



The Bottom Line

Business advisers and auditors to the shipping industry

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Operating costs continue to rise

Shipping may be enjoying one of its most buoyant periods in recent memory, but shipowners would be well advised to keep an eye on operating costs.

OpCost 2007, Moore Stephens' unique ship operating cost benchmark, reveals that all vessel categories covered by the report experienced an annual average increase of 8.5% in total operating costs in 2006, the financial year covered by the survey, and that, generally, the increases were more marked than in the previous year.

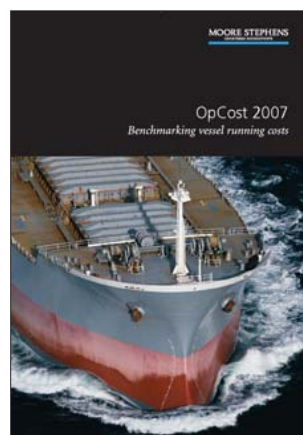
The OpCost bulker index increased by 13 points (10.7%) on a year-on-year basis, with handymax bulkers recording the biggest increase (14.8%) in 2006. The tanker index, meanwhile, experienced a rise of twelve points (9.1%).

For the first time this year, OpCost includes a containership index. This, using 2002 as its base year, showed a rise of 13 points (10.8%) in operating costs in 2006.

While expenditure on repairs and maintenance was up by an average of 9.7% across all vessel categories, the biggest percentage increase - a hefty 20% was recorded in respect of stores. Moore Stephens partner Richard Greiner says, "So far as repairs and maintenance is concerned, there were significant variations in the cost movements experienced within individual vessel categories. These ranged from the 19.6% recorded for handymax bulkers to the 6.0% for reefers. In the containership category, the increase was just over 10%.

"OpCost 2007 reveals that all vessel categories covered by the report experienced an annual average increase of 8.5% in total operating costs in 2006"

"It is perhaps not surprising that the biggest increase in all but one vessel category was recorded in respect of stores. A significant part of this is doubtless attributable to increased costs and supply shortages in the lube oil markets, which are themselves attributable to underlying increases in the price of oil and other base materials. Although these increases first hit the shipping market some eighteen months ago, it seems likely that their effect on operating costs - offset in some cases by price advantages



built into term contracts with suppliers - has taken a little while to filter through."

Elsewhere, insurance and crew costs were down on the double-digit increases recorded in both categories in OpCost 2006, but still showed percentage rises

of 7.9 and 7.6 respectively. Once again, there were wide variations between different vessel types in both categories.

Richard Greiner says, "OpCost has established itself as the primary source of operating cost information for the international shipping industry, and we continue to add new information and new lines of analysis. In addition to the main indices, we have created indices this year for each main vessel type (bulkers, tankers and containerships) in the four main categories of crew costs, stores, repairs and maintenance, and insurance. We have also added three vessel types - bulkers (10,000 to 20,000 dwt), tankers (5,000 to 10,000 dwt) and dry cargo vessels of 25,000 dwt and over.

"OpCost helps to identify areas of operation which are experiencing critical cost increases over a sustained period of time. Running cost information is obtained on a confidential basis from shipping clients, and from shipowners and ship managers who voluntarily submit accounts for inclusion. It is now widely used for benchmarking running costs, the preparation and ongoing monitoring of business plans and in forensic accounting."



The Bottom Line

Heavy-lift project wins Cass prize

Moore Stephens believes in promoting excellence and innovation at all levels, which is why it sponsors an annual prize for the best business plan produced by students at the International Centre for Shipping, Trade and Finance at London's Cass Business school.

Each year, a panel of academics and industry professionals judge the business plans submitted by students as part of their third semester. And it is far from being a mere academic exercise. Over the years, a number of the plans developed by the students have been successfully implemented, and many of the students themselves have gone on to take up successful careers in the international shipping industry.

This year, Moore Stephens is delighted to announce that its prize has been awarded to Hans-Christian Hustad, Francesco Nappo, Alberd Schuur, Rory Urquhart and Alexander Verbo for their Colossal Lift project. This involved an investment plan covering the conversion of a second hand VLCC into a semi-submersible heavy-lift vessel, and the acquisition of two heavy-lift crane vessels. The proposal covered the provision of marine transportation services to different offshore transportation, installation and mechanical assembling projects.

Congratulations to all concerned.

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PRISCO continues international growth

Primorsk Shipping Corporation (PRISCO) is a classic example of a former Russian state-owned ship operating company which has developed into a major player in the international shipping industry.

Its need for international financial advice and consultancy has increased exponentially with privatisation and globalisation, and it is Moore Stephens which provides the group audit and compliance expertise for PRISCO's multinational operations. Primorsk Shipping Company was founded at the beginning of 1972, with the primary aim of supplying the Russian Far East with oil cargoes. In 1992, it became the first Russian shipping company to be privatised and has developed impressively since then into an international - and still expanding - operator of quality tanker tonnage across a variety of market sectors.

Dmitry Golomovzy is the finance director of PRISCO (Singapore) Pte Ltd, which is the major international operating arm of PRISCO. Shipping - and PRISCO - is in his blood. He was born just outside Nakhodka, PRISCO's Russian Far East headquarters, and both his parents worked for PRISCO. Dmitry himself has been with PRISCO for eleven years, and worked in the company's Singapore, Nakhodka and London offices before returning to Singapore in 2003 as finance director.

He says, "It is a big step to move from being an operator of small tankers to the Russian Far East to being a major tanker operator in international markets.

PRISCO has developed quickly, however, into a respected international specialist in the safe and high-quality transportation of bulk liquid cargoes. Its activities include commercial and technical management, agency services and training. The company operates a fleet of sophisticated tankers with an aggregate tonnage of more than one million dwt and has a new building portfolio of about 1.3m tons dwt. The great majority of the ships are ice-class vessels equipped for operating in freezing sea conditions.

"PRISCO prides itself on its ability to comply with all international financial and operating standards and safety criteria. For that, we have to meet international accountancy standards, and we have been working with Moore Stephens since 1993. It is an extremely good relationship in which Moore Stephens provides us with a range of audit, compliance and other advisory services across its network of offices. Moore Stephens is an international company with proven expertise, and that is what PRISCO needs. We look forward to maintaining, and expanding, our relationship as PRISCO continues to strengthen its presence in the international shipping industry."

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Marsoft endorses OpCost

Marsoft is an industry-leading consultancy providing strategic risk management, investment and market analysis services and advice exclusively to the shipping industry.

With offices in London, Boston and Oslo, it provides a global service to shipowners and operators, charterers, oil companies, and financial institutions.

Marsoft positions itself as a partner to its clients, for whom it provides risk management and strategic support services on a long-term basis. The services it provides have evolved around the needs of its clients, and it prides itself on the quality and range of those services. Marsoft is an enthusiastic user of Moore Stephens' operating cost benchmark tool, OpCost, and Belinda Adye, a partner with Marsoft and head of its London office, explains, "We use OpCost as an important part of our credit rating models and credit evaluation systems, which are extensively used by banks, and also by shipowners.

"We are constantly checking the OpCost data against other sources to confirm that it captures all developments. OpCost is now our primary source for

operating cost information. It adds credibility to our database and provides a valuable benchmark in our credit evaluation models. We rely on the OpCost figures to adjust our baselines from other sources for which we have a long track record. And of course our estimate of a specific vessel's costs reflects vessel specifics such as age.

"OpCost is a unique, user-friendly and effective shipping industry product. Furthermore - like Marsoft's services - it continues to evolve and to improve, the most recent example of this being the addition of drydocking costs to the OpCost database. We look forward to the continuing evolution of OpCost, and the expansion of its coverage to include still more vessel types and market sectors."

More information about Marsoft is available via their website www.marsoft.com.



Capital allowances changes

UK-resident shipowners not registered for tonnage tax should be aware of some impending changes to capital allowance regulations in the UK which will affect their capital allowances position, and which they should factor into their forward business planning.



Sue Bill

Ships

With effect from April 2008, capital allowances on ships and other plant and machinery will be reduced from 25% to 20%. At the same time, capital allowances on long-life assets will be increased from 6 to 10%. Although long-life assets

specifically exclude expenditure incurred in respect of seagoing ships before 1 January 2011, those owners who intend to incur expenditure on ships after that date should be aware of this change in the regulations.

In 2008/09, a business will be entitled to a 3% writing down allowance; in 2009/10, the entitlement will be 2%; and in 2010/11, it will reduce to 1%. Thereafter, IBAs will be abolished altogether.

In the meantime, balancing adjustments on disposal have been withdrawn. This will have implications for the tax position on the disposal of any such buildings, as well as for deferred tax liabilities and assets. For more details, contact Sue Bill.

Industrial buildings allowances

Owners of property in the maritime sector, for example cargo warehouses and other buildings used for storage in the through-transport sector, will be among those who could be affected by the surprise decision to phase out UK Industrial Buildings Allowances (IBAs) by 2011. It is expected that 4% annual writing-down allowances will be progressively reduced as follows:

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US freight tax rules updated

The IRS has updated the US shipping freight tax rules, with potential advantages for foreign shipowners.



David Lifson

The move is in response to mounting criticism that the rules governing the US international shipping tax regime were not, in many respects, achieving their intended results, and were interfering with reasonable and customary business practice.

The updated rules represent an about-face by the IRS on key aspects of the disclosure rules. The US freight tax regulations that came into force in 2005 required the ultimate individual majority owners of foreign corporations earning US transportation income to be identified in the US tax return filed by the foreign corporation. But the new rules stipulate that summary information about shipowners, and details of the form of their holding, may be included in US tax returns without providing the owner's name and identifying details.

It is anticipated that the additional privacy afforded by these changes could encourage more shipowners to claim the US tax exemption. To prevent taxpayers from playing the 'audit lottery', however, a strict thirty-day

time limit has been introduced for production of ownership affidavits upon request by the IRS.

In cases where a foreign country has a tax treaty with the US but has no other shipping exclusions, the IRS has taken the opportunity to clarify that the exemption must be correctly claimed under the treaty, and the reciprocal exemption will not always apply. The treaty qualification process must be strictly followed as the corporation relies on the treaty to obtain its exemption.

For more information on the updated US shipping freight tax rules, contact David Lifson at Moore Stephens Hays LLP.

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Ship operating costs seminar

On Tuesday, 30 October, Moore Stephens, with the support of both leading international ship management specialist V. Ships and shipping consultants Marsoft, is hosting a seminar on Ship Operating Costs - Current and Future Trends, in the Old Library at Lloyd's of London.

The programme will begin with an overall review of the shipping markets worldwide by Marsoft partner Belinda Adye, putting ship operating costs into the context of today's markets. This will be followed by a presentation by Moore Stephens Shipping Industry Group partner, Richard Greiner on the findings of OpCost 2007, Moore Stephens' unique operating costs benchmark programme.

The closing session will feature an overview by V. Ships Technical Director, Ray McNamara of future trends in operating costs, which will consider the pressures on crew and technical costs, and the impact on future costs.

If you are interested in attending, contact:

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Quote

"I told the Inland Revenue I didn't owe them a penny because I lived near the seaside."

Ken Dodd

Who to contact

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October 2007

Profile: Philip Parr



Philip Parr started his career in shipping but as a naval electrical engineer.

He spent three years as a junior officer in the Royal Naval Engineering Service where his shipping experience involved visiting Vickers shipyard where an Invincible class aircraft carrier and Trafalgar class nuclear powered

submarines were under construction.

Philip became an accountant after meeting a Moore Stephens partner at a cocktail party in Tunbridge Wells. He then accepted a training contract with a firm of accountants in the City, and thereafter qualified as a Chartered Accountant and a Member of the Institute of Taxation before joining Moore Stephens as a tax senior in 1982. In 1988, he was made a tax partner and it is in that capacity that he practices as a shipping tax specialist.

Philip's shipping practice covers a broad area ranging from fleets owned in low tax areas, to freight taxes, to tonnage taxes - a subject at which he addressed a recent Lloyds Maritime Academy Seminar. He explains: "Shipping is an international industry, so it positions very easily into international tax practice. Increasingly we are being engaged by clients in the shipping industry looking for clear advice on shipping taxes

which they are unable to get elsewhere irrespective of the size and reputation of financial advisers which they use for their audit work, for example."

"It is essential to keep up to date on taxation issues in all major shipping jurisdictions and the Moore Stephens International network enables us to do that efficiently. Wherever in the world we have to be on the ball so far as UK shipping tax is concerned, we certainly have a significant share of the market and we have the expertise and capacity to handle still more. This is an area in which we have established our credentials."

When he isn't taxing his brain, Philip likes to relax at sea - he has a share in a yacht based in France - and in the air. He has a private pilot's licence and a share in a light plane at Biggin Hill. But he will be restricting his flying and sailing due to the recent birth of his son who is now three months old.

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New managers

Moore Stephens has recruited two new audit managers - Philip Fallon and David Cockrell

Philip Fallon joined Moore Stephens as a senior manager, following a 16 year stint in Hong Kong and Singapore with two other leading accountancy firms.

He enjoyed his time there, although he admits he only got the opportunity to go because a move to Canada fell through. Last year, family considerations - specifically, two young children - brought him back to the UK, and most recently to Moore Stephens, where his responsibilities embrace mainly audit and corporate finance work.

He is looking forward to getting his teeth into shipping. As befits a man who has spent a long time in warm climes, Philip is a keen scuba diver, but he concedes that the likes of Anglesey and Cornwall do not have quite the pull exerted by his former haunts.

In David Cockrell's case, meanwhile, it represented a sea change in his career. David worked for eighteen years as an investment banker before deciding to pursue a career in accountancy. He studied at home for two years before joining a practice near his home in Essex, in 2004.

On 3 September this year, he joined Moore Stephens, working in the shipping department as an audit manager. David says he is relishing the international nature of the work, and being part of a big team with extensive resources. He admits he has "a lot to learn" about shipping, but he is going to enjoy doing it. Out of the office, he likes to spend time with his wife and two daughters, and he continues to play cricket for his local club side in Writtle, which may or may not be a made-up name.