PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

PAO Sovcomflot

Contents

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Совершенствуя бизнес,
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Independent auditor's report

To the Shareholders and the Board of Directors of
PAO Sovcomflot

Opinion

We have audited the consolidated financial statements of PAO Sovcomflot and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Emphasis of matter

We draw attention to Note 43 "Events After the Reporting Period" of the consolidated financial statements which describes the development of geopolitical tensions related to the situation in Ukraine and sanctions imposed by some countries that have affected and could significantly affect in the future the Russian economy, as well as operational and financial activities of the Group and its subsidiaries. Our opinion is not modified in respect of this matter.

Key audit matters

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

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

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

Key audit matter	How our audit addressed the key audit matter
Classification of time-charter agreements as finance or operating lease and related accounting aspects	
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. The Group has developed a policy for accounting of non-standard terms of time charter agreements, including accounting of variable portion of the lease consideration. 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 20 and 36 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 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 also challenged if the variable element of the consideration meets recognition criteria. We assessed the disclosure of information about the long-term time-charter agreements in the consolidated financial statements.

Other information included in the Annual Report 2021

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 the 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 consolidated financial reporting process.

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

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

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

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

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

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

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,
acting on behalf of Ernst & Young LLC
on the basis of power of attorney, unnumbered and dated 1 March 2022,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906101114)

11 March 2022

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.

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.

PAO Sovcomflot

Consolidated Income Statement
For the period ended 31 December 2021

	Note	2021 $'000	2020 $'000
Revenue	6	1,540,378	1,652,488
Voyage expenses and commissions	7	(444,663)	(301,866)
Time charter equivalent revenues		1,095,715	1,350,622
Direct operating expenses			
Vessels' running costs	8	338,804	366,897
		(338,804)	(366,897)
Net earnings from vessels' trading		756,911	983,725
Other operating revenues	11	35,154	22,925
Other operating expenses	11	(17,058)	(13,510)
Depreciation, amortisation and impairment	9	(451,534)	(421,266)
General and administrative expenses	10	(91,943)	(90,709)
Gain / (loss) on sale of non-current assets	15, 18, 28	498	(2,344)
Gain / (loss) on lease modification	36	1,933	(197)
Effect of dissolution of subsidiaries		1,349	-
Allowance for expected credit losses		(2,483)	(4,108)
Share of (losses) / profits in investments in joint ventures and associates	20	(2,574)	16,834
Operating profit		230,253	491,350
Other (expenses) / income			
Financing costs	13, 35	(183,503)	(190,546)
Gain on modification of financial liabilities	34, 35	12,918	-
Interest income		9,721	10,309
Other non-operating expenses		(5,180)	(2,734)
Hedge ineffectiveness and termination of hedge	22	(418)	(1,262)
Gain on derecognition of dividend liability		1,046	1,021
Foreign exchange gains		14,508	8,055
Foreign exchange losses		(9,314)	(20,742)
Net other expenses		(160,222)	(195,899)
Profit before income taxes		70,031	295,451
Income tax expense	23	(34,231)	(28,586)
Profit for the period		35,800	266,865
Profit / (loss) attributable to:			
Shareholders of PAO Sovcomflot		43,800	267,337
Non-controlling interests	32	(8,000)	(472)
		35,800	266,865
Earnings per share			
Basic and diluted profit per share for the period attributable to shareholders of PAO Sovcomflot	24	$0.019	$0.130

PAO Sovcomflot

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2021

	Note	2021 $'000	2020 $'000
Profit for the period		35,800	266,865
Other comprehensive income:			
Items to be reclassified to profit or loss in subsequent periods (net of tax):			
Share of associates' other comprehensive income		-	(17)
Share of joint ventures' other comprehensive income	20	3,977	(1,120)
Exchange gain / (loss) on translation from functional currency to presentation currency		43	(5,526)
Recycling of the currency reserve relating to subsidiaries dissolved during the period		(1,349)	-
Reclassification adjustment relating to derecognition of hedging instrument during the period	22	-	2,341
Net gain / (loss) on derivative financial instruments credited / (debited) to other comprehensive income	22	50,557	(37,601)
		53,228	(41,923)
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains / (losses) on retirement benefit obligations	37	129	(67)
		129	(67)
Other comprehensive income for the period, net of tax		53,357	(41,990)
Total comprehensive income for the period		89,157	224,875
Total comprehensive income attributable to:			
Shareholders of PAO Sovcomflot		97,140	225,322
Non-controlling interests		(7,983)	(447)
		89,157	224,875

PAO Sovcomflot

Consolidated Statement of Financial Position – 31 December 2021

	Note	2021 $'000	2020 $'000
Assets			
Non-current assets			
Fleet	15	5,792,823	6,176,675
Right of use assets	36	21,830	27,568
Vessels under construction	16	325,652	177,810
Intangible assets	17	2,769	2,926
Other property, plant and equipment	18	36,200	38,612
Investment property	19	3,277	3,523
Other non-current assets		4,411	1,883
Investments in associates		84	111
Investments in joint ventures	20	205,050	164,908
Equity instruments at fair value through profit or loss		5	360
Loans to joint ventures	21	51,422	52,162
Derivative financial instruments	22	13,711	10,266
Trade and other receivables	26	10,154	10,002
Deferred tax assets	23	3,559	5,231
Bank deposits	27	12,500	12,500
		6,483,447	6,684,537
Current assets			
Inventories	25	63,821	44,228
Loans to joint ventures	21	1,765	2,000
Trade and other receivables	26	81,696	78,109
Prepayments and other current assets	26	16,015	14,820
Contract assets	6	23,214	26,697
Current tax receivable		7,159	8,302
Bank deposits	27	17,628	18,263
Cash and cash equivalents	27	614,004	849,446
		825,302	1,041,865
Non-current assets held for sale	28	15,092	16,685
		840,394	1,058,550
Total assets		7,323,841	7,743,087
Equity and liabilities			
Equity			
Share capital	29	410,252	410,252
Reserves		3,448,009	3,571,879
Equity attributable to shareholders of PAO Sovcomflot		3,858,261	3,982,131
Non-controlling interests	32	107,732	116,266
Total equity		3,965,993	4,098,397
Non-current liabilities			
Trade and other payables	33	6,653	15,485
Other non-current liabilities	33	15,056	12,878
Secured bank loans	34	1,791,614	2,049,293
Other loans	35	912,221	895,585
Lease liabilities	36	20,858	27,656
Derivative financial instruments	22	17,549	42,233
Retirement benefit obligations	37	1,956	2,324
Deferred tax liabilities	23	17,691	1,024
		2,783,598	3,046,478
Current liabilities			
Trade and other payables	33	172,049	185,503
Other current liabilities	33	63,049	71,872
Contract liabilities	6	14,823	17,746
Secured bank loans	34	290,920	282,075
Other loans	35	-	3,631
Lease liabilities	36	11,747	13,955
Current tax payable		128	137
Derivative financial instruments	22	20,764	20,799
Provisions	38	770	2,494
		574,250	598,212
Total liabilities		3,357,848	3,644,690
Total equity and liabilities		7,323,841	7,743,087

Approved by the Executive Board and authorised for issue on 11 March 2022

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 2021

	Share capital $'000	Share premium $'000	Treasury shares $'000	Group reconstruction reserve $'000	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Equity attributable to shareholders of PAO Sovcomflot $'000	Non-controlling interests $'000	Total $'000
	(Note 29)	(Note 29)	(Note 29)	(Note 30)	(Notes 20,22)				(Note 32)	
At 1 January 2020	**405,012**	**818,845**	**-**	**(834,490)**	**(32,062)**	**(46,457)**	**3,062,024**	**3,372,872**	**131,709**	**3,504,581**
Profit / (loss) for the period	-	-	-	-	-	-	267,337	267,337	(472)	266,865
Other comprehensive income										
Share of associates' other comprehensive income	-	-	-	-	-	(17)	-	(17)	-	(17)
Share of joint ventures' other comprehensive income	-	-	-	-	(1,120)	-	-	(1,120)	-	(1,120)
Exchange (loss) / gain on translation from functional currency to presentation currency	-	-	-	-	-	(5,559)	-	(5,559)	33	(5,526)
Reclassification adjustment relating to derecognition of hedging instrument during the period	-	-	-	-	2,341	-	-	2,341	-	2,341
Net loss on derivative financial instruments debited to other comprehensive income	-	-	-	-	(37,601)	-	-	(37,601)	-	(37,601)
Remeasurement losses on retirement benefit obligations (Note 37)	-	-	-	-	-	-	(59)	(59)	(8)	(67)
Total comprehensive income	-	-	-	-	(36,380)	(5,576)	267,278	225,322	(447)	224,875
Issue of share capital	5,240	544,985	-	-	-	-	-	550,225	-	550,225
Acquisition of treasury shares	-	-	(47,180)	-	-	-	-	(47,180)	-	(47,180)
Transaction costs	-	(21,027)	(1,248)	-	-	-	-	(22,275)	-	(22,275)
Dividends (Note 31 and Note 32)	-	-	-	-	-	-	(96,833)	(96,833)	(14,996)	(111,829)
At 31 December 2020	**410,252**	**1,342,803**	**(48,428)**	**(834,490)**	**(68,442)**	**(52,033)**	**3,232,469**	**3,982,131**	**116,266**	**4,098,397**
Profit / (loss) for the period	-	-	-	-	-	-	43,800	43,800	(8,000)	35,800
Other comprehensive income										
Share of joint ventures' other comprehensive income	-	-	-	-	3,977	-	-	3,977	-	3,977
Exchange gain on translation from functional currency to presentation currency	-	-	-	-	-	40	-	40	3	43
Recycling of the currency reserve relating to subsidiaries dissolved during the period	-	-	-	-	-	(1,349)	-	(1,349)	-	(1,349)
Net gain on derivative financial instruments credited to other comprehensive income	-	-	-	-	50,557	-	-	50,557	-	50,557
Remeasurement gains on retirement benefit obligations (Note 37)	-	-	-	-	-	-	115	115	14	129
Total comprehensive income	-	-	-	-	54,534	(1,309)	43,915	97,140	(7,983)	89,157
Share-based payment remuneration scheme (Note 12)	-	-	-	-	-	-	4,018	4,018	1	4,019
Acquisition of treasury shares	-	-	(7,482)	-	-	-	-	(7,482)	-	(7,482)
Dividends (Note 31 and Note 32)	-	-	-	-	-	-	(217,546)	(217,546)	(552)	(218,098)
At 31 December 2021	**410,252**	**1,342,803**	**(55,910)**	**(834,490)**	**(13,908)**	**(53,342)**	**3,062,856**	**3,858,261**	**107,732**	**3,965,993**

PAO Sovcomflot

Consolidated Statement of Cash Flows
For the period ended 31 December 2021

	Note	2021 $'000	2020 $'000
Operating Activities			
Cash received from vessels' operations		1,515,059	1,710,039
Other cash receipts		32,386	19,311
Cash payments for voyage and running costs		(809,975)	(663,609)
Other cash payments		(129,282)	(106,994)
Cash generated from operations		608,188	958,747
Interest received		8,879	8,178
Income tax paid		(14,318)	(39,563)
Net cash from operating activities		602,749	927,362
Investing Activities			
Expenditure on fleet	15	(53,288)	(86,488)
Expenditure on vessels under construction	16	(307,105)	(352,945)
Interest capitalised	16	(1,281)	(3,107)
Expenditure on other non-current assets	17, 18, 19	(1,278)	(3,325)
Equity contributions to joint ventures	20	(9,985)	-
Return of equity contributions from joint ventures	20	2,542	-
Repayment of long term interest by joint ventures	20	2,644	-
Loan repayments by joint ventures	21	3,674	11,887
Loans issued to joint ventures	21	(41,345)	(2,550)
Proceeds from disposal of investments		-	289
Proceeds from sale of vessels	15, 28	180,191	48,464
Proceeds from sale of other property, plant and equipment		4,049	7,234
Dividends received from equity accounted investments		5,614	3,017
Return of bank term deposits	27	460	105
Net cash used in investing activities		(215,108)	(377,419)
Financing Activities			
Proceeds from issue of shares	29	-	550,225
Payment on acquisition of treasury shares	29	(7,482)	(47,180)
Transaction costs on issue of shares and on acquisition of treasury shares	29	-	(22,275)
Proceeds from borrowings		534,844	249,614
Repayment of borrowings		(734,277)	(490,936)
Other financing costs	35	(33,233)	(6,460)
Repayment of lease liabilities	36	(11,271)	(15,734)
Repayment of liquidated damages		(2,023)	(1,841)
Release of restricted deposits under loan and lease agreements	27	-	3,000
Release of funds in retention bank accounts	27	175	8,497
Interest paid on borrowings		(146,655)	(175,870)
Interest paid on lease liabilities	36	(3,120)	(4,478)
Interest paid on liquidated damages		(985)	(1,171)
Dividends paid to non-controlling interests		(8,932)	(4,631)
Dividends paid to shareholders of PAO Sovcomflot	31	(210,097)	(98,080)
Net cash used in financing activities		(623,056)	(57,320)
(Decrease) / increase in Cash and Cash Equivalents		(235,415)	492,623
Cash and Cash Equivalents at 1 January	27	849,446	374,821
Net foreign exchange difference		(27)	(17,998)
Cash and Cash Equivalents at 31 December	27	614,004	849,446

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

Total interest paid on borrowings during the period, comprising interest paid on borrowings and interest capitalised, presented under financing and investing activities in the consolidated statement of cash flows, respectively, amounted to $148.0 million (2020 – $179.0 million).

Notes to the Consolidated Financial Statements – 31 December 2021

1. Organisation and Trading Activities

PAO Sovcomflot ("Sovcomflot" or "the Company") is a public joint stock company organised under the laws of the Russian Federation and was initially registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot. Following an initial public offering of the Company's ordinary shares and listing on the Moscow Stock Exchange in October 2020, the Russian Federation holds 82.81% of the issued shares of the Company (see also Note 29) and remains the ultimate controlling party of PAO Sovcomflot.

The Company's registered office address is 3A Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation.

The Company, through its subsidiaries (the "Group"), is engaged in ship owning and operating on a world-wide basis with a fleet of 122 vessels at the period end, comprising 50 crude oil carriers, 34 oil product carriers, 17 shuttle tankers, 10 gas carriers, 10 ice breaking supply vessels and 1 chartered in seismic vessel. The Group also charters in from time to time seismic research vessels, on short-term lease, for the execution of seismic exploration contracts, and supply vessels for the support of the seismic operations (see also Note 36). For major changes in the period in relation to the fleet, see also Notes 15, 16 and 28.

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

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

2. Directors and Management

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

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

Members of the Board of Directors	Initial date of election	
S.O. Frank (Chairman)	10 November 2004	Chairman of the Board of Directors of PAO Sovcomflot
O.K. Dergunova	15 June 2021	Deputy President and Chairman of VTB Bank (PAO) Management Board
M.E. Kuznetsov	15 June 2021	Director of the Centre for Systemic Transformations of the Economics Department of Lomonosov Moscow State University
A.V. Moiseev	15 June 2021	Deputy Finance Minister of the Russian Federation
N.R. Podguzov	15 June 2021	Chairman of the Management Board of Eurasian Development Bank
A.I. Poshivay	15 June 2021	Deputy Minister of Transport of the Russian Federation
A.L. Sadikov	15 June 2021	Assistant of the First Deputy Prime Minister of the Russian Federation Andrei Belousov
A.V. Sharonov	30 June 2014	Vice-President of PAO Sberbank
P.Y. Sorokin	26 June 2019	Deputy Minister of Energy 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 Annual General Meeting on 15 June 2021.

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

3. **Significant Accounting Policies**

(a) Basis of preparation and accounting

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

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

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

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

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

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

The consolidated financial statements are presented in U.S. Dollars ("$"), which is also the currency of the Group's primary economic environment and the functional currency of the major and majority of the Group's subsidiaries. The Group also prepares consolidated financial statements in Russian Roubles ("RUR") as required by the Russian Federal Law No. 208 – FZ "On consolidated financial reporting" dated 27 July 2010.

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 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 2021. Control is achieved when the Group:

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

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

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

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

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

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

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

3. Significant Accounting Policies (Continued)

(c) Business combinations

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

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

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

(d) Segmental reporting

The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, which is defined as the Board of Directors of the Company, in order to allocate resources to the segment and assess its performance. Certain vessels in the fleet classified within one segment are also used intermittently as part of another segment. Figures presented herein treat these vessels as vessels classified within the segment they were initially classified, unless they have been permanently reclassified within that other segment. The Group has only one geographical segment, because management considers the global market as a whole, and as the individual vessels are not limited to specific parts of the world with the exception of vessels operating on Russian continental shelf projects. Furthermore, the internal management reporting does not provide such information.

The segment income statement comprises revenues and expenses directly attributable to the segment i.e. revenue, voyage expenses and commissions, vessels' running costs, other operating revenues, other operating expenses, vessels' depreciation, vessels' drydock cost amortisation, vessels' impairment loss and reversal thereof, intangible assets' impairment loss and reversal thereof, right of use assets' depreciation, right of use assets' impairment loss and reversal thereof, gains or losses on sale of vessels, allowance for expected credit losses, share of profits or losses in investments in joint ventures and exchange differences. Non-current assets consist of the vessels used in the operation of each segment. Not allocated items primarily comprise assets and liabilities as well as revenues and expenses relating to the Group's administrative functions and investment activities, cash and bank balances, interest bearing debt, and income tax.

(e) Investments in associates and joint ventures

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

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

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

(f) Interests in joint operations

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

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

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

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

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

(g) Non-current assets held for sale

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

If an asset (or disposal group) ceases to be classified as held for sale, that asset (or disposal group) is measured at the lower of its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation or amortisation that would have been recognised had the asset (or disposal group) not been classified as held for sale, and its recoverable amount at the date of the subsequent decision not to sell.

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) continues to be classified as held for sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non–current asset is classified as held for sale.

(h) Revenue

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

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

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

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

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

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

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

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

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

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

(h) Revenue (continued)

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.

(i) Other operating revenues and operating expenses

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

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

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

(j) Interest income

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

(k) Currency translation

Transactions and balances

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

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

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

Group companies

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

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

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

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

(k) Currency translation (continued)

Exchange rates

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

	2021 Closing $1	2021 Average $1	2020 Closing $1	2020 Average $1
Russian Roubles (RUR)	74.2926	73.6541	73.8757	72.1464
Pounds Sterling (GBP)	0.7425	0.7270	0.7384	0.7800
Euro (EUR or €)	0.8837	0.8454	0.8147	0.8774

(l) Borrowing costs

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

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

(m) Leasing

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

Group as lessee

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

Right of use assets

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

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

Asset restoration costs

At initial recognition, the cost of the right of use asset includes the estimated cost to be incurred in restoring the asset to the condition required by the terms and conditions of the lease before its return to a lessor. The corresponding provision is recorded at the present value of the expected cash flows to be incurred for the repairs and maintenance works on the return of the asset, and is remeasured at each period end. The Group's discount rates are determined by reference to current market pre-tax rate and risks specific to the obligation, and calculated based on government bond rates taking into account the currency and the term of the liability for each type of repair. 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 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 remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

(m) Leasing (continued)

Group as lessee (continued)

Short-term leases and leases of low-value assets

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

Group as lessor

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

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

Subleasing

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

(n) Employee benefits

Retirement benefit costs

The Group operates a number of retirement benefit schemes for its shore-based staff and seafarers.

Defined contribution retirement benefit plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit retirement benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation.

Short-term and other long-term employee benefits

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

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

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

Termination benefits

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

Share-based payments

Selected members of management of the Group receive remuneration, under the Group's KPI-based long-term incentive programme in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

That cost is recognised in employee costs, together with a corresponding increase in equity (retained earnings), over the period in which the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. Employer's social taxes directly associated with transactions in which shares and/or share options are granted to employees, are accounted for as a cash–settled share–based payment transaction.

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

(n) Employee benefits (continued)

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. There are no other conditions attached to an award without an associated service requirement.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market condition, the transactions are treated as vested irrespective of whether the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the Group or by the employee, any remaining element of the fair value of the award is expensed immediately through profit or loss.

(o) Property, plant and equipment and depreciation

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

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

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

Crude oil, shuttle, oil product and chemical tankers	25 years
Arctic shuttle tankers	12 years
Ice breaking supply vessels	25 years
LNG carriers	35 years
LPG carriers	30 years
Dry bulk carriers	25 years

The residual value for each vessel is calculated at each quarter end, and applied in calculating the depreciation charge for the forthcoming quarter, by reference to its lightweight tonnage and the market price of steel per lightweight tonne.

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.

Climate related initiatives to reduce the average carbon intensity (CO_2 emissions) and greenhouse gasses may impact the residual value and useful life of assets, in particular vessels, due to obsolescence or legal restrictions, thereby accelerating depreciation charges. The residual value and useful life of each asset is reviewed at each financial period end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the consolidated income statement in the period of the change and future periods. An increase in the residual value of an asset will decrease the depreciation charge for the period and future periods and vice versa until the residual value is reassessed.

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

(p) Intangible assets

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

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

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

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

(s) Assets under construction

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

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

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

(t) Impairment of non-financial assets

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

The assessment of whether there is an indication that an asset is impaired is made with reference to trading results, predicted trading results, market rates, technical and regulatory changes and market values. Climate related initiatives to reduce the average carbon intensity (CO_2 emissions) and greenhouse gasses may also impact the operating expenses of vessels and/or require significant capital expenditure. 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.

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

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

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

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

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

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

(u) Inventories

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

(v) Financial instruments

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

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

Effective interest method

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as:

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

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

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

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

Subsequent measurement

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

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

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

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

(v) Financial instruments (continued)

Financial assets (continued)

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.

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

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

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

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

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

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

(v) Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

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 is 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.

Treasury shares

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

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

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

Borrowings

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

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

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

(v) Financial instruments (continued)

Financial liabilities and equity (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 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 is recognised in profit or loss as the modification gain or loss within other gains and losses.

Offsetting of financial assets and liabilities

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

Financial guarantees

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

(w) Taxation

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

Current tax

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

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

Onerous contracts

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

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

(y) Insurance claims

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

(z) Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit or loss for the period available to equity holders of PAO Sovcomflot by the weighted average number of shares outstanding during the period taking into account the weighted average effect of changes in treasury shares during the period. The weighted average number of shares outstanding during the period is the number of shares outstanding at the beginning of the period, adjusted by the number of shares issued or bought back during the period multiplied by the time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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

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

In the current period, the Group has adopted all of the revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2021. The nature and the impact of each amendment is described below.

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

Whenever the replacement occurs, the Group expects to apply the amendments related to hedge accounting. However, there is uncertainty about when and how replacement may occur. The Group has engaged in discussions with its lenders to amend the U.S. Dollar LIBOR secured bank loan agreements so that the reference benchmark interest rate will change to SOFR, which will be further aligned with the corresponding Group's hedging instruments.

New and revised IFRS in issue but not yet effective

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

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

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

IFRS 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 17 ("Insurance Contracts"), and Amendments to IFRS 17 and Amendments to IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information – "A comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure" (effective for annual periods beginning on or after 1 January 2023). Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The new accounting standard and its amendments are not expected to have a significant impact on the Group's consolidated financial statements.

IAS 1 (''Presentation of Financial Statements") – "Amendments regarding the classification of liabilities as current or non-current" (effective for annual periods beginning on or after 1 January 2023). The IASB proposed to defer the effective date to not earlier than 1 January 2024. These amendments are not expected to have an impact on the Group's consolidated financial statements as the Group already applies the criteria set by the amendments.

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

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

IAS 12 ("Income Taxes") – "Amendments regarding deferred tax on leases and decommissioning obligations" (effective for annual periods beginning on or after 1 January 2023). These amendments are not expected to have a material impact on the Group's consolidated financial statements.

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

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

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

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

Annual Improvements to IFRS Standards 2018–2020

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

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

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

Critical Accounting Judgements

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

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

To determine the incremental borrowing rate, the Group:

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

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.

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

Critical Accounting Judgements (continued)

Investments in joint ventures

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 a joint venture, and recognised using the equity method of accounting or consolidated as a subsidiary.

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 consolidated financial statements.

Anticipated useful 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 in estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date, using the Black Scholes Pricing Model and a Monte-Carlo simulation model. The assumptions used for estimating fair value for share-based payment transactions are disclosed in Note 12.

6. Revenue

	2021 $'000	2020 $'000
Lease revenue from time charters	606,584	696,467
Service revenue from time charters	267,097	294,577
Total revenue from time charters	873,681	991,044
Service revenue from voyage charters	600,704	603,033
Service revenue from marine services	65,993	58,411
	1,540,378	1,652,488

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

For the period ended 31 December 2021

	Service revenue					
Segment	**Voyage charters $'000**	**Time charters $'000**	**Marine services $'000**	**Total $'000**	**Lease revenue from time charters $'000**	**Revenue $'000**
Offshore services	-	125,186	-	125,186	331,151	456,337
Gas transportation	-	76,393	-	76,393	192,598	268,991
Crude oil transportation	406,297	37,639	-	443,936	56,793	500,729
Oil products transportation	194,407	25,262	-	219,669	20,523	240,192
Other	-	2,617	65,993	68,610	5,519	74,129
Revenue from vessel operations	600,704	267,097	65,993	933,794	606,584	1,540,378
Other operating revenues from contracts with customers						
Other operating revenues (Note 11)				24,931		
Total revenue from contracts with customers				958,725		

6. **Revenue (Continued)**

For the period ended 31 December 2020

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

6.1 Contract balances

	2021 $'000	2020 $'000
Trade receivables from contracts with customers (Note 26)	41,678	34,251
Contract assets	23,214	26,697
Contract liabilities	14,823	17,746

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

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

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

Set out below is the amount of revenue recognised from:

	2021 $'000	2020 $'000
Amounts included in contract liabilities as at beginning of the year	17,746	14,741
Performance obligations satisfied in previous years	-	-

6.2 Performance obligations

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

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

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

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

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

	2021 $'000	2020 $'000
Within twelve months after the end of the reporting period	247,791	248,062
After one year but not more than five years	544,837	589,645
More than five years	851,706	948,411
	1,644,334	1,786,118

7. Voyage Expenses and Commissions

	2021 $'000	2020 $'000
Bunkers	250,361	166,237
Port costs	147,720	106,648
Commissions	8,082	9,377
Seismic exploration and data processing	21,475	6,785
Other voyage costs	17,025	12,819
	444,663	301,866

8. Vessels' Running Costs

	2021 $'000	2020 $'000
Crew costs	198,456	201,133
Technical costs	100,298	124,867
Insurance costs	19,831	20,256
Lubricating oils	10,201	10,784
Other costs	10,018	9,857
	338,804	366,897

9. Depreciation, Amortisation and Impairment

	2021 $'000	2020 $'000
Vessels' depreciation (Note 15)	336,818	348,564
Vessels' drydock cost amortisation (Note 15)	40,781	34,887
Impairment loss for vessels sold during the period (Notes 15 and 28)	40,227	1,578
Reversal of impairment loss for vessels sold during the period (Note 15)	(962)	-
Impairment loss for vessels in fleet and held for sale (Notes 15 and 28)	27,792	14,052
Reversal of impairment loss in fleet (Note 15)	(5,713)	-
Other depreciation and amortisation (Notes 17 and 18)	2,469	3,698
Other impairment loss (Notes 17 and 18)	-	2,562
Right of use assets' depreciation (Note 36)	9,452	13,233
Right of use assets' impairment loss (Note 36)	670	2,692
	451,534	421,266

10. General and Administrative Expenses

	2021 $'000	2020 $'000
Administration expenses	82,499	82,067
Non-income based taxes	8,378	7,686
Bank charges and fees	1,066	956
	91,943	90,709

Administration expenses are analysed as follows:

	2021 $'000	2020 $'000
Office costs and other general expenses	76,680	76,886
Legal and professional	3,571	2,791
Audit and accountancy	2,248	2,390
	82,499	82,067

Non-income based taxes are analysed as follows:

	2021 $'000	2020 $'000
Irrecoverable value added tax	7,592	6,501
Tonnage tax	786	1,185
	8,378	7,686

11. Other Operating Revenues and Expenses

	2021 $'000	2020 $'000
Other operating revenues from contracts with customers	24,931	17,894
Lease revenue	4,043	4,079
Other income	6,180	952
	35,154	22,925
Contract fulfilment costs	(14,293)	(11,001)
Other operating expenses	(2,545)	(2,238)
Investment property depreciation and impairment loss (Note 19)	(220)	(271)
	(17,058)	(13,510)
	18,096	9,415

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

12. **Employee Costs**

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

	2021 $'000	2020 $'000
Seafarers		
- Short-term and other long-term employee benefits	169,534	171,318
- Payroll taxes	1,370	1,352
- Defined contribution pension plans	611	490
	171,515	173,160
Shore based staff		
- Short-term and other long-term employee benefits	61,039	60,999
- Derecognition of other long-term employee benefits	(3,174)	-
- Share-based payment expense	4,019	-
- Payroll taxes	9,342	9,338
- Defined contribution pension plans	1,467	1,424
	72,693	71,761
Total employee costs	244,208	244,921

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

Under the LTEBP, 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).

Following the initial public offering of the shares of PAO Sovcomflot on the Moscow Exchange in October 2020, in June 2021 the Board of Directors of the Company approved the conversion of the LTEBP for shore-based personnel into an equity-settled share-based payment remuneration scheme (the "SBP Programme") comprising shares and share options at an exercise price of zero and RUR 75.59, respectively. The SBP Programme is subject to performance conditions (market conditions relating to total shareholders return and non-market conditions), requiring the participants to complete a specified period of service (2020-2022) and meet specified performance targets while the participants are rendering the service required. No changes were made in relation to the LTEBP for seafarers.

Formalities for the SBP Programme were completed in December 2021 and the LTEBP was modified as a result. Shares in the Company were transferred and registered to most of the participants in January 2022 under a sale and purchase agreement (the "Agreement") signed between SCF Arctic, the operator of the SBP Programme, and each participant. The operator has first preferred pledge on the shares ("restricted shares") pursuant to the Agreement until all obligations under the SBP Programme are fulfilled, expected to be in July 2023.

Under the Agreement, the participants have the option to either to pay for and retain those shares that have not vested under the SBP Programme as well as the shares withheld to meet the participants tax obligations associated with a share–based payment, or return those shares to the operator. There are no other conditions attached to the share options other than the service condition. There are no cash settlement alternatives either for the shares or the resultant share options. In January 2022, 7,144,116 shares were granted to the participants of which 5,579,024 shares are expected to vest and 1,565,092 expected to vest as share options. An additional 1,031,451 share option are expected to vest in respect of shares to be withheld to meet the participants tax obligations.

The fair value of restricted shares is determined using the share price at the grant date. The fair value of the options is determined using the Black-Scholes valuation model and a Monte-Carlo simulation model, taking into account the terms of the grant and the actual number of vested options, an expected share price volatility of 40% based on comparators share price and a risk free rate of 7.96%. On recognition, the number of options and restricted shares expected to vest are estimated. The estimate is adjusted over the vesting period to the actual number of vested options and restricted shares.

Following the modification of the LTEBP, the employee benefit obligation for shore-based personnel as of the date of modification, presented as of 31 December 2020 in payables and other liabilities, was derecognised simultaneously with the recognition of the share-based payment remuneration scheme in equity. The difference between the fair value of the LTEBP of $3.2 million, measured on the modification date, and the fair value of the SBP Programme of $4.0 million, measured on the date when the grant of restricted shares and share options is made, of $0.8 million was charged to administrative expenses in the consolidated income statement.

The calculation for the period ended 31 December 2021 and 31 December 2020 for the LTEBP is based on the assumption that the performance vs. set KPI targets achieved as of period end will be sustained over the entire plan evaluation period (2020-2022) and the recipient's continued employment with the Group, as stipulated by the plan regulation. Should the estimation for the LTEBP of seafarers proven inaccurate and the target KPIs not met, reversal of charges may arise.

The benefits under the LTEBP are accounted for as other long-term employee benefits and are included in employee benefit obligations under payables and other liabilities (Note 33). Current service costs and related social taxes, recognised as employee benefits under the programme, for the period, are included in crew costs under vessels' running costs and in administration expenses under general and administrative expenses in the consolidated income statement.

The benefits under the SBP Programme are accounted for as share-based payment expense and are included in equity (retained earnings). The share-based payment expense and related employer's social taxes, recognised as employee benefits under the SBP Programme, for the period, are included in administration expenses under general and administrative expenses in the consolidated income statement. Employer's social taxes liability is included in employee benefit obligations under payables and other liabilities (Note 33).

The charge to profit and the corresponding balance of equity and/or other long-term employee benefit obligation in respect of key management personnel is disclosed in Note 42.

13. **Financing Costs**

	2021 $'000	2020 $'000
Interest on secured bank loans	76,024	95,838
Interest on interest rate swaps and cross currency interest rate swaps	26,698	28,410
Interest on other loans	44,516	47,956
Interest on lease liabilities (Note 36)	2,544	5,386
Other interest	11,341	10,437
Other financing costs (Note 35)	22,380	2,519
	183,503	190,546

14. **Segment Information**

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

- Offshore services. This segment comprises the services provided by the Group's shuttle tankers and specialised supply or service vessels. The Group's shuttle tankers transport oil from offshore facilities to customers' receiving terminals or onward shipment hubs. The Group's icebreaking supply vessels provide services for dedicated offshore platforms and drilling rigs, in addition to early stage emergency response operations. This segment also provides additional services to offshore facilities, such as the management of Floating Storage and Offloading Units ("FSOs"), and logistical support. As of 31 December 2021, this segment's fleet consisted of 17 shuttle tankers (2020 – 19) and 10 ice breaking supply vessels (2020 – 10).

- Gas transportation. This segment transports LNG and LPG. As of 31 December 2021, this segment's fleet consisted of 8 LNG carriers (2020 – 7) and 2 LPG carriers (2020 – 4). This segment also includes 4 LNG carriers owned through joint ventures, as disclosed in Note 20.

- Crude oil transportation. This segment comprises the transportation of crude oil. As of 31 December 2021, this segment's fleet consisted of 50 crude oil carriers (2020 – 53).

- Oil products transportation. This segment comprises the transportation of refined petroleum and other oil products. As of 31 December 2021, this segment's fleet consisted of 34 petroleum product carriers (2020 – 36). This segment also includes 7 oil petroleum product carriers (2020 – 9) owned through joint ventures, as disclosed in Note 20.

- Other. This segment comprises dry bulk carriers and seismic research vessels. As of 31 December 2021, this segment's fleet consisted of 1 chartered in seismic vessel (2020 – 1 chartered in seismic vessel and 2 dry bulk carriers). Supply vessels chartered in from time to time for the support of the seismic vessels are also included in this segment.

Management monitors the performance of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss directly associated with the vessels in each of the segments. However, Group financing (including finance costs and interest income), general and administrative expenses and income taxes are managed on a Group basis and are not allocated to operating segments. No operating segments have been aggregated to form the above reportable operating segments. Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

14. Segment Information (Continued)

Period ended 31 December 2021

	Offshore $'000	Gas $'000	Crude Oil $'000	Oil Product $'000	Other $'000	Total $'000
Revenue	456,337	268,991	500,729	240,192	74,129	1,540,378
Voyage expenses and commissions	(672)	(723)	(282,701)	(122,313)	(38,254)	(444,663)
Time charter equivalent revenues	455,665	268,268	218,028	117,879	35,875	1,095,715
Direct operating expenses						
Vessels' running costs	(85,642)	(45,421)	(117,956)	(75,346)	(14,439)	(338,804)
Net earnings from vessels' trading	370,023	222,847	100,072	42,533	21,436	756,911
Other operating revenues	3,147	-	-	-	-	3,147
Other operating expenses	(2,277)	-	-	-	-	(2,277)
Vessels' depreciation	(139,863)	(48,420)	(100,596)	(46,620)	(1,319)	(336,818)
Vessels' drydock cost amortisation	(11,128)	(10,370)	(11,969)	(7,180)	(134)	(40,781)
Vessels' impairment loss	-	(6,223)	(44,470)	(6,019)	(11,307)	(68,019)
Vessels' reversal of impairment loss	-	-	6,675	-	-	6,675
Right of use assets' depreciation	-	-	-	-	(5,354)	(5,354)
Right of use assets' impairment loss	-	-	-	-	(670)	(670)
(Loss) / gain on sale of vessels	-	(358)	(665)	(806)	280	(1,549)
Gain on lease modification	-	-	-	-	1,933	1,933
Allowance for expected credit losses	11	(2,274)	(66)	(78)	(66)	(2,473)
Share of profits / (losses) in investments in joint ventures	-	19,465	-	(22,051)	-	(2,586)
Net foreign exchange losses	(65)	-	-	-	(220)	(285)
Segment operating profit / (loss)	219,848	174,667	(51,019)	(40,221)	4,579	307,854
Unallocated						
General and administrative expenses						(91,943)
Financing costs						(183,503)
Gain on modification of financial liabilities						12,918
Other income and expenses (net)						19,226
Net foreign exchange gains						5,479
Profit before income taxes						70,031
Carrying amount of fleet in operation including right of use assets	1,730,655	1,554,529	1,767,105	738,400	4,046	5,794,735
Carrying amount of non-current assets held for sale	-	-	15,092	-	-	15,092
Deadweight tonnage of fleet used in operations ('000)	1,376	795	6,559	2,047	2	10,779

Period ended 31 December 2020

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

15. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2020	8,673,606	162,769	8,836,375
Expenditure in period	50,430	39,664	90,094
Transfer from vessels under construction (Note 16)	345,421	12,100	357,521
Acquisitions during the period	2,084	-	2,084
Write-off of fully amortised drydock cost	-	(42,227)	(42,227)
Exchange adjustment	(55)	-	(55)
At 31 December 2020	9,071,486	172,306	9,243,792
Expenditure in period	8,936	39,976	48,912
Transfer from vessels under construction (Note 16)	172,732	6,050	178,782
Transfer to non-current assets held for sale (Note 28)	(412,183)	(6,500)	(418,683)
Transfer from non-current assets held for sale (Note 28)	83,514	1,436	84,950
Disposals in period	(147,015)	(3,282)	(150,297)
Write-off of fully amortised drydock cost	-	(28,195)	(28,195)
Exchange adjustment	(12)	-	(12)
At 31 December 2021	8,777,458	181,791	8,959,249
Depreciation, amortisation and impairment			
At 1 January 2020	2,631,268	83,373	2,714,641
Charge for the period	348,564	34,887	383,451
Impairment loss	11,251	-	11,251
Write-off of fully amortised drydock cost	-	(42,227)	(42,227)
Exchange adjustment	1	-	1
At 31 December 2020	2,991,084	76,033	3,067,117
Charge for the period	336,818	40,781	377,599
Impairment loss	62,309	-	62,309
Reversal of impairment loss	(6,675)	-	(6,675)
Transfer to non-current assets held for sale (Note 28)	(275,688)	(4,626)	(280,314)
Transfer from non-current assets held for sale (Note 28)	60,610	1,238	61,848
Disposals in period	(84,406)	(2,891)	(87,297)
Write-off of fully amortised drydock cost	-	(28,195)	(28,195)
Exchange adjustment	34	-	34
At 31 December 2021	3,084,086	82,340	3,166,426
Net book value			
At 31 December 2021	5,693,372	99,451	5,792,823
At 31 December 2020	6,080,402	96,273	6,176,675

	2021	2020
Market value ($'000)	5,452,500	5,390,000
Current insured values ($'000)	6,852,795	6,907,331
Total deadweight tonnage (dwt)	10,618,215	11,544,231

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

<u>Type of vessel</u>	Number of vessels 2021	Number of vessels 2020	Dwt'000 2021	Dwt'000 2020
Vessels included in fleet				
Crude oil carriers	49	53	6,400	6,999
Oil product carriers	34	34	2,047	2,047
LNG carriers	8	7	750	657
LPG carriers	2	4	45	98
Shuttle tankers	17	19	1,335	1,552
Icebreaking supply vessels	10	10	41	41
Dry bulk carriers	-	2	-	150
	120	129	10,618	11,544
Vessels classified as held for sale (Note 28)				
Crude oil carriers	1	-	159	-
Oil product carriers	-	2	-	96
	1	2	159	96
	121	131	10,777	11,640

15. **Fleet (Continued)**

As at 31 December 2021, 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 2021

Reportable operating segment	CGU	Methodology	Applied pre tax discount rate %	Impairment losses / (reversal of impairment losses) $'000	Recoverable amount $'000
Crude oil segment	Aframax crude oil tanker (1 CGU)	FVLCD (level 1)	n/a	4,777	12,438
Crude oil segment	Aframax crude oil tankers (2 CGUs)	FVLCD (level 2)	n/a	15,617	25,660
Crude oil segment	Aframax crude oil tankers (3 CGUs)[1]	VIU	4.47%	13,553	36,558
Crude oil segment	Suezmax crude oil tanker (1 CGU)	FVLCD (level 1)	n/a	(962)	16,170
Gas segment	LPG carriers (2 CGUs)	FVLCD (level 2)	n/a	6,223	50,293
Other segment	Panamax dry bulk carriers (2 CGUs)	FVLCD (level 2)	n/a	11,307	39,802
Oil product segment	MR oil product tanker (1 CGU)	FVLCD (level 2)	n/a	2,855	7,500
Oil product segment	Aframax oil product tankers (2 CGUs)	FVLCD (level 2)	n/a	2,264	19,600
				55,634	208,021

[1] Includes the reversal of impairments of $5.7 million for vessels reclassified from non-current assets held for sale.

The impairment loss, or reversal thereof, recognised in the period ended 31 December 2021, in respect of 14 vessels, based on the methodology presented in the above table, resulted from management's intention to dispose of these vessels before the end of their useful lives.

Four of the six crude oil aframax tankers, the crude oil suezmax tanker and the two panamax dry bulk carriers, referred to above, together with two additional crude oil suezmax tankers, were classified as non-current assets held for sale as at 30 June 2021. As at 31 December 2021, two crude oil aframax tankers classified as held for sale as at 30 June 2021, were reclassified to fleet (see also Note 28) resulting in a reversal of impairment loss of $5.7 million. The other crude oil aframax tanker and the two LPG carriers were disposed off and delivered to their new owners within the reporting period, realising a loss on disposal of $0.4 million.

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

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

The impairment loss recognised in the period ended 31 December 2020, based on value in use for three crude oil suezmax tankers resulted from management's intention to dispose of these vessels before the end of their useful lives. The effect of this intention has been to increase the depreciation charge for the period by $2.6 million. Two of the vessels were disposed of during the period ended 31 December 2021 and the third vessel is classified as held for sale as at 31 December 2021.

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 rates used in the calculations. These forecasts are uncertain as they require assumptions to be made regarding demand for products and services, future market conditions and future technological developments. Significant and unanticipated changes in these assumptions could result in a material impairment loss 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 2022 to 2024 based on the Group's approved revenue budgets;
- Freight rate estimates after 2024 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 2022 and increasing at a rate of 2.6% per annum (2020 – 2.5% per annum);
- Annual utilisation for each vessel of 363 days, except for the cases where the actual utilisation is expected to be less, less any scheduled estimated drydocking period based on the Group's approved drydock plan, and thereafter 363 days less the maximum number of days in drydock based on the previously approved plan;
- Use of the vessels until the end of their useful life, unless the vessels are sold or planned to be sold; and
- Discount rates between 4.5% to 5.6% pre-tax (2020 – 3.9% to 5.8% pre-tax), depending on the remaining useful life of each vessel and the area it trades.

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

- A decrease in projected freight rates of 10% over the remaining useful life of the vessels would result in an additional impairment loss to fleet of $1.6 million (2020 – $4.2 million);
- An increase in the discount rate of 1% would result in an additional impairment loss to fleet of $0.4 million (2020 – $0.5 million); and
- A decrease of the useful life of the vessels by 5 years would result in an additional impairment loss to fleet of $115.7 million (2020 – $86.6 million).

15. Fleet (Continued)

As at, and during the period ended 31 December 2021 and 31 December 2020, management carried out an assessment of whether there is any indication that equipment on board one of the chartered in seismic research vessels may have suffered an impairment loss or a reversal of impairment loss is necessary. As at 30 June 2020, management concluded that it was necessary to recognise an impairment loss of $6.2 million, based on the value in use of the seismic vessel's cash generating unit ("CGU"), as the CGU's assets could no longer be used by the Group to generate revenues (the seismic vessel's CGU also included right of use assets, disclosed in Note 36, and related intangible assets, disclosed in Note 17). Management estimates that fair value less costs of disposal of the equipment will not result in any net cash inflows.

During the period ended 31 December 2021, management has 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 reporting period has been to decrease the current period depreciation charge by $15.7 million and decrease the cumulative depreciation effect for future periods, over the remaining useful life of the vessels, by $335.5 million.

Expenditure in period, under vessels, includes an amount of $4.8 million (2020 – $47.1 million) of modifications relating to legislative requirements, of which $0.1 million (2020 – $10.2 million) have not yet been completed/delivered as of the end of the reporting period.

As at 31 December 2021, 58 vessels (2020 – 71) with an aggregate carrying value of $3,971.0 million (2020 – $4,453.0 million) are leased outside the Group under operating leases.

16. Vessels Under Construction

	2021 $'000	2020 $'000
At 1 January	177,810	179,579
Expenditure in period	326,624	355,752
Transfer to fleet (Note 15)	(178,782)	(357,521)
At 31 December	325,652	177,810
Total deadweight tonnage (dwt)	779,506	595,870

Vessels under construction at 1 January 2021 comprised one LNG carrier, two aframax crude oil shuttle tankers and three ice-breaking LNG carriers at a total contracted cost to the Group of $1,205.5 million.

Vessels delivered during the period comprised the following:

Vessel Name	Vessel Type	Segment	DWT	Delivery Date
SCF Timmerman	LNG carrier	Gas	92,970	15 January 2021

In January and July 2021, the Group entered into a shipbuilding contracts for the construction of one and two 174,000 cubic metre LNG carriers, respectively, at a total contracted cost of $548.5 million. The vessels are backed up by time charter agreements for a firm period of 5 years each, with a two-year extension option attached to each time charter agreement in favour of the charterer.

Vessels under construction at 31 December 2021 comprised two aframax crude oil shuttle tankers, three ice-breaking LNG carriers and three LNG carriers scheduled for delivery between March 2022 and March 2024 at a total contracted cost to the Group of $1,579.4 million. As at 31 December 2021, $303.1 million of these contracted costs had been paid for.

The Group holds refund guarantees issued on behalf of the shipyards for each new building contract, by international high rating financial institutions in respect of any instalment paid to the shipyards before delivery of the vessels, in the event of termination of the new building contracts due to the shipyard's default. 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 $1.2 million (2020 – $2.8 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 $1.2 million (2020 – $0.7 million) capitalised using a weighted average interest rate of 3.66% per annum (2020 – 4.39% per annum).

As at 31 December 2021, management carried out an assessment of whether there is any indication that the vessels under construction may have suffered an impairment loss, in accordance with the Group's policy (Note 3(t)). The assessment did not result in any such indication.

17. Intangible Assets

	2021 $'000	2020 $'000
Cost		
At 1 January	13,532	13,243
Additions in period	353	311
Exchange adjustment	(3)	(22)
At 31 December	13,882	13,532
Amortisation and Impairment		
At 1 January	10,606	7,352
Charge for the period	508	1,164
Impairment loss	-	2,094
Exchange adjustment	(1)	(4)
At 31 December	11,113	10,606
Net book value		
At 31 December	2,769	2,926

17. Intangible Assets (Continued)

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

18. Other Property, Plant and Equipment

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2020	51,830	37,778	89,608
Additions in period	88	1,035	1,123
Transfer to investment property (Note 19)	(344)	-	(344)
Disposals in period	-	(1,944)	(1,944)
Exchange adjustment	(974)	(2,100)	(3,074)
At 31 December 2020	50,600	34,769	85,369
Additions in period	40	850	890
Transfer to non-current assets held for sale (Note 28)	(3,162)	(904)	(4,066)
Disposals in period	(23)	(878)	(901)
Exchange adjustment	(36)	(65)	(101)
At 31 December 2021	47,419	33,772	81,191
Depreciation and impairment			
At 1 January 2020	17,648	30,594	48,242
Charge for the period	968	1,566	2,534
Impairment loss	468	-	468
Transfer to investment property (Note 19)	(325)	-	(325)
Disposals in period	-	(1,904)	(1,904)
Exchange adjustment	(946)	(1,312)	(2,258)
At 31 December 2020	17,813	28,944	46,757
Charge for the period	599	1,362	1,961
Transfer to non-current assets held for sale (Note 28)	(2,001)	(779)	(2,780)
Disposals in period	(2)	(866)	(868)
Exchange adjustment	(20)	(59)	(79)
At 31 December 2021	16,389	28,602	44,991
Net book value			
At 31 December 2021	31,030	5,170	36,200
At 31 December 2020	32,787	5,825	38,612

Buildings comprise offices in St. Petersburg, Novorossiysk and Sochi in Russia, as well as a cruise terminal in Sochi. Miscellaneous category comprises a yacht marina, office equipment, motor vehicles, fixtures and fittings and leasehold improvements of leased premises.

As at, and during the period ended, 31 December 2021 and 31 December 2020, 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, during the period ended 31 December 2020, management concluded that the recreation centre Moryak in Novorossiysk ("Moryak CGU") was impaired. The Moryak CGU includes related right of use assets as disclosed in Note 36. The impairment recognised in the period ended 31 December 2020 was based on fair value less costs of disposal (level 3 hierarchy) with a recoverable amount of $1.8 million, amounted to $0.6 million, of which $0.5 million is included above. As at 30 June 2021, the Group classified the Moryak CGU as held for sale (see also Note 28). No further impairment loss (or reversal thereof) arose as a result of the assessment carried out by management as at and for the period ended 30 June 2021.

During the period ended 31 December 2020, management also concluded that the cruise terminal in Sochi ("cruise terminal CGU") was further impaired. The cruise terminal CGU includes related investment property and right of use assets as disclosed in Note 19 and in Note 36, respectively. The impairment recognised in the period ended 31 December 2020 in respect of the cruise terminal CGU, amounted to $0.8 million, none of which relates to other property, plant and equipment based on value in use and a recoverable amount of $2.6 million. No further impairment loss (or reversal thereof) arose as a result of the assessment carried out by management as at, and during the period ended, 31 December 2021. The main inputs and assumptions used in the value in use calculations were: revenues and expenses based on the Group's three year budgets, a terminal growth rate of 3.0% on both revenues and expenses (2020 – 3.0%), use of the asset until the end of year 2063 (2020 – 2063) and a pre-tax discount rate of 18.0% (2020 – 13.2%).

19. Investment Property

	2021 $'000	2020 $'000
Cost		
At 1 January	7,687	8,198
Lease modification	-	(37)
Additions in period	9	8
Transfer from other property, plant and equipment (Note 18)	-	344
Transfer to non-current assets held for sale (Note 28)	(280)	-
Disposals in period	-	(33)
Exchange adjustment	(23)	(793)
At 31 December	7,393	7,687
Depreciation and impairment		
At 1 January	4,164	3,763
Charge for the period	220	212
Impairment loss	-	59
Transfer from other property, plant and equipment (Note 18)	-	325
Transfer to non-current assets held for sale (Note 28)	(261)	-
Disposals in period	-	(33)
Exchange adjustment	(7)	(162)
At 31 December	4,116	4,164
Net book value		
At 31 December	3,277	3,523
Net book value of leased in investment property included above at 31 December	3,090	3,272
Rental income during the period from investment property	4,125	4,105
Direct operating expenses incurred during the period on investment property	1,949	1,712

As at 31 December 2021, investment property comprises land and buildings in Novorossiysk with a fair value (level 3 hierarchy) equivalent to $4.4 million (2020 – equivalent to $6.5 million) as well as leased in buildings in Sochi and in Limassol with a fair value (level 3 hierarchy) equivalent to $5.5 million (2020 – equivalent to $5.5 million). For a description of valuation techniques used for determining the above disclosed fair values under level 3 hierarchy see Note 40(d). The impairment loss recognised during the period ended 31 December 2020 relates to the leased in building in Sochi, forming part of the cruise terminal CGU (see also Note 18).

20. Investments in Joint Ventures

	2021 $'000	2020 $'000
At 1 January	164,908	152,255
Loans receivable from joint ventures converted to equity	38,853	-
Equity contributions during the period	10,602	-
Return of equity contributions in the period	(2,542)	-
Repayment of long term interest	(2,644)	-
Share of (losses) / profits in joint ventures	(2,529)	16,794
Share of joint ventures' other comprehensive income	3,977	(1,120)
Dividends received	(5,575)	(3,000)
Currency retranslation difference	-	(21)
At 31 December	205,050	164,908

During the period ended 31 December 2021, the Group made a contribution of $8.5 million and $2.1 million respectively to equity of two of its joint ventures. On 1 February 2021, loans to one of its joint ventures of $39.3 million, including interest capitalised, were contributed to equity at their carrying value of $38.9 million, net of expected credit losses (see also Note 21).

In June 2021, the Group's joint ventures disposed of two Panamax oil product tankers (LR1). Consequently, equity contributions of $2.5 million and loans representing long term interest in the joint ventures of $2.6 million were returned/repaid to the Group.

In September 2021, the Group set up four joint ventures equally owned (50/50) with a third party. The joint ventures entered into agreements for the construction of four 174,000 cubic metre LNG carriers at a total contracted cost of $811.6 million. The vessels are backed up by time charter agreements for a firm period of 13 years each, with a two year extension option attached to each time charter agreement in favour of the charterer, commencing on delivery of the vessels, between September 2023 and January 2024. The total aggregate hire receivable over the firm period of the charter is estimated at $1,391.1 million.

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

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

Name of entity	2021	2020	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[1]	51.0%	51.0%	Liberia	Vessel owning company of an LR1 tanker
Gorey Shipping Ltd.[1]	51.0%	51.0%	Liberia	Vessel owning company of an LR1 tanker
Plemont Shipping Ltd.[1]	51.0%	51.0%	Liberia	Dormant company (2020 – Vessel owning company of an LR1 tanker)
Rozel Shipping Ltd.[1]	51.0%	51.0%	Liberia	Vessel owning company of an LR1 tanker
Sorel Shipping Ltd.[1]	51.0%	51.0%	Liberia	Vessel owning company of an LR1 tanker
SCF ST Product Tankers Ltd.[1]	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc[1]	51.0%	51.0%	Liberia	Holding company of three LR1 tanker owning companies (2020 – four LR1 tanker owning companies)
OOO SMART LNG	50.0%	50.0%	Russia	Leasing of ice-class LNG carriers
SCF-NYK Alpha Shipping Pte. Ltd.	50.0%	-	Singapore	Constructing and operation of an LNG carrier
SCF-NYK Beta Shipping Pte. Ltd.	50.0%	-	Singapore	Constructing and operation of an LNG carrier
SCF-NYK Gamma Shipping Pte. Ltd.	50.0%	-	Singapore	Constructing and operation of an LNG carrier
SCF-NYK Delta Shipping Pte. Ltd.	50.0%	-	Singapore	Constructing and operation of an LNG carrier

[1] Included in SCF-ST joint ventures column in the summarised financial information table below.

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

The Group through its joint ventures owns and operates 4 LNG carriers (2020 – 4) and 7 Panamax oil product tankers (LR1) (2020 – 9). In addition, 4 LNG carriers are currently under construction (2020 – none).

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

	2021[1] $'000	2020 $'000
Within twelve months after the end of the reporting period	99,459	95,871
Between one to two years	112,917	92,260
Between two to three years	205,462	95,871
Between three to four years	182,570	96,135
Between four to five years	182,253	69,620
More than five years	1,143,771	155,317
	1,926,432	605,074

[1] Includes contracts that have not yet commenced as at period end of total aggregate hire receivable of $1,391.1 million (2020 – nil).

The Group's joint venture, OOO SMART LNG ("SMART LNG"), entered into lease arrangements with Russian state controlled entities, effective 30 January 2020 and 28 August 2020, in respect of four and ten ice-breaking LNG carriers, respectively. The lease arrangements commence on delivery of the vessels from a Russian state controlled shipyard, between September 2023 and December 2025, for lease terms of between 24.5 to 26.3 years. The total undiscounted commitments of the joint venture under the lease arrangements, including interest, are $8,931.9 million. The shares of the joint venture were pledged in connection with the lease agreements.

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

	2021 $'000	2020 $'000
Between one to two years	11,601	-
Between two to three years	190,520	11,601
Between three to four years	414,605	190,520
Between four to five years	624,239	414,605
More than five years	18,295,000	18,919,239
	19,535,965	19,535,965

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

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

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

At 31 December 2021	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	SCF-NYK Alpha Shipping Pte. Ltd. $'000	SCF-NYK Beta Shipping Pte. Ltd. $'000	SCF-NYK Gamma Shipping Pte. Ltd. $'000	SCF-NYK Delta Shipping Pte. Ltd. $'000	OOO SMART LNG $'000	Total $'000
Total non-current assets	120,326	119,090	119,664	120,450	224,809	20,323	20,323	20,323	20,323	3,647	789,278
Total current assets	15,801	24,043	18,553	19,579	16,915	-	-	-	-	1,739	96,630
Total non-current liabilities	(68,152)	(62,885)	(56,241)	(58,661)	(33,513)	(20,288)	(20,290)	(20,290)	(20,290)	-	(360,610)
Total current liabilities	(10,890)	(15,689)	(15,810)	(13,044)	(48,499)	(89)	(53)	(53)	(53)	(57)	(104,237)
Net assets / (liabilities) of the joint venture	57,085	64,559	66,166	68,324	159,712	(54)	(20)	(20)	(20)	5,329	421,061
Group's share in net assets / (liabilities) of the joint venture	21,407	32,280	33,083	34,162	81,453	(27)	(10)	(10)	(10)	2,665	204,993
Carrying amount of the investment in joint venture	21,407	32,280	33,083	34,162	81,453	-	-	-	-	2,665	205,050
Provision for share in net liabilities of joint venture	-	-	-	-	-	(27)	(10)	(10)	(10)	-	(57)
Cash and cash equivalents	3,346	5,091	7,826	5,889	3,829	-	-	-	-	340	26,321
Current financial liabilities[1]	(10,834)	(15,469)	(11,391)	(11,384)	(45,619)	(33)	(33)	(33)	(33)	-	(94,829)
Non-current financial liabilities[1]	(68,152)	(62,885)	(56,241)	(58,661)	(33,513)	(20,288)	(20,290)	(20,290)	(20,290)	-	(360,610)
Revenues	23,618	24,204	23,516	23,533	51,993	-	-	-	-	-	146,864
Depreciation, amortisation and impairment	(5,618)	(5,482)	(6,376)	(5,964)	(45,273)	-	-	-	-	-	(68,713)
Interest income	-	1	-	-	4	-	-	-	-	18	23
Interest expense	(2,188)	(2,010)	(2,832)	(2,937)	(3,941)	-	-	-	-	-	(13,908)
Income tax	(495)	(622)	-	-	-	-	-	-	-	(10)	(1,127)
Joint ventures' profits / (losses) for the period	9,446	11,054	9,980	11,072	(43,237)	(54)	(20)	(20)	(20)	(146)	(1,945)
Group's share of joint ventures' profits / (losses) for the period recognised	3,542	5,527	4,990	5,536	(22,051)	(27)	(10)	(10)	(10)	(73)	(2,586)
Joint ventures' other comprehensive income for the period	2,291	824	2,542	2,695	170	-	-	-	-	-	8,522
Group's share of joint ventures' other comprehensive income for the period recognised	859	412	1,271	1,348	87	-	-	-	-	-	3,977
Joint ventures' total comprehensive income for the period	11,737	11,878	12,522	13,767	(43,067)	(54)	(20)	(20)	(20)	(146)	6,577
Group's share of joint ventures' total comprehensive income for the period recognised	4,401	5,939	6,261	6,884	(21,964)	(27)	(10)	(10)	(10)	(73)	1,391

[1] Excluding trade and other payables and provisions.

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Notes to the Consolidated Financial Statements – 31 December 2021 (Continued)

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

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

At 31 December 2020	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	OOO SMART LNG $'000	Total $'000
Total non-current assets	120,980	123,958	126,040	126,414	302,949	1,159	801,500
Total current assets	18,339	36,896	12,834	20,986	23,206	278	112,539
Total non-current liabilities	(78,995)	(23,776)	(68,551)	(71,566)	(119,704)	(1)	(362,593)
Total current liabilities	(10,775)	(84,398)	(15,680)	(14,278)	(91,611)	(87)	(216,829)
Net assets of the joint venture	49,549	52,680	54,643	61,556	114,840	1,349	334,617
Group's share in net assets of the joint venture	18,581	26,340	27,322	30,778	58,568	675	162,264
Long term interests in the joint venture	-	-	-	-	2,644	-	2,644
Carrying amount of the investment in joint venture	18,581	26,340	27,322	30,778	61,212	675	164,908
Cash and cash equivalents	3,352	1,085	4,493	10,108	4,715	139	23,892
Current financial liabilities[1]	(10,727)	(84,181)	(11,224)	(11,211)	(89,382)	-	(206,725)
Non-current financial liabilities[1]	(78,995)	(23,776)	(68,551)	(71,566)	(119,704)	(1)	(362,593)
Revenues	24,234	24,515	23,569	20,308	91,942	-	184,568
Depreciation, amortisation and impairment	(5,826)	(5,823)	(6,269)	(5,862)	(17,817)	(11)	(41,608)
Interest income	-	-	51	51	45	23	170
Interest expense	(6,182)	(5,471)	(3,200)	(3,276)	(8,457)	-	(26,586)
Income tax	(673)	(652)	-	-	-	(28)	(1,353)
Joint ventures' profits / (losses) for the period	7,147	8,088	9,957	5,288	4,886	(90)	35,276
Group's share of joint ventures' profits / (losses) for the period recognised	2,680	4,044	4,979	2,644	2,492	(45)	16,794
Joint ventures' other comprehensive income for the period	2,680	2,599	(3,332)	(3,865)	342	-	(1,576)
Group's share of joint ventures' other comprehensive income for the period recognised	1,005	1,300	(1,666)	(1,933)	174	-	(1,120)
Joint ventures' total comprehensive income for the period	9,827	10,687	6,625	1,423	5,228	(90)	33,700
Group's share of joint ventures' total comprehensive income for the period recognised	3,685	5,344	3,313	711	2,666	(45)	15,674

[1] Excluding trade and other payables and provisions.

21. **Loans to Joint Ventures**

	2021 $'000	2020 $'000
At 1 January	54,162	62,145
Loans issued to joint ventures	41,345	2,550
Loans repayments by joint ventures	(3,674)	(11,887)
Loans from joint ventures converted to equity (Note 20)	(38,853)	-
Interest capitalised on loans during the period	187	1,534
Decrease / (increase) in allowance recognised in the income statement	20	(180)
At 31 December	53,187	54,162
Less current portion (current assets)	(1,765)	(2,000)
Non-current portion (non-current assets)	51,422	52,162

	2021 $'000	2020 $'000
Loans to joint ventures at 6-month U.S. Dollar Libor + 0.5% margin per annum	11,842	15,418
Loans to joint ventures at 3-month U.S. Dollar Libor + 3.0% margin per annum	-	38,744
Loans to joint ventures at 6-month U.S. Dollar Libor + 2.0% margin per annum	40,580	-
Loans to joint ventures at fixed rate of 3.0% per annum	765	-
	53,187	54,162
Interest income during the period on loans due from joint ventures	246	1,425
Interest receivable at period end on loans due from joint ventures	95	7,354

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

	2021 $'000	2020 $'000
At 1 January	516	336
Allowance for credit losses on loans converted to equity contributions	(496)	-
(Decrease) / increase in allowance recognised in the income statement	(20)	180
At 31 December	-	516

On 22 October 2021, the Group, together with its joint venture partner, entered into a loan agreement with a joint venture for a total amount of $3.9 million. An amount of $1.5 million, of which $0.8 million represents the Group's share, was drawn down as of the period end. The loan bears interest at 3.0% per annum and is repayable at any time, on or before 31 December 2022.

On 1 December 2021, the Group, together with its joint venture partner, entered into four loan agreements with its joint ventures, of up to $65.0 million each, to be funded equally by the parties, to finance the construction of four LNG carriers, at an interest rate of six months U.S. Dollar Libor plus 2.0% margin per annum. The loans mature three years after the agreement date and may automatically be extended for additional three-year periods, on the same terms, up to a maximum of twenty years, unless either of the parties disagrees with such extension. As at 31 December 2021, $81.2 million, of which $40.6 million represents the Group's share, was advanced to the joint ventures.

The loans to joint ventures are unsecured and 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.

22. **Derivative Financial Instruments**

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

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

	Interest Rate Swaps ("IRS")		Cross Currency Interest Rate Swaps ("CCIRS")		Total	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Non-current asset	9,878	74	3,833	10,192	13,711	10,266
Non-current liability	(8,117)	(35,503)	(9,432)	(6,730)	(17,549)	(42,233)
Current liability	(13,460)	(14,744)	(7,304)	(6,055)	(20,764)	(20,799)

Hedging instruments

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

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

22. Derivative Financial Instruments (Continued)

Hedging instruments (continued)

Hedge ineffectiveness can arise from:

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

In January 2021, the Group entered into a seven year interest rate swap transaction to hedge the Group's future cash outflows resulting from the exposure to interest rate fluctuations associated with the interest payable on a loan facility of $148.5 million in connection with the financing of a Group's vessel, by converting 3-month U.S. Dollar LIBOR floating interest rate payable on the loan to fixed.

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

	IRS		CCIRS		Total	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Amount recognised in hedging reserve	21,611	(35,378)	(19,276)	4,374	2,335	(31,004)
Reclassified from hedging reserve and debited to financing costs	16,863	7,845	10,386	11,765	27,249	19,610
Reclassified from hedging reserve and debited / (credited) to foreign exchange	-	-	20,973	(26,207)	20,973	(26,207)
Reclassification adjustment relating to derecognition of hedging instrument during the period	-	2,341	-	-	-	2,341
Total in other comprehensive income	38,474	(25,192)	12,083	(10,068)	50,557	(35,260)

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 (liabilities) / assets		Change in fair value used for calculating hedge ineffectiveness	
Expiry date	2021 %	2020 %	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Less than 1 year	-	-	-	-	-	-	-	335
1 to 2 years	-	-	-	-	-	-	-	-
2 to 5 years	2.33%	2.29%	558,748	512,501	(18,607)	(32,633)	-	-
More than 5 years	0.98%	1.46%	414,563	400,751	6,908	(17,540)	-	-
			973,311	913,252	(11,699)	(50,173)	-	335

Cross Currency Interest Rate Swap contracts

	Weighted average contracted fixed interest rate		Notional principal value		Carrying amount of the hedging instrument liabilities		Change in fair value used for calculating hedge ineffectiveness	
Expiry date	2021 %	2020 %	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
More than 5 years	5.51%	5.51%	245,565	276,637	(12,903)	(2,593)	(418)	744

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	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Floating rate borrowings 3-month U.S. Dollar Libor	953,311	886,585	-	335	(10,325)	(48,221)	-	-
Floating rate borrowings 6-month U.S. Dollar Libor	20,000	26,667	-	-	179	(399)	-	-
Floating rate borrowings 6-month Euribor	241,180	294,818	(418)	744	(8,450)	(20,533)	-	-
	1,214,491	1,208,070	(418)	1,079	(18,596)	(69,153)	-	-

23. Income Taxes

	2021 $'000	2020 $'000
Current income tax expense	15,883	34,149
Deferred tax expense / (income)	18,348	(5,563)
Total income tax expense	34,231	28,586

23. **Income Taxes (Continued)**

Russian Federation profit tax is payable at a tax rate of 20% (2020 – 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.

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

	2021 $'000	2020 $'000
Profit before income taxes	70,031	295,451
Income tax charge using income tax rate of 20%	14,006	59,090
Tax effect of tonnage tax and different tax rates in other jurisdictions	5,506	(46,111)
Tax effect on intragroup dividends paid	435	19,526
Deferred tax effect on intragroup dividends	15,282	(5,665)
Tax effect on intragroup loans	396	772
Non-taxable income	(11,492)	(10,655)
Non-deductible expenses	9,299	8,005
Tax effect on losses for which deferred tax asset was not recognised or was utilised (net)	793	3,615
Adjustments in respect of income tax of previous years	6	9
Income tax expense	34,231	28,586

Deferred Tax

	Opening balance $'000	Released / (charged) to profit or loss $'000	Released to exchange differences on translation of foreign operations in OCI $'000	Exchange differences in profit or loss $'000	Closing balance $'000
At 31 December 2021					
Deferred tax assets	5,231	(1,664)	4	(12)	3,559
Deferred tax liabilities	(1,024)	(16,684)	-	17	(17,691)
	4,207	(18,348)	4	5	(14,132)
Analysed as follows:					
Fleet	568	43	-	-	611
Drydock	(1,361)	(3,448)	-	37	(4,772)
Unused tax losses carried forward	673	1,189	7	(12)	1,857
Accounts receivable	(191)	(283)		-	(474)
Accounts payable	2,946	(1,098)	(3)	(25)	1,820
Right of use assets	(2,500)	1,416	1	5	(1,078)
Lease liabilities	3,205	(1,563)	(1)	(8)	1,633
Unremitted earnings of subsidiaries and on dividends declared	-	(15,282)	-	-	(15,282)
Other	867	678	-	8	1,553
	4,207	(18,348)	4	5	(14,132)
At 31 December 2020					
Deferred tax assets	5,250	484	(83)	(420)	5,231
Deferred tax liabilities	(6,297)	5,079	-	194	(1,024)
	(1,047)	5,563	(83)	(226)	4,207
Analysed as follows:					
Fleet	767	(199)	-	-	568
Drydock	(1,691)	57	-	273	(1,361)
Unused tax losses carried forward	558	119	(13)	9	673
Accounts receivable	(130)	(61)		-	(191)
Accounts payable	3,454	(276)	(67)	(165)	2,946
Right of use assets	(3,164)	430	44	190	(2,500)
Lease liabilities	3,636	(131)	(47)	(253)	3,205
Unremitted earnings of subsidiaries and on dividends declared	(5,665)	5,665	-	-	-
Other	1,188	(41)	-	(280)	867
	(1,047)	5,563	(83)	(226)	4,207

23. **Income Taxes (Continued)**

Deferred Tax (continued)

As at the reporting period end, the Group has accumulated tax losses of $67.7 million (2020 – $74.5 million), for which a deferred tax asset of $13.5 million (2020 – $14.9 million) has not been recognised. There is no expiry date for tax losses carried forward, available for offsetting against future taxable profits of the company in which they arose. No assets were recognised or derecognised in 2021 or in 2020 based on the projected results of those operations.

The deferred tax impact on the unremitted earnings of subsidiaries, joint ventures or associates is included in the reconciliation of tax expense above in line tax effect on intercompany dividends. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,893.7 million (2020 – $2,893.9 million). There are no income tax consequences to the Group attached to the payment of dividends by the Company to its shareholders.

24. **Earnings Per Share**

	2021 $'000	2020 $'000
Profit attributable to shareholders of PAO Sovcomflot for basic and diluted earnings	43,800	267,337
	2021	**2020**
Weighted average number of ordinary shares for basic and diluted earnings per share (see also Note 29)	2,337,805,898	2,053,711,259
Basic and diluted profit per share for the period attributable to shareholders of PAO Sovcomflot	$0.019	$0.130

25. **Inventories**

	2021 $'000	2020 $'000
Bunkers	46,665	25,190
Lubricants	15,074	15,291
Victualling and slopchest	1,075	2,127
Spare parts and consumables	722	1,240
Other	285	380
	63,821	44,228

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

26. **Receivables and Other Assets**

Trade and other receivables

	2021 $'000	2020 $'000
Non-current assets		
Other receivables	186	695
Receivables under High Court judgement award	2,700	2,700
Liquidated damages receivable from shipyard	7,268	6,607
	10,154	10,002
Current assets		
Amounts due from charterers	57,480	46,102
Allowance for expected credit losses	(5,745)	(4,069)
	51,735	42,033
Casualty and other claims	9,994	21,387
Agents' balances	3,130	2,843
Other receivables	10,938	9,590
Amounts due from joint ventures	308	907
Accrued income	5,591	1,349
	81,696	78,109

Prepayments and other current assets

	2021 $'000	2020 $'000
Prepayments	10,335	10,320
Contract acquisition and voyage fulfilment costs	3,679	1,750
Non-income based taxes receivable	2,001	2,750
	16,015	14,820

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

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

During the period ended 31 December 2021, the Group made a detailed analysis of the coronavirus influence on the expected credit losses and did not identify significant effects. In general, COVID-19 did not negatively affect the Group's main receivables.

26. **Receivables and Other Assets (Continued)**

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

	2021 $'000	2020 $'000
At 1 January	4,069	2,357
Amounts written off during the period	(1,489)	(285)
Increase in allowance for credit losses	3,165	1,997
At 31 December	5,745	4,069

27. **Cash and Bank Deposits**

	2021 $'000	2020 $'000
Non-current assets		
Restricted deposits	12,500	12,500
Bank deposits	12,500	12,500
Current assets		
Bank deposits accessible on maturity	-	460
Retention accounts	17,628	17,803
Bank deposits	17,628	18,263
Cash and cash equivalents	614,004	849,446
Cash and bank deposits	631,632	867,709

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

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 34. These funds are accumulated to cover future loan principal and interest payments.

Restricted deposits represent additional security required under certain secured loan agreements to ensure minimum liquidity for the duration of the relevant secured loan.

Under the terms of the agreements, a subsidiary of the Group, as guarantor of the secured bank loans of its respective subsidiaries, had to maintain, as at 31 December 2021, minimum consolidated liquidity of $100.4 million (2020 – $120.8 million) of which $50.2 million (2020 – $60.4 million) had to be maintained in cash and cash equivalents.

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

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

	Fleet $'000	Other $'000	Total $'000
Assets held for sale			
At 1 January 2020	69,061	-	69,061
Impairment loss	(4,379)	-	(4,379)
Disposals in period	(47,997)	-	(47,997)
At 31 December 2020	16,685	-	16,685
Transfer from fleet (Note 15)	138,369	-	138,369
Transfer to fleet (Note 15)	(23,102)	-	(23,102)
Transfer from investment property (Note 19)	-	19	19
Impairment loss	(5,710)	-	(5,710)
Transfer from property, plant and equipment (Note 18)	-	1,286	1,286
Transfer from right of use assets (Note 36)	-	336	336
Disposals in period	(111,150)	(1,641)	(112,791)
At 31 December 2021	15,092	-	15,092
Liabilities directly associated to non-current assets held for sale			
At 1 January 2020 / 31 December 2020	-	-	-
Transfer from lease liabilities (Note 36)	-	(405)	(405)
Disposals in period	-	405	405
At 31 December 2021	-	-	-

The two MR chemical oil product tankers classified as held for sale as at 31 December 2020 were disposed of and delivered to their new owners in February 2021 and June 2021 respectively, realising a loss on disposal of $0.8 million.

As at 30 June 2021, the Group classified as held for sale two panamax dry bulk carriers, three crude oil suezmax tankers and four crude oil aframax tankers. All vessels except one crude oil suezmax tanker and two out of four crude oil aframax tankers were disposed of and delivered to their new owners within the reporting period, realising a loss on disposal of $0.3 million.

As at 31 December 2021, the remaining two crude oil aframax tankers were reclassified back to fleet (Note 15) since management is no longer committed to a sale or an active programme to locate a buyer. The crude oil suezmax tanker still held for sale as at 31 December 2021 was actively marketed for sale at a price approximate to its market value.

As at 30 June 2021, the Group also classified as held for sale a disposal group, the Moryak recreation centre in Novorossiysk, Russia ("Moryak disposal group") which comprises various assets, other property and equipment, right of use assets and lease liabilities. The Moryak disposal group was sold in October 2021, resulting in a gain of RUR 119.3 million (equivalent to $1.6 million).

29. Share Capital

Authorised shares (ordinary shares of RUR 1 each)

	Number of shares	
	2021	**2020**
At 1 January	2,622,262,945	2,247,653,953
Increase in authorised share capital	-	374,608,992
At 31 December	2,622,262,945	2,622,262,945

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

Ordinary shares issued and fully paid

	Number of Shares	$'000
At 1 January 2020	1,966,697,210	405,012
Issue of shares	408,296,691	5,240
At 31 December 2020 / 31 December 2021	2,374,993,901	410,252

Share premium

	$'000
At 1 January 2020	818,845
Premium on the issue of shares	544,985
Transaction costs on issue of shares	(21,027)
At 31 December 2020 / 31 December 2021	1,342,803

Share premium as at 1 January 2020 represents share premium that arose from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 30).

Treasury shares

	Number of Shares	$'000
At 1 January 2020	-	-
Acquisition of treasury shares	37,117,881	47,180
Transaction costs on acquisition of treasury shares	-	1,248
At 31 December 2020	37,117,881	48,428
Acquisition of treasury shares[1]	7,256,392	7,482
At 31 December 2021	44,374,273	55,910

[1] As at 31 December 2021, 2,418,252 number of shares are in the process of registration.

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

In December 2021, SCF Arctic, repurchased 7,256,392 shares of the Company at RUR 549.9 million (equivalent to $7.5 million as of the date of the payment), representing 0.31% of the issued share capital of the Company, to fund the Group's SBP Programme (see Note 12). These shares are held in treasury. Following the shares buyback, the free float of shares of PAO Sovcomflot is 15.32% of the issued share capital, and the Russian Federation retains an 82.81% stake. In January 2022, as part of the SBP Programme, 6,586,079 restricted shares were transferred and registered to the participants of the SBP Programme under the terms and conditions detailed in Note 12.

30. Group Reconstruction Reserve

	2021 $'000	2020 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)
	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 RUR ($1.40071) per share (see also Note 29), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests' basis.

31. Dividends

The Group declares and pays dividends in Russian roubles. Dividends declared and paid in 2021 and 2020 to the shareholders of PAO Sovcomflot were as follows:

	Date of declaration	Date of payment	Dividend per share RUR	Total dividend* RUR'000	Total dividend* $000
Dividends declared in 2021 for 2020	15 June 2021	16 July 2021	6.67	15,593,633	217,546
Dividends declared in 2020 for 2019	4 August 2020	17 August 2020	3.65	7,181,000	96,833

* dividends declared in 2021 for 2020 exclude dividends relating to shares held by a subsidiary company (treasury shares) at the date of payment, representing 1.56% of the issued shares of the Company.

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

32. Non-Controlling Interests

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2020	(5,347)	137,056	131,709
Loss for the period	-	(472)	(472)
Other comprehensive income	33	(8)	25
Dividends	-	(14,996)	(14,996)
At 31 December 2020	(5,314)	121,580	116,266
Loss for the period	-	(8,000)	(8,000)
Other comprehensive income	3	14	17
Dividends	-	(552)	(552)
Share-based payment remuneration scheme	-	1	1
At 31 December 2021	(5,311)	113,043	107,732

33. Payables and Other Liabilities

Trade and other payables

	2021 $'000	2020 $'000
Non-current liabilities		
Liquidated damages for late delivery of vessels payable to charterer	6,653	15,485
	6,653	15,485
Current liabilities		
Trade payables	47,092	49,504
Other payables	37,466	49,792
Payables to shipyards for vessels under construction	18,282	-
Liquidated damages for late delivery of vessels payable to charterer	9,567	2,113
Amounts due to joint ventures	612	-
Dividends payable to non-controlling interests	8,559	18,160
Accrued liabilities	35,338	51,945
Interest payable	15,133	13,989
	172,049	185,503

Other liabilities

	2021 $'000	2020 $'000
Non-current liabilities		
Employee benefit obligations (Note 12)	8,218	6,776
Deferred lease revenue	6,838	6,102
	15,056	12,878
Current liabilities		
Deferred lease revenue	42,036	49,355
Non-income based taxes payable	21,013	22,517
	63,049	71,872

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

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

34. Secured Bank Loans

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

	2021 $'000	2020 $'000
Within twelve months after the end of the reporting period	290,920	282,075
Between one to two years	300,975	313,263
Between two to three years	316,910	304,965
Between three to four years	349,385	319,418
Between four to five years	186,472	351,702
More than five years	637,872	759,945
	2,082,534	2,331,368
Less current portion	(290,920)	(282,075)
Non-current balance	1,791,614	2,049,293

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 2021	Weighted average interest rate 2020	Outstanding loans gross of direct issue costs 2021 $'000	Outstanding loans gross of direct issue costs 2020 $'000	Maturity
Floating rate loans in U.S. Dollars between 1.70% - 3.00% per annum	Libor + 2.07%[1]	Libor + 2.00%[1]	1,261,245	1,382,608	Between September 2022 - January 2028
Floating rate loans in Euro	Euribor + 1.595%	Euribor + 1.595%	241,180	294,818	Between March 2029 - January 2030
Fixed rate loans in U.S. Dollars between 4.15% - 6.80% per annum (2020: 4.15% - 7.50% per annum)	6.31%	6.58%	607,106	677,959	Between April 2025 - September 2031
			2,109,531	2,355,385	

[1] Weighted average margin for the period.

In April 2021, the Group signed addendums to two secured bank loan agreements with two Russian State controlled financial institutions, with outstanding balances of $218.7 million and $191.7 million, gross of direct issue costs, as of the date of the addendums, reducing the fixed interest rate payable on these loans by 0.7% and 0.5% respectively. The amendments to these loan agreements represent loan modifications resulting in the recognition of $9.3 million gain on modification of financial liabilities in the consolidated income statement.

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 2021, of $4,197.4 million (2020 – $4,425.3 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 16 and pledges of shares in certain of the vessel owning companies.

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

35. Other Loans

	2021 $'000	2020 $'000
$900 million 5.375% Senior Notes due in 2023 (amount outstanding $498.4 million)	497,440	895,585
$430 million 3.85% Senior Notes due in 2028	414,781	-
Other loan from related party	-	3,631
	912,221	899,216
Less current portion	-	(3,631)
Non-current balance	912,221	895,585

The 5.375% Senior Notes (the "Old Notes") are redeemable at par value and mature on 16 June 2023. Interest accrues at 5.375% per annum and is payable semi-annually in arrears on 16 June and 16 December of each year.

On 26 April 2021, the Group, through its subsidiary SCF Capital Designated Activity Company ("SCF Capital"), issued $430 million of Senior Notes (the "New Notes"), redeemable at par value, maturing on 26 April 2028. Interest accrues at 3.85% per annum from 26 April 2021 and is payable semi-annually in arrears on 26 April and 26 October of each year, commencing on 26 October 2021. The New Notes were used to partly refinance the $900 million Old Notes due in 2023. A total amount of $401,573 thousand of the Old Notes was tendered back to the company at a price of $107.125 per $100 par value. Of the $28.6 million premium paid on the tendered bonds, $19.4 million was expensed to profit or loss and included in financing costs in the consolidated income statement, together with $1.7 million of unamortised financing costs relating to Old Notes tendered but not refinanced with New Notes. The balance of $9.2 million relating to refinancing of the Old Notes with New Notes has been netted off against the proceeds raised from the New Notes. The refinancing of the Old Notes with the New Notes represents loan modification resulting in the recognition of $3.6 million gain on modification of financial liabilities in the consolidated income statement.

35. **Other Loans (Continued)**

The Old Notes and the New Notes (the "Notes") are included above net of direct issue costs. They are unsecured and guaranteed by Sovcomflot. There are no equity conversion rights or options attached to the Notes. Interest charged during the period amounted to $44.4 million (2020 – $47.7 million).

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

Other loan from related party, granted by a subsidiary of a Russian State controlled financial institution, in relation to the acquisition of seismic equipment, was payable in nine equal semi-annual instalments commencing on 15 December 2017 with final payment on 15 December 2021. The loan was secured over all present and future rights, title and interest in relation to the equipment which was fully impaired as at 31 December 2020 (Note 15), and it was guaranteed by a subsidiary of the Group. Interest accrued at six month EURIBOR plus 4% margin per annum. Interest charged during the period amounted to $0.09 million (2020 – $0.2 million). The loan was prepaid in September 2021.

36. **Leases**

Group as lessee

The Group leases in one seismic research vessel with purchase options attached to the bareboat charter contract. As at 31 December 2020, the firm period of the bareboat charter contract was due to expire in November 2023. In March 2021, the Group agreed with the lessor to reduce the charter period by one year, to November 2022, with extension options in favour of the Group. The lease modification (shortening of the lease term) has been accounted for as a reduction in the carrying value of the right of use asset (fleet) and the lease liability by $3.8 million and $5.7 million, respectively. The resultant gain on lease modification of $1.9 million has been recognised in the consolidated income statement. The Group also leases supply vessels for short term periods for the support of the seismic research vessels while performing seismographic surveys.

The Group also has lease contracts in respect of land and buildings, and other assets in various locations including Moscow, Sochi, London, Novorossiysk, Limassol and Dubai. Leases for land and buildings, expire between within 1 and 48 years with various options attached. In February 2022, the Group exercised its option to renew the lease of the office premises in Limassol for a further 5 year period, commencing September 2022, with a total undiscounted lease liability of €2.6 million (equivalent to $2.9 million). Leases for miscellaneous assets expire between 2 and 43 years. There are no restrictions placed upon the Group by entering into these leases.

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

	Fleet **$'000**	**Land and buildings** **$'000**	**Miscellaneous** **$'000**	**Total right of use assets** **$'000**
At 1 January 2020	28,600	15,605	1,690	45,895
Lease modification	13,869	(10)	573	14,432
Additions in period	-	511	-	511
Lease termination	(16,954)	-	-	(16,954)
Depreciation charge for the period	(9,331)	(3,832)	(70)	(13,233)
Impairment loss in period	(1,792)	(408)	(492)	(2,692)
Exchange differences	(2)	(136)	(253)	(391)
At 31 December 2020	14,390	11,730	1,448	27,568
Lease modification	(4,320)	8,801	9	4,490
Additions in period	-	215	40	255
Lease termination	-	(9)	-	(9)
Transfer to non-current assets held for sale (Note 28)	-	(336)	-	(336)
Depreciation charge for the period	(5,354)	(3,842)	(256)	(9,452)
Impairment loss in period	(670)	-	-	(670)
Exchange differences	-	(7)	(9)	(16)
At 31 December 2021	4,046	16,552	1,232	21,830

As at, and during the period ended 31 December 2021 and 31 December 2020, management carried out an assessment of whether there is any indication that right of use assets may have suffered an impairment loss or a previously recognised impairment loss should be reversed in accordance with the Group's policy (Note 3(t)) and concluded that the seismic research vessel ("Vyacheslav Tikhonov"), which is included in fleet above, had been impaired. The impairment loss recognised in the period ended 31 December 2021, based on value in use, and a recoverable amount of $4.0 million, amounted to $0.7 million. The main inputs and assumptions used in the value of use calculations were that the lease will expire in November 2022, the vessel will only operate on two projects, expenses will be in line with previous years' expenses, and a pre-tax discount rate of 11.5%. A sensitivity analysis has been performed by management as at the period end in respect of revenue. An increasing in the numbers of idle days by 5% and decreasing in revenue per day of operation by 5% would result in an additional impairment loss of $1.7 million and $0.9 million, respectively.

In June 2020, management concluded that the bareboat charter in respect of a chartered in seismic research vessel (the "Ivan Gubkin"), which was included in fleet above, forming part of the CGU disclosed in Note 15, had become onerous as a result of expiration of the license to operate the equipment on board the vessel and rejection of the Ministry of Foreign Affairs of Norway of the Group's application for extension, and consequently had been impaired. The impairment loss recognised as at 30 June 2020 in relation to the Ivan Gubkin amounted to $18.7 million. The Group submitted an appeal in July 2020 and in late September 2020, the Ministry of Foreign Affairs of Norway accepted the Group's appeal and set out the conditions under which a new export license could be granted. As a result, previously recognised impairment loss of $16.9 million was reversed increasing the carrying amount of the Ivan Gubkin to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior periods. The net effect of $1.8 million is presented in the table above and recognised in the consolidated income statement for the period ended 31 December 2020. Subsequently, the lease of the Ivan Gubkin was terminated and the vessel was returned to its owner on 25 September 2020 under the terms of its charter. Concurrently with the termination of the lease for the Ivan Gubkin, as part of a linked transaction, the Group extended the bareboat charter-in arrangement for Vyacheslav Tikhonov.

36. **Leases (Continued)**

Group as lessee (continued)

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

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

	2021 $'000	2020 $'000
At 1 January	41,611	60,300
Lease modification	3,091	19,319
Additions in the period	255	511
Accretion of interest	2,544	5,386
Payment of lease instalments	(14,391)	(20,212)
Lease termination	(10)	(22,427)
Exchange differences	(90)	(1,266)
Transfer to non-current assets held for sale (Note 28)	(405)	-
At 31 December	32,605	41,611
Less current portion	(11,747)	(13,955)
Non-current balance	20,858	27,656

The following are the amounts recognised in profit or loss:

	2021 $'000	2020 $'000
Depreciation charge of right of use assets	9,452	13,233
Impairment loss of right of use assets	670	2,692
Interest expense on lease liabilities	2,544	5,386
Expense relating to short-term leases (included in voyage expenses)	7,950	7,368
Expense relating to leases of low-value assets (included in other running costs)	49	31
Total amount recognised in profit or loss	20,665	28,710

The Group had total cash outflows for leases of $22.8 million (including payments for short-term leases of $8.4 million) (2020 – $27.1 million including payments for short-term leases of $6.9 million). Payments for short-term leases are included in cash payments for voyage and running costs under operating activities, in the consolidated statement of cash flows. The Group did not have any cash outflows in respect of additions to right-of-use assets and lease liabilities. As at 31 December 2021 and 31 December 2020, there are no lease commitments for short-term leases.

The Group has certain lease contracts that include extension options. Management exercises judgement in determining whether these extension options are reasonably certain to be exercised (see Note 5). The undiscounted potential future rental payments relating to periods following the exercise date of extension options expected not to be exercised, and not included in the lease term, are $25.5 million (2020 – $3.1 million) within five years and $0.6 million (2020 – $1.6 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 2021 $'000	Service revenue 2021 $'000	Total contract revenue[1] 2021 $'000	Undiscounted lease receipts 2020 $'000	Service revenue 2020 $'000	Total contract revenue[1] 2020 $'000
Within twelve months after the end of the reporting period	547,215	213,188	760,403	586,953	223,978	810,931
Between one to two years	495,479	181,307	676,786	534,970	193,856	728,826
Between two to three years	484,025	183,033	667,058	492,190	191,981	684,171
Between three to four years	435,461	170,325	605,786	419,502	162,519	582,021
Between four to five years	423,728	165,254	588,982	364,632	144,348	508,980
More than five years	2,447,213	1,293,918	3,741,131	2,575,840	1,361,480	3,937,320
	4,833,121	2,207,025	7,040,146	4,974,087	2,278,162	7,252,249

[1] Includes contracts that have not yet commenced as at period end of total undiscounted lease receipts of $910.4 million (2020 – $636.4 million) and service revenue of $601.7 million (2020 – $521.5 million).

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

36. **Leases (Continued)**

Group as lessor (continued)

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 2021 $'000	**Service revenue 2021 $'000**	**Total receivable under contracts 2021 $'000**	**Undiscounted lease receipts 2020 $'000**	**Service revenue 2020 $'000**	**Total receivable under contracts 2020 $'000**
Within twelve months after the end of the reporting period	1,358	1,315	2,673	-	-	-
Between one to two years	58,248	70,639	128,887	6,116	5,938	12,054
Between two to three years	95,571	107,876	203,447	69,601	84,714	154,315
Between three to four years	95,310	120,360	215,670	95,571	107,876	203,447
Between four to five years	95,310	124,360	219,670	95,310	120,360	215,670
More than five years	2,354,844	3,871,661	6,226,505	2,434,043	3,977,323	6,411,366
	2,700,641	4,296,211	6,996,852	2,700,641	4,296,211	6,996,852

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 within 1 year and 38 years (2020 – between 1 and 39 years). Future undiscounted lease receipts, from the inception date, over the lease term of operating leases are as follows:

	2021 $'000	**2020 $'000**
Within twelve months after the end of the reporting period	4,686	4,095
Between one to two years	3,402	3,616
Between two to three years	3,397	3,273
Between three to four years	3,059	3,254
Between four to five years	251	2,992
More than five years	7,902	8,295
	22,697	25,525

37. **Retirement Benefit Obligations**

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

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

	2021 $'000	**2020 $'000**
Defined benefit obligation at 1 January	2,324	2,599
Current service cost	-	217
Interest cost	146	143
Benefits paid	(375)	(282)
Exchange adjustment	(10)	(420)
Remeasurement (gains) / losses recognised in other comprehensive income	(129)	67
Defined benefit obligation at 31 December	1,956	2,324

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

	2021 $'000	**2020 $'000**
Current service cost	-	217
Interest cost	146	143
Exchange adjustment	(10)	(420)
Charged in the income statement	136	(60)
Experience adjustments on obligation	58	(5)
Actuarial changes arising from changes in demographic assumptions	-	61
Actuarial changes arising from changes in financial assumptions	(187)	11
Remeasurement (gains) / losses recognised in other comprehensive income	(129)	67

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

	2021	**2020**
Discount rate for cash flows in Russian Roubles	8.44%	6.27%
Future pension increases	1%	1%
Life expectancy in years of a male pensioner retiring at the age of 65	15	15
Life expectancy in years of a female pensioner retiring at the age of 60	23	23
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	6.8	7.7

37. Retirement Benefit Obligations (Continued)

The Group expects to make benefit payments of $0.3 million (2020 – $0.3 million) in respect of the defined benefit plan in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2021 and 31 December 2020, by increasing and decreasing the discount rate by 50bps or increasing and decreasing the future salary increase by 100bps or increasing and decreasing the life expectancy of both male and female pensioners by one year, would have an insignificant effect on the Group.

38. Provisions

	2021	2020
	$'000	$'000
At 1 January	2,494	3,895
Arising during the period	240	3,789
Utilised during the period	(1,964)	(1,295)
Reversed during the period	-	(3,962)
Unwinding of discount (recognised as other interest in financing costs)	-	67
At 31 December	770	2,494
Less current portion	(770)	(2,494)
Non-current balance	-	-

The provision for drydocking of $0.8 million as at 31 December 2021 (2020 – $2.5 million), represents the estimated cost of planned drydockings for replacement of certain components and major repairs and maintenance of other components during the lease term of the vessel leased in by the Group. During the period ended 31 December 2020, provision for drydocking of $4.0 million was reversed as the lease for one of the vessels leased in was terminated (see also Note 36).

39. Significant Subsidiary Companies

At 31 December 2021, the Group had 120 vessel owning and operating subsidiaries (2020 – 130) incorporated in Liberia, Russia and Cyprus. The most significant subsidiaries of the Group, in which the Group's percentage holding remained unchanged from 2020, comprised:

Name	Country of incorporation	Effective percentage holding	Principal activity
PAO Novoship	Russia	89.46%	Holding company
SCF Overseas Holding Limited	Cyprus	100%	Holding company
SCF Tankers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
Intrigue Shipping Limited and its subsidiaries	Cyprus	89.46%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
OOO SCF Arctic	Russia	100%	Holding company
OOO Sovcomflot Varandey	Russia	100%	Ship operation
OOO SCF Shelf	Russia	100%	Ship operation
OOO SCF Geo	Russia	100%	Ship operation
OOO SCF Novy Port	Russia	100%	Ship operation
OOO SCF Prirazlomnoye	Russia	100%	Vessel owning and operation
SCF Management Services (Novorossiysk) Ltd.	Russia	100%	Ship management
SCF Management Services (Cyprus) Ltd	Cyprus	100%	Ship management
SCF Management Services (St. Petersburg) Ltd.	Russia	100%	Ship management
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Ship management and supervision of operations
SCF Management Services Ltd.[1]	Russia	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] Incorporated on 24 February 2021.

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 2021			At 31 December 2020		
	Ordinary shares %	Preference shares %	Total shares %	Ordinary shares %	Preference shares %	Total shares %
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.29	1.48	89.46	98.29	1.48	89.46
Non-controlling shareholders	1.71	98.52	10.54	1.71	98.52	10.54
	100.00	100.00	100.00	100.00	100.00	100.00

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

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

	2021 $'000	2020 $'000
Summarised statement of financial position:		
Total non-current assets	944,912	1,102,702
Total current assets	131,606	213,494
Total non-current liabilities	(11,972)	(26,034)
Total current liabilities	(42,974)	(187,449)
Net assets at period end	1,021,572	1,102,713
Cash and cash equivalents	71,370	167,311
Current financial liabilities (excluding trade and other payables and provisions)	-	15,043
Non-current financial liabilities (excluding trade and other payables and provisions)	-	15,000
Summarised income statement:		
Revenues	344,657	374,392
Depreciation, amortisation and impairment	(100,735)	(80,668)
Interest income	944	5,692
Interest expense	(1,747)	(3,018)
Income tax	(2,462)	(13,696)
Loss for the period	(75,542)	(4,455)
Other comprehensive income for the period	149	256
Total comprehensive income for the period	(75,393)	(4,199)
Summarised statement of cash flows:		
Operating activities	10,948	117,529
Investing activities	59,387	18,117
Financing activities	(163,270)	(93,650)
Net (decrease) / increase in cash and cash equivalents	(92,935)	41,996

40. **Financial Risk Management**

(a) Capital management

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

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

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

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

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

During 2021, the Group's overall strategy remained unchanged from 2020. The net debt ratio at 31 December 2021 and at 31 December 2020 and the net adjusted debt ratio of the Group were as follows:

	2021 $'000	2020 $'000
Secured bank loans (Note 34)	2,082,534	2,331,368
Other loans (Note 35)	912,221	899,216
Lease liabilities (Note 36)	32,605	41,611
Less: cash and bank deposits (Note 27)	(644,132)	(880,209)
Net debt	2,383,228	2,391,986
Total equity	3,965,993	4,098,397
Total capital	6,349,221	6,490,383
Net debt ratio	37.5%	36.9%
Total adjusted capital	6,008,898	5,703,708
Net adjusted debt ratio	39.7%	41.9%

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

(b) Categories of financial assets and financial liabilities

	2021 $'000	2020 $'000
Cash and debt instruments at amortised cost		
Trade and other receivables (Note 26)	91,850	88,111
Loans to joint ventures (Note 21)	53,187	54,162
Cash and bank deposits (Note 27)	644,132	880,209
Financial assets at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 22)	13,711	10,266
Equity instruments at fair value through profit or loss		
Investments in non-listed companies	5	360
Total financial assets	802,885	1,033,108
Financial liabilities at fair value through OCI		
Derivative financial instruments in designated hedge accounting relationships (Note 22)	38,313	63,032
Financial liabilities at amortised cost		
Secured bank loans (Note 34)	2,082,534	2,331,368
Other loans (Note 35)	912,221	899,216
Lease liabilities (Note 36)	32,605	41,611
Trade and other payables (Note 33)	178,702	200,988
Total financial liabilities	3,244,375	3,536,215

(c) Changes in liabilities arising from financing activities

	Secured bank loans and financing costs $'000	Other loans $'000	Interest payable $'000	Lease liabilities $'000	Liquidated damages payable to charterer $'000	Dividends payable $'000
Balance at 1 January 2020	2,538,809	900,420	17,229	60,300	18,855	9,970
Changes from financing cash flows						
Proceeds from cash flows	249,614	-	-	-	-	-
Repayments of cash flows	(487,460)	(3,476)	(175,870)	(20,212)	(3,012)	(102,711)
Repayment of financing costs	(6,460)	-	-	-	-	-
Total changes from financing cash flows	(244,306)	(3,476)	(175,870)	(20,212)	(3,012)	(102,711)
Other changes						
Non-cash movement on direct issue costs	7,828	1,793	-	-	-	-
Dividends declared	-	-	-	-	-	111,829
Gain on derecognition of dividend liability	-	-	-	-	-	(1,021)
Leases additions, modifications and terminations	-	-	-	(2,597)	-	-
Interest expense in the period	-	-	172,630	5,386	1,755	-
Financing costs expensed in the period	2,519	-	-	-	-	-
Foreign exchange movement	26,518	479	-	(1,266)	-	93
Total other related changes	36,865	2,272	172,630	1,523	1,755	110,901
Balance at 31 December 2020	2,331,368	899,216	13,989	41,611	17,598	18,160
Changes from financing cash flows						
Proceeds from cash flows	104,844	430,000	-	-	-	-
Repayments of cash flows	(329,183)	(405,094)	(146,655)	(14,391)	(3,008)	(219,029)
Repayment of financing costs	(1,570)	(31,663)	-	-	-	-
Total changes from financing cash flows	(225,909)	(6,757)	(146,655)	(14,391)	(3,008)	(219,029)
Other changes						
Non-cash movement on direct issue costs	6,691	2,309	-	-	-	-
Dividends declared	-	-	-	-	-	218,098
Gain on derecognition of dividend liability	-	-	-	-	-	(1,046)
Gain on modification of financial liabilities	(9,325)	(3,593)	-	-	-	-
Leases additions, modifications and terminations	-	-	-	2,931	-	-
Interest expense in the period	-	-	147,799	2,544	1,630	-
Financing costs expensed in the period	1,224	21,156	-	-	-	-
Foreign exchange movement	(21,515)	(110)	-	(90)	-	(7,624)
Total other related changes	(22,925)	19,762	147,799	5,385	1,630	209,428
Balance at 31 December 2021	2,082,534	912,221	15,133	32,605	16,220	8,559

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

(d) Fair value of financial assets and financial liabilities

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

	Carrying Value		Fair	Fair Value	
	2021	2020	value	2021	2020
	$'000	$'000	hierarchy	$'000	$'000
Financial assets					
Loans to joint ventures	53,187	54,162	Level 2	51,261	53,492
Total financial assets	53,187	54,162		51,261	53,492
Financial liabilities					
Secured bank loans at fixed interest rates	592,170	670,211	Level 2	602,125	673,221
Secured bank loans at floating interest rates	1,490,364	1,661,157	Level 2	1,459,122	1,625,283
Other loans (Senior Notes due in 2023)	497,440	895,585	Level 1	521,654	958,500
Other loans (Senior Notes due in 2028)	414,781	-	Level 1	435,349	-
Other loans	-	3,631	Level 2	-	3,660
Total financial liabilities	2,994,755	3,230,584		3,018,250	3,260,664

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

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

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

The following table provides an analysis of financial instruments as at 31 December 2021 and 31 December 2020 that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

Recurring fair value measurements recognised in the consolidated statement of financial position

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
At 31 December 2021				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	13,711	-	13,711
	-	13,711	-	13,711
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	38,313	-	38,313
	-	38,313	-	38,313
At 31 December 2020				
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	10,266	-	10,266
	-	10,266	-	10,266
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	63,032	-	63,032
	-	63,032	-	63,032

There were no transfers between Level 1 and 2 during the periods ended 31 December 2021 and 31 December 2020.

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

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
At 31 December 2021				
Assets				
Fleet	-	27,100	-	27,100
Non-current assets held for sale	-	15,092	-	15,092
	-	42,192	-	42,192
At 31 December 2020				
Assets				
Non-current assets held for sale	7,865	8,820	-	16,685
	7,865	8,820	-	16,685

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

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

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

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

Assets and liabilities for which fair values are disclosed

As at period end, the Group obtained reports from qualified independent valuation experts in relation to the fair values of its investment properties (Note 19) for owned and leased in assets. 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 comparable sales method and income approach (discounted cash flow and income capitalisation methods). Income approach includes unobservable inputs due to the fact that the market in Russia where the properties are situated does not disclose data on factual transactions.

(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 (see also Note 43).

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

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

Market risk

Foreign currency risk

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

The Group is also exposed to foreign currency risk on its Euro denominated secured bank loans and other loans, and lease liabilities. As at 31 December 2021, 92.1% of the Group's secured bank loans and other loans (gross of direct issue costs) were denominated in U.S. Dollars (2020 – 90.8%) and 7.9% (2020 – 9.2%) in Euro. The Group manages its cash flow foreign currency risk by the use of cross currency, floating to fixed interest rate swaps. Such financial instruments have the economic benefit of converting loans issued in foreign currencies to U.S. Dollar at fixed exchange rates. The Group's hedging instruments to protect against currency fluctuations as at the reporting date are detailed in Note 22 of these consolidated financial statements. As of 31 December 2021, the Group does not have any exposure to foreign exchange rate fluctuations on its borrowings (2020 – €3.0 million (equivalent to $3.6 million)). In addition as at 31 December 2021, 68.0% of the Group's lease liabilities were denominated in U.S. Dollars, 24.2% in Russian Roubles, 5.6% in Sterling Pounds and 1.8% in Euro (2020 – 69.9% in U.S. Dollars, 20.5% in Russian Roubles, 5.3% in Sterling Pounds and 3.6% 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**	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Russian Roubles (RUR)	42,613	48,998	95,951	268,333
Euro (EUR)	10,087	17,460	11,369	12,122
Sterling Pounds (GBP)	4,065	4,829	3,733	1,689
Others	699	3,977	347	986

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

	Appreciation of U.S. Dollar		**Depreciation of U.S. Dollar**	
	2021	**2020**	**2021**	**2020**
Russian Roubles (RUR)	16.0%	16.0%	16.0%	16.0%
Euro (EUR)	10.0%	10.0%	9.0%	9.0%
Sterling Pounds (GBP)	10.0%	10.0%	10.0%	10.0%
Others	10.0%	10.0%	10.0%	10.0%

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

(e) Financial risk factors (continued)

Market risk (continued)

Foreign currency risk (continued)

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

	(Decrease) / increase in profit		(Decrease) / increase in pre-tax equity	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Russian Roubles (RUR)	(12,395)	(25,995)	2,099	(4,258)
Euro (EUR)	(309)	390	211	94
Sterling Pounds (GBP)	(174)	1	218	282
Others	28	270	4	1

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

	Increase / (decrease) in profit		Increase / (decrease) in pre-tax equity	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Russian Roubles (RUR)	12,959	35,898	(2,913)	5,878
Euro (EUR)	373	(424)	(258)	(103)
Sterling Pounds (GBP)	210	(1)	(267)	(342)
Others	(35)	(330)	(5)	-

Cash flow interest rate risk

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

The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate and cross-currency interest rate swaps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 22 of these consolidated financial statements.

The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at period end was as follows:

	2021 $'000	2020 $'000
Lease liabilities and borrowings gross of direct issue costs (Notes 34, 35 and 36)	3,070,563	3,300,627
Lease liabilities and fixed rate borrowings gross of direct issue costs (Notes 34, 35 and 36)	(1,568,138)	(1,619,570)
Total floating rate borrowings gross of direct issue costs (Notes 34 and 35)	1,502,425	1,681,057
Notional amount of floating borrowings to fixed rate swaps (Note 22)	(1,218,876)	(1,189,889)
Net exposure to interest fluctuations	283,549	491,168
% of floating rate borrowings exposed to interest rate fluctuations	18.9%	29.2%

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

	2021		2020	
Sensitivity of interest rates	**100 bps increase $'000**	**20 bps decrease $'000**	**100 bps increase $'000**	**20 bps decrease $'000**
Increase / (decrease) in other comprehensive income for the period due to change in fair value of interest rate swaps	9,140	(1,828)	10,424	(2,085)
Increase / (decrease) in interest expense for the period excluding interest capitalised	3,564	(713)	5,653	(1,131)

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	2021 $'000	2020 $'000
Increase in U.S. Dollar 3 month interest rates by 50bps and increase foreign exchange rate by 10%	29,479	39,118
Decrease in U.S. Dollar 3 month interest rates by 50bps and decrease foreign exchange rate by 10%	(29,594)	(39,330)
Increase in Euro cross currency curve by 50bps and increase in Euro 6 month interest rate by 50bps	(2,015)	(40)
Decrease in Euro cross currency curve by 50bps and decrease in Euro 6 month interest rate by 50bps	3,185	3

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

(e) Financial risk factors (continued)

Market risk (continued)

Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 49.0% (2020 – 59.3%) of the vessels' total trading days were on time charter representing 79.3% (2020 – 73.0%) of time charter equivalent revenues of which 0.7% (2020 – 0.2%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2021, 49.2% (2020 – 53.8%) of the vessels were on time charter.

Public health threats

The spread of COVID-19 and the measures taken to contain or mitigate it have had dramatic adverse consequences for the global economy, as well as regional and national economies. The continued spread of COVID-19 has led to supply chain and logistics destabilisation, facility closures, workforce disruption, volatility in the global economy, and inconsistencies in demand for crude oil, oil products and natural gas. The Group remains focussed on the safety and well-being of its staff, including performing contactless port calls, the ability to perform crew changes, lockdowns and delays in ports and at shipyards.

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

Credit risk

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

Amounts due from charterers and contract assets

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience and in accordance with the ECL method. As at 31 December 2021, amounts due from charterers included one charterer (2020 – three) with a total amount of revenue due of $9.2 million (2020 – $16.7 million), representing 17.8% of total amounts due (2020 – 18.8%, 10.8% and 10.0% respectively).

As at 31 December 2021, total revenue included $270.7 million, $159.4 million and $158.7 million from three charterers (2020 – $297.3 million and $164.6 million from two charterers) individually representing 17.6%, 10.3% and 10.3% (2020 – 18.0% and 10.0%), respectively, of total revenue.

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

Operating segment	2021 $'000	2020 $'000
Offshore services	309,967	243,672
Gas transportation	155,196	55,654
Crude oil transportation	104,792	100,279
Oil product transportation	12,334	48,230
Other	6,558	14,070
	588,847	461,905

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.

	2021 Expected credit loss rate	2021 $'000	2020 Expected credit loss rate	2020 $'000
Contract assets	0.07%	23,214	0.05%	26,697
Amount due from charterers				
Current	0.07%	21,187	0.05%	11,099
Days past due				
Up to one month	0.09%	16,100	0.11%	11,608
One to two months	0.53%	4,561	0.54%	3,696
Two to three months	0.87%	2,532	1.08%	1,206
More than three months	1.75%	7,355	3.17%	14,424
		30,548		30,934

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

(e) Financial risk factors (continued)

Credit risk (continued)

Financial instruments and cash deposits

Management is of the opinion that the credit risk on liquid funds is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits, taking into account financing arrangements with the same counterparty, and takes appropriate action to minimise exposure to any one bank. Cash and cash equivalents and bank deposits include deposits with three banks (2020 – two) representing 24.7%, 23.5% and 11.1%, (2020 – 17.3% and 56.3%) of total deposits of $642.6 million (2020 – $879.0 million). The Group did not recognise any expected credit loss on the above as the amount of credit loss is insignificant (2020 – 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 2021	104,844	79,896	184,740
New facilities entered into during the period	110,000	-	110,000
Facilities drawn down	(104,844)	-	(104,844)
At 31 December 2021	110,000	79,896	189,896

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 2021, all facilities above were available for drawdown (see also Note 43).

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 2021	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	156,916	6,653	-	163,569
Secured bank loans	296,607	1,171,107	641,817	2,109,531
Other loans	-	498,427	430,000	928,427
Lease payments for commenced leases	13,540	15,040	36,575	65,155
Net amounts payable on cross currency interest rate swaps	10,978	31,006	14,835	56,819
Net amounts payable on interest rate swaps	13,598	7,612	-	21,210
Interest payable on secured loans	69,203	211,300	36,576	317,079
Interest payable on other loans	43,345	79,615	24,833	147,793
	604,187	2,020,760	1,184,636	3,809,583
At 31 December 2020				
Trade and other payables	171,514	15,485	-	186,999
Secured bank loans	287,185	1,303,956	764,244	2,355,385
Other loans	3,631	900,000	-	903,631
Lease payments for commenced leases	17,034	26,168	36,650	79,852
Net amounts payable on cross currency interest rate swaps	8,173	17,330	862	26,365
Net amounts payable on interest rate swaps	14,880	39,483	2,720	57,083
Interest payable on secured loans	79,914	220,171	63,562	363,647
Interest payable on other loans	48,489	72,563	-	121,052
	630,820	2,595,156	868,038	4,094,014

41. Contingent Liabilities and Commitments

Commitments under lease arrangements

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

	2021 $'000	2020 $'000
Within twelve months after the end of the reporting period	763	-
Between one to two years	44,130	9,325
Between two to three years	57,019	53,164
Between three to four years	57,019	58,248
Between four to five years	57,019	58,248
More than five years	926,925	983,156
	1,142,875	1,162,141

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

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

Capital commitments

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

	Less than 1 year $'000	1 to 5 years $'000	Total $'000
At 31 December 2021			
Newbuilding contracts	387,439	888,832	1,276,271
At 31 December 2020			
Newbuilding contracts	239,669	792,967	1,032,636

Guarantees

The Group has issued guarantees on behalf of its joint ventures which own and operate LR1 vessels in respect of their obligations under secured bank loans (2020: secured bank loans and interest rate swaps), with an outstanding balance as of 31 December 2021, of $77.6 million (2020 – $123.5 million), gross of direct issue costs, to the extent of the Group's participation interest of 51% in these joint ventures, as disclosed in Note 20. The Group's share of the maximum exposure under the guarantees is $39.6 million (2020 – $63.0 million). As security, the lenders have first preferred mortgages on the vessels owned by these joint ventures with an aggregate market value, at 31 December 2021, of $145.0 million (2020 – $182.0 million), together with assignment of charter hire monies and all earnings and insurances of those vessels and pledges of shares in these companies. These secured bank loans will be fully repaid as follows: $33.6 million in 2022 and $44.0 million between one to five years after the end of the reporting period.

In addition, the Group has issued guarantees on behalf of its joint ventures which own and operate 4 LNG carriers, in respect of their obligations under interest rate swaps, with a fair value as of 31 December 2021, of $3.1 million (2020 – $9.4 million), to the extent of the Group's participation interest in these joint ventures, as disclosed in Note 20. The Group's share of the maximum exposure under the guarantees is $1.5 million (2020 – $4.6 million). These interest rate swaps will expire as follows: $0.1 million in 2024 and $3.0 million more than five years after the end of the reporting period.

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

In respect of the four joint ventures set up during the period referred to in Note 20, the Group has guaranteed with its joint venture partner the liabilities and responsibilities under the shipbuilding contracts of its four joint ventures, with a total contracted cost of $811.6 million. As at 31 December 2021, $730.4 million of the contracted costs are outstanding. In addition, the joint venture partners have guaranteed to the charterer the performance and obligations under the time charter agreements in relation to the vessels.

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

Contingent liabilities

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

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

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

42. **Related Party Transactions**

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

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

In June 2021, the Group signed time charter agreements with a Russian State controlled entity for the chartering out of two ice-class LNG fuelled aframax crude oil tankers, to be converted into shuttle tankers, for a firm period of ten years, with various extension options attached in favour of the charterer, commencing in early 2024. The aggregate hire receivable over the firm period of the charters is estimated at $214.8 million. In addition, in September 2021, the Group signed a time charter agreement with a Russian State controlled entity for the chartering out of an ice breaking supply vessel for a firm period of three years, with extension options attached in favour of the charterer, with estimated aggregate hire receivable over the firm period of the charter of $35.1 million. The estimated aggregate hire receivables from these time charters, allocated between lease receipts and service revenue, are disclosed under contracted revenues from vessel operations and related guarantees in Note 36.

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

	Consolidated Income Statement (income) / expense		Consolidated Statement of Financial Position asset / (liability)	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Transactions with Russian State controlled entities				
Revenue[1]	(434,734)	(462,923)	(26,650)	(21,965)
Voyage expenses and commissions	48,947	23,597	(3,252)	(2,064)
Bond issue costs	-		602	-
Other operating revenues	(11,522)	(6,913)	(1,538)	(1,604)
Other loans[2]	87	240	-	(3,637)
Secured bank loans[2]	40,233	46,614	(585,888)	(650,525)
Lease liabilities[2]	1,033	1,017	(7,070)	(7,785)
Receivables from shipyard (liquidated damages for late delivery of vessels)[2]	(661)	(602)	7,268	6,607
Payables to charterer (liquidated damages for late delivery of vessels)[2]	1,630	1,758	(16,220)	(17,598)
Cash at bank[2]	(8,636)	(6,053)	225,622	583,233
Transactions with Joint Ventures				
Other operating revenues	(5,607)	(3,740)	308	907
Loans due from joint ventures	(246)	(1,425)	53,282	54,197
Compensation of Key Management Personnel				
Short-term benefits	8,019	8,531	(2,816)	(3,723)
Post-employment benefits	78	72	(4)	(4)
Long-term service benefits	625	1,204	(325)	(1,805)
Share-based payment transaction	347	-	(2,130)	-
Termination benefits	-	220	-	-
	9,069	10,027	(5,275)	(5,532)

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

[2] Consolidated Income Statement includes interest income and interest expense recognised in the period.

43. **Events After the Reporting Period**

The growing geopolitical tensions and the recent developments in Ukraine have had a negative impact on the Russian economy, including difficulties in obtaining international funding, significant increase in volatility on the securities and currency markets as well as significant devaluation of national currency and high inflation.

The United States of America and the European Union imposed sanctions against a number of Russian banks, which restrict their access to European financial markets, foreign assets were frozen for certain banks, and sanctions were introduced that restrict the access of Russian organisations to Euro and US dollar markets. A number of other countries announced new packages of sanctions against certain Russian legal entities and personal sanctions against a number of individuals. Additional sanctions and restrictions on the business activity of Russian legal entities and individuals might be introduced, the full range and possible consequences of which cannot be assessed.

On 24 February 2022, the Office of Foreign Assets Control (OFAC) of the U.S. Treasury included PAO Sovcomflot on the Non Specially Designated Nationals And Blocked Persons Menu-Based Sanctions List (the "NS-MBS List"), which prohibits U.S. persons or within the United States from providing new financing to the Group for longer than 14 days maturity or new equity where such new debt or equity is issued on or after 26 March 2022. The scope of the sanction is limited and all other transactions, including financial, carried out by U.S. persons or within the United States with the Group are permitted.

Pursuant to EU Council Decision (CFSP) 2022/327 dated 25 February 2022 any new loans or credit to PAO Sovcomflot after 26 February 2022 are prohibited. Dealings with transferable securities and money-market instruments issued after 12 April 2022 by the Group are also restricted.

Canada and UK have passed the legislation which prevents the vessels connected with Russia to enter their ports.

43. **Events After the Reporting Period (Continued)**

These measures may affect the Group's ability to raise new debt or equity, transfer or receive funds and may disrupt the Group's ability to conduct its business effectively. If the situation persists or continues to develop significantly, it may affect the Group's business, financial condition, prospects and results of operations and respectively may lead to the recognition of significant impairments to the Group's fleet and other non-financial and financial assets.

The Group regards these events as non-adjusting events after the reporting period, the quantitative impact, in relation to all significant assets and liabilities, of which cannot be estimated as at the date of issue of these consolidated financial statements with a sufficient degree of confidence.