



The Bottom Line

Business advisers and auditors to the shipping industry

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Operating costs hit by insurance and crew expenditure

Last year, shipowners experienced an average increase of just under 4% in their total operating costs, compared to the previous year. And OpCost 2006, Moore Stephens' operating cost benchmark tool, confirms that the biggest increases were recorded on insurance and crew costs.

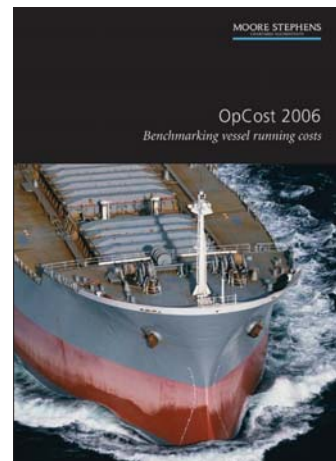
All vessel categories experienced an increase in total operating costs, but the increases were not as marked as in the previous year, when owners were using the cash generated by a period of strong freight rates to upgrade their ships. This year, overall operating costs in the tanker market, for example, were up by 5.4% on a year-on-year basis, while a smaller increase - of 3.7% - was recorded in the bulk carrier sector.

OpCost 2006 shows that repair and maintenance costs were down by an overall 1.2% on the previous year. There were, however, significant variations across different vessel types. Dry cargo vessels, for example, showed a near-twenty per cent increase in expenditure on repairs and maintenance. But there was a drop of 18.7% in the same area for container ships, where big is increasingly becoming beautiful.

Although the percentage increase in expenditure on crew costs was actually down on last year, it still came in at an average 9.2%. These costs were up for almost all vessel types, and VLCCs recorded one of the highest increases - almost 20% - proving that there remains a premium for experienced, specialist crew.

Lube oil costs, unsurprisingly given the crises in that market, were significantly up, but the single biggest increase - of 10.6% - was recorded for insurance. Dry cargo ships, the workhorses of the market, recorded the biggest increase, at 31.2%. Cut-throat competition for business between underwriters in the marine markets has traditionally served to keep premiums down, but the insurance market may have gained some courage from a series of big losses. In P&I, meanwhile, increasing claims costs, higher reinsurance outgoings and generally uninspiring investment returns saw most of the clubs call for significant general increases.

Moore Stephens Shipping Industry Group partner Richard Greiner says, "Although the percentage increases in total operating expenditure, overall, were down on the previous year, the significant increases shown in certain categories emphasise the need for owners and operators to keep a tight rein on costs.



"OpCost has become a primary tool for benchmarking shipping costs, forensic accounting and preparing or checking business plans. This year, the number of vessels participating in the survey has increased by 10%, and

demand for its use has grown strongly too. This is real data, from real ships, and gives a real comparison."

OpCost 2006 is extracted from Moore Stephens' database of actual running costs of over 1,300 ships for the year ended 31 December 2005. This year's report covers the twenty most common vessel types. Operating costs are shown for each vessel type, broken down into five main groups of crew costs, stores, repairs and maintenance, insurance and administration. The report also includes an analysis of changes since last year and information on dry-docking costs and duration. Running cost information in OpCost is obtained on a confidential basis from shipping clients of Moore Stephens, and from shipowners and managers who voluntarily submit accounts for inclusion. Clients and voluntary contributors receive free reports, while for third parties the report is available for sale at US\$750 per copy. Special reports on details within the database can be tailored to individual needs.



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Speaking out

Moore Stephens' expertise is always in demand. This autumn Richard Greiner is having an especially busy time.

In September, Richard lectured at the prestigious Seatrade/Cambridge Academy of Transport shipping course on interpretation of financial accounts. This course typically has thirty delegates from a wide range of countries and has been a foundation stone for many shipping leaders.

Also in September, Richard spoke at a UK Trade and Industry-sponsored conference on China, its trade and opportunities. Richard delivered practical advice on dealing with the financial and tax regimes in place in China, and explained how these are changing.

In November, Moore Stephens will again speak at the annual LSE Ship Finance Conference, where Richard will give an update on accounting for leasing, a topic much in the news following tax changes in the UK.

For copies of the papers or more information please contact **richard.greiner@moorestephens.com**

Shipping man gets political

Is politics a substitute for real life? Not if you ask Harry Rayner. He has spent almost forty years in shipping, and for a lot of that time he has also been active in politics. Now he is changing the balance between them a little.



"I've been a shipping company director since 1974," he says. "Now I'm retiring from Britannia Bulk and want to become more active in Kent politics, but I'm already getting calls asking me about becoming a non-executive director. I suppose a lifetime's experience in shipping

is too much to lose, so I'm thinking about it. But politics will come first now."

What came first for Harry was joining Ellerman Line in 1969, straight from school. Then followed a stint with Cayzer Irvine where he worked in all the departments of a major shipping group before joining the start up Chartering Department at Union Transport in 1971.

"The UK was entering the Common Market then," he says. "There was a big growth in short sea trade coming up. I was with Union Transport for twenty years and left as group managing director, then had a spell working for myself before joining Rainbow Shipping in 1997." Rainbow Shipping evolved, with the assistance of Moore Stephens, into UK tonnage tax bulk carrier owner and operator Britannia Bulk plc, which has been highly successful since moving into the regime in 2004.

"It's a funny world," says Harry. "I had years exporting coal from UK ports, then we had the 1984 miners'

strike when the UK's power supplies depended on us shipping coal around the power stations. Today we have built a new company which has as its backbone importing Russian coal to the very ports I used to export from. Coal was the key issue linking the highlights of my career, first the miners' strike which was so demanding, now building up the new company in the last couple of years."

When he is not moving coal, Kent-born and bred Harry is active as a parish council chairman, which shares his seemingly limitless energy with his hobby of bell ringing. "Now politics will come first, bells second and shipping next," he jokes.

Harry's relationship with Moore Stephens goes back around twenty years, when the firm began to audit Union Transport. Harry kept in touch and introduced them into Rainbow Shipping. "Moore Stephens was a key adviser in helping us make Britannia work as a tonnage tax company," he says. "They have an excellent depth of experience in shipping, and especially when you've been doing it as long as I have, you really appreciate dealing with people who know what they are talking about."

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UK tonnage tax last chance

Act now and act quickly if you want to take advantage of the UK's tonnage tax regime. The scheme potentially offers considerable benefits for those who opt in, but the chance to do that is about to go, and no-one can foresee when another window of opportunity to elect in will open. The window for election closes on 31 December 2006 for all those who could qualify and who have been operating in the UK for more than one year.

Don't leave election to the last minute, as Christmas comes early for tonnage tax this year. There is only one individual at HM Revenue & Customs dealing with pre-clearance applications and he is likely to be snowed under in the run up to 31 December. Even a direct election will take time, as the proposed training scheme has to be cleared by the DfT before an election can be made. And as careful analysis of the pros and cons of entering the regime is always a good idea, those thinking about it are already in the Last Chance Saloon. Perhaps a good place in the lead up to Christmas, but not so good if your company is left out in the tax cold.

Foreign companies entering the UK and newly established UK qualifying companies will still have one year from the date of commencing qualifying activities in the UK to elect in, but rules prohibit existing qualifiers from selling assets and activities to new entities under the same control for the purposes of opting in to tonnage tax.

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Moore news

Navigator Gas audit

US/UK-based Navigator Gas has appointed Moore Stephens as auditor. The company owns and operates five 23,000 m³ LPG carriers. David Anstis will be the responsible partner.

Sovcomflot seminar

International Financial Reporting Standards continue to spread in shipping, and technical partner David Chopping has been in demand explaining their application to particular topics affecting the shipping industry. He recently spoke at a Sovcomflot-organised seminar in Cyprus on the topic. For guidance on IFRS, email david.chopping@moorestephens.com

International network

Partners from the Moore Stephens International network gathered in London earlier this month to share expertise and experience. Today Moore Stephens International is regarded as one of the world's major



accounting and consulting networks consisting of 316 independent member firms with 539 offices and over 15,400 people across 93 countries.

Not all of them are shipping experts, and not all of them came to the international conference, but shipping had a strong representation, as one of Moore Stephen's key areas of special expertise. The international conference gives the shipping team a chance to outreach to new countries where shipping expertise is needed, and it demonstrates to clients the global scale of coverage which Moore Stephens provides.

Profit share pitfalls

There is an increasing trend towards risk-sharing charters that contain profit-related elements. How do the owner and charterer agree on the varying income and then account for it?



A common form is where a time charter contains an element whereby the owner can share in the potential upside of a voyage charter. Accounting principles state that the charterer should recognise income in the period in which it has been earned.

Voyage charter earnings are earned when the vessel is on charter, it is as simple as that.

Fine, but in practice it raises some tricky questions. How and when will the profit share be calculated and paid? What rights of inspection to accounting records will the owner have? What costs and expenses should be included within the calculation of profit? Are these specified in the charter party? How will the owner's auditor verify that the income recognised in the profit share period is complete? How will companies know how much to include in their published results if the period for reporting profit share arrangements does not coincide with this?

Some profit-share charter parties get around the problem of measuring what the profit share should be by linking a fluctuating charter rate over and above

the fixed time charter rate to a known index, usually a Baltic Freight Index. But, however the profit share is to be assessed, each owner and charterer has to ensure they have answers to the questions about how, when and verification before they sign off the charter party. Good corporate governance, and in the US, the Sarbanes-Oxley requirements, mean that companies must have proper controls in place to ensure that all amounts due to the company are correctly recorded and received. So if there is a profit share arrangement, the verification element of that is key. Can you be sure your charterer will open his books, because if not, you can't be sure you can sign off your accounts.

And finally, think about banking covenants. Owners going into profit share time charters must be careful not to breach covenants which require a proportion of the fleet to be on time charter, and they must take care that the profit element is not so large that in effect a time charter becomes a voyage charter.

By all means share the risk, and the profit, but also be clear what the risk is and where the profits lie.

Green winners

Moore Stephens sponsors a prize for the best business plan produced by the students at the International Centre for Shipping, Trade and Finance at London's Cass Business School.

Groups of 5-6 students prepare business plans as a part of their third semester. A panel of academics and industry professionals judges the plans. Over the years some of the plans have been successfully implemented, and many of the students have gone on to play major roles in the shipping industry.

Moore Stephens is very happy this year to see the prize awarded to the Zeus Windfarm project, a green energy initiative. The plan was presented by Markus Wachter, Aidelohi Unuigbe, Mitun Patel, Nia Davies, Eun-Jung Shim, and Nagaraj Kundeti. It is a truly global project in tune with the times.



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Quote

"We have been producing more or less regardless of the calls on OPEC."

Edmund Daukoru, Nigeria's oil minister and president of OPEC, hinting at an oil supply cut if prices fall further this year.

Profile: Sarah Little



Sarah Little was excited when she joined Moore Stephens in January 2005. She knew the firm had a specialist shipping team and she was looking forward to working with them and getting opportunities for some exotic foreign travel. Today she has just been promoted to audit manager, and she is still excited, although exotic travel with shipping has so far been limited to Immingham and Dubai.

"I didn't know much about shipping," explains Sarah. "But I wanted more exposure to international clients,

which is why I chose Moore Stephens. And now as an audit manager in the shipping team I'm developing work with clients all over the world.

Sarah is also excited because she has managed to make her grandfather proud. He was an accountant too, working in a shipping company, and he is pleased to see his granddaughter combining the two disciplines. "It's just as well that I've always liked numbers," says Sarah. "I come from Waltham Abbey, so it was an easy decision to study accountancy at the University of Hertfordshire, and when I had done my training with a smaller London firm I was ready to look for the shipping part of things and a more international outlook."

Sarah says accountancy has given her the chance to experience a wide range of industries and companies, and now in shipping what she describes as a wide range of characters. "It is a very demanding industry and you face a lot of challenges in your daily work," she says. "But the dealing with the clients and the opportunity to travel makes that worthwhile."

When Sarah isn't at work she is trying to improve her cookery skills and learn Italian, both inspired by a holiday trip to Italy. Or she is at the gym and aerobics classes working off the results of her improving skills in the kitchen. Sarah is also a keen reader of crime novels and likes to paint and sketch if she can find time. What will she be doing in five years' time? "I hope I'll have done the travelling I wanted to, learned a lot more about shipping, and I'll be knocking on the partners' doors."

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Moore Stephens expands into St Petersburg

Moore Stephens Russia is doubling in size every two years. Across the CIS it grew 38% last year, and in Russia alone it grew 48%. That astonishing growth has led to the opening of a new office in St Petersburg, to be headed up by Martin Rix.



Gavin Stoddart, managing director of Moore Stephens CIS says, "We have opened a new office in St Petersburg to add to our Russian network to serve the vibrant local economy there. The Russian economy is doing brilliantly. High oil prices have given a huge boost to all the

energy and transport related sectors, but the growth is also coming from other sectors. We see a lot of mid-size companies now looking outwards from Russia, wanting to access international finance, and this is exactly the area where Moore Stephens can help best.

A good slice of our growth has also come from entrepreneurial companies which have reached the stage of needing to sort themselves out as sizeable businesses, having grown from a one man band to a company with an international dimension. Our experience of Russia and the CIS, and of international markets, and our affinity with this size of company makes us the natural partner for them."

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We believe the information in Bottom Line to be correct at the time of going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result of any item herein.

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