



The Bottom Line

Business advisers and auditors to the shipping industry

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Time to get a grip on costs

Spending patterns during the last year clearly show owners are using the cash generated by a period of strong freight rates to upgrade their ships. But there are also signs that owners are allowing other costs to rise as financial discipline slackens during an unusually long high freight rate cycle.

Unveiling OpCost 2005, Moore Stephens' operating cost benchmarking tool, Chris Chasty, head of the shipping group, says, "Overall, total costs for owners were up in almost every area, pushing up total outgoings by around 12%. Encouragingly, the biggest rise has been in repairs and maintenance spending, which points to owners upgrading tonnage and keeping ships trading."

Increases in total crew costs, stores and insurance are more moderate, but still significant. Chasty warns, "When rates are high it is tough to keep to financial disciplines. But in shipping, the down cycle always comes, and only the owners who keep a tight grip on outgoings will survive when it arrives."

The OpCost 2005 report is extracted from Moore Stephens' database of actual running costs of over 1,200 ships for the year ended 31 December 2004. This year's report covers 20 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.

Chasty warns, "When we see costs rising in areas such as crew costs, where there have been rises of 9%, then alarm bells sound. Shipping is inherently cyclical, and decisions made when rates are high can often sink the company when rates fall. Our advice is to get a grip on costs now, make all decisions based on historical rates rather than those of the last year or so, and keep the hatches battened down. It is easy to let running costs creep up in times of good income, but very hard to cut them back when cash is scarce."

Running cost information in OpCost is obtained on a confidential basis from shipping company clients of Moore Stephens, and from shipowners and managers who voluntarily submit accounts for inclusion. Clients and voluntary contributors receive free reports, while third parties can purchase the report for US\$750 per copy. Special reports on details within the database can be tailored to individual needs.



"OpCost has become a primary tool for benchmarking shipping costs, forensic accounting and preparing or checking business plans."

"OpCost has become a primary tool for benchmarking shipping costs, forensic accounting and preparing or checking business plans," says Chasty. "The input data has grown from around 500 ships to over 1,200 in the past five years. This year our sample of vessels has grown by over 25%, and we have seen demand for its use grow strongly too. There is simply no other way for owners and managers to see if they are paying out the right amounts or not. This is real data, from real ships, and gives a real comparison."

OpCost 2005 shows that it is time for owners and managers to look at their spending, compare it to others, and make sure they don't get carried away. Get a grip on costs now.



The Bottom Line

Sea Trucks' new pipe layer Jascon 5



"It all follows a logical growth path, building steadily on our expertise and our ability to operate in challenging environments."

Sea Trucks Group goes global



As global offshore oil markets grow, a new player is emerging on the world stage. Lagos-based Sea Trucks Group has been growing steadily as a provider of offshore services in Nigeria for almost thirty years.

After an earlier expansion into other West African countries like Angola, last year the group began operations in the Middle East, with a supply base at

Sharjah and a pipe layer working in the Gulf. "We are now looking at expansion into other parts of the world," says Cobus Pot, group financial director.

"This is a growing market and we have gradually built ourselves a strong position. Over the past year we have taken delivery of some very good new vessels which are performing well, so we are optimistic about further expansion."

The Sea Trucks Group is a Dutch-owned privately held venture, which today employs over 1,400 people and turns over about \$80m. It sprang from a Dutch insurance broker that set up in Nigeria in 1974. Today, it runs offshore support bases and construction sites in Nigeria and Sharjah, and has a mixed fleet of support vessels and pipe laying vessels deployed across West Africa and the Middle East Gulf. "We have more new vessels being built for us now," says Pot. "These include anchor-handlers and pipe layers, as well as accommodation barges. It all follows a logical growth path, building steadily on our expertise and our ability to operate in challenging environments."

When it comes to financing new vessels and expansion, Pot says the group is profitable and so is able to fund part of the expansion itself. "We work with European banks, some West African banks and also other financial institutions," he explains. "We have built up good relations with them in recent years. However, as we are partly based in Nigeria, we have seen in the past initial reservations by some institutions to engage with us, and in some cases we had to pay a premium for funding if you compare our business with one wholly based in Europe."

Pot says extra margins on loans are gradually less of an issue as the group becomes more international. "We can show lenders a strong balance sheet, a strong track record over a long period and we can prove our competence in working in offshore support services and in West Africa," he says. "However, we felt that with our growth and global expansion we needed a credible independent and international audit of our financials. Moore Stephens had both the maritime knowledge and the credibility with international institutions that we needed. They have definitely been a help to us over the last couple of years."

www.seatrucksgroup.com

Tonnage tax last option for UK leases



The UK tax authorities have called last orders for UK tax-based leases of ships, unless the owners join the tonnage tax regime. Shipping companies who were going to acquire newbuilds using a UK tax lease structure may now have to change their plans if the asset cannot be brought into use before 1 April 2006.

In December 2004, the Government announced proposed changes to the UK tax treatment of certain leased plant and machinery. Under the new rules, capital allowances will no longer be available to lessors for certain types of leases, but will be available to the lessee instead. Under the current rules, the capital allowances available to the lessor are reflected in lower rentals charged to the lessee, resulting in real savings to the lessee.

On 21 July 2005, the Government announced further information on the regime, including further details of the transitional rules. The existing regime will continue to apply:

- (i) to existing leases;
- (ii) where a written contract is finalised before 1 April 2006 and the asset is brought into use by that date;
- (iii) to expenditure incurred before 21 July 2005; and
- (iv) in some cases where a written agreement was entered into before 21 July 2005, the asset is under construction by 1 April 2006, and brought into use before 1 April 2007.

The tighter timetable is likely to put paid to a number of leasing arrangements that were planned for before April 2006. The leasing sector may now turn its attention to structures using tonnage tax companies.

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Booking system boosts cruise company

Specialist cruise operator Norwegian Coastal Voyages has dramatically improved its booking management and customer satisfaction by installing new software tailor-made by Moore Stephens Consulting Limited. The system has been running in NCV's UK office since 2003, and went live this summer in New York.

NCV is a high-end travel company that must cater to the individual requirements of its discerning customers. It delivers a range of package, tailor-made and group cruises to a variety of destinations and in a number of different price brackets. It operates 11 ships that visit 34 ports on the coast of Norway and sells its holidays to members of the public and to third-party travel agents. It was struggling with a system that required operators to click through different screens to build up the components of a reservation, making customers for even standard holidays hang on the line for 15 minutes or more. Tailor-made holidays took even longer, and group holidays were almost impossible to manage. Substantial numbers of would-be passengers gave up without getting through. And internally, operators needed a high degree of training, while management could not get clear information out of the system about their passengers or about costs and revenue.

The Moore Stephens Consulting solution integrates all the booking requirements and manages data behind the scenes so that it can be accessed in a number of

ways through user-friendly reports. The system, developed on a Microsoft®.NET platform, saves NCV 175 person-days per year, cuts training time and costs and has dramatically improved the response to customers. Less than 1% of calls are now lost, and management can extract information about who is booking what very easily. The success of the system in the UK has led to it being rolled out to the busy New York office.

Moore Stephens Consulting acquired the resources to develop powerful database management systems when it acquired the business of Phoenix Database Technologies earlier this year. Previously, it could deliver advice on systems and also dashboards and KPI reports for management information. Today, as shown by the NCV success, it can deliver full scale systems that meet all a company's data management needs, and do it at a price and within a time scale which, in the case of NCV, was 30% better than any alternatives.

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The system... saves NCV 175 person-days per year, cuts training time and costs and has dramatically improved the response to customers.

Moore news

Tonnage tax seminar

Moore Stephens is hosting a tonnage tax seminar to update shipowners and other interested parties on changes to the regime and the opportunities they provide.

It will cover recent changes to tonnage tax legislation and practice, and provide practical guidance on maximising the benefits of the regime. The seminar will take place at Salters' Hall, London, between 16.00 and 18.00 on Thursday, 20 October 2005. For more details and an invitation please contact Richard Greiner by calling +44 207 334 9191 or e-mail richard.greiner@moorestephens.com.

ITOPF appointment

Moore Stephens has been appointed auditor to London-based International Tanker Owner's Pollution Federation Limited, which devotes considerable effort to a wide range of technical services, the most important of which is responding to oil spills. Richard Moore is the engagement partner.

Head scratching

The introduction of International Financial Reporting Standards (IFRS) is leading to some head scratching in the shipping world. Shipping has always used international standards, but there are key issues which IFRS affects. These include the treatment of vessel valuation, leasing, and the way financial instruments have to be reported.

David Chopping will make a presentation on the effects of IFRS on shipping to the Lloyd's Shipping Economist Ship Finance conference on 8-9 November in London. Before the conference, Moore Stephens will run a full day workshop covering all aspects of the IFRS impact on shipping. David Chopping, Richard Greiner, Mike Simms and Susan Barbour will cover the issues and the seminar is organised by Lloyd's List Events. For more information go to www.lloydslistevents.com or contact: richard.greiner@moorestephens.com.



David Chopping



Quote

"The idea that money cannot buy happiness is a lie put about by rich people to stop poor people killing them."

–Michael Caine, film star and restaurateur

Profile: Alex Eustace



Think of jobs which young people would identify as dynamic, varied, exciting and with lots of chance to travel and meet interesting people. Does auditing spring to mind? It did for Alexandra Eustace, who is an audit supervisor in the firm's shipping industry group.

"I've always wanted to travel, and always wanted to work in the City of London, and I'm logically minded," says Alex. "So after university it seemed to me that

accountancy was the way to go. It gave me a chance to get a good qualification and almost guaranteed employment too. And I love being booted and suited and at work in London. After growing up in a very small village I can't get enough of the buzz of big city life."

Alex studied Geography and American Studies at Keele University, mostly because it gave her a chance to do a field trip in Kenya and spend a semester studying in Oklahoma. Then she chose Moore Stephens partly because it was friendly, and partly because she saw more opportunities for travel.

"I go to Monaco for a month each year for a major client, and I've just come back from six months with the Moore Stephens member firm in Melbourne, Australia so I'm getting the travel, no worries," says Alex.

Why shipping? "I began in shipping with Moore Stephens, and found as I learnt more that it was interesting to be a specialist in an industry that isn't run of the mill," she says. "Funny thing, my dad was a marine underwriter, and I've started to find it interesting to talk to him too. I come to work each day and it's never routine. People think auditing is very routine, but it isn't. It calls for a very detailed and precise approach to each problem or task, but the variety of problems, and the variety of clients, means it is very dynamic. The only problem I have is that none of my friends know anything about shipping. But they do enjoy coming to visit me when I'm working abroad, so that's great."

When Alex isn't focussing in on client assignments, she is an enthusiastic supporter of Arsenal Football Club. Ask her what she expects to be doing in five years time and she replies, "I'll still be celebrating England winning the World Cup while I'm watching Arsenal win the Champions League," she says. "And at work I'll have a lot more experience of shipping, and will have met a lot more interesting people and travelled to and worked in a lot more countries."

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Moore future leaders

Every year Moore Stephens sponsors a £750 cash 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. The students, in groups of five or six, prepare business plans as a part of their third semester. The groups present their plans to a mixed panel of academics and industry professionals. 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 Bunkers2Go, a bunkering service initiative for the Caribbean. The plan was presented by Taira Torrijos, Jorge Murrera Mora, Martha Liakakou, Cato



Ervik, Ayse Enc and Orhan Deval. The names of the students tell the story of the truly global nature of this course, and the industry it feeds with talent.

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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