



The Bottom Line

Business advisers and auditors to the shipping industry

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Shipping expects finance costs to rise

A new Shipping Confidence Survey by Moore Stephens has revealed that a majority of shipping interests expect ship finance costs to rise over the next twelve months. Ship owners and managers were significantly more confident about market performance over the coming year than were charterers, while operating costs, demand trends and crew supply were cited most frequently by respondents as the most significant factors likely to impact on business performance.

On a scale of 1 to 10, the overall confidence shown in the market by owners and managers came out at 7.1 and 7.2 respectively, while that of charterers was 6.1, this against an overall average of 6.8.

So far as business performance factors were concerned, 39% of respondents cited operating costs as the most significant contributing factor, followed closely by demand trends (38%) and crew supply (36%). Both owners and brokers expected demand trends to be the most significant factor. Managers placed crew supply at the top of the list, while charterers opted equally for operating costs, fuel costs and competition.

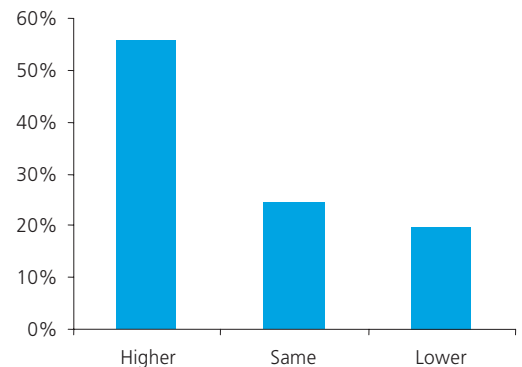
Owners emerged as the most likely to make a major investment or significant development during the next twelve months, with respondents in this business category returning a score of 6.8 out of 10, compared to an average across all sectors of 5.9. Ship managers scored 5.7 in this respect, and charterers 5.0.

Overall, 56% of respondents expected finance costs to be higher in twelve months' time than they are at present, while 20% expected them to be lower. There were interesting variations between the different business types, with 76% of advisers expecting an increase in costs, but only 47% of brokers holding the same view. More than 50% of owners and managers, meanwhile, expected finance costs to rise.

There were also some marked regional variations in this category, with 58% of respondents in Asia expecting finance costs to be higher, compared with 50% in North America.

Opinions about the direction in which freight rates in the tanker market were likely to move over the next twelve months showed some sharp variations, with 62% of charterers expecting rates to be higher, compared to only 35% of owners. On the other hand, 36% of owners who responded expected tanker rates to be lower, compared to just 15% of charterers.

Finance costs



Regionally, 36% of European respondents anticipated lower tanker rates, compared to the 31% who expected them to be higher.

In the dry bulk sector, meanwhile, 40% of respondents expected rates to be lower in twelve months' time, with 28% anticipating an increase. Charterers differed in their view from the other business types, with 62% predicting higher bulk rates.

Finally, 43% of charterers felt that rates in the containership market would be higher in twelve months' time, as against only 28% of owners.

The Moore Stephens Shipping Confidence Survey includes responses from key players in the international shipping industry to a targeted, web-based survey by the Moore Stephens Shipping Industry Group. Responses were received from owners, charterers, brokers, advisers, managers and others in the UK, Rest of Europe, USA, Canada, Russia, China, India, Rest of Asia, Latin America, Africa and Australasia. It is hoped to publish a further survey in June 2008.



The Bottom Line

SEC fills GAAP by accepting IFRS

At the end of 2007, the Securities and Exchange Commission (SEC) in the United States announced that it would allow foreign private issuers to include in their SEC filings financial statements prepared in accordance with International Financial Reporting Standards without reconciliation to US Generally Accepted Accounting Principles (US GAAP).

This change eliminates what has in the past been seen as one of the main obstacles to foreign private issuers entering and remaining in the US public markets. Foreign private issuers will still be permitted to prepare their financial statements in accordance with US GAAP with a reconciliation, the new rules being optional rather than compulsory.

The only versions of IFRS that will be accepted by the SEC without reconciliation are those issued by the International Accounting Standards Board (IASB). The European Union amended version of IFRS, for example, would be unacceptable.

The SEC explains that "the purpose of the requirement to use the IASB-approved version is to encourage the development of IFRS as a uniform global standard, not a divergent set of standards applied in every nation. Consistency of application of IFRS will help US investors who own foreign securities to have better comparability".

The new rules apply to all annual financial statements for accounting years ending after 15 November 2007. Meanwhile, it remains to be seen how the US domestic investing community - which is not eligible to take advantage of the rules - will regard this development.

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Sovcomflot thrives on service

Sovcomflot (Cyprus) Limited has a big job. It is the financial arm of Russia's state-owned shipping giant, JSC Sovcomflot. That means preparing consolidated budgets and financial statements for group companies, accounting for a fleet of seventy ships managed by Unicom Management Services (Cyprus) Limited, one of Sovcomflot's ship management arms, providing financial advice on the group's activities, and managing the cash.



Marios Orphanos

"Essentially, we provide accounting and financial consultancy and treasury services for the group," explains Marios Orphanos, managing director of Sovcomflot Cyprus. "And we are preparing the group for an IPO.

I've got a staff of thirty-five in Limassol, including a number of qualified people, and I seem to be in the office until late every evening. I can say that this is a huge and challenging job. Fortunately, I love it."

Marios joined the Sovcomflot group in 2000 when he was offered a job by Unicom, in the position of Group Chief Accountant. "I was working as an audit manager for Moore Stephens," he explains. "I'd trained with Moore Stephens and qualified, and Sovcomflot was a big client for me to work on and a big challenge. It was interesting to move and join them, to assist them in developing their accounting and reporting and to help them split off a separate financial and treasury company in 2006, which is what I run now. The structure gives us better corporate governance and control than having everything under one roof".

Sovcomflot set up operations in Cyprus originally in 1991 as an offshore base but a lot of things have changed since then. Marios explains, "We have a good company structure and good people in Cyprus. We are well placed to give good advice to all the

group companies, to review internal procedures and processes, and to give our opinion on new projects. This is never a boring job. The group is expanding into all sorts of exciting new projects, mostly energy-related and in difficult climates, so we have plenty of excitement".

The recent transfer of the controlling shareholding of the Russian Government in JSC Novoship to JSC Sovcomflot has created a global leader in energy shipping with a fleet of 124 vessels totalling 8.7m dwt. "It was be a real challenge for us and our colleagues in Novorossiysk to prepare the consolidated financial statements of the enlarged Sovcomflot group by the end of March," says Marios, "but we had the expertise and dedicated staff in both locations upon whom we can always rely".

One key role for Marios and his staff is to act as the interface between Sovcomflot's companies and offices and its external auditors, Moore Stephens. "Moore Stephens have been our auditors for a number of years, principally because the service we need is there. They are experts in shipping and know our business well. At the same time they can be contacted whenever we need them and are flexible with their resources. I learnt a lot working with their London shipping team and I am still learning a lot from them. This is a never-ending process."

www.sovcomflot.ru

Non-doms post-Budget

The large overseas shipping community based in London will be among those least pleased with confirmation in the UK Budget that individuals who live in the UK but who are non-domiciled for tax purposes will have to pay an annual £30,000 levy.

The levy was confirmed despite heavyweight political and business opposition to its imposition in the lead-up to the Budget. Its impact will be only slightly lessened, if at all, by the Chancellor's confirmation that there will be "no changes to this regime for the rest of this parliament or the next".

But, new rules provide new opportunities. In this post-5 April era, there is time to digest the new legislation as it is unveiled and consider the options in individual cases. There is likely to be keen interest in offshore investment vehicles, such as offshore roll-up funds and investment bonds. And, for those who need to remit from abroad, the fact that offshore gains are only taxed at 18%



(rather than 40%) creates new possibilities, where clean capital is scarce.

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Mixed fortunes on UK tonnage tax

There is good and not-so-good news for UK owners and operators on tonnage tax.



Sue Bill

The good news is that the UK government has announced that the package of changes to UK tonnage tax published in January, as a result of initiatives taken by the European Commission, has been withdrawn. These changes proposed excluding from tonnage tax vessels providing transport in connection with

services at sea such as cable laying, diving support and research, as well as a number of other operational elements, including profits of passenger vessels from gambling, certain retail sales, recreational activities off the ship, and shore excursions.

If implemented, these changes would have been potentially damaging for shipowners who had made a ten-year commitment to tonnage tax. It is encouraging that the UK government and the European Commission have apparently responded to owners' and operators' concerns.

The not-so-good news, however, is that EU flagging rules relating to UK tonnage tax included in the Finance Act 2005 came into effect on 1 April 2008. The 2008 financial year has been specified by the UK government as one where the proportion of vessels within the UK

tonnage tax regime registered under an EU flag has reduced on average in the preceding three calendar years. This is one of the conditions set out in the Finance Act 2005 as triggering the need to register a vessel under an EU flag.

The other conditions are that less than 60% of the tonnage tax company or group's fleet is already flagged under an EU flag, and that the tonnage tax group or company's fleet contains a lower proportion of EU member state-registered tonnage than on 17 January 2004.

As a result, if all of the above conditions apply, any newly-operated ship will need to be registered under an EU flag within three months to qualify for inclusion within tonnage tax.

The EU flagging rules have caused great consternation. But it is important to remain calm and to consider carefully the effect of the rules and whether it is possible to plan to ensure that they do not apply. Even if the rules do apply, the best option may be to have one or two vessels operating outside UK tonnage tax, with the bulk of the fleet within the UK tonnage tax regime.

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Bulls and bears

Ed Kuczmariski, co-managing partner at Moore Stephens Hays, New York, spoke at the recent Hellenic-American/Norwegian-American Chambers of Commerce 14th Annual Joint Shipping Conference in New York.



Ed Kuczmariski

The conference looked at 'Shipping Markets Today - Are the Bulls and the Bears Right?'

Speaking during the 'Real Costs of Shipping' module, Ed was able to address the programmed issues of rising costs, insurance claims, regulatory pressures, and trends and predictions by direct reference to Moore Stephens' OpCost report, the only product of its kind on the market.

OpCost continues to explore new areas

OpCost, Moore Stephens' unique ship operating costs benchmark, goes from strength to strength.

It is firmly established as the primary source of operating cost information for the international shipping industry, and currently covers 23 different vessel types and more than 1,500 ships. Sales are continuing to rise by an average of 10%, year on year. OpCost is widely sourced and quoted as a valid and highly credible point of reference by shipping people throughout the world. And the good news is that OpCost is getting bigger, and it is getting better.

The 2007 report added some new features. In addition to the main indices, we created indices for each main vessel type (bulkers, tankers and container ships) in the four main categories of crew costs, stores, repairs and maintenance, and insurance.

Work on OpCost 2008, for publication later this year, is now well advanced. Continuing our policy of incrementally increasing the scope of analysed data, we plan to embrace more vessel types, such as LNG carriers. We are also looking to introduce age stratification, and will continue to look at ways of enhancing existing data such as drydocking costs.

OpCost will continue to grow in concert with the application of increasingly more sophisticated analytical



techniques to information received from contributors, who receive copies of the report free of charge and who are guaranteed complete anonymity.

To submit your data, or to reserve a copy of OpCost 2008, please contact richard.greiner@moorestephens.com



Quote

"Money is better than poverty, if only for financial reasons."

Woody Allen

Who to contact

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April 2008

Profile: Robert Facer



A good qualification in mathematics is the right thing to have on your CV when you apply for a job as a VAT inspector, which is what Robert Facer did, successfully, after leaving university. These days, Robert is a senior VAT manager at Moore Stephens, having joined the firm in March last year. He is part of a team which covers all aspects of VAT compliance and consulting.

Robert does a significant amount of work for clients in the shipping industry. He explains, "VAT is an important consideration for

shipping businesses. Many shipping-related services are zero-rated. This can allow VAT registration to be obtained, so that VAT incurred on costs can be recovered. However, care needs to be taken, as zero-rate VAT does not always apply.

"One area that is sometimes overlooked is the VAT treatment of freight transport services from one EU member state to another. Unlike international freight transport, which is zero-rated, intra-EU services are subject to standard rate VAT when supplied in the UK. Furthermore, where the transport begins in another EU member state, this can give rise to an obligation for the supplier to register and account for VAT in that EU member state.

"In some cases, however, it is possible to avoid the need to charge VAT by passing the responsibility for the VAT account to the customer, using the 'reverse charge' principle. As HM Revenue & Customs in the UK can go back three years to collect underpaid VAT, incorrectly zero-rating supplies can be a costly mistake."

Robert enjoys his role at Moore Stephens. He says, "VAT has a very wide application. I like the great variety of work. There are lots of clients who need advice, lots of regulatory challenges to be met, and lots of opportunities for problem-solving."

When he isn't taxing himself at the office, Robert enjoys spending time with his wife and two young sons. He likes to read, and to play golf, whenever he has the opportunity. He has a handicap, but - suspiciously, for a VAT manager - not one he is prepared to declare in print.

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New team members

The Moore Stephens shipping team has three new members.

Chris Beveridge joined Moore Stephens as an audit senior in January. Chris is enjoying the volume and variety of work. "I joined to be part of a bigger firm," he says, "and to take on new challenges. And that is what I am doing." Chris is a keen sports fan. Both he and his girlfriend are Tottenham Hotspur season-ticket holders. Patience and optimism - not to mention a good memory - are admirable qualities in an accountant.

Ashvin Gunessee joined as an audit senior in December. Ashvin likes the changing nature of his job, which he says keeps him on his toes, meeting people, and working in a different environment. Outside work, Ashvin enjoys going to the gym, listening to music, and socialising. He also likes playing and watching football. He is a Liverpool fan. Learning to cope with constant change - and looking good in red - are fine qualities in an accountant.

Atif Yaqoob joined Moore Stephens as an audit semi-senior in October. Since joining, his face has been more familiar in Monaco and at clients than it has been at



Moore Stephens' offices. Atif enjoys the hectic pace, and finds the shipping industry fascinating. Outside work, his main hobby is motor cars in general and he enjoys Formula One. Atif describes himself as a "pure-blooded Northerner" who is always the last to read his own mail. This is because all four male members of his family share the same first and last names.