



The Bottom Line

Business advisers and auditors to the shipping industry

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Leasing lives on

Recent changes to UK tax laws have made some people think that UK ship finance leasing is no longer attractive and that the UK tonnage tax regime has become more difficult. Wrong on both counts.

The UK tonnage tax regime is not only still beneficial, but there are also new opportunities to elect to enter the regime. As for leasing, the new rules, which are effective from 6 April 2006, specifically exclude tonnage tax companies, which, accordingly, can continue to enjoy the existing benefits. For new leases within tonnage tax, the effect of the new rules has been simply to consolidate the provision of lease finance to those large bank groups, which can take advantage of capital allowances.

Leasing still delivers its significant advantages to shipowners. It gives owners the option to borrow a higher percentage of the value of the vessel and to enjoy a lower cost of funds. The leasing bank gets to offset the capital allowances of the vessel against profits, effectively lowering the cost of the owner's capital employed. This results in rates that can be below LIBOR. Finance leasing is still possible and there is still an active market for such leases for tonnage tax vessels and companies.

The 2006 Budget confirmed the position for leasing. However some new rules were introduced which require a tonnage tax company involved to operate and manage the qualifying ship. The new draft legislation allows tonnage tax companies to continue to use normal third party technical managers so long as they are not connected with the party to whom the vessel is chartered, unless that party is a tonnage tax company. Further, there are new draft rules which state that the ship cannot be chartered out for more than seven years at a time.

As for the tonnage tax regime as a whole, although the UK revenue authorities have been stiffening anti-avoidance measures and the EU has imposed a limited flag requirement, in practice, nothing substantive has changed.

To enjoy a new window of opportunity, UK owners have until December 2006 to elect to join the tonnage tax regime, and foreign owners setting up in the UK can enter the scheme within twelve months of setting up in the UK. Both types of owners would then enjoy a flat and predictable tax, based on net tonnage, while sheltering their shipping income from normal corporation tax. As this includes gains from the disposal



Leasing still delivers its significant advantages to shipowners.

of ships, potential savings are important. And under current rules, changes to the flag requirements will make little difference to new companies joining the tonnage tax regime now, provided they enter with the right flag mix.

More good news for the tonnage tax regime has been announced recently. The year ending 31 March 2007 has been excepted from the new flagging rules introduced by the Finance Act 2005, following on from the exception given already to the year ended 31 March 2006. Therefore, the earliest the new flag rules will apply is 1 April 2007.

Moore Stephens has helped UK subsidiaries of two major foreign groups to enter the UK tonnage tax regime in the recent past, and several large groups are poised to join. The message to owners everywhere is clear. The market is strong and you are likely to make profits. You can increase those profits further by leasing new ships, and you can shelter the income by entering the UK tonnage tax regime. In the UK, leasing is alive and well and so is tonnage tax. Come on in, the water's lovely.

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Hellespont pushes into products

For sixty years, the Hellespont Group has been providing world trade with safe, clean industrial transportation. Originally a Canadian company, the group today is based in Greece and has joint venture companies in Germany and the Philippines. After a long period of being a leader in ULCC operation, the Hellespont Group is today making a major expansion into the product tanker market.

"Safe, secure long-term transportation of energy is what we do, and we look for safe, secure long-term partners to work with."



Basil Papachristidis, chairman of the group, is passionate about high standards and long-term relationships. "We are not in this for the quick buck," he insists. "Safe, secure long-term transportation of energy is what we do, and we look for safe, secure long-term partners to

work with." Currently, Hellespont manages a fleet of four suezmax and one aframax tankers from its German joint venture management company, Hellespont Hammonia. That is jointly owned with one of Germany's leading KG houses, HCI, and also a leading German shipowner, Jochen Dohle. There are six panamax product tankers due for delivery soon from Shanghai's New Century shipyard, and these will be managed from Germany too.

says Basil. "But there is major demand in the products field and we will bring our special focus on high standards to that segment. After that we have some exciting projects, jointly with our German partners and others. This is an exciting time for owners and with good support we can take advantage of a number of opportunities."

What does Basil look for in an accountant and business adviser? "Well," he says generously, "I look for what I find at Moore Stephens. That is first and foremost a thorough knowledge of our very special industry, and then respect as professionals in their own area. It is important that they have a good name and the respect of banks and investors, especially for us as we often choose to work in partnerships with others."

"The products move is a big change for us, as we have until recently focused on the bulk movement of crude oil,"

www.hellespont.com

LLP benefits brokers

Until recently, businesses had only two basic choices of structure. They could be limited companies, or they could be partnerships. But now the UK offers a hybrid structure, the Limited Liability Partnership (LLP) and it offers many benefits for businesses owned by their proprietors. London's thriving broking community is a clear example.

"Every shipbroker should be looking at the new structure."



The majority of shipbrokers are owned by their employees. Most of them have opted to become limited companies, in order to limit the personal liability of the owners and because limited companies were perceived to have more market substance

than mere partnerships. But in practice, most of them are owned by their directors, and all profits are distributed to the directors.

are replaced by the far less onerous Class 2 and Class 4 NI contributions on partners' incomes. This reduction in NI charges can boost partner incomes by 12%. And the public perception of the LLP is the same as that of a limited company, so there is no reason not to switch.

Caveats? For small companies, with less than about six active shareholder/directors, the switch is not complex. For larger companies, with goodwill and brand value in the company itself rather than in the reputations of the individuals, the switch could crystallise a tax charge. But every shipbroker should be looking at the new structure and asking itself why it is paying the Government more national insurance than it needs to.

If such a company now converts to the new form of partnership, the LLP, the business can still limit its liability and the actions of one partner cannot impose a liability on the whole partnership. However, the new structure, whilst treated as a company by law, is taxed as a partnership. And that offers significant savings to the members. In a partnership, Class 1 national insurance payments for both employee and company

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Going beyond compliance

Shipping companies are increasingly becoming aware that they operate in the public eye.

Like oil companies and many consumer industries, they are realising that simple compliance with regulations, however onerous, is no longer enough. They are looking at their place in the wider society and their impact upon it, they are looking at how society views them and the impact on their business if something goes wrong.

The whole process of going beyond compliance is wrapped up in a variety of terms under the umbrella of Corporate Social Responsibility. There is no firm definition of CSR, and nor is there likely to be. But some elements of it are clear. One is that companies who care must have in place, and be able to demonstrate, good corporate governance practices. Companies must know for sure who is running the business, and determined people must take clear and

documented responsibility for every aspect of the business. Another element is a risk management programme. Companies must assess the risks they face - financial, operational, environmental and compliance - and the potential impacts of these risks on their business and their communities, and then put in place controls to keep the risks within acceptable limits.

Moore Stephens is not about to enter the suddenly crowded marketplace for Corporate Social Responsibility consultancy. But it can and does offer simple and clear guidance on corporate governance and risk management for all types of company. With those two elements in place, CSR also begins to look clearer and simpler.

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"Companies must assess the risks they face."

Moore news

OpCost 2006



Data collection for OpCost 2006 is underway. Moore Stephens' unique cost benchmarking tool will be published in September, giving industry wide cost references for the running costs of most common ship types. Based on the

actual accounts of real ships and companies, the information serves to benchmark costs within companies and to support new proposals. Any ship owner can submit audited accounts to be included in the data and in return, receive a copy of the report. All data is guaranteed confidentiality. So join OpCost now, and see where you rate against your peers. For more information, e-mail richard.greiner@moorestephens.com or log on to www.moorestephens.co.uk/opcost.

Tanker rates



Moore Stephens has been appointed as auditor and tax adviser to the Worldscale Association and The London Tanker Brokers' Panel. These organisations set the contents and value of tanker freight rate scales (Worldscale) and publish rate assessments, including the monthly Average Freight Rate Assessments. David Anstis is the partner responsible.

AIMing high

London's Alternative Investment Market is the fastest growing capital market in the world. Over 1,400 companies currently trade on it, enjoying benefits of access to funding and increased visibility. Moore Stephens ran a seminar last month that explained how AIM works, the benefits of listing and the role and requirements of the advisory team in dealing with financial and legal issues. Attendance was high, so AIM is due another boost. For details of how to list on AIM and its benefits, contact phil.cowan@moorestephens.com.

Speaking up

Moore Stephens' shipping team is as active as always in sharing shipping knowledge. Mike Simms is building up a profile as a regular speaker and has worked with Lloyd's List Events recently to deliver their Introduction to Shipping Course. Meanwhile, Richard Greiner spoke on Ships, Flags and Taxes to the Maritime Economics Forum in February and will be reprising the presentation in July. Later this year, Richard is to be a panellist at a Corporate Social Responsibility in Shipping Conference in London in September. For a copy of any of the papers, please e-mail richard.greiner@moorestephens.com.

Moore research

Moore Stephens has beefed up its shipping research team with the recruitment of Ankit Gupta as a research analyst to take over from Morten Bakke. Like Morten, Ankit has joined after completing a Masters degree from the Cass Business School, City University, where he read Logistics, Trade and Finance. He also has a degree in Management Studies.



Quote

"Lloyd's book was built on small relationships, which we will continue to develop. A broad relationship is the key to satisfying the bank's (return) models with these customers."

Andy Longhurst, director of shipping finance, Lloyd's TSB, quoted in Tradewinds, denying that it would follow other banks and squeeze out smaller shipowners as it plans to significantly expand big-ticket ship finance.

Who to contact

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Profile: Elisa Noble



Elisa Noble is off to Singapore, and on a grey, wet, windy day in London, she is very happy about it. "I'm looking forward to the sunshine," she says. "And, of course, Singapore is a very dynamic place to work, very international, but with quite good links to UK business practice, especially the language. So I think it will be both fun and a challenge."

Elisa was until March an audit manager in the shipping team of the London office of Moore Stephens. She joined Moore Stephens straight from Bristol

University seven years ago and despite being hampered by a law degree, has both enjoyed and been a success at becoming an accountant instead of a lawyer. Her husband, a research scientist, has recently gone to work in Singapore, so Elisa was happy to transfer to the Moore Stephens International member firm in Singapore. "They have some clients who overlap with London," explains Elisa, "and also a growing interest in shipping as Singapore is such a big port and shipping hub. I really enjoy working in shipping, the sheer

international nature of it and the people you meet are exciting, and I hope I'll be able to bring my shipping experience and knowledge to bear in Singapore."

Moore Stephens Singapore has been active with many Chinese companies including shipping and shipyards, as Singapore acts as a bridge into China for many western interests. But it also services a vibrant local shipowning, shipbuilding and port community.

Moving to Asia doesn't faze Elisa, as she has been moving all her life. Born in Finland, she has lived in Brussels and the Middle East before coming to the UK. She is a loss to Moore Stephens in London, but she is staying with Moore Stephens and with shipping, and that's a global village which is glad she calls it home.

Moore merger

Moore Stephens LLP and London-based accountants and consultants, Macnair Mason are to merge on 1 May 2006. The merged firm will practise as Moore Stephens LLP, with the transaction adding some £4 million in fee income, seven partners and 46 staff to Moore Stephens LLP's London operation.



Richard Moore, Moore Stephens' senior partner, explains, "Macnair Mason has complementary skills in a number of business sectors, such as insurance, shipping and private clients, which will enable us to target those markets even

more effectively than at present. We are delighted that a firm with such a strong reputation has decided to join forces with us."

Richard Mason, Macnair Mason's senior partner, adds, "Being part of a larger firm will result in us being able to give the technical and technological support to our partners and other team members that will enable them to focus more effectively on client needs, as well as giving those clients access to a greater range of services than we currently offer. The emphasis is on continuing to give an excellent personal service to clients, enhanced by the abilities of a larger and deeper team."

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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