OAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

OAO Sovcomflot

Contents

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Report of independent registered public accounting firm

The Board of Directors and Shareholders of OAO Sovcomflot:

We have audited the accompanying consolidated statement of financial position of OAO Sovcomflot as of 31 December 2013 and the related consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year ended 31 December 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OAO Sovcomflot at 31 December 2013 and the consolidated results of its operations and its cash flows for the year ended 31 December 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As discussed in Note 4 to the consolidated financial statements, the Company has changed its accounting policies for employee benefits and interests in joint arrangements, including related disclosures, as a result of adopting new and revised International Financial Reporting Standards.

Ernst & Young LLC

14 March 2014

The maintenance and integrity of the OAO Sovcomflot web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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Consolidated Income Statement
For the period ended 31 December 2013

	Note	2013 $'000	2012 $'000 Restated-Note 4
Freight and Hire revenue	6	1,262,816	1,352,983
Voyage expenses and commissions	7	(390,167)	(493,608)
Time charter equivalent revenues		872,649	859,375
Direct operating expenses			
Vessels' running costs	8	336,644	320,794
Charter hire payments	44	46,032	32,369
		(382,676)	(353,163)
Net earnings from vessels' trading		489,973	506,212
Other operating revenues	11	33,390	96,933
Other operating expenses	11	(25,551)	(79,656)
Depreciation, amortisation and impairment	9	(314,335)	(291,156)
General and administrative expenses	10	(107,873)	(100,075)
Gain / (loss) on sale of assets		1,401	(6,662)
Allowance for credit losses		(4,614)	(16,485)
(Increase) in / release of provision		(382)	32
Share of profits in equity accounted investments		9,629	20,185
Operating profit		81,638	129,328
Other (expenses) / income			
Financing costs	13	(136,187)	(121,769)
Interest income		19,073	23,042
Other non-operating income	45&46	2,756	7,796
Other non-operating expenses	46	(10,558)	(8,121)
Gain / (loss) on ineffective hedging instruments	24(a)	2,054	(155)
Gain on derivative financial instruments held for trading	24(b)	15,228	13,479
Foreign exchange differences		(1,517)	(2,406)
Net other expenses		(109,151)	(88,134)
(Loss) / profit before income taxes		(27,513)	41,194
Income tax expense	25	(11,713)	(8,293)
(Loss) / profit for the period		(39,226)	32,901
(Loss) / profit attributable to:			
Owners of the parent		(39,815)	32,377
Non-controlling interests		589	524
		(39,226)	32,901
Earnings per share			
Basic earnings per share for the period attributable to equity holders of the parent	26	($0.020)	$0.016

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Consolidated Statement of Comprehensive Income
For the period ended 31 December 2013

	Note	2013 $'000	2012 $'000
			Restated-Note 4
(Loss) / profit for the period		(39,226)	32,901
Other comprehensive income:			
Share of associates' other comprehensive income		(15)	(767)
Share of joint ventures' other comprehensive income		23,344	(1,445)
Exchange differences on translation of foreign operations		(6,906)	6,351
Derivative financial instruments recycled and debited to the income statement	24(a)	19,246	18,629
Fair value movement of derivative financial instruments credited / (debited) to other comprehensive income	24(a)	17,137	(15,788)
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		52,806	6,980
Remeasurement (losses) / gains on retirement benefit obligations	39	(632)	604
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(632)	604
Total other comprehensive income for the period, net of tax		52,174	7,584
Total comprehensive income for the period		12,948	40,485
Total comprehensive income attributable to:			
Owners of the parent		13,162	39,268
Non-controlling interests		(214)	1,217
		12,948	40,485

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Consolidated Statement of Financial Position – 31 December 2013

	Note	2013 $'000	2012 $'000	2011 $'000
			Restated-Note 4	Restated-Note 4
Assets				
Non-current assets				
Fleet	15	5,206,150	5,047,029	5,044,854
Vessels under construction	16	244,584	447,321	313,839
Other fixed assets	17	87,847	73,556	64,110
Investment property	18	16,973	3,723	4,565
Other fixed assets under construction	19	11,992	23,254	9,866
Intangible assets		-	-	7,346
Investments in associates		1,130	1,187	1,273
Investments in joint ventures	20	72,507	62,156	35,799
Available-for-sale investments		1,012	1,380	1,381
Loans to joint ventures	22	65,526	65,696	54,797
Finance lease receivables	23	78,908	89,137	92,162
Derivative financial instruments	24	10,356	108	-
Trade and other receivables	28	17,765	9,621	33,525
Deferred tax assets	25	2,228	3,213	3,200
		5,816,978	5,827,381	5,666,717
Current assets				
Inventories	27	64,719	70,487	74,813
Loans to joint ventures	22	4,750	4,803	11,140
Trade and other receivables	28	160,121	213,656	215,539
Finance lease receivables	23	3,656	3,124	2,697
Current tax receivable		2,017	2,951	940
Cash and bank deposits	29	281,540	308,453	357,440
		516,803	603,474	662,569
Non-current assets held for sale	30	74,252	17,824	9,800
		591,055	621,298	672,369
Total assets		6,408,033	6,448,679	6,339,086
Equity and liabilities				
Capital and reserves				
Share capital	31	405,012	405,012	405,012
Reserves		2,549,215	2,545,174	2,518,732
Equity attributable to owners of the parent		2,954,227	2,950,186	2,923,744
Non-controlling interests	34	157,045	158,869	159,817
Total equity		3,111,272	3,109,055	3,083,561
Non-current liabilities				
Secured bank loans	37	1,598,257	1,685,813	1,576,164
Finance lease liabilities	38	193,291	202,141	221,688
Derivative financial instruments	24	42,266	71,808	74,966
Retirement benefit obligations	39	7,405	9,183	9,607
Other loans	40	798,092	797,593	797,005
Provisions	35	6,354	26,796	48,742
Deferred tax liabilities	25	2,477	2,244	5,354
		2,648,142	2,795,578	2,733,526
Current liabilities				
Trade and other payables	36	246,586	204,625	209,792
Secured bank loans	37	363,259	276,394	243,631
Finance lease liabilities	38	8,850	19,547	9,363
Current tax payable		3,206	2,887	5,721
Derivative financial instruments	24	26,718	40,593	53,492
		648,619	544,046	521,999
Total equity and liabilities		6,408,033	6,448,679	6,339,086

Approved by the Executive Board and authorised for issue on 14 March 2014

Signed
S.O. Frank
President and Chief Executive Officer

Signed
N.L. Kolesnikov
Chief Financial Officer

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Consolidated Statement of Changes in Equity
For the period ended 31 December 2013

	Share capital $'000 (Note 31)	Share premium $'000 (Note 31)	Reconstruction reserve $'000 (Note 32)	Hedging reserve $'000	Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000 (Note 34)	Total $'000
At 1 January 2012	**405,012**	**818,845**	**(834,490)**	**(142,442)**	**(4,852)**	**2,683,110**	**2,925,183**	**159,989**	**3,085,172**
Restatement (Note 4)	-	-	-	-	-	(1,439)	(1,439)	(172)	(1,611)
At 1 January 2012 (restated)	**405,012**	**818,845**	**(834,490)**	**(142,442)**	**(4,852)**	**2,681,671**	**2,923,744**	**159,817**	**3,083,561**
Profit for the period	-	-	-	-	-	32,377	32,377	524	32,901
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(767)	-	(767)	-	(767)
Share of joint ventures' other comprehensive income	-	-	-	(1,445)	-	-	(1,445)	-	(1,445)
Exchange differences on translation of foreign operations	-	-	-	-	5,723	-	5,723	628	6,351
Derivative financial instruments recycled and debited to the income statement	-	-	-	18,629	-	-	18,629	-	18,629
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(15,788)	-	-	(15,788)	-	(15,788)
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	539	539	65	604
Total comprehensive income	-	-	-	1,396	4,956	32,916	39,268	1,217	40,485
Dividends (Note 33)	-	-	-	-	-	(12,826)	(12,826)	(2,165)	(14,991)
At 31 December 2012	**405,012**	**818,845**	**(834,490)**	**(141,046)**	**104**	**2,701,761**	**2,950,186**	**158,869**	**3,109,055**
(Loss) / profit for the period	-	-	-	-	-	(39,815)	(39,815)	589	(39,226)
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(15)	-	(15)	-	(15)
Share of joint ventures' other comprehensive income	-	-	-	23,344	-	-	23,344	-	23,344
Exchange differences on translation of foreign operations	-	-	-	-	(6,171)	-	(6,171)	(735)	(6,906)
Derivative financial instruments recycled and debited to the income statement	-	-	-	19,246	-	-	19,246	-	19,246
Fair value movement of derivative financial instruments credited to other comprehensive income	-	-	-	17,137	-	-	17,137	-	17,137
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(564)	(564)	(68)	(632)
Total comprehensive income	-	-	-	59,727	(6,186)	(40,379)	13,162	(214)	12,948
Dividends (Note 33)	-	-	-	-	-	(9,121)	(9,121)	(1,610)	(10,731)
At 31 December 2013	**405,012**	**818,845**	**(834,490)**	**(81,319)**	**(6,082)**	**2,652,261**	**2,954,227**	**157,045**	**3,111,272**

Notes

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

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Consolidated Statement of Cash Flows
For the period ended 31 December 2013

	Note	2013 $'000	2012 $'000
			Restated-Note 4
Operating Activities			
Cash received from freight and hire of vessels		1,279,885	1,376,398
Other cash receipts		56,886	58,546
Cash payments for voyage and running costs		(741,872)	(863,012)
Other cash payments		(157,918)	(137,521)
Cash generated from operations	41	436,981	434,411
Interest received		7,170	8,002
Income tax paid		(9,447)	(16,522)
Net cash inflow from operating activities		434,704	425,891
Investing Activities			
Acquisition of joint venture	20	-	(26,867)
Additional investment in joint venture	20	-	(2,600)
Long term interest in joint venture		-	(2,244)
Expenditure on fleet		(49,807)	(37,153)
Expenditure on vessels under construction		(287,683)	(397,951)
Expenditure on assets held for sale		(4,990)	-
Interest capitalised		(12,366)	(13,310)
Expenditure on other fixed assets		(45,444)	(29,116)
Loan repayments from joint ventures		6,604	3,692
Loan advances to joint ventures		(5,865)	(7,562)
Proceeds from sale of vessels		50,814	17,174
Proceeds from sale of other fixed assets		3,449	7,747
Proceeds from disposal of investments		-	331
Advances for sale of assets		16,032	-
Capital element received on finance leases		4,897	1,495
Interest received on finance leases	23	22,158	10,765
Dividends received from joint ventures	20	2,112	1,336
Bank term deposits	29	(1,833)	932
Security deposits	29	10,400	-
Other receipts		39	133
Net cash outflow used in investing activities		(291,483)	(473,198)
Financing Activities			
Proceeds from borrowings		286,355	974,320
Repayment of borrowings		(284,740)	(824,523)
Financing costs		(6,518)	(12,564)
Repayment of finance lease liabilities		(19,806)	(9,633)
Restricted deposits	29	3,900	898
Funds in retention bank accounts	29	(611)	(43)
Interest paid on borrowings and other loans		(114,143)	(100,577)
Interest paid on finance leases		(13,868)	(15,176)
Dividends paid		(9,830)	(14,802)
Buy back of own shares by subsidiary		-	(3,171)
Net cash outflow from financing activities		(159,261)	(5,271)
Decrease in Cash and Cash Equivalents		(16,040)	(52,578)
Cash and Cash Equivalents at 1 January	29	271,807	319,007
Net foreign exchange difference		983	5,378
Cash and Cash Equivalents at 31 December	29	256,750	271,807

1. Organisation and Trading Activities

OAO Sovcomflot ("Sovcomflot" or "the Company") is an open joint stock company organised under the laws of the Russian Federation and was registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

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

The Company, through its subsidiaries (the "Group"), is engaged in ship owning and operating on a world-wide basis with a fleet of 136 vessels at the period end, comprising 122 tankers, 1 chartered in seismic vessel, 6 gas carriers, 3 bulk carriers and 4 ice breaking supply vessels. For major changes in the period in relation to the fleet see also Notes 15 and 16. In addition the Group through its subsidiaries owns 9 escort tug vessels which have been chartered out on bareboat charter to an associate undertaking (see Note 23).

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, Fiona Trust and Holding Corporation (''Fiona''), Intrigue Shipping Inc. (''Intrigue''), Sovcomflot Bulk Shipping Inc. (''SBSI'') and SCF Gas Carriers Limited ("SCF Gas").

Ship management services for the Group's vessels are provided by Sovcomflot's subsidiaries JSC Novoship ("Novoship"), SCF Novoship Technical Management LLC, Unicom Management Services (Cyprus) Limited (''Unicom''), SCF Unicom Singapore Pte Ltd, Unicom Management Services (St. Petersburg) Ltd, and SCF Marpetrol, S.A. (''Marpetrol'').

A list of significant subsidiary companies is disclosed in Note 42 to these consolidated financial statements. The ultimate controlling party of OAO Sovcomflot is the Russian Federation.

2. Directors and Management

The corporate structure of OAO Sovcomflot comprises a Board of Directors which is responsible for policy decisions and overall supervision of the Group and an Executive Board which is responsible for day to day management. The Board of Directors and the Executive Board as at the date of approval of these consolidated financial statements are:

Members of the Board of Directors	Initial date of appointment	
I.I. Klebanov (Chairman)	3 November 2011	Senior State Counsellor of the Russian Federation, 1st Class
M.I. Poluboyarinov	30 June 2012	Member of the Board of Management and First Deputy Chairman of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
M.G. Manasov	29 June 2010	Entrepreneur
D.G. Moorhouse	29 June 2010	Chairman of the Non-Commercial Organisation London Maritime
V.A. Olerskiy	29 June 2010	Deputy Minister of Transport of the Russian Federation
Ch.E. Ryan	30 June 2008	Chairman of UFG Asset Management
A.Y. Klyavin	30 June 2012	President of The National Chamber of Shipping (Union)
N.P. Tokarev	30 June 2008	President of JSC Transneft
S.O. Frank	10 November 2004	President and Chief Executive Officer of OAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 13 August 2013. Mr Klebanov was re-elected Chairman on 14 October 2013.

Members of the Executive Board	Date of appointment	
S.O. Frank (Chairman)	4 October 2004	President and Chief Executive Officer of OAO Sovcomflot
E.N. Ambrosov	13 July 2009	Senior Executive Vice-President of OAO Sovcomflot, Chief Operating Officer
V.N. Emelianov	12 September 2011	Vice-President of OAO Sovcomflot, Chief Strategy Officer
N.L. Kolesnikov	19 July 2005	Executive Vice-President of OAO Sovcomflot, Chief Financial Officer
A.L. Kurtynin	20 September 2007	Vice-President of OAO Sovcomflot
C.B. Ludgate	22 February 2007	Managing Director of Sovcomflot (UK) Ltd
V.A. Mednikov	17 March 2005	Executive Vice-President of OAO Sovcomflot, Administrative Director
M.C. Orphanos	12 May 2010	Managing Director of Sovcomflot (Cyprus) Limited
A.V. Ostapenko	16 October 2012	Director of Legal Department of OAO Sovcomflot
S.G. Popravko	19 July 2005	Managing Director of Unicom Management Services (Cyprus) Limited
I.V. Tonkovidov	14 January 2011	Executive Vice-President of OAO Sovcomflot, Technical Director
Y.A Tsvetkov	14 December 2012	President of JSC Novoship

3. **Significant Accounting Policies**

(a) Basis of preparation and accounting

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below.

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

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

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

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

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

(b) Basis of consolidation

These consolidated financial statements include the financial statements of OAO Sovcomflot and its subsidiaries as at 31 December 2013. Control is achieved when the Group:

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

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

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

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

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

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

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

3. Significant Accounting Policies (Continued)

(c) Business combinations

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

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

The Group initiates and performs a review of all acquisition transactions during each period to consider the transaction to be either a business combination or an asset acquisition in accordance with IFRS 3. When the acquisition is not a business combination by its nature, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 "Intangible Assets") and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

(d) Segmental reporting

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

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

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

(e) Investments in associates and joint ventures

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

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

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

(f) Interests in joint operations

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

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

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

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

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

(g) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non–current asset is classified as held for sale.

(h) Freight and Hire revenue

Freight and Hire revenue, which includes the Group's share of revenues arising under vessel pooling arrangements, represents vessel earnings during the period. Vessel earnings are measured at the fair value of the consideration received or receivable.

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

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

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

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid by the Group. Vessels voyage and operating expenses are accounted for on an accrual basis.

Freight revenue is recognised rateably over the estimated length of each voyage. Profits arising from voyage charters in progress at the end of the financial reporting period are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. Full provision is made for any losses forecast on voyages in progress at the end of the financial reporting period.

In applying its revenue recognition method, management believes that the discharge to discharge port basis of calculating voyage results provides greater degree of accuracy since at the time of discharge management generally knows the next load port and expected discharge port.

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

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

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

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

(i) Operating revenues and operating expense

Other operating revenues and other operating expense comprise income and directly related expenses from non-core non-vessel operating related activities, the towing and installation operations, rental operations derived from investment properties and the commercial and technical management of third party owned vessels.

Other operating revenues are measured at the fair value of the consideration received or receivable. Revenues from non-core vessel operating activities and revenues from the provision of commercial and technical management services are recognised by reference to the time of provision of the activities and services. Revenues from rental income from investment properties are accounted for on a straight line basis over the rental periods of such properties.

The Group uses the "percentage of completion method" to determine the appropriate amount of revenue related to the Group's joint operation to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred for the towing and installation operations up to the reporting date as a percentage of total estimated cost for each contract.

(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.

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

(k) Currency translation

Transactions and balances

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group companies

The assets and liabilities of the Group's foreign operations 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. 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 a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation 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 foreign operation. They are expressed in the functional currency of the foreign operation and are translated at the rate of exchange ruling at the reporting date.

Exchange rates

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

	2013 Closing $1	2013 Average $1	2012 Closing $1	2012 Average $1	2011 Closing $1
Russian Roubles	32.7292	31.9063	30.3727	31.0742	32.1961
Pounds Sterling	0.6051	0.6398	0.6185	0.6309	0.6435
Euros	0.7251	0.7530	0.7579	0.7780	0.7703

(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(r)). 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 less any investment income on the temporary investment of those borrowings.

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

(m) Leasing

Finance leases are leases which transfer substantially all the risks and benefits incidental to ownership of the leased item. Leases which do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Group as lessee - Finance and operating lease payables

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

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

Group as lessor - Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(n) 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.

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

(n) Retirement benefit costs (continued)

Defined benefit retirement benefit plans

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

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

Long-term service retirement benefit plans

The Group's net obligation in respect of long-term service retirement benefit plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method. The long-term service benefit obligation recognised in the statement of financial position represents the present value of the defined lump-sum benefit obligation.

The Group recognises all gains and losses arising from the remeasurement of both defined benefit retirement benefit plans and long-term service retirement benefit plans in other comprehensive income in the period in which they arise.

The discount rate used to calculate the present value is the yield, at the end of the financial reporting period, on government bonds that have maturity dates which approximate the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Past service cost is recognised immediately in profit or loss.

(o) Fixed assets and depreciation

The Group's fleet, buildings and other fixed assets are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Cost comprises of the acquisition or construction cost of the asset 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.

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

Oil, product and chemical tankers	25 years
LPG carriers	30 years
LNG carriers	35 years
LNG carriers (1969 built)	45 years
Multi – purpose dry cargo vessels and bulk carriers	25 years
Ice breaking supply vessels	25 years

The residual value for each vessel is calculated by reference to its lightweight tonnage and the estimated price of steel per lightweight tonne as of the end of each reporting period as follows:

	2013 $ per LWT	**2012 $ per LWT**	**2011 $ per LWT**
Oil, product and chemical tankers	445	425	485
LNG and LPG carriers	445	425	485
Multi-purpose dry cargo vessels and bulk carriers	415	400	455
Ice breaking supply vessels	445	425	485

Depreciation in respect of buildings and other fixed assets 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 10% and 33% per annum respectively. Land is not depreciated.

Leasehold improvements are included within other fixed assets and are depreciated over the non-cancellable period of the operating lease to which they relate.

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

(p) 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 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. These expenses are included in the depreciation, amortisation and impairment line in the consolidated income statement.

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

(p) Drydocking and special survey costs (continued)

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

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

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

(q) Investment property

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

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

(r) Assets under construction

Assets under construction are carried at cost, less any recognised impairment loss. Cost includes supervision fees and expenses, professional fees and capitalised borrowing costs.

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.

(s) Impairment

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

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

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

Recoverable amount is the higher of fair value less costs to sell 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 to sell is determined as the amount at which assets may be disposed of on a willing seller, willing buyer basis, less directly associated costs of disposal. In estimating fair value, the Group considers recent market transactions for similar assets, and the views of reputable shipbrokers.

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

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

(t) Inventories

Inventories are stated at the lower of cost or net realisable value and comprise bunkers (where applicable), luboils, victualing and slopchest stocks, other inventories and spares and consumables 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.

(u) Financial instruments

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

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

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

(u) Financial instruments (continued)

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

The amount of the allowance is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

When a trade receivable is uncollectible, it is written off against the appropriate allowance account. Subsequent recoveries of amounts previously written off are credited against allowance of credit losses in the income statement.

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

Financial assets at fair value through profit or loss ("FVTPL")
Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated upon initial recognition as at FVTPL.

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

Available-for-sale financial assets
Unlisted and listed shares held by the Group are classified as being available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses on available-for-sale monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in profit or loss for the period. Investments in equity shares that are not traded in an active market and where fair value cannot be estimated on a reasonable basis are stated at cost less impairment losses.

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

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

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

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

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

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

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

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

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

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

(u) Financial instruments (continued)

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

Derivative financial instruments and hedge accounting
The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements on its bank borrowings and foreign exchange rate movements on non-U.S. Dollar denominated payables.

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group designates certain derivatives as hedges of interest rate risk on its bank borrowings. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised in other comprehensive income and any ineffective portion is recognised immediately in the income statement.

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

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

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

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

(v) Taxation

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

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

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

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

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

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

A deferred tax liability is recognised on unremitted earnings of subsidiaries incorporated in jurisdictions that do not have a double tax treaty with the Russian Federation to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future.

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

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

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

(v) Taxation (continued)

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.

(w) Provisions

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

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

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

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

(x) 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.

(y) Earnings per share

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

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

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2013. These changes have been accounted for in accordance with the transitional provisions set out in these statements. Unless otherwise stated comparative figures present the financial position of the Group as of December 2012 and 2011 and the results for period ended 31 December 2012 as restated for the adoption of new standards during the period which have a retrospective effect.

IFRS 10 "Consolidated Financial Statements"
This standard supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidated – Special Purpose Entities". IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee. Adoption of the standard had no impact on these financial statements.

IFRS 11 "Joint Arrangements"
IFRS 11 replaced IAS 31 "Investments in Joint Ventures". Prior to the transition to IFRS 11, the Group's joint ventures (Note 20) were proportionately consolidated and are now accounted for using the equity method as the new standard removed the option to proportionately recognise the assets and liabilities of jointly controlled entities and equity accounting is now the only accounting treatment for joint ventures. The transition was applied retrospectively as required by the new standard and the comparative information was restated. The effect of the adoption of the standard is shown later in this note.

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28 "Investment in Associates". The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements and includes enhanced reporting of the nature of risks associated with the Group's interests in other entities, and the effects of those interests on the Group's consolidated financial statements. Adoption of the standard had no material impact on these financial statements.

IFRS 13 "Fair Value Measurement"
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 gives a new definition of fair value for financial reporting purposes. Fair value under IFRS 13 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of assets and liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group.

IAS 19 "Employee Benefits"
The amendments made to IAS 19 removed the accounting options available under the previous standard. Prior to the transition to IAS 19, actuarial gains and losses were recognised in the income statement whereas now are required to be recognised in other comprehensive income and excluded permanently from profit or loss. Unvested past service costs, previously deferred and recognised over the future vesting period are now immediately recognised to profit or loss. There are also a number of other changes, including modification to the timing of recognition of termination benefits and more extensive disclosures of defined benefit plans which are provided in Note 39. Sensitivity disclosures for the defined benefit obligation for the period ended 31 December 2012 have not been provided. The effect of the adoption of the standard is shown below.

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

IAS 1 "Presentation of Financial Statements" - Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

The effect of the adoption of IFRS11 and IAS19 on the comparative figures is presented below:

Consolidated Income Statement

	As previously reported 2012 $'000	IFRS11 Restatements 2012 $'000	IAS19 Restatements 2012 $'000	Restated 2012 $'000
Freight and Hire revenue	1,443,362	(90,379)	-	1,352,983
Voyage expenses and commissions	(513,716)	20,108	-	(493,608)
Time charter equivalent revenues	929,646	(70,271)	-	859,375
Direct operating expenses				
Vessels' running costs	338,857	(17,831)	(232)	320,794
Charter hire payments	32,369	-	-	32,369
	(371,226)	17,831	232	(353,163)
Net earnings from vessels' trading	558,420	(52,440)	232	506,212
Total other operating income / expenses	(405,835)	29,465	(514)	(376,884)
Operating profit	152,585	(22,975)	(282)	129,328
Net other expenses	(110,639)	22,505	-	(88,134)
Profit before income taxes	41,946	(470)	(282)	41,194
Profit for the period	33,183	-	(282)	32,901
Profit attributable to:				
Owners of the parent	32,628	31	(282)	32,377
Non-controlling interests	555	(31)	-	524
	33,183	-	(282)	32,901
Earnings per share				
Basic earnings per share for the period attributable to equity holders of the parent	$0.017	($0.001)	$0.000	$0.016

Consolidated Statement of Comprehensive Income

	As previously reported 2012 $'000	IFRS11 Restatements 2012 $'000	IAS19 Restatements 2012 $'000	Restated 2012 $'000
Total other comprehensive income for the period, net of tax	6,980	-	604	7,584
Total comprehensive income for the period	40,163	-	322	40,485
Total comprehensive income attributable to:				
Owners of the parent	38,980	-	288	39,268
Non-controlling interests	1,183	-	34	1,217
	40,163	-	322	40,485

Consolidated Statement of Cash Flows

	As previously reported 2012 $'000	IFRS11 Restatements 2012 $'000	IAS19 Restatements 2012 $'000	Restated 2012 $'000
Operating Activities				
Net cash inflow from operating activities	475,776	(49,885)	-	425,891
Investing Activities				
Net cash outflow used in investing activities	(480,323)	7,125	-	(473,198)
Financing Activities				
Net cash outflow from financing activities	(41,111)	35,840	-	(5,271)
Decrease in Cash and Cash Equivalents	(45,658)	(6,920)	-	(52,578)

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Notes to the Consolidated Financial Statements – 31 December 2013 (Continued)

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

Consolidated Statement of Financial Position

	As previously reported 2012 $'000	IFRS11 Restatements 2012 $'000	IAS19 Restatements 2012 $'000	Restated 2012 $'000	As previously reported 2011 $'000	IFRS11 Restatements 2011 $'000	IAS19 Restatements 2011 $'000	Restated 2011 $'000
Assets								
Non-current assets								
Fleet	5,563,239	(516,210)	-	5,047,029	5,460,390	(415,536)	-	5,044,854
Vessels under construction	447,321	-	-	447,321	334,977	(21,138)	-	313,839
Other fixed assets	74,776	(1,220)	-	73,556	65,380	(1,270)	-	64,110
Intangible assets	9,135	(9,135)	-	-	12,273	(4,927)	-	7,346
Investments in joint ventures	-	62,156	-	62,156	-	35,799	-	35,799
Loans to joint ventures	-	65,696	-	65,696	-	54,797	-	54,797
Deferred tax assets	4,731	(1,518)	-	3,213	5,164	(1,964)	-	3,200
Total non-current assets	6,227,612	(400,231)	-	5,827,381	6,020,956	(354,239)	-	5,666,717
Current assets								
Inventories	72,009	(1,522)	-	70,487	76,317	(1,504)	-	74,813
Loans to joint ventures	-	4,803	-	4,803	-	11,140	-	11,140
Trade and other receivables	219,390	(5,734)	-	213,656	219,103	(3,564)	-	215,539
Cash and bank deposits	348,046	(39,593)	-	308,453	389,742	(32,302)	-	357,440
Total current assets	663,344	(42,046)	-	621,298	698,599	(26,230)	-	672,369
Total assets	6,890,956	(442,277)	-	6,448,679	6,719,555	(380,469)	-	6,339,086
Equity and liabilities								
Capital and reserves								
Equity attributable to owners of the parent	2,951,337	-	(1,151)	2,950,186	2,925,183	-	(1,439)	2,923,744
Non-controlling interests	159,007	-	(138)	158,869	159,989	-	(172)	159,817
Total equity	3,110,344	-	(1,289)	3,109,055	3,085,172	-	(1,611)	3,083,561
Non-current liabilities								
Secured bank loans	2,059,581	(373,768)	-	1,685,813	1,903,424	(327,260)	-	1,576,164
Derivative financial instruments	119,401	(47,593)	-	71,808	120,826	(45,860)	-	74,966
Retirement benefit obligations	7,894	-	1,289	9,183	7,996	-	1,611	9,607
Provisions	-	26,796	-	26,796	-	48,742	-	48,742
Deferred tax liabilities	3,762	(1,518)	-	2,244	7,318	(1,964)	-	5,354
Total non-current liabilities	3,190,372	(396,083)	1,289	2,795,578	3,058,257	(326,342)	1,611	2,733,526
Current liabilities								
Trade and other payables	215,252	(10,627)	-	204,625	234,303	(24,511)	-	209,792
Secured bank loans	296,733	(20,339)	-	276,394	258,776	(15,145)	-	243,631
Current tax payable	4,026	(1,139)	-	2,887	6,421	(700)	-	5,721
Derivative financial instruments	54,682	(14,089)	-	40,593	67,263	(13,771)	-	53,492
Total current liabilities	590,240	(46,194)	-	544,046	576,126	(54,127)	-	521,999
Total equity and liabilities	6,890,956	(442,277)	-	6,448,679	6,719,555	(380,469)	-	6,339,086

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

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group's operations were in issue but not yet effective. Management anticipates that the adoption of these Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements, other than changes to the disclosures required in the financial statements, except for IFRS 9 "Financial Instruments" issued in November 2009 and amended in October 2010, December 2011 and November 2013. The Group does not intend to adopt this standard before its effective date.

Annual Improvements to IFRSs 2010–2012 Cycle
"Annual Improvements to IFRSs 2010–2012 Cycle" is a collection of amendments to IFRSs in response to eight issues addressed during the 2010–2012 cycle for annual improvements to IFRSs. It includes the following amendments:

- IFRS 3 "Business Combinations" – "Accounting for contingent consideration in a business combination"
- IFRS 8 "Operating Segments" – "Aggregation of operating segments"
- IFRS 8 "Operating Segments" – "Reconciliation of the total of the reportable segments' assets to the entity's assets"
- IFRS 13 "Fair Value Measurement: Short-term receivables and payables"
- IAS 16 "Property, Plant and Equipment" – "Revaluation method—proportionate restatement of accumulated depreciation"
- IAS 24 "Related Party Disclosures" – "Key management personnel"
- IAS 38 "Intangible Assets" – "Revaluation method – proportionate restatement of accumulated amortisation"

Annual Improvements to IFRSs 2011–2013 Cycle
"Annual Improvements to IFRSs 2011–2013 Cycle" is a collection of amendments to IFRSs in response to four issues addressed during the 2011–2013 cycle. It includes the following amendments:

- IFRS 3 "Business Combinations" – "Scope exceptions for joint ventures"
- IFRS 13 "Fair Value Measurement" – "Scope of paragraph 52 (portfolio exception)"
- IAS 40 "Investment Property" – "Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property"

IAS 19 ("Employee Benefits") - These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary (effective for annual periods beginning on or after 1 July 2014).

IAS 32 ("Financial Instruments: Presentation") – "Amendments for offsetting financial assets and financial liabilities" (effective for annual periods beginning on or after 1 January 2014).

IAS 36 ("Impairment of Assets") – "Amendments arising from recoverable amount disclosures for non-financial assets" (effective for annual periods beginning on or after 1 January 2014).

IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments for novations of derivatives" (effective for annual periods beginning on or after 1 January 2014).

IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception" (when IFRS 9 will be applied – see below).

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

IFRS 9 ("Financial Instruments") – "Classification and Measurement". On 19 November 2013 the IASB issued amendments to the accounting requirements for financial instruments. The amendments: bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 "Financial Instruments" to be applied in isolation without the need to change any other accounting for financial instruments; and remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements (IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than 1 January 2017).

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

- IFRS 9 will change the categories of financial assets to those that are carried at amortised cost and those that are carried at fair value. This will mainly affect the classification of the Group's available for sale financial assets and held to maturity investments.
- IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

In particular for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Group will quantify the effect in conjunction with the other phases when the final standard including all phases is issued.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

Critical Accounting Judgements

Classification of charter agreements as either finance or operating leases

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed unless the provisions of the contract were changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a "substance over form" approach is used.

The value of assets held under finance leases are recognised in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. No conditional lease payments are included and the value can therefore be determined with relative certainty.

Investments in joint arrangements and associates

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

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

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

Determination of cash generating units for value in use calculations

For the purposes of its impairment testing the Group identifies each CGU which represents the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In determining the CGUs the Group considers various factors including management's trading strategies, nature and terms of contractual arrangements and actual and predicted employment of the vessels. The Group also considers other factors such as investment and discontinuance decisions, and how management monitors financial performance.

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

Key Sources of Estimation Uncertainty

Carrying amount of vessels and vessels under construction

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

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

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

Recoverability of finance lease receivable

The finance lease receivable is subject to an allowance for impairment as disclosed in Notes 23 and 28. In determining the required level of allowance for impairment, management has considered projections of estimating future cash flows expected to be received from the lessee. The cash flow projections are based on certain assumptions, judgements and estimates. Should these assumptions and judgements be proven to be inaccurate, additional impairment charges or reversal of previous impairment charges may arise.

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Notes to the Consolidated Financial Statements – 31 December 2013
(Continued)

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

Key Sources of Estimation Uncertainty (Continued)

Outcomes of legal claims

The Group has been pursuing a number of legal claims, referred to in Notes 45 and 46. Judgement is applied in estimating outcomes of these legal claims based on legal advice received. Should these judgements be proven to be inaccurate, additional charges or reversal of charges may arise. The majority of the claims received judgment in December 2010 and December 2012 and management has recognised assets and liabilities in relation to these judgments based on legal advice. The Group was unsuccessful on a number of claims in the December 2010 judgment and as a result it is possible that the Group will face further liabilities.

Some of the defendants found liable in the December 2012 judgment have been granted permission to appeal against that judgment. The appeal is anticipated to be heard in June 2014. Further assets may be recognised in the future should the defendants be unsuccessful in their appeal. The Group has also reached a settlement agreement with one of the other defendants in the December 2012 judgment on terms that are confidential between the parties and further assets may be recognised in the future.

The Group's exposure in respect of these claims is disclosed in Notes 45 and 46.

6. **Freight and Hire Revenue**

	2013 $'000	2012 $'000
Freight	572,936	721,650
Hire	689,880	631,333
	1,262,816	1,352,983

7. **Voyage Expenses and Commissions**

	2013 $'000	2012 $'000
Bunkers	240,137	323,580
Port costs	116,191	131,387
Commissions	21,714	25,773
Other voyage costs	12,125	12,868
	390,167	493,608

8. **Vessels' Running Costs**

	2013 $'000	2012 $'000
Crew costs	207,335	198,294
Technical costs	86,673	79,641
Insurance costs	24,812	27,096
Lubricating oils	14,810	13,972
Other costs	3,014	1,791
	336,644	320,794

9. **Depreciation, Amortisation and Impairment**

	2013 $'000	2012 $'000
Vessels' depreciation (Note 15)	226,444	221,311
Vessels' drydock cost amortisation (Note 15)	37,643	33,649
Vessels' impairment provision (Note 15 and Note 30)	44,331	22,732
Vessels' reversal of impairment provision (Note 15 and Note 30)	(956)	-
Other depreciation (Note 17)	6,873	5,378
Intangible assets' amortisation	-	8,086
	314,335	291,156

10. **General and Administrative Expenses**

	2013 $'000	2012 $'000
Administration expenses	84,422	79,795
Non-income based taxes	19,122	16,332
Business development costs	3,232	3,039
Bank charges and fees	1,097	909
	107,873	100,075

Administration expenses are analysed as follows:

	2013 $'000	2012 $'000
Overseas office costs and other general expenses	35,221	31,644
Head office costs	23,917	23,581
Russian office costs	20,209	18,836
Legal and professional	2,705	2,573
Audit and accountancy	2,370	3,161
	84,422	79,795

10. General and Administrative Expenses (Continued)

Non-income based taxes are analysed as follows:

	2013 $'000	2012 $'000
Russian Federation taxes		
- Irrecoverable value added tax	10,095	8,378
- Payroll taxes	5,099	4,384
- Property tax	576	141
Overseas taxes		
- Payroll taxes	2,062	2,103
- Tonnage Tax	1,290	1,326
Non-income based taxes	19,122	16,332

11. Other Operating Revenues and Expenses

	2013 $'000	2012 $'000
Other operating revenues	33,390	96,933
Cost of sales		
- Wages and salaries	(3,752)	(6,054)
- Payroll taxes	(1,635)	(1,882)
- Hire of personnel from joint venture partner	-	(3,710)
- Other cost of sales	(13,585)	(60,452)
Administrative expenses	(4,244)	(5,188)
Other expenses	(1,477)	(1,511)
Investment property depreciation (Note 18)	(858)	(859)
Other operating expenses	(25,551)	(79,656)
Net other operating income	7,839	17,277

Other operating revenues comprise income from non-core non-vessel operating activities of the Group performed by subsidiaries of Novoship, rental income derived from investment properties (Note 18), income from the commercial and technical management of vessels belonging to joint ventures and third parties vessels performed by the Group and income from the towing and installation operation described in Note 21 performed in prior periods.

12. Employee Costs

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

	2013 $'000	2012 $'000
Seafarers		
- Wages and salaries	159,718	151,248
- Payroll taxes	842	830
- Defined contribution pension plans	1,353	1,295
- Long-term service retirement defined benefit plans	169	213
	162,082	153,586
Shore based staff		
- Wages and salaries	62,299	61,148
- Payroll taxes	9,094	8,921
- Defined contribution pension plans	1,530	1,510
- Long-term service retirement defined benefit plans	101	117
	73,024	71,696
Total employee costs	235,106	225,282

Compensation of key management personnel

The remuneration of directors and other members of key management recognised as an expense during the period was as follows:

	2013 $'000	2012 $'000
Short term benefits	9,527	7,628
Post-employment benefits	72	97
Long term service benefits	42	20
	9,641	7,745

13. Financing Costs

	2013 $'000	2012 $'000
Interest on secured bank loans	39,789	27,113
Interest on interest rate swaps	38,411	38,313
Interest on other loans	36,672	35,455
Interest on finance lease liabilities	13,806	15,140
Other interest	4,377	2,834
Other financing costs	3,132	2,914
	136,187	121,769

14. **Segment Information**

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

- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2013 the Group's fleet in this segment consisted of 61 crude oil carriers (2012 – 60).
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2013, the Group's fleet in this segment consisted of 48 petroleum product carriers, (2012 – 52), including 20 chemical and oil carriers (2012 – 22) and 3 asphalt and bitumen carriers (2012 – 3). Oil product tankers owned through joint ventures are disclosed in Note 20.
- Gas transportation. This segment primarily transports LNG and LPG. As of 31 December 2013, this segment's fleet consisted of 2 LNG carriers (2012 – 2) and 4 LPG carriers (2012 – 2). LNG carriers owned through joint ventures are disclosed in Note 20.
- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. This segment also provides additional services to offshore development facilities, such as logistical support and the management of floating storage and offloading units (''FSOs''). As of 31 December 2013, this segment's fleet consisted of 13 shuttle tankers (2012 – 13) and 4 ice breaking supply vessels (2012 – 2). One supply vessel delivered by the shipyard in December 2012 commenced operations in March 2013 and is therefore not included in the carrying amount of fleet in operation presented below as at 31 December 2012.
- Other (<10% of revenue). This segment comprises multi-purpose and bulk cargo carriers, primarily for the transportation of coal, and seismic vessels. As of 31 December 2013, this segment's fleet consisted of 3 bulk carriers (2012 – 2) and 1 chartered in seismic vessel (2012 – 1). This segment also includes 1 supply vessel chartered in from time to time for the support of the seismic vessel (2012 – 1).

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

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

Period ended 31 December 2013

	Crude Oil $'000	Oil Product $'000	Gas $'000	Offshore $'000	Other $'000	Total $'000
Freight and Hire revenue	603,674	335,844	48,695	207,655	66,948	1,262,816
Voyage expenses and commissions	(259,778)	(120,174)	(409)	(704)	(9,102)	(390,167)
Time charter equivalent revenues	343,896	215,670	48,286	206,951	57,846	872,649
Direct operating expenses						
Vessels' running costs	(139,956)	(127,235)	(11,971)	(40,631)	(16,851)	(336,644)
Charter hire payments	-	-	-	-	(46,032)	(46,032)
Net earnings from vessels' trading	203,940	88,435	36,315	166,320	(5,037)	489,973
Vessels' depreciation	(106,408)	(56,185)	(6,048)	(54,202)	(3,601)	(226,444)
Vessels' drydock cost amortisation	(16,656)	(11,530)	(3,070)	(5,127)	(1,260)	(37,643)
Vessels' impairment provision	-	(43,375)	-	-	-	(43,375)
Segment operating profit / (loss)	80,876	(22,655)	27,197	106,991	(9,898)	182,511
Unallocated						
General and administrative expenses						(107,873)
Financing costs						(136,187)
Other income and expenses						34,036
Loss before income taxes						(27,513)
Carrying amount of fleet in operation	2,519,853	1,155,359	198,964	1,236,808	95,166	5,206,150
Carrying amount of non-current assets held for sale	-	49,360	9,100	-	-	58,460
Deadweight tonnage of fleet used in operations ('000)	7,808	2,298	180	1,196	222	11,704

14. **Segment Information (Continued)**

Period ended 31 December 2012

	Crude Oil $'000	Oil Product $'000	Gas $'000	Offshore $'000	Other $'000	Total $'000
Freight and Hire revenue	675,281	381,950	43,848	196,454	55,450	1,352,983
Voyage expenses and commissions	(316,242)	(159,120)	(373)	(9,715)	(8,158)	(493,608)
Time charter equivalent revenues	359,039	222,830	43,475	186,739	47,292	859,375
Direct operating expenses						
Vessels' running costs	(138,534)	(123,457)	(14,243)	(35,044)	(9,516)	(320,794)
Charter hire payments	-	(5,729)	-	-	(26,640)	(32,369)
Net earnings from vessels' trading	220,505	93,644	29,232	151,695	11,136	506,212
Vessels' depreciation	(105,221)	(60,738)	(5,854)	(48,402)	(1,096)	(221,311)
Vessels' drydock cost amortisation	(15,137)	(10,439)	(2,380)	(4,778)	(915)	(33,649)
Vessels' impairment provision	-	(22,732)	-	-	-	(22,732)
Intangible assets' amortisation	-	-	(8,086)	-	-	(8,086)
Segment operating profit / (loss)	100,147	(265)	12,912	98,515	9,125	220,434
Unallocated						
General and administrative expenses						(100,075)
Financing costs						(121,769)
Other income and expenses						42,604
Profit before income taxes						41,194
Carrying amount of fleet in operation	2,523,065	1,179,487	108,495	1,073,782	57,120	4,941,949
Carrying amount of non-current assets held for sale	-	17,824	-	-	-	17,824
Deadweight tonnage of fleet used in operations ('000)	7,487	2,257	134	1,186	148	11,212

15. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2012	6,257,447	150,484	6,407,931
Expenditure in period	2,771	34,502	37,273
Transfer from vessels under construction (Note 16)	272,882	5,212	278,094
Transfer to non-current assets held for sale (Note 30)	(37,396)	(2,378)	(39,774)
Disposals in period	(26,372)	(442)	(26,814)
Write-off of fully amortised drydock cost	-	(36,372)	(36,372)
At 31 December 2012	6,469,332	151,006	6,620,338
Expenditure in period	7,434	42,535	49,969
Transfer from vessels under construction (Note 16)	492,604	10,182	502,786
Transfer to non-current assets held for sale (Note 30)	(298,167)	(12,211)	(310,378)
Write-off of fully amortised drydock cost	-	(35,674)	(35,674)
At 31 December 2013	6,671,203	155,838	6,827,041
Depreciation and amortisation			
At 1 January 2012	1,286,838	76,239	1,363,077
Charge for the period	221,311	33,649	254,960
Impairment provision	22,732	-	22,732
Transfer to non-current assets held for sale (Note 30)	(20,872)	(1,078)	(21,950)
Eliminated on disposal	(8,860)	(278)	(9,138)
Write-off of fully amortised drydock cost	-	(36,372)	(36,372)
At 31 December 2012	1,501,149	72,160	1,573,309
Charge for the period	226,444	37,643	264,087
Impairment provision	36,567	-	36,567
Reversal of impairment provision	(666)	-	(666)
Transfer to non-current assets held for sale (Note 30)	(208,160)	(8,572)	(216,732)
Write-off of fully amortised drydock cost	-	(35,674)	(35,674)
At 31 December 2013	1,555,334	65,557	1,620,891
Net book value			
At 31 December 2013	5,115,869	90,281	5,206,150
At 31 December 2012	4,968,183	78,846	5,047,029
At 31 December 2011	4,970,609	74,245	5,044,854

	2013	**2012**	**2011**
Market value ($'000)	4,355,000	4,011,562	4,568,000
Current insured values ($'000)	5,587,372	6,113,276	5,896,554
Total deadweight tonnage (dwt)	11,497,966	11,187,685	10,711,370

Summary of fleet at period end:

Type of vessel	Number of vessels		Dwt'000		Carrying value $ million	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Oil tankers	74	73	8,987	8,664	3,418	3,463
Product carriers	41	49	2,136	2,233	1,155	1,179
LNG and LPG carriers	5	4	139	134	199	108
Bulk carriers	3	2	219	144	95	57
Ice breaking supply vessels	4	3	17	13	339	240
	127	131	11,498	11,188	5,206	5,047
Vessels held for sale (Note 30)	8	3	203	24	58	18
	135	134	11,701	11,212	5,264	5,065

15. **Fleet (Continued)**

As at the period end management carried out an impairment review of the carrying amounts of the fleet, in accordance with the Group’s policy (Note 3(s)), assessing the recoverable amount of the vessels, which is the higher of their fair value less costs to sell, as assessed by management at the period end and supported by independent professional valuations, and their value in use. On comparing the recoverable amount with the carrying value the review led to a recognition of an impairment provision of $36.6 million (2012 – impairment of $22.7 million) which consists of $11.1 million of impairment provision based on fair value less costs to sell and $25.5 million based on value in use (2012 – $9.8 million of impairment provision based on fair value less costs to sell and $12.9 million based on value in use). The reversal of impairment provision of $0.7 million (2012 – nil) was based on fair value less costs to sell.

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

The main assumptions used in performing the value in use calculations as at the 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 2014 to 2016 based on Baltic Exchange Forward Freight Assessments for the relevant route that applies to each vessel, or where Baltic Exchange Forward Freight Assessments are not available for the relevant route, publically available market forecasts. These are adjusted for any premium / discount earned by each vessel on the relevant route compared to the historic average without any inflationary increase;
- Freight rate estimates after 2016 based on the historical ten year earnings averages for each type of vessel, obtained from independent brokers’ research as adjusted for any premium / discount earned by each vessel on the relevant route compared to the historical average without any inflationary increase;
- Operating expenses based on the Group’s operating budget approved by the Group for 2014 and increasing at a rate of 3% (2012 – 3%) per annum for the first five years thereafter (up to 2019);
- The technical element of the operating expenses increasing at a rate of 3% per annum from year six for the remaining useful economic life of the vessels reflecting increase in technical expenses due to the aging of the vessels;
- Annual utilisation for each vessel of 363 days less any scheduled estimated drydocking period based on the Group’s approved drydock plan and thereafter estimated at 28 days, based on historical performance and the expectations for future fleet utilisation;
- Use of the vessels until the end of their useful economic life, unless the vessels are sold or planned to be sold; and
- Discount rates between 6.71% to 8.46% pre-tax (2012 – 6.04% to 7.68% pre-tax), depending on the remaining useful economic life of each vessel and the area it trades.

The following sensitivity analysis has been performed by management as at the period end, all other things being equal:

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of $55.2 million (2012 – $32.5 million); and
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of $13.5 million (2012 – $10.2 million).

As at 31 December 2013 management have reassessed the residual value of the fleet in accordance with the Group’s accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to decrease the depreciation charge by $2.8 million (2012 – increase of $7.5 million).

Included in the Group's fleet are 2 vessels (2012 – 4) held under finance leases with an aggregate carrying value of $209.2 million (2012 – $238.9 million). The depreciation charge in the period in respect of these vessels amounted to $8.9 million (2012 – $9.6 million) (see also Note 38).

16. Vessels Under Construction

	2013 $'000	2012 $'000
At 1 January	447,321	313,839
Expenditure in period	300,049	411,576
Transfer to fleet (Note 15)	(502,786)	(278,094)
At 31 December	244,584	447,321
Total deadweight tonnage (dwt)	698,800	1,378,950

Vessels under construction at 1 January 2013 comprised one Multifunctional ice breaking vessel, two Very Large Crude Carriers ("VLCC"), two oil product Aframax tankers (LR2 type), one Panamax bulk carrier, two LPG carriers and four LNG carriers scheduled for delivery between January 2013 and April 2015 at a total contracted cost to the Group of $1,375.9 million.

Vessels delivered during the period comprised the following:

Vessel Name	Vessel Type	Segment	DWT	Delivery Date
NS Yakutia	Panamax bulk carrier	Other	74,559	22 January 2013
Anatoly Kolodkin	Aframax tanker (LR2)	Oil Product	118,316	23 January 2013
Aleksey Chirikov	Multifunctional ice breaking vessel	Offshore	4,191	19 April 2013
Viktor Bakaev	Aframax tanker (LR2)	Oil Product	118,175	20 May 2013
Sibur Voronezh	LPG carrier	Gas	22,780	29 July 2013
Sibur Tobol	LPG carrier	Gas	22,765	30 September 2013
Svet	VLCC	Crude	321,038	18 November 2013

Vessels under construction at 31 December 2013 comprised one VLCC and four LNG carriers scheduled for delivery between January 2014 and April 2015 at a total contracted cost to the Group of $881.9 million. As at 31 December 2013, $217.9 million of the contracted costs had been paid for (see also Note 45).

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 $12.1 million (2012 – $13.6 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 $10.8 million (2012 – $12.8 million) capitalised using a weighted average interest rate of 4.5% per annum (2012 – 3.9% per annum).

As at 31 December 2013 management carried out an impairment review of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(s)). The review did not lead to any recognition of impairment provision. The main assumptions used in performing value in use calculations are disclosed in Note 15 of these consolidated financial statements.

The following sensitivity analysis has been performed by management as at the period end as part of its impairment review of these assets, all other things being equal:

- A decrease in projected freight rates of 10% over the useful economic life of the vessels under construction after scheduled delivery from the shipyards would not result in an impairment provision (2012 – $16.6 million); and
- An increase in the discount rate of 1% would not result in an impairment provision (2012 – $6.6 million).

17. Other Fixed Assets

	Land and buildings $'000	Miscellaneous $'000	Total $'000
Cost			
At 1 January 2012	72,315	45,268	117,583
Additions in period	6,949	7,003	13,952
Transfer from other fixed assets under construction (Note 19)	378	191	569
Disposals in period	(4,007)	(2,749)	(6,756)
Exchange adjustment	1,888	1,587	3,475
At 31 December 2012	77,523	51,300	128,823
Additions in period	877	7,867	8,744
Transfer from other fixed assets under construction (Note 19)	872	13,571	14,443
Disposals in period	(335)	(1,067)	(1,402)
Exchange adjustment	(2,250)	(1,998)	(4,248)
At 31 December 2013	76,687	69,673	146,360
Depreciation			
At 1 January 2012	23,063	30,410	53,473
Charge for the period	895	4,483	5,378
Disposals in period	(3,540)	(2,170)	(5,710)
Exchange adjustment	1,125	1,001	2,126
At 31 December 2012	21,543	33,724	55,267
Charge for the period	1,646	5,227	6,873
Disposals in period	(203)	(873)	(1,076)
Exchange adjustment	(1,320)	(1,231)	(2,551)
At 31 December 2013	21,666	36,847	58,513
Net book value			
At 31 December 2013	55,021	32,826	87,847
At 31 December 2012	55,980	17,576	73,556
At 31 December 2011	49,252	14,858	64,110

17. **Other Fixed Assets (Continued)**

Buildings comprise offices in Moscow, St. Petersburg, Novorossyisk, Limassol and Sochi. During the period the Group disposed of a number of other fixed assets, realising a profit on disposal of $2.0 million (2012 – $3.7 million). Miscellaneous other fixed assets comprise a yacht marina, office equipment, motor vehicles, fixtures and fittings and leasehold improvements of leased premises.

18. **Investment Property**

	2013 $'000	2012 $'000
Cost		
At 1 January	19,689	21,976
Disposals in period	(190)	(2,524)
Exchange adjustment	(301)	237
Transfer from assets under construction (Note 19)	14,166	-
At 31 December	33,364	19,689
Depreciation		
At 1 January	15,966	17,411
Charge for the period (Note 11)	858	859
Disposals in period	(190)	(2,492)
Exchange adjustment	(243)	188
At 31 December	16,391	15,966
Net book value		
At 31 December	16,973	3,723
Rental income from investment property	2,570	2,933
Direct operating expenses of investment property	873	1,062

Investment property comprises buildings in Moscow, Novorossiysk and Sochi with a fair value, based on valuations performed by independent qualified valuers as at 31 December 2013 of $44.2 million (2012 – $23.4 million).

19. **Other Fixed Assets Under Construction**

	2013 $'000	2012 $'000
At 1 January	23,254	9,866
Expenditure in the period	36,700	14,108
Transfer to other fixed assets (Note 17)	(14,443)	(569)
Transfer to investment property (Note 18)	(14,166)	-
Transfer to non-current assets held for sale (Note 30)	(15,792)	-
Disposals in period	(1,418)	(1,035)
Exchange adjustment	(2,143)	884
At 31 December	11,992	23,254

Other fixed assets under construction primarily consisted of costs to construct and develop facilities of the port of Sochi, including a yacht marina, two buildings and a cruise terminal. The construction of the yacht marina and the two buildings were completed in 2013. The cost of construction of the yacht marina and one of the buildings were transferred to other fixed assets (Note 17) and investment property (Note 18) respectively.

During the period the Group signed an agreement with a third party for the sale of one of the buildings referred to above. The building was classified as non-current asset held for sale as at 31 December 2013 and is presented separately in the statement of financial position. As at 31 December 2013, the Group received in relation to this agreement an amount equivalent to $16.0 million which is included in trade and other payables, under other payables in Note 36.

20. **Investments in Joint Ventures**

Investments in joint ventures are analysed as follows:

	2013 $'000	2012 $'000
At 1 January	62,156	35,799
Acquisition of joint venture	-	26,867
Additional investment in joint venture	-	2,600
Reclassification of long term interests in joint ventures from loans receivable from joint ventures	-	2,244
Share of profits in joint ventures	9,561	3,565
Share of joint ventures' other comprehensive income	23,344	(1,445)
Dividends received	(2,112)	(1,336)
Release of provision for share in net liabilities of joint ventures	(20,442)	(6,138)
At 31 December	72,507	62,156

	2013 $'000	2012 $'000
Long term interests in joint ventures		
Interest free loans to joint ventures	3,821	3,821

20. Investments in Joint Ventures (Continued)

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

Name of entity	Percentage holding 2013	2012	2011	Country of Incorporation	Principal Activity
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Eastern Supply Vessels Limited[1]	50.0%	50.0%	50.0%	Russia	Ship chartering and subchartering services
SSV Sakhalin Offshore Limited[1]	50.0%	50.0%	50.0%	Cyprus	Ship chartering and subchartering services
SCF Swire Offshore Pte Limited[1]	50.0%	50.0%	50.0%	Singapore	Ship management
Anubis Shipholding Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Limited[2]	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Limited[2]	51.0%	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc[2]	51.0%	51.0%	-	Liberia	Holding company of four LR1 tanker owning companies

[1] Effective ownership 33.3%
[2] All key business decisions require joint approval by the shareholders

The Group through its joint ventures owns and operates 4 LNG carriers (2012 – 4) and 9 Panamax oil product tankers (LR1) (2012 – 9). The Group also operates through its joint ventures 3 ice breaking supply vessels (2012 – 3), one of which it directly owns.

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

	2013 $'000	2012 $'000
Within one year	138,041	134,379
After one year but not more than five years	528,311	531,927
More than five years	881,601	1,027,008
	1,547,953	1,693,314

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Notes to the Consolidated Financial Statements – 31 December 2013
(Continued)

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

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

At 31 December 2013	LNG East West $'000	LNG North South $'000	NYK-SCF LNG 1 $'000	NYK-SCF LNG 2 $'000	SCF ST joint ventures $'000	Other $'000	Total $'000
Total non-current assets	153,244	157,706	161,578	162,206	409,419	4,829	1,048,982
Total current assets	19,108	23,326	13,934	21,150	35,139	15,254	127,911
Total non-current liabilities	(148,139)	(174,987)	(149,194)	(160,112)	(291,051)	-	(923,483)
Total current liabilities	(11,635)	(18,753)	(23,394)	(18,498)	(39,124)	(14,687)	(126,091)
Net assets / (liabilities)	12,578	(12,708)	2,924	4,746	114,383	5,396	127,319
Group's share in net assets of the joint venture	4,717	-	1,462	2,373	58,335	1,799	68,686
Long term interests in the joint venture	-	-	-	-	2,644	1,177	3,821
Carrying amount of the investment in joint venture	4,717	-	1,462	2,373	60,979	2,976	72,507
Provision for share in net liabilities of joint venture	-	(6,354)	-	-	-	-	(6,354)
Cash and cash equivalents	19,083	23,305	13,907	16,435	9,396	8,382	90,508
Current financial liabilities	(10,248)	(16,128)	(15,453)	(16,523)	(29,700)	(3,531)	(91,583)
Non-current financial liabilities	(148,139)	(174,987)	(149,194)	(160,112)	(291,051)	-	(923,483)
Revenues	24,382	25,060	22,939	22,939	149,265	39,961	284,546
Depreciation, amortisation and impairment	(5,833)	(5,823)	(5,913)	(5,915)	(18,568)	(806)	(42,858)
Interest income	27	27	-	-	6	-	60
Interest expense	(8,303)	(8,326)	(7,460)	(7,782)	(13,211)	-	(45,082)
Income tax	(323)	(329)	-	-	-	(1,013)	(1,665)
Joint ventures' profits / (losses) for the period	5,488	5,379	6,146	5,681	(3,604)	2,213	21,303
Group's share of joint ventures' profits / (losses) for the period recognised	2,058	2,690	3,073	2,841	(1,838)	737	9,561
Joint ventures' other comprehensive income for the period	12,810	11,609	8,840	10,734	5,781	-	49,774
Group's share of joint ventures' other comprehensive income for the period recognised	4,804	5,805	4,420	5,367	2,948	-	23,344
Joint ventures' total comprehensive income for the period	18,298	16,988	14,986	16,415	2,177	2,213	71,077
Group's share of joint ventures' total comprehensive income for the period recognised	6,862	8,495	7,493	8,208	1,110	737	32,905

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Notes to the Consolidated Financial Statements – 31 December 2013 (Continued)

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

At 31 December 2012	**LNG East West $'000**	**LNG North South $'000**	**NYK-SCF LNG 1 $'000**	**NYK-SCF LNG 2 $'000**	**SCF ST joint ventures $'000**	**Other $'000**	**Total $'000**
Total non-current assets	156,206	160,198	167,491	168,306	427,987	5,143	1,085,331
Total current assets	18,405	18,027	14,203	22,095	59,476	8,389	140,595
Total non-current liabilities	(164,788)	(191,734)	(173,494)	(180,225)	(336,820)	-	(1,047,061)
Total current liabilities	(10,042)	(16,187)	(20,264)	(21,844)	(38,439)	(10,200)	(116,976)
Net assets / (liabilities)	(219)	(29,696)	(12,064)	(11,668)	112,204	3,332	61,889
Group's share in net assets of the joint venture	-	-	-	-	57,224	1,111	58,335
Long term interests in the joint venture	-	-	-	-	2,644	1,177	3,821
Carrying amount of the investment in joint venture	-	-	-	-	59,868	2,288	62,156
Provision for share in net liabilities of joint venture	(82)	(14,848)	(6,032)	(5,834)	-	-	(26,796)
Cash and cash equivalents	17,207	17,149	16,658	16,760	12,392	4,611	84,777
Current financial liabilities	(10,039)	(15,978)	(15,293)	(16,359)	(35,419)	(3,531)	(96,619)
Non-current financial liabilities	(164,788)	(191,734)	(173,494)	(180,225)	(336,820)	-	(1,047,061)
Revenues	23,715	25,012	21,421	21,092	134,357	13,220	238,817
Depreciation, amortisation and impairment	(6,083)	(5,843)	(6,266)	(5,789)	(23,833)	(265)	(48,079)
Interest income	22	20	-	-	10	-	52
Interest expense	(8,552)	(8,768)	(7,962)	(8,274)	(12,908)	-	(46,464)
Income tax	(317)	(331)	-	-	-	(186)	(834)
Joint ventures' profits / (losses) for the period	4,649	5,387	3,136	3,194	(10,968)	4,668	10,066
Group's share of joint ventures' profits / (losses) for the period recognised	1,743	2,694	1,568	1,597	(5,594)	1,557	3,565
Joint ventures' other comprehensive income for the period	(1,220)	(642)	245	167	(1,711)	-	(3,161)
Group's share of joint ventures' other comprehensive income for the period recognised	(458)	(321)	123	84	(873)	-	(1,445)
Joint ventures' total comprehensive income for the period	3,429	4,745	3,381	3,361	(12,679)	4,668	6,905
Group's share of joint ventures' total comprehensive income for the period recognised	1,285	2,373	1,691	1,681	(6,467)	1,557	2,120

21. Joint Operations

The Group assesses whether an interest in an entity is considered to be an interest in a joint operation according to the terms of the share purchase and other agreements between the parties. Voting rights and distribution rights are taken into account in conjunction with the percentage of ownership.

As at period end, the Group has interest in the following active joint operation:

	Percentage holding		
Name of entity	**2013**	**2012**	**2011**
JV VOSCF	50.0%	50.0%	50.0%

In December 2010, the Group set up, with a third party, a joint venture entity, JV VOSCF, to perform the towing and installation operations of the Gravity Based Structure of a drilling rig of Arkutun Dagi (Sakhalin I) project, in the Far East of Russia, which was completed in September 2012. All assets of the joint operation are held jointly and all liabilities of the joint operation are incurred jointly. Therefore the Group recognised its share in such assets and liabilities as well as its share of the revenue from the sale of output by the joint operation and its share of the expenses of the joint operation all of which were incurred jointly.

22. Loans to Joint Ventures

	2013 $'000	2012 $'000	2011 $'000
Loans at three month U.S. Dollar Libor+0.5% margin	50,984	57,389	57,898
Loans at three month U.S. Dollar Libor+3.0% margin	19,292	13,110	8,039
	70,276	70,499	65,937
Less current portion (current assets)	(4,750)	(4,803)	(11,140)
Non-current portion (non-current assets)	65,526	65,696	54,797
Interest income during the period on loans due from joint ventures	1,157	910	692
Interest receivable at the period end on loans due from joint ventures	1,004	394	328

The loans to joint ventures are unsecured and expire between January 2015 to January 2025.

23. Finance Lease Receivables

	2013 $'000	2012 $'000	2011 $'000
At 1 January	92,261	94,859	95,041
Finance lease interest receivable	13,631	14,203	14,373
Finance lease instalments received	(16,756)	(16,801)	(14,555)
Allowance for credit losses	(6,572)	-	-
At 31 December	82,564	92,261	94,859
Less current finance lease receivables	(3,656)	(3,124)	(2,697)
Non-current finance lease receivables	78,908	89,137	92,162

The minimum lease instalments and their corresponding present value is analysed as follows:

	Minimum lease instalments		Present value of minimum lease instalments	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**
Within one year	16,755	16,755	3,656	3,124
After one year but not more than five years	67,067	67,067	21,215	18,328
More than five years	89,940	113,267	57,693	70,809
	173,762	197,089	82,564	92,261
Less unearned income	(91,198)	(104,828)	-	-
Present value of minimum lease instalments	82,564	92,261	82,564	92,261

Finance lease receivables comprise nine Escort tugs chartered out on fifteen year bareboat charters to JSC Rosnefteflot (a Group associate) commencing on delivery of the tugs by the shipyards, at effective interest rates ranging from 11.96% to 18.39% per annum.

The charter hires are receivable monthly in arrears at daily rates ranging from $3,411 to $7,083 (2012 – $3,411 to $7,083) through to expiration of the charters. The charterer has the option to acquire the tugs on any hire payment date through to the expiration of the charter, provided that the charterer has fulfilled all obligations under the bareboat charter agreements, at predetermined prices. Upon expiration of the charters in fifteen years from the commencement date, legal ownership of the tugs will be transferred to the charterer at a nominal amount.

Amounts invoiced but outstanding as at the period end are disclosed separately under trade and other receivables in Note 28.

24. Derivative Financial Instruments

	2013 $'000	2012 $'000	2011 $'000
(a) Hedging instruments	52,464	90,901	93,587
(b) Classified at fair value through profit or loss	6,164	21,392	34,871
Net liabilities	58,628	112,293	128,458

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

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

	2013 $'000	2012 $'000	2011 $'000
Non-current asset	10,356	108	-
Non-current liability	(42,266)	(71,808)	(74,966)
Current liability	(26,718)	(40,593)	(53,492)
	(58,628)	(112,293)	(128,458)

(a) Hedging instruments

	2013 $'000	2012 $'000
At 1 January	90,901	93,587
Recycled during the period and credited to the income statement	(19,246)	(18,629)
Fair value movement during the period recognised in other comprehensive income	(17,137)	15,788
Fair value movement during the period (credited) / debited to the income statement	(2,054)	155
At 31 December	52,464	90,901

The Group entered into interest rate swap ("IRS") agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. As of 31 December 2013 the Group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to U.S. Dollar three and six month LIBOR as follows:

Type of instrument	Notional amount 2013 $'000	Notional amount 2012 $'000	Fixed interest rate	Expiry date
IRS	40,500	46,500	1.59%	24 August 2015
IRS	37,800	43,400	2.02%	22 July 2017
IRS	25,740	27,720	4.47%	12 December 2016
IRS	303,375	327,525	5.76%	1 March 2021
IRS	73,333	80,000	1.63%	21 December 2024
IRS	300,000	-	0.89%	12 December 2019
IRS	18,712	-	2.02%	13 August 2020
IRS	18,712	-	2.01%	13 August 2020
	818,172	525,145		

(b) Classified at fair value through profit or loss

	2013 $'000	2012 $'000
At 1 January	21,392	34,871
Fair value movement during the period credited to the income statement	(15,228)	(13,479)
At 31 December	6,164	21,392

All derivative financial instruments classified at fair value through profit or loss at 31 December 2013 and 31 December 2012 are interest rate financial instruments and are recorded in the statement of financial position as current liabilities.

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

(b) Classified at fair value through profit or loss (continued)

In addition to the interest rate swaps designated as hedging instruments, as at period end the Group had the following interest rate financial instruments:

Type of instrument	Notional amount 2013 $'000	Notional amount 2012 $'000	Fixed interest rate	Expiry date
IRS				
IRS	50,000	50,000	4.59%	6 March 2014
IRS				
IRS	55,000	55,000	4.40%	22 May 2014
IRS				
IRS	50,000	50,000	4.17%	22 May 2014
Collar, sold Cap and knock in				
IRS	-	50,000	3.50%	18 March 2013
Knock in floor	50,000	50,000	4.50%	17 March 2014
Sold Cap	-	50,000	5.00%	18 March 2013
Knock in floor				
Knock in floor	50,000	50,000	4.48%	1 April 2014
IRS				
IRS	-	50,000	3.80%	22 October 2013
Swaption				
IRS	-	50,000	4.00%	27 November 2013
IRS (IRS from 27 November 2013)	50,000	50,000	4.00%	27 November 2014
IRS				
IRS	-	27,750	2.40%	29 August 2013
Collar and knock in / out				
Knock in floor	-	50,000	3.62%	25 February 2013
Knock out Cap	-	50,000	3.62%	25 February 2013

25. **Income Taxes**

	2013 $'000	2012 $'000
Russian Federation profit tax	9,240	9,424
Overseas income tax expense	1,272	1,778
Current income tax expense	10,512	11,202
Deferred tax	1,201	(2,909)
Total income tax expense	11,713	8,293

Under the laws of the countries of incorporation and / or vessel registration, a limited number of vessel owning and operating subsidiaries are subject to tax on international shipping income. 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.

Russian Federation profits tax is payable in Roubles at a tax rate of 20% (2012 – 20%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxes are also payable on the results of the Group's overseas management, agency and broking subsidiaries, and towing operations. The liability to taxation of the other subsidiaries is insignificant.

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

	2013 $'000	2012 $'000
(Loss) / profit before income taxes	(27,513)	41,194
Income tax (benefit) / expense using Russian Federation income tax rate of 20%	(5,503)	8,239
Difference in tax rates in other jurisdictions	23,508	16,676
Profits subject to tonnage tax	(16,209)	(22,376)
Tax effect on intercompany dividends	4,899	4,404
Non-deductible expenses and non-taxable income	1,382	2,091
Unrecognised tax losses	3,629	30
Adjustments in respect of current income tax of previous periods	7	(771)
Income tax expense	11,713	8,293

25. **Income Taxes (Continued)**

Deferred Tax

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2013				
Deferred tax assets	3,213	(913)	(72)	2,228
Deferred tax liabilities	(2,244)	(288)	55	(2,477)
	969	(1,201)	(17)	(249)
At 31 December 2012				
Deferred tax assets	3,200	(170)	183	3,213
Deferred tax liabilities	(5,354)	3,079	31	(2,244)
	(2,154)	2,909	214	969

Deferred tax relates to the following:

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2013				
Fleet	(40)	496	(76)	380
Drydock	(159)	(546)	25	(680)
Unused tax losses carried forward	810	(212)	(67)	531
Accounts receivable	(846)	415	49	(382)
Accounts payable	2,041	341	(30)	2,352
Bank loans	(48)	14	-	(34)
Gains on disposal of assets reinvested	(723)	106	32	(585)
Unremitted earnings of Russian subsidiaries	-	(1,846)	46	(1,800)
Other	(66)	31	4	(31)
	969	(1,201)	(17)	(249)

	Opening balance $'000	(Charged) / released to income $'000	Exchange differences $'000	Closing balance $'000
At 31 December 2012				
Fleet	(1,943)	1,887	16	(40)
Drydock	(4)	(155)	-	(159)
Unused tax losses carried forward	1,047	(293)	56	810
Accounts receivable	(1,525)	754	(75)	(846)
Accounts payable	2,130	(214)	125	2,041
Bank loans	(64)	16	-	(48)
Gains on disposal of assets reinvested	(909)	186	-	(723)
Other	(886)	728	92	(66)
	(2,154)	2,909	214	969

The Group has tax losses which arose in Russia and in Spain of $15.7 million and $9.0 million respectively (2012 – $0.2 million in Spain), for which a deferred tax asset has not been recognised, that are available for offsetting for 10 and 18 years respectively against future taxable profits of the companies in which they arose.

At 31 December 2013, there were unrecognised deferred tax liabilities of $105.5 million (2012 – $110.2 million) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. The Group has the ability and intends to reinvest undistributed earnings of subsidiaries. There is no tax impact on the unremitted earnings of joint ventures or associates. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to $2,207.6 million (2012 – $2,139.0 million).

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

26. Earnings Per Share

	2013 $'000	2012 $'000
Net (loss) / profit attributable to equity holders of the parent for basic earnings	(39,815)	32,377
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic earnings per share for the period attributable to holders of the parent	($0.020)	$0.016

27. Inventories

	2013 $'000	2012 $'000	2011 $'000
Bunkers	39,060	47,359	50,655
Lubricants	18,479	17,596	17,669
Victualling and slopchest	1,882	1,801	1,762
Spare parts and consumables	3,254	1,242	1,468
Other	2,044	2,489	3,259
	64,719	70,487	74,813

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

28. Trade and Other Receivables

	2013 $'000	2012 $'000	2011 $'000
Non-current assets			
Other receivables	587	9,621	10,004
Security deposits	17,178	-	-
Accrued income	-	-	23,521
	17,765	9,621	33,525
Current assets			
Amounts due from charterers	62,831	57,671	54,722
Allowance for credit losses	(4,135)	(5,435)	(4,975)
	58,696	52,236	49,747
Casualty and other claims	5,761	7,996	12,712
Agents' balances	11,933	14,271	14,459
Other receivables	26,468	25,053	19,202
Security deposits	9,789	33,103	31,279
Amounts due from lessee for finance leases (Note 23)	1,662	1,165	12,128
Receivables under High Court judgement award (Notes 45 and 46)	2,708	9,321	2,000
Prepayments	15,541	18,023	12,579
Voyages in progress	22,952	18,674	22,712
Accrued income	4,611	33,814	38,721
	160,121	213,656	215,539

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

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

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2013, $20.1 million (2012 – $18.3 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2013, charterers with a carrying amount of $38.6 million (2012 – $33.9 million) are past due at the reporting date. The Group has not provided for these receivables as there has not been a significant change in credit quality and the amounts outstanding are still considered recoverable. The Group does not hold any collateral over these balances.

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

	2013 $'000	2012 $'000	2011 $'000
Up to one month	27,462	18,270	23,901
One to two months	3,586	9,524	4,376
Two to three months	2,030	3,416	1,612
Three to four months	383	261	1,240
More than four months	5,097	2,447	3,908
	38,558	33,918	35,037

28. **Trade and Other Receivables (Continued)**

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

	2013 $'000	2012 $'000	2011 $'000
At 1 January	5,435	4,975	2,782
Amounts written off during the period	(1,059)	(242)	(497)
Amounts recovered during the period and recognised in the income statement	(533)	(439)	(167)
Increase in allowance recognised in the income statement	270	1,129	2,859
Exchange adjustments	22	12	(2)
At 31 December	4,135	5,435	4,975

Security deposits comprised the following:

- an amount of $13.8 million (2012 – $19.9 million) representing securities placed to the Court's Funds Office to cover potential legal costs of the defendants connected with the claims described in Note 45 and Note 46 of which $4.0 million were classified as non-current as at 31 December 2013; and
- an amount, including accrued interest, of $13.2 million (2012 – $13.2 million) held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, classified as non-current asset as at 31 December 2013 (see also Note 45).

Amounts due from the associated company lessee for finance leases of $5.4 million (2012 – $15.5 million) were past due at the reporting date of which $5.2 million were provided for as of 31 December 2013 (2012 – $15.8 million on overdue balances and current receivable).

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

29. **Cash and Bank Deposits**

	2013 $'000	2012 $'000	2011 $'000
Cash and bank deposits	281,540	308,453	357,440
Bank deposits accessible on maturity	(1,833)	-	(932)
Retention accounts	(16,857)	(16,246)	(16,203)
Security deposits held as counter security for claims (Note 45)	-	(10,400)	(10,400)
Restricted deposits	(6,100)	(10,000)	(10,898)
Cash and cash equivalents	256,750	271,807	319,007

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 37. These funds are accumulated to cover future loan principal and interest repayments. Restricted deposits represent additional security for the purposes of certain secured loan agreements.

Under the terms of the agreements, two subsidiaries of the Group have to maintain freely available bank balances and cash in the amount of not less than $35.0 million each. In addition under the terms of the agreements, one of the two subsidiaries has to maintain minimum liquidity of the higher of $50.0 million and 7.5% of total debt and at least 50% of the minimum liquidity has to be maintained in cash and cash equivalents. The amount of cash and cash equivalents that had to be maintained under the terms of the agreements as at 31 December 2013 were $61.9 million (2012 – $63.9 million) and $35.0 million (2012 – $35.0 million) respectively.

Cash balances of $8.8 million held on current accounts, blocked and not accessible for the immediate future, have been provided for and are included in line allowance for credit losses in the income statement.

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

30. Non-Current Assets Held for Sale

	Buildings $'000	Fleet $'000	Total $'000
At 1 January 2012	-	9,800	9,800
Transfer from fleet (Note 15)	-	17,824	17,824
Disposals in period	-	(9,800)	(9,800)
At 31 December 2012	-	17,824	17,824
Transfer from fleet (Note 15)	-	93,646	93,646
Transfers from assets under construction (Note 19)	15,792	-	15,792
Expenditure in period	-	4,990	4,990
Impairment provision	-	(7,764)	(7,764)
Reversal of impairment provision	-	290	290
Disposals in period	-	(50,526)	(50,526)
At 31 December 2013	15,792	58,460	74,252

An oil product Handymax tanker classified as non-current assets held for sale as at 31 December 2011 sold in March 2012 and delivered on 23 April 2012.

Prior to the period ended 31 December 2012 the Group had made a decision to sell one asphalt chemical tanker and two chemical oil product tankers. These vessels were actively marketed for sale at a price approximate to their market values. These vessels had been classified as non-current assets held for sale as at 31 December 2012. One chemical oil product tanker was sold and delivered to her new owner on 22 January 2013.

During the period ended 31 December 2013 the Group had made a decision to sell ten oil product tankers including three chemical oil product tankers, three handysize product tankers, four MR product tankers and an LNG carrier. These vessels were actively marketed for sale at a price approximate to their market values. Three of the MR product tankers were drydocked at a cost of $5.0 million after they had been classified as held for sale as they reached the end of their five year drydocking cycle. In June, July and October 2013 the Group signed agreements for the sale of one of the chemical oil product tankers, for the two handysize product tankers and for two MR product tankers. The vessels were delivered to their new owners in August and November 2013.

As at 31 December 2013, non-current assets held for sale, comprised one asphalt chemical tanker, three chemical oil product tankers, one handysize product tanker, two MR product tankers and an LNG carrier.

31. Share Capital

	2013 $'000	2012 $'000	2011 $'000
Authorised 2,247,653,953 shares (2012 and 2011 - 1,966,697,210 shares) of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012	405,012
Share premium arising from issue of shares in exchange for shares in JSC Novoship in 2007 (Note 32)	818,845	818,845	818,845

32. Group Reconstruction Reserve

	2013 $'000	2012 $'000	2011 $'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by OAO Sovcomflot in exchange for shares in JSC Novoship in 2007	(843,450)	(843,450)	(843,450)
	(834,490)	(834,490)	(834,490)

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

33. Dividends

Dividends of Rouble 0.15 per share totalling Roubles 300.0 million, equivalent to $9.1 million were declared on 13 August 2013 and paid on 21 August 2013 (2012 – 0.21 Rouble per share totalling Roubles 420.6 million, equivalent to $12.8 million).

34. Non-Controlling Interests

	Currency reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2012	(737)	160,554	159,817
Profit for the period	-	524	524
Other comprehensive income	628	65	693
Dividends	-	(2,165)	(2,165)
At 31 December 2012	(109)	158,978	158,869
Profit for the period	-	589	589
Other comprehensive income	(735)	(68)	(803)
Dividends	-	(1,610)	(1,610)
At 31 December 2013	(844)	157,889	157,045

35. Provisions

The movement in provisions for share in net liabilities of associates and joint ventures is as follows:

	2013 $'000	2012 $'000
At 1 January	26,796	48,742
Reductions resulting from re-measurement	(20,442)	(21,946)
At 31 December	6,354	26,796

The Group has legal obligations arising out of its investments relating to guarantees given for its joint ventures. The Group has severally guaranteed to the hedging banks the performance of all the obligations and liabilities under the swap agreements entered into by the LNG carrier owning companies listed in Note 20, limited to its percentage holding in the equity share capital of these companies.

36. Trade and Other Payables

	2013 $'000	2012 $'000	2011 $'000
Trade payables	93,027	53,357	67,989
Other payables	48,642	32,057	37,409
Dividends payable	1,912	1,893	1,767
Accrued liabilities	60,565	77,824	66,767
Deferred income	27,102	24,475	21,141
Accrued interest	15,338	15,019	14,719
	246,586	204,625	209,792

37. Secured Bank Loans

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

	2013 $'000	2012 $'000	2011 $'000
Repayable			
- within twelve months after the end of the reporting period	363,259	276,394	243,631
- between one to two years	364,323	259,817	522,383
- between two to three years	225,937	350,265	153,059
- between three to four years	219,372	249,887	356,401
- between four to five years	187,848	196,166	94,711
- more than five years	600,777	629,678	449,610
	1,961,516	1,962,207	1,819,795
Less current portion (current liabilities)	(363,259)	(276,394)	(243,631)
Long-term balance (non-current liabilities)	1,598,257	1,685,813	1,576,164

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

	Interest rate		Outstanding loans gross of financing costs		
Contractual interest rates	**2013**	**2012**	**2013 $'000**	**2012 $'000**	**Maturity**
Floating rate loans between 0.68%-3.00% per annum	Libor+1.81%[1]	Libor+0.98%[1]	1,803,380	1,856,563	Between May 2014 - December 2024
Fixed rate	4.75%	4.75%	22,800	27,600	July 2018
Fixed rate	5.19%	5.19%	29,961	35,801	July 2019
Fixed rate	5.50%[2]	5.50%[2]	44,103	55,331	July 2018
Fixed rate	4.15%	-	76,667	-	April 2025
			1,976,911	1,975,295	

[1] Weighted average margin for the period

[2] In accordance with the loan agreement the secured bank loan is fixed at 4.75% per annum plus margins of 0.50% or 0.75% depending on the employment of the vessels mortgaged.

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 Group vessels with an aggregate carrying value at 31 December 2013 of $4,018.5 million (2012 – $3,760.4 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 16 and pledges of shares in certain of the vessel owning companies.

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

38. Finance Lease Liabilities

	2013 $'000	2012 $'000	2011 $'000
Repayable			
- within twelve months after the end of the reporting period	8,850	19,547	9,363
- after one year but not more than five years	193,291	202,141	47,998
- more than five years	-	-	173,690
	202,141	221,688	231,051
Less current portion (current liabilities)	(8,850)	(19,547)	(9,363)
Long-term balance (non-current liabilities)	193,291	202,141	221,688

The Group, through the acquisition of Marpetrol in 2006, acquired the obligations under two bareboat charter agreements entered into by Marpetrol on 16 February 2005 when it sold and leased back two of its vessels for an aggregate consideration of $26.0 million at an effective interest rate of 6.79% per annum.

Both Marpetrol and the lessor had call and put options, respectively, requiring the lessor to sell the vessels to the Group or the Group to buy the vessels from the lessor. In November 2012 the lessor exercised the put option requiring Marpetrol to buy the vessels at a predetermined price of $7.25 million per vessel less a seller's credit of $1.75 million per vessel. Ownership of the vessels was transferred to Marpetrol on 14 March 2013 concurrently with the final payment to the lessor.

On 7 September and 16 November 2010 the Group sold and leased back, under bareboat charter, two of its vessels, for an aggregate consideration of $230.0 million at effective interest rates of 6.52% per annum.

The charter hires are payable monthly in advance at monthly rates of $926,652 per vessel expiring in September and November 2017 respectively. On expiration of the bareboat charter agreements, the Group has an obligation to repurchase the vessels from the lessors for an aggregate consideration of $165.6 million. The Group has the right to re-purchase the vessels at any time during the bareboat charter period at predetermined prices.

39. Retirement Benefit Obligations

	2013 $'000	2012 $'000	2011 $'000
Post retirement pension benefit plans	4,978	5,199	5,596
Long-term service retirement benefit plans	2,427	3,984	4,011
Total obligations	7,405	9,183	9,607

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

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

On 31 December 2013 the subsidiary introduced a defined contribution pension plan for its seafarers, guaranteed by an insurance company (effective 1 January 2014), in line with the pension plan of the Group for its seafarers and amended the long-term service retirement benefit plan policy for its seafarers. The change resulted in curtailment of the plan and a release of $1.8 million defined benefit obligation to profit or loss.

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

	2013 $'000	2012 $'000	2011 $'000
Defined benefit obligation at 1 January	5,199	5,596	6,943
Interest cost	386	475	524
Benefits paid	(655)	(781)	(777)
Exchange rate differences	(355)	317	(373)
Re-measurement of losses / (gains) recognised in other comprehensive income	403	(408)	(721)
Defined benefit obligation at 31 December	4,978	5,199	5,596

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

	2013 $'000	2012 $'000	2011 $'000
Defined benefit obligation at 1 January	3,984	4,011	3,231
Current service costs	153	173	217
Interest cost	117	157	145
Benefits paid	(183)	(209)	(155)
Exchange rate differences	(60)	48	(41)
Gain on curtailment	(1,813)	-	-
Re-measurement of gains / (losses) recognised in other comprehensive income	229	(196)	614
Defined benefit obligation at 31 December	2,427	3,984	4,011

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

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

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Current service cost	-	-	153	173	153	173
Interest cost	386	475	117	157	503	632
Gain on curtailment	-	-	(1,813)	-	(1,813)	-
Exchange rate differences	(355)	317	(60)	48	(415)	365
Charged in the income statement	31	792	(1,603)	378	(1,572)	1,170
Actuarial changes arising from changes in demographic assumptions	292	(52)	501	98	793	46
Actuarial changes arising from changes in financial assumptions	111	(356)	(272)	(294)	(161)	(650)
Re-measurement losses / (gains) recognised in other comprehensive income	403	(408)	229	(196)	632	(604)

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

	2013	2012
Discount rate for cash flows in Russian Roubles	7.50%	8.00%
Discount rate for cash flows in US Dollars	3.00%	1.76%
Future salary increases in Russian Roubles	5.00%	5.00%
Future salary increases in US Dollars	-	-
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 60	17	14
Life expectancy in years of a female pensioner retiring at the age of 55	26	23
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	7.7	7.4
The average duration of the defined benefit plan obligation for long-term service retirement benefit plans	7.8	7.9

The Group expects to make benefit payments of $0.8 million (2012 – $0.8 million) in respect of the defined benefit plans in the annual period beginning after the reporting period end.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is as shown below:

Assumptions	Discount rate		Future salary increases		Future pension cost increases	
Sensitivity level	50 bps increase $'000	50 bps decrease $'000	50 bps increase $'000	50 bps decrease $'000	100 bps increase $'000	100 bps decrease $'000
(Decrease) / increase on the net defined benefit obligation	(261)	282	113	(41)	254	-

Assumptions	Life expectancy of male pensioners		Life expectancy of female pensioners	
Sensitivity level	Increase by 1 year $'000	Decrease by 1 year $'000	Increase by 1 year $'000	Decrease by 1 year $'000
Increase / (decrease) on the net defined benefit obligation	177	(190)	81	(87)

40. **Other Loans**

	2013 $'000	2012 $'000	2011 $'000
5.375% Senior Notes	798,092	797,593	797,005

On 27 October 2010, the Group, through its subsidiary SCF Capital Limited, issued Senior Notes (the "Notes") of $800 million, redeemable at par value, maturing on 27 October 2017. The Notes are unsecured and guaranteed by Sovcomflot. The Notes are included above net of amortised financing costs. There are no equity conversion rights or options attached to the Notes.

Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011. Interest charged during the period amounted to $43.0 million (2012 – $43.0 million).

41. Cash Generated From Operations

	2013 $'000	2012 $'000
(Loss) / profit for the period before income taxes	(27,513)	41,194
Gain on curtailment of long-term service retirement benefit plan	(1,813)	-
Share of profits in equity accounted investments	(9,629)	(20,185)
Depreciation, amortisation and impairment	314,335	291,156
Investment property depreciation	858	859
(Gain) / loss on sale of assets	(1,401)	6,662
Interest expenses and financing costs	136,187	121,769
Interest income	(19,073)	(23,042)
Gain on derivative financial instruments held for trading	(15,228)	(13,479)
(Gain) / loss on ineffective hedging instruments	(2,054)	155
Foreign exchange differences	1,517	2,406
Change in allowance for credit losses	(4,227)	16,485
Operating cash flows before movements in working capital	371,959	423,980
Decrease in inventories	5,768	4,326
Decrease in trade and other receivables	32,642	25,787
Increase / (decrease) in trade and other payables	26,612	(19,682)
Cash generated from operations	436,981	434,411

42. Significant Subsidiary Companies

At 31 December 2013, the Group had 126 single vessel owning and operating subsidiaries (2012 – 123) incorporated in Liberia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of Incorporation	Percentage Holding	Principal Activity
JSC Novoship	Russia	89.32%	Shipowning and operating and ship management
Fiona Trust and Holding Corporation and its subsidiaries	Liberia	100%	Vessel owning and operation
Intrigue Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Marpetrol, S.A. and its subsidiaries	Spain	100%	Vessel owning and operation and ship management
Sovcomflot Varandey LLC	Russia	100%	Ship operation
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Novoship Technical Management LLC	Russia	100%	Ship management
Unicom Management Services (Cyprus) Limited	Cyprus	100%	Ship management
Unicom Management Services (St. Petersburg) LLC	Russia	100%	Ship management
SCF Unicom Singapore Pte Ltd	Singapore	100%	Ship management
SCF Capital Limited	Ireland	100%	Financing
SCF Arctic LLC and its subsidiaries	Russia	100%	Holding company of two vessel operating companies
SCF Gas Carriers Limited	Liberia	100%	Vessel owning and operation

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 2013			At 31 December 2012		
	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
OAO Sovcomflot	98.28	-	89.32	98.28	-	89.32
Non-controlling shareholders	1.72	100.00	10.68	1.72	100.00	10.68
	100.00	100.00	100.00	100.00	100.00	100.00

Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently Sovcomflot holds an effective interest in Novoship of 89.32% as at the period end (2012 – 89.32%).

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

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

	2013 $'000	2012 $'000
Summarised statement of financial position:		
Total non-current assets	1,780,231	1,823,756
Total current assets	186,166	214,318
Total non-current liabilities	(287,502)	(365,408)
Total current liabilities	(208,638)	(185,340)
Net assets at period end	1,470,257	1,487,326
Cash and cash equivalents	117,646	120,031
Current financial liabilities	151,614	140,471
Non-current financial liabilities	279,030	354,935
Summarised income statement and statement of comprehensive income		
Revenues	368,406	409,391
Depreciation, amortisation and impairment	(89,868)	(75,509)
Interest income	3,239	2,599
Interest expense	(22,642)	(26,487)
Income tax	(7,024)	(4,704)
Profits for the period	5,512	4,910
Other comprehensive income for the period	(7,512)	6,502
Total comprehensive income for the period	(2,000)	11,412
Summarised cash flows:		
Operating	119,044	118,273
Investing	(66,924)	(80,977)
Financing	(56,009)	(94,037)
Net decrease in cash and cash equivalents	(3,889)	(56,741)

43. **Financial Risk Management**

(a) Capital management

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

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

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

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the excess or deficit of the market value of the fleet over/under its carrying amount ("total adjusted capital"). Net debt is calculated as the total of secured bank loans, finance lease liabilities and, other loans disclosed in Notes 37, 38 and 40 of the financial statements respectively, less cash and bank deposits (Note 29). Total equity comprises all components of equity.

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

43. Financial Risk Management (Continued)

(a) Capital management (continued)

During 2013 the Group's overall strategy remained unchanged from 2012. The net debt ratio at 31 December 2013 and at 31 December 2012 and the net adjusted debt ratio of the Group were as follows:

	2013 $'000	2012 $'000
Secured bank loans (Note 37)	1,961,516	1,962,207
Finance lease liabilities (Note 38)	202,141	221,688
Other loans (Note 40)	798,092	797,593
Less: cash and bank deposits (Note 29)	(281,540)	(308,453)
Net debt	2,680,209	2,673,035
Total equity	3,111,272	3,109,055
Total capital	5,791,481	5,782,090
Net debt ratio	46.3%	46.2%
Total capital	5,791,481	5,782,090
Deficit of market value of fleet over carrying value	(851,150)	(1,035,467)
Total adjusted capital	4,940,331	4,746,623
Net adjusted debt ratio	54.3%	56.3%

(b) Categories of financial assets and financial liabilities

	2013 $'000	2012 $'000
Financial assets		
Hedging instruments (Note 24)	10,356	108
Cash and bank deposits (Note 29)	281,540	308,453
Available-for-sale investments	1,012	1,380
Loans and other receivables	204,000	252,363
Finance lease receivables (Note 23)	82,564	92,261
Total financial assets	579,472	654,565
Financial liabilities		
Hedging instruments (Note 24)	62,820	91,009
Financial liabilities at fair value through profit or loss (Note 24)	6,164	21,392
Secured bank loans (Note 37)	1,961,516	1,962,207
Finance lease liabilities (Note 38)	202,141	221,688
Other loans (Note 40)	798,092	797,593
Other liabilities measured at amortised cost	216,903	202,178
Total financial liabilities	3,247,636	3,296,067

(c) Fair value of financial assets and financial liabilities

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

	Carrying Value		Fair Value	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Financial assets				
Derivative financial instruments	10,356	108	10,356	108
Cash and bank deposits	281,540	308,453	281,540	308,453
Available-for-sale investments	1,012	1,380	1,012	1,380
Loans to joint ventures	70,276	70,499	66,132	61,923
Loans and receivables	216,288	274,125	216,288	274,125
Total financial assets	579,472	654,565	575,328	645,989
Financial liabilities				
Derivative financial instruments	68,984	112,401	68,984	112,401
Other liabilities measured at amortised cost	216,903	202,178	216,903	202,178
Borrowings at fixed interest rates	172,418	118,487	172,560	117,193
Borrowings at floating interest rates	1,789,098	1,843,720	1,790,908	1,892,568
Unsecured loan	798,092	797,593	807,072	826,480
Finance lease liabilities	202,141	221,688	193,153	184,092
Total financial liabilities	3,247,636	3,296,067	3,249,580	3,334,912

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within Level 1) from observable current market transactions and dealer quotes for similar instruments.

The fair values of derivative instruments, including interest rate swaps, are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

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

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

The following table provides an analysis of financial instruments as at 31 December 2013 and 31 December 2012 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 of financial instruments recognised in the statement of financial position

At 31 December 2013

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Derivative financial instruments in designated hedge accounting relationships	-	10,356	-	10,356
	-	10,356	-	10,356

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Derivative financial instruments classified at fair value through profit or loss	-	6,164	-	6,164
Derivative financial instruments in designated hedge accounting relationships	-	62,820	-	62,820
	-	68,984	-	68,984

At 31 December 2012

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Derivative financial instruments in designated hedge accounting relationships	-	108	-	108
	-	108	-	108

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Derivative financial instruments classified at fair value through profit or loss	-	21,392	-	21,392
Derivative financial instruments in designated hedge accounting relationships	-	91,009	-	91,009
	-	112,401	-	112,401

There were no transfers between Level 1 and 2 during the periods ended 31 December 2013 and 31 December 2012.

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

At 31 December 2013

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Non-current assets held for sale	-	49,360	-	49,360
	-	49,360	-	49,360

Assets and liabilities for which fair values are disclosed

At 31 December 2013

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment property	-	44,214	-	44,214
Loans to joint ventures	-	66,132	-	66,132
	-	110,346	-	110,346

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Borrowings at fixed interest rates	-	172,560	-	172,560
Borrowings at floating interest rates	-	1,790,908	-	1,790,908
Unsecured loan	807,072	-	-	807,072
Finance lease liabilities	-	193,153	-	193,153
	807,072	2,156,621	-	2,963,693

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

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

Assets and liabilities for which fair values are disclosed

At 31 December 2012

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment property	-	23,419	-	23,419
Loans to joint ventures	-	61,923	-	61,923
	-	85,342	-	85,342

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Borrowings at fixed interest rates	-	117,193	-	117,193
Borrowings at floating interest rates	-	1,892,568	-	1,892,568
Unsecured loan	826,480	-	-	826,480
Finance lease liabilities	-	184,092	-	184,092
	826,480	2,193,853	-	3,020,333

(d) 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 Group seeks to minimise potential adverse effects on the Group's financial performance by employing a sufficiently robust risk financial 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 voyage expenses, vessel operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Sterling Pound. The Group utilises its revenues in Euros and Russian Roubles to mitigate its exposure to foreign currency risk fluctuations.

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 as the exposure is insignificant.

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	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Euro (EUR)	16,447	18,571	30,327	43,936
Russian Roubles (RUR)	35,314	23,929	38,286	26,470
Sterling Pounds (GBP)	14,407	18,389	22,488	22,268
Others	4,226	2,869	1,757	3,924

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December increased by 10% (2012 - 10%) with all other variables held constant, the effect would be to decrease the monetary liabilities / assets, with a corresponding decrease / increase in loss (2012 – increase / decrease in profit) as shown below.

	Liabilities		Assets	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Euro (EUR)	1,495	1,689	2,757	3,994
Russian Roubles (RUR)	3,210	2,175	3,481	2,406
Sterling Pounds (GBP)	1,310	1,672	2,045	2,025
Others	383	260	159	357

Had the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December decreased by 10% (2012 - 10%) with all other variables held constant, the effect would be to increase the monetary liabilities / assets, with a corresponding increase / decrease in loss (2012 – decrease / increase in profit) as shown below.

	Liabilities		Assets	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Euro (EUR)	1,827	2,064	3,370	4,881
Russian Roubles (RUR)	3,924	2,659	4,254	2,941
Sterling Pounds (GBP)	1,601	2,043	2,499	2,474
Others	468	319	196	436

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

(d) Financial risk factors (continued)

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During 2013 and 2012 all of the Group's borrowings were denominated in U.S. Dollars.

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 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 24 of these financial statements.

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

	2013 $'000	2012 $'000
Total floating rate borrowings (gross of direct issue costs)	1,803,380	1,856,563
Notional amount of floating to fixed rate swaps qualifying under IAS 32 / IAS 39 (Note 24(a))	(818,172)	(525,145)
Net exposure to interest fluctuations under IAS 32 / IAS 39	985,208	1,331,418
Less notional amount of interest rate financial instruments held for trading (Note 24(b))	(305,000)	(482,750)
Net exposure to interest rate fluctuations	680,208	848,668
% of floating rate borrowings exposed to interest rate fluctuations	37.72%	45.71%

If interest rates had been 100 basis points higher / 25 basis points lower and all other variables held constant, the Group's:

	2013		2012	
Sensitivity of interest rates	**100 bps increase $'000**	**25 bps decrease $'000**	**100 bps increase $'000**	**100 bps decrease $'000**
Change in fair value of hedging instruments				
- Increase / (decrease) in other comprehensive income for the period	32,592	(8,175)	26,535	(26,250)
- Increase / (decrease) in profit or loss for the period	1,197	(301)	1,465	(1,442)
Change in fair value of derivative financial instruments held for trading through profit or loss				
- Increase / (decrease) in profit or loss for the period	786	(52)	5,045	(2,062)

	2013		2012	
	100 bps increase $'000	**25 bps decrease $'000**	**100 bps increase $'000**	**25 bps decrease $'000**
Increase / (decrease) in interest expense for the period excluding interest capitalised	5,724	(1,545)	7,450	(1,881)

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 66.0% (2012 – 60.4%) of the vessels' total trading days were on time charter representing 79.0% (2012 – 73.5%) of time charter equivalent revenues. As at 31 December 2013, 65.0% (2012 – 57.5%) of the vessels were on time charter.

Credit risk

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

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2013, amounts due from charterers included two charterers (2012 – one) with a balance of freight and hire due representing 17.8% and 13.6% of total amounts due (2012 – 12.4%). Management believes that there is no further credit provision required in excess of the allowance for credit losses. In addition, no charterer individually represents more than 10% of total freight and hire revenue for the period ended 31 December 2013 and 31 December 2012.

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with two banks (2012 – two) representing 18.8% and 12.8% (2012 – 24.8%, and 16.9%) of total deposits of $279.9 million (2012 – $306.8 million).

43. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Liquidity risk

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

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

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

	Credit facilities $'000	Drawn down $'000	Available $'000
At 31 December 2013			
Secured bank loans	603,575	(247,175)	356,400
Secured revolving credit facilities	511,535	(341,160)	170,375
	1,115,110	(588,335)	526,775
At 31 December 2012			
Secured bank loans	300,000	(124,820)	175,180
Secured revolving credit facilities	543,535	(303,660)	239,875
	843,535	(428,480)	415,055

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. 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 2013	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Trade and other payables	195,211	-	6,354	201,565
Present value of minimum lease payments of finance leases	9,098	193,913	-	203,011
Secured bank loans	366,698	1,006,863	603,350	1,976,911
Other loans	-	800,000	-	800,000
Interest payable on derivative instruments	27,961	46,337	15,587	89,885
Interest payable on secured loans	44,992	143,296	41,533	229,821
Interest payable on other loans	43,597	130,911	-	174,508
Interest payable on finance leases	13,142	32,846	-	45,988
	700,699	2,354,166	666,824	3,721,689
At 31 December 2012				
Trade and other payables	160,363	-	26,796	187,159
Present value of minimum lease payments of finance leases	19,937	203,011	-	222,948
Secured bank loans	279,285	1,064,123	631,887	1,975,295
Other loans	-	800,000	-	800,000
Interest payable on derivative instruments	35,872	63,951	28,959	128,782
Interest payable on secured loans	43,778	121,666	32,762	198,206
Interest payable on other loans	43,597	174,508	-	218,105
Interest payable on finance leases	13,722	45,988	-	59,710
	596,554	2,473,247	720,404	3,790,205

44. Operating Lease Arrangements

The Group as Lessee

The Group has the following non-cancellable operating lease commitments in respect of vessels, land and buildings in Novorossiysk, London, Madrid, Moscow, Dubai and Singapore:

	Vessels		Land and buildings	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Within one year	25,384	25,368	5,244	4,453
After one year but not more than five years	41,352	66,790	18,369	6,135
More than five years	-		54,671	36,000
	66,736	92,158	78,284	46,588
Expensed during the period	46,032	32,369	4,733	4,529

The Group charters in a seismic vessel with extension options attached to the bareboat charter contract of five periods of 2 years each plus an additional period of 6 months and purchase options starting from the end of 2014 and thereafter for each subsequent year up to the end of the optional period as described above. The firm period of the lease on the vessel has a remaining life of 3 years. One of the leases of the buildings expires in 10 years and another in 47 years. The remaining leases for buildings have a life of between 1 and 2 years with various optional periods attached. The lease for the land expires in 30 years. There are no restrictions placed upon the Group by entering into these leases.

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

The Group as Lessor

	Buildings 2013 $'000	Buildings 2012 $'000
Within one year	4,450	2,738
After one year but not more than five years	11,403	10,307
More than five years	25,106	26,063
	40,959	39,108
Income during the period	2,918	2,751

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's surplus offices and other buildings, and leased in facilities. The leases expire within one year and 12 years respectively. The lease agreements contain extension options.

45. **Contingent Liabilities and Commitments**

Contracted revenues and guarantees

The Group through its subsidiaries entered into time charter agreements and in one case a bareboat charter agreement, with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2013 $'000	2012 $'000
Within one year	555,647	478,442
After one year but not more than five years	1,526,362	1,566,181
More than five years	2,157,705	2,454,020
	4,239,714	4,498,643

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

The Group obtained guarantees from the shareholders of a State controlled entity in respect of the performance of the obligations of the charterers arising under two time charter agreements entered into by subsidiaries of the Group and the State controlled entity.

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 16, and in respect of the construction and development facilities of the port of Sochi, is summarised as follows:

	Less than 1 year $'000	1 to 5 years $'000	Total $'000
At 31 December 2013			
Newbuilding contracts	504,682	159,363	664,045
Construction and development costs for Sochi	2,552	-	2,552
	507,234	159,363	666,597
At 31 December 2012			
Newbuilding contracts	436,009	516,045	952,054
Construction and development costs for Sochi	39,919	-	39,919
	475,928	516,045	991,973

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 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.

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

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

Some of the defendants have made an application for an inquiry into damages caused by the freezing orders made against them in the course of the London proceedings. They seek $184.1 million in compensation for the losses allegedly suffered by them because of the immobilisation of these funds. A hearing was scheduled for 16 or 17 November 2011 at which the Court was to determine whether there should be an enquiry into such damages. In light of the Fiona Claimants' appeal being dismissed by the Court of Appeal and their application for permission to appeal therefrom being rejected by the Supreme Court the relevant defendants are now seeking to fix a hearing for the Court to determine whether there should be an enquiry into such damages. Management is of the opinion that the claimed amount is speculative and the likelihood of this claim being successful is remote. The Group will defend its position vigorously. Accordingly, no provision has been made.

An amount, including accrued interest, of $13.2 million is held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, as a result of a claim advanced by the charterers of the vessel at the time, relating to the grounding of the vessel in the Suez canal in November 2004. The claim is in arbitration. Management is of the opinion that the claim is without merit and the Group will defend its position vigorously. Accordingly no provision has been made against this amount which is included in the line security deposits in non-current trade and other receivables.

Details of the Group's capital commitments in respect of newbuilding contracts are disclosed in Note 16 and 45.

Details of the Group's obligations under finance leases are disclosed in Note 38.

46. **Contingent Assets**

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK filed claims in London in December 2006 and joined further defendants. The claims, which relate to a number of charters entered into between 2002 and 2004, were in the region of $172.0 million plus interest. The trial for the claims filed commenced at the Commercial Court in London on 16 May 2012 and concluded on 5 July 2012. Judgment was handed down on 14 December 2012. The Group was successful in all claims and has been awarded principal of approximately $169.4 million plus interest, up to the date of judgment, payable at 3-month $ LIBOR plus 2.5% at quarterly rests and costs on an indemnity basis. Pre-judgment interest is estimated to be approximately $74.0 million.

Some of the defendants have been granted permission to appeal against the judgment the grounds of appeal being extended by the Court of Appeal on 23 October 2013. Pending the outcome of the appeal the recovery of approximately $108.5 million plus pre-judgment interest of $45.4 million is stayed. It is anticipated that the defendants' appeal will be heard by the Court of Appeal in London in June 2014.

On 18 January 2013 the Court ordered that post judgment interest rate runs at 3-month $ LIBOR plus 2.5% calculated on a simple basis. The Group has launched an appeal in relation to the post judgment interest rate and the appeal will be heard with the defendants appeal referred to above.

The Group has now received approximately $8.9 million of the principal amount awarded out of approximately $60.9 million from other defendants who have not appealed or whose application for leave to appeal was refused, and under separate actions, including those both related to the claims before the English Court but brought in other jurisdictions and those arising from separate transactions and against different defendants, of which $3.4 million relating to these claims was received in prior periods. The Group is taking steps to locate and freeze assets of these defendants. A settlement agreement has been reached with one of the other defendants on terms that are confidential between the parties and it is probable that further assets will be recognised in the future. A total of $5.5 million has been recognised in other non-operating income in 2012.

Security in the sum of $4.0 million placed in Court by the Group in 2011 to fortify cross undertakings in damages in respect of the security provided by the defendants in the amount of $90 million will remain in the Court pending the appeal. If unsuccessful in its claims the Group may face liability of up to or in excess of this sum.

A total amount of $10.6 million (2012 – $7.5 million) relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims referred to in Note 45, has been expensed in the income statement and is included in the line other non-operating expenses.

47. **Related Party Transactions**

	Income Statement (income) / expense		**Statement of Financial Position asset / (liability)**	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**
Transactions with State owned entities				
Freight and Hire of vessels	(78,236)	(110,714)	1,839	27,711
Finance leases payable	13,692	14,276	(202,141)	(210,399)
Cash at bank with related financial institutions	1,391	2,004	44,432	61,113
Transactions with Associates				
Finance leases receivable	(13,795)	(14,303)	95,973	109,234
Allowance for credit losses	(4,061)	15,808	(11,747)	(15,808)
Rental of investment property	(518)	(531)	-	54
Transactions with Joint Ventures				
Freight and Hire of vessels	(9,045)	(9,070)	-	-
Loans due from joint ventures	(1,157)	(910)	71,280	70,893

48. Events After the Reporting Period

On 29 January 2014 and 25 February 2014 the Group took delivery from two shipyards an LNG carrier, the m/v Velikiy Novgorod, and a VLCC, the m/v SCF Shanghai.

The Group entered into a 10 year interest rate swap, effective 29 January 2014, at a fixed rate of 2.435% per annum compared to U.S. Dollar three month LIBOR to hedge 100% of the Group's cash flow exposure arising from interest rate fluctuations in respect of a $158.0 million loan facility.

On 5 February 2014 the Group signed agreements for the sale of two Crude Oil Suezmax tankers. Both vessels were delivered to their new owners on 6 March 2014. The gain on sale is estimated to be approximately $4.5 million.

On 14 February 2014, the Group signed an agreement for the sale, for demolition purposes, of the LNG carrier held for sale as at 31 December 2013 (see also Note 30). Delivery of the vessel is expected between the end of March and early April 2014. It is expected that from the sale of the vessel the Group will realise a gain of approximately $1.4 million.

On 12 March 2014, the Group entered into 7 year interest rate swap, effective 31 March 2014, to fix $41.4 million of previously unhedged U.S. Dollar three month LIBOR floating rate debt, at a fixed rate of 2.07% per annum.