supply vessels	10	9	39	35	879	787
Bulk carriers	2	2	150	150	58	60
Seismic equipment	-	-	-	-	11	16
	126	131	11,334	11,714	6,166	6,291
Vessels held for sale (Note 29)	3	4	144	426	30	26
	129	135	11,478	12,140	6,196	6,317

15. **Fleet (Continued)**

As at 31 December 2018, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal ("FVLCD"), as assessed by management at the period end and supported by independent professional valuations, and their value in use ("VIU").

Results of the impairment review for the period ended 31 December 2018

Operating segment	CGU	Methodology	Applied pre tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tankers (3 CGUs)	VIU	6.30%	5,757	46,605
Crude oil segment	Aframax crude oil tankers (1 CGU)	FVLCD (level 1)	n/a	2,900	7,235
Crude oil segment	Aframax crude oil tanker (2 CGUs)	FVLCD (level 2)	n/a	13,441	17,163
Oil product segment	MR oil product tankers (8 CGUs)	VIU	5.97%	8,068	180,590
Oil product segment	MR oil product tankers (4 CGUs)	FVLCD (level 2)	n/a	18,348	37,785
				48,514	289,378

The impairment recognised in the period ended 31 December 2018 based on value in use for two aframax crude oil tankers and based on fair value less costs of disposal for three aframax crude oil tankers and four MR oil product tankers resulted from management's decision to dispose of these vessels. The remaining impairments recognised based on value in use, for one aframax crude oil tanker and eight MR oil product tankers, resulted from a change in estimate of operating revenues and operating expenses over the remaining life of the vessels.

Results of the impairment review for the period ended 31 December 2017

Operating segment	CGU	Methodology	Applied pre tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tankers (2 CGUs)	VIU	5.81%	15,214	13,398
Crude oil segment	Aframax crude oil tankers (2 CGUs)	FVLCD (level 1)	n/a	6,436	12,777
Oil product segment	MR oil product tankers (4CGUs)	VIU	5.98%	6,864	58,304
				28,514	84,479

The impairment recognised in the period ended 31 December 2017 based on value in use for two aframax crude oil tankers and fair value less costs of disposal for two aframax crude oil tankers resulted from management's decision to dispose of these vessels. Impairment recognised in the period, based on value in use, for four MR oil product tankers, resulted from a change in estimate of operating revenues and operating expenses over the remaining life of the vessels.

Value in use calculations involve estimating the discounted future cash flows, which require judgements concerning long-term forecasts of future revenues and costs related to the vessels to be made by management as well as judgements about the discount rate used in the calculations. These forecasts are uncertain as they require assumptions to be made regarding demand for products and services, future market conditions and future technological developments. Value in use calculations are mainly sensitive to the freight rates and discount rates applied in the calculations. Significant and unanticipated changes in these assumptions could result in a material impairment provision in a future period.

The main inputs and assumptions used in performing the value in use calculations as at period end are as follows:

- Contracted hire rates, for vessels on time charter, until the expiry of the current agreements;
- Freight rate estimates in the years 2019 to 2021 based on the Group's approved revenue budgets;
- Freight rate estimates after 2021 based on the historical twenty year normalised earnings averages (adjusted for the highest 5% and lowest 5%) for each type of vessel, obtained from independent brokers' research. In prior periods, freight rate estimates were based on the historical ten year earnings averages. Due to the prolonged decline observed in the shipping markets and the significant deviation from the mean year-on-year, management concluded that it was no longer appropriate to base freight rate estimates on the ten year averages. Management believes that the historic twenty year normalised earnings averages are more reliable to be used as this addresses the impact of the prolonged depression in the shipping markets and deviation from the mean, which distorts the ten year averages;
- Operating expenses based on the Group's operating budget approved by the Group for 2019 and increasing at a rate of 2.7% per annum;
- Annual utilisation for each vessel of 363 days, except for the cases where the actual utilisation is expected to be less, based on the fleet's historical performance less any scheduled estimated drydocking period based on the Group's approved drydock plan, and thereafter 363 days less the maximum number of days in drydock based on the previously approved plan;
- Use of the vessels until the end of their useful life, unless the vessels are sold or planned to be sold; and
- Discount rates between 6.8% to 8.4% pre-tax (2017 – 5.8% to 7.3% pre-tax), depending on the remaining useful life of each vessel and the area it trades.

The following sensitivity analysis has been performed by management as at the period end, for CGUs where the recoverable amount exceeded the carrying amount and for which the recoverable amount was estimated based on VIU, all other things being equal:

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of $3.3 million (2017– $47.4 million); and
- An increase in the discount rate of 1% would not result in an additional impairment provision to fleet (2017 – $3.8 million).

15. **Fleet (Continued)**

Management also carried out an assessment of whether there is any indication that equipment on board one of the chartered in seismic vessels of the Group may have suffered an impairment loss. Management concluded that there was no impairment based on value in use. The main inputs and assumptions used in the value in use calculations were the estimated future revenue rates and vessel utilisation rates as well as expenses of the seismic vessels, for four years.

During the period ended 31 December 2018 management have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to decrease the depreciation charge by $5.8 million (2017 – decrease of $10.9 million).

Expenditure in period, under vessels, includes an amount of $13.0 million (2017 – $31.6 million) of modifications relating to legislative requirements and other capital expenditure, of which $4.9 million (2017 – $7.9 million) of modifications have not yet been completed/delivered as of the end of the reporting period. In addition, included in expenditure in the year ended 31 December 2017 were $15.9 million worth of seismic equipment installed on board one of the Group's chartered in seismic vessels.

16. **Vessels Under Construction**

	2018 $'000	2017 $'000
At 1 January	81,837	225,814
Expenditure in period	377,511	584,932
Transfer to fleet (Note 15)	(323,458)	(728,909)
At 31 December	135,890	81,837
Total deadweight tonnage (dwt)	630,000	811,110

Vessels under construction at 1 January 2018 comprised one multifunctional ("MIB") standby vessel, six ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and one LNG carrier at a total contracted cost to the Group of $772.2 million.

Vessels delivered during the period comprised the following:

Vessel name	Vessel type	Segment	DWT	Delivery date
Yevgeny Primakov[1]	MIB standby vessel	Offshore	3,670	26 January 2018
Gagarin Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,170	30 July 2018
Lomonosov Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,226	2 October 2018
Mendeleev Prospect	Ice-class LNG fuelled Aframax	Crude oil	113,159	28 November 2018

[1] delivered to charter on 23 March 2018

On 20 July and 18 October 2018, the Group exercised its available options for the construction of two 174,000 cubic metre LNG carriers. The vessels are scheduled for delivery in September 2020 and February 2021.

At 31 December 2018, vessels under construction comprised three ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and three LNG carriers scheduled for delivery between February 2019 and February 2021 at a total contracted cost to the Group of $820.3 million. As at 31 December 2018, $130.0 million of the contracted costs had been paid for.

In accordance with the terms of the shipbuilding contracts, in the event of termination of the new building contracts due to the Group's default, the shipyard has the right to retain all instalments paid up to the date of termination, in order to recover their losses and damages, as well as to retain the full benefit and property of the vessel constructed. Any proceeds from the sale of the vessel by the shipyard after satisfaction of the shipyard's losses, damages and costs of sale shall belong to the Group.

Included in expenditure in the period is an amount of $5.0 million (2017 – $4.0 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)). The interest capitalised includes interest on general borrowings of $4.3 million (2017 – $3.9 million) capitalised using a weighted average interest rate of 5.08% per annum (2017 – 4.17% per annum).

As at 31 December 2018 management carried out an impairment test of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(t)). The testing did not result in any indication that vessels under construction may have suffered an impairment loss.

17. **Intangible Assets**

	2018 $'000	2017 $'000
Cost		
At 1 January	12,989	7,053
Additions in period	431	5,852
Exchange adjustment	(972)	84
At 31 December	12,448	12,989
Amortisation		
At 1 January	4,330	3,092
Charge for the period	1,563	1,222
Exchange adjustment	(217)	16
At 31 December	5,676	4,330
Net book value		
At 31 December	6,772	8,659

Intangible assets comprise computer software.

18. Other Property, Plant and Equipment

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2017	61,491	40,712	102,203
Additions in period	236	1,560	1,796
Transfer (to) / from non-current assets held for sale (Note 29)	(10,196)	1,466	(8,730)
Transfer to fleet (Note 15)	-	(2,257)	(2,257)
Disposals in period	-	(545)	(545)
Exchange adjustment	349	746	1,095
At 31 December 2017	51,880	41,682	93,562
Additions in period	40	1,528	1,568
Transfer to non-current assets held for sale (Note 29)	-	(1,345)	(1,345)
Disposals in period	(16)	(1,401)	(1,417)
Exchange adjustment	(1,002)	(2,808)	(3,810)
At 31 December 2018	50,902	37,656	88,558
Depreciation and impairment			
At 1 January 2017	15,908	27,549	43,457
Charge for the period	1,109	2,816	3,925
Transfer (to) / from non-current assets held for sale (Note 29)	(3,476)	252	(3,224)
Disposals in period	-	(459)	(459)
Exchange adjustment	134	406	540
At 31 December 2017	13,675	30,564	44,239
Charge for the period	932	2,570	3,502
Impairment provision (Note 9)	810	-	810
Transfer to non-current assets held for sale (Note 29)	-	(352)	(352)
Disposals in period	(6)	(530)	(536)
Exchange adjustment	(619)	(1,726)	(2,345)
At 31 December 2018	14,792	30,526	45,318
Net book value			
At 31 December 2018	36,110	7,130	43,240
At 31 December 2017	38,205	11,118	49,323
At 31 December 2016	45,583	13,163	58,746

Buildings comprise offices in St. Petersburg, Novorossiysk and Sochi in Russia, as well as a cruise terminal in Sochi. Miscellaneous category comprises a yacht marina, office equipment, motor vehicles, fixtures and fittings and leasehold improvements of leased premises.

As at 31 December 2018 and 31 December 2017, management carried out an assessment of whether there is any indication that other property, plant and equipment may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use and concluded that the cruise terminal in Sochi ("Cruise terminal" CGU) was impaired. The impairment recognised in the period ended 31 December 2018, based on value in use, in respect of the cruise terminal CGU, amounted to $0.8 million (recoverable amount $0.8 million). The main inputs and assumptions used in the value in use calculations were: revenues and expenses based on the Group's three year budgets, a terminal growth rate of 3% on both revenues and expenses, use of the asset until the end of 2025 year and a pre-tax discount rate of 15.5%. As at 31 December 2017, management concluded that the assets were not impaired.

19. Investment Property

	2018 $'000	2017 $'000
Cost		
At 1 January	13,272	20,488
Transfer (to) / from non-current assets held for sale (Note 29)	(7,388)	8,050
Disposals in period	(15)	(15,266)
Exchange adjustment	(662)	-
At 31 December	5,207	13,272
Depreciation		
At 1 January	5,348	19,624
Charge for the period (Note 11)	139	294
Transfer (to) / from non-current assets held for sale (Note 29)	(746)	533
Disposals in period	(15)	(15,103)
Exchange adjustment	(64)	-
At 31 December	4,662	5,348
Net book value		
At 31 December	545	7,924
Rental income from investment property	1,492	1,780
Direct operating expenses of investment property	514	965

During the period ended 31 December 2018, the Group classified as held for sale the exhibition centre in Sochi, Russia (see Note 29). As at 31 December 2018, investment property comprises buildings in Novorossiysk with a fair value (Level 2 hierarchy), as at 31 December 2018, equivalent to $17.4 million (2017 – equivalent to $30.2 million including the exhibition centre disposed of in 2018).

20. **Investments in Joint Ventures**

	2018 $'000	2017 $'000
At 1 January	123,117	114,761
Dissolution of joint venture	-	(17)
Share of profits in joint ventures	3,087	2,638
Share of joint ventures' other comprehensive income	6,722	8,472
Dividends receivable	-	(2,737)
At 31 December	132,926	123,117

As at period end, the Group had interests in the following active joint ventures:

	Percentage holding				
Name of entity	2018	2017	2016	Country of incorporation	Principal activity
LNG East-West Shipping Company (Singapore) Pte Limited[1]	37.5%	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Anubis Shipholding Limited[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Ltd.[1]	51.0%	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc[1]	51.0%	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies

[1] All key business decisions require joint approval by the shareholders

The Group through its joint ventures owns and operates 4 LNG carriers (2017 – 4) and 9 Panamax oil product tankers (LR1) (2017 – 9).

The joint ventures entered into time charter agreements, with aggregate hire receivable as at period end over the firm contract period receivable as follows:

	2018 $'000	2017 $'000
Within one year	93,625	93,170
After one year but not more than five years	375,253	367,584
More than five years	319,243	403,653
	788,121	864,407

20. **Investments in Joint Ventures (Continued)**

Summarised financial information in respect of the Group's joint ventures is set out below:

At 31 December 2018	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	Other $'000	Total $'000
Total non-current assets	132,493	136,244	134,388	135,408	324,680	-	863,213
Total current assets	22,675	23,892	17,098	23,781	17,731	589	105,766
Total non-current liabilities	(112,154)	(115,789)	(18,992)	(94,943)	(194,808)	-	(536,686)
Total current liabilities	(8,100)	(11,138)	(87,168)	(15,136)	(43,334)	(21)	(164,897)
Net assets of the joint venture	34,914	33,209	45,326	49,110	104,269	568	267,396
Group's share in net assets of the joint venture	13,093	16,605	22,663	24,555	53,177	189	130,282
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	13,093	16,605	22,663	24,555	55,821	189	132,926
Cash and cash equivalents	3,010	1,223	243	4,908	1,668	434	11,486
Current financial liabilities	(7,953)	(10,923)	(82,568)	(13,057)	(44,009)	-	(158,510)
Non-current financial liabilities	(112,154)	(115,789)	(18,992)	(94,943)	(194,808)	-	(536,686)
Revenues	22,507	24,311	23,267	23,267	89,743	-	183,095
Depreciation, amortisation and impairment	(5,408)	(5,766)	(6,835)	(5,663)	(25,334)	-	(49,006)
Interest income	328	364	122	138	68	-	1,020
Interest expense	(7,116)	(6,738)	(5,668)	(5,913)	(12,063)	-	(37,498)
Income tax	(397)	(397)	-	-	-	-	(794)
Joint ventures' profits / (losses) for the period	5,734	7,362	7,134	8,121	(20,263)	(114)	7,974
Group's share of joint ventures' profits / (losses) for the period recognised	2,150	3,681	3,567	4,061	(10,334)	(38)	3,087
Joint ventures' other comprehensive income for the period	4,301	3,623	2,911	2,820	846	-	14,501
Group's share of joint ventures' other comprehensive income for the period recognised	1,613	1,812	1,456	1,410	431	-	6,722
Joint ventures' total comprehensive income for the period	10,035	10,985	10,045	10,941	(19,417)	(114)	22,475
Group's share of joint ventures' total comprehensive income for the period recognised	3,763	5,493	5,023	5,471	(9,903)	(38)	9,809

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2018 (Continued)

20. **Investments in Joint Ventures (Continued)**

Summarised financial information in respect of the Group's joint ventures is set out below:

At 31 December 2017	**LNG East West $'000**	**LNG North South $'000**	**NYK-SCF LNG 1 $'000**	**NYK-SCF LNG 2 $'000**	**SCF ST joint ventures $'000**	**Other $'000**	**Total $'000**
Total non-current assets	132,991	136,641	141,224	141,071	350,003	-	901,930
Total current assets	21,185	22,746	17,774	21,488	34,183	698	118,074
Total non-current liabilities	(120,277)	(123,298)	(104,085)	(107,787)	(215,781)	-	(671,228)
Total current liabilities	(9,021)	(13,867)	(19,631)	(16,603)	(44,716)	(15)	(103,853)
Net assets of the joint venture	24,878	22,222	35,282	38,169	123,689	683	244,923
Group's share in net assets of the joint venture	9,329	11,111	17,641	19,085	63,081	226	120,473
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	9,329	11,111	17,641	19,085	65,725	226	123,117
Cash and cash equivalents	1,111	1,089	4,593	3,988	2,414	689	13,884
Current financial liabilities	(8,993)	(13,655)	(13,061)	(13,941)	(28,957)	-	(78,607)
Non-current financial liabilities	(120,277)	(123,298)	(104,085)	(107,787)	(215,781)	-	(671,228)
Revenues	22,510	23,495	21,179	21,100	81,060	215	169,559
Depreciation, amortisation and impairment	(5,295)	(5,830)	(6,699)	(6,005)	(18,001)	(82)	(41,912)
Interest income	190	153	73	98	34	-	548
Interest expense	(7,384)	(6,946)	(5,926)	(6,256)	(10,774)	-	(37,286)
Income tax	(299)	(312)	-	-	-	(353)	(964)
Joint ventures' profits / (losses) for the period	5,167	5,672	1,653	3,753	(9,286)	(278)	6,681
Group's share of joint ventures' profits / (losses) for the period recognised	1,938	2,836	827	1,877	(4,736)	(104)	2,638
Joint ventures' other comprehensive income for the period	4,705	4,090	3,992	4,164	1,147	-	18,098
Group's share of joint ventures' other comprehensive income for the period recognised	1,764	2,045	1,996	2,082	585	-	8,472
Joint ventures' total comprehensive income for the period	9,872	9,762	5,645	7,917	(8,139)	(278)	24,779
Group's share of joint ventures' total comprehensive income for the period recognised	3,702	4,881	2,823	3,959	(4,151)	(104)	11,110

21. **Loans to Joint Ventures**

	2018 $'000	2017 $'000	2016 $'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	33,273	30,583	32,197
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	32,796	24,928	18,127
	66,069	55,511	50,324
Less current portion (current assets)	-	-	(4,750)
Non-current portion (non-current assets)	66,069	55,511	45,574
Interest income during the period on loans due from joint ventures	2,171	1,353	1,160
Interest receivable at period end on loans due from joint ventures	4,712	3,299	2,505

The loans to joint ventures are unsecured and mature between December 2019 and January 2022, except for certain loans that repayment shall be made at the discretion of the joint ventures. There is no contractual repayment schedule for the loans. The joint ventures have the right to repay the loans in part or in full at any time before maturity date. This right is considered as closely related to the host contract.

To calculate the ECL on loans due from joint ventures, the Group applied the 12-month ECL model and the general approach and concluded that the ECL is not significant due to low probability of default and low loss given default.

22. **Derivative Financial Instruments**

The use of financial derivatives is governed by the Group's policies approved by the executive board, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy.

Derivative financial instruments are classified in the statement of financial position as follows:

	Interest Rate Swaps ("IRS")		Cross Currency Interest Rate Swaps ("CCIRS")		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Non-current asset	6,694	6,720	14,205	29,189	20,899	35,909
Current asset	3,783	808	-	-	3,783	808
Non-current liability	(8,268)	(12,151)	(5,803)	(661)	(14,071)	(12,812)
Current liability	(5,171)	(9,818)	(10,455)	(7,552)	(15,626)	(17,370)

Hedging instruments

The Group entered into interest rate swap and cross currency interest rate swap agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations, and interest payable on secured loans against EURIBOR rate and currency fluctuations, respectively.

On 26 January 2018, the Group entered into a twelve year Euro-USD cross currency interest rate swap transaction ("CCIRS") with a Russian State controlled financial institution to hedge the Group's cash flow exposure arising from currency and interest rate fluctuations in respect of Euro equivalent of $102.5 million loan, in connection with the financing of one of the Group's vessels.

On 30 July, 27 September and 21 November 2018, the Group entered into three seven year interest rate swap transactions with a financial institution, converting 3 month US LIBOR floating interest rates to fixed, to hedge the Group's future cash outflows resulting from the exposure to interest rate fluctuations associated with the interest payable on three secured bank loan facilities of $42.0 million each in connection with the financing of the Group's vessels.

On 14 December 2018, the Group terminated an IRS expiring on 12 December 2019, resulting in a gain recognised in the income statement of $0.6 million.

The table below presents the effect of the Group's derivative financial instruments designated as cash flow hedges on the consolidated statement of other comprehensive income.

	IRS		CCIRS		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Amount recognised in hedging reserve	2,450	(1,387)	(34,709)	17,660	(32,259)	16,273
Reclassified from hedging reserve and debited to financing costs	8,929	16,096	12,895	4,099	21,824	20,195
Reclassified from hedging reserve and debited / (credited) to foreign exchange	-	-	19,243	(18,671)	19,243	(18,671)
Reclassification adjustment relating to derecognition of hedging instrument during the period	(590)	-	-	-	(590)	-
Total in other comprehensive income	10,789	14,709	(2,571)	3,088	8,218	17,797

22. **Derivative Financial Instruments (Continued)**

The following tables detail various information regarding interest rate and cross currency interest rate swap contracts outstanding at the end of the reporting period and their related hedged items.

Interest Rate Swap contracts

	Weighted average contracted fixed interest rate		Notional principal value		Carrying amount of the hedging instrument assets / (liabilities)		Change in fair value used for calculating hedge ineffectiveness	
Expiry date	**2018 %**	**2017 %**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
1 to 2 years	2.04%	0.89%	53,008	100,000	537	1,091	-	-
2 to 5 years	5.76%	4.94%	182,625	265,083	(10,528)	(19,257)	689	401
More than 5 years	2.28%	2.08%	627,212	551,567	7,029	3,725	-	-
			862,845	916,650	(2,962)	(14,441)	689	401

Cross Currency Interest Rate Swap contracts

	Weighted average contracted fixed interest rate		Notional principal value		Carrying amount of the hedging instrument assets / (liabilities)		Change in fair value used for calculating hedge ineffectiveness	
Expiry date	**2018 %**	**2017 %**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
More than 5 years	5.51%	5.39%	338,779	263,079	(2,053)	20,976	(241)	-

Hedged items

	Nominal amount of the hedged item		Change in fair value used for calculating hedge ineffectiveness		Loss / (gain) in hedging reserve for continuing hedges		(Loss) / gain in hedging reserve for which hedge accounting is no longer applied	
Hedged items	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Floating rate borrowings 3 month Libor	842,432	912,242	689	401	(3,432)	(14,017)	-	-
Floating rate borrowings 6 month Libor	40,000	46,667	-	-	1,732	1,528	-	-
Floating rate borrowings 3 month Euribor	336,585	281,126	(241)	-	517	3,088	-	-
	1,219,017	1,240,035	448	401	(1,183)	(9,401)	-	-

23. **Income Taxes**

	2018 $'000	**2017 $'000**
Russian Federation profit tax	17,629	16,162
Overseas income tax expense	744	1,230
Current income tax expense	18,373	17,392
Deferred tax	5,035	(2,020)
Total income tax expense	23,408	15,372

Russian Federation profits tax is payable at a tax rate of 20% (2017 – 20%) on the taxable profits arising on Russian operations. Taxes are also payable on the results of the Group's overseas management and agency subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions historically utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Under the laws of the countries of incorporation and / or vessel registration, the majority of vessel owning and operating subsidiaries are subject to tonnage tax by reference to the registered tonnage of each vessel. Management is of the opinion that the Group is fully compliant with the respective tax regime of the countries of incorporation of the vessel owning companies and / or vessel registration.

23. **Income Taxes (Continued)**

In accordance with the Tax Code of the Russian Federation, the majority of the Group's Controlled Foreign Companies ("CFC") which generate more than 20% of their revenue from passive activities, subject to a maximum profit exemption, as defined by the Law, are subject to Russian profits tax on their undistributed profits generated after 1 January 2015, provided that such profits are not distributed as dividends until 31 December of the year following the period when the profits are generated.

The income tax expense for the period is reconciled to the expected tax expense based on the Russian Federation tax rate as follows:

	2018 $'000	2017 $'000
Loss before income taxes	(22,148)	(97,597)
Income tax charge using Russian Federation income tax rate of 20%	(4,430)	(19,519)
Difference in tax rates	5,643	23,852
Tax effect on intercompany dividends	5,056	7,761
Non-deductible expenses and non-taxable income	4,858	(117)
Tax effect of losses for which no deferred tax asset was recognised	11,119	3,305
Adjustments in respect of income tax of previous years	1,162	90
Income tax expense	23,408	15,372

Deferred Tax

	Opening balance $'000	Released / (charged) to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2018				
Deferred tax assets	8,162	(3,291)	(782)	4,089
Deferred tax liabilities	(2,258)	(1,744)	179	(3,823)
	5,904	(5,035)	(603)	266
At 31 December 2017				
Deferred tax assets	4,663	3,445	54	8,162
Deferred tax liabilities	(858)	(1,425)	25	(2,258)
	3,805	2,020	79	5,904

Deferred tax relates to the following:

	Opening balance $'000	Released / (charged) to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2018				
Fleet	554	57	-	611
Drydock	(462)	(1,693)	264	(1,891)
Unused tax losses carried forward	3,851	(2,458)	(364)	1,029
Accounts receivable	(518)	484	10	(24)
Accounts payable	2,848	(294)	(193)	2,361
Other	(369)	(1,131)	(320)	(1,820)
	5,904	(5,035)	(603)	266
At 31 December 2017				
Fleet	818	(264)	-	554
Drydock	(701)	279	(40)	(462)
Unused tax losses carried forward	1,142	2,655	54	3,851
Accounts receivable	(162)	(354)	(2)	(518)
Accounts payable	2,481	327	40	2,848
Other	227	(623)	27	(369)
	3,805	2,020	79	5,904

The Group has accumulated tax losses of $56.1 million (2017 – $16.5 million), for which a deferred tax asset of $11.2 million (2017 – $3.3 million) has not been recognised. There is no expiry date for tax losses carried forward, available for offsetting against future taxable profits of the companies in which they arose. In 2018 the Group derecognised deferred tax assets of $2.8 million, based on the projected results of those operations (2017 – $3.1 million recognised assets).

The deferred tax impact on the unremitted earnings of subsidiaries, joint ventures or associates is $2.5 million (2017 – $1.2 million) and is included in the reconciliation of tax expense above in line tax effect on intercompany dividends. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,822.7 million (2017 – $2,777.9 million).

There are no income tax consequences attached to the payment of dividends by the Company to its shareholder.

24. **Earnings Per Share**

	2018 $'000	2017 $'000
Net loss attributable to equity holders of the parent for basic earnings	(41,642)	(109,670)

	2018	2017
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic loss per share for the period attributable to equity holders of the parent	($0.021)	($0.056)

25. **Inventories**

	2018 $'000	2017 $'000	2016 $'000
Bunkers	47,144	41,402	32,222
Lubricants	16,105	17,202	17,618
Victualling and slopchest	1,898	2,035	1,835
Spare parts and consumables	1,927	511	730
Other	378	733	963
	67,452	61,883	53,368

The amounts expensed during the period are disclosed in Note 7, Voyage Expenses and Commissions, and Note 8, Vessels' Running Costs.

26. **Trade and Other Receivables**

	2018 $'000	2017 $'000	2016 $'000
Non-current assets			
Financial assets			
Other receivables (Note 29)	5,511	77	83
Receivables under High Court judgement award	2,700	2,700	2,700
Liquidated damages on vessels under construction receivable from shipyard	5,459	4,962	-
	13,670	7,739	2,783
Current assets			
Financial assets			
Amounts due from charterers	67,142	70,376	75,279
Allowance for credit losses	(2,500)	(3,469)	(3,520)
	64,642	66,907	71,759
Casualty and other claims	5,841	6,448	6,945
Agents' balances	2,710	3,242	2,756
Other receivables	10,455	17,192	24,031
Liquidated damages on vessels under construction receivable from shipyard	-	5,000	11,800
Amounts due from joint ventures	761	410	473
Amounts due from lessee for finance leases	-	-	764
Accrued income	5,556	4,085	3,426
Non-financial assets			
Prepayments	8,951	11,216	20,302
Voyages in progress	-	25,972	25,295
Contract acquisition and voyage fulfilment costs	2,502	-	-
Non-income based taxes receivable	6,792	6,450	5,471
	108,210	146,922	173,022

In respect of the liquidated damages receivable from shipyard, the Group has obtained guarantees valid until 30 April 2024 from a Russian state controlled entity. The guarantees are in respect of the performance obligations by the subsidiary of the guarantor (the shipyard) under the deed on deferred payment on part of liquidated damages amounting to $9.8 million, as a result of the delay on delivery of vessels constructed.

Amounts due from charterers represent amounts receivable from charterers of vessels owned or leased by the Group in respect of voyage charters, time charters, and contracts of affreightment.

Freight from voyage charters and contracts of affreightment is receivable upon discharge of the vessel and hire from time charters is receivable monthly in advance over the duration of the time charter voyage or as per any other contractual arrangement with the charterer. Trade receivables are non-interest bearing.

The voyages in progress contain residual prepaid and accrued income and costs relating to the Group's policy of applying a rateable approach to the recognition of voyage charter results at each period end under IAS 18 "Revenue" (see also Note 4).

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2018, $23.7 million (2017 – $25.1 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2018, charterers with a carrying amount of $40.9 million (2017 – $41.8 million) are past due at the reporting date. The Group has not provided for these receivables as there has not been a significant change in credit quality and the amounts outstanding are still considered recoverable.

26. Trade and Other Receivables (Continued)

The ageing analysis of these past due receivables is as follows:

	2018 $'000	2017 $'000	2016 $'000
Up to one month	23,650	17,481	18,898
One to two months	7,541	5,528	10,192
Two to three months	4,341	3,292	3,146
Three to four months	1,766	2,383	4,663
More than four months	3,582	13,096	17,458
	40,880	41,780	54,357

Movement in the allowance for credit losses in respect of charterers balances:

	2018 $'000	2017 $'000	2016 $'000
At 1 January	3,469	3,520	5,166
Amounts written off during the period	(552)	(387)	(1,354)
Amounts recovered during the period and recognised in the income statement	(277)	-	(319)
(Decrease) / increase in allowance recognised in the income statement	(140)	336	27
At 31 December	2,500	3,469	3,520

27. Restricted Cash

	2018 $'000	2017 $'000	2016 $'000
Current assets			
Financial assets			
Restricted cash	-	75,543	72,079
	-	75,543	72,079

Restricted cash in 2017 and 2016 represent funds paid into court, as security deposit, of judgment sum and payment on account of costs in relation to a legal claim for damages, pursued by certain defendants in a litigation case, said to have been suffered by virtue of freezing orders, to the extent that the freezing orders were in an amount in excess of the sums recovered by the Group under a court judgment. Following dismissal of the Group's appeal on the damages judgment in 2017, the Group recognised a liability and related expense for the period ended 31 December 2017 of $75.5 million in relation to this claim.

On 31 May 2018, the Supreme Court of the United Kingdom refused the Group permission to appeal and on 8 June 2018, following a consent order by the parties to the litigation, the Court of Appeal ordered that the Courts Funds Office to release and pay the defendants the funds paid into court by the Group. Consequently, funds paid into court, together with interest earned thereon, were applied to settle the payable under the London High Court judgment.

28. Cash and Bank Deposits

	2018 $'000	2017 $'000	2016 $'000
Non-current assets			
Bank deposits	11,000	12,000	10,000
Restricted deposits	(11,000)	(12,000)	(10,000)
Cash and cash equivalents	-	-	-
Current assets			
Cash and bank deposits	296,433	347,352	470,638
Bank deposits accessible on maturity	(504)	(521)	(15,000)
Retention accounts	(27,358)	(24,497)	(22,846)
Restricted deposits	(1,000)	(1,000)	-
Cash and cash equivalents	267,571	321,334	432,792

Cash and cash equivalents comprise cash in hand and on deposit with banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, normally with original maturity of three months or less.

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 35. These funds are accumulated to cover future loan principal and interest repayments.

Restricted deposits represent additional security for the purposes of certain secured loan agreements to ensure minimum liquidity for the duration of the relevant secured loan. Restricted deposits also include funds placed on deposit in relation to a chartered in seismic vessel.

Under the terms of the agreements, two subsidiaries of the Group, as guarantors of the secured bank loans of their respective subsidiaries, have to maintain consolidated freely available bank balances and cash in the amount of not less than $30 million and $25.0 million, respectively. In addition under the terms of the agreements, as at 31 December 2018, one of the two subsidiaries had to maintain minimum consolidated liquidity of $151.6 million (2017 – $146.3 million) of which $75.8 million (2017 – $73.1 million) had to be maintained in cash and cash equivalents.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and in bank as stated above.

29. **Non-Current Assets Held for Sale**

	Property and other plant and equipment $'000	Fleet $'000	Total $'000
At 1 January 2017	8,360	-	8,360
Transfer from fleet (Note 15)	-	26,175	26,175
Transfer to investment property (Note 19)	(7,517)	-	(7,517)
Transfer from other property, plant and equipment (Note 18)	5,506	-	5,506
Impairment provision	-	(456)	(456)
Exchange adjustment	500	-	500
Disposals in period	(6,849)	-	(6,849)
At 31 December 2017	-	25,719	25,719
Transfer from fleet (Note 15)	-	39,546	39,546
Transfer from investment property (Note 19)	6,642	-	6,642
Transfer from other property, plant and equipment (Note 18)	993	-	993
Exchange adjustment	(426)	-	(426)
Disposals in period	(7,209)	(35,565)	(42,774)
At 31 December 2018	-	29,700	29,700

During the period ended 31 December 2017, the Group classified as held for sale two office buildings, one in Sochi, Russia, and one in Limassol, Cyprus. The buildings were actively marketed for sale at a price approximate to their market value. The two buildings were sold in July and September 2017 respectively. In addition, during the period ended 31 December 2017, the Group classified as held for sale four crude oil aframax tankers. These vessels were actively marketed for sale at a price which approximates to their market values and consequently were transferred to non-current assets held for sale. The vessels were disposed of and delivered to their buyers, one in February and three in March 2018.

As at 31 December 2017, the exhibition centre in Sochi, Russia, as well as other related plant and equipment ("Exhibition Centre") that were previously classified as held for sale in 2016, were reclassified to investment property and other fixed assets, respectively, as the sale was no longer considered as highly probable, due to the uncertainty as to whether the sale will be completed within one year from the date of classification to held for sale.

In June 2018, the Group reassessed the classification of the Exhibition Centre and concluded that the sale is highly probable to be completed within one year from the date of classification. The Exhibition Centre was sold in September 2018 at Roubles 720.0 million including value added tax resulting in a profit of Roubles 75.2 million (equivalent to $1.1 million). An amount of Roubles 471.7 million (equivalent to $6.8 million) is outstanding as of the period end, of which $5.4 million is included in non-current trade and other receivables under other receivables (Note 26). The outstanding consideration is payable in quarterly instalments starting from November 2018 with a final balloon repayment in February 2020.

During the period ended 31 December 2018, the Group classified as held for sale one crude oil aframax tanker and three chemical oil product tankers. The vessels were actively marketed for sale at a price approximate to their market values and consequently transferred to non-current assets held for sale. The crude oil aframax tanker was disposed of and delivered to her buyer in October 2018.

30. **Share Capital**

	2018 $'000	2017 $'000	2016 $'000
Authorised 2,247,653,953 shares of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012	405,012
Share premium arising from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 31)	818,845	818,845	818,845

31. **Group Reconstruction Reserve**

	2018 $'000	2017 $'000	2016 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)	(843,450)
	(834,490)	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 Roubles ($1.40071) per share (see also Note 30), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests' basis.

32. **Dividends**

Dividends of Rouble 0.86 per share totalling Roubles 1,696.0 million, equivalent to $26.8 million were declared on 29 June 2018 and paid on 10 July 2018 (2017 – 3.12 Rouble per share totalling Roubles 6,141.0 million equivalent to $106.9 million).

33. Non-Controlling Interests

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2017	(5,408)	155,854	150,446
Loss for the period	-	(3,299)	(3,299)
Other comprehensive income	50	(49)	1
Dividends	-	(3,346)	(3,346)
At 31 December 2017	(5,358)	149,160	143,802
Adjustment on initial application of IFRS 15 (net of tax) (Note 4)	-	(229)	(229)
Loss for the period	-	(3,914)	(3,914)
Other comprehensive income	5	(69)	(64)
Dividends	-	(3,140)	(3,140)
At 31 December 2018	(5,353)	141,808	136,455

34. Trade and Other Payables

	2018 $'000	2017 $'000	2016 $'000
Non-current liabilities			
Financial liabilities			
Liquidated damages for late delivery of vessels payable to charterer	18,203	19,386	1,119
Non-financial liabilities			
Employee benefit obligations (Note 12)	5,207	9,027	36,385
Provisions for drydocking	1,367	-	-
	24,777	28,413	37,504
Current liabilities			
Financial liabilities			
Trade payables	59,064	59,020	40,465
Other payables	33,527	29,942	39,653
Payables to shipyards for vessels under construction	-	11,800	-
Liquidated damages for late delivery of vessels payable to charterer	1,800	4,119	11,800
Dividends payable	10,742	12,801	15,986
Accrued liabilities	45,972	41,522	46,292
Accrued interest	19,330	17,049	17,299
Non-financial liabilities			
Deferred lease revenue	37,981	50,874	29,985
Employee benefit obligations (Note 12)	8,703	35,785	-
Non-income based taxes payable	19,054	22,662	13,304
	236,173	285,574	214,784

Liquidated damages represent penalties payable to two Russian State controlled entities, as charterers, in respect of four vessels (2017 – two charterers in respect of six vessels), for the late delivery of the vessels to charter.

35. Secured Bank Loans

The balances of the loans at the period end, net of direct issue costs, are summarised as follows:

	2018 $'000	2017 $'000	2016 $'000
Repayable			
- within twelve months after the end of the reporting period	313,842	338,226	290,460
- between one to two years	362,009	472,511	309,162
- between two to three years	382,540	281,837	390,830
- between three to four years	274,021	306,796	227,658
- between four to five years	264,461	201,323	246,686
- more than five years	978,641	1,000,354	729,029
	2,575,514	2,601,047	2,193,825
Less current portion	(313,842)	(338,226)	(290,460)
Non-current balance	2,261,672	2,262,821	1,903,365

35. **Secured Bank Loans (Continued)**

The interest rates applicable for the secured bank loans during the period are as follows:

Contractual interest rates	Weighted average interest rate 2018	Weighted average interest rate 2017	Outstanding loans gross of direct issue costs 2018 $'000	Outstanding loans gross of direct issue costs 2017 $'000	Maturity
Floating rate loans in U.S. Dollar between 0.875% - 3.00% per annum	Libor+2.07%[1]	Libor+2.23%[1]	1,543,957	1,568,291	Between July 2019 - February 2027
Floating rates loans in Euro	Euribor+1.595%	Euribor+1.595%	336,585	281,126	Between March 2029 - January 2030
Fixed rate loans in U.S. Dollar between 4.15% - 7.50% per annum	6.71%	6.78%	721,950	776,632	Between July 2019 - October 2031
			2,602,492	2,626,049	

[1] Weighted average margin for the period

The Group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on the Group's vessels with an aggregate carrying value, at 31 December 2018, of $4,978.2 million (2017 – $4,990.2 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 16 and pledges of shares in certain of the vessel owning companies.

The Group is subject to a number of covenants in relation to its borrowing facilities which if breached could result in its loans becoming immediately repayable. As at the period end the Group was not in default of any of its bank loan covenants.

36. **Finance Lease Liabilities**

	2018 $'000	2017 $'000	2016 $'000
Repayable			
- within twelve months after the end of the reporting period	-	-	173,690
	-	-	173,690
Less current portion	-	-	(173,690)
Non-current balance	-	-	-

On 12 April 2017, the Group exercised its right under bareboat charter agreements to repurchase the two vessels sold and leased back in 2010 from a related party, classified as fleet as of 31 December 2016, at a total price of $173.4 million. Legal ownership was transferred to the Group on 15 May 2017 and 22 May 2017.

37. **Retirement Benefit Obligations**

	2018 $'000	2017 $'000	2016 $'000
Post retirement pension benefit plans	2,256	2,145	2,105
Long-term service retirement benefit plans	37	1,900	1,314
Total obligations	2,293	4,045	3,419

A subsidiary of the Group operates two defined benefit retirement plans, a post retirement pension benefit plan and a long-term service retirement benefit plan for its seafarers and shore based staff.

Post retirement service benefit plans stipulate payment of a fixed amount of monthly pension for all retired employees who have completed a specified period of service with the subsidiary. The pension is paid over the life of the pensioners. In addition, the subsidiary has a long-term service retirement benefit plan stipulating payment of a lump sum to employees who have completed a specified period of service upon their retirement. All defined benefit plans are unfunded. The plans do not have any assets.

In June 2018, the Group settled the long-term service retirement benefit plan, in respect of shore-based employees (the "Old Plan"), by introducing a new plan (the "New Plan") entered into with a Russian State controlled entity and contributing the liability of $1.6 million under the Old Plan. The New Plan is a defined contribution plan where periodic contributions will be made throughout the employment period of the shore-based employees.

Changes in the present value of the defined obligations under post retirement benefit plans are as follows:

	2018 $'000	2017 $'000	2016 $'000
Defined benefit obligation at 1 January	2,145	2,105	1,757
Interest cost	146	183	185
Benefits paid	(246)	(280)	(259)
Exchange adjustment	(418)	111	354
Re-measurement losses recognised in other comprehensive income	629	26	68
Defined benefit obligation at 31 December	2,256	2,145	2,105

37. **Retirement Benefit Obligations (Continued)**

Changes in the present value of the defined obligations under long-term service retirement benefit plans are as follows:

	2018 $'000	2017 $'000	2016 $'000
Defined benefit obligation at 1 January	1,900	1,314	1,310
Current service costs	-	34	31
Interest cost	47	89	84
Benefits paid	(575)	(68)	(203)
Exchange adjustment	(115)	96	112
Re-measurement losses / (gains) recognised in other comprehensive income	30	435	(20)
Losses on settlement and transfer to New Plan	323	-	-
Transfer of funds to New Plan	(1,573)	-	-
Defined benefit obligation at 31 December	37	1,900	1,314

The amounts recognised in the income statement and other comprehensive income during the period are as follows:

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current service cost	-	-	-	34	-	34
Interest cost	146	183	47	89	193	272
Losses on settlement and transfer to New Plan	-	-	323	-	323	-
Transfer of funds to New Plan	-	-	(1,573)	-	(1,573)	-
Exchange adjustment	(418)	111	(115)	96	(533)	207
Charged in the income statement	(272)	294	(1,318)	219	(1,590)	513
Experience adjustments on obligation	768	(65)	30	377	798	312
Actuarial changes arising from changes in financial assumptions	(139)	91	-	58	(139)	149
Re-measurement losses recognised in other comprehensive income	629	26	30	435	659	461

The principal actuarial assumptions used in measurement of the defined benefit obligations at the end of the reporting period are as follows:

	2018	2017
Discount rate for cash flows in Russian Roubles	8.81%	7.44%
Discount rate for cash flows in U.S. Dollars	-	1.29%
Future salary increases in Russian Roubles	-	4.00%
Future salary increases in U.S. Dollars	-	-
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 60	17	17
Life expectancy in years of a female pensioner retiring at the age of 55	27	27
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	6.6	7.2
The average duration of the defined benefit plan obligation for long-term service retirement pension benefit plans	-	7.3

The Group expect to make benefit payments of $0.2 million (2017 – $0.8 million) in respect of the defined benefit plans in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018 and 31 December 2017 is as shown below:

	2018 (Decrease) / increase in net defined benefit obligation		2017 (Decrease) / increase in net defined benefit obligation	
	50 bps increase $'000	50 bps decrease $'000	50 bps increase $'000	50 bps decrease $'000
Discount rate	(46)	45	(100)	93
Future salary increases	-	-	48	(45)

	2018		2017	
	100 bps increase $'000	100 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
Future pension cost increases	85	-	84	-

	2018		2017	
	Increase by 1 year $'000	Decrease by 1 year $'000	Increase by 1 year $'000	Decrease by 1 year $'000
Life expectancy of male pensioners	90	(98)	84	(91)
Life expectancy of female pensioners	49	(53)	45	(48)

38. **Other Loans**

	2018 $'000	2017 $'000	2016 $'000
$800 million 5.375% Senior Notes due in 2017	-	-	139,896
$900 million 5.375% Senior Notes due in 2023	892,545	891,801	737,076
Other loan from related party	10,151	14,148	-
	902,696	905,949	876,972
Less current portion	(3,384)	(3,537)	(139,896)
Non-current balance	899,312	902,412	737,076

On 27 October 2010, the Group, through its subsidiary SCF Capital Designated Activity Company (formerly SCF Capital Limited) ("SCF Capital"), issued Senior Notes (the "2010 Notes") of $800 million, redeemable at par value, maturing on 27 October 2017. Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011.

On 16 June 2016, the Group, through SCF Capital, issued $750 million of Senior Notes (the "2016 Notes"), redeemable at par value, maturing on 16 June 2023. Interest accrues at 5.375% from 16 June 2016 and is payable semi-annually in arrears on 16 June and 16 December of each year, commencing on 16 December 2016. The 2016 Notes were used to partly refinance the 2010 Notes. A total amount of $660,045,000 of the 2010 Notes was tendered back to SCF Capital.

On 10 April 2017, the Group, through its subsidiary SCF Capital, issued $150.0 million of Senior Notes, at a price of $102.768 per $100.000 par value, redeemable at par value, maturing on 16 June 2023, which were consolidated and form a single series with the $750 million 5.375% 2016 Notes due in 2023. Interest accrues at 5.375% from 16 June 2017. The premium of $4.2 million arising from the issue is capitalised and amortised over the period to maturity of these Senior Notes.

On 15 May 2017 the Group redeemed the outstanding balance of $139.955 million of the $800 million 5.375% Senior Notes maturing in October 2017 at an applicable premium of $16.79 per $1,000 principal amount. The total redemption price, consisting of the principal amount of such Notes, the applicable premium, and the interest accrued, in aggregate equal to $1,019.48 per $1,000.00 principal amount of such Notes, resulted in a total payment of $142.7 million. The premium of $2.4 million paid on redemption, has been expensed in the income statement and is included in the line financing costs.

The Notes are unsecured and guaranteed by Sovcomflot. There are no equity conversion rights or options attached to the Notes. Both the 2010 Notes and 2016 Notes are included above net of unamortised financing costs.

Interest charged during the period in relation to the 2016 Notes amounted to $47.8 million. Interest charged in 2017 in relation to the 2010 Notes and 2016 Notes amounted to $48.5 million.

Other loan from related party as at 31 December 2018 relates to an agreement entered into by the Group on 19 April 2017 to purchase seismic equipment ("Purchase Agreement") for a total consideration of €14.8 million equivalent to $15.9 million. On the same date, a consent and assignment agreement was signed between the Group, the seller of the equipment and a subsidiary of a Russian State controlled financial institution (the "Bank") to assign all present and future rights, title and interest in and to the Purchase Agreement to the Bank. A payment equal to 10% of the consideration was made to the Bank on 16 May 2017, and the remaining 90% of the consideration ("Deferred Consideration") will be paid in nine equal semi-annual instalments commencing on 15 December 2017 with final payment on 15 December 2021. The Deferred Consideration bears interest at six month EURIBOR plus 4% margin per annum. Interest charged during the period in relation to this loan amounted to $0.5 million (2017 – $0.4 million).

39. **Cash Generated from Operations**

	2018 $'000	2017 $'000
Loss for the period before income taxes	(22,148)	(97,597)
Share of profits in equity accounted investments	(3,109)	(2,675)
Depreciation, amortisation and impairment	404,007	389,142
Investment property depreciation	139	294
Loss / (gain) on sale of assets	8,590	(20,177)
Loss on sale and dissolution of subsidiaries	1,659	-
Loss on sale of equity accounted investments	-	5
Interest expenses and financing costs	200,417	193,859
Interest income	(8,222)	(9,787)
Gain on termination of hedge and hedge ineffectiveness	(1,038)	(401)
Foreign exchange differences	15,093	(243)
Change in allowance for credit losses	(410)	(490)
Losses on settlement and transfer of retirement benefit plan to a New Plan	323	-
Other long-term employee benefits	5,116	7,949
Operating cash flows before movements in working capital	600,417	459,879
Increase in inventories	(5,811)	(8,515)
(Increase) / decrease in trade and other receivables and contract assets	(175)	31,282
(Decrease) / increase in trade and other payables and contract liabilities	(27,349)	84,704
Cash generated from operations	567,082	567,350

40. **Significant Subsidiary Companies**

At 31 December 2018, the Group had 129 single vessel owning and operating subsidiaries (2017 – 135) incorporated in Liberia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of incorporation	Percentage holding	Principal activity
PAO Novoship	Russia	89.46%	Holding company
SCF Overseas Holding Limited	Cyprus	100%	Holding company
SCF Tankers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Supply Vessels Limited and its subsidiaries	Cyprus	100%	Holding company
Intrigue Shipping Limited and its subsidiaries	Cyprus	89.46%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Arctic LLC	Russia	100%	Holding company
Sovcomflot Varandey LLC	Russia	100%	Ship operation
SCF Shelf LLC	Russia	100%	Ship operation
SCF Atlantic LLC	Russia	100%	Ship operation
SCF Geo LLC and its subsidiary	Russia	100%	Ship operation
SCF Novy Port LLC	Russia	100%	Ship operation
SCF Management Services (Novorossiysk) Ltd.	Russia	100%	Ship management
SCF Management Services (Cyprus) Ltd	Cyprus	100%	Ship management
SCF Management Services (St. Petersburg) Ltd.	Russia	100%	Ship management
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Ship management and supervision of operations
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Capital Designated Activity Company	Ireland	100%	Financing

The share capital of Novoship comprises voting ordinary shares and non-voting preference shares. Ownership of the shares is analysed as follows:

	At 31 December 2018			At 31 December 2017		
	Ordinary shares	Preference shares	Total shares	Ordinary shares	Preference shares	Total shares
	%	%	%	%	%	%
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.29	1.48	89.46	98.29	1.48	89.46
Non-controlling shareholders	1.71	98.52	10.54	1.71	98.52	10.54
	100.00	100.00	100.00	100.00	100.00	100.00

Consolidated financial information of Novoship that has material non-controlling interests is provided below. This information is based on amounts before intercompany eliminations.

	2018 $'000	2017 $'000
Summarised statement of financial position:		
Total non-current assets	1,286,469	1,356,536
Total current assets	150,121	197,898
Total non-current liabilities	(58,642)	(56,184)
Total current liabilities	(83,783)	(134,406)
Net assets at period end	1,294,165	1,363,844
Cash and cash equivalents	86,186	101,432
Current financial liabilities	23,941	51,368
Non-current financial liabilities	52,630	49,237
Summarised income statement:		
Revenues	345,910	380,052
Depreciation, amortisation and impairment	(81,841)	(108,159)
Interest income	5,290	4,178
Interest expense	(4,486)	(4,583)
Income tax	(6,345)	(7,361)
Loss for the period	(37,121)	(31,286)
Other comprehensive income for the period	(612)	16
Total comprehensive income for the period	(37,733)	(31,270)
Summarised statement of cash flows:		
Operating activities	45,081	65,208
Investing activities	17,206	(16,663)
Financing activities	(70,473)	(129,563)
Net decrease in cash and cash equivalents	(8,186)	(81,018)

41. **Financial Risk Management**

(a) Capital management

The capital structure of the Group consists of net debt and equity. The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders;
- to enhance the ability of the Group to invest in future projects by sustaining a strong financial position and high borrowings capacity;
- to provide an adequate return to its shareholder; and
- to maintain and improve the Group's credit rating.

The Group reviews its capital structure and the capital structure of its subsidiaries on a quarterly basis. As part of this review, management makes adjustments to it in the light of changes in economic conditions and the risk characteristics relating to the Group's activities. In order to maintain or adjust its capital structure, the Group may repay existing secured term loans and revolving credit facilities, sell assets to reduce debt or inject additional capital into its subsidiaries. Management believes that such an approach provides an efficient capital structure and an appropriate level of financial flexibility.

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the market value of the fleet ("total adjusted capital"). Net debt is calculated as the total of secured bank loans (Note 35) and other loans (Note 38) less restricted cash (Note 27) and cash and bank deposits (Note 28). Total equity comprises all components of equity.

Certain of the Group's debt agreements, at subsidiary level, contain loan-to-value clauses which could require the Group, at its option, to post additional collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings under each of such agreements decrease below their current valuations. In addition, the financing agreements impose operating restrictions and establish minimum financial covenants, including limitations on the amount of total borrowings and secured debt, and provide for acceleration of payment under certain circumstances, including failure to satisfy certain financial covenants. Failure to comply with any of the covenants in the financing agreements could also result in a default under those agreements and under other agreements containing cross-default provisions.

During 2018 the Group's overall strategy remained unchanged from 2017. The net debt ratio at 31 December 2018 and at 31 December 2017 and the net adjusted debt ratio of the Group were as follows:

	2018 $'000	2017 $'000
Secured bank loans (Note 35)	2,575,514	2,601,047
Other loans (Note 38)	902,696	905,949
Less: restricted cash (Note 27)	-	(75,543)
Less: cash and bank deposits (Note 28)	(307,433)	(359,352)
Net debt	3,170,777	3,072,101
Total equity	3,350,063	3,409,022
Total capital	6,520,840	6,481,123
Net debt ratio	48.6%	47.4%
Total capital	6,520,840	6,481,123
Total adjusted capital	5,619,177	5,347,529
Net adjusted debt ratio	56.4%	57.4%

(b) Categories of financial assets and financial liabilities

	2018 $'000	2017 $'000
Cash and debt instruments at amortised cost		
Loans and other receivables (Note 26)	103,635	111,023
Loans to joint ventures (Note 21)	66,069	55,511
Restricted cash (Note 27)	-	75,543
Cash and bank deposits (Note 28)	307,433	359,352
Financial assets at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 22)	24,682	36,717
Equity instruments at fair value through profit or loss		
Investments in non-listed companies	754	523
Total financial assets	502,573	638,669
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 22)	29,697	30,182
Financial liabilities at amortised cost		
Secured bank loans (Note 35)	2,575,514	2,601,047
Other loans (Note 38)	902,696	905,949
Other liabilities measured at amortised cost (Note 34)	188,638	195,639
Total financial liabilities	3,696,545	3,732,817

41. **Financial Risk Management (Continued)**

(c) Changes in liabilities arising from financing activities

	1 January 2018	Cash flows	Foreign exchange movement	Other	31 December 2018
	$'000	$'000	$'000	$'000	$'000
Secured bank loans	2,601,047	(4,067) [1]	(19,490)	(1,976) [2]	2,575,514
Other loans	905,949	(3,425)	(572)	744	902,696
Dividends payable	12,801	(29,881)	(1,693)	29,515 [3]	10,742
Total liabilities from financing activities	3,519,797	(37,373)	(21,755)	28,283	3,488,952

[1] Includes proceeds of borrowings of $564.2 million and repayment of borrowings of $568.3 million.
[2] Includes direct issue costs of $8.1 million incurred during 2018 and direct issue costs amortisation of $6.1 million.
[3] Includes dividends declared during 2018 in the amount of $26.8 million (Note 32).

	1 January 2017	Cash flows	Foreign exchange movement	Other	31 December 2017
	$'000	$'000	$'000	$'000	$'000
Secured bank loans	2,193,825	394,971 [1]	18,698	(6,447) [3]	2,601,047
Other loans	876,972	8,458 [2]	1,674	18,845 [4]	905,949
Finance lease liabilities	173,690	(176,817)	-	3,127	-
Dividends payable	15,986	(110,977)	(2,110)	109,902 [5]	12,801
Total liabilities from financing activities	3,260,473	115,635	18,262	125,427	3,519,797

[1] Includes proceeds of borrowings of $697.5 million and repayment of borrowings of $302.5 million.
[2] Includes proceeds of other borrowings of $154.1 million and repayment of other borrowings of $145.7 million.
[3] Includes direct issue costs of $11.8 million incurred during 2017 and direct issue costs amortisation of $5.4 million.
[4] Relates to the purchase seismic equipment disclosed in Notes 15 and 38.
[5] Includes dividends declared during 2017 in the amount of $106.9 million (Note 32).

(d) Fair value of financial assets and financial liabilities

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying Value		Fair value hierarchy	Fair Value	
	2018 $'000	2017 $'000		2018 $'000	2017 $'000
Financial assets					
Loans to joint ventures	66,069	55,511	Level 2	64,127	53,232
Liquidated damages on vessels under construction receivable from shipyard	5,459	9,962	Level 2	5,459	9,962
Total financial assets	71,528	65,473		69,586	63,194
Financial liabilities					
Secured bank loans at fixed interest rates	711,274	765,028	Level 2	737,091	792,895
Secured bank loans at floating interest rates	1,864,240	1,836,019	Level 2	1,867,212	1,840,772
Other loans (Senior Notes due in 2023)	892,545	891,801	Level 1	873,000	932,625
Other loans	10,151	14,148	Level 2	10,468	14,703
Liquidated damages for late delivery of vessels payable to charterer	20,003	23,505	Level 2	20,003	23,505
Total financial liabilities	3,498,213	3,530,501		3,507,774	3,604,500

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within Level 1) from observable current market transactions and dealer quotes for similar instruments. The fair values of derivative instruments, including interest rate swaps, are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, as adjusted for credit risk.

41. **Financial Risk Management (Continued)**

(d) Fair value of financial assets and financial liabilities (continued)

Fair value measurements of financial instruments recognised in the statement of financial position

The following table provides an analysis of financial instruments as at 31 December 2018 and 31 December 2017 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

Recurring fair value measurements recognised in the statement of financial position

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2018				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	24,682	-	24,682
	-	24,682	-	24,682
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	29,697	-	29,697
	-	29,697	-	29,697
At 31 December 2017				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	36,717	-	36,717
	-	36,717	-	36,717
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	30,182	-	30,182
	-	30,182	-	30,182

There were no transfers between Level 1 and 2 during the periods ended 31 December 2018 and 31 December 2017.

Non-recurring fair value measurements recognised in the statement of financial position

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2018				
Assets				
Non-current assets held for sale	-	29,700	-	29,700
	-	29,700	-	29,700
At 31 December 2017				
Assets				
Non-current assets held for sale	25,719	-	-	25,719
	25,719	-	-	25,719

(e) Financial risk factors

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. The Russian economy is particularly sensitive to oil and gas price fluctuations and has been negatively impacted by economic sanctions imposed on certain Russian legal entities and individuals by several countries.

The Group seeks to minimise potential adverse effects on the Group's financial performance by employing a sufficiently robust financial risk strategy to withstand prolonged adverse conditions in significant risk factors such as down-cycles in freight rates or unfavourable conditions in the financial markets.

The Group's results and cash flows are influenced by the success of the Group in managing these risk factors as detailed below.

Market risk

Foreign currency risk

The Group's economic environment is the international shipping market. This market utilises the U.S. Dollar as its functional currency. The majority of the Group's revenues and most of the operating expenses are in U.S. Dollars. Exposure to transaction risk arises because certain revenues from seismic operations, voyage expenses, vessel operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Sterling Pound.

The Group is also exposed to foreign currency risk on its Euro denominated secured bank loans and other loans. During 2018, 90.1% of the Group's borrowings were denominated in U.S. Dollars (2017 – 91.7%) and 9.9% (2017 – 8.3%) in Euro. The Group manages its cash flow foreign currency risk by the use of cross currency, floating to fixed interest rate swaps. Such financial instruments have the economic benefit of converting loans issued in foreign currencies to U.S. Dollar at fixed exchange rates. The Group's hedging instruments to protect against currency fluctuations as at the reporting date are detailed in Note 22 of these financial statements. As of 31 December 2018 the net exposure of the Group to foreign exchange rate fluctuations on its borrowing is limited to €8.9 million (equivalent to $10.2 million) (2017– €11.8 million (equivalent to $14.1 million)).

41. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. There is a risk that currency exposure arising from the net assets of the Group's foreign operations will have a negative effect on the Group's cash flows. The Group has not entered into any forward contracts to hedge against this translation risk.

The carrying amounts of the Group's most significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Euro (EUR)	20,462	31,512	17,864	11,733
Russian Roubles (RUR)	37,872	90,743	74,341	104,469
Sterling Pounds (GBP)	2,423	2,016	4,439	13,682
Others	2,190	2,510	1,949	1,359

An analysis of the exposure of the Group to fluctuations in exchange rates against the U.S. Dollar, with all other variables held constant, was performed using the following movement in rates:

	Increase		**Decrease**	
	2018	**2017**	**2018**	**2017**
Euro (EUR)	11.0%	12.5%	7.0%	7.5%
Russian Roubles (RUR)	14.0%	11.0%	14.0%	11.0%
Sterling Pounds (GBP)	11.0%	11.0%	8.0%	7.0%
Others	10.0%	10.0%	10.0%	10.0%

The effect of an increase in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		**Increase / (decrease) in pre-tax equity**	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Euro (EUR)	(119)	1,009	1,031	1,781
Russian Roubles (RUR)	4,525	5,464	(564)	(702)
Sterling Pounds (GBP)	(157)	(610)	106	(460)
Others	(6)	94	27	11

The effect of a decrease in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		**Increase / (decrease) in pre-tax equity**	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Euro (EUR)	(92)	736	(783)	(1,300)
Russian Roubles (RUR)	5,998	6,816	749	874
Sterling Pounds (GBP)	(138)	(463)	(93)	349
Others	(7)	115	(33)	(13)

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates.

The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate and cross-currency interest rate swaps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 22 of these financial statements.

The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at period end was as follows:

	2018	**2017**
	$'000	**$'000**
Total borrowings gross of direct issue costs (Notes 35 and 38)	3,512,643	3,540,197
Fixed rate borrowings gross of direct issue costs (Notes 35 and 38)	(1,621,950)	(1,676,632)
Total floating rate borrowings gross of direct issue costs (Notes 35 and 38)	1,890,693	1,863,565
Notional amount of floating borrowings to fixed rate swaps (Note 22)	(1,201,624)	(1,179,729)
Net exposure to interest fluctuations	689,069	683,836
% of floating rate borrowings exposed to interest rate fluctuations	36.4%	36.7%

41. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

Market risk (continued)

Cash flow interest rate risk (continued)

The effect on the Group of changes in interest rates is as follows:

Sensitivity of interest rates	2018 100 bps increase $'000	2018 25 bps decrease $'000	2017 100 bps increase $'000	2017 25 bps decrease $'000
Change in fair value of interest rate swaps				
- Increase / (decrease) in other comprehensive income for the period	4,204	(8,391)	13,310	(3,380)
- Increase / (decrease) in profit or loss for the period	271	(70)	121	(31)
Increase / (decrease) in interest expense for the period excluding interest capitalised	2,727	(935)	5,792	(1,449)

Sensitivity of interest in relation to cross currency swaps

Change in fair value of cross currency interest rate swaps	Increase / (decrease) in other comprehensive income for the period 2018 $'000	2017 $'000
Increase in U.S. Dollar 3 month interest rates by 50bps and increase foreign exchange rate by 10%	45,973	39,437
Decrease in U.S. Dollar 3 month interest rates by 50bps and decrease foreign exchange rate by 10%	(46,294)	(39,732)
Increase in Euro cross currency curve by 50bps and increase in Euro 6 month interest rate by 50bps	(162)	(384)
Decrease in Euro cross currency curve by 50bps and decrease in Euro 6 month interest rate by 50bps	145	374

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 51.0% (2017 – 50.3%) of the vessels' total trading days were on time charter representing 79.4% (2017 – 77.3%) of time charter equivalent revenues of which 3.0% (2017 – 3.0%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2018, 51.1% (2017 – 53.3%) of the vessels were on time charter.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from derivative financial instruments and deposits with financial institutions as well as exposure to charterers, including receivables and committed transactions.

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience and in accordance with the ECL method. As at 31 December 2018, there are no amounts due from charterers that represent over 10% of total amounts due (2017 – two charterers with a total balance of $18.7 million representing 28.0% of total amounts due).

As at 31 December 2018, total revenue included $248.9 million and $187.1 million (2017 – $242.6 million and $162.2 million) from two charterers individually representing 16.4% and 12.3% (2017 – 16.9% and 11.3%), respectively, of total revenue.

The revenue from the above charterers relates to the following operating segments:

Operating segment	2018 $'000	2017 $'000
Offshore	283,770	131,563
Gas	54,717	107,810
Crude oil	48,502	113,904
Oil product	8,143	21,407
Other	40,822	30,164
	435,954	404,848

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits, taking into account financing arrangements with the same counterparty, and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with three banks (2017 – three) representing 26.1%, 22.5% and 20.7% (2017 – 29.5%, 25.0% and 17.5%) of total deposits of $306.0 million (2017 – $357.9 million).

41. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset and arises because of the possibility that the Group could be required to pay its liabilities earlier than expected.

Management has built an appropriate liquidity risk assessment framework for the purposes of short, medium and long-term funding and liquidity management requirements. Due to the dynamic nature of the shipping industry, the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve revolving credit facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Below is a table summarising additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk:

	Secured bank loans $'000	Secured revolving credit facilities $'000	Total available facilities $'000
At 1 January 2018	127,210	40,000	167,210
Exchange adjustment	1,787	-	1,787
Facilities settled	-	(35,000)	(35,000)
New facilities entered into during the period	786,492	79,896	866,388
Facilities drawn down	(555,320)	(8,878)	(564,198)
At 31 December 2018	360,169	76,018	436,187

Availability of secured revolving credit facilities is subject to compliance with the relevant loan to value covenants of each of the facilities based on the market value of the vessels used as collateral. As of 31 December 2018 all facilities above were available for drawdown.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

At 31 December 2018	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	151,105	18,203	-	169,308
Secured bank loans	319,436	1,298,231	984,825	2,602,492
Other loans	3,384	906,767	-	910,151
Interest payable on derivative instruments	18,847	41,935	21,681	82,463
Interest payable on secured loans	123,682	324,883	122,392	570,957
Interest payable on other loans	48,736	169,667	-	218,403
	665,190	2,759,686	1,128,898	4,553,774
At 31 December 2017				
Trade and other payables	159,204	14,424	4,962	178,590
Secured bank loans	343,599	1,275,846	1,006,604	2,626,049
Other loans	3,537	10,611	900,000	914,148
Interest payable on derivative instruments	17,139	27,626	1,018	45,783
Interest payable on secured loans	112,207	316,477	143,547	572,231
Interest payable on other loans	48,376	193,500	24,187	266,063
	684,062	1,838,484	2,080,318	4,602,864

42. **Operating Lease Arrangements**

The Group as Lessee

The Group has the following non-cancellable operating lease commitments as at the period end in respect of vessels and buildings in Novorossiysk, London, Moscow, Dubai and Limassol:

	Vessels		Land and buildings		Other assets		Total	Total
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Within one year	21,758	27,090	5,531	4,843	363	380	27,652	32,313
After one year but not more than five years	36,353	57,772	19,801	22,138	1,276	1,501	57,430	81,411
More than five years	-	-	26,069	33,534	10,854	13,447	36,923	46,981
	58,111	84,862	51,401	60,515	12,493	15,328	122,005	160,705
Expensed during the period	28,931	40,424	4,980	5,014	363	406	34,274	45,844

The Group charters in two seismic vessels with purchase options attached to the bareboat charter contracts as well as supply vessels for short term periods for their support. The firm period of the leases on the seismic have a remaining life of less than four months and less than four years, respectively. Leases for office buildings, occupied by the Group, expire between 3 and 8 years with various options attached. Other land and building leases and leases for other assets expire between 40 to 46 years. There are no restrictions placed upon the Group by entering into these leases.

42. **Operating Lease Arrangements (Continued)**

The Group as Lessor

Contracted revenues from vessel operations and related guarantees

The Group through its subsidiaries entered into time charter agreements with aggregate hire receivables, comprising lease revenue and service revenue, as at period end, over the firm contract period receivable as follows:

	Lease revenue from time charters 2018 $'000	Service revenue from time charters 2018 $'000	Total 2018 $'000	Lease revenue from time charters 2017 $'000	Service revenue from time charters 2017 $'000	Total 2017 $'000
Within one year	524,256	212,625	736,881	537,090	199,894	736,984
After one year but not more than five years	1,997,076	649,507	2,646,583	1,941,152	619,845	2,560,997
More than five years	3,150,830	856,649	4,007,479	3,461,336	960,319	4,421,655
	5,672,162	1,718,781	7,390,943	5,939,578	1,780,058	7,719,636

The time charters referred to above include various charterers' purchase, termination and extension options.

The Group obtained guarantees from a Russian State controlled entity in respect of the performance of the obligations by its subsidiary as charterer under two time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the State controlled entity. In addition the Group obtained guarantees from a subsidiary of the Russian State controlled entity in respect of the performance obligations by the subsidiary of the guarantor under three time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the guarantor.

Lease revenue from other operations

	Land and buildings	
	2018 $'000	2017 $'000
Within one year	1,827	2,168
After one year but not more than five years	8,522	9,724
More than five years	14,390	20,114
	24,739	32,006
Income during the period	2,230	2,396

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's onshore based facilities including leased in facilities. These leases expire between 7 and 27 years.

43. **Contingent Liabilities and Commitments**

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 16 is summarised as follows:

	Less than 1 year $'000	1 to 5 years $'000	Total $'000
At 31 December 2018			
Newbuilding contracts	341,059	349,244	690,303
	341,059	349,244	690,303
At 31 December 2017			
Newbuilding contracts	268,521	340,521	609,042
Newbuilding contracts with Russian State controlled shipyards	95,960	-	95,960
	364,481	340,521	705,002

Contingent liabilities

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions traditionally utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Generally, in most jurisdictions the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction.

Management believes that the Group's shipping and holding companies are subject to taxation in their respective countries of incorporation in full compliance with local tax legislation. However, the concept of permanent establishment and tax residency for legal entities introduced by domestic and international law is subject to interpretation. As a result, there is a risk that the taxation authorities of certain jurisdictions may attempt to subject the Group's earnings from international shipping activities to income taxes. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions.

Effective 1 January 2015 the concept of beneficial ownership was introduced in the Russian tax code in respect of application of the provisions of double tax treaties to certain types of income. Given the uncertainty in application of the rules, substantial tax liabilities might arise in case the tax authorities challenge compliance with the beneficial ownership confirmation requirements.

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2018 (Continued)

43. **Contingent Liabilities and Commitments (Continued)**

Contingent liabilities (continued)

In 2015, the Russian customs alleged that one of the Group's Russian subsidiaries had breached the customs' regulations in respect of two of its vessels on the basis that it had not obtained the permission of customs prior to chartering out the vessels on time charter. The Russian customs had requested the Group to pay RUR314 million of custom fees (equivalent to $4.5 million) of which RUR284 million (equivalent to $4.1 million) of the RUR314 million paid, were included in other receivables under trade and other receivables as of 31 December 2017. Following a series of court hearings, court judgments and appeals, Customs returned the RUR221 million paid for the first vessel and the RUR93 paid for the second vessel in July and September 2018, respectively. Interest of these amounts totalling RUR72.3 million (equivalent to $1.0 million) is pending.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK and other companies of the Group filed claims at the Commercial Court in London in December 2006 and subsequently joined further defendants. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims, but after appeal unsuccessful on some claims against certain defendants. Some of the defendants in the unsuccessful claims have indicated an intention to pursue the Group for damages in respect of $90.0 million of security provided during the litigation. No claim for damages has been filed yet.

A total amount of $3.2 million (31 December 2017 – $78.7 million), relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims (see also Note 27), has been expensed in the income statement and is included in the line other non-operating expenses.

Details of the Group's commitments under operating leases are disclosed in Note 42.

44. **Related Party Transactions**

Note 40 provides information about the Group's structure, including details of its significant subsidiaries. In addition, the below are material transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes.

On 31 January 2018, the Group entered into a loan facility with a Russian State controlled financial institution totalling $106.2 million, to finance the construction of the Arctic shuttle tanker referred to in Note 16, at an interest rate of 5.6% per annum repayable in 48 quarterly instalments, commencing three months after the delivery of the vessel by the shipyard. On 21 February 2018, the Group drew down an amount of $11.8 million.

In December 2018, the Group entered into a finance lease arrangement with a subsidiary of a State Controlled financial institution, at an effective interest rate of 5.0% per annum, for two ice-class LNG fuelled Aframax tankers commencing on delivery of the vessels from the shipyard in June and September 2022. The total commitments under the leases are $274.3 million, of which $25.2 million are payable over years 2022 and 2023 and the balance of $249.1 million in years 2024 through to September 2032. On expiration of the agreements legal title of the vessels passes to the Group. The Group has no obligation to the lessor until the vessels are delivered from the shipyard and accepted by the Group.

In September 2018, effective 28 December 2018 concurrently with the finance lease arrangement referred to above, the Group, as lessor, entered into time charter agreements with a Russian State controlled entity (the "Charterer") for the chartering out of the two ice-class LNG fuelled Aframax tankers. The charters are for a period of twenty years commencing upon delivery of the vessels from the shipyard and to the Charterer. On expiration of the time charter party the Charterer has the option to purchase the vessel at nominal amount. The time charters have been classified as finance leases. The aggregate lease hire receivable over the charter period are estimated at $623.8 million.

The following table provides the total amount of transactions that have been entered into with related parties in the financial reporting period and outstanding balances as at the period end.

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Transactions with Russian State controlled entities				
Revenue[1]	(441,960)	(353,979)	(21,684)	(24,489)
Voyage expenses and commissions	22,888	5,196	(3,080)	(1,819)
Administration expenses (pension contributions)	1,686	-	-	-
Other operating revenues	(3,702)	(3,081)	(1,948)	(2,017)
Other operating expenses	994	1,078	-	2
Other loans	514	406	(10,168)	(14,175)
Secured bank loans	48,660	44,193	(679,730)	(723,518)
Finance leases payable	-	4,304	-	-
Receivables from shipyard (liquidated damages for late delivery of vessels)	(496)	(40)	5,459	9,962
Payables to charterer (liquidated damages for late delivery of vessels)	1,977	1,022	(20,003)	(23,505)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	105,529	288,187
Cash at bank	(2,695)	(5,843)	111,343	144,289
Derivative financial instruments	(5,576)	23,786	(3,841)	20,976
Transactions with Joint Ventures				
Other operating revenues	(3,432)	(3,235)	761	410
Loans due from joint ventures	(2,171)	(1,353)	66,253	55,622
Compensation of Key Management Personnel				
Short-term benefits	8,154	8,242	(2,583)	(2,506)
Post-employment benefits	62	70	(3)	(18)
Long-term service benefits	2,278	2,938	(6,498)	(21,229)
	10,494	11,250	(9,084)	(23,753)

[1] Includes deferred revenues and contracted liabilities

45. **Events After the Reporting Period**

On 20 February 2019, the Group took delivery of an ice-class LNG fuelled Aframax crude oil tanker, the m/v Korolev Prospect. Effective on the same date, the Group entered into a seven year USD interest rate swap transaction with a financial institution to hedge the Group’s cash flow exposure arising from interest rate fluctuations in respect of a $42.0 million secured bank loan facility in connection with the financing of the vessel.

On 21 February 2019, the Group signed bareboat charter agreements for the chartering in of two seismic vessels, for the performance of a 4D seismic project in the Far East of Russia. Bareboat charter hire payments payable, within one year, up to expected completion of the project are estimated to be $11.1 million.

PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

PAO Sovcomflot

Contents

	Report of Independent Registered Public Accounting Firm	**2**
	Consolidated Income Statement	**3**
	Consolidated Statement of Comprehensive Income	**4**
	Consolidated Statement of Financial Position	**5**
	Consolidated Statement of Changes in Equity	**6**
	Consolidated Statement of Cash Flows	**7**
	Notes to the Consolidated Financial Statements	
1.	Organisation and Trading Activities	8
2.	Directors and Management	8
3.	Significant Accounting Policies	9
4.	Adoption of New and Revised International Financial Reporting Standards	18
5.	Critical Accounting Judgements and Key Sources of Estimation Uncertainty	22
6.	Freight and Hire Revenue	23
7.	Voyage Expenses and Commissions	23
8.	Vessels' Running Costs	23
9.	Depreciation, Amortisation and Impairment	23
10.	General and Administrative Expenses	23
11.	Other Operating Revenues and Expenses	24
12.	Employee Costs	24
13.	Financing Costs	24
14.	Segment Information	25
15.	Fleet	27
16.	Vessels Under Construction	29
17.	Intangible Assets	29
18.	Other Property, Plant and Equipment	30
19.	Investment Property	30
20.	Investments in Joint Ventures	31
21.	Loans to Joint Ventures	34
22.	Finance Lease Receivables	34
23.	Derivative Financial Instruments	34
24.	Income Taxes	35
25.	Earnings Per Share	37
26.	Inventories	37
27.	Trade and Other Receivables	37
28.	Restricted Cash	38
29.	Cash and Bank Deposits	38
30.	Non-Current Assets Held for Sale	39
31.	Share Capital	39
32.	Group Reconstruction Reserve	39
33.	Dividends	39
34.	Non-Controlling Interests	39
35.	Trade and Other Payables	40
36.	Secured Bank Loans	40
37.	Finance Lease Liabilities	41
38.	Retirement Benefit Obligations	41
39.	Other Loans	42
40.	Cash Generated From Operations	43
41.	Significant Subsidiary Companies	43
42.	Financial Risk Management	44
43.	Operating Lease Arrangements	50
44.	Contingent Liabilities and Commitments	51
45.	Related Party Transactions	52
46.	Events After the Reporting Period	53

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of PAO Sovcomflot

Opinion on the financial statements

We have audited the accompanying consolidated statements of financial position of PAO Sovcomflot ("the Company") as of 31 December 2017 and 2016, the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst & Young LLC

We have served as the Company's auditor since 2013.

16 March 2018

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2017

	Note	2017 $'000	2016 $'000
Freight and hire revenue	6	1,435,365	1,388,127
Voyage expenses and commissions	7	(377,374)	(245,941)
Time charter equivalent revenues		1,057,991	1,142,186
Direct operating expenses			
Vessels' running costs	8	378,776	318,293
Charter hire payments	43	40,424	25,791
		(419,200)	(344,084)
Net earnings from vessels' trading		638,791	798,102
Other operating revenues	11	22,307	18,036
Other operating expenses	11	(14,041)	(9,443)
Depreciation, amortisation and impairment	9	(389,142)	(355,790)
General and administrative expenses	10	(116,703)	(115,645)
Gain / (loss) on sale of assets	17, 18, 19, 30	20,177	(483)
Loss on sale of equity accounted investments		(5)	-
Allowance for credit losses		490	84
Share of profits in equity accounted investments	20	2,675	12,939
Operating profit		164,549	347,800
Other (expenses) / income			
Financing costs	13	(193,859)	(162,664)
Interest income		9,787	18,303
Other non-operating income	44	-	15,000
Other non-operating expenses	44	(78,718)	(4,930)
Gain on ineffective hedging instruments	23	401	1,032
Foreign exchange gains		10,586	29,078
Foreign exchange losses		(10,343)	(10,142)
Net other expenses		(262,146)	(114,323)
(Loss) / profit before income taxes		(97,597)	233,477
Income tax expense	24	(15,372)	(26,684)
(Loss) / profit for the period		(112,969)	206,793
(Loss) / profit attributable to:			
Owners of the parent		(109,670)	202,490
Non-controlling interests	34	(3,299)	4,303
		(112,969)	206,793
Earnings per share			
Basic (loss) / earnings per share for the period attributable to equity holders of the parent	25	($0.056)	$0.103

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2017

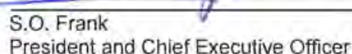
	Note	2017 $'000	2016 $'000
(Loss) / profit for the period		(112,969)	206,793
Other comprehensive income:			
Share of associates' other comprehensive income		6	23
Share of joint ventures' other comprehensive income	20	8,472	8,275
Exchange gain / (loss) on translation from functional currency to presentation currency		2,112	(1,915)
Change in fair value of derivative financial instruments credited to other comprehensive income	23	17,797	16,431
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		28,387	22,814
Remeasurement losses on employee benefit obligations		(461)	(48)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(461)	(48)
Total other comprehensive income for the period, net of tax		27,926	22,766
Total comprehensive income for the period		(85,043)	229,559
Total comprehensive income attributable to:			
Owners of the parent		(81,745)	225,272
Non-controlling interests		(3,298)	4,287
		(85,043)	229,559

PAO Sovcomflot

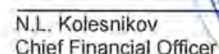
Consolidated Statement of Financial Position – 31 December 2017

	Note	2017 $'000	2016 $'000	2015 $'000
Assets				
Non-current assets				
Fleet	15	6,291,344	5,895,365	5,388,542
Vessels under construction	16	81,837	225,814	368,453
Intangible assets	17	8,659	3,961	4,668
Other property, plant and equipment	18	49,323	58,746	60,284
Investment property	19	7,924	864	7,468
Investments in associates		132	131	104
Investments in joint ventures	20	123,117	114,761	98,306
Available-for-sale investments		523	760	1,012
Loans to joint ventures	21	55,511	45,574	52,468
Finance lease receivables	22	-	-	66,956
Derivative financial instruments	23	35,909	7,146	8,050
Trade and other receivables	27	7,739	2,783	2,812
Deferred tax assets	24	8,162	4,663	7,387
Restricted cash	28	-	-	13,190
Bank deposits	29	12,000	10,000	10,000
		6,682,180	6,370,568	6,089,700
Current assets				
Inventories	26	61,883	53,368	37,568
Loans to joint ventures	21	-	4,750	8,320
Derivative financial instruments	23	808	373	-
Trade and other receivables	27	146,922	173,022	174,605
Finance lease receivables	22	-	-	4,875
Current tax receivable		6,487	4,089	888
Restricted cash	28	75,543	72,079	-
Cash and bank deposits	29	347,352	470,638	357,427
		638,995	778,319	583,683
Non-current assets held for sale	30	25,719	8,360	28,130
		664,714	786,679	611,813
Total assets		7,346,894	7,157,247	6,701,513
Equity and liabilities				
Capital and reserves				
Share capital	31	405,012	405,012	405,012
Reserves		2,860,208	3,048,858	2,916,047
Equity attributable to owners of the parent		3,265,220	3,453,870	3,321,059
Non-controlling interests	34	143,802	150,446	159,922
Total equity		3,409,022	3,604,316	3,480,981
Non-current liabilities				
Trade and other payables	35	28,413	37,504	16,045
Secured bank loans	36	2,262,821	1,903,365	1,596,434
Finance lease liabilities	37	-	-	173,690
Derivative financial instruments	23	12,812	21,624	32,135
Retirement benefit obligations	38	4,045	3,419	3,067
Other loans	39	902,412	737,076	875,492
Deferred tax liabilities	24	2,258	858	776
		3,212,761	2,703,846	2,697,639
Current liabilities				
Trade and other payables	35	285,574	214,784	181,676
Other loans	39	3,537	139,896	16,984
Secured bank loans	36	338,226	290,460	289,142
Finance lease liabilities	37	-	173,690	10,120
Current tax payable		4,890	14,809	2,042
Derivative financial instruments	23	17,370	15,446	22,929
Payable under high court judgement award	44	75,514	-	-
		725,111	849,085	522,893
Total liabilities		3,937,872	3,552,931	3,220,532
Total equity and liabilities		7,346,894	7,157,247	6,701,513

Approved by the Executive Board and authorised for issue on 16 March 2018



S.O. Frank
President and Chief Executive Officer



N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 31 December 2017

	Share capital $'000	Share premium $'000	Reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
	(Note 31)	(Note 31)	(Note 32)					(Note 34)	
At 1 January 2016	**405,012**	**818,845**	**(834,490)**	**(68,270)**	**(44,542)**	**3,044,504**	**3,321,059**	**159,922**	**3,480,981**
Profit for the period	-	-	-	-	-	202,490	202,490	4,303	206,793
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	23	-	23	-	23
Share of joint ventures' other comprehensive income	-	-	-	8,271	4	-	8,275	-	8,275
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(1,904)	-	(1,904)	(11)	(1,915)
Change in fair value of derivative financial instruments credited to other comprehensive income (Note 23)	-	-	-	16,431	-	-	16,431	-	16,431
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(43)	(43)	(5)	(48)
Total comprehensive income	-	-	-	24,702	(1,877)	202,447	225,272	4,287	229,559
Dividends (Note 33)	-	-	-	-	-	(92,948)	(92,948)	(13,217)	(106,165)
Effect of acquisition of non-controlling interests in PAO Novoship (Note 41)	-	-	-	-	(16)	503	487	(546)	(59)
At 31 December 2016	**405,012**	**818,845**	**(834,490)**	**(43,568)**	**(46,435)**	**3,154,506**	**3,453,870**	**150,446**	**3,604,316**
Loss for the period	-	-	-	-	-	(109,670)	(109,670)	(3,299)	(112,969)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	6	-	6	-	6
Share of joint ventures' other comprehensive income	-	-	-	8,472	-	-	8,472	-	8,472
Exchange gain on currency translation from functional currency to presentation currency	-	-	-	-	2,062	-	2,062	50	2,112
Change in fair value of derivative financial instruments credited to other comprehensive income (Note 23)	-	-	-	17,797	-	-	17,797	-	17,797
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(412)	(412)	(49)	(461)
Total comprehensive income	-	-	-	26,269	2,068	(110,082)	(81,745)	(3,298)	(85,043)
Dividends (Note 33)	-	-	-	-	-	(106,905)	(106,905)	(3,346)	(110,251)
At 31 December 2017	**405,012**	**818,845**	**(834,490)**	**(17,299)**	**(44,367)**	**2,937,519**	**3,265,220**	**143,802**	**3,409,022**

Notes

Hedging reserve: The hedging reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date of the Group including its joint arrangements and associates.
Currency reserve: The currency reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries, joint arrangements and associates.

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2017

	Note	2017 $'000	2016 $'000
Operating Activities			
Cash received from freight and hire of vessels		1,460,260	1,414,275
Other cash receipts		28,672	24,780
Cash payments for voyage and running costs		(794,276)	(585,758)
Other cash payments		(127,306)	(101,315)
Cash generated from operations	40	567,350	751,982
Interest received		8,203	5,943
Income tax paid		(29,709)	(14,007)
Net cash inflow from operating activities		545,844	743,918
Investing Activities			
Expenditure on fleet		(56,226)	(36,596)
Fleet acquisitions in the period		-	(347,906)
Expenditure on vessels under construction	16	(556,663)	(329,904)
Interest capitalised	16	(4,045)	(19,139)
Expenditure on intangibles, other property, plant and equipment and investment property	17, 18, 19	(5,058)	(5,248)
Loan repayments from joint ventures		1,924	14,531
Loans issued to joint ventures		(6,018)	-
Proceeds from sale of equity accounted investments		19	-
Proceeds from sale of vessels		-	28,172
Proceeds from sale of other property, plant and equipment		26,619	324
Proceeds from settlement of finance lease receivable	22	-	67,628
Capital element received on finance leases	22	220	4,838
Interest received on finance leases	22	446	12,053
Dividends received from equity accounted for investments	20	2,801	3,578
Bank term deposits	29	14,479	(15,000)
Restricted cash placed in court	28	(2,864)	(72,079)
Restricted cash placed in deposit	29	(3,000)	-
Restricted cash released	28	-	17,190
Net cash outflow used in investing activities		(587,366)	(677,558)
Financing Activities			
Proceeds from borrowings		851,642	1,533,452
Repayment of borrowings		(448,213)	(1,218,248)
Financing costs		(10,914)	(44,106)
Repayment of finance lease liabilities	37	(176,817)	(10,345)
Restricted deposits	29	-	846
Funds in retention bank accounts	29	(1,651)	1,055
Interest paid on borrowings		(173,161)	(125,152)
Interest paid on finance leases		(4,917)	(11,895)
Dividends paid	42(c)	(110,977)	(98,184)
Acquisition of non-controlling interests	34	-	(59)
Net cash (outflow used in) / inflow from financing activities		(75,008)	27,364
(Decrease) / increase in Cash and Cash Equivalents		(116,530)	93,724
Cash and Cash Equivalents at 1 January	29	432,792	332,680
Net foreign exchange difference		5,072	6,388
Cash and Cash Equivalents at 31 December	29	321,334	432,792

The amendments to IAS 7 require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has provided the information in Note 42(c).

Notes to the Consolidated Financial Statements – 31 December 2017

1. Organisation and Trading Activities

PAO Sovcomflot ("Sovcomflot" or "the Company") is a public joint stock company organised under the laws of the Russian Federation and was initially registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The Company's registered office address is 3A Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation.

The Company, through its subsidiaries (the "Group"), is engaged in ship owning and operating on a world-wide basis with a fleet of 137 vessels at the period end, comprising 115 tankers, 9 gas carriers, 9 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet see also Notes 15, 16, 22 and 30.

Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are each owned and financed by individual wholly owned subsidiaries of the Group's intermediate holding companies, SCF Tankers Limited ("SCF Tankers"), Intrigue Shipping Limited (''Intrigue'') and SCF Gas Carriers Limited ("SCF Gas").

Ship management services for the Group's vessels are provided by Sovcomflot's subsidiaries SCF Management Services (Dubai) Ltd., SCF Management Services (Novorossiysk) Ltd., SCF Management Services (Cyprus) Ltd, and SCF Management Services (St. Petersburg) Ltd.

A list of significant subsidiary companies is disclosed in Note 41 to these consolidated financial statements. The ultimate controlling party of PAO Sovcomflot is the Russian Federation.

2. Directors and Management

The corporate governing bodies of PAO Sovcomflot comprise a Board of Directors which is responsible for strategic planning and management, prioritization of business activities and strategic decisions and an Executive Board which is a collegial executive body responsible for the co-ordination of day to day activities, development of business policy, resolution on the most important operational matters, investments, oversight of subsidiaries and procures implementation of decisions of the Shareholders and Board of Directors.

The Board of Directors and the Executive Board as at the date of approval of these consolidated financial statements are:

Members of the Board of Directors	Initial date of appointment	
I.I. Klebanov (Chairman)	3 November 2011	Senior State Counsellor of the Russian Federation, 1st Class
W.A. Chammah	29 June 2015	Partner of "Chammah & Partners" LLC
I.F. Glumov	29 June 2015	General Director of OJSC "Severneftegaz"
P.A. Kadochnikov	30 June 2016	Vice Rector for Research of the Russian Foreign Trade Academy of the Ministry for Economic Development of the Russian Federation
A.Y. Klyavin	30 June 2012	President of The Russian Chamber of Shipping
D.G. Moorhouse	29 June 2010	Member of the Board of Directors
V.A.Olersky	16 June 2017	Deputy Minister of Transport of the Russian Federation, Head of the Federal Agency for Maritime and River Transport
A. V. Sharonov	30 June 2014	President of Moscow School of Management "SKOLKOVO"
S.O. Frank	10 November 2004	President and Chief Executive Officer of PAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 16 June 2017. Mr Klebanov was re-elected as a Chairman on 1 September 2017.

Members of the Executive Board	Date of appointment	
S.O. Frank (Chairman)	4 October 2004	President and Chief Executive Officer of PAO Sovcomflot
E.N. Ambrosov	13 July 2009	Senior Executive Vice-President of PAO Sovcomflot
V.N. Emelianov	12 September 2011	Vice-President and Chief Strategy Officer of PAO Sovcomflot
N.L. Kolesnikov	19 July 2005	Executive Vice-President and Chief Financial Officer of PAO Sovcomflot
C.B. Ludgate	22 February 2007	Managing Director of Sovcomflot (UK) Ltd
M.C. Orphanos	12 May 2010	Managing Director of Sovcomflot (Cyprus) Limited
A.V. Ostapenko	16 October 2012	Vice President and Chief Legal Counsel of PAO Sovcomflot
S.G. Popravko	19 July 2005	Managing Director of SCF Management Services (Cyprus) Ltd
I.V. Tonkovidov	14 January 2011	Executive Vice-President and Chief Operating / Chief Technical Officer of PAO Sovcomflot
Y.A Tsvetkov	14 December 2012	President of PAO Novoship

3. **Significant Accounting Policies**

(a) Basis of preparation and accounting

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the historical cost basis except where fair value accounting is specifically required by IFRS, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The financial statements are presented in U.S. Dollars, which is also the currency of the Group's primary economic environment and the functional currency of the Group's major subsidiaries.

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries ("controlled investees") as at 31 December 2017. Control is achieved when the Group:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in a change of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

3. **Significant Accounting Policies (Continued)**

(c) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred / assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations", are recognised at their fair values at the acquisition date.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 provided that they are controlled by the same party both before and after the business combination. These transactions are accounted for on a pooling of interests basis. The financial position, financial performance and cash flows of the combined Group are brought together as if the companies had always been a single entity.

The Group initiates and performs a review of all acquisition transactions during each period to consider the transaction to be either a business combination or an asset acquisition in accordance with IFRS 3. When the acquisition is not a business combination by its nature, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 "Intangible Assets") and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. Consistent with shipping industry practice, the acquisition of a vessel (whether acquired with or without charter) is treated as the acquisition of an asset rather than a business, because vessels are acquired without related business processes.

(d) Segmental reporting

The Group consists of five reportable operating segments: crude oil transportation, oil product transportation, gas transportation, offshore development services and other. The segments are fully explained in Note 14.

The requirements of IFRS 8 "Operating Segments" on segment reporting are based on the information about the components of the entity that management uses to make decisions about operating matters. The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, which is defined as the Board of Directors of the Company, in order to allocate resources to the segment and assess its performance. The Group has only one geographical segment, because management considers the global market as a whole, and as the individual vessels are not limited to specific parts of the world with the exception of vessels operating on Russian continental shelf projects. Furthermore, the internal management reporting does not provide such information.

The segment income statement comprises revenues and expenses directly attributable to the segment i.e. freight and hire revenue, voyage expenses and commissions, vessels' running costs and charter hire payments, vessels' drydock cost amortisation, vessels' depreciation, vessels' impairment provision and reversal thereof, gains or losses on sale of vessels and exchange differences. Non-current assets consist of the vessels used in the operation of each segment. Not allocated items primarily comprise assets and liabilities as well as revenues and expenses relating to the Group's administrative functions and investment activities, cash and bank balances, interest bearing debt, and income tax.

(e) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are included in these consolidated financial statements from the date on which the investee becomes an associate or a joint venture, using the equity method of accounting. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. Investments in associates and joint ventures are carried in the consolidated statement of financial position at cost and adjusted for by post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests, that in substance form part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the investment is acquired.

(f) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (as defined in Note 3(e)), have rights to the assets and obligations for the liabilities relating to the arrangement.

The Group recognises in relation to its interest in a joint operation its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

The Group's share of the assets, liabilities, income and expenses of joint operations are recognised within the equivalent items in the consolidated financial statements on a line-by-line basis.

3. **Significant Accounting Policies (Continued)**

(g) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, an active programme to locate a buyer and complete the sale must be initiated and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. These criteria have to be met at the reporting period end for classification as held for sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non–current asset is classified as held for sale.

(h) Freight and hire revenue

Freight and hire revenue includes contract revenue from seismic services and the Group's share of revenues arising under vessel pooling arrangements and represents vessel earnings during the period. Vessel earnings are measured at the fair value of the consideration received or receivable, net of address commissions.

Freight revenues are earned for the carriage of cargo on behalf of the charterer, in the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached, the Group is compensated for the additional time incurred in the form of demurrage revenue which is recognised when it can be measured reliably in accordance with the terms and conditions of the respective charter party agreements.

Hire revenues are earned for exclusive use of the services of the vessel by the charterer for an agreed period of time.

Time charter equivalent revenues describe the earnings of any charter contract once voyages expenses and commissions relating to the performance of the contract have been deducted from the gross revenues. The term is commonly used in the shipping industry to measure financial performance and to compare revenue generated from a voyage charter to revenue generated from a time charter.

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid to third party brokers by the Group.

Freight revenue and voyage expenses are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. The impact of recognising voyage expenses rateably over the length of each voyage is not materially different on a quarterly and annual basis from the method of recognising such costs on an accruals basis. Full provision is made for any losses forecast on voyages in progress at the end of the financial reporting period.

The Group does not begin recognising revenue until a charter has been agreed to by the Group and the charterer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. In applying its revenue recognition method, management believes that the discharge to discharge port basis of calculating voyage results provides greater degree of accuracy than the load to load port basis. In the application of this policy, the Group recognises revenue only when (i) the amount of revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the transactions stage of completion at the balance sheet date can be measured reliably; and (iv) the costs incurred and the costs to complete the transaction can be measured reliably.

Revenues from time charters (hire revenues) are accounted for as operating leases and recognised on a straight line basis over the rental periods of such charters, as service is performed. Accrual is made for all hire receivable to the end of the financial reporting period in respect of time charters in progress. Any contractual rate changes over the contract term, to the extent they relate to the firm period of the contract, are taken into account when calculating the daily hire rate. Revenues from variable hire arrangements are recognised to the extent the variable amounts earned beyond an agreed fixed minimum hire are determinable at the reporting date and all other revenue recognition criteria are met. Revenues from time charters received in the period and relating to subsequent periods are deferred and recognised separately as deferred revenue in trade and other payables.

The Group performs acquisition and processing of seismic data (seismic services) under contracts for specific customers, whereby the seismic data is owned by the customers. Revenue from seismic services (included in hire revenues) is recognised using the percentage of completion method, consistent with the progress of the project, provided that all revenue recognition criteria are satisfied.

A number of the Group's vessels participate in vessel pooling arrangements with third parties. Pool revenue is generated from each vessel participating, undertaking either voyage or time charters. The Group recognises all revenue (and voyage costs) earned by its vessels through participation in the pools under the specific voyage and time charters that the vessels undertake via their pool participation. Revenue and voyage costs arising under such charters are recognised in the same way as voyage charters and time charters as set out above.

All pool agreements in which the Group participates contain profit share clauses, under which the Group's vessels and the third parties' vessels net earnings (time charter equivalent) are shared. The pool measures net earnings based on the contractual rates, the duration of each voyage and, the relevant voyage costs recognised upon delivery of the services in accordance with the terms and conditions of the charter parties. The Group's share of the net earnings in the pools is dependent on the number of days the Group's vessels have been available for the pools in relation to the total available pool earning days during the period. These profit sharing arrangements may give rise to a liability to the third party or a receivable to the Group. These amounts are settled periodically.

The results of the profit sharing arrangements are recognised in full by the Group within freight and hire revenues assuming a reliable estimate can be made. Any adjustment remaining unsettled at the period end is either recognised in accrued income under current assets or accrued liabilities under current liabilities.

3. **Significant Accounting Policies (Continued)**

(i) Operating revenues and operating expenses

Other operating revenues and other operating expenses comprise income and directly related expenses from non-core non-vessel operating related activities, rental operations derived from investment properties, technical management and newbuilding supervision, as well as ancillary services provided by vessel in operation in the offshore segment.

Other operating revenues are measured at the fair value of the consideration received or receivable. Revenues from non-core vessel operating activities and revenues from the provision of technical management services are recognised by reference to the time of provision of the activities and services. Revenues from rental income from investment properties are accounted for on a straight line basis over the rental periods of such properties. Revenues from newbuilding supervision are recognised using the percentage of completion method, based on input methods, consistent with the progress of the project.

(j) Interest income

Bank and other interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(k) Currency translation

Transactions and balances

Transactions during the period in currencies other than the functional currencies of the various Group entities have been translated into their functional currencies (mostly the U.S. Dollar) at rates ruling at the time of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in currencies other than the functional currencies are retranslated at the rates ruling at that date.

Non-monetary items that are measured in terms of historical cost in currencies other than the functional currencies are not retranslated. Non-monetary items measured at fair value in currencies other than the functional currencies are translated using the exchange rates at the date when the fair value was determined.

Group companies

The assets and liabilities of the Group's entities that have functional currencies other than the U.S. Dollar are translated from their functional currency into U.S. Dollars at the rate of exchange ruling at the reporting date. Income and expenses are translated into U.S. Dollars at the average rate of exchange for the period unless exchange rates fluctuate significantly in which case they are translated, for significant transactions, at the exchange rate ruling at the date of the transaction, and, for other transactions, the average rate of exchange for shorter periods, depending on the fluctuation of the exchange rates.

Differences arising on retranslation of their opening net assets and results for the period are dealt with as movements in other comprehensive income. On disposal of an entity with a functional currency other than the U.S. Dollar, the deferred cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

Any goodwill arising on the acquisition of an entity with a functional currency other than the U.S. Dollar and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the acquired entity. They are expressed in the functional currency of the acquired entity and are translated at the rate of exchange ruling at the reporting date.

Exchange rates

For the purposes of these consolidated financial statements, the exchange rates used are as follows:

	2017 Closing $1	2017 Average $1	2016 Closing $1	2016 Average $1	2015 Closing $1
Russian Roubles	57.6002	58.3529	60.6569	67.0349	72.8827
Pounds Sterling	0.7416	0.7770	0.8135	0.7397	0.6750
Euros	0.8364	0.8874	0.9506	0.9036	0.9145

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset (see also Note 3(s)). To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period (with consideration to the effect of effective hedging of floating rate debt) less any investment income on the temporary investment of those borrowings.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated using the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalises during a period does not exceed the amount of borrowing costs incurred during that period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(m) Leasing

Finance leases are leases which transfer substantially all the risks and rewards incidental to ownership of the leased item. Leases which do not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. The determination of whether a lease is a finance lease or an operating lease depends on the substance of the arrangement rather than the form of the contract at the inception of the lease. In determining the substance of the transaction the Group considers amongst others the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions, expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

3. **Significant Accounting Policies (Continued)**

(m) Leasing (continued)

Group as lessee - Finance and operating lease payables

Finance leases are recorded in the financial statements of the Group at the lower of fair value of the leased property and net present value of the minimum lease payments, each determined at the inception of the lease. The present value of the minimum lease payments is calculated by discounting the total minimum lease payments outstanding, at the date of the lease agreement, at the interest rate implicit in the lease. Finance costs are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Group as lessor - Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(n) Employee benefits

Retirement benefit costs

The Group operates a number of retirement benefit schemes for its shore-based staff and seafarers.

Defined contribution retirement benefit plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit retirement benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation.

Long-term service retirement benefit plans

The Group's net obligation in respect of long-term service retirement benefit plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method. The long-term service benefit obligation recognised in the statement of financial position represents the present value of the defined lump-sum benefit obligation.

The Group recognises all gains and losses arising from the remeasurement of both defined benefit retirement benefit plans and long-term service retirement benefit plans in other comprehensive income in the period in which they arise.

The discount rate used to calculate the present value is the yield, at the end of the financial reporting period, on government bonds that have maturity dates which approximate the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Past service cost is recognised immediately in profit or loss.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash flows expected to be made by the Group in respect of services provided by the employees up to the reporting date. Re-measurements of the long-term employee benefit liability are recognised in profit or loss when they occur.

(o) Property, plant and equipment and depreciation

The Group's property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Cost comprises of the acquisition or construction cost of the asset, after deducting trade discounts and rebates, and any costs directly attributable to the acquisition or construction up to the time that the asset is ready for its intended use. Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised as part of the cost of the asset. Subsequent expenditures for conversions and major improvements are capitalised when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise they are charged to profit or loss as incurred.

3. **Significant Accounting Policies (Continued)**

(o) Property, plant and equipment and depreciation (continued)

Depreciation in respect of the Group's fleet is charged so as to write off the book value of the vessels, less an estimated residual value, on a straight line basis over the anticipated useful life of the vessels (from date of construction) which is as follows:

Oil, shuttle, product and chemical tankers	25 years
Arctic shuttle tankers	12 years
Ice breaking supply vessels	25 years
LNG carriers	35 years
LPG carriers	30 years
Bulk carriers	25 years

The residual value for each vessel is calculated by reference to its lightweight tonnage and the estimated price of steel per lightweight tonne. The price of steel per lightweight tonne used to calculate residual values as of the end of each reporting period was as follows:

	2017 $ per LWT	2016 $ per LWT	2015 $ per LWT
Oil, shuttle, product and chemical tankers	415	290	300
Arctic shuttle tankers	415	290	-
Ice breaking supply vessels	415	290	300
LNG carriers	465	330	310
LPG carriers	450	320	310
Bulk carriers	390	305	305

Depreciation in respect of buildings and other property, plant and equipment is charged so as to write off their cost on a straight-line basis to its residual value over the anticipated useful lives of the assets concerned at a rate of between 2% and 5% and between 5% and 33% per annum, respectively. Land is not depreciated.

Equipment acquired and installed on-board chartered in vessels is included within fleet and is depreciated to its residual value over the shorter of its anticipated useful life and the non-cancellable operating lease period of the chartered in vessel to which they relate.

Leasehold improvements are included within other property, plant and equipment and are depreciated over the non-cancellable period of the operating lease to which they relate.

The residual value and useful life of each asset is reviewed at each financial period end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the income statement in the period of the change and future periods. An increase in the residual value of an asset will decrease the depreciation charge for the period and future periods and vice versa until the residual value is reassessed.

(p) Intangible assets

Intangible assets comprise computer software. Computer software is carried in the statement of financial position at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is charged so as to write-off the cost of the computer software on a straight line basis over the useful economic life of the software concerned at a rate between 10% and 33%.

The amortisation period of each intangible is reviewed at each financial period end. Any changes in the expected useful life are treated as a change in accounting estimate and are accounted for prospectively in the income statement in the period of change and future periods. Amortisation of the capitalised intangible assets is included in the depreciation, amortisation and impairment line in the consolidated income statement.

(q) Drydocking and special survey costs

The vessels are required to undergo planned drydockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an ''Intermediate Survey'') and the fifth annual inspection being the most comprehensive survey (a ''Special Survey''). The inspection cycle resumes after each Special Survey. Vessels are typically required to undergo special surveys, which include inspection of underwater parts ("bottom survey"), every 60 months.

Drydocking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for bottom surveys and for repairs related to inspections. An in-water survey may be permitted in lieu of a drydocking for the intermediate survey, although the vessel must carry out a drydocking in conjunction with a special survey.

Drydocking and special survey costs, to the extent that they are incurred directly to meet regulatory requirements, are capitalised as a separate component of vessel cost and are amortised on a straight line basis over the estimated period to the next drydocking. Amortisation of the capitalised drydocking costs is included in the depreciation, amortisation and impairment line in the consolidated income statement. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred.

Drydocking costs may include the costs associated but not limited to the service and replacements of main engine and propulsion machinery, boilers, engine room tanks, auxiliary machinery, various gears and systems of shaft seals, safety and navigation equipment, anchor and deck machinery, turbo chargers, steering gears, electrical equipment, controls and automated systems, cargo, fuel and ballast tanks and applying of antifouling and hull paint.

Where a vessel is acquired new, or constructed, a proportion of the cost of the vessel is allocated to the components expected to be replaced at the next drydocking based on the expected costs related to the first-coming drydocking, which is based on experience and past history of similar vessels.

For second hand vessels, the actual cost of the previous drydocking component is used, amortised to the date of acquisition, taking into account the drydocking cycle of the vessel. Where the actual cost of the previous drydocking is not known, the expected costs related to the first-coming drydocking, amortised to the date of acquisition is used as an indication of the cost of the previous drydocking component, which is again based on experience and past history of similar vessels.

3. **Significant Accounting Policies (Continued)**

(r) Investment property

Investment property is stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided on the same basis as for other property, plant and equipment as described in Note 3(o).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised. Transfers to, or from, investment property are made only when there is a change in use evidenced by end of owner-occupation, for a transfer from owner-occupied property to investment property, commencement of owner-occupation, for a transfer from investment property to owner occupied property and commencement of development with a view to sell, for a transfer from investment property to inventories.

(s) Assets under construction

Assets under construction are carried at cost, less any recognised impairment loss. Cost comprises shipyard payments, after deducting any trade discounts and rebates, and any other costs directly attributable to the construction including supervision fees and expenses, professional fees and capitalised borrowing costs.

Certain shipbuilding contracts contain clauses whereby the Group is eligible for compensation from the shipyard, in the form of liquidated damages, for delay in construction and late delivery of the vessel to the Group. Liquidated damages receivable are accounted for as a reduction in the value of the vessel under construction. Where liquidated damages are both receivable from the shipyard and payable to the charterer of a vessel under construction once the vessel is delivered, the net amount of liquidated damages is accounted for as a reduction in the value of the vessel under construction on the basis that liquidated damages receivable and payable are triggered by the delay in construction of the vessel and are negotiated collectively by the Group, the ship yard, and the charterer.

Interest payable attributable to finance newbuildings under construction, is added to the cost of those newbuildings, until such time as the newbuildings are ready for their intended use and are delivered to the Group. Upon completion the assets are transferred to the appropriate class of property, plant and equipment.

(t) Impairment

At the end of each financial reporting period, the Group assesses whether there is any indication that its property, plant and equipment may have suffered an impairment loss. If any indication exists, the Group estimates the asset's recoverable amount.

The assessment of whether there is an indication that an asset is impaired is made with reference to trading results, predicted trading results, market rates, technical and regulatory changes and market values. If any such indication exists, the recoverable amount of the asset or cash generating unit (CGU) is estimated in order to determine the extent of any impairment loss.

The first step in this process is the determination of the lowest level at which largely independent cash flows are generated, starting from the individual asset level. A CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets. In identifying whether cash inflows from an asset or group of assets are largely independent, and therefore determining the level of CGUs, the Group considers many factors including management's trading strategies, how management makes decisions about continuing or disposing of the assets, nature and terms of contractual arrangements and actual and predicted employment of the vessels. Based on the above, the Group has determined it has CGUs of varying sizes ranging from individual vessels to multiple vessels of the same class with similar or identical characteristics.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is determined as the amount at which assets may be disposed of on a willing seller, willing buyer basis, less directly associated costs of disposal. In estimating fair value, the Group considers recent market transactions for similar assets, and the views of reputable shipbrokers.

If the recoverable amount is less than the carrying amount of the asset or the CGU, the asset is considered impaired and an expense is recognised equal to the amount required to reduce the carrying amount of the vessel or the CGU to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior periods. Such reversal is recognised in the income statement.

(u) Inventories

Inventories are stated at the lower of cost or net realisable value and comprise bunkers (where applicable), luboils, victualing and slopchest stocks, other inventories and spares and consumables purchased for or acquired on board bareboat chartered in vessels. Cost is calculated using the first in first out method. Other stores and spares relating to vessel operations are charged to running costs when purchased and no account is taken of stocks remaining on board at the end of the period.

(v) Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period, to its net carrying amount.

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Trade receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance is made when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables taking into account any collateral or other credit enhancement obtained. A provision is made for outstanding demurrages based on prior years' experience. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the allowance is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the appropriate allowance account. Subsequent recoveries of amounts previously written off are credited against allowance of credit losses in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on deposit with banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated upon initial recognition as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Available-for-sale financial assets

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Unlisted and listed shares held by the Group are classified as being available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses on available-for-sale monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in profit or loss for the period. Investments in equity shares that are not traded in an active market and where fair value cannot be estimated on a reasonable basis are stated at cost less impairment losses.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Borrowings

Interest bearing bonds, bank loans and overdrafts and other loans are initially measured at fair value (proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the fair value of the proceeds received, net of direct issue costs.

3. **Significant Accounting Policies (Continued)**

(v) Financial instruments (continued)

Derecognition or modification of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, eliminated, sold, cancelled or expires.

Where an existing financial liability is exchanged by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss. Where an existing financial liability is exchanged by another from the same lender or modified on terms that are not substantially different, the exchange or modification is not accounted for as an extinguishment and any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements and foreign currency exchange movements on its bank borrowings.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedges that meet the strict criteria for hedge accounting are accounted for and further described in the below sections.

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group designates certain derivatives as hedges of interest rate risk and foreign currency exchange risk on its bank borrowings. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised in other comprehensive income and any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss as a reclassification adjustment.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A derivative instrument that is not a designated and effective hedging instrument is required to be classified as held for trading under IAS 39 "Financial Instruments: Recognition and Measurement". IAS 1 "Presentation of Financial Statements" clarifies that such an instrument must be separated into current and non-current portions unless it is held primarily for trading in which case it is classified as current. Therefore, an entity separates such a derivative instrument into current and non-current portions based on an assessment of the facts and circumstances and classifies it accordingly.

1) When management holds a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond twelve months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item as discussed below in scenarios 2 and 3;
2) An embedded derivative that is not closely related to the host contract, which is required to be accounted for separately, is classified consistent with the cash flows of the host contract; and
3) A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made; and it is applied to all designated and effective hedging instruments.

(w) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the Company and its subsidiaries are incorporated. Income taxes in respect of the Company are accounted for in accordance with Russian fiscal regulations. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. **Significant Accounting Policies (Continued)**

(w) Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
A deferred tax liability is recognised on unremitted earnings of subsidiaries to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the consideration transferred on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tonnage tax

Tonnage tax is payable by the Group in the countries of registration of its vessels by reference to the registered tonnage of each vessel. Tonnage tax is not a tax on income as defined by IAS 12 "Income Taxes" and is therefore included in general and administrative expenses under non-income based taxes.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect of discounting is material.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements unless recovery is virtually certain but are disclosed when an inflow of economic benefits is only probable.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(y) Insurance claims

Amounts for insurance claims are recognised when amounts are virtually certain to be received, based on the management's judgement and estimates of independent adjusters as to the amount of the claims.

(z) Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit or loss for the period available to equity holders of the parent by the weighted average number of shares outstanding during the period.

4. **Adoption of New and Revised International Financial Reporting Standards**

Amendments to IFRSs and the new Interpretations that are mandatorily effective for the current period

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2017. The nature and the impact of each new standard or amendment are described below:

IAS 7 ("Statement of Cash flows") – "Amendments resulting from the disclosure initiative". The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Information required by this amendments is presented in Note 42(c) of these consolidated financial statements.

4. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

Amendments to IFRSs and the new Interpretations that are mandatorily effective for the current period (continued)

IAS 12 (“Income Taxes”) – “Recognition of Deferred Tax Assets for Unrealised Losses”. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The Group applied the amendments retrospectively. The application has no effect on the Group’s financial position and performance.

IFRS 12 (“Disclosures of Interests in Other Entities”) – “Clarifying scope”. The amendments clarify the disclosure requirements in IFRS 12 in respect of an entity’s interest in a subsidiary, joint venture or an associate that is classified as held for sale. The amendment has no impact on these consolidated financial statements as the Group has no such entity as classified for sale.

New and revised IFRSs in issue but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group’s operations were in issue but not yet effective. The Group does not intend to adopt any standard, interpretation or amendment that has been issued but is not yet effective before their effective date.

The Group is currently assessing the impact from the application of IFRS 16 (“Leases”) on its consolidated financial statements.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements.

IFRS 15 (“Revenue from Contracts with Customers”)

IFRS 15 was issued in May 2014 and amended in April 2016, (effective as of 1st January 2018), with earlier adoption permitted. The Group will adopt the new standard on the required effective date. The standard permits either a full retrospective or a modified retrospective approach for application. The Group will apply the modified retrospective approach. IFRS 15 introduces a new single model for the recognition of revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 (“Revenue”), and IAS 11 (“Construction Contracts”) and their related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods to a customer in an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services. Specifically, the standard introduces a five-step model approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

During 2017, the Group assessed the impact of applying the new standard to the Group’s financial statements, processes and systems and has identified the following areas that are expected to be impacted:

1. Following discussions with other companies in the shipping industry and having reviewed the terms of the Group’s voyage contracts, for freight revenues under voyage charter parties the Group assessed that
    a. Normally, voyage contract represents a single performance obligation. This is similar to the current identification of revenue applied by the Group under IAS 18.
    b. In the majority of cases, a voyage charter party does not contain a lease as either the charterer does not have a substantive right to direct how and for what purpose the vessel will be used or the Group has a substantive right to substitute the vessel i.e. the Group is practically able to do so and it would benefit economically from the right of substitution, in which case an identified vessel does not exist.
    c. When a voyage charter contains a lease, the lease component will be accounted for as operating leases and recognised on a straight line basis over the rental periods of such charters, as service is performed (see Note 3(h)) and the service component will be accounted for separately under IFRS 15.
    d. Demurrage is a variable consideration (and not a separate performance obligation), which is to be recognised from the time it becomes probable over the remaining time of the voyage.
    e. The voyage performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group. This treatment is also consistent with the current practice.
    f. The performance obligation for a voyage charter begins to be satisfied only once cargo is loaded (from load to discharge). This is different from the current practice of recognising revenue from discharge to discharge.
    g. The Group considers that an output method is more appropriate in measuring the progress towards satisfaction of a performance obligation, i.e. voyage revenue will be recognised pro-rata based on time elapsed from loading of cargo to the expected date of completion of the discharge.

4. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

New and revised IFRSs in issue but not yet effective (continued)

IFRS 15 ("Revenue from Contracts with Customers") (continued)

2. Hire revenues under time charter parties, comprise a lease component and a service component. The lease components will continue to be accounted for as leases and recognised on a straight line basis over the rental periods of such charters, as service is performed (see Note 3(h)). The service component will be accounted for separately under IFRS 15. Revenue recognised in respect of the service component under IFRS 15 will not change. The components of hire revenue are required to be disclosed separately in a new disclosure note in financial statements.
3. In the majority of cases, revenue from seismic services will be recognised as a single performance obligation, which is satisfied over time, using the percentage of work completed based primarily on the input method for measurement of progress. This method will measure progress on the basis of inputs (for example, resources consumed, labour hours expended, bunker costs, mobilisation costs incurred) that are relative to the total expected inputs to the satisfaction of the performance obligation.
4. Incremental costs incurred to obtain a contract (i.e. brokers' commissions), as well as voyage costs incurred between signing the charter party and arrival at the loading port, will be recognised as an asset and amortised over the period the performance obligation is satisfied unless expensing them as incurred would not be materially different on a quarterly and annual basis. Costs to fulfil a voyage contract (i.e. port costs, canal dues, bunkers) from load port to discharge will be expensed as incurred.
5. Other operating revenues disclosed in Note 11 comprising income from non-core non-vessel operating activities, rental income derived from investment properties, income from the commercial and technical management and newbuilding supervision of vessels as well as from ancillary services provided by the Group's vessels in operation in the offshore segment will not be impacted as a result of the adoption of IFRS 15.

The Group has assessed that the impact of the disclosure requirements in IFRS 15 will be significant. Disclosures shall include both qualitative and quantitative information about:

- Contracts with charterers (disaggregation of revenue, contract balances);
- Significant judgements (transfer of control, satisfying performance obligation over time vs point of time, stage of completion, determining collectability from the charterer, determination of an appropriate measure of progress, estimation of variable consideration); and
- Practical expedients.

Except from providing more extensive disclosures, management does not anticipate that the application of IFRS 15 will have a material impact on the financial position and/or financial performance of the Group.

IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception" (when IFRS 9 will be applied – see below).

IFRS 7 ("Financial Instruments: Disclosures") – "Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9" (when IFRS 9 will be applied – see below).

IFRS 9 ("Financial Instruments")

IFRS 9 ("Financial Instruments") – "Classification and Measurement". The final version of IFRS 9 replaces IAS 39 Financial Instruments "Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses (effective for annual periods beginning on or after 1 January 2018).

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a preliminary impact assessment of the aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. The Group is considering the application of the simplified approach to trade receivable that do not contain a significant financing component as it is recommended by the standard. Also the Group is considering its choice for the other types of financial assets, the accounting policy for these assets may be selected independently of one another.

Overall the Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group considers that the contractual cash flow characteristics of those instruments meet the criteria for amortised cost measurement under IFRS 9, therefore reclassification for these instruments is not required.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost. Based on the preliminary assessment undertaken to date, the Group expects that IFRS 9 can produce the same measurement of loss allowance as IAS 39, or higher but the increase will not be significant to the loss measured under IAS 39.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

4. **Adoption of New and Revised International Financial Reporting Standards (Continued)**

New and revised IFRSs in issue but not yet effective (continued)

IFRS 16 ("Leases") – IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after 1 January 2019).

IFRS 10 ("Consolidated Financial Statements") and IAS 28 ("Investments in Associates and Joint Ventures") – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 2 ("Share Based Payment") – "Classification and Measurement of Share-based Payment Transactions". The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met (effective for annual periods beginning on or after 1 January 2018).

IAS 40 ("Investment Property") – "Amendments to clarify transfers of property to, or from investment property" (effective for annual periods beginning on or after 1 January 2018).

IFRS 9 (''Financial Instruments'') – "Amendments for prepayment features with negative compensation and modifications of financial liabilities" (effective for annual periods beginning on or after 1 January 2019).

IAS 28 (''Investments in Associates and Join Ventures'') – "Amendments in relation to long term interests in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2019).

IFRIC 22 ("Foreign Currency Transactions and Advance Consideration"). Clarifies the accounting for transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency before the entity recognises the related asset, expense or income (effective for annual periods beginning on or after 1 January 2018).

IFRIC 23 ("Uncertainty over Income Tax Treatment"). The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. The Group is considering whether applying the Interpretation may affect its consolidated financial statements and the required disclosures.

IAS 28 ("Investments in Associates and Joint Ventures") – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss; and
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

Annual Improvements to IFRSs 2015–2017 Cycle

The "December 2017 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to four standards. These improvements are effective from 1 January 2019. It includes the following amendments:

- IFRS 3 – Business Combinations (re-measurement of previously held interest);
- IFRS 11 – Joint Arrangements (re-measurement of previously held interest);
- IAS 12 – Income Taxes (income tax consequences on dividends); and
- IAS 23 – Borrowing Costs (borrowing costs eligible for capitalisation).

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the end of the reporting period that have the most significant effect on the amounts recognised in the financial statements.

Critical Accounting Judgements

Classification of charter agreements as either finance or operating leases

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed unless the provisions of the contract were changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a "substance over form" approach is used. In determining the substance of the transaction the Group considers amongst others the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions, expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

Investments in joint arrangements and associates

Judgement is exercised upon classification of an investment as a joint operation or a joint venture. This is determined by reference to the type of the joint arrangement and judgement is exercised on whether the Group has rights to the assets and obligations for the liabilities of that arrangement (joint operation) or if the Group has rights to the net assets of the arrangement (joint venture).

Investments in associates and joint ventures are recognised using the equity method of accounting. The classification of entities partly owned by other enterprises depends amongst other things on the individual conditions and clauses in shareholders' agreements and other contractual documents. The exercise of judgement as to the influence and level of control on these conditions and clauses in the agreements determines whether a particular entity should be accounted for as joint operation or under the equity method.

The Group consolidates its share of losses of associates and joint ventures to the extent that it is believed that the Group has a constructive obligation to do so. The determination of the presence of a constructive obligation requires the exercise of judgement, as invariably such an obligation is not contained within any legal agreement and may take the form of an implied commitment to, or an expectation of, a third party.

Determination of cash generating units for value in use calculations

In determining the CGUs the Group considers various factors including management's trading strategies, nature and terms of contractual arrangements and actual and predicted employment of the vessels. The Group also considers other factors such as investment and discontinuance decisions, and how management monitors financial performance.

The determination as to whether the cash inflows of groups of vessels which form a CGU are largely dependent on each other requires judgement to be exercised in assessing all the available data and information noted above, particularly with reference to assumptions and judgements with regard to future planned and expected employment of the vessels within a CGU. Should these judgements be proven, through the passage of time, to be incorrect or subject to change or amendment in future periods it is possible that additional impairment charges may arise, or reversals of impairments may occur.

Key Sources of Estimation Uncertainty

Carrying amount of vessels and vessels under construction

The carrying amount of vessels and vessels under construction may not represent their fair market value at any point in time. The market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. Management reviews vessels, including vessels under construction, for indicators of impairment whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable. Impairment testing requires an estimate of future cash flows over the period of expected use of the vessels and the choice of a suitable discount rate and an assessment of recoverable amount based on comparable market transactions. If actual results differ from the estimates and assumptions used in estimating future cash flows then this could result in potential impairment losses recognised in future periods. Additional information is disclosed in Note 15 to these financial statements.

Anticipated useful economic life of the fleet and the estimates of residual values

Depreciation of vessels is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Estimates of useful economic life of vessels are based on managements' experience by comparison to similar vessels in the industry. However, the actual life of a vessel may be different. Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel. Residual values are calculated by reference to the value of steel as of the end of each of the previous quarterly reporting dates, obtained from independent professional brokers. Changes to estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2017
(Continued)

6. **Freight and Hire Revenue**

	2017 $'000	2016 $'000
Freight	617,233	533,542
Hire	818,132	854,585
	1,435,365	1,388,127

7. **Voyage Expenses and Commissions**

	2017 $'000	2016 $'000
Bunkers	220,155	122,148
Port costs	139,301	106,211
Commissions	10,068	11,573
Other voyage costs	7,850	6,009
	377,374	245,941

8. **Vessels' Running Costs**

	2017 $'000	2016 $'000
Crew costs	216,717	198,255
Technical costs	115,892	80,124
Insurance costs	23,839	18,201
Lubricating oils	12,160	11,469
Other costs	10,168	10,244
	378,776	318,293

9. **Depreciation, Amortisation and Impairment**

	2017 $'000	2016 $'000
Vessels' depreciation (Note 15)	314,673	271,525
Vessels' drydock cost amortisation (Note 15)	40,352	36,358
Vessels' impairment provision (Notes 15 and 30)	28,970	39,572
Other depreciation and amortisation (Notes 17 and 18)	5,147	5,223
Other impairment (Note 18)	-	3,112
	389,142	355,790

10. **General and Administrative Expenses**

	2017 $'000	2016 $'000
Administration expenses	97,975	97,921
Non-income based taxes	17,165	16,358
Bank charges and fees	1,563	1,366
	116,703	115,645

Administration expenses are analysed as follows:

	2017 $'000	2016 $'000
Office costs and other general expenses	92,821	91,541
Legal and professional	2,776	3,904
Audit and accountancy	2,378	2,476
	97,975	97,921

Non-income based taxes are analysed as follows:

	2017 $'000	2016 $'000
Irrecoverable value added tax	15,967	15,229
Tonnage tax	1,198	1,129
	17,165	16,358

11. **Other Operating Revenues and Expenses**

	2017 $'000	2016 $'000
Other operating revenues	22,307	18,036
Cost of sales		
- Wages and salaries	(2,056)	(1,666)
- Payroll taxes	(622)	(503)
- Other cost of sales	(6,094)	(5,043)
Administrative expenses	(2,273)	(1,382)
Other expenses	(2,702)	(302)
Investment property depreciation (Note 19)	(294)	(547)
Other operating expenses	(14,041)	(9,443)
Net other operating income	8,266	8,593

Other operating revenues comprise income from non-core non-vessel operating related activities, rental income derived from investment properties (Note 19), income from the commercial and technical management and newbuilding supervision of vessels belonging to joint ventures and third party owners performed by the Group as well as from ancillary services provided by the Group's vessels in operation in the offshore segment.

12. **Employee Costs**

Employee costs recorded within Vessels' Running Costs, General and Administrative Expenses and Other Operating Revenues and Expenses, are analysed as follows:

	2017 $'000	2016 $'000
Seafarers		
- Short-term and other long-term employee benefits	177,902	161,270
- Payroll taxes	1,595	1,230
- Defined contribution pension plans	1,398	1,714
- Long-term service defined benefit plans	3	6
	180,898	164,220
Shore based staff		
- Short-term and other long-term employee benefits	65,297	67,522
- Payroll taxes	9,498	9,217
- Defined contribution pension plans	1,364	1,238
- Long-term service defined benefit plans	120	109
	76,279	78,086
Total employee costs	257,177	242,306

Effective 1 January 2015, the Group introduced a long-term incentive employee benefit plan ("LTIP"), approved by the Company's board of directors, for a selected number of seafarers and shore based personnel. The total duration of the plan is five years with awards payable in years 2018, 2019 and 2020. The plan is unfunded.

Under the LTIP employees will be eligible to receive awards subject to the fulfilment of target key performance indicators ("KPIs") set as part of the Company's strategy (long-term development programme).

The calculation for the period ended 31 December 2017 is based on actual performance vs. set KPI targets achieved as of period end over the entire LTIP evaluation period (2015-2017) and the recipient's continued employment with the Group, as stipulated by the LTIP bylaws. The calculation for the period ended 31 December 2016 and 31 December 2015 was based on the assumption that the performance vs. set KPI targets achieved as of period end will be sustained over the entire LTIP evaluation period.

These benefits are accounted for as other long-term employee benefits included in trade and other payables (Note 35) in the statement of financial position. Current service costs and related social charges, recognised as employee benefits under the programme, for the period, are included in crew costs under vessels' running costs and in administration expenses under general and administrative expenses in the income statement.

13. **Financing Costs**

	2017 $'000	2016 $'000
Interest on secured bank loans	103,815	54,645
Interest on interest rate swaps and cross currency interest rate swaps	20,754	23,837
Interest on other loans	48,955	45,479
Interest on finance lease liabilities	4,304	11,858
Other interest	9,358	5,751
Other financing costs (Note 39)	6,673	21,094
	193,859	162,664

14. **Segment Information**

For management purposes, the Group is organised into business units (operating segments) based on the main types of activities and has five reportable operating segments as follows:

- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. As of 31 December 2017, this segment's fleet consisted of 16 shuttle tankers (2016 – 16), and 9 ice breaking supply vessels (2016 – 6 plus 1 chartered in).
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2017, this segment's fleet consisted of 5 LNG carriers and 4 LPG carriers (2016 – 4 LNG and 4 LPG). The 4 LNG carriers owned through joint ventures are disclosed in Note 20.
- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2017 and 31 December 2016, the Group's fleet in this segment consisted of 59 crude oil carriers.
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2017 and 31 December 2016, the Group's fleet in this segment consisted of 40 petroleum product carriers, including 19 chemical and oil carriers (2016 – 19). The 9 (2016 – 9) oil product tankers owned through joint ventures are disclosed in Note 20.
- Other (<10% of revenue). This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2017, this segment's fleet consisted of 2 bulk carriers (2016 – 2) and 2 chartered in seismic vessels (2016 – 1). This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

Management monitors the performance of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss directly attributable to vessels. However Group financing (including finance costs and finance income), general and administrative expenses and income taxes are managed on a Group basis and are not allocated to operating segments. No operating segments have been aggregated to form the above reportable operating segments.

Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Period ended 31 December 2017

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	373,928	166,551	552,425	286,980	55,481	1,435,365
Voyage expenses and commissions	(811)	(1,396)	(231,309)	(132,306)	(11,552)	(377,374)
Time charter equivalent revenues	373,117	165,155	321,116	154,674	43,929	1,057,991
Direct operating expenses						
Vessels' running costs	(69,058)	(30,960)	(160,158)	(94,074)	(24,526)	(378,776)
Charter hire payments	(3,401)	-	-	-	(37,023)	(40,424)
Net earnings / (losses) from vessels' trading	300,658	134,195	160,958	60,600	(17,620)	638,791
Vessels' depreciation	(109,193)	(34,747)	(110,338)	(55,736)	(4,659)	(314,673)
Vessels' drydock cost amortisation	(8,727)	(5,646)	(17,202)	(8,021)	(756)	(40,352)
Vessels' impairment provision (net)			(22,106)	(6,864)		(28,970)
Non-income based taxes	(6,073)	-	-	-	-	(6,073)
Net foreign exchange gains / (losses)	799	-	-	(128)	1,810	2,481
Segment operating profit / (loss)	177,464	93,802	11,312	(10,149)	(21,225)	251,204
Unallocated						
General and administrative expenses						(110,630)
Financing costs						(193,859)
Other income and expenses (net)						(42,074)
Net foreign exchange losses						(2,238)
Loss before income taxes						(97,597)
Carrying amount of fleet in operation	1,949,641	1,236,549	2,001,751	1,027,099	76,304	6,291,344
Carrying amount of non-current assets held for sale	-	-	25,719	-	-	25,719
Deadweight tonnage of fleet used in operations ('000)	1,336	552	7,653	2,449	156	12,146

14. **Segment Information (Continued)**

Period ended 31 December 2016

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Freight and hire revenue	251,729	141,701	629,977	276,681	88,039	1,388,127
Voyage expenses and commissions	(788)	(1,058)	(152,533)	(83,337)	(8,225)	(245,941)
Time charter equivalent revenues	250,941	140,643	477,444	193,344	79,814	1,142,186
Direct operating expenses						
Vessels' running costs	(48,383)	(25,647)	(141,475)	(84,646)	(18,142)	(318,293)
Charter hire payments	(51)	-	(200)	(170)	(25,370)	(25,791)
Net earnings from vessels' trading	202,507	114,996	335,769	108,528	36,302	798,102
Vessels' depreciation	(68,046)	(28,520)	(120,420)	(51,947)	(2,592)	(271,525)
Vessels' drydock cost amortisation	(6,427)	(5,242)	(17,221)	(6,745)	(723)	(36,358)
Vessels' impairment provision (net)	-	-	(39,572)	-	-	(39,572)
Loss on sale of vessels	-	-	(159)	(254)	-	(413)
Non-income based taxes	(5,608)	-	-	-	-	(5,608)
Net foreign exchange (losses) / gains	(2,213)	-	-	1,583	3,236	2,606
Segment operating profit	120,213	81,234	158,397	51,165	36,223	447,232
Unallocated						
General and administrative expenses						(110,037)
Financing costs						(162,664)
Other income and expenses (net)						42,616
Net foreign exchange gains						16,330
Profit before income taxes						233,477
Carrying amount of fleet in operation	1,662,085	942,569	2,142,607	1,085,301	62,803	5,895,365
Deadweight tonnage of fleet used in operations ('000)	1,328	472	7,653	2,449	152	12,054

15. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2016	7,071,178	164,932	7,236,110
Expenditure in period	21,600	14,996	36,596
Transfer from vessels under construction (Note 16)	465,202	4,500	469,702
Acquisitions during the period	340,951	6,955	347,906
Write-off of fully amortised drydock cost	-	(13,818)	(13,818)
Exchange adjustment	-	93	93
At 31 December 2016	7,898,931	177,658	8,076,589
Expenditure in period	46,052	28,686	74,738
Transfer from vessels under construction (Note 16)	720,409	8,500	728,909
Transfer to non-current assets held for sale (Note 30)	(175,722)	(4,700)	(180,422)
Transfer from other fixed assets (Note 18)	2,257	-	2,257
Write-off of fully amortised drydock cost	-	(32,922)	(32,922)
Exchange adjustment	(224)	46	(178)
At 31 December 2017	8,491,703	177,268	8,668,971
Depreciation, amortisation and impairment			
At 1 January 2016	1,779,699	67,869	1,847,568
Charge for the period	271,525	36,358	307,883
Impairment provision	39,572	-	39,572
Write-off of fully amortised drydock cost	-	(13,818)	(13,818)
Exchange adjustment	-	19	19
At 31 December 2016	2,090,796	90,428	2,181,224
Charge for the period	314,673	40,352	355,025
Impairment provision	28,514	-	28,514
Transfer to non-current assets held for sale (Note 30)	(150,485)	(3,762)	(154,247)
Write-off of fully amortised drydock cost	-	(32,922)	(32,922)
Exchange adjustment	27	6	33
At 31 December 2017	2,283,525	94,102	2,377,627
Net book value			
At 31 December 2017	6,208,178	83,166	6,291,344
At 31 December 2016	5,808,135	87,230	5,895,365
At 31 December 2015	5,291,479	97,063	5,388,542

	2017	2016	2015
Market value ($'000)	5,157,750	4,491,000	5,092,750
Current insured values ($'000)	6,652,398	6,492,276	5,830,970
Total deadweight tonnage (dwt)	11,713,915	12,049,977	11,243,584

Summary of fleet at period end:

Type of vessel	Number of vessels		Dwt'000		Carrying value $ million	
	2017	2016	2017	2016	2017	2016
Oil tankers	55	59	7,227	7,653	2,001	2,143
Product carriers	40	40	2,449	2,449	1,027	1,085
LNG and LPG carriers	9	8	552	472	1,237	943
Shuttle tankers	16	16	1,301	1,301	1,163	1,238
Ice breaking supply vessels	9	6	35	25	787	423
Bulk carriers	2	2	150	150	60	63
Seismic equipment	-	-	-	-	16	-
	131	131	11,714	12,050	6,291	5,895
Vessels held for sale (Note 30)	4	-	426	-	26	-
	135	131	12,140	12,050	6,317	5,895

15. **Fleet (Continued)**

As at 31 December 2017, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use.

Results of the impairment review for the period ended 31 December 2017

Operating segment	CGU	Methodology	Applied pre-tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tankers (2 CGU)	Value in use	5.81%	15,214	13,398
Crude oil segment	Aframax crude oil tankers (2 CGUs)	Fair value less cost of disposal (level 1)	n/a	6,436	12,777
Oil product segment	Handysize Ice (4 CGUs)	Value in use	5.98%	6,864	58,304
				28,514	84,479

The impairment recognised in the period ended 31 December 2017 based on value in use for two aframax crude oil tankers and fair value less costs of disposal for two aframax crude oil tankers resulted from management's decision to dispose of these vessels. Impairment recognised in the period, based on value in use, for four handysize ice class tankers, resulted from a change in estimate of operating revenues and operating expenses over the remaining life of the vessels.

Results of the impairment review for the period ended 31 December 2016

Operating segment	CGU	Methodology	Applied pre-tax discount rate %	Impairment losses $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tankers (1 CGU)	Value in use	6.60%	4,979	11,677
Crude oil segment	Aframax crude oil tankers (5 CGUs)	Fair value less cost of disposal (level 2)	n/a	34,593	52,470
				39,572	64,147

The impairment recognised in the period ended 31 December 2016 based on value in use for one aframax crude oil tanker and fair value less costs of disposal for five aframax crude oil tankers resulted from management's decision to dispose of these vessels.

Value in use calculations involve estimating the discounted future cash flows, which require judgements concerning long-term forecasts of future revenues and costs related to the vessels to be made by management as well as judgements about the discount rate used in the calculations. These forecasts are uncertain as they require assumptions to be made regarding demand for products and services, future market conditions and future technological developments. Value in use calculations are mainly sensitive to the freight rates and discount rates applied in the calculations. Significant and unanticipated changes in these assumptions could result in a material impairment provision in a future period.

The main inputs and assumptions used in performing the value in use calculations as at period end are as follows:

- Contracted hire rates, for vessels on time charter, until the expiry of the current agreements;
- Freight rate estimates in the years 2018 to 2020 based on the Group's approved revenue budgets;
- Freight rate estimates after 2020 based on the historical ten year earnings averages for each type of vessel, obtained from independent brokers' research applying a growth rate of 2.7% per annum until the vessel reaches fifteen years of age;
- Operating expenses based on the Group's operating budget approved by the Group for 2018 and increasing at a rate of 2.7% per annum;
- Annual utilisation for each vessel of 363 days, except for the cases where the actual utilisation is expected to be less, based on the fleet's historical performance less any scheduled estimated drydocking period based on the Group's approved drydock plan, and thereafter 363 days less the maximum number of days in drydock based on the previously approved plan;
- Use of the vessels until the end of their useful economic life, unless the vessels are sold or planned to be sold; and
- Discount rates between 5.8% to 7.3% pre-tax (2016 – 6.6% to 8.5% pre-tax), depending on the remaining useful economic life of each vessel and the area it trades.

The following sensitivity analysis has been performed by management as at the period end, for CGUs where the recoverable amount exceeded the carrying amount and for which the recoverable amount was estimated based on VIU, all other things being equal:

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of $47.4 million (2016 – $67.7 million);
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $3.8 million (2016 – $1.8 million); and
- A decrease in the growth rate of freight rates by 1% per annum would result in an additional impairment provision to fleet of $1.6 million (2016 – $3.6 million).

Management also carried out an assessment of whether there is any indication that equipment on board one of the chartered in seismic vessels of the Group may have suffered an impairment loss. Management concluded that there was no impairment based on value in use. The main inputs and assumptions used in the value in use calculations were: revenues and expenses of the seismic vessels for five years.

During the period ended 31 December 2017 management have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to decrease the depreciation charge by $10.9 million (2016 – increase of $1.1 million).

During the period ended 31 December 2017 the Group repurchased two vessels held under finance leases, see Note 37 (2016 – 2 vessels held under finance leases).

15. **Fleet (Continued)**

Expenditure in period, under vessels, includes an amount of $31.6 million (2016 – $8.5 million) of modifications relating to legislative requirements and other capital expenditure, of which $7.9 million (2016 – $8.5 million) of modifications have not yet been completed/delivered as of the end of the reporting period. In addition, included in expenditure in period are $15.9 million worth of seismic equipment installed on board one of the Group's chartered in seismic vessels. This equipment was acquired through a deferred consideration arrangement (Note 39).

16. **Vessels Under Construction**

	2017 $'000	2016 $'000
At 1 January	225,814	368,453
Expenditure in period	584,932	327,063
Transfer to fleet (Note 15)	(728,909)	(469,702)
At 31 December	81,837	225,814
Total deadweight tonnage (dwt)	811,110	89,000

Vessels under construction at 1 January 2017 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel and three MIB standby vessels at a total contracted cost to the Group of $837.9 million.

Vessels delivered during the period comprised the following:

Vessel name	Vessel type	Segment	DWT	Delivery date
Gennadiy Nevelskoy[1]	Multifunctional ice breaking ("MIB") supply vessel	Offshore	3,259	2 March 2017
Christophe de Margerie	Ice breaking LNG carrier	Gas	80,182	27 March 2017
Stepan Makarov[2]	MIB standby vessel	Offshore	3,319	15 June 2017
Fedor Ushakov[3]	MIB standby vessel	Offshore	3,264	27 October 2017

[1] delivered to charter on 18 April 2017 / [2] delivered to charter on 5 August 2017 / [3] delivered to charter on 1 December 2017

During the period ended 31 December 2017, the Group entered into shipbuilding contracts for the construction of six ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker, and one 174,000 cubic metre LNG carrier at a total contracted cost of $651.0 million. The vessels are scheduled for delivery between July 2018 and March 2019, in October 2019 and February 2020, respectively. The LNG carrier is backed with a seven year firm period time charter agreement with various extension options attached in favour of the charterer. The aggregate hire receivable over the firm period of the charter is $158.6 million. The charter arrangement for the Arctic shuttle tanker is disclosed in Note 45.

At 31 December 2017, vessels under construction comprised one MIB standby vessel, six ice-class LNG fuelled Aframax crude oil tankers, one Arctic shuttle tanker and one LNG carrier scheduled for delivery between January 2018 and February 2020 (see also Note 46) at a total contracted cost to the Group of $772.2 million. As at 31 December 2017, $67.2 million of the contracted costs had been paid for.

In accordance with the terms of the shipbuilding contracts, in the event of termination of the new building contracts due to the Group's default, the shipyard has the right to retain all instalments paid up to the date of termination, in order to recover their losses and damages, as well as to retain the full benefit and property of the vessel constructed. Any proceeds from the sale of the vessel by the shipyard after satisfaction of the shipyard's losses, damages and costs of sale shall belong to the Group.

Included in expenditure in the period is an amount of $4.0 million (2016 – $10.0 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)). The interest capitalised includes interest on general borrowings of $3.9 million (2016 – $5.0 million) capitalised using a weighted average interest rate of 4.17% per annum (2016 – 3.60% per annum).

As at 31 December 2017 management carried out an impairment test of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(t)). The testing did not result in any indication that vessels under construction may have suffered an impairment loss.

17. **Intangible Assets**

	2017 $'000	2016 $'000
Cost		
At 1 January	7,053	9,167
Additions in period	5,852	667
Disposals in period	-	(2,768)
Exchange adjustment	84	(13)
At 31 December	12,989	7,053
Amortisation		
At 1 January	3,092	4,499
Charge for the period	1,222	1,197
Disposals in period	-	(2,606)
Exchange adjustment	16	2
At 31 December	4,330	3,092
Net book value		
At 31 December	8,659	3,961

Intangible assets comprise computer software.

18. **Other Property, Plant and Equipment**

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2016	61,146	36,002	97,148
Additions in period	150	4,394	4,544
Transfer to non-current assets held for sale (Note 30)	(293)	(1,336)	(1,629)
Disposals in period	(493)	(775)	(1,268)
Exchange adjustment	981	2,427	3,408
At 31 December 2016	61,491	40,712	102,203
Additions in period	236	1,560	1,796
Transfer to / from non-current assets held for sale (Note 30)	(10,196)	1,466	(8,730)
Transfer to fleet (Note 15)	-	(2,257)	(2,257)
Disposals in period	-	(545)	(545)
Exchange adjustment	349	746	1,095
At 31 December 2017	51,880	41,682	93,562
Depreciation and impairment			
At 1 January 2016	11,846	25,018	36,864
Charge for the period	1,233	2,793	4,026
Impairment provision	3,112	-	3,112
Transfer to non-current assets held for sale (Note 30)	(167)	(230)	(397)
Disposals in period	(188)	(752)	(940)
Exchange adjustment	72	720	792
At 31 December 2016	15,908	27,549	43,457
Charge for the period	1,109	2,816	3,925
Transfer to / from non-current assets held for sale (Note 30)	(3,476)	252	(3,224)
Disposals in period	-	(459)	(459)
Exchange adjustment	134	406	540
At 31 December 2017	13,675	30,564	44,239
Net book value			
At 31 December 2017	38,205	11,118	49,323
At 31 December 2016	45,583	13,163	58,746
At 31 December 2015	49,300	10,984	60,284

Buildings comprise offices in St. Petersburg, Novorossiysk and Sochi in Russia, as well as a cruise terminal in Sochi. Miscellaneous category comprises a yacht marina, office equipment, motor vehicles, fixtures and fittings and leasehold improvements of leased premises.

As at 31 December 2017 and 31 December 2016, management carried out an assessment of whether there is any indication that other property, plant and equipment may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs of disposal, as assessed by management at the period end and supported by independent professional valuations, and their value in use. As at 31 December 2016, management concluded that the cruise terminal in Sochi (a Cruise terminal CGU) was impaired. The impairment recognised in the period ended 31 December 2016, based on value in use, in respect of the Cruise terminal CGU, amounted to $3.1 million. The recoverable amount of the Cruise terminal CGU of $2.0 million was based on value in use. As at 31 December 2017, management concluded that the assets were not further impaired.

The main inputs and assumptions used in the value in use calculations were: probabilities assigned to each of the possible scenarios considered by the Group, revenues and expenses based on the Group's three year budgets, a terminal growth rate of 3% (2016 – 3%) on both revenues and expenses, and a pre-tax discount rate of 12.2% (2016 - 13.0%).

19. **Investment Property**

	2017 $'000	2016 $'000
Cost		
At 1 January	20,488	26,946
Additions in period	-	37
Transfer from / to non-current assets held for sale (Note 30)	8,050	(7,341)
Disposals in period	(15,266)	(25)
Exchange adjustment	-	871
At 31 December	13,272	20,488
Depreciation		
At 1 January	19,624	19,478
Charge for the period (Note 11)	294	547
Transfer from / to non-current assets held for sale (Note 30)	533	(454)
Disposals in period	(15,103)	-
Exchange adjustment	-	53
At 31 December	5,348	19,624
Net book value		
At 31 December	7,924	864
Rental income from investment property	1,780	1,277
Direct operating expenses of investment property	965	767

As at 31 December 2017, investment property comprises buildings in Novorossiysk and Sochi with a fair value, based on valuations performed by independent qualified valuers as at 31 December 2017, equivalent to $30.2 million (2016 – equivalent to $25.6 million).

20. Investments in Joint Ventures

	2017 $'000	2016 $'000
At 1 January	114,761	98,306
Dissolution of joint venture	(17)	-
Long-term interest repayment from joint venture	-	(1,177)
Share of profits in joint ventures	2,638	12,904
Share of joint ventures' other comprehensive income	8,472	8,275
Dividends receivable	(2,737)	(3,547)
At 31 December	123,117	114,761

As at period end, the Group had interests in the following active joint ventures:

	Percentage holding				
Name of entity	**2017**	**2016**	**2015**	**Country of incorporation**	**Principal activity**
LNG East-West Shipping Company (Singapore) Pte Limited[1]	37.5%	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Anubis Shipholding Limited[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Ltd.[1]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Ltd.[1]	51.0%	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc[1]	51.0%	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies
Eastern Supply Vessels Limited[2]	-	50.0%	50.0%	Russia	Ship chartering and subchartering services
SSV Sakhalin Offshore Limited[3]	50.0%	50.0%	50.0%	Cyprus	Ship chartering and subchartering services
SCF Swire Offshore Pte Limited[3]	50.0%	50.0%	50.0%	Singapore	Ship management

[1] All key business decisions require joint approval by the shareholders
[2] The joint venture was liquidated on 29 September 2017. Effective ownership was 33.3% for the previous years
[3] Effective ownership 33.3%. Ceased operations in September 2016

The Group through its joint ventures owns and operates 4 LNG carriers (2016 – 4) and 9 Panamax oil product tankers (LR1) (2016 – 9). The Group also operated through its joint ventures, up to September 2016, 3 ice breaking supply vessels one of which it directly owns. In September 2016 the Group acquired from its joint venture partners the two ice breaking supply vessels they owned.

The joint ventures entered into time charter agreements, with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2017 $'000	2016 $'000
Within one year	93,170	90,418
After one year but not more than five years	367,584	372,603
More than five years	403,653	500,885
	864,407	963,906

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2017 (Continued)

20. **Investments in Joint Ventures (Continued)**

Summarised financial information in respect of the Group's joint ventures is set out below:

At 31 December 2017	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	Other $'000	Total $'000
Total non-current assets	132,991	136,641	141,224	141,071	350,003	-	901,930
Total current assets	21,185	22,746	17,774	21,488	34,183	698	118,074
Total non-current liabilities	(120,277)	(123,298)	(104,085)	(107,787)	(215,781)	-	(671,228)
Total current liabilities	(9,021)	(13,867)	(19,631)	(16,603)	(44,716)	(15)	(103,853)
Net assets of the joint venture	24,878	22,222	35,282	38,169	123,689	683	244,923
Group's share in net assets of the joint venture	9,329	11,111	17,641	19,085	63,081	226	120,473
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	9,329	11,111	17,641	19,085	65,725	226	123,117
Cash and cash equivalents	1,111	1,089	4,593	3,988	2,414	689	13,884
Current financial liabilities	(8,993)	(13,655)	(13,061)	(13,941)	(28,957)	-	(78,607)
Non-current financial liabilities	(120,277)	(123,298)	(104,085)	(107,787)	(215,781)	-	(671,228)
Revenues	22,510	23,495	21,179	21,100	81,060	215	169,559
Depreciation, amortisation and impairment	(5,295)	(5,830)	(6,699)	(6,005)	(18,001)	(82)	(41,912)
Interest income	190	153	73	98	34	-	548
Interest expense	(7,384)	(6,946)	(5,926)	(6,256)	(10,774)	-	(37,286)
Income tax	(299)	(312)	-	-	-	(353)	(964)
Joint ventures' profits / (losses) for the period	5,167	5,672	1,653	3,753	(9,286)	(278)	6,681
Group's share of joint ventures' profits / (losses) for the period recognised	1,938	2,836	827	1,877	(4,736)	(104)	2,638
Joint ventures' other comprehensive income for the period	4,705	4,090	3,992	4,164	1,147	-	18,098
Group's share of joint ventures' other comprehensive income for the period recognised	1,764	2,045	1,996	2,082	585	-	8,472
Joint ventures' total comprehensive income for the period	9,872	9,762	5,645	7,917	(8,139)	(278)	24,779
Group's share of joint ventures' total comprehensive income for the period recognised	3,702	4,881	2,823	3,959	(4,151)	(104)	11,110

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2017 (Continued)

20. **Investments in Joint Ventures (Continued)**

Summarised financial information in respect of the Group's joint ventures is set out below:

At 31 December 2016	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	Other $'000	Total $'000
Total non-current assets	138,286	142,471	144,453	144,902	362,240	-	932,352
Total current assets	21,267	18,200	15,302	23,752	40,371	2,981	121,873
Total non-current liabilities	(129,012)	(135,940)	(110,809)	(120,116)	(225,401)	-	(721,278)
Total current liabilities	(9,583)	(12,271)	(19,310)	(18,285)	(45,382)	(470)	(105,301)
Net assets of the joint venture	20,958	12,460	29,636	30,253	131,828	2,511	227,646
Group's share in net assets of the joint venture	7,859	6,230	14,818	15,127	67,232	851	112,117
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	7,859	6,230	14,818	15,127	69,876	851	114,761
Cash and cash equivalents	1,790	1,281	3,251	4,960	4,956	2,825	19,063
Current financial liabilities	(9,554)	(12,058)	(14,702)	(15,888)	(27,890)	-	(80,092)
Non-current financial liabilities	(129,012)	(135,940)	(110,809)	(120,116)	(225,401)	-	(721,278)
Revenues	24,824	25,162	23,196	23,153	81,593	28,342	206,270
Depreciation, amortisation and impairment	(5,968)	(5,971)	(6,723)	(6,346)	(18,077)	(728)	(43,813)
Interest income	59	48	21	27	20	-	175
Interest expense	(7,654)	(7,273)	(6,294)	(6,679)	(10,900)	-	(38,800)
Income tax	(328)	(333)	-	-	-	38	(623)
Joint ventures' profits for the period	6,281	6,280	5,852	6,526	1,326	1,589	27,854
Group's share of joint ventures' profits for the period recognised	2,355	3,140	2,926	3,263	676	544	12,904
Joint ventures' other comprehensive income for the period	4,486	4,096	3,914	4,024	1,122	-	17,642
Group's share of joint ventures' other comprehensive income for the period recognised	1,682	2,048	1,957	2,012	572	4	8,275
Joint ventures' total comprehensive income for the period	10,767	10,376	9,766	10,550	2,448	1,589	45,496
Group's share of joint ventures' total comprehensive income for the period recognised	4,037	5,188	4,883	5,275	1,248	548	21,179

21. **Loans to Joint Ventures**

	2017 $'000	2016 $'000	2015 $'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	30,583	32,197	40,476
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	24,928	18,127	20,312
	55,511	50,324	60,788
Less current portion (current assets)	-	(4,750)	(8,320)
Non-current portion (non-current assets)	55,511	45,574	52,468
Interest income during the period on loans due from joint ventures	1,353	1,160	1,054
Interest receivable at period end on loans due from joint ventures	3,299	2,505	2,293

The loans to joint ventures are unsecured and mature between January 2019 and April 2020, except for certain loans that repayment shall be made at the discretion of the joint ventures. The joint ventures have the right to repay the loans in part or in full at any time before maturity.

22. **Finance Lease Receivables**

	2017 $'000	2016 $'000	2015 $'000
Gross finance lease receivable			
At 1 January	-	81,325	85,518
Finance lease interest receivable	-	11,458	12,562
Finance lease instalments receivable	-	(16,136)	(16,755)
Settlement of finance lease receivable	-	(67,572)	-
	-	9,075	81,325
Finance lease receivable written-off on settlement	-	(9,075)	-
At 31 December	-	-	81,325
Allowance for credit losses			
At 1 January	-	(9,494)	(9,856)
Release of allowance of credit losses	-	419	362
Release of allowance on settlement of finance lease receivable	-	9,075	-
At 31 December	-	-	(9,494)
Receivable net of provision	-	-	71,831
Less current finance lease receivables	-	-	(4,875)
Non-current finance lease receivables	-	-	66,956

Finance lease receivables comprised nine Escort tugs chartered out to a subsidiary of a Russian State controlled entity, a former associate, on fifteen year bareboat charters commencing on delivery of the tugs by the shipyards, at effective interest rates ranging from 11.96% to 18.39% per annum. The charter hires were receivable monthly in arrears at daily rates ranging from $3,411 to $7,083 through to expiration of the charters. The charterer had the option to acquire the tugs on any hire payment date through to the expiration of the charter, provided that the charterer had fulfilled all obligations under the bareboat charter agreements, at predetermined prices. In November 2016 the charterer exercised its option to acquire the tugs for a total consideration of $67.6 million. Legal ownership of the tugs was transferred to their new owners during December 2016.

Amounts invoiced in respect of charter hire but outstanding as at the period end are disclosed separately under trade and other receivables in Note 27.

23. **Derivative Financial Instruments**

The use of financial derivatives is governed by the Group's policies approved by the executive board, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy.

Derivative financial instruments are classified in the statement of financial position as follows:

	2017 $'000	2016 $'000	2015 $'000
Non-current asset	35,909	7,146	8,050
Current asset	808	373	-
Non-current liability	(12,812)	(21,624)	(32,135)
Current liability	(17,370)	(15,446)	(22,929)
	6,535	(29,551)	(47,014)

The Group entered into interest rate swap ("IRS") agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations.

On 2 March, 15 June and 27 October 2017, the Group entered into three twelve year Euro-USD cross currency interest rate swap transactions ("CCIRS") with a Russian State controlled financial institution to hedge the Group's cash flow exposure arising from currency and interest rate fluctuations in respect of Euro equivalent of $89.5 million, $85.1 million and $95.8 million loans respectively, in connection with the financing of three of the Group's vessels.

23. **Derivative Financial Instruments (Continued)**

The table below presents the effect of the Group's derivative financial instruments designated as cash flow hedges on the consolidated statement of comprehensive income.

	IRS		CCIRS		Total	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Amount recognised in hedging reserve	(1,387)	(6,442)	15,861	-	14,474	(6,442)
Reclassified from hedging reserve and debited to financing costs	16,096	22,873	5,115	-	21,211	22,873
Reclassified from hedging reserve and credited to foreign exchange	-	-	(17,888)	-	(17,888)	-
Total in other comprehensive income	14,709	16,431	3,088	-	17,797	16,431

As of 31 December 2017 the Group had the following IRS and CCIRS agreements amortising in accordance with the initial repayment schedules of the relevant loans (the principal amount of which is paid quarterly or semi-annually through to the expiry dates of the swaps) at fixed rates compared to U.S. Dollar three and six month LIBOR, and six month EURIBOR as follows:

U.S. Dollar LIBOR compared to fixed rate	Type	Notional amount 2017 $'000	Notional amount 2016 $'000	Fixed interest rate	Expiry date
Three month	IRS	-	21,000	2.02%	22 July 2017
Three month	IRS	100,000	150,000	0.89%	12 December 2019
Three month	IRS	13,722	14,970	2.02%	13 August 2020
Three month	IRS	13,722	14,970	2.01%	13 August 2020
Three month	IRS	30,864	33,670	2.07%	31 December 2020
Three month	IRS	206,775	230,925	5.76%	1 March 2021
Three month	IRS	118,500	129,033	2.44%	29 January 2024
Three month	IRS	123,453	133,960	2.27%	29 August 2024
Six month	IRS	46,666	53,333	1.63%	21 December 2024
Three month	IRS	130,146	140,770	1.98%	9 January 2025
Three month	IRS	132,802	143,426	1.86%	20 April 2025
		916,650	1,066,057		

EURIBOR compared to fixed rate	Type	Notional amount 2017 $'000	Notional amount 2016 $'000	Fixed interest rate	Expiry date
Six month	CCIRS	85,742	-	5.51%	2 March 2029
Six month	CCIRS	81,521	-	5.30%	15 June 2029
Six month	CCIRS	95,816	-	5.37%	29 October 2029
		263,079	-		

24. **Income Taxes**

	2017 $'000	2016 $'000
Russian Federation profit tax	16,162	22,929
Overseas income tax expense	1,230	644
Current income tax expense	17,392	23,573
Deferred tax	(2,020)	3,111
Total income tax expense	15,372	26,684

Russian Federation profits tax is payable at a tax rate of 20% (2016 – 20%) on the taxable profits arising on Russian operations. Taxes are also payable on the results of the Group's overseas management and agency subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions historically utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Under the laws of the countries of incorporation and / or vessel registration, the majority of vessel owning and operating subsidiaries are subject to tonnage tax by reference to the registered tonnage of each vessel. Management is of the opinion that the Group is fully compliant with the respective tax regime of the countries of incorporation of the vessel owning companies and / or vessel registration.

In accordance with the Tax Code of the Russian Federation, the majority of the Group's Controlled Foreign Companies ("CFC") which generate more than 20% of their revenue from passive activities, subject to a maximum profit exemption, as defined by the Law, are subject to Russian profits tax on their undistributed profits generated after 1 January 2015, provided that such profits are not distributed as dividends until 31 December of the year following the period when the profits are generated.

24. **Income Taxes (Continued)**

The income tax expense for the period is reconciled to the expected tax expense based on the Russian Federation tax rate as follows:

	2017 $'000	2016 $'000
(Loss) / profit before income taxes	(97,597)	233,477
Income tax charge using Russian Federation income tax rate of 20%	(19,519)	46,695
Difference in tax rates in other jurisdictions	23,852	(31,859)
Tax effect on intercompany dividends[1]	7,761	14,686
Non-deductible expenses and non-taxable income	(117)	(2,790)
Tax effect of losses for which no deferred tax asset was recognised	3,305	-
Adjustments in respect of current income tax of previous years	90	(48)
Income tax expense	15,372	26,684

[1] Includes tax of $1.2 million on intercompany dividends to be declared and paid in 2018 out of profits for the period ended 31 December 2017. The comparative includes tax of $14.3 million on intercompany dividends declared during the period ended 31 December 2016 and paid in 2017.

Deferred Tax

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2017				
Deferred tax assets	4,663	3,445	54	8,162
Deferred tax liabilities	(858)	(1,425)	25	(2,258)
	3,805	2,020	79	5,904
At 31 December 2016				
Deferred tax assets	7,387	(3,137)	413	4,663
Deferred tax liabilities	(776)	26	(108)	(858)
	6,611	(3,111)	305	3,805

Deferred tax relates to the following:

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2017				
Fleet	818	(264)	-	554
Drydock	(701)	279	(40)	(462)
Unused tax losses carried forward	1,142	2,655	54	3,851
Accounts receivable	(162)	(354)	(2)	(518)
Accounts payable	2,481	327	40	2,848
Other	227	(623)	27	(369)
	3,805	2,020	79	5,904
At 31 December 2016				
Fleet	79	739	-	818
Drydock	(645)	65	(121)	(701)
Unused tax losses carried forward	3,968	(3,123)	297	1,142
Accounts receivable	167	(337)	8	(162)
Accounts payable	2,592	(178)	67	2,481
Gains on disposal of assets reinvested	(79)	79	-	-
Other	529	(356)	54	227
	6,611	(3,111)	305	3,805

The Group has tax losses which arose in Russia and in Spain of $16.5 million and $3.2 million respectively (2016 – $14.5 million in Spain), for which a deferred tax asset has not been recognised. There is no expiry date for tax losses carried forward in Russia, available for offsetting against future taxable profits of the companies in which they arose. Tax losses which arose in Spain have not been recognised on the basis that the company in which the losses arose ceased operations in 2016. In 2017 the Group recognised deferred tax assets of $3.1 million relating to certain operations in Russia, based on the projected results of those operations, supported by contracted revenues in subsequent periods. Some of the unused tax losses recognised in 2015 were offset against taxable profits generated in during the period ended 31 December 2016 resulting in a release of deferred tax assets in 2016 of $3.1 million.

There is no deferred tax impact on the unremitted earnings of subsidiaries, joint ventures or associates other than as disclosed in this note. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,777.9 million (2016 – $2,898.5 million).

There are no income tax consequences attached to the payment of dividends by the Group to its shareholder.

25. Earnings Per Share

	2017 $'000	2016 $'000
Net (loss) / profit attributable to equity holders of the parent for basic earnings	(109,670)	202,490
	2017	**2016**
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic (loss) / earnings per share for the period attributable to equity holders of the parent	($0.056)	$0.103

26. Inventories

	2017 $'000	2016 $'000	2015 $'000
Bunkers	41,402	32,222	17,644
Lubricants	17,202	17,618	17,168
Victualling and slopchest	2,035	1,835	1,595
Spare parts and consumables	511	730	476
Other	733	963	685
	61,883	53,368	37,568

The amounts expensed during the period are disclosed in Note 7, Voyage Expenses and Commissions, and Note 8, Vessels' Running Costs.

27. Trade and Other Receivables

	2017 $'000	2016 $'000	2015 $'000
Non-current assets			
Financial assets			
Other receivables	77	83	104
Receivables under High Court judgement award	2,700	2,700	2,708
Liquidated damages on vessels under construction receivable from shipyard	4,962	-	-
	7,739	2,783	2,812
Current assets			
Financial assets			
Amounts due from charterers	70,376	75,279	96,289
Allowance for credit losses	(3,469)	(3,520)	(5,166)
	66,907	71,759	91,123
Casualty and other claims	6,448	6,945	11,191
Agents' balances	3,242	2,756	2,606
Other receivables	17,192	24,031	21,135
Liquidated damages on vessels under construction receivable from shipyard	5,000	11,800	-
Amounts due from joint ventures	410	473	491
Amounts due from lessee for finance leases	-	764	1,423
Accrued income	4,085	3,426	5,365
Non-financial assets			
Prepayments	11,216	20,302	11,385
Voyages in progress	25,972	25,295	23,809
Non-income based taxes receivable	6,450	5,471	6,077
	146,922	173,022	174,605

Amounts due from charterers represent amounts receivable from charterers of vessels owned or leased by the Group in respect of voyage charters, time charters, and contracts of affreightment.

Freight from voyage charters and contracts of affreightment is receivable upon discharge of the vessel and hire from time charters is receivable monthly in advance over the duration of the time charter voyage or as per any other contractual arrangement with the charterer. Trade receivables are non-interest bearing. The estimated irrecoverable amounts due from charterers are provided for based on management's past experience.

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2017, $25.1 million (2016 – $17.4 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2017, charterers with a carrying amount of $41.8 million (2016 – $54.4 million) are past due at the reporting date. The Group has not provided for these receivables as either there has not been a significant change in credit quality or the recoverability of such amounts has been secured through the exercise of contractual liens over the cargo and its arrests, eventual sale of cargo based on court decisions, and settlement of the receivable through arbitration awards (see also Note 42(e) – credit risk) and therefore the amounts outstanding are still considered recoverable.

The ageing analysis of these past due receivables is as follows:

	2017 $'000	2016 $'000	2015 $'000
Up to one month	17,481	18,898	18,809
One to two months	5,528	10,192	6,452
Two to three months	3,292	3,146	2,535
Three to four months	2,383	4,663	1,450
More than four months	13,096	17,458	2,619
	41,780	54,357	31,865

27. Trade and Other Receivables (Continued)

Movement in the allowance for credit losses in respect of charterers balances:

	2017 $'000	2016 $'000	2015 $'000
At 1 January	3,520	5,166	4,214
Amounts written off during the period	(387)	(1,354)	(109)
Amounts recovered during the period and recognised in the income statement	-	(319)	(252)
Increase in allowance recognised in the income statement	336	27	1,313
At 31 December	3,469	3,520	5,166

The voyages in progress contain residual prepaid and accrued income and costs relating to the Group's policy of applying a rateable approach to the recognition of voyage charter results at each period end.

28. Restricted Cash

	2017 $'000	2016 $'000	2015 $'000
Non-current assets			
Financial assets			
Restricted cash	-	-	13,190
	-	-	13,190
Current assets			
Financial assets			
Restricted cash	75,543	72,079	-
	75,543	72,079	-

Restricted cash in 2017 and 2016 represents payment into court, as security deposit, of judgment sum and payment on account of costs in relation to the legal claims described in Note 44.

Restricted cash in 2015 related to an amount, including accrued interest, of $13.2 million that was held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, as a result of a claim advanced by the charterers of the vessel at the time, relating to the grounding of the vessel in the Suez canal in November 2004. Following arbitration in London, the Tribunal's Award was published in July 2016 which rejected charterer's claim. As a result, the security deposits, net of commission of $0.2 million charged by the American Courts have been returned to the Group in October 2016.

29. Cash and Bank Deposits

	2017 $'000	2016 $'000	2015 $'000
Non-current assets			
Bank deposits	12,000	10,000	10,000
Restricted deposits	(12,000)	(10,000)	(10,000)
Cash and cash equivalents	-	-	-
Current assets			
Cash and bank deposits	347,352	470,638	357,427
Bank deposits accessible on maturity	(521)	(15,000)	-
Retention accounts	(24,497)	(22,846)	(23,901)
Restricted deposits	(1,000)	-	(846)
Cash and cash equivalents	321,334	432,792	332,680

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 36. These funds are accumulated to cover future loan principal and interest repayments.

Restricted deposits represent additional security for the purposes of certain secured loan agreements and represent minimum liquidity for the duration of the relevant secured loan.

Under the terms of the agreements, two subsidiaries of the Group have to maintain freely available bank balances and cash in the amount of not less than $35.0 million and $25.0 million respectively. In addition under the terms of the agreements, as at 31 December 2017, one of the two subsidiaries had to maintain minimum liquidity of $146.3 million (2016 – $125.4 million) of which $73.1 million (2016 – $62.7 million) had to be maintained in cash and cash equivalents.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and in bank as stated above.

30. **Non-Current Assets Held for Sale**

	Property and other plant and equipment $'000	Fleet $'000	Total $'000
At 1 January 2016	-	28,130	28,130
Transfer from investment property (Note 19)	6,887	-	6,887
Transfer from other property, plant and equipment (Note 18)	1,232	-	1,232
Exchange adjustment	241	-	241
Disposals in period	-	(28,130)	(28,130)
At 31 December 2016	8,360	-	8,360
Transfer from fleet (Note 15)	-	26,175	26,175
Transfer to investment property (Note 19)	(7,517)	-	(7,517)
Impairment provision	-	(456)	(456)
Transfer from other property, plant and equipment (Note 18)	5,506	-	5,506
Exchange adjustment	500	-	500
Disposals in period	(6,849)	-	(6,849)
At 31 December 2017	-	25,719	25,719

During the period ended 31 December 2016, the Group classified as held for sale an exhibition centre in Sochi, Russia, and the international hall building of the port of Sochi, both held as investment property, as well as other related plant and equipment. The property and other plant and equipment were actively marketed for sale at a price approximate to their fair value. The international hall building of the port of Sochi, Russia was sold in January 2017. As at 31 December 2017, the exhibition centre in Sochi, Russia, as well as other related plant and equipment were reclassified to investment property and other fixed assets, respectively, as the sale was no longer considered as highly probable, due to the uncertainty as to whether the sale will be completed within one year from the date of classification to held for sale.

During the period ended 31 December 2017, the Group classified as held for sale two office buildings, one in Sochi, Russia, and one in Limassol, Cyprus. The buildings were actively marketed for sale at a price approximate to their market value. The two buildings were sold in July and September 2017 respectively.

During the period ended 31 December 2017, the Group classified as held for sale four crude oil Aframax tankers. These vessels were actively marketed for sale at a price which approximates to their market values and consequently were transferred to non-current assets held for sale. Three of the vessels were disposed of and delivered to their buyers, one in February and two in March 2018 (see also Note 46). The last vessel is expected to be delivered to her buyers by the end of March 2018.

31. **Share Capital**

	2017 $'000	2016 $'000	2015 $'000
Authorised 2,247,653,953 shares of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012	405,012
Share premium arising from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 32)	818,845	818,845	818,845

32. **Group Reconstruction Reserve**

	2017 $'000	2016 $'000	2015 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)	(843,450)
	(834,490)	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 Roubles ($1.40071) per share (see also Note 31), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests' basis.

33. **Dividends**

Dividends of Rouble 3.12 per share totalling Roubles 6,141.0 million, equivalent to $106.9 million were declared on 16 June 2017 and paid on 27 June 2017 (2016 – 3.04 Rouble per share totalling Roubles 5,972.7 million equivalent to $92.9 million).

34. **Non-Controlling Interests**

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2016	(5,417)	165,339	159,922
Profit for the period	-	4,303	4,303
Other comprehensive income	(11)	(5)	(16)
Dividends	-	(13,217)	(13,217)
Acquisition of non-controlling interest by equity holders	20	(566)	(546)
At 31 December 2016	(5,408)	155,854	150,446
Loss for the period	-	(3,299)	(3,299)
Other comprehensive income	50	(49)	1
Dividends	-	(3,346)	(3,346)
At 31 December 2017	(5,358)	149,160	143,802

35. Trade and Other Payables

	2017 $'000	2016 $'000	2015 $'000
Non-current liabilities			
Financial liabilities			
Liquidated damages for late delivery of vessels payable to charterer	19,386	1,119	-
Non-financial liabilities			
Employee benefit obligations (Note 12)	9,027	36,385	16,045
	28,413	37,504	16,045
Current liabilities			
Financial liabilities			
Trade payables	59,020	40,465	36,406
Other payables	41,742	39,653	46,384
Liquidated damages for late delivery of vessels payable to charterer	4,119	11,800	-
Dividends payable	12,801	15,986	7,604
Accrued liabilities	41,522	46,292	37,535
Accrued interest	17,049	17,299	20,436
Non-financial liabilities			
Deferred revenue	50,874	29,985	23,319
Employee benefit obligations (Note 12)	35,785	-	-
Non-income based taxes payable	22,662	13,304	9,992
	285,574	214,784	181,676

Liquidated damages represent the penalties payable to two Russian State controlled entities, charterers of six vessels, for the late delivery of vessels to charter (see also Note 45).

36. Secured Bank Loans

The balances of the loans at the period end, net of direct issue costs, are summarised as follows:

	2017 $'000	2016 $'000	2015 $'000
Repayable			
- within twelve months after the end of the reporting period	338,226	290,460	289,142
- between one to two years	472,511	309,162	238,866
- between two to three years	281,837	390,830	226,236
- between three to four years	306,796	227,658	359,061
- between four to five years	201,323	246,686	170,834
- more than five years	1,000,354	729,029	601,437
	2,601,047	2,193,825	1,885,576
Less current portion	(338,226)	(290,460)	(289,142)
Non-current balance	2,262,821	1,903,365	1,596,434

The interest rates applicable for the secured bank loans during the period are as follows:

Contractual interest rates	Interest rate 2017	Interest rate 2016	Outstanding loans gross of direct issue costs 2017 $'000	Outstanding loans gross of direct issue costs 2016 $'000	Maturity
Floating rate loans in U.S. Dollar between 0.875%-3.00% per annum	Libor+2.23%[1]	Libor+2.15%[1]	1,568,291	1,807,030	Between January 2018 - April 2025
Floating rates loans in EURO	Euribor+1.595%	-	281,126	-	Between March 2029 - October 2029
Fixed rate	5.19%	5.19%	6,601	12,441	July 2019
Fixed rate	4.15%	4.15%	50,000	56,667	April 2025
Fixed rate	7.50%	7.50%	310,376	336,242	February 2029
Fixed rate	6.99%	-	242,103	-	July 2029
Fixed rate	5.70%	-	167,552	-	March 2027
			2,626,049	2,212,380	

[1] Weighted average margin for the period

The Group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on the Group's vessels with an aggregate carrying value at 31 December 2017 of $4,990.2 million (2016 – $4,370.4 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 16 and pledges of shares in certain of the vessel owning companies.

The Group is subject to a number of covenants in relation to its borrowing facilities which if breached could result in its loans becoming immediately repayable. As at the period end the Group was not in default of any of its bank loan covenants.

37. Finance Lease Liabilities

	2017 $'000	2016 $'000	2015 $'000
Repayable			
- within twelve months after the end of the reporting period	-	173,690	10,120
- between one to two years	-	-	173,690
	-	173,690	183,810
Less current portion	-	(173,690)	(10,120)
Non-current balance	-	-	173,690

On 12 April 2017, the Group exercised its right under bareboat charter agreements to repurchase the two vessels sold and leased back in 2010 from a related party, classified as fleet as of 31 December 2016 (see Note 15), at a total price of $173.4 million. Legal ownership was transferred to the Group on 15 May 2017 and 22 May 2017.

38. Retirement Benefit Obligations

	2017 $'000	2016 $'000	2015 $'000
Post retirement pension benefit plans	2,145	2,105	1,757
Long-term service retirement benefit plans	1,900	1,314	1,310
Total obligations	4,045	3,419	3,067

A subsidiary of the Group operates two defined benefit retirement plans, a post retirement pension benefit plan and a long-term service retirement benefit plan for its seafarers and shore based staff.

Post retirement service benefit plans stipulate payment of a fixed amount of monthly pension for all retired employees who have completed a specified period of service with the subsidiary. The pension is paid over the life of the pensioners. In addition, the subsidiary has a long-term service retirement benefit plan stipulating payment of a lump sum to employees who have completed a specified period of service upon their retirement. All defined benefit plans are unfunded. The plans do not have any assets.

Changes in the present value of the defined obligations under post retirement benefit plans are as follows:

	2017 $'000	2016 $'000	2015 $'000
Defined benefit obligation at 1 January	2,105	1,757	2,036
Interest cost	183	185	212
Benefits paid	(280)	(259)	(328)
Exchange adjustment	111	354	(412)
Re-measurement of losses recognised in other comprehensive income	26	68	249
Defined benefit obligation at 31 December	2,145	2,105	1,757

Changes in the present value of the defined obligations under long-term service retirement benefit plans are as follows:

	2017 $'000	2016 $'000	2015 $'000
Defined benefit obligation at 1 January	1,314	1,310	1,354
Current service costs	34	31	31
Interest cost	89	84	77
Benefits paid	(68)	(203)	(263)
Exchange adjustment	96	112	(190)
Re-measurement of losses / (gains) recognised in other comprehensive income	435	(20)	301
Defined benefit obligation at 31 December	1,900	1,314	1,310

The amounts recognised in the income statement and other comprehensive income during the period are as follows:

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current service cost	-	-	34	31	34	31
Interest cost	183	185	89	84	272	269
Exchange adjustment	111	354	96	112	207	466
Charged in the income statement	294	539	219	227	513	766
Experience adjustments on obligation	(65)	(74)	377	(148)	312	(222)
Actuarial changes arising from changes in demographic assumptions	-	22	-	24	-	46
Actuarial changes arising from changes in financial assumptions	91	120	58	104	149	224
Re-measurement losses / (gains) recognised in other comprehensive income	26	68	435	(20)	461	48

38. **Retirement Benefit Obligations (Continued)**

The principal actuarial assumptions used in measurement of the defined benefit obligations at the end of the reporting period are as follows:

	2017	2016
Discount rate for cash flows in Russian Roubles	7.44%	8.37%
Discount rate for cash flows in U.S. Dollars	1.29%	0.81%
Future salary increases in Russian Roubles	4.00%	5.00%
Future salary increases in U.S. Dollars	-	-
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 60	17	17
Life expectancy in years of a female pensioner retiring at the age of 55	27	27
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	7.2	7.1
The average duration of the defined benefit plan obligation for long-term service retirement pension benefit plans	7.3	5.8

The Group expects to make benefit payments of $0.8 million (2016 – $0.5 million) in respect of the defined benefit plans in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 and 31 December 2016 is as shown below:

	2017 (Decrease) / increase in net defined benefit obligation		2016 (Decrease) / increase in net defined benefit obligation	
	50 bps increase $'000	50 bps decrease $'000	50 bps increase $'000	50 bps decrease $'000
Discount rate	(100)	93	(80)	86
Future salary increases	48	(45)	37	(34)

	2017 (Decrease) / increase in net defined benefit obligation		2016 (Decrease) / increase in net defined benefit obligation	
	100 bps increase $'000	100 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
Future pension cost increases	84	-	84	-

	2017		2016	
	Increase by 1 year $'000	Decrease by 1 year $'000	Increase by 1 year $'000	Decrease by 1 year $'000
Life expectancy of male pensioners	84	(91)	75	(82)
Life expectancy of female pensioners	45	(48)	39	(42)

39. **Other Loans**

	2017 $'000	2016 $'000	2015 $'000
$800 million 5.375% Senior Notes due in 2017	-	139,896	799,089
$900 million 5.375% Senior Notes due in 2023	891,801	737,076	-
Other loan from related party	14,148	-	93,387
	905,949	876,972	892,476
Less current portion	(3,537)	(139,896)	(16,984)
Non-current balance	902,412	737,076	875,492

On 27 October 2010, the Group, through its subsidiary SCF Capital Designated Activity Company (formerly SCF Capital Limited) ("SCF Capital"), issued Senior Notes (the "2010 Notes") of $800 million, redeemable at par value, maturing on 27 October 2017. Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011.

On 16 June 2016, the Group, through SCF Capital, issued $750 million of Senior Notes (the "2016 Notes"), redeemable at par value, maturing on 16 June 2023. Interest accrues at 5.375% from 16 June 2016 and is payable semi-annually in arrears on 16 June and 16 December of each year, commencing on 16 December 2016. The 2016 Notes were used to partly refinance the 2010 Notes. A total amount of $660,045,000 of the 2010 Notes was tendered back to SCF Capital at a price of $104.125 per $100 par value. Of the $27.2 million premium paid on the tendered bonds, $18.1 million has been expensed and included in financing costs in the income statement for the period ended 31 December 2016. The balance of $9.1 million relating to refinancing of the 2010 Notes with the 2016 Notes has been netted off against the proceeds raised from the 2016 Notes.

On 10 April 2017, the Group, through its subsidiary SCF Capital, issued $150.0 million of Senior Notes, at a price of $102.768 per $100.000 par value, redeemable at par value, maturing on 16 June 2023, which were consolidated and form a single series with the $750 million 5.375% 2016 Notes due in 2023. Interest accrues at 5.375% from 16 June 2017 and is payable semi-annually in arrears on 16 June and 16 December of each year, commencing on 16 June 2017. The premium of $4.2 million arising from the issue is capitalised and amortised over the period to maturity of these Senior Notes.

39. **Other Loans (Continued)**

On 15 May 2017 the Group redeemed the outstanding balance of $139.955 million of the $800 million 5.375% Senior Notes maturing in October 2017 at an applicable premium of $16.79 per $1,000 principal amount. The total redemption price, consisting of the principal amount of such Notes, the applicable premium, and the interest accrued, in aggregate equal to $1,019.48 per $1,000.00 principal amount of such Notes, resulted in a total payment of $142.7 million. The premium of $2.4 million paid on redemption, has been expensed in the income statement and is included in the line financing costs.

The Notes are unsecured and guaranteed by Sovcomflot. There are no equity conversion rights or options attached to the Notes. Both the 2010 Notes and 2016 Notes are included above net of unamortised financing costs.

Interest charged during the period in relation to the 2010 Notes and 2016 Notes amounted to $48.5 million (2016 – $45.5 million).

Other loan from related party as at 31 December 2017 relates to an agreement entered into by the Group on 19 April 2017 to purchase seismic equipment (“Purchase Agreement”) for a total consideration of €14.8 million equivalent to $15.9 million. On the same date, a consent and assignment agreement was signed between the Group, the seller of the equipment and a subsidiary of a Russian State controlled financial institution (the “Bank”) to assign all present and future rights, title and interest in and to the Purchase Agreement to the Bank. A payment equal to 10% of the consideration was made to the Bank on 16 May 2017, and the remaining 90% of the consideration (“Deferred Consideration”) will be paid in nine equal semi-annual instalments commencing on 15 December 2017 with final payment on 15 December 2021. The Deferred Consideration bears interest at six month EURIBOR plus 4% margin per annum. Interest charged during the period in relation to this loan amounted to $0.4 million.

40. **Cash Generated From Operations**

	2017 $’000	2016 $’000
(Loss) / profit for the period before income taxes	(97,597)	233,477
Share of profits in equity accounted investments	(2,675)	(12,939)
Depreciation, amortisation and impairment	389,142	355,790
Investment property depreciation	294	547
(Gain) / loss on sale of assets	(20,177)	483
Loss on sale of equity accounted investments	5	-
Interest expenses and financing costs	193,859	162,664
Interest income	(9,787)	(18,303)
Gain on ineffective hedging instruments	(401)	(1,032)
Foreign exchange differences	(243)	(18,936)
Change in allowance for credit losses	(490)	(84)
Other long-term employee benefits	7,949	20,079
Operating cash flows before movements in working capital	459,879	721,746
Increase in inventories	(8,515)	(15,800)
Decrease in trade and other receivables	31,282	17,910
Increase in trade and other payables	84,704	28,126
Cash generated from operations	567,350	751,982

41. **Significant Subsidiary Companies**

At 31 December 2017, the Group had 135 single vessel owning and operating subsidiaries (2016 – 131) incorporated in Liberia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of Incorporation	Percentage Holding	Principal Activity
PAO Novoship	Russia	89.46%	Holding company
SCF Overseas Holding Limited	Cyprus	100%	Holding company
SCF Tankers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Supply Vessels Limited and its subsidiaries	Cyprus	100%	Holding company
Intrigue Shipping Limited and its subsidiaries	Cyprus	89.46%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Arctic LLC	Russia	100%	Holding company
Sovcomflot Varandey LLC	Russia	100%	Ship operation
SCF Shelf LLC	Russia	100%	Ship operation
SCF Atlantic LLC	Russia	100%	Ship operation
SCF Geo LLC and its subsidiary	Russia	100%	Ship operation
SCF Novy Port LLC	Russia	100%	Ship operation
SCF Management Services (Novorossiysk) Ltd.	Russia	100%	Ship management
SCF Management Services (Cyprus) Ltd	Cyprus	100%	Ship management
SCF Management Services (St. Petersburg) Ltd.	Russia	100%	Ship management
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Ship management and supervision of operations
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Capital Designated Activity Company	Ireland	100%	Financing

41. Significant Subsidiary Companies (Continued)

The share capital of Novoship comprises voting ordinary shares and non-voting preference shares. Ownership of the shares is analysed as follows:

	At 31 December 2017			At 31 December 2016		
	Ordinary shares %	Preference shares %	Total shares %	Ordinary shares %	Preference shares %	Total shares %
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.29	1.48	89.46	98.29	1.48	89.46
Non-controlling shareholders	1.71	98.52	10.54	1.71	98.52	10.54
	100.00	100.00	100.00	100.00	100.00	100.00

In January 2016 Sovcomflot acquired 9,000 ordinary and 107,000 preference shares of Novoship from non-controlling shareholders. Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently, Sovcomflot holds an effective interest in Novoship of 89.46% as at 31 December 2017 (2016 – 89.46%).

Consolidated financial information of Novoship that has material non-controlling interests is provided below. This information is based on amounts before intercompany eliminations and reflect the change in functional currency of PAO Novoship in 2016, from the Russian Rouble to the U.S. Dollar, due to increase in U.S. Dollar denominated operations.

	2017 $'000	2016 $'000
Summarised statement of financial position:		
Total non-current assets	1,356,536	1,456,625
Total current assets	197,898	257,292
Total non-current liabilities	(56,184)	(110,522)
Total current liabilities	(134,406)	(176,546)
Net assets at period end	1,363,844	1,426,849
Cash and cash equivalents	101,432	180,944
Current financial liabilities	51,368	23,840
Non-current financial liabilities	49,237	100,515
Summarised income statement:		
Revenues	380,052	397,580
Depreciation, amortisation and impairment	(108,159)	(128,541)
Interest income	4,178	2,699
Interest expense	(4,583)	(3,795)
Income tax	(7,361)	(14,338)
(Loss) / profit for the period	(31,286)	40,807
Other comprehensive income for the period	16	(152)
Total comprehensive income for the period	(31,270)	40,655
Summarised statement of cash flows:		
Operating activities	65,208	175,312
Investing activities	(16,663)	(40,007)
Financing activities	(129,563)	(117,411)
Net (decrease) / increase in cash and cash equivalents	(81,018)	17,894

42. Financial Risk Management

(a) Capital management

The capital structure of the Group consists of net debt and equity. The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders;
- to enhance the ability of the Group to invest in future projects by sustaining a strong financial position and high borrowings capacity;
- to provide an adequate return to its shareholder; and
- to maintain and improve the Group's credit rating.

The Group reviews its capital structure and the capital structure of its subsidiaries on a quarterly basis. As part of this review, management makes adjustments to it in the light of changes in economic conditions and the risk characteristics relating to the Group's activities. In order to maintain or adjust its capital structure, the Group may repay existing secured term loans and revolving credit facilities, sell assets to reduce debt or inject additional capital into its subsidiaries. Management believes that such an approach provides an efficient capital structure and an appropriate level of financial flexibility.

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the excess or deficit of the market value of the fleet over/under its carrying amount ("total adjusted capital"). Net debt is calculated as the total of secured bank loans, finance lease liabilities and other loans disclosed in Notes 36, 37 and 39 of the financial statements, respectively, less restricted cash (Note 28) and cash and bank deposits (Note 29). Total equity comprises all components of equity.

42. **Financial Risk Management (Continued)**

(a) Capital management (continued)

Certain of the Group's debt agreements, at subsidiary level, contain loan-to-value clauses which could require the Group, at its option, to post additional collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings under each of such agreements decrease below their current valuations. In addition, the financing agreements impose operating restrictions and establish minimum financial covenants, including limitations on the amount of total borrowings and secured debt, and provide for acceleration of payment under certain circumstances, including failure to satisfy certain financial covenants. Failure to comply with any of the covenants in the financing agreements could also result in a default under those agreements and under other agreements containing cross-default provisions.

During 2017 the Group's overall strategy remained unchanged from 2016. The net debt ratio at 31 December 2017 and at 31 December 2016 and the net adjusted debt ratio of the Group were as follows:

	2017 $'000	2016 $'000
Secured bank loans (Note 36)	2,601,047	2,193,825
Finance lease liabilities (Note 37)	-	173,690
Other loans (Note 39)	905,949	876,972
Less: restricted cash (Note 28)	(75,543)	(72,079)
Less: cash and bank deposits (Note 29)	(359,352)	(480,638)
Net debt	3,072,101	2,691,770
Total equity	3,409,022	3,604,316
Total capital	6,481,123	6,296,086
Net debt ratio	47.4%	42.8%
Total capital	6,481,123	6,296,086
Deficit of market value of fleet over carrying value	(1,133,594)	(1,404,365)
Total adjusted capital	5,347,529	4,891,721
Net adjusted debt ratio	57.4%	55.0%

(b) Categories of financial assets and financial liabilities

	2017 $'000	2016 $'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships (Note 23)	36,717	7,519
Restricted cash (Note 28)	75,543	72,079
Cash and bank deposits (Note 29)	359,352	480,638
Available-for-sale investments	523	760
Loans and other receivables (Note 27)	111,023	124,737
Loans to joint ventures (Note 21)	55,511	50,324
Total financial assets	638,669	736,057
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships (Note 23)	30,182	37,070
Secured bank loans (Note 36)	2,601,047	2,193,825
Finance lease liabilities (Note 37)	-	173,690
Other loans (Note 39)	905,949	876,972
Other liabilities measured at amortised cost (Note 35)	195,639	172,614
Total financial liabilities	3,732,817	3,454,171

(c) Changes in liabilities arising from financing activities

	1 January 2017 $'000	Cash flows $'000	Foreign exchange movement $'000	Other $'000	31 December 2017 $'000
Secured bank loans	2,193,825	394,971[1]	18,698	(6,447)[2]	2,601,047
Other loans	876,972	8,458	1,674	18,845[3]	905,949
Finance lease liabilities	173,690	(176,817)	-	3,127	-
Dividends payable	15,986	(110,977)	(2,110)	109,902[4]	12,801
Total liabilities from financing activities	3,260,473	115,635	18,262	125,427	3,519,797

[1] Includes proceeds of borrowings of $697.5 million and repayment of borrowings of $302.5 million.

[2] Includes direct issue costs of $11.8 million incurred during 2017 and direct issue costs amortisation of $5.4 million.

[3] Relates to the purchase seismic equipment disclosed in Notes 15 and 39.

[4] Includes dividends declared during 2017 in the amount of $106.905 million (Note 33).

42. **Financial Risk Management (Continued)**

(d) Fair value of financial assets and financial liabilities

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial assets				
Loans to joint ventures	55,511	50,324	53,232	48,256
Liquidated damages on vessels under construction receivable from shipyard	9,962	11,800	9,962	11,800
Total financial assets	65,473	62,124	63,194	60,056
Financial liabilities				
Secured bank loans at fixed interest rates	765,028	400,469	792,895	409,306
Secured bank loans at floating interest rates	1,836,019	1,793,356	1,840,772	1,794,306
Other loans	905,949	876,972	947,328	903,829
Finance lease liabilities	-	173,690	-	175,974
Liquidated damages for late delivery of vessels payable to charterer	23,505	12,919	23,505	12,919
Total financial liabilities	3,530,501	3,257,406	3,604,500	3,296,334

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within Level 1) from observable current market transactions and dealer quotes for similar instruments. The fair values of derivative instruments, including interest rate swaps, are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, as adjusted for credit risk.

Fair value measurements of financial instruments recognised in the statement of financial position

The following table provides an analysis of financial instruments as at 31 December 2017 and 31 December 2016 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

Recurring fair value measurements recognised in the statement of financial position

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2017				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	36,717	-	36,717
	-	36,717	-	36,717
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	30,182	-	30,182
	-	30,182	-	30,182
At 31 December 2016				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	7,519	-	7,519
	-	7,519	-	7,519
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	37,070	-	37,070
	-	37,070	-	37,070

There were no transfers between Level 1 and 2 during the periods ended 31 December 2017 and 31 December 2016.

Non-recurring fair value measurements recognised in the statement of financial position

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2017				
Assets				
Non-current assets held for sale	25,719	-	-	25,719
	25,719	-	-	25,719
At 31 December 2016				
Assets				
Fleet	-	52,470	-	52,470
	-	52,470	-	52,470

42. **Financial Risk Management (Continued)**

(d) Fair value of financial assets and financial liabilities (continued)

Assets and liabilities not measured at fair value for which fair values are disclosed

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 31 December 2017				
Fair value of assets				
Investment property	-	30,201	-	30,201
Loans to joint ventures	-	53,232	-	53,232
Liquidated damages on vessels under construction receivable from shipyard	-	9,962		9,962
	-	93,395	-	93,395
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	792,895	-	792,895
Secured bank loans at floating interest rates	-	1,840,772	-	1,840,772
Other loans	932,625	14,703	-	947,328
Liquidated damages for late delivery of vessels payable to charterer	-	23,505	-	23,505
	932,625	2,671,875	-	3,604,500
At 31 December 2016				
Fair value of assets				
Investment property	3,378	22,188	-	25,566
Loans to joint ventures	-	48,256	-	48,256
Liquidated damages on vessels under construction receivable from shipyard	-	11,800	-	11,800
	3,378	82,244	-	85,622
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	409,306		409,306
Secured bank loans at floating interest rates	-	1,794,306	-	1,794,306
Other loans	903,829	-	-	903,829
Finance lease liabilities	-	175,974	-	175,974
Liquidated damages for late delivery of vessels payable to charterer	-	12,919	-	12,919
	903,829	2,392,505	-	3,296,334

(e) Financial risk factors

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. Over the last three years, the Russian economy has been negatively impacted by a decline in crude oil prices, as well as economic sanctions imposed on certain Russian legal entities and individuals by several countries.

The Group seeks to minimise potential adverse effects on the Group's financial performance by employing a sufficiently robust financial risk strategy to withstand prolonged adverse conditions in significant risk factors such as down-cycles in freight rates or unfavourable conditions in the financial markets.

The Group's results and cash flows are influenced by the success of the Group in managing these risk factors as detailed below.

Market risk

Foreign currency risk

The Group's economic environment is the international shipping market. This market utilises the U.S. Dollar as its functional currency. The majority of the Group's revenues and most of the operating expenses are in U.S. Dollars. Exposure to transaction risk arises because certain revenues from seismic operations, voyage expenses, vessel operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Sterling Pound.

The Group is also exposed to foreign currency risk on its Euro denominated secured bank loans and other loans. During 2017, 91.7% of the Group's borrowings were denominated in U.S. Dollars (2016 – 100%) and 8.3% in Euro. The Group manages its cash flow foreign currency risk by the use of cross currency, floating to fixed interest rate swaps. Such financial instruments have the economic benefit of converting loans issued in foreign currencies to U.S. Dollar at fixed exchange rates. The Group's hedging instruments to protect against currency fluctuations as at the reporting date are detailed in Note 23 of these financial statements. As of 31 December 2017 the net exposure of the Group to foreign exchange rate fluctuations on its borrowing is limited to €11.8 million (equivalent to $14.1 million).

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. There is a risk that currency exposure arising from the net assets of the Group's foreign operations will have a negative effect on the Group's cash flows. The Group has not entered into any forward contracts to hedge against this translation risk.

42. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

Market risk (continued)

Foreign currency risk (continued)

The carrying amounts of the Group's most significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Euro (EUR)	31,512	6,059	11,733	12,944
Russian Roubles (RUR)	90,743	79,925	104,469	77,375
Sterling Pounds (GBP)	2,016	4,919	13,682	22,737
Others	2,510	2,150	1,359	921

An analysis of the exposure of the Group to fluctuations in exchange rates against the U.S. Dollar, with all other variables held constant, was performed using the following movement in rates:

	Increase		Decrease	
	2017	2016	2017	2016
Euro (EUR)	12.5%	10.0%	7.5%	10.0%
Russian Roubles (RUR)	11.0%	20.0%	11.0%	20.0%
Sterling Pounds (GBP)	11.0%	6.0%	7.0%	18.0%
Others	10.0%	10.0%	10.0%	10.0%

The effect of an increase in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in pre-tax equity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Euro (EUR)	1,009	606	1,781	(78)
Russian Roubles (RUR)	5,464	5,558	(702)	(2,855)
Sterling Pounds (GBP)	(610)	640	(460)	(154)
Others	94	107	11	5

The effect of a decrease in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in pre-tax equity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Euro (EUR)	736	742	(1,300)	95
Russian Roubles (RUR)	6,816	8,337	874	4,282
Sterling Pounds (GBP)	(463)	2,482	349	596
Others	115	130	(13)	(6)

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates.

The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate and cross-currency interest rate swaps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 23 of these financial statements.

The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at period end was as follows:

	2017 $'000	2016 $'000
Total borrowings gross of direct issue costs (Notes 36, 37 and 39)	3,540,197	3,276,185
Fixed rate borrowings gross of direct issue costs (Notes 36, 37 and 39)	(1,676,632)	(1,469,155)
Total floating rate borrowings gross of direct issue costs (Notes 36 and 39)	1,863,565	1,807,030
Notional amount of floating to fixed rate swaps qualifying under IAS32 / IAS39 (Note 23)	(1,179,729)	(1,066,057)
Net exposure to interest fluctuations	683,836	740,973
% of floating rate borrowings exposed to interest rate fluctuations	36.7%	41.0%

42. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

Market risk (continued)

Cash flow interest rate risk (continued)

The effect on the Group of changes in interest rates is as follows:

Sensitivity of interest rates	**2017**		**2016**	
	100 bps increase $'000	**25 bps decrease $'000**	**100 bps increase $'000**	**25 bps decrease $'000**
Change in fair value of hedging instruments				
- Increase / (decrease) in other comprehensive income for the period	19,675	5,385	40,455	(10,114)
- Increase / (decrease) in profit or loss for the period	121	(31)	588	(147)
Increase / (decrease) in interest expense for the period excluding interest capitalised	5,792	(1,449)	5,619	(1,405)

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 50.3% (2016 – 59.1%) of the vessels' total trading days were on time charter representing 77.3% (2016 – 75.0%) of time charter equivalent revenues of which 3.0% (2016 – 4.0%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2017, 53.3% (2016 – 55.6%) of the vessels were on time charter.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from derivative financial instruments and deposits with financial institutions as well as exposure to charterers, including receivables and committed transactions.

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2017, amounts due from charterers included two charterers (2016 – one) with a balance of freight and hire due of $18.7 million (2016 - $29.2 million), representing 28.0% of total amounts due (2016 – 40.7%).

In respect of the charterer with an amount due of $29.2 million as at 31 December 2016, the Group exercised contractual liens in 2016 over the cargo on board two of the vessels chartered out to this charterer and also obtained the court orders arresting same cargo. The cargoes on board of the two vessels were sold, based on court decisions, in October 2017 and proceeds from their sale amounting to $47.0 million were deposited in an escrow bank account. Settlements directly by the charterer or through arbitration awards from the escrow bank account, for amounts outstanding as of 31 December 2016 and charter hire due for the period ended 31 December 2017, amounted to $22.6 million in the period ended 31 December 2017. As at 31 December 2017, the balance on the escrow bank account was $22.9 million. Claimed amounts awarded and to be awarded through arbitration, and outstanding as at 31 December 2017, amounted to $11.2 million. Management believes that there is no further credit provision required in excess of the allowance for credit losses.

As at 31 December 2017, total freight and hire revenue included revenue of $242.6 million and $162.2 million (2016 – $181.5 million and $179.6 million) from two charterers individually representing 16.9% and 11.3% (2016 – 13.1% and 12.9%), respectively, of total freight and hire revenue.

The revenue from the two charterers relates to the following operating segments:

Operating segment	**2017 $'000**	**2016 $'000**
Crude oil	113,904	112,689
Oil product	21,407	35,019
Gas	107,810	110,854
Offshore	131,563	54,690
Other	30,164	47,842
	404,848	361,094

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with three banks (2016 – five) representing 29.5%, 25.0% and 17.5% (2016 – 21.3%, 21.1%, 15.8%, 13.2% and 10.7%) of total deposits of $357.9 million (2016 – $479.0 million).

42. **Financial Risk Management (Continued)**

(e) Financial risk factors (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset and arises because of the possibility that the Group could be required to pay its liabilities earlier than expected.

Management has built an appropriate liquidity risk assessment framework for the purposes of short, medium and long-term funding and liquidity management requirements. Due to the dynamic nature of the shipping industry, the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve revolving credit facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Below is a table summarising additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk:

	Credit facilities $'000	Drawn down $'000	Available $'000
At 31 December 2017			
Secured bank loans	824,700	(697,490)	127,210
Secured revolving credit facilities	248,662	(208,662)	40,000
	1,073,362	(906,152)	167,210
At 31 December 2016			
Secured bank loans	1,260,129	(589,129)	671,000
Secured revolving credit facilities	248,662	(208,662)	40,000
	1,508,791	(797,791)	711,000

Availability of secured revolving credit facilities is subject to compliance with the relevant loan to value covenants of each of the facilities based on the market value of the vessels used as collateral. As of 31 December 2017 all facilities above were available for drawdown.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

At 31 December 2017	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	159,204	14,424	4,962	178,590
Secured bank loans	343,599	1,275,846	1,006,604	2,626,049
Other loans	3,537	10,611	900,000	914,148
Interest payable on derivative instruments	17,139	27,626	1,018	45,783
Interest payable on secured loans	112,207	316,477	143,547	572,231
Interest payable on other loans	48,376	193,500	24,187	266,063
	684,062	1,838,484	2,080,318	4,602,864
At 31 December 2016				
Trade and other payables	154,196	1,119	-	155,315
Minimum lease payments under finance leases	173,850	-	-	173,850
Secured bank loans	294,861	1,185,205	732,314	2,212,380
Other loans	139,955	-	750,000	889,955
Interest payable on derivative instruments	18,462	28,988	-	47,450
Interest payable on secured loans	83,066	249,585	100,645	433,296
Interest payable on other loans	47,836	161,250	60,469	269,555
Interest payable on finance leases	8,430	-	-	8,430
	920,656	1,626,147	1,643,428	4,190,231

43. **Operating Lease Arrangements**

The Group as Lessee

The Group has the following non-cancellable operating lease commitments as at the period end in respect of vessels and buildings in Novorossiysk, London, Moscow, Dubai and Limassol:

	Vessels		Buildings	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Within one year	27,090	23,555	4,843	1,351
After one year but not more than five years	57,772	23,522	22,138	18,251
More than five years	-	-	33,534	37,522
	84,862	47,077	60,515	57,124
Expensed during the period	40,424	25,791	5,014	5,155

The Group charters in two seismic vessels with various extension options attached to the bareboat charter contracts and purchase options. The firm period of the leases on the vessels have a remaining life of less than two and less than five years, respectively. The leases for the buildings expire between 4 and 9 years with various options attached and one lease expiring in 43 years. There are no restrictions placed upon the Group by entering into these leases.

43. **Operating Lease Arrangements (Continued)**

The Group as Lessor

	Buildings	
	2017 $'000	**2016 $'000**
Within one year	1,883	1,788
After one year but not more than five years	8,522	8,093
More than five years	6,914	9,176
	17,319	19,057
Income during the period	1,859	1,502

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's on shore based facilities in Novorossiysk and Sochi, Russia, including leased in facilities. The leases expire within 8 years.

44. **Contingent Liabilities and Commitments**

Contracted revenues and guarantees

The Group through its subsidiaries entered into time charter agreements with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2017 $'000	**2016 $'000**
Within one year	736,984	717,348
After one year but not more than five years	2,560,997	2,323,630
More than five years	4,421,655	4,605,660
	7,719,636	7,646,638

The time charters referred to above include various charterers' purchase, termination and extension options.

The Group obtained guarantees from a Russian State controlled entity in respect of the performance of the obligations by its subsidiary as charterer under two time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the State controlled entity. In addition the Group obtained guarantees from a subsidiary of the Russian State controlled entity in respect of the performance obligations by the subsidiary of the guarantor under three time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the guarantor.

The Group has also obtain guarantees valid until 30 April 2024 from a Russian state controlled entity in respect of the performance obligations by the subsidiary of the guarantor under the deed on deferred payment on part of liquidated damages amounting to $9.8 million, as a result of the delay delivery of vessel under the shipbuilding contract.

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 16, is summarised as follows:

	Less than 1 year $'000	**1 to 5 years $'000**	**Total $'000**
At 31 December 2017			
Newbuilding contracts	268,521	340,521	609,042
Newbuilding contracts with Russian State controlled shipyards	95,960	-	95,960
	364,481	340,521	705,002
At 31 December 2016			
Newbuilding contracts	222,512	-	222,512
Newbuilding contracts with Russian State controlled shipyards	416,000	-	416,000
	638,512	-	638,512

Contingent liabilities

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions traditionally utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Generally, in most jurisdictions the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction.

Management believes that the Group's shipping and holding companies are subject to taxation in their respective countries of incorporation in full compliance with local tax legislation. However, the concept of permanent establishment and tax residency for legal entities introduced by domestic and international law is subject to interpretation. As a result, there is a risk that the taxation authorities of certain jurisdictions may attempt to subject the Group's earnings from international shipping activities to income taxes. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions.

Effective 1 January 2015 the concept of beneficial ownership was introduced in the Russian tax code in respect of application of the provisions of double tax treaties to certain types of income. Given the lack of practice and uncertainty in application of the new rules by the Russian tax authorities, substantial tax liabilities might arise in case the tax authorities challenge compliance with the beneficial ownership confirmation requirements.

44. **Contingent Liabilities and Commitments (Continued)**

In 2015 and 2016 the Russian tax authorities challenged application of 0% value added tax (“VAT”) rate charged by the Group’s Russian subsidiaries on hire revenues earned from vessels time-chartered out and employed on international trade, requiring the subsidiaries to apply 18% VAT rate on hire revenue. Following clarification on the issue received from the Federal Russian tax authorities that the application of 0% VAT rate is appropriate, all enquiries have been stopped and the remaining balance of approximately RUR149 million (equivalent to $2.5 million), has been received in July 2017.

In 2015, the Russian customs alleged that one of the Group’s Russian subsidiaries had breached the customs’ regulations in respect of two of its vessels on the basis that it had not obtained the permission of customs prior to chartering out the vessels on time charter. The Russian customs had requested the Group to pay RUR314 million of custom fees (equivalent to $5.5 million) of which RUR284 million (equivalent to $4.9 million) of the RUR314 million paid, are included in other receivables under trade and other receivables. In October 2016 the courts have decided that customs illegally imposed the custom fee of RUR221 million (equivalent to $3.8 million) for the first vessel; such decision was confirmed by an appeal court in February 2017. Customs have submitted a further appeal and in June 2017 the higher appeal court overturned the previous decisions of the court’s and confirmed correctness of the customs office claim. The case had been submitted by the Group to the Supreme Court in August 2017 and on 28 February 2018 the Supreme Courts found in favour of the Group, ratifying the initial decision of the courts. The courts have postponed the decision on the balance of the custom fee of RUR93 million (equivalent $1.6 million) relating to the second vessel pending outcome of the first case but the court proceedings will recommence in April 2018. The final judgment of the Russian courts for the second case and return of the RUR314 million paid is expected by the end of 2018.

During 2005 through to 2009, the Group’s newly appointed management filed claims in London for losses arising out of various transactions that had taken place during 2000 through to 2004 (the “Fiona Litigation”). The trial for the claims filed commenced at the High Court in London in October 2009 and concluded in mid-2010. Judgment was handed down on 10 December 2010. The Group was successful on a number of claims, and unsuccessful on a number of others.

As a result of the Group recovering at trial an amount less than the total amount of the two freezing orders granted against some of the defendants in 2005 and 2007 in the course of the London proceedings in the Fiona Litigation, these defendants pursued a claim for damages said to have been suffered by virtue of the freezing orders to the extent that the freezing orders were in an amount in excess of the sums recovered under the Judgment.

In October 2016, the Court gave judgment and awarded the defendants damages of $59.8 million and interest on damages from December 2010 to 27 October 2016 of $11.0 million; a total sum of $70.8 million in relation to the 2005 freezing order claim that succeeded. The Court also ordered the Group to pay 50% of the defendants' costs estimated at £3.0 million (assessed on a standard basis) in relation to this claim and to make an interim payment of such costs of £1.0 million.

Following an application by the Group, the Court of Appeal granted permission to appeal on certain limited grounds and also ordered a stay of execution of the above judgment pending the outcome of the appeal conditional on the Group paying the above sums into Court. Those sums were paid into Court on 15 December 2016. The hearing of the Group's appeal took place on 4 October 2017 and the Judgement was handed down on 21 November 2017 dismissing the Group’s appeal.

The Group applied to the Court of Appeal for permission to appeal to the Supreme Court but on 29 November 2017, the Court of Appeal refused permission to appeal. The Group has since applied to the Supreme Court for the permission to appeal. In the meantime, on 6 December 2017, the Court of Appeal ordered a further stay of execution until such application to the Supreme Court has been determined conditional upon the Group making further payments into Court of approximately $2.7 million and £0.1 million to cover interest accrued on the judgment sums since the original judgment in October 2016. The Group has recognised a liability and related expense for the period ended 31 December 2017 of $75.5 million in relation to this claim.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd (“NOUK”). NOUK and other companies of the Group filed claims at the Commercial Court in London in December 2006 and subsequently joined further defendants. The trial for these claims commenced on 16 May 2012 and concluded on 5 July 2012. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims, but after appeal unsuccessful on some claims against certain defendants. In respect of the successful claims, the Group has recognised an additional amount of $15.0 million, in settlement with one of the defendants, in the income statement for the period ended 31 December 2016.

Some of the defendants in the unsuccessful claims have indicated an intention to pursue the Group for damages in respect of $90.0 million of security provided during the litigation. No claim has yet been filed for damages.

A total amount of $78.7 million (2016 – $4.9 million), relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims, has been expensed in the income statement and is included in the line other non-operating expenses.

Details of the Group’s commitments under operating leases are disclosed in Note 43.

45. **Related Party Transactions**

Note 41 provides information about the Group’s structure, including details of its subsidiaries. In addition, the below are material transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes.

On 24 March 2017 and on 4 May 2017, the Group fully drew down from a loan facility granted by a Russian State controlled financial institution, a total amount of $253.7 million to finance the construction and delivery of the ice breaking LNG carrier referred to in Note 16.

The acquisition of the vessels under held under finance leases (Note 37) was financed by a credit facility with a Russian State controlled financial institution. The loan bears interest at 5.7% per annum and is repayable in 38 quarterly equal instalments, with a balloon payment of 36.0% of the amount drawn down under the facility in March 2027. The Group has the option to extend maturity of the loan for a further 5 years at an interest rate to be agreed at the time.

On 21 July 2017, the Group entered into a time charter agreement, with a Russian State controlled entity, for the chartering out of the Arctic shuttle tanker referred to in Note 16, scheduled for delivery in October 2019. The charter is for a 12-year firm period with various extension options attached in favour of the charterer. The time charter agreement has been classified as an operating lease. The aggregate hire receivable over the firm period of the charter is $274.7 million and it is included in contracted revenues disclosure (see Note 44).

45. **Related Party Transactions (Continued)**

The following table provides the total amount of transactions that have been entered into with related parties in the financial reporting period and outstanding balances as at the period end.

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Transactions with Russian State controlled entities				
Freight and hire of vessels	(353,979)	(268,280)	4,446	7,617
Voyage expenses and commissions	5,196	1,471	(461)	(988)
Other operating revenues	(2,108)	(2,296)	(2,379)	(1,833)
Other operating expenses	1,078	839	2	(3)
Other loans	406	-	(14,175)	-
Secured bank loans	44,193	5,803	(723,518)	(336,242)
Finance leases payable	4,304	11,858	-	(173,690)
Receivables from shipyard (liquidated damages for late delivery of vessels)	-	-	9,962	11,800
Payables to charterer (liquidated damages for late delivery of vessels)	-	-	(23,505)	(12,919)
Payments to related shipyards for vessels under construction, including vessels delivered during period	-	-	288,187	104,000
Cash at bank	(5,843)	(5,233)	144,289	205,896
Finance leases receivable	-	(11,458)	-	764
Allowance for credit losses on finance lease receivables	-	(419)	-	-
Derivative financial instruments	12,773	-	(20,976)	-
Transactions with Joint Ventures				
Freight and hire of vessel	-	(7,044)	-	-
Other operating revenues	(3,235)	(3,186)	410	473
Loans due from joint ventures	(1,353)	(1,160)	55,622	50,324
Compensation of Key Management Personnel				
Short term benefits	8,242	9,437	(2,506)	(3,599)
Post-employment benefits	70	64	(18)	(10)
Long term service benefits	2,938	9,556	(21,229)	(18,203)
	11,250	19,057	(23,753)	(21,812)

46. **Events After the Reporting Period**

On 26 January 2018, the Group took delivery, from a Russian State controlled shipyard, a multifunctional ice-breaking standby vessel, the m/v Yevgeny Primakov. Effective on the same date, the Group entered into a twelve year Euro-USD cross currency interest rate swap transaction with a Russian State controlled financial institution to hedge the Group's cash flow exposure arising from currency and interest rate fluctuations in respect of a Euro equivalent of $102.5 million loan in connection with the financing of the vessel.

On 31 January 2018, the Group entered into a loan facility with a Russian State controlled financial institution totalling $106.2 million, to finance the construction of the Arctic shuttle tanker referred to in Note 16, at an interest rate of 5.6% per annum repayable in 48 quarterly instalments, commencing three months after the delivery of the vessel by the shipyard.

On 20 February 2018, the Group signed two time charter agreements, for the chartering out of two ice-class LNG fuelled Aframax crude oil tankers referred to in Note 16 for a 5 years firm period with various extension options attached in favour of the charterer. The aggregate hire receivable over the firm period of the charters of the ice-class LNG fuelled Aframax crude oil tankers is $87.2 million.

Three of the four crude oil Aframax tankers classified as held for sale (see Note 30) as at 31 December 2017, were delivered to their buyers, one in February and two in March 2018.

PAO SOVCOMFLOT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

30 June 2020

PAO Sovcomflot

Contents

Report on Review of Interim Financial Information		2
Consolidated Income Statement		4
Consolidated Statement of Comprehensive Income		5
Consolidated Statement of Financial Position		6
Consolidated Statement of Changes in Equity		7
Consolidated Statement of Cash Flows		8
Notes to the Condensed Consolidated Interim Financial Statements		
1.	Organisation, Basis of Preparation and Accounting Policies	9
2.	Revision of Classification in Interim Financial Statements	10
3.	Time Charter Equivalent Revenues	11
4.	Segment Information	12
5.	Income Taxes	13
6.	Fleet	13
7.	Vessels Under Construction	14
8.	Investments in Joint Ventures	14
9.	Derivative Financial Instruments	14
10.	Receivables and Other Assets	15
11.	Cash and Bank Deposits	15
12.	Non-Current Assets Held for Sale	15
13.	Dividends	15
14.	Payables and Other Liabilities	16
15.	Secured Bank Loans	16
16.	Other Loans	16
17.	Leases	17
18.	Financial Risk Management	17
19.	Contingent Liabilities	18
20.	Related Party Transactions	19
21.	Events After the Reporting Period	19

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827
ОГРН: 1027739707203
ИНН: 7709383532

Report on Review of Interim Financial Information

To the Shareholder and the Board of Directors of
PAO Sovcomflot

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of PAO Sovcomflot and its subsidiaries, which comprise the consolidated statement of financial position as at 30 June 2020, the consolidated income statement, consolidated statement of comprehensive income for the three-month and six-month periods then ended, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended, and notes to the condensed consolidated interim financial statements (interim financial information). Management of PAO Sovcomflot is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

A member firm of Ernst & Young Global Limited

Совершенствуя бизнес,
улучшаем мир

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

R.G. Romanenko
Partner
Ernst & Young LLC

26 August 2020

Details of the entity

Name: PAO Sovcomflot
Record made in the State Register of Legal Entities on 31 July 2020, 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.

A member firm of Ernst & Young Global Limited

PAO Sovcomflot

Consolidated Income Statement
For the periods ended 30 June 2020
(unaudited)

	Note	Six months ended (unaudited)		Three months ended (unaudited)	
		30/06/2020	30/06/2019	30/06/2020	30/06/2019
		$'000	$'000	$'000	$'000
			Restated-Note 2		Restated-Note 2
Revenue	3	951,305	794,065	458,006	383,333
Voyage expenses and commissions		(168,605)	(200,090)	(64,765)	(100,682)
Time charter equivalent revenues	3	782,700	593,975	393,241	282,651
Direct operating expenses					
Vessels' running costs		170,525	170,811	86,481	86,382
		(170,525)	(170,811)	(86,481)	(86,382)
Net earnings from vessels' trading		612,175	423,164	306,760	196,269
Other operating revenues		10,585	21,559	5,490	15,046
Other operating expenses		(5,755)	(10,494)	(2,738)	(5,127)
Depreciation, amortisation and impairment		(228,957)	(191,572)	(129,331)	(95,206)
General and administrative expenses		(46,048)	(54,538)	(21,841)	(28,888)
Loss on sale of non-current assets		(449)	(136)	(36)	(136)
Allowance for credit losses		(229)	(41)	261	(292)
Share of profits in equity accounted investments	8	13,133	5,529	5,961	184
Operating profit		354,455	193,471	164,526	81,850
Other (expenses) / income					
Financing costs		(99,229)	(103,570)	(49,334)	(51,916)
Interest income		5,325	5,513	2,438	2,481
Other non-operating expenses		(951)	(1,106)	(591)	(583)
Gain / (loss) on hedge ineffectiveness		487	(276)	381	118
Gain on derecognition of dividend liability		19	3,861	19	1,018
Foreign exchange gains		4,253	15,428	12,714	1,742
Foreign exchange losses		(15,847)	(6,920)	(5,783)	(2,368)
Net other expenses		(105,943)	(87,070)	(40,156)	(49,508)
Profit before income taxes		248,512	106,401	124,370	32,342
Income tax expense	5	(22,142)	(15,438)	(14,067)	(11,433)
Profit for the period		226,370	90,963	110,303	20,909
Profit attributable to:					
Owners of the parent		224,915	90,043	111,744	21,165
Non-controlling interests		1,455	920	(1,441)	(256)
		226,370	90,963	110,303	20,909
Earnings per share					
Basic and diluted profit per share for the period attributable to owners of the parent		$0.114	$0.046	$0.057	$0.011

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the periods ended 30 June 2020
(unaudited)

	Note	Six months ended (unaudited)		Three months ended (unaudited)	
		30/06/2020 $'000	30/06/2019 $'000	30/06/2020 $'000	30/06/2019 $'000
Profit for the period		226,370	90,963	110,303	20,909
Other comprehensive income:					
Items to be reclassified to profit or loss in subsequent periods:					
Share of associates' other comprehensive income		(12)	11	13	4
Share of joint ventures' other comprehensive income	8	(3,517)	1,012	301	114
Exchange (loss) / gain on translation from functional currency to presentation currency		(4,065)	(1,855)	3,384	1,386
Net loss on derivative financial instruments debited to other comprehensive income	9	(52,906)	(32,090)	(6,227)	(19,416)
		(60,500)	(32,922)	(2,529)	(17,912)
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurement gains / (losses) on retirement benefit obligations		18	(98)	(86)	(98)
		18	(98)	(86)	(98)
Other comprehensive income for the period, net of tax		(60,482)	(33,020)	(2,615)	(18,010)
Total comprehensive income for the period		165,888	57,943	107,688	2,899
Total comprehensive income attributable to:					
Owners of the parent		164,376	57,078	109,162	3,162
Non-controlling interests		1,512	865	(1,474)	(263)
		165,888	57,943	107,688	2,899

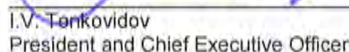
The accompanying notes are an integral part of the condensed consolidated interim financial statements.

PAO Sovcomflot

Consolidated Statement of Financial Position – 30 June 2020 (unaudited)

	Note	30/06/2020 (unaudited) $'000	31/12/2019 $'000
Assets			
Non-current assets			
Fleet	6	6,136,496	6,121,734
Right of use assets	17	15,151	45,895
Vessels under construction	7	161,613	179,579
Intangible assets		3,219	5,891
Other property, plant and equipment		39,383	41,366
Investment property		3,834	4,435
Investments in associates		106	105
Investments in joint ventures	8	161,820	152,255
Equity instruments at fair value through profit or loss		361	480
Loans to joint ventures		50,902	50,341
Derivative financial instruments	9	762	4,718
Trade and other receivables	10	8,997	8,705
Deferred tax assets		3,848	5,250
Bank deposits	11	15,500	15,500
		6,601,992	6,636,254
Current assets			
Inventories		41,213	53,749
Loans to joint ventures		26	11,804
Derivative financial instruments	9	-	170
Trade and other receivables	10	103,106	100,739
Prepayments and other current assets	10	16,745	15,280
Contract assets	10	15,033	41,605
Current tax receivable		9,004	5,592
Bank deposits	11	22,730	26,865
Cash and cash equivalents	11	672,518	374,821
		880,375	630,625
Non-current assets held for sale	12	30,380	69,061
		910,755	699,686
Total assets		7,512,747	7,335,940
Equity and liabilities			
Capital and reserves			
Share capital		405,012	405,012
Reserves		3,132,236	2,967,860
Equity attributable to owners of the parent		3,537,248	3,372,872
Non-controlling interests		132,407	131,709
Total equity		3,669,655	3,504,581
Non-current liabilities			
Trade and other payables	14	16,213	16,905
Other non-current liabilities	14	7,201	3,663
Secured bank loans	15	2,028,602	2,159,854
Other loans	16	896,340	897,106
Lease liabilities	17	34,246	41,180
Derivative financial instruments	9	68,418	30,233
Retirement benefit obligations		2,209	2,599
Provisions		3,945	3,895
Deferred tax liabilities		16,099	6,297
		3,073,273	3,161,732
Current liabilities			
Trade and other payables	14	158,591	161,924
Other current liabilities	14	62,074	72,519
Contract liabilities		10,244	14,741
Secured bank loans	15	490,069	378,955
Other loans	16	3,327	3,314
Lease liabilities	17	16,356	19,120
Current tax payable		713	394
Derivative financial instruments	9	28,445	18,660
		769,819	669,627
Total liabilities		3,843,092	3,831,359
Total equity and liabilities		7,512,747	7,335,940

Approved by the Executive Board and authorised for issue on 26 August 2020



I.V. Tonkovidov
President and Chief Executive Officer

N.L. Kolesnikov
Chief Financial Officer

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

PAO Sovcomflot

Consolidated Statement of Changes in Equity
For the period ended 30 June 2020
(unaudited)

	Share capital $'000	Share premium $'000	Group reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
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	-	-	-	-	-	90,043	90,043	920	90,963
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	11	-	11	-	11
Share of joint ventures' other comprehensive income	-	-	-	1,012	-	-	1,012	-	1,012
Exchange loss on translation from functional currency to presentation currency	-	-	-	-	(1,810)	-	(1,810)	(45)	(1,855)
Net loss on derivative financial instruments debited to other comprehensive income	-	-	-	(32,090)	-	-	(32,090)	-	(32,090)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(88)	(88)	(10)	(98)
Total comprehensive income	-	-	-	(31,078)	(1,799)	89,955	57,078	865	57,943
Effect of intragroup financing	-	-	-	-	-	419	419	(419)	-
Dividends (Note 13)	-	-	-	-	-	(22,948)	(22,948)	(1,290)	(24,238)
At 30 June 2019 (unaudited)	**405,012**	**818,845**	**(834,490)**	**(33,437)**	**(48,675)**	**2,930,533**	**3,237,788**	**135,611**	**3,373,399**
At 1 January 2020	**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	-	-	-	-	-	224,915	224,915	1,455	226,370
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(12)	-	(12)	-	(12)
Share of joint ventures' other comprehensive income	-	-	-	(3,517)	-	-	(3,517)	-	(3,517)
Exchange (loss) /gain on translation from functional currency to presentation currency	-	-	-	-	(4,120)	-	(4,120)	55	(4,065)
Net loss on derivative financial instruments debited to other comprehensive income	-	-	-	(52,906)	-	-	(52,906)	-	(52,906)
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	16	16	2	18
Total comprehensive income	-	-	-	(56,423)	(4,132)	224,931	164,376	1,512	165,888
Dividends (Note 13)	-	-	-	-	-	-	-	(814)	(814)
At 30 June 2020 (unaudited)	**405,012**	**818,845**	**(834,490)**	**(88,485)**	**(50,589)**	**3,286,955**	**3,537,248**	**132,407**	**3,669,655**

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 30 June 2020
(unaudited)

	Note	Six months ended (unaudited)	
		30/06/2020 $'000	30/06/2019 $'000
			Restated-Note 2
Operating Activities			
Cash received from vessels' operations		976,886	799,821
Other cash receipts		9,371	12,626
Cash payments for voyage and running costs		(324,802)	(373,076)
Other cash payments		(65,752)	(52,611)
Cash generated from operations		595,703	386,760
Interest received		4,082	3,587
Income tax paid		(14,694)	(7,838)
Net cash from operating activities		585,091	382,509
Investing Activities			
Expenditure on fleet	6	(26,372)	(32,489)
Expenditure on vessels under construction	7	(158,939)	(225,121)
Interest capitalised	7	(1,932)	(1,652)
Expenditure on intangibles and other property, plant and equipment		(531)	(803)
Loan repayments by joint ventures		11,861	-
Loans issued by joint ventures		-	(1,122)
Proceeds from disposal and dissolution of investments		289	277
Proceeds from sale of vessels	12	38,256	8,942
Proceeds from sale of other property, plant and equipment		1,860	1,208
Dividends received from equity accounted investments		-	124
Return / (placement) of bank term deposits	11	308	(35)
Net cash used in investing activities		(135,200)	(250,671)
Financing Activities			
Proceeds from borrowings		139,768	184,524
Repayment of borrowings		(164,522)	(165,929)
Financing costs		(1,786)	(1,706)
Repayment of lease liabilities		(7,371)	(9,441)
Repayment of liquidated damages		(901)	(560)
Restricted deposits under loan agreements	11	-	(1,500)
Release / (placement) of funds in retention bank accounts	11	3,827	(1,031)
Interest paid on borrowings		(90,552)	(94,866)
Interest paid on lease liabilities		(3,026)	(3,518)
Interest paid on liquidated damages		(608)	(952)
Dividends paid to non-controlling interests		(4,065)	(1,243)
Net cash used in financing activities		(129,236)	(96,222)
Increase in Cash and Cash Equivalents		320,655	35,616
Cash and Cash Equivalents at 1 January	11	374,821	267,571
Net foreign exchange difference		(22,958)	7,290
Cash and Cash Equivalents at 30 June	11	672,518	310,477

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

1. Organisation, Basis of Preparation and Accounting Policies

PAO Sovcomflot ("Sovcomflot" or "the Company") is a public joint stock company organised under the laws of the Russian Federation and was initially registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The Company's registered office address is 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation.

The Company, through its subsidiaries (the "Group"), is engaged in ship owning and operating on a world-wide basis with a fleet of 133 vessels at the period end, comprising 54 oil tankers, 36 product tankers, 19 shuttle tankers, 10 gas carriers, 10 ice breaking supply vessels, 2 bulk carriers and 2 chartered in seismic vessels. For major changes in the period in relation to the fleet, see also Notes 6, 7 and 12.

Basis of Preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standard (IFRS) - IAS 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2019 which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Operating results for the six-month period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the year ending 31 December 2020.

The Group also prepares interim condensed consolidated financial statements in Russian Roubles as required by the Russian Federal Law No. 208 – FZ "On consolidated financial reporting" dated 27 July 2010.

Currency translation

For the purposes of these condensed consolidated financial statements, the exchange rates used for translating transaction amounts and monetary assets and liabilities are as follows:

	30/06/2020 Closing $1	30/06/2020 Average $1	31/12/2019 Closing $1	30/06/2019 Average $1
Russian Roubles	69.9513	69.3714	61.9057	65.3384
Pounds Sterling	0.8099	0.7936	0.7629	0.7733
Euro	0.8891	0.9074	0.8928	0.8850

Significant Accounting Policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards and interpretations effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and impact of each new standard or amendment effective as of 1 January 2020 that is relevant to the Group's operations 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 will not have an impact on the Group's consolidated financial statements on the date of transition.

IAS 1 ("Presentation of Financial Statements") and IAS 8 ("Accounting Policies, Changes in Accounting Estimates and Errors") – "Amendments regarding the definition of material". These amendments had no material impact on the consolidated financial statements of the Group.

IFRS 7 ("Financial Instruments: Disclosures"), IFRS9 ("Financial Instruments") and IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments regarding pre-replacement issues in the context of the IBOR reform". 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 relevant reliefs and assumed that the US Dollar LIBOR interest rate on which the hedged cash flows are based is not altered as a result of IBOR reform; during the period of uncertainty arising from the reform, the "highly probable" requirement is met; and the hedges are expected to be highly effective and the Group will not discontinue hedge accounting if the retrospective effectiveness falls outside the required 80–125% range.

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.

Seasonality of Operations

Some of the Group's operations may sometimes be affected by seasonal variations in demand and, therefore, in charter rates. This seasonality may result in quarter-to-quarter volatility in the results of operations of the conventional tankers operating in the crude oil and oil product segments. Tanker markets are typically stronger in the winter months. As a result, revenues have historically been weaker during the three months ended 30 June and 30 September and stronger in the three months ended 31 March and 31 December.

PAO Sovcomflot

Notes to the Condensed Consolidated Interim Financial Statements – 30 June 2020 (Continued)
(unaudited)

1. **Organisation, Basis of Preparation and Accounting Policies (Continued)**

Changes in Estimates

The preparation of the condensed consolidated interim financial statements requires management to make 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. All critical accounting judgements and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2019 except for the new significant judgements related to COVID-19.

Coronavirus (COVID-19)

The novel strain of COVID-19 has now spread to nearly all regions of the world. The outbreak and 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, the actions to contain the virus or treat its impact, and the duration, timing and severity of the impact on global financial markets and the condition of the Russian economy, all of which are highly uncertain and cannot be predicted.

2. **Revision of Classification in Interim Financial Statements**

During the preparation of the Group consolidated financial statements for the period ended 31 December 2019, the Group reconsidered the principal versus agents assessment of one of its contracts with customers, relating to the other segment, and concluded that this contract should be presented net as the Group acted as an agent rather than principal. Consequently, the Group revised the classification of line items of the comparatives presented in these condensed consolidated financial statements as presented below.

Consolidated income statement (unaudited)

	Six months ended 30/06/2019			Three months ended 30/06/2019		
	As previously reported $'000	Restatement $'000	As currently reported $'000	As previously reported $'000	Restatement $'000	As currently reported $'000
Revenue	828,002	(33,937)	794,065	417,270	(33,937)	383,333
Voyage expenses and commissions	(219,002)	22,920	(196,082)	(122,147)	22,920	(99,227)
Time charter equivalent revenues	609,000	(11,017)	597,983	295,123	(11,017)	284,106
Direct operating expenses						
Vessels' running costs	171,447	(636)	170,811	87,018	(636)	86,382
Charter hire payments*	7,166	(3,158)	4,008	4,613	(3,158)	1,455
	(178,613)	3,794	(174,819)	(91,631)	3,794	(87,837)
Net earnings from vessels' trading	430,387	(7,223)	423,164	203,492	(7,223)	196,269
Other operating revenues	13,691	7,868	21,559	7,178	7,868	15,046
Other operating expenses	(9,849)	(645)	(10,494)	(4,482)	(645)	(5,127)
Operating profit	193,471	-	193,471	81,850	-	81,850

Consolidated statement of cash flows (unaudited)

	Six months ended 30/06/2019		
	As previously reported $'000	Restatement $'000	As currently reported $'000
Operating Activities			
Cash received from vessels' operations	814,975	(15,154)	799,821
Other cash receipts	12,626	-	12,626
Cash payments for voyage and running costs	(392,141)	19,065	(373,076)
Other cash payments	(48,700)	(3,911)	(52,611)
Cash generated from operations	386,760	-	386,760

*The Group has also reclassified charter hire payments of $4.0 million and $1.5 million for the six months ended and three months ended 30 June 2019 respectively, on the face of the consolidated income statement from the line charter hire payments to voyage expenses and commissions in order to conform with this year's presentation.

3. **Time Charter Equivalent Revenues**

	Six months ended	
	30/06/2020	**30/06/2019**
Revenue	**$'000**	**$'000**
Lease revenue from time charters	362,972	292,271
Service revenue from time charters	147,969	125,989
Total revenue from time charters	510,941	418,260
Service revenue from voyage charters	394,332	336,510
Service revenue from marine services	46,032	39,295
	951,305	794,065
Voyage expenses and commissions		
Bunkers	(97,510)	(126,944)
Port costs	(51,631)	(57,793)
Commissions	(5,850)	(5,031)
Seismic exploration and data processing	(4,488)	(3,527)
Other voyage costs	(9,126)	(6,795)
	(168,605)	(200,090)
Time charter equivalent revenues	782,700	593,975

Disaggregation of the Group's revenue from contracts with customers:

Six months ended 30 June 2020

	Service revenue					
Segment	**Voyage charters $'000**	**Time charters $'000**	**Marine services $'000**	**Total $'000**	**Lease revenue from time charters $'000**	**Revenue $'000**
Offshore services	1,786	70,315	-	72,101	174,623	246,724
Gas transportation	-	20,219	-	20,219	76,407	96,626
Crude oil transportation	247,540	39,473	-	287,013	90,096	377,109
Oil products transportation	143,616	16,609	-	160,225	19,720	179,945
Other	1,390	1,353	46,032	48,775	2,126	50,901
Revenue from vessel operations	394,332	147,969	46,032	588,333	362,972	951,305
Other operating revenues from contracts with customers						
Other operating revenues				7,770		
Total revenue from contracts with customers				596,103		

Six months ended 30 June 2019

	Service revenue					
Segment	**Voyage charters $'000**	**Time charters $'000**	**Marine services $'000**	**Total $'000**	**Lease revenue from time charters $'000**	**Revenue $'000**
Offshore services	1,250	62,093	-	63,343	159,077	222,420
Gas transportation	-	18,320	-	18,320	71,673	89,993
Crude oil transportation	194,063	35,368	-	229,431	51,539	280,970
Oil products transportation	140,583	8,318	-	148,901	7,950	156,851
Other	614	1,890	39,295	41,799	2,032	43,831
Revenue from vessel operations	336,510	125,989	39,295	501,794	292,271	794,065
Other operating revenues from contracts with customers						
Other operating revenues				18,641		
Total revenue from contracts with customers				520,435		

4. **Segment Information**

For management purposes, the Group is organised into business units (operating segments) based on the main types of activities and has five reportable operating segments. 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.

Six months ended 30 June 2020

	Offshore	Gas	Crude Oil	Oil Product	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	246,724	96,626	377,109	179,945	50,901	951,305
Voyage expenses and commissions	(876)	(183)	(91,401)	(57,263)	(18,882)	(168,605)
Time charter equivalent revenues	245,848	96,443	285,708	122,682	32,019	782,700
Direct operating expenses						
Vessels' running costs	(37,790)	(20,871)	(64,832)	(37,332)	(9,700)	(170,525)
Net earnings from vessels' trading	208,058	75,572	220,876	85,350	22,319	612,175
Other operating revenues	1,067	-	-	-	-	1,067
Other operating expenses	(891)	-	-	-	-	(891)
Vessels' depreciation	(68,468)	(19,925)	(53,843)	(24,767)	(2,854)	(169,857)
Vessels' drydock cost amortisation	(4,822)	(2,797)	(5,629)	(3,485)	(136)	(16,869)
Vessels' impairment provision	-	-	(1,577)	(867)	(6,180)	(8,624)
Intangible assets impairment provision	-	-	-	-	(2,094)	(2,094)
Right of use assets' depreciation	-	-	-	-	(7,519)	(7,519)
Right of use assets' impairment provision	-	-	-	-	(18,746)	(18,746)
Loss on sale of vessels	-	-	(466)	-	-	(466)
Net foreign exchange losses	(3,276)	-	-	-	(957)	(4,233)
Segment operating profit / (loss)	131,668	52,850	159,361	56,231	(16,167)	383,943
Unallocated						
General and administrative expenses						(46,048)
Financing costs						(99,229)
Other income and expenses (net)						17,207
Net foreign exchange losses						(7,361)
Profit before income taxes						248,512
Carrying amount of fleet in operation including right of use assets	1,963,880	1,326,591	1,978,976	813,192	53,857	6,136,496
Carrying amount of non-current assets held for sale	-	-	11,760	18,620	-	30,380
Deadweight tonnage of fleet used in operations ('000)	1,593	662	7,106	2,143	156	11,660

Six months ended 30 June 2019

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	222,420	89,993	280,970	156,851	43,831	794,065
Voyage expenses and commissions	(990)	(521)	(106,041)	(75,075)	(17,463)	(200,090)
Time charter equivalent revenues	221,430	89,472	174,929	81,776	26,368	593,975
Direct operating expenses						
Vessels' running costs	(36,167)	(17,409)	(61,021)	(47,006)	(9,208)	(170,811)
Net earnings from vessels' trading	185,263	72,063	113,908	34,770	17,160	423,164
Other operating revenues	1,379	-	-	-	8,782	10,161
Other operating expenses	(909)	-	-	-	(1,244)	(2,153)
Vessels' depreciation	(61,101)	(17,865)	(52,082)	(24,162)	(2,905)	(158,115)
Vessels' drydock cost amortisation	(4,977)	(2,445)	(6,473)	(3,164)	(258)	(17,317)
Vessels' impairment provision	-	-	-	(2,935)	-	(2,935)
Right of use assets' depreciation	-	-	-	-	(7,978)	(7,978)
Loss on sale of vessels	-	-	-	(188)	-	(188)
Non-income based taxes	(3,368)	-	-	-	-	(3,368)
Net foreign exchange (losses) / gains	(1,757)	-	-	-	376	(1,381)
Segment operating profit	114,530	51,753	55,353	4,321	13,933	239,890
Unallocated						
General and administrative expenses						(51,170)
Financing costs						(103,570)
Other income and expenses (net)						11,362
Net foreign exchange gains						9,889
Profit before income taxes						106,401
Carrying amount of fleet in operation including right of use assets	1,935,821	1,183,050	2,141,391	884,715	98,791	6,243,768
Carrying amount of non-current assets held for sale	-	-	-	18,620	-	18,620
Deadweight tonnage of fleet used in operations ('000)	1,448	569	7,424	2,247	156	11,844

5. **Income Taxes**

	Six months ended	
	30/06/2020	**30/06/2019**
	$'000	**$'000**
Russian Federation profit tax expense	10,728	8,962
Overseas income tax expense	309	477
Current income tax expense	11,037	9,439
Deferred tax	11,105	5,999
Total income tax expense	22,142	15,438

The increase in income tax expense in the period relates to recognition of deferred tax liability on intercompany dividends.

6. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2019	8,483,615	157,642	8,641,257
Expenditure in period	16,221	16,361	32,582
Transfer from vessels under construction (Note 7)	184,632	3,000	187,632
Write-off of fully amortised drydock cost	-	(14,382)	(14,382)
Exchange adjustment	1,069	55	1,124
At 30 June 2019	8,685,537	162,676	8,848,213
At 1 January 2020	8,673,606	162,769	8,836,375
Expenditure in period	17,969	11,055	29,024
Transfer from vessels under construction (Note 7)	172,594	6,050	178,644
Write-off of fully amortised drydock cost	-	(8,350)	(8,350)
At 30 June 2020	8,864,169	171,524	9,035,693
Depreciation, amortisation and impairment			
At 1 January 2019	2,391,321	84,273	2,475,594
Charge for the period	158,115	17,317	175,432
Write-off of fully amortised drydock cost	-	(14,382)	(14,382)
Exchange adjustment	349	47	396
At 30 June 2019	2,549,785	87,255	2,637,040
At 1 January 2020	2,631,268	83,373	2,714,641
Charge for the period	169,857	16,869	186,726
Impairment provision	6,180	-	6,180
Write-off of fully amortised drydock cost	-	(8,350)	(8,350)
At 30 June 2020	2,807,305	91,892	2,899,197
Net book value			
At 30 June 2020	6,056,864	79,632	6,136,496
At 31 December 2019	6,042,338	79,396	6,121,734

	30/06/2020	**31/12/2019**
Market value ($'000)	5,607,250	5,714,000
Current insured values ($'000)	6,705,531	7,025,695
Total deadweight tonnage (dwt)	11,451,185	11,358,261

As at 30 June 2020, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss in accordance with the Group's policy. The assessment did not result in any such indication.

Management also carried out an assessment of whether there is any indication that equipment on board one of the chartered in seismic vessels of the Group may have suffered an impairment loss. Management concluded that 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 can no longer be used by the Group to generate revenues (the seismic vessel's CGU also includes right of use assets, disclosed in Note 17, and related intangible assets). Management estimates that fair value less cost to sell the equipment will not result in any net cash inflows. The total impairment provision recognised in the period ended 30 June 2020 in respect of the CGU, amounted to $27.0 million, comprising impairment provision of seismic equipment of $6.2 million, right of use assets of $18.7 million and intangible assets of $2.1 million.

7. Vessels Under Construction

	30/06/2020 $'000	30/06/2019 $'000
At 1 January	179,579	135,890
Expenditure in period	160,678	227,057
Transfer to fleet (Note 6)	(178,644)	(187,632)
At 30 June	161,613	175,315
Total deadweight tonnage (dwt)	395,800	319,936

The following vessel was delivered during the period:

Vessel Name	Vessel Type	Segment	DWT	Delivery Date
SCF La Perouse	LNG carrier	Gas	92,924	10 February 2020

Vessels under construction at 30 June 2020 comprised two LNG carriers and two aframax crude oil shuttle tankers scheduled for delivery between September 2020 and March 2022 at a total contracted cost to the Group of $508.2 million. As at 30 June 2020, $155.6 million of these contracted costs had been paid for.

As at 30 June 2020, management carried out an impairment assessment of the carrying amounts of vessels under construction in accordance with the Group's policy. The assessment did not result in any such indication.

8. Investments in Joint Ventures

	30/06/2020 $'000	30/06/2019 $'000
At 1 January	152,255	132,926
Dissolution of joint ventures	-	(185)
Share of profits in joint ventures	13,103	5,507
Share of joint ventures' other comprehensive income	(3,517)	1,012
Currency retranslation difference	(21)	-
At 30 June	161,820	139,260

In October 2019, the Group set up a joint venture, SMART LNG LLC, equally owned (50/50) with a third party. The joint venture entered into lease arrangements with subsidiaries of a Russian State controlled financial institution, effective 30 January 2020, to lease in four ice breaking LNG carriers. The leases commence on delivery of the vessels from the shipyard, between September and December 2023, for lease terms of approximately 26 years. The total undiscounted commitments under the leases, including interest, are $2,564.2 million. The leases are backed with time charter agreements, 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 $5,581.7 million.

9. Derivative Financial Instruments

	Interest Rate Swaps ("IRS")		Cross Currency Interest Rate Swaps ("CCIRS")		Total	
	30/06/2020 $'000	31/12/2019 $'000	30/06/2020 $'000	31/12/2019 $'000	30/06/2020 $'000	31/12/2019 $'000
Non-current asset	-	86	762	4,632	762	4,718
Current asset	-	170	-	-	-	170
Non-current liability	(46,876)	(16,194)	(21,542)	(14,039)	(68,418)	(30,233)
Current liability	(18,941)	(8,465)	(9,504)	(10,195)	(28,445)	(18,660)

On 3 February 2020 and 19 June 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 (one of which is under construction, scheduled for delivery in September 2020), by converting 3-month US 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 for the six months ended as indicated below.

	IRS		CCIRS		Total	
	30/06/2020 $'000	30/06/2019 $'000	30/06/2020 $'000	30/06/2019 $'000	30/06/2020 $'000	30/06/2019 $'000
Amount recognised in hedging reserve	(45,250)	(25,440)	(17,758)	(16,083)	(63,008)	(41,523)
Reclassified from hedging reserve and debited to financing costs	4,840	1,075	6,105	6,645	10,945	7,720
Reclassified from hedging reserve and (credited) / debited to foreign exchange	-	-	(843)	1,713	(843)	1,713
Total in other comprehensive income	(40,410)	(24,365)	(12,496)	(7,725)	(52,906)	(32,090)

10. Receivables and Other Assets

Trade and other receivables

	30/06/2020 $'000	31/12/2019 $'000
Non-current assets		
Receivables under High Court judgement award	2,700	2,700
Liquidated damages on vessels under construction receivable from shipyard	6,297	6,005
	8,997	8,705
Current assets		
Amounts due from charterers	70,411	71,412
Allowance for credit losses	(2,039)	(2,357)
	68,372	69,055
Casualty and other claims	18,571	10,443
Agents' balances	2,520	3,111
Other receivables	11,261	15,637
Amounts due from joint ventures	606	-
Accrued income	1,776	2,493
	103,106	100,739

Prepayments and other current assets

	30/06/2020 $'000	31/12/2019 $'000
Prepayments	11,580	8,944
Contract acquisition and voyage fulfilment costs	747	3,106
Non-income based taxes receivable	4,418	3,230
	16,745	15,280

	30/06/2020 $'000	31/12/2019 $'000
Contract assets	15,033	41,605

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.

11. Cash and Bank Deposits

	30/06/2020 $'000	31/12/2019 $'000
Non-current assets		
Restricted deposits	15,500	15,500
Bank deposits	15,500	15,500
Current assets		
Bank deposits accessible on maturity	257	565
Retention accounts	22,473	26,300
Bank deposits	22,730	26,865
Cash and cash equivalents	672,518	374,821
Cash and bank deposits	695,248	401,686

12. Non-Current Assets Held for Sale

	30/06/2020 $'000	30/06/2019 $'000
At 1 January	69,061	29,700
Expenditure in period	-	675
Impairment provision	(2,444)	(2,935)
Disposals in period	(36,237)	(8,820)
At 30 June	30,380	18,620

The two crude oil suezmax tankers classified as held for sale as at 31 December 2019 were disposed of and delivered to their new owners in February 2020, realising a loss on disposal of $0.5 million. As at 30 June 2020, non-current assets held for sale, comprised of two MR chemical oil product tankers and one crude oil aframax tanker. The vessels were actively marketed for sale at a price approximate to their market values.

13. Dividends

No dividends were declared or paid to owners of the parent during the period ended 30 June 2020 (see also Note 21). Dividends, for the financial year 2018, of Roubles 1,434.8 million (Roubles 0.73 per share), equivalent to $22.9 million at the exchange rate on the date of declaration, were declared on 26 June 2019. These dividends were paid on 8 July 2019.

14. Payables and Other Liabilities

Trade and other payables

	30/06/2020 $'000	31/12/2019 $'000
Non-current liabilities		
Liquidated damages for late delivery of vessels payable to charterer	16,213	16,905
	16,213	16,905
Current liabilities		
Trade payables	51,367	46,179
Other payables	35,175	38,776
Liquidated damages for late delivery of vessels payable to charterer	2,024	1,950
Amounts due to joint ventures	-	146
Dividends payable	5,928	9,970
Accrued liabilities	48,126	47,674
Interest payable	15,971	17,229
	158,591	161,924

Other liabilities

	30/06/2020 $'000	31/12/2019 $'000
Non-current liabilities		
Employee benefit obligations	4,297	646
Deferred lease revenue	2,904	3,017
	7,201	3,663
Current liabilities		
Deferred lease revenue	30,734	39,007
Employee benefit obligations	8,794	9,120
Non-income based taxes payable	22,546	24,392
	62,074	72,519

15. Secured Bank Loans

The balances of the loans at the period end, net of direct issue costs, are repayable as follows:

	30/06/2020 $'000	31/12/2019 $'000
Within twelve months after the end of the reporting period	490,069	378,955
Between one to two years	270,856	401,794
Between two to three years	292,196	293,355
Between three to four years	327,085	283,871
Between four to five years	334,308	297,051
More than five years	804,157	883,783
	2,518,671	2,538,809
Less current portion	(490,069)	(378,955)
Non-current balance	2,028,602	2,159,854

16. Other Loans

	30/06/2020 $'000	31/12/2019 $'000
$900 million 5.375% Senior Notes due in 2023	894,676	893,792
Other loan from related party	4,991	6,628
	899,667	900,420
Less current portion	(3,327)	(3,314)
Non-current balance	896,340	897,106

17. **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	6,748	-	-	6,748
Additions in period	-	-	18	18
Depreciation charge for the period	(7,978)	(1,900)	(50)	(9,928)
Exchange differences	2,273	116	218	2,607
At 30 June 2019	32,595	17,359	2,434	52,388
At 1 January 2020	28,600	15,605	1,690	45,895
Lease modification	(2,372)	(14)	595	(1,791)
Additions in period	-	511	-	511
Depreciation charge for the period	(7,519)	(1,835)	(34)	(9,388)
Impairment provision in period	(18,746)	(111)	(789)	(19,646)
Exchange differences	37	(273)	(194)	(430)
At 30 June 2020	-	13,883	1,268	15,151

As at 30 June 2020, management carried out an assessment of whether there is any indication that right of use assets may have suffered an impairment loss in accordance with the Group's policy. Management concluded that the bareboat charter in respect of a chartered in seismic vessel, included in fleet above, forming part of the CGU disclosed in Note 6, had become onerous as a result of expiration of the license to operate the equipment on board the vessel, and consequently had been impaired. The impairment recognised in the period in relation to the fleet related right of use assets amounted to $18.7 million. In addition, management concluded that right of use assets in relation to land and buildings and miscellaneous assets forming part of two separate CGUs, were also impaired based on fair value less cost to sell by $0.1 million and based on value in use by $0.8 million respectively.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	30/06/2020 $'000	30/06/2019 $'000
At 1 January	60,300	69,403
Lease modification	(1,791)	6,748
Additions in the period	511	18
Accretion of interest	3,141	4,018
Payment of lease instalments	(10,397)	(12,959)
Exchange differences	(1,162)	777
At 30 June	50,602	68,005
Less current portion	(16,356)	(20,520)
Non-current balance	34,246	47,485

18. **Financial Risk Management**

(a) Categories of financial assets and financial liabilities

	30/06/2020 $'000	31/12/2019 $'000
Cash and debt instruments at amortised cost		
Trade and other receivables	112,103	109,444
Loans to joint ventures	50,928	62,145
Cash and bank deposits	710,748	417,186
Financial assets at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships	762	4,888
Equity instruments at fair value through profit or loss		
Investments in non-listed companies	361	480
Total financial assets	874,902	594,143
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships	96,863	48,893
Financial liabilities at amortised cost		
Secured bank loans	2,518,671	2,538,809
Other loans	899,667	900,420
Lease liabilities	50,602	60,300
Trade and other payables	174,804	178,829
Total financial liabilities	3,740,607	3,727,251

18. **Financial Risk Management (Continued)**

(b) Fair value of financial assets and financial liabilities

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying Value			Fair Value	
	30/06/2020 $'000	**31/12/2019 $'000**	**Fair value hierarchy**	**30/06/2020 $'000**	**31/12/2019 $'000**
Financial assets					
Loans to joint ventures	50,928	62,145	Level 2	50,879	61,891
Total financial assets	50,928	62,145		50,879	61,891
Financial liabilities					
Secured bank loans at fixed interest rates	704,925	739,620	Level 2	729,387	765,368
Secured bank loans at floating interest rates	1,813,746	1,799,189	Level 2	1,819,243	1,806,728
Other loans (Senior Notes due in 2023)	894,676	893,792	Level 1	964,125	964,125
Other loans	4,991	6,628	Level 2	5,081	6,777
Total financial liabilities	3,418,338	3,439,229		3,517,836	3,542,998

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 following methods and assumptions were used to estimate the fair values:

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 and currency 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. All interest rate swaps are fully cash collateralised, thereby mitigating both the counterparty and the Group's non-performance risk.

Fair value measurements of financial instruments recognised in the statement of financial position

The following table provides an analysis of financial instruments as at 30 June 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 statement of financial position

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
At 30 June 2020				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	762	-	762
	-	762	-	762
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	96,863	-	96,863
	-	96,863	-	96,863
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 30 June 2020 and 31 December 2019.

19. **Contingent Liabilities**

In relation to the Novoship (UK) Ltd claims which received judgment in December 2012, some of the defendants in the unsuccessful claims have indicated an intention to pursue the Group for damages in respect of $90.0 million of security provided during the litigation. No claim for damages has been filed yet.

20. Related Party Transactions

The ultimate controlling party of PAO Sovcomflot is the Russian Federation. Any transactions with Russian State controlled entities are disclosed as transactions with related parties.

There were no material related party transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes. The Group's cross currency derivative financial instruments with a Russian State controlled financial institution are presented in Note 9 to these condensed consolidated interim financial statements.

Effective 1 January 2020, the Group introduced a long-term employee benefit plan 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 plan, 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 30 June 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 (2020-2023) and the recipient's continued employment with the Group, as stipulated by the plan regulation. Should this estimation be proven inaccurate and the target KPIs not met, reversal of charges may arise.

These benefits are accounted for as other long-term employee benefits and are included in payables and other liabilities (Note 14).

The charge to profit and the corresponding liability in respect of key management personnel is disclosed in the table below.

The following table provides the total amount of material transactions that have been entered into with related parties in the financial reporting period and outstanding balances as at the period end.

	Income Statement (income) / expense for the six months ended		Statement of Financial Position asset / (liability) as at	
	30/06/2020	30/06/2019	30/06/2020	31/12/2019
	$'000	$'000	$'000	$'000
Transactions with Russian State controlled entities				
Revenue[1]	(236,055)	(203,533)	(21,605)	(18,641)
Voyage expenses and commissions	13,316	13,439	(1,371)	(4,704)
Other operating revenues	(3,542)	(3,355)	(290)	(354)
Other operating expenses	-	1,991	-	(258)
Other loans	133	199	(4,999)	(6,640)
Secured bank loans	23,735	22,680	(682,633)	(714,910)
Lease liabilities	506	501	(8,166)	(7,864)
Receivables from shipyard (liquidated damages for late delivery of vessels)	(292)	(264)	6,297	6,005
Payables to charterer (liquidated damages for late delivery of vessels)	889	942	(18,237)	(18,855)
Cash at bank	(2,921)	(1,287)	253,165	217,896
Transactions with Joint Ventures				
Other operating revenues	(1,810)	(1,690)	606	(146)
Loans due from joint ventures	(849)	(1,356)	50,993	62,624
Compensation of Key Management Personnel				
Short-term benefits	4,650	4,420	(2,140)	(4,576)
Post-employment benefits	36	32	(4)	(3)
Long-term service benefits	608	980	(5,083)	(4,530)
	5,294	5,432	(7,227)	(9,109)

[1]Statement of Financial Position includes deferred lease revenues and contract liabilities

21. Events After the Reporting Period

Dividends for the financial year 2019, of Roubles 7,180.0 million (Roubles 3.65 per share), equivalent to $96.8 million at the exchange rate on the date of declaration, were declared on 4 August 2020. These dividends were paid on 17 August 2020.

THE COMPANY

PAO Sovcomflot
3, Lit. A Moika River Embankment
Saint Petersburg 191186
Russian Federation

JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

VTB Capital plc
14 Cornhill
London EC3V 3ND
United Kingdom

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square, Canary Wharf
London, E14 5LB
United Kingdom

JSC "Sberbank CIB"
19 Vavilova Street
117312, Moscow
Russian Federation

Sberbank CIB (UK) Limited
85 Fleet Street
London EC4Y 1AE
United Kingdom

JP Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

CO-MANAGER

ING Bank N.V.
Bijlmerdreef 106
1102 CT Amsterdam
The Netherlands

LEGAL ADVISORS

To SCF as to U.S. and English law

Cleary Gottlieb Steen & Hamilton LLP
2 London Wall Place
London
EC2Y 5AU
United Kingdom

To SCF as to Russian law

Cleary Gottlieb Steen & Hamilton LLC
Paveletskaya Square 2/3
Moscow 115054
Russian Federation

To the Underwriters
as to U.S. and English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Underwriters
as to Russian law

Linklaters CIS
Paveletskaya Square 2, bld. 2
Moscow 115054
Russian Federation

INDEPENDENT AUDITORS

Ernst & Young LLC
77, bld. 1 Sadovnicheskaya Nab.
115035 Moscow
Russian Federation