

Comparative Study On Accounting Policies & KPIs in the Shipping Industry *Survey 2012*



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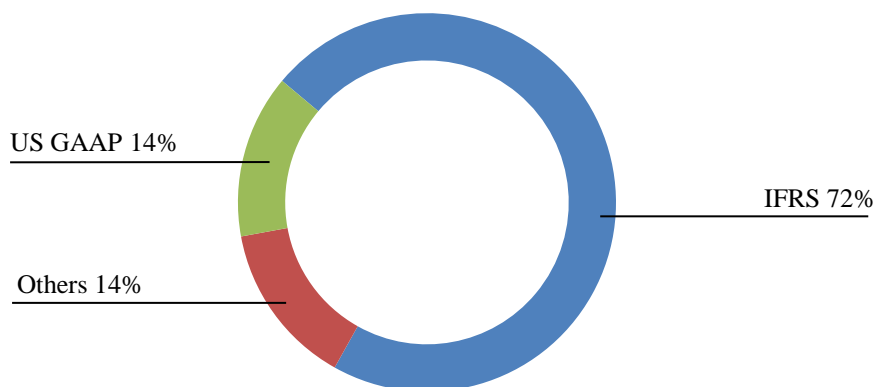
FOREWORD

The purpose of this survey is to provide a comparative study on the significant accounting policies of transactions and balances applicable to the shipping industry for the entities surveyed.

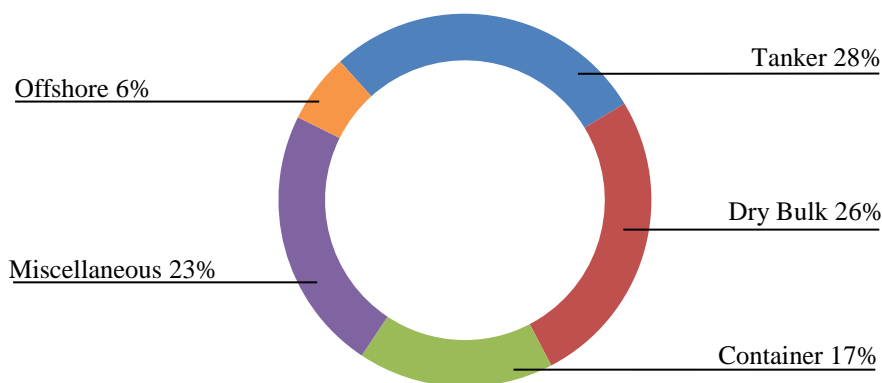
In addition, this publication shows the analysis of key performance indicators (“KPIs”) of entities in different subsectors of the shipping industry, namely, container, dry bulk, offshore, tanker and miscellaneous (entities active in different or several subsectors of the shipping industry).

This survey was conducted in year 2012. We have surveyed the most-recently available annual financial reports of 100 entities for this publication. These entities are the major players in the shipping industry. Financial data have been derived from publicly available financial statements and annual reports of these entities from 30 November 2010 to 30 September 2011 prepared using either International Financial Reporting Standards (“IFRS”) or another basis of accounting. A number of international shipping entities prepare their annual financial statements using a basis of accounting that differs from IFRS. Accordingly, we have included their respective accounting practices as an exception to IFRS.

Analysis by different accounting frameworks



Analysis by subsectors



This publication has been prepared for the benefit of a wide range of potential users. Primarily it is directed at shipping entities’ finance directors, chief financial officers, controllers, managers and their professional advisers, together with those responsible for investment appraisal.

Each section of this publication examines a significant accounting policy peculiar to the shipping industry. A synopsis of the accounting requirements under IFRS is given by way of introduction to each section. An analysis of the general approaches on each section is also included. We expressly do not provide any assessment of the appropriateness of the accounting policies applied by the shipping entities in their annual reports included in this survey.

We are most grateful to those individuals listed on page 91 who provided valuable comments and thoughtful insights to this publication.

SECTION A

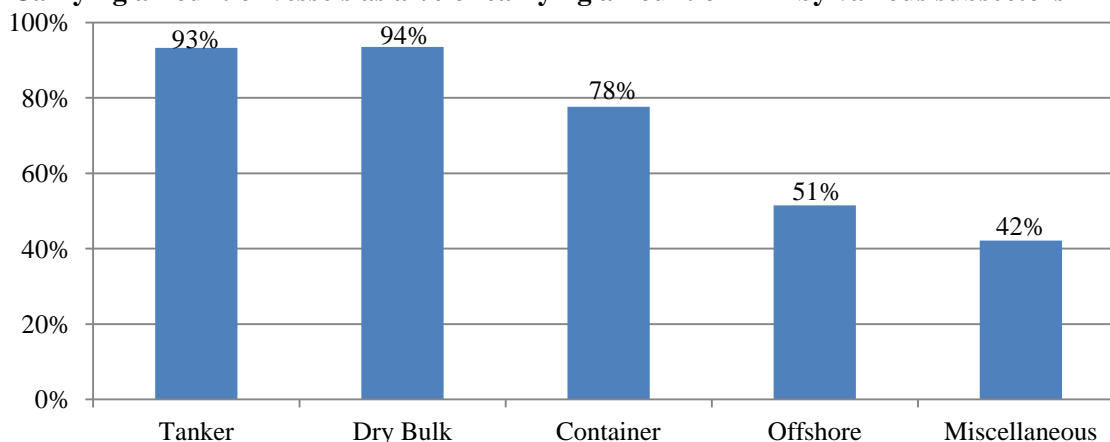
**INSIGHTS INTO THE SIGNIFICANT
ACCOUNTING POLICIES OF THE
SHIPPING INDUSTRY**

ASSETS

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”)

1.1 For many shipping entities, vessels are the most significant item of property, plant and equipment (“PPE”), as depicted in the graph below. Vessels and other related infrastructure are expensive items to build and are constructed with the expectation of having long remaining useful lives.

1.2 Carrying amount of vessels as a % of carrying amount of PPE by various subsectors



Out of the 100 entities covered by our survey, 10 entities did not separately disclose the accumulated depreciation for vessels and 9 entities did not have vessels in their balance sheet. The carrying amount of vessels for these 19 entities was not disclosed, hence, they are excluded from the analysis above.

1.3 The chart above shows that the carrying amount of vessels constitutes more than two-thirds of the total net PPE of shipping entities covered in this survey, with the exception of those under the offshore and miscellaneous subsectors. The graph depicts the three major subsectors in the shipping industry namely, tanker, dry bulk and container. According to the recent shipping statistics, they comprise 88% of the world merchant fleet. This can be due to the development of new larger ship designs and the concentration of existing larger ship designs.

1.4 Most entities under the offshore and miscellaneous subsectors are involved in other lines of business activities namely property, hospitality and investment. They do not own a large fleet of vessels, and some do not own any vessels, as the vessels are chartered in by these subsectors.

Initial Recognition

Requirements under IFRS

1.5 Under IFRS, an item of PPE that qualifies for recognition as an asset is measured at its cost.

1.6 IAS 16 requires the total cost of each asset being acquired to be determined. Once the total cost has been determined, this total amount can then be used as the starting point from which to determine each individual component amount of each significant PPE (the determination of component values is set out in the section on component approach).

1.7 In general terms, the cost of PPE includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Newly Built Vessels

1.8 Upon delivery of a newly built vessel, the balance should be included as part of the cost of the asset within PPE. The total cost of the newly built vessel should therefore be determined by aggregating all of the following costs incurred that are material:

- Total net cash paid to the shipyard based on the fair value of the consideration given to acquire the vessel at acquisition. [IAS 16.6];
- Any capitalised borrowing costs or finance charges accrued as a result of making pre-delivery instalments (“PDIs”) to the shipyard;

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Initial Recognition (cont’d)

Requirements under IFRS (cont’d)

Newly Built Vessels (cont’d)

- Vessel registration and certifications;
- Seaworthiness certificates;
- Legal costs and other related professional fees which are directly associated with the purchase of the vessel;
- Amounts paid to acquire purchase options in respect of the vessel; and
- Any other costs directly attributable to bringing the vessel to the location and condition necessary for it to be capable of operating in the manner intended by management. For instance, this may include the costs of lubricants and bunkers consumed prior to delivery for example during the sea trials, supervision costs incurred during the construction period. The net cash paid for the vessel will be the aggregate of the PDIs and the balancing payment made.

Results of Survey

1.9 Entities that disclosed the breakdown of components of additions to vessels by subsectors

Cost components of vessel addition	Tanker	Dry Bulk	Container	Offshore	Miscellaneous	Total
Cash payment*	4	7	3	2	6	22
Cash payment* and finance lease	-	1	-	-	-	1
Cash payment* and capitalised interest cost	2	3	1	-	-	6
Subtotal	6	11	4	2	6	29
Entities without vessels/vessel additions	5	2	1	2	6	16
Entities that did not disclose the cost components of vessels	17	13	12	2	11	55
Subtotal	22	15	13	4	17	71
Total	28	26	17	6	23	100

* Extracted from cash flows from investing activities in the Cash Flow Statement

Out of the 100 entities surveyed, only 29 entities have disclosed in their Cash Flow Statement the amount of cash paid for vessels acquired during the financial year. 71 entities were excluded from the analysis which comprised 16 entities that did not have vessels or additions to vessels and 55 entities that did not expressly disclose the components of the cost of vessels acquired.

- 1.10 Of the 29 entities, 22 entities disclosed the cash paid for the acquisition of new vessels. 1 entity disclosed that the additions to vessels comprised of cash payments and vessels held under finance lease. 6 entities disclosed that aside from cash payments, borrowing cost was also capitalised in the cost of additions to vessels.
- 1.11 None of the 29 entities disclosed information on other costs that are directly associated with the purchase of vessels (such as vessel registration, legal costs and other professional fees) that may have been capitalised as part of the vessel costs.

Pre-delivery Instalments (“PDIs”)

Requirements under IFRS

Included as Prepayments

- 1.12 A vessel’s acquisition price is agreed via contractual terms which are often years in advance. There are generally different arrangements where the vessel is delivered, either early or late. PDIs are used to secure the purchaser’s place in the delivery timetable for the vessel, and to provide part of the

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Initial Recognition (cont’d)

Newly Built Vessels (cont’d)

Pre-delivery Instalments (“PDIs”) (cont’d)

Requirements under IFRS (cont’d)

Included as Prepayments (cont’d)

finance for the construction of the vessel. They form part of the standard contractual terms of most major shipyards.

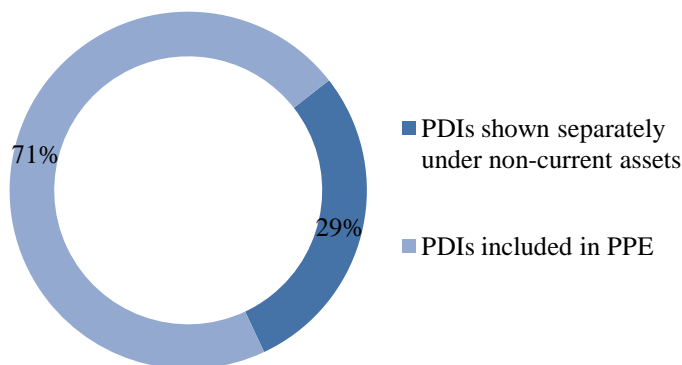
- 1.13 Under IFRS, it is necessary to consider what type of asset the PDI represents. Historically, industry practice has been to treat PDIs as PPE, representing the cost of an asset under construction for the purchaser specifically. The ownership of the vessel is unlikely to be transferred to the purchaser until the point of delivery.
- 1.14 If this is the case, then the pre-delivery payments could be recorded as prepayments towards the future purchase of an asset within non-current assets.
- 1.15 There will often be a significant financing element affecting the amount of such a prepayment. In such cases, even though a prepayment is not a financial asset, it will be appropriate to reflect the implicit financing by unwinding the financing discount over time (if material), using the discount rate implicit in the original transaction.

Included in PPE

- 1.16 However, PDIs may meet the definition of PPE if the payments made represent the part payment towards an asset in the course of construction by the shipyard for the purchaser: in other words, if in substance ownership of the underlying asset already rests with the purchaser and it is being constructed by another party on the purchaser’s behalf. The terms of many PDI payments would meet these criteria for the ownership of a portion of the underlying asset to have been transferred to the purchaser on payment of the PDI.
- 1.17 Consequently, it is important for the preparer of financial statements to understand the precise terms of the contract.
- 1.18 The payment should be recorded within PPE. Where the aggregate amount of PDIs is material they should be shown separately under a heading such as “Vessels under construction” or “Advances for vessel construction” rather than in one of the other classes of PPE. [IAS 16.74b]

Results of Survey

1.19 Classification of PDIs



21 out of the 100 entities surveyed recorded PDIs for acquisition of vessels. Of these 21 entities, 15 (71%) recorded PDIs as part of the cost of PPE while 6 (29%) recorded PDIs as prepayments under other non-current assets.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Initial Recognition (cont’d)

Newly Built Vessels (cont’d)

PDI’s in Foreign Currency

Requirements under IFRS

Included as prepayments

- 1.20 PDIs made in a foreign currency should be recorded on initial recognition in the entity’s functional currency, translated from the foreign currency at the actual exchange rate on the date that the payment is made, assuming no hedging is in place. [IAS 21.21]
- 1.21 If prepayments are considered as non-monetary assets, they should not be retranslated at each year end date. [IAS 21.23]

Included in PPE

- 1.22 PDIs denominated in a foreign currency are considered as non-monetary items. Each of these payments will be held on the balance sheet at the historical rate on the date the payment was made. The net cash paid for the vessel will therefore consist of a weighted average blend of the exchange rates prevailing at the date of payment.
- 1.23 During the construction period, the cost of the work undertaken should be accrued by the entity it is being constructed for, using appropriate exchange rates at the time of accrual. Alternatively, where the timing of the PDIs materially matches the timing and value of the work undertaken, it may be appropriate simply to capitalise these. However, both these approaches will require a detailed understanding of what work is being done and the value of this. Such information is normally available to parties purchasing vessels via the onsite supervision of the construction of the vessel by representatives of the shipping entity.
- 1.24 As vessels in the course of construction denominated in foreign currency are considered non-monetary items, they should not be retranslated at each financial year end. [IAS 21.23]

Results of Survey

- 1.25 None of the 21 entities that recorded PDIs for vessel acquisitions indicated that these PDIs were denominated in foreign currency.

Borrowing Costs

Requirements under IFRS

- 1.26 IAS 23 *Borrowing Costs* stipulates that it is mandatory to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a “qualifying asset”. A qualifying asset is one that necessarily takes a substantial period to get ready for its intended use or sale as the cost of vessels.
- 1.27 This accounting treatment can only be applied when the entity has a qualifying asset in which to capitalise borrowing costs. This will be the case where the PDI is accounted for as an asset in the course of construction as discussed above. Where an entity is accounting for the PDI as a prepayment, this would not be considered a qualifying asset under IAS 23. However, there may be an inherent financing element to the prepayment, in which case the unwinding of the financing element would cause the underlying prepayment asset to be increased over time, as described above and that would likely have the same effect as the capitalisation of the interest expense.
- 1.28 The borrowing costs may include:
- Interest expense calculated using the effective interest method;
 - Finance charges in respect of finance leases; and

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Initial Recognition (cont’d)

Newly Built Vessels (cont’d)

Borrowing Costs (cont’d)

Requirements under IFRS (cont’d)

- Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. [IAS 23.6]
- 1.29 The capitalisation of borrowing costs should commence when the PDI is made, providing the following criteria are met:
- Expenditure for the asset is being incurred;
 - Borrowing costs are being incurred; and
 - Activities that are necessary to prepare the asset for its intended use or sale are in progress. [IAS 23.17]
- 1.30 Capitalisation should cease when the vessel is substantially complete. [IAS 23.20] Note that if there are prolonged periods of suspension of active construction of the vessel, capitalisation of the borrowing costs should be suspended for that period. [IAS 23.21]
- 1.31 To the extent that the purchaser borrows funds specifically for the purpose of obtaining a qualifying asset (i.e. the vessel), the purchaser should determine the amount of borrowing costs eligible for capitalisation. These will be the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. [IAS 23.12]
- 1.32 To the extent that the purchaser borrows funds generally and uses them for the purpose of obtaining a qualifying asset (i.e. PDIs), the purchaser should determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the purchaser that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the purchaser capitalises during a period should not exceed the amount of borrowing costs it incurred during that period. [IAS 23.14]
- 1.33 With respect to disclosure, the purchaser should disclose the amount of borrowing costs capitalised in the period and the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation. [IAS 23.26]

Exceptions to IFRS

US GAAP

- 1.34 Capitalisation of interest costs is required while a qualifying asset is being prepared for its intended use.
- 1.35 Under US GAAP guidance, it does not require that all borrowings be included in the determination of a weighted average capitalisation rate. Instead the requirement is to capitalise a reasonable measure of cost for financing the asset’s acquisition in terms of the interest cost incurred that otherwise could have been avoided.
- 1.36 The definition of borrowing cost under US GAAP is narrower than that under IFRS. Thus under IFRS, borrowing costs can include more components as compared to US GAAP.
- 1.37 US GAAP allows for more judgement in the determination of the capitalisation rate which could lead to differences in the amounts of cost capitalised.

Other GAAPs

- 1.38 Other GAAPs, such as Taiwanese, Indian and Thai GAAPs require capitalisation of borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

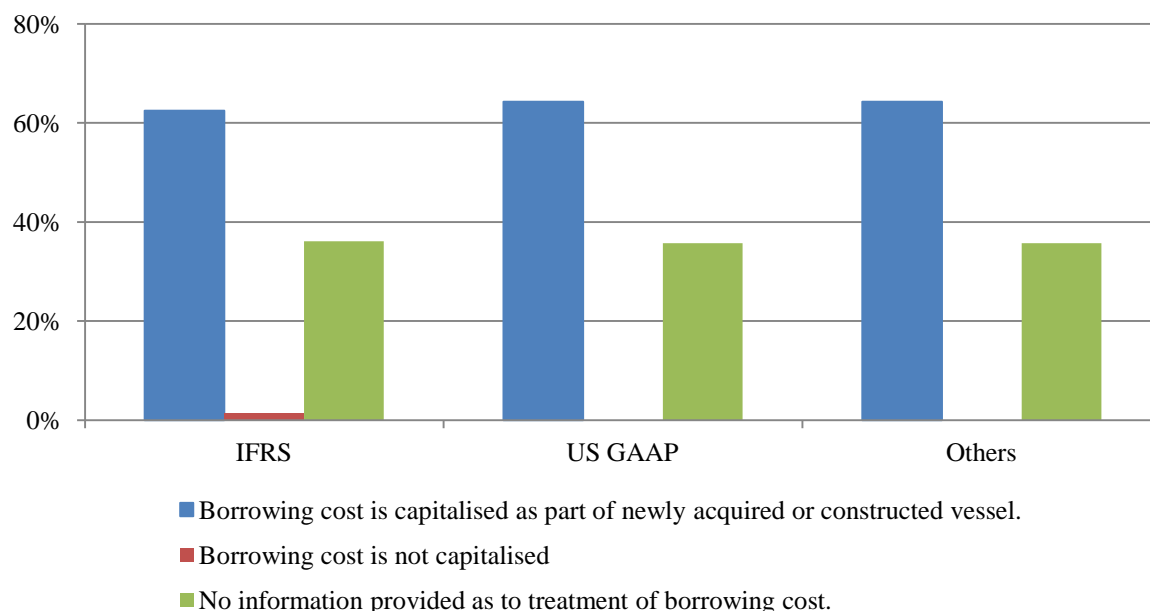
Initial Recognition (cont’d)

Newly Built Vessels (cont’d)

Borrowing Costs (cont’d)

Results of survey

1.39 Treatment of borrowing costs by entities reporting under different accounting frameworks



Based on the entities surveyed, the following information on borrowing costs were ascertained:

- 1 entity reporting under IFRS expressly indicated that borrowing costs were not capitalised because the vessels are measured at fair values.
- 36 entities did not state whether or not borrowing costs were included as part of the cost of vessels. Of these 36 entities, 8 did not have vessels or vessels under construction, 10 did not have any borrowings and 18 did have borrowing costs but were not related to vessels.
- 63 out of the 100 entities surveyed have specifically indicated that costs incurred for vessels under construction include borrowing costs.

Acquisition of Vessels in the Secondary Market

Requirements under IFRS

- 1.40 Many shipping entities acquire vessels in the secondary market. This raises a different set of accounting issues from those acquiring a new vessel. The purchaser must consider how to account for related professional costs.
- 1.41 IAS 16 stipulates that directly attributable costs should be included in the recorded cost of the vessel [IAS 16.16]. These may include related professional fees incurred on an incremental basis.
- 1.42 Professional costs are often more significant for the purchaser of a vessel in the secondary market as they are borne primarily by the shipyard when a purchaser acquires a new vessel. It should be noted however that those fees incurred whilst searching for a suitable vessel are not directly attributable to a specific asset and should therefore be expensed as incurred.

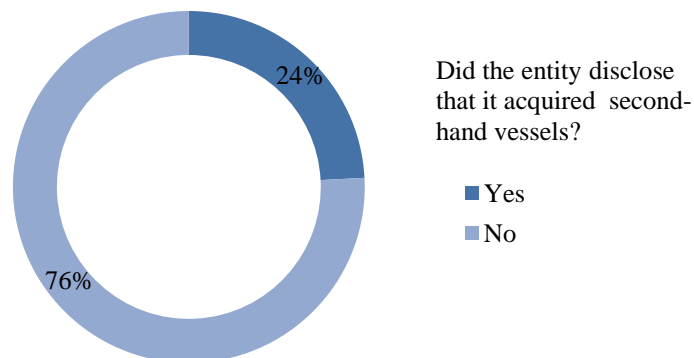
1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Initial Recognition (cont’d)

Acquisition of Vessels in the Secondary Market (cont’d)

Results of Survey

1.43 Acquisition of vessels from the secondary market



24% of the entities surveyed indicated that their fleet includes vessels that were acquired from the secondary market. Some of these entities disclosed that they acquired second-hand vessels during the year or in prior periods, and some included their accounting policies on second-hand vessels.

1.44 However, none of the entities disclosed detailed information on how they capitalise directly attributable costs in relation to these vessels purchased from the secondary market. The nine entities that do not have vessels were excluded from the above graph.

Subsequent to Initial Recognition

Requirements under IFRS

1.45 Under IFRS, an entity may elect to value its PPE using either the cost model or revaluation model.

1.46 The revaluation model is not widely used under IFRS. However, if the entire cost of PPE is revalued at fair value regularly, revaluation increases should be recognised in other comprehensive income and accumulated in equity (revaluation surplus) or profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Revaluation losses are charged first against any revaluation surplus in equity related to the same asset and any excess charged to profit or loss.

Exceptions to IFRS

US GAAP

1.47 US GAAP does not permit the revaluation of PPE. US GAAP generally utilises historical costs and prohibits revaluation.

Other GAAPs

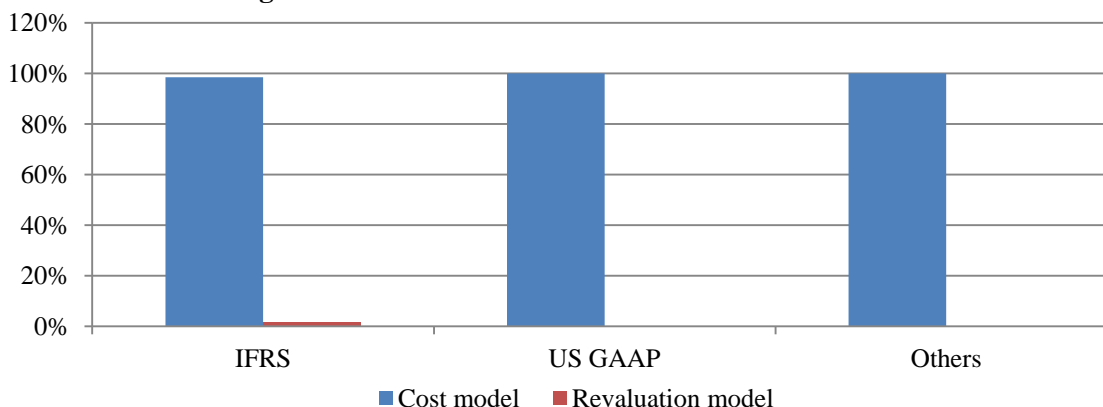
1.48 Thai GAAP allows the revaluation model of assets while other GAAPs require assets to be carried at historical cost.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

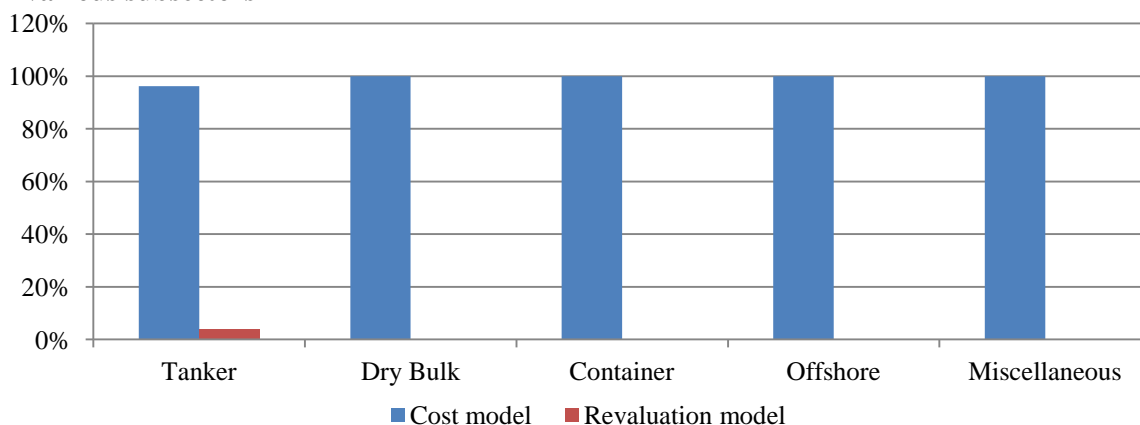
Subsequent to Initial Recognition (cont’d)

Results of Survey

1.49 Measurement of vessels subsequent to initial recognition – cost vs revaluation models under different accounting frameworks



1.50 Measurement of vessels subsequent to initial recognition – cost vs revaluation models by various subsectors



The charts above did not include 9 entities that do not have vessels as at their respective year ends.

1.51 As indicated by the graphs above, all except for one entity covered by our analysis carry their vessels at historical cost. One entity, belonging to the tanker subsector reporting under IFRS, stated vessels at their revalued amounts being the fair value as of December 31, 2010 and 2009. This entity also included the fair value of vessels as a key source of estimation uncertainty.

1.52 All entities in the survey using US GAAP and local GAAPs measured vessels at cost less accumulated depreciation and accumulated impairment losses subsequent to initial recognition.

Component Approach

Requirements under IFRS

1.53 Vessels may have a number of components which require either replacement or major overhaul at intervals during the vessel’s operational life cycle. The frequency of the work is usually determined in accordance with the rules and regulations of the vessel’s classification society on the basis of the time period since the last work was undertaken. Unplanned events can arise when a vessel experiences technical problems and as a result major overhauls and repairs arise on an unplanned basis. (Please refer to Section 5: Provisions for Scheduled Maintenance or Surveys).

1.54 IAS 16 requires that “Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately”. [IAS 16.43]

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Component Approach (cont’d)

Requirements under IFRS (cont’d)

- 1.55 However, the standard also allows that if the useful life and depreciation method of two components are materially the same they may be grouped together. [IAS 16.45]
- 1.56 Components of vessel that should be separately identified include not only the physical items that will require replacement during the life of the vessel, but also the overhaul element for items that require major overhaul in the future, during the life of the vessel. Identifying the significant components of vessels represents a challenge.
- 1.57 The fair value of each “component” should be identified at the date of acquisition of the vessel.
- 1.58 Prices for each of these individual components are often not specified in the purchase agreement for the vessel. It will therefore be necessary to estimate the fair value of the dry-docking component taking into account the vessel’s last and next scheduled dry-docking.
- 1.59 The fair value could be estimated by obtaining values from other sources such as the shipyard(s), in-house specialists, the maintenance providers or independent vessel appraisers. The fair value will be the actual value at which the entity is able to obtain these components, including any discounts from the list price it receives from the component or service provider. Other vessel types, such as cruise ships, will generally also have hotel type components which are expected to be replaced at regular intervals.
- 1.60 A vessel will require seaworthiness checks, under water inspections, intermediate surveys as well as special surveys throughout its useful economic life. An asset should be carved out from the main vessel asset for each type of these checks. In practice, only the dry-docking and special survey checks will be sufficiently material to warrant separate capitalisation.
- 1.61 For instance, a tanker may require a special survey once every 5 years and an intermediate survey in between. Separate assets for each of these surveys should be created when the initial componentisation of the vessel is done, if expected to be material.
- 1.62 Typically a new vessel will be assumed to be supplied with each of these components “brand new”. In other words the vessel will be assumed to be in the condition that it would be had it just been through each of the checks and overhauls required so that the full cost of each of these will be carved out as separate components in the initial allocation.
- 1.63 Depending on whether there are any PDIs and how the cost of the vessel is recorded in the accounts, the elements of the cost may be recorded at different exchange rates. For the purposes of the componentisation, it is common and appropriate to translate all the components at the same rate on initial recognition based on the blended average rates used for the amounts paid for the vessel. Subsequent expenditure on maintenance which is capitalised should be translated at the appropriate rate when it is incurred.
- 1.64 Shipping entities applying IFRS analyse their assets and identify such components, this is often referred to as the component approach. For example, the cost of a complete vessel includes the hull, the engines, the gear boxes, the communication and navigation equipment, the hatch covers and the dry-docking costs. Vessels, hull, engines and other fixed assets comprise a number of components with different useful lives. Each component must be depreciated separately.
- 1.65 Management should identify further components to achieve accurate results. When the engines are replaced during the vessel’s life, the cost of the replacement engine is added to the vessel’s carrying amount and the remaining unamortised amount of the old engine, if any, is written off.
- 1.66 Repairs and maintenance costs are expensed when incurred and include the costs of day-to-day servicing but, as explained above, exclude the replacement costs of major components of items of PP&E

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Component Approach (cont’d)

Exceptions to IFRS

US GAAP

1.67 US GAAP permits alternative accounting methods for recognising the cost of replacement of an identified component. The alternative accounting methods include:

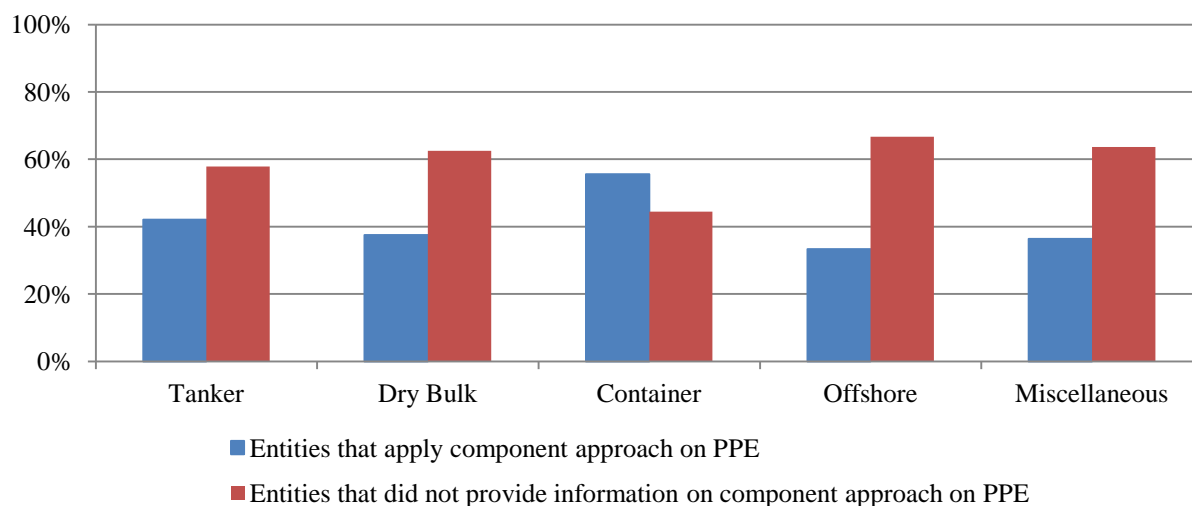
- (i) Expensed as incurred;
- (ii) Accounted for as a separate component; or
- (iii) Deferred and amortised over the period benefited by the overhaul.

Other GAAPs

1.68 Other GAAPs generally do not recognise the component approach.

Results of Survey

1.69 Under IFRS framework by various subsectors



We found that most tanker, dry bulk and container entities have identified two groups of components.

- Cost of major overhaul or dry-docking.
- Cost of the vessel excluding projected dry-docking.

1.70 From our survey, 40% of entities reporting under IFRS expressly stated the use of component approach as an accounting policy. One of these entities owning vessels on a pure car truck carrier / roll-on roll-off design (included in the miscellaneous subsector) did not separate their vessels into separate components since there is no significant difference in the expected useful life for the various components of these vessels over and above dry-docking costs. The remaining 60% were silent regarding this concept.

1.71 None of the 14 US GAAP entities covered by this analysis indicated the application of the component approach.

1.72 However, 1 out of the 13 entities that used other GAAPs applied the component approach in accounting for their vessels. One entity reporting under Taiwanese GAAP indicated as an accounting policy that every component of the PPE that is significant is depreciated individually.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Estimated Useful Lives and Depreciation Expense

Requirements under IFRS

- 1.73 All depreciable assets under IFRS are subject to depreciation accounting, allocated on a systematic basis over its useful life.
- 1.74 In determining the depreciation charge, three factors must be taken into consideration:
- depreciable amount and residual values;
 - estimated useful life; and
 - allocation method.

Depreciable Amounts and Residual Values

- 1.75 The depreciable amount under IAS 16 is the cost of an asset, or other amount substituted for cost, less its residual value.
- 1.76 Vessels and other assets owned by shipping entities usually have significant residual values. The residual value of an asset is the estimated amount that an entity would obtain from disposal of the asset, after deducting the estimated costs of disposal, **if the assets were already of the age and in the condition expected at the end of its useful life.**
- 1.77 For example, an average market value for steel is often used to compute the scrap value of a vessel. Therefore, the residual value is proxied by the scrap value as a minimum. This demolition value is often quoted as a price per long tonne light displacement (“ldt”). Demolition values are volatile and correlated to the steel price. Traditionally, the shipping industry tends to use relatively prudent demolition values to proxy residual value because ships have long useful lives, for example 25 years.
- 1.78 The residual value should be stated net of anticipated costs to scrap the vessel. This will be unique to each owner and will depend on factors such as where the owner intends to scrap the vessel. In addition to the steel scrap value, there may be other costs to consider such as costs to arrive at the scrap yard or commissions.
- 1.79 By choosing to dispose of a vessel before the end of its useful life, an owner is taking a substantial economic risk on the residual value of the vessel. The commercial rationale for such accounting is limited to the fact that owning the vessel will always give the shipping entity or lessor a valuation risk concerning the value of the vessel at the date of disposal. The accounting principles require that this risk is effectively re-measured at each balance sheet date based on the latest market value data to obtain the residual value. IAS 16 is very clear in its definition of residual value that preparers of accounts should not take the “long-term” view of value but specifically reflect the change in value through the depreciation charge at each reporting date.
- 1.80 A rule of thumb used in the industry for estimated demolition values is 15% of original cost. This rule of thumb is not appropriate under IFRS. IFRS requires quoted prices at each balance sheet date to be used as estimates of residual values, rather than an arbitrarily determined amount.
- 1.81 The residual value shall be reviewed at least at each financial year-end. It may be adjusted upwards or downwards in certain circumstances. Depreciation ceases in the event that the revised residual value is greater than the asset’s carrying value. The entity should start depreciating the asset again if the revised estimate of the residual value subsequently decreases below the asset’s carrying amount.

Exceptions to IFRS

US GAAP

- 1.82 Under IFRS, residual value may be adjusted upwards or downwards whereas under US GAAP, residual value may be adjusted downwards only.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Estimated Useful Lives and Depreciation Expenses (cont’d)

Depreciable Amounts and Residual Values (cont’d)

Exceptions to IFRS (cont’d)

US GAAP (cont’d)

1.83 Residual value under IFRS represents the current net selling price assuming the long-lived assets were already of age and in the condition expected at the end of its useful life. However under US GAAP, residual value is generally the discounted present value of expected proceeds on future disposal.

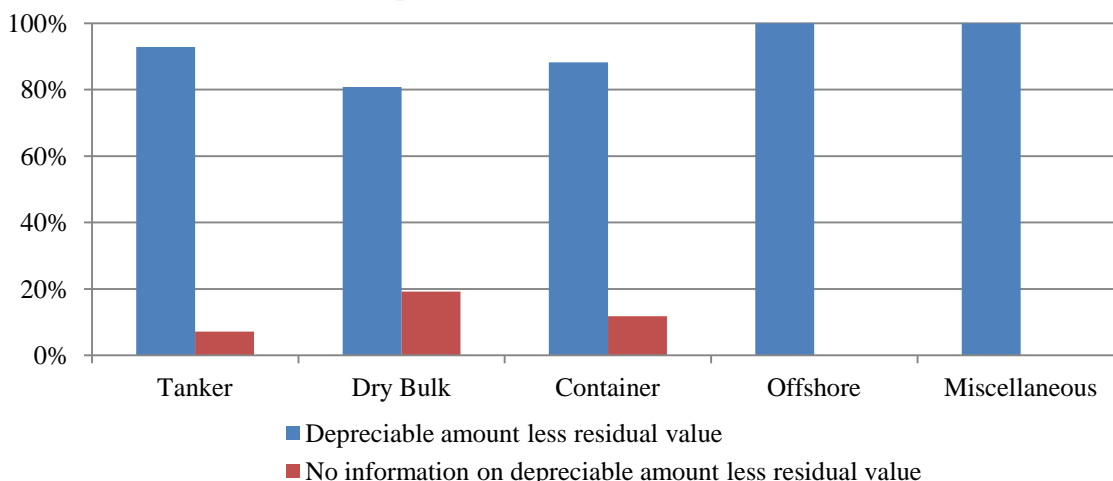
1.84 While it would generally be expected that the appropriateness of significant assumptions within the financial statements would be reassessed for each reporting period, there is no explicit requirement for an annual review of residual values.

Other GAAPs

1.85 Other GAAPs generally do not have specific guidance on residual value.

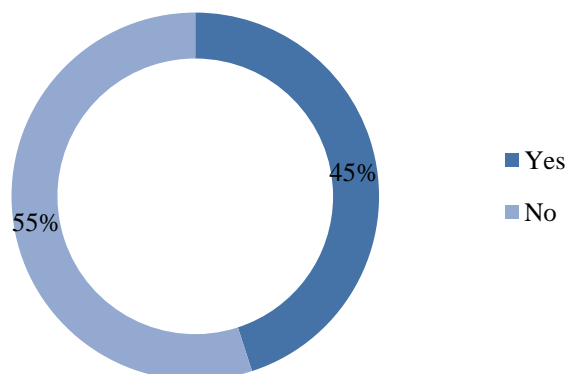
Results of Survey

1.86 Entities that accounted for depreciable amount less residual value by various subsectors



The graph above indicates that the majority of the entities surveyed have taken into account the residual values of their vessels to arrive at their depreciable amounts. 9% of the entities surveyed did not disclose whether the depreciable amount is derived after deducting residual value.

1.87 Did the entity disclose “residual value” as a critical accounting estimate?



Only 45% of the 100 entities disclosed that the determination of residual value as being an issue of critical accounting estimation, assumption or judgement. Of those entities that did disclose their approach to measuring residual value, the following different approaches were adopted:

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Estimated Useful Lives and Depreciation Expenses (cont’d)

Depreciable Amounts and Residual Values (cont’d)

Results of Survey (cont’d)

- Estimated as a percentage (e.g. 20%) of the acquisition cost.
 - Based on broker valuations at balance sheet date.
 - Estimated as the lightweight tonnage of each vessel multiplied by scrap value per ton (in some cases, the scrap value per ton is estimated taking into consideration the historical four year scrap market rates at the balance sheet date, rather than the singular rate prevailing at the balance sheet date).
 - An estimate of scrap value based on the price of steel at 1 January in the financial year less estimated demolition costs and / or the scrap value obtained from ship brokers based on recent transactions involving similar vessels.
- 1.88 5% of the 100 entities included a sensitivity analysis of changes in the useful lives of vessels and other PPE. They also provided an indication of the increase or decrease in the depreciation expense if the residual values were to differ by 10% from management estimates with all other variables held constant.

Estimated Useful Life

Requirements under IFRS

- 1.89 Vessel owners have different intentions on how they want to use their vessel, how long they intend to keep them and how they intend to dispose of them. These choices will have a significant impact on the value which they are able to obtain from each vessel over its lifetime. How the depreciation charge is determined needs to reflect these choices. Therefore, the depreciation charge reflects the differences in the way vessels are managed between businesses.
- 1.90 Useful life is the period over which an asset is expected to be available for use by an entity. Various factors may limit the useful life of a vessel. These factors may be due to physical wear and tear, technological advancement, economic factors and legal factors.
- 1.91 Independent surveyors may be engaged to assist entities to estimate a vessel’s useful life. However, the estimation of useful life of a depreciable asset is a matter of judgement ordinarily based on the experience of the entity with similar assets. Estimates of useful life of depreciable assets should be reviewed at least annually.

Vessel hull and engine

- 1.92 The hull and engine component of a vessel will be depreciated over their useful life to their residual value. Because it is often not possible to replace the engines prior to disposal of the vessel the engine will have the same useful life as the hull. The useful life will not change unless there is a change in the intended period of ownership of the vessel. Maintenance of the vessel should have no impact on the depreciation of the vessel hull and engine component of the vessel.
- 1.93 Some examples of estimated useful lives found in the survey are:
- container: 25 - 30 years
 - dry-bulk: 25 - 28 years
 - tanker: 25 years
 - dry-docking: until the next dry-docking, usually 2-3 years (Dry-docking is discussed in detail under Section 5: Provisions for Scheduled Maintenance or Surveys)

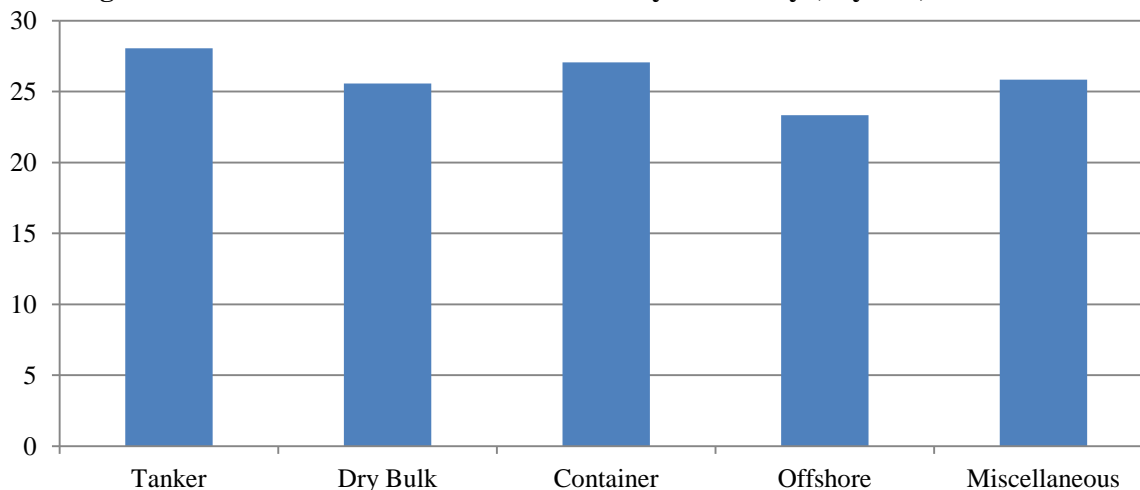
1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Estimated Useful Lives and Depreciation Expenses (cont’d)

Estimated Useful Life (cont’d)

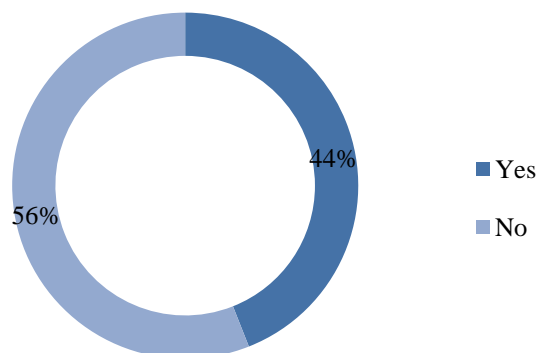
Results of Survey

1.94 Average useful lives of vessels of entities covered by the survey (in years)



The table above shows the average useful lives of vessels that we noted in our survey. A majority of the entities depreciated their vessels over a useful life of 25 to 30 years (i.e. from build date).

1.95 Did the entity disclose “useful lives of PPE” as a critical accounting estimate?



44% of the 100 entities identified useful lives of PPE as being a critical accounting estimate and indicated that estimated useful lives and residual values are reassessed on a regular basis.

Allocation Method

Requirements under IFRS

1.96 After the depreciable amount and the useful life of an asset have been determined, a method has to be selected to allocate the depreciable amount over the useful life of the asset. Under IFRS, the depreciable amount of PPE should be allocated over its useful life on a “systematic basis”. IAS 16 does not specify which approach should be used to allocate depreciation on a “systematic basis”. The approach of using a straight line basis has the benefit of simplicity and is used by many vessel owners.

1.97 The depreciation method used should “reflect the pattern in which the asset’s economic benefits are consumed by the entity”. Two major categories of depreciation methods are often used in practice: the “straight line method” and the “accelerated method”.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Estimated Useful Lives and Depreciation Expenses (cont’d)

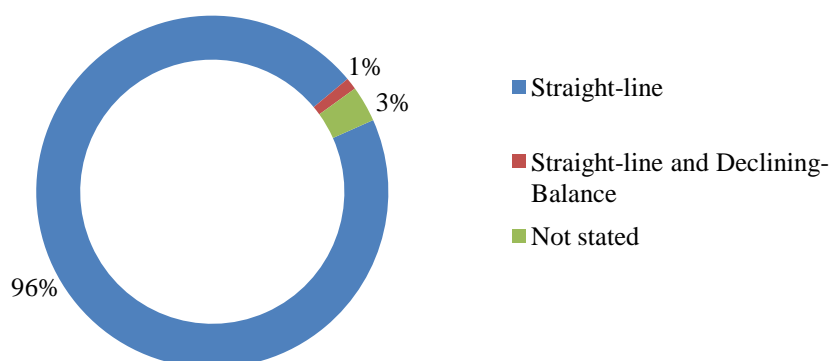
Allocation Method (cont’d)

Requirements under IFRS (cont’d)

- 1.98 The straight line method seeks to allocate the depreciable amount of an asset evenly over its useful life, whereas the accelerated method attempts to allocate proportionately more of the depreciable amount of an asset to the earlier part of the asset’s useful life.
- 1.99 The method of depreciation should be reviewed at least annually.

Results of survey

1.100 Depreciation methods used by entities



87 of the 91 entities that have vessels (96%) used the straight-line method to compute the depreciation of vessels. We noted only 1 entity (1%) that used both straight-line and declining-balance method. 3 entities (3%) did not disclose the depreciation method used. The 9 entities that do not have vessels were excluded in the above graph.

Impairment

Requirements under IFRS

- 1.101 The shipping industry is subject to economic cycles and volatile markets. Vessels often have volatile values. These vessel values depend on numerous macro-economic factors such as world trade requirements, demand for raw materials and finished goods by industrial societies and the supply of vessels available to meet the demand.
- 1.102 Assets are then impaired and management may even consider abandoning some vessels. Under IFRS, the carrying value is compared with the asset’s recoverable amount (defined as the higher of the asset’s value in use, which is based on discounted future cash flows, and the asset’s fair value less costs to sell), and if the carrying value is higher, the asset is written down to the recoverable amount.
- 1.103 Fair value less costs to sell represents the amount obtainable from the sale of the asset or cash generating unit (“CGU”) in an arm’s length transaction between knowledgeable and willing parties less the costs of disposal.
- 1.104 For accounting purposes, it is not normally possible to determine impairment of a particular vessel component separately from that of the other components of that vessel unless there has been specific physical damage to that component. An individual vessel may be considered as an individual cash generating unit which can be assessed for impairment. However, where vessels are operated as a fleet, for instance with individual vessels being inter-changeable in accordance with the charter party or contract of affreightment, it may be more appropriate to consider each fleet as a cash generating unit.
- 1.105 A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Impairment (cont’d)

Requirements under IFRS (cont’d)

Impairment indicators

- 1.106 Vessels are tested for impairment if there are indicators of impairment. Impairment indicators include, for example, overcapacity, falling prices and rising interest rates in the shipping industry.
- 1.107 Overcapacity may result from a mismatch of expected demand and vessels that have been ordered by new market entrants, changes in demand for cargo services or lower demand resulting from low economic growth.
- 1.108 Increased competition from alternative transportation methods is also an impairment indicator.
- 1.109 Overcapacity leads to vessels operating at suboptimal levels. Management may even consider abandoning some vessels in some cases.
- 1.110 Rising interest rates are also indicators of impairment. An increase in the discount rate would decrease an asset’s value in use.

Measurement of Impairment

Determination of Fair Value

- 1.111 There is significant volatility in market prices for vessels generally. While it is relatively easy to forecast vessel supply based on production rates of the major shipyards, demand is directly linked to wider economic conditions. There is therefore cyclicity in vessel prices.
- 1.112 There is also significant volatility in demand for certain vessel types. This will depend upon factors such as the availability of substitutes or the development of new vessels in that class, the liquidity of the market in that type of vessel and the fortunes of particular market segments. Brokers can provide vessel values by reference to transactions of which they are aware and where there are no transactions for a particular model of vessel they will normally extrapolate a value from transactions for similar types of vessel. In such situations, it is important to understand the judgements involved and, if necessary, obtain a second independent valuation.
- 1.113 Unless brokers have undertaken a physical inspection of the vessel, they normally provide a value based on historical sales and purchase data of similar vessels. When this is used to determine the fair value for accounting purposes, it will be necessary to take into account the actual maintenance condition of the vessel and adjust the brokers’ value accordingly. When this is considered to be material, it may be necessary to arrange for a physical inspection of the vessel. The maintenance adjusted market value should then be used in the impairment review of the entire vessel, including the separately capitalised and depreciated components.

Determination of costs to sell

- 1.114 If a ship-owner decides to sell a vessel, the vessel may require substantial marketing. This can be undertaken either in-house, if there is the appropriate expertise or outsourced to a broker. Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.

Determination of value in use

- 1.115 Shipping entities typically have robust estimates of the daily costs of operating a particular vessel which can be used as the basis for a cash flow projection for a value in use calculation. However, allowances should be made in the model for volatile costs, with reasonable estimates made of likely price increases and a sensitivity analysis should be undertaken.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Impairment (cont’d)

Requirements under IFRS (cont’d)

Measurement of Impairment (cont’d)

Determination of value in use (cont’d)

- 1.116 In addition, revenue estimates have significant potential volatility, with significant exposure to both general economic conditions and unforeseen events. Reasonable revenue estimates should therefore be made and sensitivities considered. The calculation of the asset’s value in use may be subject to volatile markets, especially in difficult trading conditions and the latter is subject to estimations and judgements involving anticipated conditions potentially over the next 20-30 years.
- 1.117 Cash flow projections used to measure value in use should be based on reasonable and supportable assumptions of the set of economic conditions that would exist over the asset’s remaining useful life. Value in use represents entity-specific and pre-tax future cash flows discounted to present value. A market determined rate that reflects the current assessment of the time value of money and the risks specific to the asset for which the cash flow estimates have not been adjusted.
- 1.118 Projections based on management budgets / forecasts shall cover a period of five years, unless a longer period can be justified. Estimates of cash flow projections beyond the period covered by the most recent budgets / forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long term average growth rate for the products, industries or country in which the entity operates or for the market in which the asset is used.
- 1.119 For lessors, future cash flows are normally more predictable, although estimates will need to be made where future cash flows are dependent upon extending an existing charter or entering into new charter agreements. These estimates should be based on what management consider to be the most probable outcome.
- 1.120 The cash flows exclude financing costs, for example interest payments, taxes, uncommitted planned restructuring and any planned capital expenditure enhancing the asset’s performance are also excluded from value-in-use cash flows. The scrap value of vessels or disposal proceeds at the end of their useful life is included in the cash flows.
- 1.121 The discount rate should be a pre-tax rate reflecting current market assumptions about the risks specific to the asset or CGU. A suitable discount rate should also be determined, which takes into account the significant risks to which the shipping industry in general is exposed and those affecting the particular vessel. Most entities will consider their weighted-average cost of capital, their incremental borrowing rate and observable market rates for similar assets or CGUs when determining an appropriate discount rate.
- 1.122 For long-lived asset or asset groups carried at revaluation, an impairment loss related to the revaluation are recorded in other comprehensive income to the extent of prior upward revaluations, with any further losses being reflected in the income statement.

Exceptions to IFRS

Measurement of Impairment

US GAAP

- 1.123 A two-step approach is applied to determine whether an impairment loss should be recognised. First, the carrying amount of the long-lived asset or asset group is compared with the undiscounted value of the future cash flows.
- 1.124 If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognised.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Impairment (cont’d)

Exceptions to IFRS

Measurement of Impairment (cont’d)

US GAAP (cont’d)

- 1.125 If the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying amount and fair value.
- 1.126 For the purpose of recognition and measurement of an impairment loss, a long-lived asset or asset group should represent the lowest level for which an entity can separately identify cash flows that are largely independent of the cash flows of other assets and liabilities.
- 1.127 Impairment losses are often recognised sooner and possibly more frequently under IFRS. It usually comprises a significant portion to the profit or loss before tax of those entities that have impaired their vessels. The US GAAP impairment model might lead to the recognition of impairment of PPE later than would be required under IFRS.

Impairment Indicators

- 1.128 Changes in market interest rates are not considered impairment indicators under US GAAP while changes in market interest rates under IFRS can potentially trigger impairment and hence, are impairment indicators.

Determination of fair value

- 1.129 Fair value is defined as the price that would be received on the sale of a long-lived asset in an orderly transaction between market participants at the measurement date (an exit price). Fair value should be based on the assumptions of market participants and not those of the reporting entity. The IFRS reference to knowledgeable and willing parties is generally viewed as being consistent with the market participant assumptions noted under US GAAP.
- 1.130 An entity is required to identify and evaluate the markets into which a long-lived asset may be sold or a liability transferred. In establishing fair value, an entity must determine whether there is a principal market or in its absence, a most advantageous market in the shipping industry.
- 1.131 The calculation of fair value does not default to a present value technique. Although a present value technique might be appropriate, an entity must consider all appropriate valuation techniques for its given circumstances. If the long-lived asset is recoverable based on undiscounted cash flows, the discounting or fair value type determinations are not applicable.
- 1.132 In May 2011, the International Accounting Standards Board (“IASB”) and Financial Reporting Standards Board (“FASB”) issued new guidance on fair value measurement. The new guidance results in a consistent definition of fair value between IFRS and US GAAP and substantially converged requirements for the measurement of and disclosure about fair value when it is required or permitted to be used. The new standard, IFRS 13 *Fair Value Measurements*, effective on 1 January 2013, is substantially converged with US GAAP.

Determination of future cash flows

- 1.133 As noted above, impairment testing under US GAAP starts with undiscounted cash flows, whereas the starting point under IFRS is discounted cash flows. IFRS is more prescriptive with respect to how the cash flows themselves are identified for the purposes of calculating value in use.

Other GAAPs

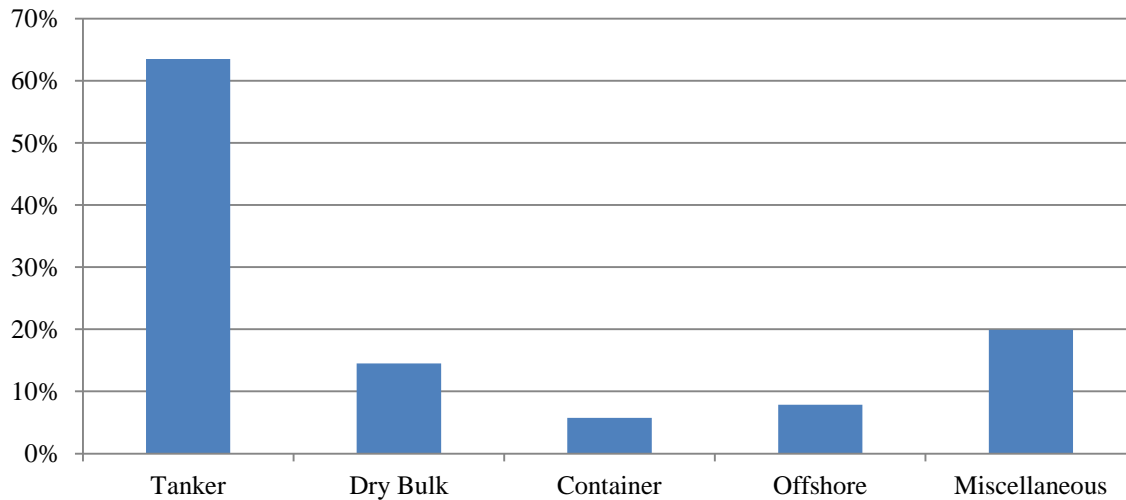
- 1.134 Other GAAPs do not require an entity to assess impairment for its long-lived asset or asset group as they require the long-lived asset or asset group to be recognised at cost less accumulated depreciation.

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Impairment (cont’d)

Results of survey

1.135 Impairment loss on vessels against profit before income taxes by various subsectors



22% of the 100 entities surveyed recognised impairment of vessels in 2010 (9% related to vessels under construction). The graph shows the percentage of impairment losses on vessels against profit / (loss) before income taxes.

1.136 Entities carried out an impairment assessment of their vessels that led to recognition of impairment losses recorded in the income statement.

1.137 A number of the entities presented detailed assumptions underlying management’s approach to identifying indicators of impairment and the impairment calculation itself – including, where relevant, the estimation of:

- Future charter rates (i.e. changes in nominal charter revenues), vessel operating and scheduled maintenance expenses, remaining useful lives of the vessels, effective fleet utilisation, and whether cash inflows are considered net of brokerage;
- Market-based valuations of vessels current as at the balance sheet date
The applicable discount rate (typically linked to the entity’s Weighted Average Cost of Capital) and the underlying assumptions; and
- Average annual inflation rate over the long term.

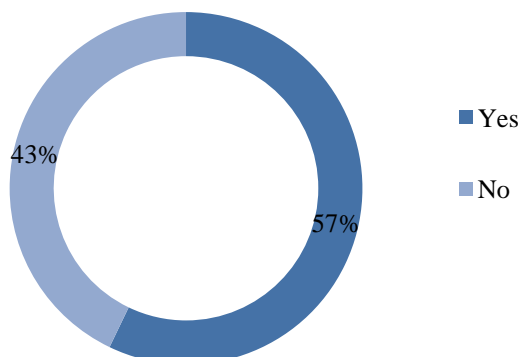
1.138 Different approaches were also taken both in terms of whether vessels were reviewed individually for impairment or on a CGU basis such as with a geographical segment (e.g. a particular shipping route or network of routes).

1 PROPERTY, PLANT AND EQUIPMENT (“PPE”) (cont’d)

Impairment (cont’d)

Results of survey (cont’d)

1.139 Did the entity disclose “impairment of vessels” as a critical accounting estimate, assumption and judgement?



57% of the entities with vessels identified impairment – and the various components of an impairment calculation, including the identification of any indicators of impairment – as involving a critical accounting estimate, assumption and judgement.

1.140 Only one entity among those included in the survey stated its vessels at revalued amount and it recognised a net revaluation increase in its other comprehensive income. The portion of net revaluation increase that relates to sold vessels which is effectively realised is transferred directly to retained earnings.

Reversal of Impairment

Requirements under IFRS

1.141 Under IFRS, where evidence of the event that led to the impairment charge no longer exists or where the impairment has decreased and there has been a change in estimates used to determine the asset’s recoverable amount, a previously recognised impairment loss is reversed by increasing the asset to its newly determined recoverable amount.

1.142 However, the newly recoverable amount may not be greater than the carrying amount of the asset that would have existed if no impairment had been recognised (i.e. the otherwise net carrying amount after regular depreciation and amortisation expenses are deducted).

1.143 Impaired assets must be tracked at original value in order to calculate the impairment reversal. After the reversal of an impairment loss, the amortisation amount for the asset should be adjusted on the basis of the new value of the asset, its residual value and its remaining useful life.

Exceptions to IFRS

US GAAP

1.144 Under US GAAP, reversals of previous impairment losses of the long-lived asset or asset group recognised are not permitted.

Other GAAPs

1.145 Under other GAAPs, they do not prescribe the reversal of previous impairment losses of the long-lived asset or asset group recognised.

Results of survey

1.146 6 entities reporting under IFRS have reversed their previously recognised impairment losses. The reversal was due to changes in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised.

2 DERIVATIVE FINANCIAL INSTRUMENTS

Requirements under IFRS

- 2.1 Shipping companies carry out their business in a global environment and are exposed to a variety of financial market risks. The most common are commodity price risks, foreign currency risks, freight rate risks, and interest rate risks.
- 2.2 Shipping entities enter into long-term contracts for different aspects of their business. Long-term contract for fuel is one important area; this can give rise to risk on bunker prices and / or foreign currency exposure on fuel purchases.
- 2.3 The risk for a shipping entity includes supply interruption and unstable bunker prices. Managing this risk is particularly important when there are fixed-price chartering contracts. Shipping entities enter into long-term bunker purchase contracts with bunker suppliers to mitigate these risks.
- 2.4 Many long-term purchase and sale contracts in the shipping industry meet the definition of a derivative. For example, a bunker purchase contract that requires the purchaser to accept a fixed quantity of bunker at a fixed price may be a derivative.
- 2.5 Long-term chartering contracts may also be entered into at fixed prices in foreign currency.
- 2.6 The purchase price may be stated in these contracts in a currency other than the currency of the economic environment in which the entity operates (the entity's functional currency). The currency exposure can be mitigated by using futures or forward foreign exchange contracts.
- 2.7 Given the current volatility of the freight markets, managing freight market risk is a significant challenge for the shipping industry. A method of managing this risk is through the purchase and sale of forward freight agreements ("FFAs").
- 2.8 Among the most popular derivatives in the shipping industry, interest rate swaps are used to manage interest rate risk. Interest rate swaps give management the ability to convert floating-rate interest rate payments to fixed-rate payments.
- 2.9 IAS 39 *Financial Instruments: Recognition and Measurement* allows certain commodity contracts (e.g. for fuel) to be accounted for as executory contracts – that is, it allows off-balance sheet treatment, if the following criteria are met:
 - the contracts are entered into and continue to meet the entity's own purchase, sale or usage requirements;
 - the contracts were identified for that purpose at inception; and
 - the contracts will be settled by physical delivery rather than net in cash.
- 2.10 This is described as "the executory contract" exemption, the "own-use" exemption, or the "normal purchase and sales" exemption.
- 2.11 The practice of settling the contract net in cash – that is, not to accept delivery and discharge the obligations under the contract by paying cash to the counterparty – will put such a contract outside the exemption.
- 2.12 Long-term bunker purchase contracts that meet the "own-use" exemption often include contractual provisions that create embedded derivatives. The contracts often contain pricing clauses that are based on the index price other than the market price of the commodity (e.g. bunker) being delivered.
- 2.13 The contracts may also be denominated in a currency that is not the contracting parties' functional currency. Either of these common contractual terms can create an embedded derivative.
- 2.14 An embedded derivative causes a modification to the contracts' cash flows based on changes in a specified variable. An embedded derivative can arise as a result of deliberate financial engineering, an acknowledged attempt to shift certain risks arising from a contract among the parties.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

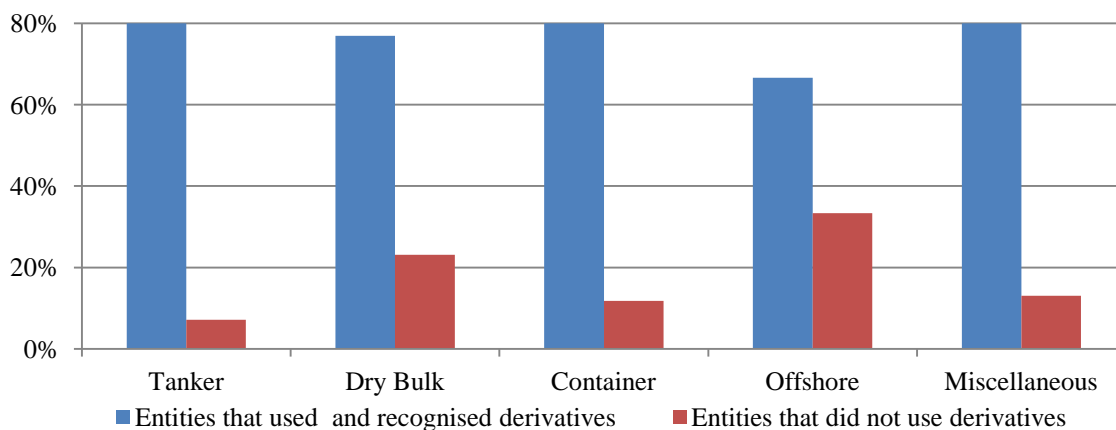
Requirements under IFRS (cont'd)

2.15 The following table provides examples of contracts that normally qualify as derivatives together with the relevant underlying and notional amounts.

Derivative	Underlying	Notional Amount
Currency forward	Currency rate	Number of currency units
Commodity future (bunkers)	Commodity price per unit	Number of commodity units
Interest rate swap	Interest rate index (receive floating and pay fix)	Amount in the respective currency
FFA	Freight rate for a specific physical trade route which receives a daily assessment on one of the Baltic Exchange Indices.	Settlement amount based on payment provision in the contract

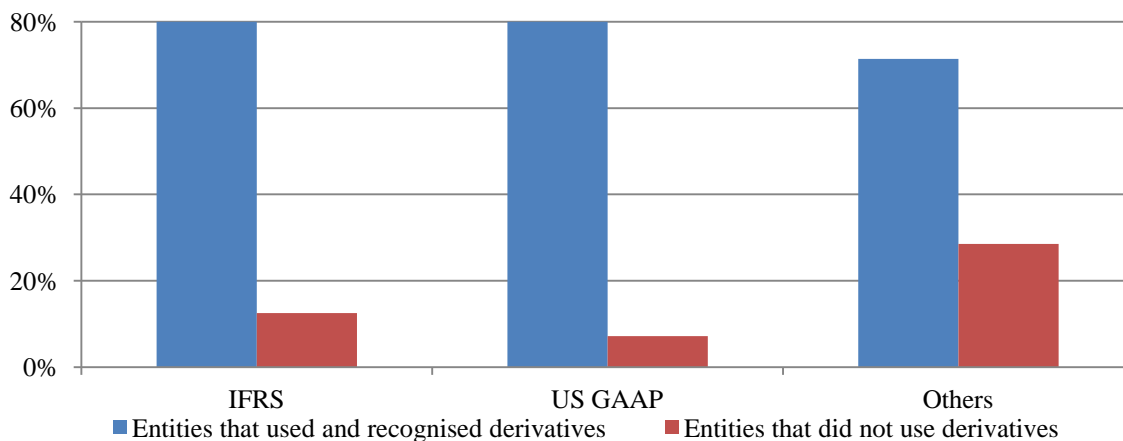
Results of Survey

2.16 Entities using derivative financial instruments – by various subsectors



As entities in the shipping industry are exposed to various financial market risks, 85% of the entities covered by the survey entered into derivative financial instruments to manage their exposure to a variety of risks, as set out in the graph above. These entities have accounted for and disclosed the derivative financial instruments in their financial statements.

2.17 Entities using derivative financial instruments – by different accounting frameworks



As shown in the graph above, derivatives are commonly used by entities reporting under the different

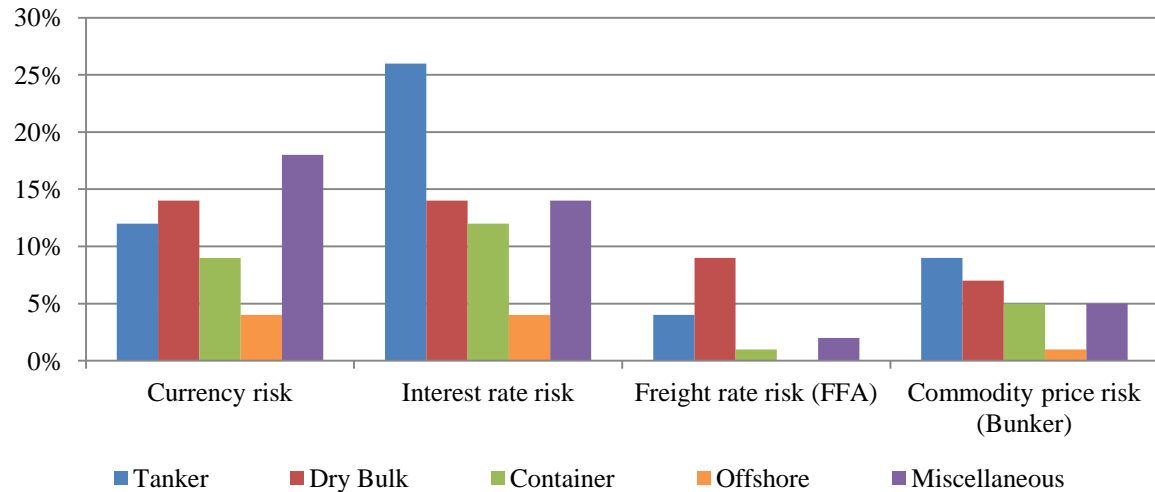
2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Results of Survey (cont'd)

accounting frameworks (IFRS – 88%, US GAAP – 93%, Other GAAPs – 71%), where the accounting treatment for embedded derivatives and hedge accounting may vary as discussed in the following paragraphs.

2.18 The entities surveyed identified common types of risks associated with their business activities and they include rate or price volatility of foreign exchange, interest rate, freight and commodities such as oil and bunker fuel.

2.19 Types of market risks hedged by derivatives – by various subsectors



The above graph shows the types of risks that 85% of the entities surveyed aim to reduce and control by entering into derivative instruments.

2.20 Shipping companies essentially do business in international markets, exposing them to foreign exchange rate volatility. 57% of the entities surveyed used derivative financial instruments to manage the impact of changes in exchange rates. 6 entities entered into derivative financial instruments for foreign exchange fluctuations in relation to the purchase or construction of new vessels denominated in a foreign currency.

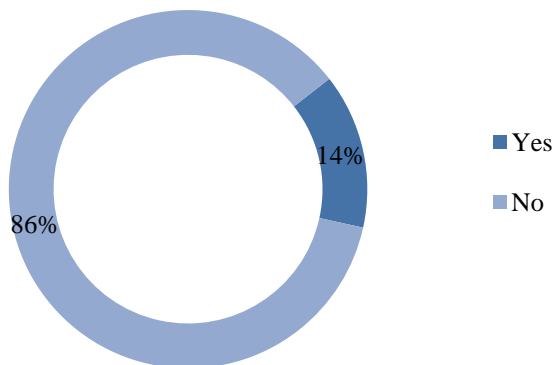
2.21 Interest rate swaps are common to entities across all subsectors, as companies generally have interest-bearing financial assets and liabilities that expose them to risks associated with fluctuating market interest rates. 70% of the entities surveyed used interest rate swaps or collars to minimise the adverse effects of interest rate fluctuations on their financial positions and cash flows.

2.22 Derivatives to hedge freight and commodity price risks are often used by entities belonging to the tanker, dry bulk, and container subsectors. Forward freight agreements (“FFA”) are popular among ship owners and charterers to hedge against the volatility of freight rates. Commodity futures, swaps and options are also used to manage risks tied to shipping activities where oil and fuel are significant expenses. Entities under the offshore and miscellaneous subsectors may deem derivatives unnecessary for these types of risks as their exposure may be limited.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Results of Survey (cont'd)

2.23 Did the entities disclose “derivatives” and “hedge accounting” as a critical accounting judgment?



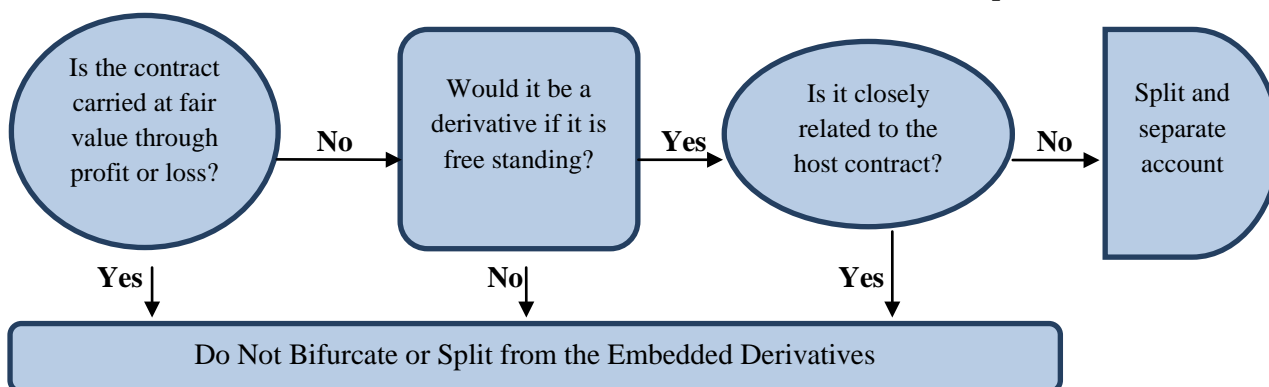
Only 14% of the entities surveyed identified derivative financial instruments, particularly on fair value measurement and hedge accounting, as involving a critical accounting judgment.

Embedded derivatives

Requirements under IFRS

2.24 Embedded derivatives have to be separated from their host contracts and recognised in the balance sheet at fair value, unless they are “closely related” to the host contract. The decision tree below aids in determining if the embedded derivatives should be bifurcated or split from their host contracts.

Decision tree to determine whether embedded derivatives should be bifurcated or split out from host contract



2.25 IFRS precludes reassessment of the embedded derivatives after inception of the contract unless there is a change in the contractual terms that significantly modifies the expected future cash flows that would otherwise be required under the contract. For example, if an entity reclassifies a financial asset out of the held-for-trading category, embedded derivatives must be assessed and, if necessary bifurcated (divided in parts).

Exceptions to IFRS

US GAAP

2.26 Under US GAAP, if a hybrid instrument contains an embedded derivative that is not clearly and closely related at inception, and it is not bifurcated (because it does not meet the definition of a derivative), it must be continually reassessed to determine whether bifurcation is required at a later date. Once it meets the definition of a derivative, the embedded derivative is bifurcated and measured at fair value with changes in fair value recognised in earnings.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Embedded derivatives (cont'd)

Exceptions to IFRS (cont'd)

Other GAAPs

- 2.27 Under Japanese GAAP, it is necessary to separate embedded derivatives if all of the following conditions are met:
- it is possible that the underlying asset or liability could be affected by the risks arising from the embedded derivative;
 - a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
 - the impact of changes in fair value is not reflected in profit or loss.
- 2.28 However, where embedded derivatives are separated for management purposes and certain conditions are met, they are separated.
- 2.29 The guideline on embedded derivatives of Taiwanese GAAP as set out in Statement of Financial Accounting Standards (“SFAS”) No. 34 *Financial Instruments: Recognition and Measurement* is similar to IFRS.
- 2.30 Other GAAPs do not have equivalent standards for embedded derivatives.

Closely-related exemption

Requirements under IFRS

- 2.31 Closely-related embedded derivatives do not have to be separated from their host contracts. An embedded derivative is not closely related to the host contract if it modifies risks other than those inherent in the contract itself.
- 2.32 IFRS does not provide extensive guidance on how to determine whether the embedded derivative is closely-related, and judgement must be applied. IAS 39 provides several examples of closely-related embedded derivatives often found in financial contracts.
- 2.33 Management must understand the principles underlying embedded derivatives, the nature of the economic risks inherent in the host contract and the embedded derivative, and subsequently consider the examples in IAS 39 when determining whether a specific embedded derivative is closely related or otherwise.
- 2.34 Management needs to examine contracting practices and relevant standardised contractual terms for purchases of bunker to ensure that the contracts are free from derivatives. Other contracts should also be scrutinised for embedded derivatives.
- 2.35 Bifurcation of a foreign currency embedded derivative from a non-financial host is not required if payments are denominated in a currency that is commonly used to purchase or sell such commodities in the economic environment in which the transaction takes place. Typical embedded derivatives include the chartering price being fixed in a currency that is not the functional currency of any of the entities to the contract, and also not commonly used in the relevant local market.
- 2.36 Identified embedded derivatives that do not meet the “closely related” exemption must be separated and recognised in the balance sheet with movements in fair value recognised in the income statement.
- 2.37 Management may consider changing contracting practices to avoid unwelcome income statement volatility.
- 2.38 IAS 39 is a complex and detailed standard. It is beyond the scope of this publication to consider all the implications of accounting for financial instruments.
- 2.39 Consultation with experienced professional advisers is strongly recommended.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Embedded Derivatives (cont'd)

Closely-related exemption (cont'd)

Exceptions to IFRS

US GAAP

- 2.40 Similarly, the embedded derivative in a hybrid instrument that is not clearly and closely related at inception and is bifurcated must also be continually reassessed to determine whether such instrument subsequently fails to meet the definition of a derivative. Such embedded derivative should cease to be bifurcated at the point at which it fails to meet the requirements for bifurcation.
- 2.41 An embedded derivative that is clearly and closely related is not reassessed subsequent to inception for the “clearly and closely related” feature. For non-financial host contracts, the assessment of whether an embedded foreign currency derivative is clearly and closely related to the host contract, should be performed only at inception of the contract.
- 2.42 US GAAP requires bifurcation of a foreign currency embedded derivative from a non-financial host unless the payment is:
- denominated in the local currency or functional currency of a substantial party to the contract;
 - the price that is routinely denominated in that foreign currency in international commerce (e.g. US dollar for crude oil transactions); or
 - a foreign currency used because a party operates in a hyperinflationary environment.
- 2.43 Although US GAAP and IFRS have similar guidance in determining when to separate foreign currency embedded derivatives in a non-financial host, there is more flexibility under IFRS in determining that the currency is closely related.

Results of Survey

2.44 Disclosure on accounting for embedded derivatives

Embedded Derivatives	IFRS	US GAAP	Other GAAPs	Total
As an accounting policy, embedded derivatives are bifurcated	12	-	1	13
Embedded derivatives were bifurcated and accounted for separately in the notes to the financial statements	2	-	2	4
Embedded derivatives were not bifurcated	-	-	1	1
No information on embedded derivatives	48	13	6	67
Total	62	13	10	85

The above table summarises the information we have drawn on embedded derivatives from the financial statements of the 85 entities that have accounted for their derivatives.

- 13 entities included their accounting policy on embedded derivatives in the notes to the financial statements. The policies of the 12 entities reporting under IFRS are consistent with the requirements of the standard. 1 entity reporting under Taiwanese GAAP disclosed its policy on embedded derivative which is in accordance with the said accounting framework (see paragraph 2.25).
- 2 entities reporting under IFRS and 2 entities under Taiwanese GAAP separated the derivative component from the host contract. The derivatives, commonly conversion options embedded in convertible bonds, were measured at fair value. The debt host contract was initially recognised at fair value and subsequently measured at amortised cost. One of these entities also indicated that a reassessment of the embedded derivatives was made.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Embedded Derivatives (cont'd)

Closely-related exemption (cont'd)

Results of Survey (cont'd)

- 1 entity reporting under Taiwanese GAAP disclosed that hybrid contracts containing one or more embedded derivatives are designated as financial assets at fair value through profit or loss, and it is not necessary to separate the derivative component from the host contract.
- 67 entities did not disclose information on embedded derivatives or did not have embedded derivatives.
- None of the entities reporting under US GAAP disclosed information on embedded derivatives.
- 6 entities reporting under other GAAPs did not disclose information on embedded derivatives.

Determining fair values

Requirements under IFRS

- 2.45 Derivatives and embedded derivatives are fair valued. Published price quotations in an active market are the best evidence of fair value.
- 2.46 Valuing certain embedded derivatives can be difficult, and specific valuation techniques must be used. Valuation models should be tested, documented and applied consistently. Inputs should be observable market data. In rare cases, when an embedded derivative cannot be separately fair valued, IAS 39 requires the entire contract to be fair valued.
- 2.47 Day One gains and losses are recognised only when fair value is evidenced by comparison with other observable current market transactions in the same instrument or is based on a valuation technique by which variables include only data from observable markets, i.e. when all inputs to the measure model are observable.
- 2.48 In certain circumstances, the transaction price may not equal fair value, i.e. when the market in which the transactions occur differs from the market where the reporting entity could transact. For example, entities can access wholesale and retail markets. The wholesale price may result in a Day One gain as compared to the transaction price in the retail market. In such cases, entities must recognise Day One gains and losses even if certain inputs to the measurement model are not observable.
- 2.49 Entities are not precluded from recognising Day One gains and losses on financial instruments reported at fair value even when all inputs to the measurement model are not observable. For example, a Day One gain or loss may occur when the transaction occurs in a market that differs from the reporting entity's exit market. The ability to recognise Day One gains and losses is different under US GAAP and IFRS, with gain or loss recognition more common under US GAAP.

Other GAAP

- 2.50 There is no specific guidance on Day One gains and losses under other GAAPs.

Results of Survey

- 2.51 None of the entities surveyed recognised Day One gains and losses.

Hedge accounting

Requirements under IFRS

- 2.52 Shipping entities operate in an international environment and are exposed to a variety of financial risks, the most common risks being foreign currency, interest rate and price risks. Management authorises the use of derivatives to mitigate these risks or seeks to achieve natural hedges by borrowing in the currency of the entity's cash inflows.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Hedge accounting (cont'd)

Requirements under IFRS (cont'd)

- 2.53 The exposure to currency exchange rate movements is often hedged using currency swaps and forward contracts. The exposure to interest rate risks can be managed by fixing interest rates through interest rate swaps. For foreign currency hedges of forecasted transaction, IFRS does not require the entity with the hedging instrument to have the same functional currency as the entity with the hedged item. At the same time, IFRS does not require that the operating unit exposed to the risk being hedged within the consolidated accounts be a party to the hedging instrument. As such, IFRS allows a parent entity with a functional currency different from that of a subsidiary to hedge the subsidiary's transactional foreign currency exposure.
- 2.54 Shipping entities can use "forward freight swap agreements" to manage price risks. This derivative fixes the price per day of contract routes.
- 2.55 All derivatives, including those meeting the hedge accounting criteria, are recognised on the balance sheet at their fair value as either financial assets or liabilities. Circumstances in which a derivative's fair value cannot be reliably measured are very rare.
- 2.56 Under IFRS, portions of risks can be viewed as portions of the cash flows or different types of financial risks, provided the types of risk are separately identifiable and effectiveness can be reliably measured. It permits the designation of a single hedging instrument to hedge more than one risk in two or more hedged items, such as to hedge foreign currency exposure and interest rate exposures at the same instance. This can be done if the risks hedged can be identified clearly, the effectiveness of a hedge can be demonstrated and it is possible to ensure that there is specific designation of the hedging instrument and different risk portions.
- 2.57 IFRS does not allow a shortcut method in which an entity may assume no ineffectiveness. IFRS permits portions of risk to be designated as the hedged risk for financial instruments in a hedging relationship such as selected contractual cash flows or a portion of the fair value of the hedged item, which can improve the effectiveness of a hedging relationship. Nevertheless, entities are still required to test effectiveness and measure the amount of any ineffectiveness. IFRS precludes the assumption of perfect effectiveness.
- 2.58 IFRS requires that hedges be assessed for effectiveness on an on-going basis and that effectiveness be measured, at a minimum, at the time an entity prepares its annual or interim financial reports. Hence, if an entity is required to prepare only annual financial statements, IFRS requires that effectiveness be tested only once a year. An entity may, of course, choose to test effectiveness more frequently.
- 2.59 IFRS does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The method an entity adopts depends on the entity's risk management strategy and is included in the documentation prepared at the inception of the hedge. The most common methods used are the critical-terms match, the dollar-offset method, and regression analysis.
- 2.60 IAS 39 provides a set of strict criteria that must be met before hedge accounting can be used. It does not mandate the use of hedge accounting.
- 2.61 Hedge accounting in IAS 39 can be applied to three types of hedging relationship:
- Where the hedged risk is that the hedged item's fair value will change in response to some variable, such as changes in interest rates, foreign exchange rates, or market prices, gains and losses on the hedging instrument and the offsetting losses and gains on the hedged items are both recognised in profit or loss. This is referred to as a fair value hedge.
 - Where the hedged risk is that the hedged item's future cash flows will change in response to such variables, the gain or loss on the hedged instrument is initially recognised in other comprehensive income and subsequently recycled from equity to profit or loss as the hedged item affects profit or loss. This is referred to as a cash flow hedge.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Hedge accounting (cont'd)

Requirements under IFRS (cont'd)

- Where the hedge risk is that the carrying amount of a net investment in a foreign operation will change in response to exchange rate movements, the gain or loss on the hedging instrument is initially recognised in other comprehensive income and subsequently recycled to profit or loss from equity on disposal of that foreign operation. This is referred to as a hedge of a net investment in a foreign operation.

2.62 Under a cash flow hedge, the gains / losses from the effective portion of hedging instruments that were taken directly to equity will be reclassified to profit or loss as income or expense in the period in which the hedged underlying transaction impacts the income statement. However, if the forecast transaction results in the recognition of a non-financial asset / liability, IFRS gives entities the choice regarding the presentation of amounts that have accumulated in equity. The entity may either adjust the amounts to the initial cost of the asset / liability or release the amounts to profit or loss.

Exceptions to IFRS

US GAAP

- 2.63 US GAAP provides for the short-cut method that allows an entity to assume no ineffectiveness (and hence bypass an effectiveness test) for certain fair value or cash flow hedges of interest rate risk using interest rate swaps (when certain stringent criteria are met). For hedges that do not qualify for the short-cut method, if the critical terms of the hedging instrument and the entire hedged item are the same, the entity conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset.
- 2.64 An entity is not allowed to assume (1) no ineffectiveness when it exists, or (2) that testing can be avoided. Rather, matched terms provide a simplified approach to effectiveness testing in certain situation. Critical terms have to be perfectly matched to assume no ineffectiveness. The critical-terms-match method is not available for interest rate hedges.
- 2.65 US GAAP requires that hedge effectiveness be assessed whenever financial statements or earnings are reported for at least once every three months (regardless of how often financial statements are prepared).
- 2.66 US GAAP allows lesser flexibility in the frequency of required effectiveness testing as compared to under IFRS.
- 2.67 US GAAP does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The method an entity adopts depends on the entity's risk management strategy and is included in the documentation prepared at the inception of hedge.
- 2.68 US GAAP requires a lower level of hedge effectiveness testing and less detailed measurement as compared to IFRS.
- 2.69 There are a number of similarities between the effectiveness-testing methods acceptable under US GAAP and those under IFRS. At the same time, important differences exist in areas such as the use of the short-cut method and the matched-terms method.
- 2.70 The US GAAP guidance does not allow a portion of a specific risk to qualify as a hedged risk in a hedge of financial assets or financial liabilities. US GAAP specifies that the designated risk be in the form of changes in one of the following:
- Overall fair value or cash flows
 - Benchmark interest rates
 - Foreign currency exchange rates
 - Creditworthiness and credit risk
- 2.71 The interest rate risk that can be hedged is explicitly limited to specified benchmark interest rates.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Hedge accounting (cont'd)

Exceptions to IFRS (cont'd)

US GAAP (cont'd)

- 2.72 US GAAP does not provide for opportunities with respect to achieving hedge accounting for a portion of specified risk. Thus those opportunities may reduce the amount of ineffectiveness that needs to be recorded in the income statement under IFRS as compared to US GAAP.
- 2.73 US GAAP does not allow a single hedging instrument to hedge more than one risk in two or more hedged items. US GAAP does not permit creation of a hypothetical component in hedging relationship to demonstrate hedge effectiveness in the hedging of more than one risk with a single hedging instrument.
- 2.74 This difference may allow entities that adopt IFRS as their accounting framework to adopt new and sometimes more complex strategies to achieve hedge accounting while managing certain risks.
- 2.75 In the context of a cash flow hedge, US GAAP does not permit basis adjustment. That is under US GAAP, an entity is not permitted to adjust the initial carrying amount of the hedged item by the cumulative amount of the hedging instruments' fair value changes that were recorded in equity.
- 2.76 US GAAP does refer to "basis adjustments" in a different context wherein the term is used to refer to the method by which, in a fair value hedge, the hedged item is adjusted for changes in its fair value attributable to the hedged risk.
- 2.77 Thus, in the context of a cash flow hedge, US GAAP does not provide flexibility regarding the presentation of amounts that have accumulated in equity (resulting from a cash flow hedge of non-financial assets and liabilities).
- 2.78 Therefore, the balance sheet impacts may be different depending on the policy election made by entities for IFRS purposes. The income statement impact, however, is the same, regardless of this policy election.

Other GAAPs

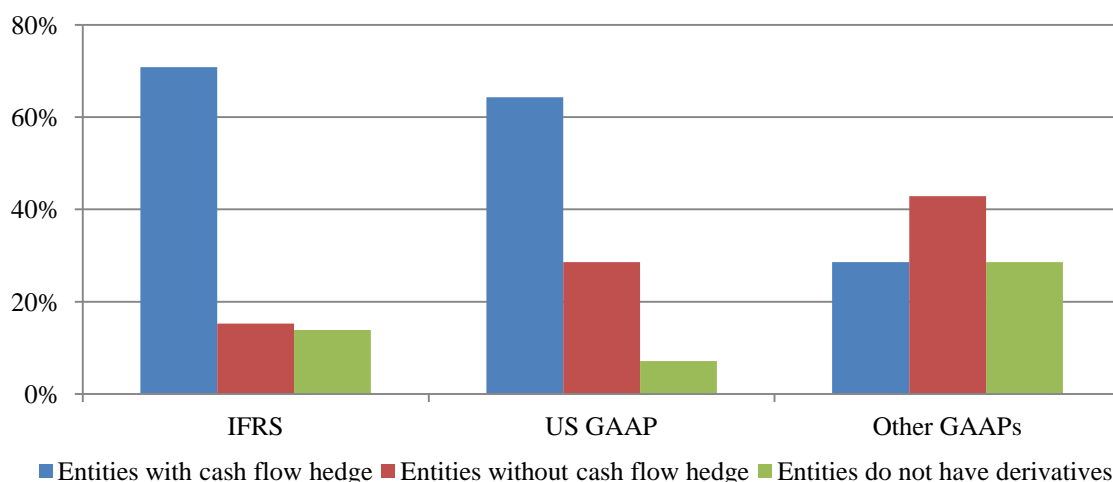
- 2.79 Under Japanese GAAP, valuation differences related to the hedging instrument are deferred as a part of equity as a general rule. However, where other marketable securities are the hedged item, fair value hedges are permitted where the market fluctuations of the hedged item are recorded in profit or loss. The ineffective portion of the gain or loss may also be deferred where the hedging instrument as a whole is judged to be effective and the requirements for hedge accounting are fulfilled. Where the ineffective portion of the hedge can be separately identified rationally, it may be recognised in profit or loss in the current year.
- 2.80 The guidance on hedge accounting for Taiwanese GAAP as set out in SFAS No. 34 *Financial Instruments: Recognition and Measurement* is similar to IFRS.
- 2.81 Other GAAPs do not have specific guidance on hedge accounting.

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Hedge accounting (cont'd)

Results of Survey

2.82 Entities with derivatives designated as cash flow hedges

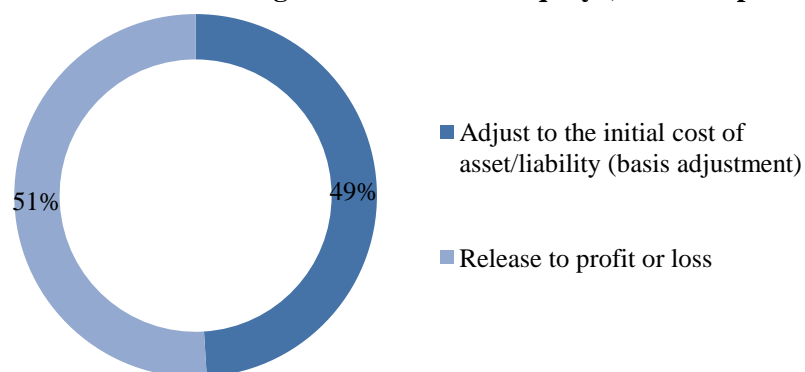


A majority of the 85 entities that entered into derivative financial instruments designated the derivatives as hedges of the variability in cash flows attributable to a particular risk.

2.83 51 of the 72 entities (71%) reporting under IFRS have derivatives that were designated and effective as cash flow hedge instruments. Gains or losses on the effective portion of the hedging instrument are recognised directly in equity under Other Comprehensive Income. Changes in fair value of a portion of a hedge deemed to be ineffective are recognised in the income statement. 11 of the entities (15%) do not have cash flow hedges, mostly having derivatives that did not qualify as hedge accounting instruments.

2.84 9 of the 14 entities (64%) reporting under US GAAP and 4 of the 14 entities (29%) reporting under other GAAPs have derivatives designated as cash flow hedges. The accounting treatment for changes in fair values of the derivatives is similar to IFRS.

2.85 Gain / losses from cash flow hedges accumulated in equity (entities reporting under IFRS)



The above graph pertains to the reversal of gains or losses from the effective portion of the cash flow hedge accumulated in equity, where the forecast transaction that is hedged results in the recognition of a non-financial asset or liability. 51% of the entities reporting under IFRS with cash flow hedges released the accumulated amounts in equity to the income statement. The remaining 49% included the amounts in the cost of the non-financial asset / liability.

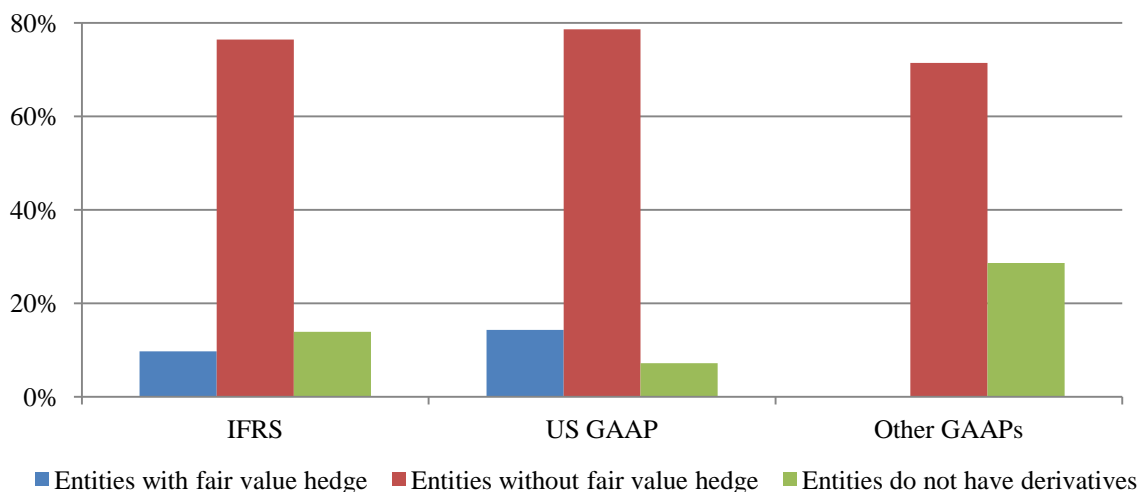
2.86 None of the entities reporting under US GAAP and other GAAPs used basis adjustment (refer to paragraph 2.72).

2 DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Hedge accounting (cont'd)

Results of Survey (cont'd)

2.87 Entities with derivatives designated as fair value hedges



Only 10% of the entities reporting under IFRS and 14% under US GAAP had derivatives designated as fair value hedges. Under both frameworks, the gain or loss on the derivative instruments was recognised in profit or loss.

- 2.88 Most entities reporting under IFRS stated that hedges are tested for effectiveness both at the beginning of the hedging relationship and on an on-going basis. Some entities specified the frequency of effectiveness tests, with 1 entity performing it on a monthly basis, 1 entity on a quarterly basis and 1 entity at each balance sheet date.
- 2.89 Although US GAAP requires entities to conduct hedge effectiveness assessment at least every three months, only 2 of the 14 entities expressly disclosed of their compliance to this requirement.

3 JOINT VENTURES (POOL ARRANGEMENTS)

Requirements under IFRS

- 3.1 Some shipping entities engage in joint ventures, such as “pool arrangements”. “Pool” is a collection of similar vessels, under different ownership, operating under a single administration, by a pool manager.
- 3.2 Pool managers market the vessels as a single and cohesive fleet unit; collect earnings and distribute them under a pre-arranged “weighting” system to allow pool participants to provide service levels required by major customers, and to improve transport efficiency through increased ship utilisation (e.g. by arranging backhaul cargoes more effectively).
- 3.3 The venturers may share the revenues and voyage-related costs.
- 3.4 Shipping entities may also jointly control, and operate a specific vessel. Each venturer typically owns a percentage of the ship’s capacity.
- 3.5 Joint control is the contractually-agreed sharing of control over an economic activity.
- 3.6 The accounting treatment depends on the type of joint-venture arrangements, which are indicated below:

Accounting for joint ventures		
Type of joint ventures	Description	Accounting treatment by the venturer
Jointly-controlled operations	<p>Each venturer uses its own property, plant and equipment and carries its own inventories.</p> <p>It incurs its own expenses and liabilities and raises its own finance.</p> <p>The activities may be carried out by the venturer’s employees alongside the venturer’s similar activities.</p> <p>The joint venture agreement usually provides a means by which the revenue from the sale of the joint venture products, and any expenses incurred in common, are shared among the venturers.</p>	<p>The venturer recognises:</p> <ul style="list-style-type: none"> • the assets it controls and the liabilities it incurs; and • its share of the income that it earns, and the expenses it incurs.
Jointly-controlled assets	<p>The venturers jointly control and own one or more assets contributed to / acquired for the purpose of the joint venture.</p> <p>Each venturer may take a share in the output from the assets, and each bears an agreed share of the expenses incurred.</p>	<p>The venturer recognises:</p> <ul style="list-style-type: none"> ▪ its share of the jointly-controlled assets, classified according to the nature of the assets; ▪ its share of any liabilities incurred jointly with the other venturers; ▪ any income from the sale or use of its share of the joint venture’s output, together with its share of any expenses incurred; and ▪ any expenses it has incurred in respect of its interest in the joint venture.

3 JOINT VENTURES (POOL ARRANGEMENTS) (cont'd)

Requirements under IFRS (cont'd)

Accounting for joint ventures (cont'd)		
Type of joint ventures	Description	Accounting treatment by the venturer
Jointly-controlled entities	<p>A jointly-controlled entity is a joint venture that involves establishing a corporation, partnership or other entity in which the venturer has an interest.</p> <p>The entity operates in the same way as other entities. A contractual arrangement between the venturers establishes joint control over the entity's economic activity.</p> <p>Each venturer is entitled to a share of the results of the jointly-controlled entity.</p>	<p>There are two alternatives under IFRS. The venturer may account for its interests in jointly-controlled entities consistently either:</p> <ul style="list-style-type: none"> • proportionately; or • equity method.

- 3.7 In May 2011, the *FASB* and *IASB* issued a new guidance IFRS 11 *Joint Arrangements*, specifying that there are two types of joint arrangements: either joint operations or joint ventures. IFRS 11 is effective for the financial year beginning 1 January 2013. Under this IFRS 11:
- a) Jointly-controlled operations and jointly-controlled assets under the existing IAS 31 *Interests in Joint Ventures* are referred to as joint operations.
 - b) Jointly-controlled entities are required to use the equity method. Proportionate consolidation method is not allowed.
 - c) Shipping entities which account for "pool arrangements" using proportionate consolidation may have substantial changes to their financial statements, when the equity method is required to be used. On the other hand, "pool arrangements" using the equity method that may be considered as joint operations under IFRS 11, would have to recognise the assets it controls and the liabilities it incurs, the expenses it incurs and its share of the income that it earns.

Exceptions to IFRS

US GAAP

- 3.8 Under US GAAP, the term joint venture refers only to jointly-controlled entities, where the arrangement is carried on through a separate entity.
- 3.9 A corporate joint venture is defined as a corporation owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.
- 3.10 Under US GAAP, proportionate consolidation is not allowed for the shipping industry.

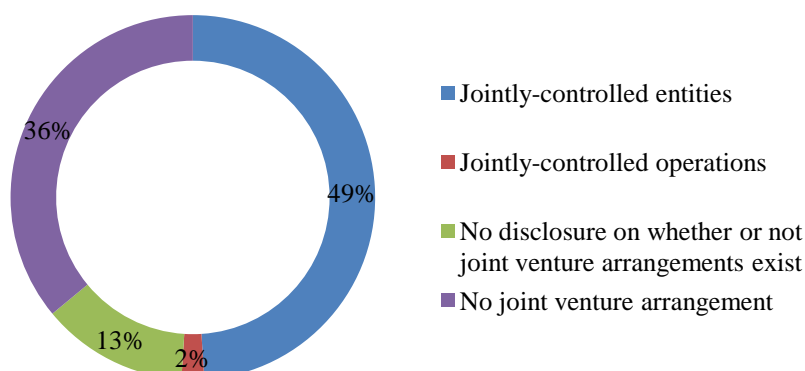
Other GAAPs

- 3.11 Under Japanese GAAP, only the concept of jointly-controlled entities is defined. "Joint control" is defined as the contractually agreed sharing of control by multiple independent entities. Certain requirements need to be satisfied for the formation of a "jointly controlled entity". Equity method is applied to jointly-controlled entities. Joint ventures that do not satisfy these requirements should apply standards for subsidiaries or affiliates.
- 3.12 Under Indian GAAP, only proportionate consolidation is allowed for joint ventures. Equity method is not permitted in accounting for jointly-controlled entities.
- 3.13 The accounting treatment under Thai GAAP and Taiwanese GAAP were similar to the accounting treatment under IFRS.

3 JOINT VENTURES (POOL ARRANGEMENTS) (cont'd)

Results of Survey

3.14 Entities with joint ventures and the type of joint ventures vs entities with no joint venture agreement



49% of the 100 entities surveyed had jointly-controlled entities, 2% are jointly-controlled operations. 13% did not disclose their accounting treatment for joint ventures and 36% had no joint venture arrangements.

3.15 Of the entities surveyed with joint-venture arrangements, tanker subsector represents 30%, dry bulk subsector - 27%, miscellaneous subsector - 20%, container subsector – 14% and offshore subsector – 9%.

3.16 Treatment of jointly-controlled entities reporting under different accounting frameworks

Jointly-controlled entities			
Accounting Framework	Proportionate consolidation	Equity Method	Total
IFRS	12	32	44
US GAAP	-	3	3
Other GAAP	2	-	2
Total	14	35	49

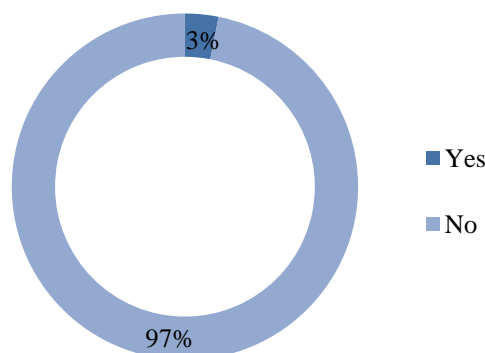
Of the 49 entities surveyed which had jointly-controlled entities, 35 entities (71%) accounted for their interest in the joint venture using the equity method and 14 entities (29%) recognised its interest in the joint venture using proportionate consolidation.

3.17 Equity method is a commonly used accounting treatment for the 44 entities reporting under IFRS, 3 entities under the US GAAP. The 12 entities reporting under IFRS using proportionate consolidation may have substantial changes to their financial statements once IFRS 11 is effective in year 2013.

3 JOINT VENTURES (POOL ARRANGEMENTS) (cont'd)

Results of Survey (cont'd)

- 3.18 Did the entity disclose “accounting for joint ventures” as a critical accounting estimate and judgement?



2 of the 64 entities (3%) with joint venture arrangements disclosed investments in joint ventures as a critical accounting estimate and judgement.

- 3.19 Of the 2 entities mentioned above, 1 IFRS shipping entity recognised that there are a number of areas where significant judgement is exercised to establish whether an entity needs to be consolidated or reported under the equity method of accounting. These key areas include, qualitative analysis of an entity; rights or partners regarding significant business decisions; board and management representation; ability to make financing decisions and operating and capital budget approvals and contractual rights of other parties. The exercise of judgement of these areas determines whether a particular entity is consolidated or accounted for under the equity method.
- 3.20 The other IFRS entity disclosed that the investment in a joint venture (jointly-controlled entities) were recorded using the equity method, despite the fact that this entity had a minority partner in the joint venture, this entity had considered itself having significant influence in the operations and management of the jointly-controlled entity.
- 3.21 The remaining 62 entities, comprising 48 entities under IFRS, 7 under US GAAP and 7 under other GAAPs, did not include the accounting for joint ventures under critical accounting estimates and judgements.

4 SPECIAL PURPOSE ENTITIES

Requirements under IFRS

- 4.1 Some shipping entities transfer vessels or other assets to special purpose entities (“SPEs”) and lease them back. For example, it is quite common for tanker fleets to have each tanker owned by a separate special-purpose entity.
- 4.2 Banks or other investors provide the funding for the SPEs to acquire the assets. SPEs are created to accomplish well defined objectives. SPEs may take the form of a corporation, partnership or an unincorporated entity.
- 4.3 SPEs’ decision-making powers are often subject to strict limits. A shipping entity may in substance control SPEs. Even though it may not own the SPEs’ equity, it can be considered a beneficiary of the SPEs’ activities.
- 4.4 Standing Interpretation Committee (“SIC”) 12 *Consolidation – Special Purpose Entities* provides guidance on when an SPE should be consolidated. SIC 12 requires that an SPE be consolidated if the entity in substance controls it. Decision-making rights are not always indicative of control, particularly in the case of an SPE where decision-making rights may be either severely limited (on autopilot) or structured for a narrow, well defined purpose (such as a lease or securitisation). As a result, IFRS requires other indicators of control to be considered: The indicators are as follows:
- Whether the SPE conducts its activities on behalf of the entity;
 - Whether the entity has the decision-making power to obtain the majority of the benefits of the SPE;
 - Whether the entity has the right to obtain the majority of the benefits of the SPE;
 - Whether the entity has the majority of the residual or ownership risks of the SPE or its assets.
- 4.5 The above guidance applies to activities regardless of whether or not they are conducted by a legal entity. It applies to all SPEs with the exception of post-employment benefit plans or other long-term employee benefit plans.
- 4.6 The challenge is to determine which party has the ability to direct or dominate the SPE’s decision-making, regardless of whether or not this power is actually exercised. Control may in substance exist even in cases where an entity does not participate in the SPE’s equity.
- 4.7 Determining control based on substance requires judgement to be exercised in the context of all relevant facts and circumstances. In practice, SPEs are tailored to the needs of each individual entity. Determining the appropriate accounting treatment therefore requires specific and detailed analysis of often relatively complex arrangement terms.
- 4.8 In May 2011, both the IASB and FASB issued IFRS 10 *Consolidated Financial Statements* which introduces a new definition of control that states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns. The new definition of control under IFRS 10 will apply to all entities, including SPEs.
- 4.9 IFRS 10 could change previous consolidation conclusions for SPEs. An investor with power over the investee and some of the variable returns that concluded it did not consolidate because it had less than the majority of the risks and rewards may now have to consolidate.
- 4.10 Similarly, an investor that concluded it needed to consolidate on the basis that the SPE’s activities are being conducted on behalf of the entity for its specific business needs may now have to deconsolidate if it does not have control as defined under the new guidance.

Exceptions to IFRS

US GAAP

- 4.11 Consolidation requirements focus on whether an entity is a variable interest entity (“VIE”) regardless of whether it would be considered an SPE. It applies only to legal entities, which differs from IFRS, where SIC 12 applies to activities regardless of whether they are conducted by a legal entity.

4 SPECIAL PURPOSE ENTITIES (cont'd)

Exceptions to IFRS (cont'd)

US GAAP (cont'd)

- 4.12 In general terms, a variable interest is an interest in an entity that increases and decreases in value (i.e. is variable) according to increases and decreases in the expected cash flows from the entity's assets and liabilities.
- 4.13 Once a variable interest is established, the second step is to determine who is the primary beneficiary of the VIE. The primary beneficiary is the entity, if any, that holds the majority of the risks and rewards associated with the VIE. Once a primary beneficiary is identified, it is deemed to have a controlling financial interest in the VIE and must consolidate the VIE onto its financial statements, whether or not it holds a majority voting interest.

Other GAAPs

- 4.14 Under Japanese GAAP, SPEs which meet certain conditions are presumed not to meet the definition of subsidiaries. The scope of consolidation of investment vehicles is in principle judged based on the existence of control over operations.
- 4.15 Other GAAPs were silent on the accounting treatment of SPEs.

Results of Survey

4.16 Treatment for SPEs reporting under different accounting frameworks

Special Purpose Entities				
	IFRS	US GAAP	OTHER GAAPS	TOTAL
With SPEs	5	-	-	5
Not disclosed	9	3	-	12
Without SPEs	59	11	13	83
Total	73	14	13	100

Only 5 of the 100 entities specifically disclosed that they had accounted SPEs in their consolidated accounts using full consolidation. Of the 12 entities under the “Not disclosed” category, 9 entities reporting under IFRS disclosed the investment in SPEs as investment in subsidiaries in their accounting policies under the basis of consolidation and 3 entities reporting under US GAAP disclosed that they had adopted an amendment to FASB Accounting Standards Codification 810 (ASC 810) - “*Consolidation – Improvements to Financial Reporting by Enterprises Included with Variable Interest Entities*”. However, none of these 12 entities disclosed specifically the investments in SPEs in their notes to the financial statements.

- 4.17 Of the 83 entities without SPEs, 59 entities are reporting under IFRS, 11 under US GAAP and 13 under other GAAPs.

LIABILITIES

5 PROVISIONS FOR SCHEDULED MAINTENANCE OR SURVEYS

Requirements under IFRS

- 5.1 Vessels experience wear and tear through use. Shipping entities maintain performance standards of vessels by repairs and by replacing components of the assets. Such provisions are not permitted under IFRS, but they are recognised in the income statement upon incurrence.
- 5.2 During a vessel's useful life three types of maintenance work will be undertaken:
- Planned major maintenance work
 - Unplanned or emergency major maintenance work
 - Day to day maintenance work

Planned major maintenance work

- 5.3 An entity recognises in the carrying amount of an item of PPE the cost of replacing parts of such an item when that cost is incurred if the recognition criteria are met, [IAS 16.13] and the amount in itself is deemed to be material.
- 5.4 Provisions are recorded under IFRS when an entity has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A present obligation may exist when an operating lease agreement requires the overhauls or inspections of leased assets to be conducted on a periodic basis.
- 5.5 The cost of major planned maintenance will increase over the life of a vessel due to inflation and the age of the vessel. This additional cost will be capitalised when incurred and therefore the depreciation charge on these components will be greater in the later stages of a vessel's life.
- 5.6 Major maintenance costs, including dry-docking and special survey costs, are generally capitalised as part of the cost of the asset and amortised over the period until the next scheduled dry-docking. Finance teams require access to special survey and dry-docking data including the next expected dry-docking date, in order to calculate the depreciation charge for the dry-docking component.
- 5.7 When major planned maintenance work is undertaken the cost should be capitalised. For instance when an engine overhaul is undertaken the cost of the overhaul will be capitalised as a new asset that will then be depreciated over the period to the next overhaul. The depreciation of the previous overhaul will typically have been calculated such that it had a net book value of nil when the current overhaul was undertaken. If this was not the case, e.g. because the work was required earlier than expected, then any remaining net book value of the old component should be expensed immediately. [IAS 16.14]

Unplanned or emergency major maintenance work

- 5.8 The accounting treatment for unplanned maintenance work depends upon the work undertaken.
- 5.9 If it replaces a component which has been separately identified for depreciation purposes and therefore fully restores this previously partially depreciated component then it will be accounted for as a replacement of that component.
- 5.10 If the unplanned maintenance work replaces a component which has not previously been depreciated separately, then it should account for the disposal of the existing component.

Day to day maintenance work

- 5.11 An entity does not recognise in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. [IAS 16.12].
- 5.12 All day to day maintenance work which does not materially enhance the asset will be expensed as incurred.

5 PROVISIONS FOR SCHEDULED MAINTENANCE OR SURVEYS (cont'd)

Requirements under IFRS (cont'd)

Day to day maintenance work (cont'd)

- 5.13 If the following three criteria are met, a provision should be recognised:
- (1) a present obligation from a past event exists;
 - (2) it is probable that an outflow of resources will be required to settle the obligation; and
 - (3) a reliable estimate can be made.
- 5.14 The term “probable” is used for describing a situation in which the outcome is more likely than not to occur. Generally, the phrase “more likely than not” denotes any chance greater than 50%.
- 5.15 A present obligation does not exist when the shipping entity can avoid the overhauls or inspections by its future actions. Care must be exercised to identify the obligating event. Please refer to the component approach, which applies to both replacements of components of assets and surveys, in the section of PPE – component approach. (See page 13)

Exceptions to IFRS

US GAAP

- 5.16 US GAAP uses the term “probable” to describe a situation in which the outcome is likely to occur. While a numeric standard for “probable” does not exist, practice generally considers an event that has a 75% or greater likelihood of occurrence to be probable.
- 5.17 A difference in the definition of “probable” may result in later recognition of provisions under US GAAP as compared to IFRS.
- 5.18 US GAAP permits alternative accounting methods for recognising the costs of a major overhaul and dry-docking. Costs representing a replacement of an identified component can be either:
- Expensed as incurred;
 - Accounted for as a separate component asset; or
 - Deferred and amortised over the period benefited by the overhaul.

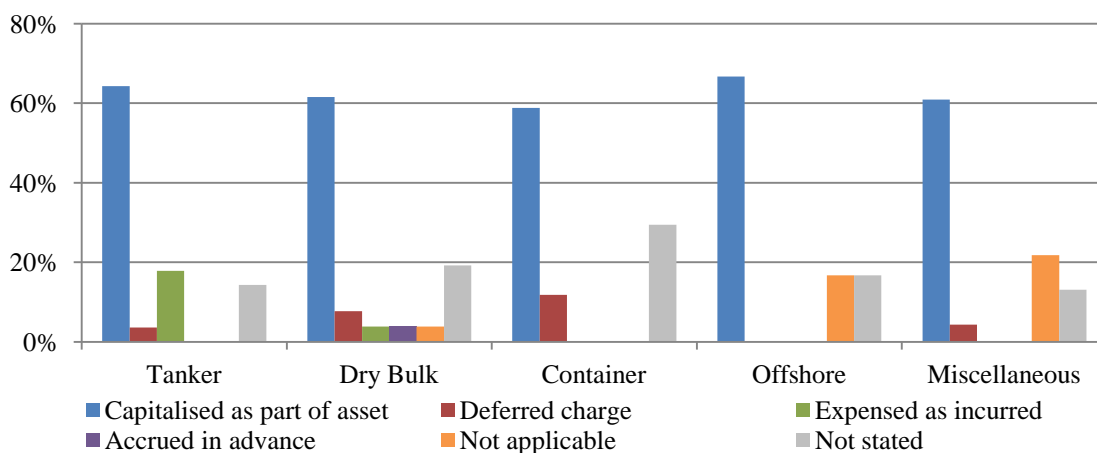
Other GAAPs

- 5.19 Some GAAPs allow the creation of provisions for scheduled overhauls or required inspections for faults (surveys) before the obligations arise.
- 5.20 Some other GAAPs traditionally allow entities to create provisions for dry-docking of vessels before the costs are incurred. This is not allowed under IFRS and US GAAP.

Results of survey

Planned major maintenance work

5.21 Accounting for dry-docking cost by various subsectors



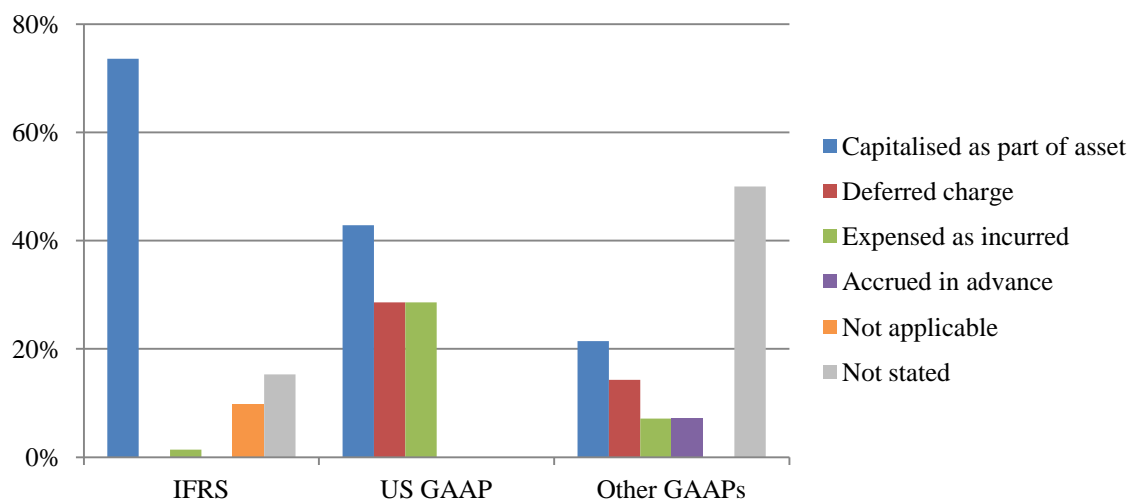
5 PROVISIONS FOR SCHEDULED MAINTENANCE OR SURVEYS (cont'd)

Results of survey (cont'd)

Planned major maintenance work (cont'd)

The preceding chart shows that, across subsectors, more than 50% of the entities surveyed capitalised dry-docking and special survey costs as part of PPE and depreciate them until the next overhaul, typically over a period of 2 to 3 years.

5.22 Accounting for dry-docking cost by different accounting frameworks



The chart above shows the analysis of survey data by the different accounting reporting frameworks. 53 of the 72 entities reporting under IFRS had capitalised dry-docking costs as a component of PPE. One entity charged dry-docking costs directly to expense. 11 entities did not state their accounting treatment for dry-docking. 7 of these entities do not own any vessel, hence, this analysis is not applicable.

5.23 For the entities reporting under US GAAP, 6 out of 14 entities capitalised dry-docking as part of the cost of vessel and 4 capitalised dry-docking as deferred charges under non-current assets, depreciated until the next dry-docking. 4 entities expensed dry-docking costs as incurred which is allowed under US GAAP. Some entities under US GAAP changed their method of accounting from deferral method to direct expense method as the latter eliminates the significant amount of time and subjectivity to determine which costs and activities related to dry-docking and special survey should be deferred.

5.24 7 of the 14 entities applying other GAAPs did not state their treatment of dry-docking costs. 3, 2, and 1 entities used capitalisation, deferral, and direct expense methods, respectively, in accounting for dry-docking cost. 1 entity accrued in advance the estimated amount of total expenses expected to be incurred for overhauling its vessels. This practice of providing for estimated maintenance or dry-docking cost that will be incurred in the future is not common in the industry. Under IFRS, dry-docking costs are capitalised when incurred.

Unplanned or emergency major maintenance work

5.25 The entities surveyed generally include the cost of major maintenance work in the initial value of the asset, or recognise it as a separate asset, only when it is likely that the future economic benefits associated with the components will flow to the entity and the cost of the component can be determined reliably.

Day to day maintenance work

5.26 For the entities covered by the survey, day-to-day maintenance costs are expensed during the financial period in which they are incurred.

6 ONEROUS CONTRACTS

Requirements under IFRS

- 6.1 Long-term contractual arrangements, for example contracts of affreightment with a shipper, are a common industry practice. These contracts can become onerous over time if they cannot be cancelled without paying a significant penalty or other compensation to the counterparty.
- 6.2 Management should analyse specific facts and circumstances and, if appropriate, recognise a provision for the expected loss in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- 6.3 IAS 37 requires a provision for the minimum unavoidable costs of meeting the obligations under a contract where the costs exceed the economic benefits expected to be received under the contract. The standard also prohibits making a provision for future operating losses.
- 6.4 Distinguishing onerous contracts from expected future operating losses may be difficult.
- 6.5 Facts and circumstances causing the contract to become onerous should be carefully considered, and management should seek to determine whether future inflows of economic benefits from the contract would exceed the unavoidable costs of meeting the obligations under the contract.
- 6.6 IAS 37 requires that any impairment loss on assets dedicated to a contract and caused by insufficient future cash inflows is recognised before a separate onerous contract provision is established as a liability. Provisions are recognised when a contract becomes onerous regardless of whether the entity has ceased using the rights under the contract. IFRS generally requires recognition of onerous loss for contracts which have not yet been performed or executed if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
- 6.7 Examples of contracts that may become onerous are:
- operating lease contracts for vessels when there is overcapacity;
 - contracts to buy or sell non-financial items at a fixed price;
 - bareboat contracts in / out;
 - time charter contracts; and
 - fixed rental arrangements of slots by non-vessel operating common carriers (“NVOCCs”) i.e. ocean freight forwarder.
- 6.8 An unfavourable contract, such as a purchase agreement for fuel at a fixed above-market price, is not necessarily onerous. The purchased fuel may be used profitably in shipping operations.
- 6.9 When an entity commits to a plan to exit a leased vessel, sublease rentals are considered in the measurement of an onerous lease provision only if management has the right to sublease and such sublease is probable.
- 6.10 In certain limited circumstances, a lease contract can be split into component contracts. A provision for an onerous part can be recognised if:
- (1) the onerous and non-onerous provisions are clearly identifiable and could have been separated at contract inception; and
 - (2) the future economic benefits can be allocated on a reliable basis to the various elements of the contract.
- 6.11 The amount of the onerous contract provision has to be discounted if the effect of the time value of money is significant. IFRS requires that the amount of a provision be the present value of the expenditure expected to be required to settle the obligation. The anticipated cash flows are discounted using a pre-tax discount rate (or rates) that reflect(s) current market assessment of the time value of money and the risks specific to the liability (for which the cash flow estimates have not been adjusted) if the effect is material.

6 ONEROUS CONTRACTS (cont'd)

Requirements under IFRS (cont'd)

- 6.12 Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. The carrying amount of provisions in each period to reflect the passage of time with changes in decommissioning costs arising from unwinding of the discount accounted for as a finance cost as it occurs.

Exceptions to IFRS

US GAAP

- 6.13 For losses that meet the accrual criteria under US GAAP, an entity will generally record them at the amount that will be paid to settle the contingency without considering the time that may pass before the liability is paid.
- 6.14 Provisions for onerous contracts are not recognised for unfavourable contracts unless the entity has ceased the rights under the contract (i.e. the date of cessation). One of the most common examples of an unfavourable contract has to do with a leased vessel that is no longer in use.
- 6.15 With respect to such leased vessel, estimated sublease rentals are to be considered in a measurement of provision to the extent such rentals could reasonably be obtained for the vessel, even if it is not management's intent to sublease or if the lease terms prohibit subleasing. Incremental expense in either instance is recognised as incurred. Recording a liability is appropriate only when a lessee permanently ceases use of functionally independent assets (i.e. assets that could be fully utilised by another party).
- 6.16 US GAAP generally does not allow the recognition of losses on contracts which have not yet been performed or executed prior to such costs being incurred.
- 6.17 Thus onerous contracts provision may be recognised later and in different amounts under US GAAP as compared to IFRS.
- 6.18 Discounting these liabilities is acceptable when the aggregate amount of the liability and the timing of cash payments for the liability are fixed or determinable. Entities with these liabilities that are eligible for discounting are not, however, required to discount those liabilities. The decision to discount is an accounting policy choice. When discounting is applied, the discount rate applied to a liability should not change from period to period if the liability is not recorded to fair value.

Other GAAPs

- 6.19 Other GAAPs do not prescribe the concept of recognising onerous contracts.

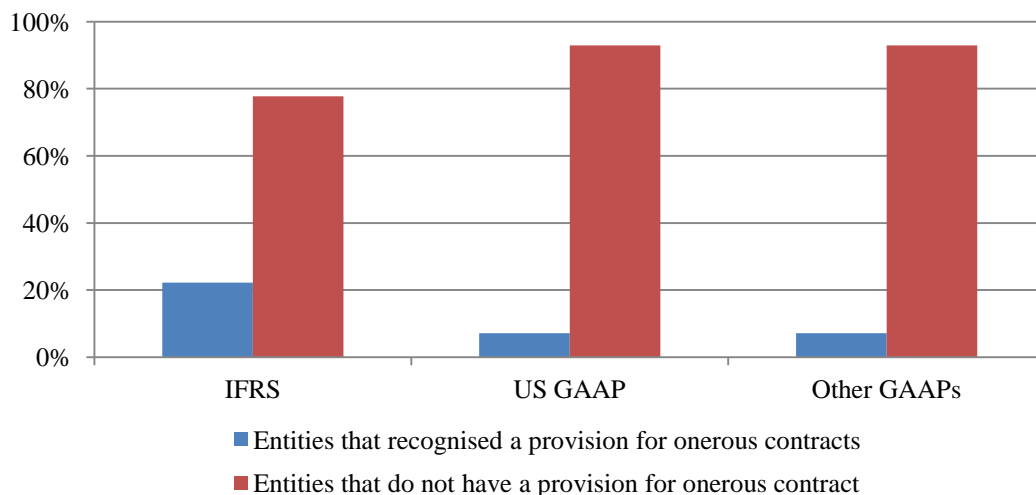
Results of Survey

- 6.20 Only 18 out of the 100 entities recognised a provision for an onerous contract. The graphs below present the analysis by accounting frameworks and by subsectors.

6 ONEROUS CONTRACTS (cont'd)

Results of Survey (cont'd)

6.21 Recognition of Provision for Onerous Contract by different accounting frameworks

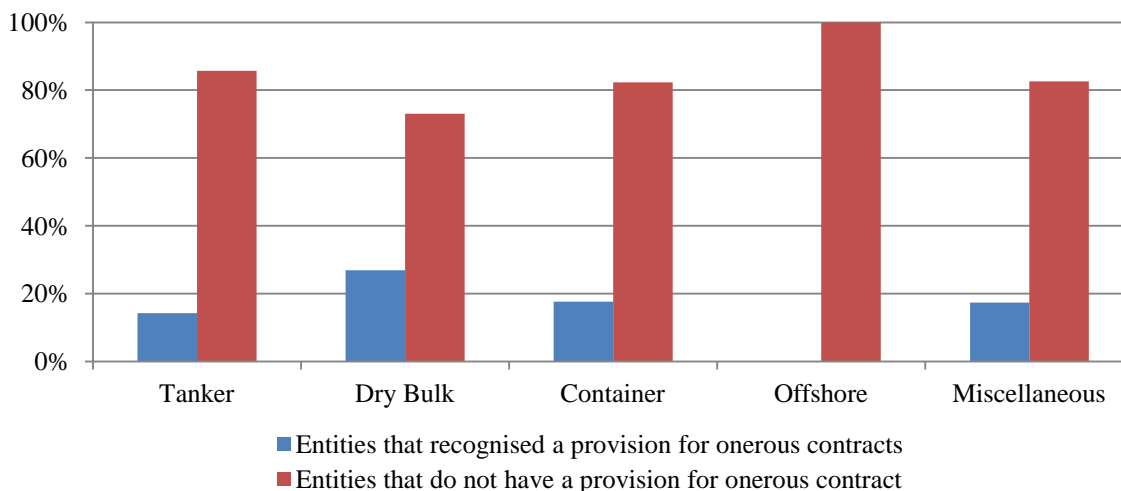


16 entities reporting under IFRS, 1 under US GAAP and 1 under Indian GAAP recognised a liability for onerous contracts. The provisions were commonly related to:

- vessel charter agreements that were overvalued in comparison to market prices, and were in a position to generate costs that were higher than the benefits associated with the operation of these vessels; and
- early termination of charter contracts.

6.22 Out of these 18 entities, 8 measured provisions at their present value. The remaining 10 entities did not indicate that their provision for onerous contracts was presented at a discounted amount.

6.23 Recognition of Provision for Onerous Contract by various subsectors

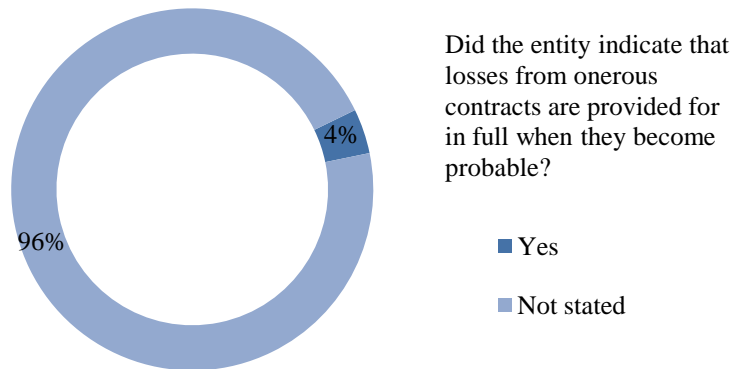


The container and dry bulk subsectors have accounted a larger percentage of provision for liabilities for onerous contracts as compared to the other subsectors namely tanker, offshore and miscellaneous.

6 ONEROUS CONTRACTS (cont'd)

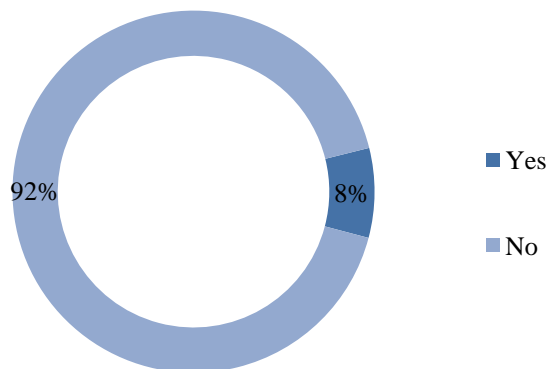
Results of Survey (cont'd)

6.24 Recognition of provision for losses from onerous contracts



Only 4 of the 100 entities surveyed indicated full provision for losses from onerous contracts when they become probable.

6.25 Did the entity disclose “onerous contracts” as critical accounting estimate?



Only 8 out of the 100 entities identified onerous contracts as a significant accounting estimate.

REVENUE AND EXPENSES

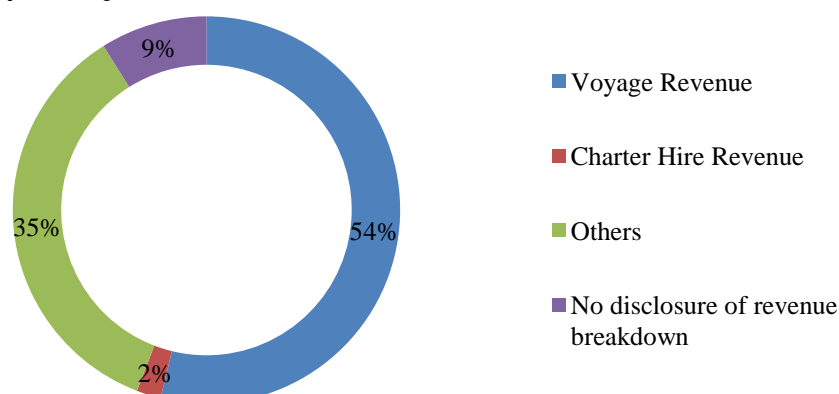
7 REVENUE

Revenue Recognition

Requirements under IFRS

- 7.1 Shipping services need time for their delivery. An important issue is when should revenue from these services be recognised.
- 7.2 Revenue and related cost recognition usually depends on a number of entity-specific circumstances influenced by the substance of the transaction, formal documentation, the entity's informal practices and the country's legislation.
- 7.3 Revenue is defined in IAS 18 *Revenue*, as the gross inflow of economic benefits during the period arising in the course of an entity's ordinary activities when those inflows increase equity other than increases relating to contributions from equity participants.
- 7.4 Revenue from services should be recognised by reference to the stage of completion at the balance sheet date if:
- the amount of revenue can be measured reliably;
 - it is probable that the economic benefits from the transaction will flow to the entity;
 - the stage of completion can be measured reliably; and
 - the costs incurred for the transaction and the costs to complete can be measured reliably.
- 7.5 IFRS does not allow the completed contracts method; the percentage of completion method is required.
- 7.6 A transaction's stage of completion may be determined by different methods if they reliably measure the services performed. These methods may include, for example, cost-to-cost method, the proportion of total cost incurred to date method. Revenue may be recognised on a straight-line basis if the services are on indeterminate number of acts over a specified period and no other method better represents the stage of completion. Revenue may have to be deferred in instances when a specific act is much more significant than any other acts.
- 7.7 Revenue and cost recognition in providing services can be straightforward in many industries, but in shipping it presents some challenges. The principles laid out are generally to be applied without significant further rules or exceptions. In our survey of shipping entities reporting under IFRS, we narrowed down the revenues reported by the shipping entities into their major classification. The following are major types of revenue:

7.8 Revenue by its major classifications



Based on our survey, revenue is largely from voyage income. 54% mostly came from tankers, containers and dry bulk subsectors. Entities categorised under “Others” are income from offshore and miscellaneous subsectors.

7 REVENUE (cont'd)

Revenue Recognition (cont'd)

Requirements under IFRS (cont'd)

Charter Hire Income

7.9 Charter hire income is treated as operating leases with revenue recognised over the periods (some financial statements were specific in terms of basing this on “chartered days”) of the respective leases on a straight-line basis.

Exceptions to IFRS

7.10 The IFRS definition of revenue may differ from the traditional way of recognising revenue in some countries.

US GAAP

7.11 Revenue recognition guidance is extensive under US GAAP and includes a significant volume of hierarchies issued by various US standard setters.

7.12 Generally, the guidance focuses on revenue being:

- (1) either realised or realisable; and
- (2) earned.

7.13 Revenue recognition is considered to involve an exchange transaction; i.e. revenue should not be recognised until an exchange transaction has occurred. Revenue is deferred if a service transaction cannot be measured reliably.

7.14 US GAAP prohibits the use of the cost-to-cost revenue recognition method for service arrangements for shipping industries. Generally, entities would apply the proportional-performance model or the completed performance model. Revenue is recognised based on a distinct pattern, and if none exists, then the straight-line approach may be appropriate.

7.15 The concept of revenue recognition under US GAAP is prescriptive and rules-laden and it is highly detailed and industry specific. While the concept of IFRS is broadly principle base without further guidance or exception to specific industry.

7.16 Time charter income is recognised on a straight-line basis over the term of the respective time charter agreements as a service is provided, except for loss generating time charters, in which case the loss is recognised in the period when such accumulated loss is determined.

Other GAAPs

7.17 As with US GAAP, most GAAPs permit the recognition of revenue on either the percentage of completion method or completed contract method.

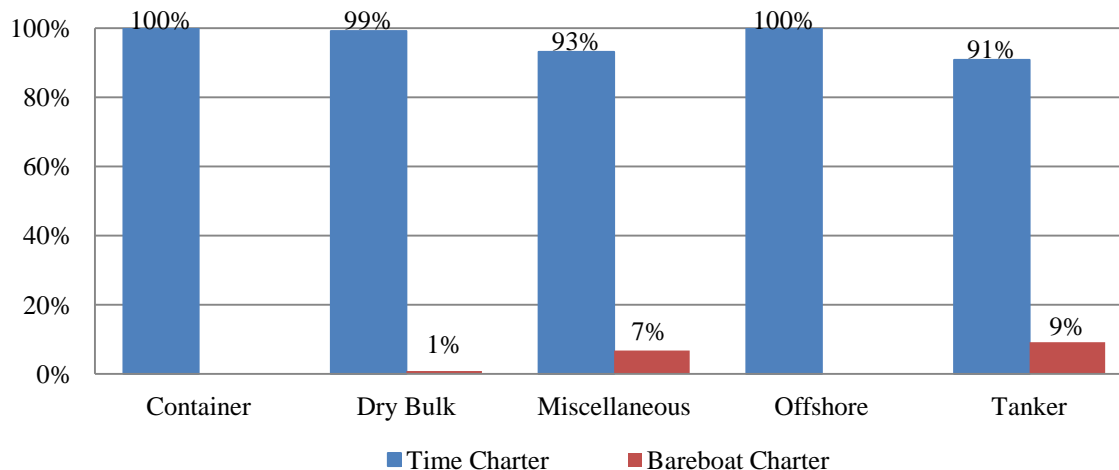
7 REVENUE (cont'd)

Revenue Recognition (cont'd)

Charter Hire Income (cont'd)

Results of Survey

7.18 Percentage of Time Charter vs Bareboat Charter by various subsectors



Most entities surveyed earned time charter income. They recognised charter hire income on a straight-line basis over the term of the respective time charter agreements as the services were provided.

Voyage Income

Requirements under IFRS

7.19 Most shipping entities reporting under IFRS choose to recognise revenue based on a percentage of the voyage completed, measured as a ratio of the number of voyage days to date to the total number of days required for the voyage while some shipping entities recognised revenue over the period from the departure of a vessel from its original discharge port to departure from the next discharge port. The departure date is defined as the date of the most recent discharge, and the voyage ends at the date of the next discharge (“discharge to discharge”).

7.20 Discounting of voyage income to present value is required in instances where the inflow of cash or cash equivalents is deferred. In such instances, an imputed interest rate should be used for determining the amount of revenue to be recognised as well as the separate interest income component to be recorded over time.

Exceptions to IFRS

US GAAP

7.21 Discounting of voyage income to present value is not required under US GAAP. Discounting of revenue to present value is narrower under US GAAP than under IFRS. This may result in higher revenue under US GAAP as there is no time value portion of the ultimate receivable recognised as finance or interest income.

7.22 Voyage income for cargo transportation is recognised and prorated over the estimated relative transit time of each voyage. Voyage income is deemed to commence upon the completion of discharge of the previous charterer’s cargo and is deemed to end upon the completion of discharge of the current cargo, provided an agreed non-cancellable charter between the entity and the charterer is in existence, the charter rate is fixed and determinable and collectability is reasonably assured. Income under voyage charters will not be recognised until a charter has been agreed even if the vessel has discharged its previous cargo and is proceeding to an anticipated port of loading.

7 REVENUE (cont'd)

Revenue Recognition (cont'd)

Voyage Income (cont'd)

Exceptions to IFRS (cont'd)

Other GAAPs

7.23 As with US GAAP, most GAAPs permit the recognition of revenue on either the percentage of completion method or completed contract method.

Results of Survey

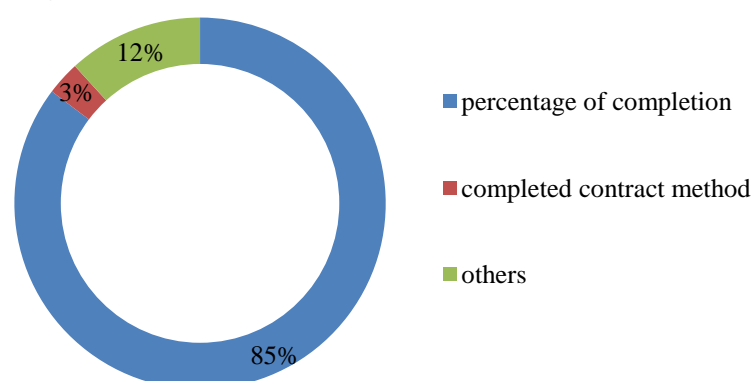
7.24 The table below summarises the number of entities that reported voyage income. The entities are classified by the various subsectors and further categorised by different accounting frameworks.

7.25 Entities that reported voyage charter income by various subsectors across different accounting frameworks

Subsector	IFRS	US GAAP	OTHER GAAPs	Total
Container	6	1	3	10
Dry Bulk	8	1	6	15
Offshore	2	-	-	2
Tanker	13	3	2	18
Miscellaneous	5	-	-	5
Total	34	5	11	50

The graphs below show the revenue recognition methods recognised by entities with voyage income in different accounting frameworks. Voyage income are recognised commonly either by completed contract method or percentage of completion.

7.26 Revenue recognition method under IFRS



As shown in the graph above,

- 3% (1 entity) recognised voyage income using the completed contract method, a method not permitted by IFRS.
- 12% (4 entities) under “Others” recognised revenues using different methods. For example, one entity recognised income from unfinished voyages in accordance with the proportion of the voyage completed as at the balance sheet date. The completed proportion of the voyage is determined by the ratio of the expenses incurred up to the balance sheet date to the anticipated total expenses. Another entity recognised the income based on a daily basis at the applicable daily rate under the terms of the charter agreement.
- 85% (29 entities) under voyage income used the percentage of completion method.

7 REVENUE (cont'd)

Revenue Recognition (cont'd)

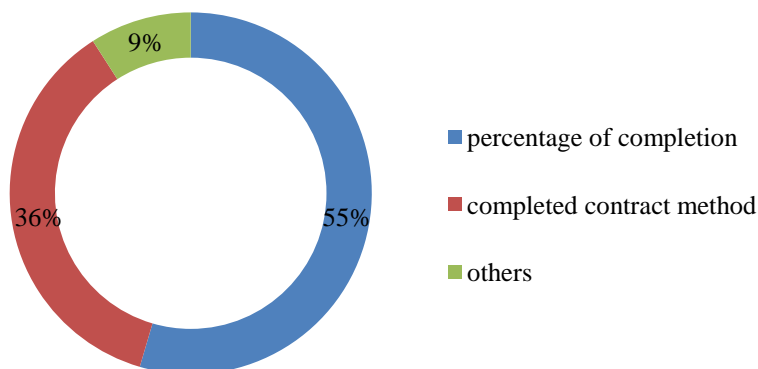
Voyage Income (cont'd)

Results of Survey (cont'd)

7.27 Revenue recognition method under US GAAP

All US GAAP entities recognised their revenue using the percentage of completion method.

7.28 Revenue recognition method under Other GAAPs



There are 11 entities reporting under other GAAPs which earned voyage income. Out of 11, 4 entities used the completed contract method while 6 entities used the percentage of completion. One out of 11 entities recognised revenue using multiple transportation progress method for its containerships operation. Under the multiple transportation progress method, freight revenues are recognised in accordance with the progress of transportation for each cargo.

8 LIQUIDATED DAMAGES

Requirements under IFRS

- 8.1 Liquidated damages may be present in certain legal contracts in the shipping industry. This provision allows for the payment of a specified sum should one of the parties be in breach of contract. Liquidated damage is an amount another party must pay for non-performance.
- 8.2 In the shipping industry, it is fairly common that there are legal suits by carriers to collect liquidated damages for the shippers' failure to meet minimum volume commitments. The shipper may fail to deliver the cargo within the stipulated timeframe. When market price of the cargo falls, the carrier may ask for damages based on the price they could have obtained if the cargo had been delivered on time.
- 8.3 Liquidated damages are not directly attributable to the acquisition of vessels. They are also not adjustments in the price of the equipment. The damages result from inefficiency on the part of the one party of the legal contract. In view of this, the liquidated damages received from the shipper cannot be adjusted in the cost of purchase. Liquidated damages received should be recognised as income if the contract specifies that liquidated damages will be payable as compensation for loss of revenue arising from contract delays, and the basis of calculation is clearly related to income lost.
- 8.4 Liquidated damages provisions in a contract need to be carefully worded if the supplier wishes to minimise any deferral of revenue as a result of such provisions.

Exception to IFRS

US GAAP

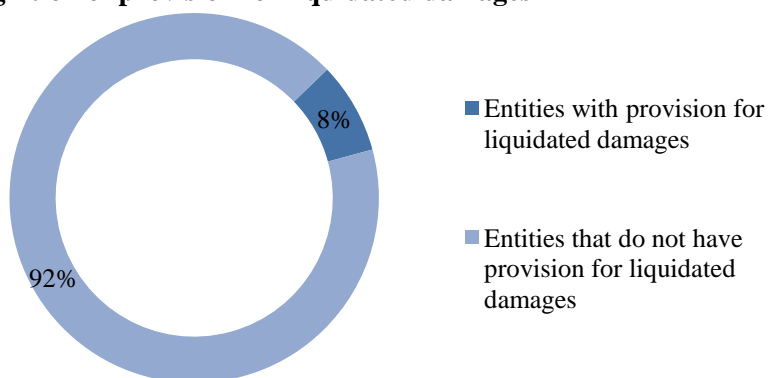
- 8.5 US GAAP provides guidance on accounting for liquidated damages by the buyer of PPE. Liquidated damages received by the buyer for the non-delivery and non-completion of construction of PPE by a stated completion date should be recorded as a reduction of the cost of PPE. The buyer should recognise liquidated damages that exceed the cost of PPE as income.

Other GAAPs

- 8.6 There is no prescribed accounting guidance for other GAAPs.

Results of Survey

8.7 Recognition of provision for liquidated damages



As shown on the graph above, 8 out of the 100 entities surveyed recognised a provision for liquidated damages. These provisions pertained to estimates of disbursements for losses and damages to cargo being transported, underperformance of certain vessels, and late delivery of goods.

8 LIQUIDATED DAMAGES (cont'd)

Demurrage Income

Requirements under IFRS

- 8.8 In commercial shipping, demurrage is an ancillary cost that represents liquidated damages for delays. It occurs when the vessel is prevented from loading or discharging cargo within the stipulated laytime. Demurrage refers to the amount of money that the charterer will have to pay to the shipowner for its extra use of the vessel.
- 8.9 Shipping container usage beyond the time allowed is referred as Container Demurrage. This extra usage usually entitles the container supplier (usually the shipping carrier) to claim a certain amount of compensation from the merchant.
- 8.10 Demurrage income must be able to be estimated reliably, and must be probable that the entity would receive the economic benefit related to the services provided before they can be recognised as income. Where reliable estimation is not possible, revenue is recognised only to the extent of the costs incurred that are probable of recovery.

Exceptions to IFRS

US GAAP

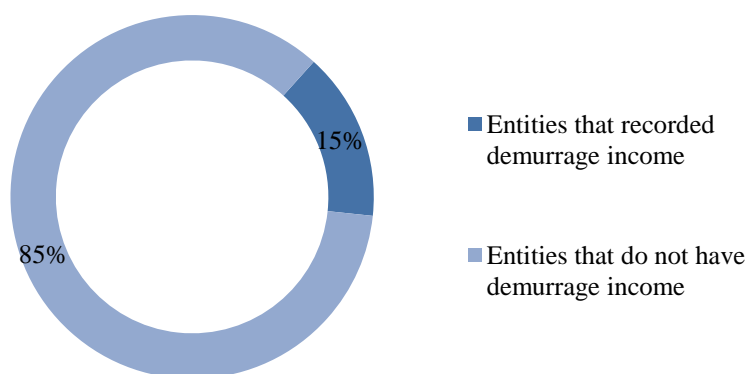
- 8.11 A right of refund may preclude recognition of revenue from a service arrangement until the right of refund expires. In certain circumstances, entities may be able to recognise revenue over the service period – net of allowance – if certain criteria within the US GAAP guidance are satisfied.
- 8.12 Demurrage income, recognised as earned, represents payments received from the charterer when loading or discharging time exceeded the stipulated time in the voyage charter. Probable losses on voyages are provided for by the charterer, in full at the time such losses can be estimated.
- 8.13 Demurrage income could be recognised as revenue earlier under IFRS as compared to US GAAP.

Other GAAPs

- 8.14 There is no prescribed accounting guidance for other GAAPs.

Results of Survey

8.15 Recognition of demurrage income



Out of the 100 entities covered by the survey, 15 entities reported demurrage income. Only 4 out of 15 entities presented demurrage income separately from the revenue. The remaining 11 entities have not disclosed demurrage income separately from revenue but included in total revenue.

- 8.16 5 of these 15 entities reporting under IFRS recognised demurrage income when a claim is considered probable. The remaining 10 entities (6 reporting under IFRS, 1 under US GAAP, 3 under Other GAAPs) recognised demurrage income upon delivery of services in accordance with the terms and conditions of the charter parties.

9 GOVERNMENT GRANTS

Requirements under IFRS

- 9.1 Shipping entities may receive government grants for the construction of vessels or be provided with government assistance. Such assistance could be monetary, including the benefit of low-interest-rate loans, or non-monetary, such as free use of government-owned harbour facilities. The definition of government grants excludes the provision of transport and other infrastructure, which is available on an on-going basis for the benefit of the entire community. This may cover free use of harbour facilities, provided these are available to everyone.
- 9.2 IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* requires an income approach. A grant is taken to income because government grants are considered to be receipts from a source other than shareholders.
- 9.3 Government grants should be recognised as income over the same periods in which the related costs they are intended to compensate for are expensed.
- 9.4 Grants related to construction or acquisition of a vessel or other tangible fixed asset are presented in the balance sheet either as deferred income or are deducted from the related asset's cost.
- 9.5 Loans at zero or low interest rates from a government are considered a form of government assistance. However, IAS 20 paragraph 37 prohibits quantifying the benefit by the imputation of interest. Similarly, a government may guarantee an entity's borrowing, but IAS 20 does not treat the benefit of the guarantee as a government grant.
- 9.6 IAS 20 paragraph 35 highlights examples of government assistance that cannot reasonably have a value placed on them which includes provision of guarantees.
- 9.7 These requirements of IAS 20 conflict with IAS 39 because IAS 39 requires financial liabilities to be measured initially at fair value.
- 9.8 The IASB worked on a project to amend IAS 20. It is expected that the references to loans at nil or low interest rates and guarantees in paragraph 35 of IAS 20 will be deleted. However, these changes are not applicable until a revised standard is issued.

Exception under IFRS

US GAAP

- 9.9 Under US GAAP, if conditions are attached to the grant, recognition of the grant is delayed until such conditions have been fulfilled.
- 9.10 Contributions of long-lived assets are to be credited to income over the expected useful life of the asset for which the grant was received.
- 9.11 It is usually the case under US GAAP to wait for the conditions to be fulfilled whilst IFRS permits the recognition of government grants once there is reasonable assurance that the requisite condition will be met. As a result, government grants may be recognised later under US GAAP.

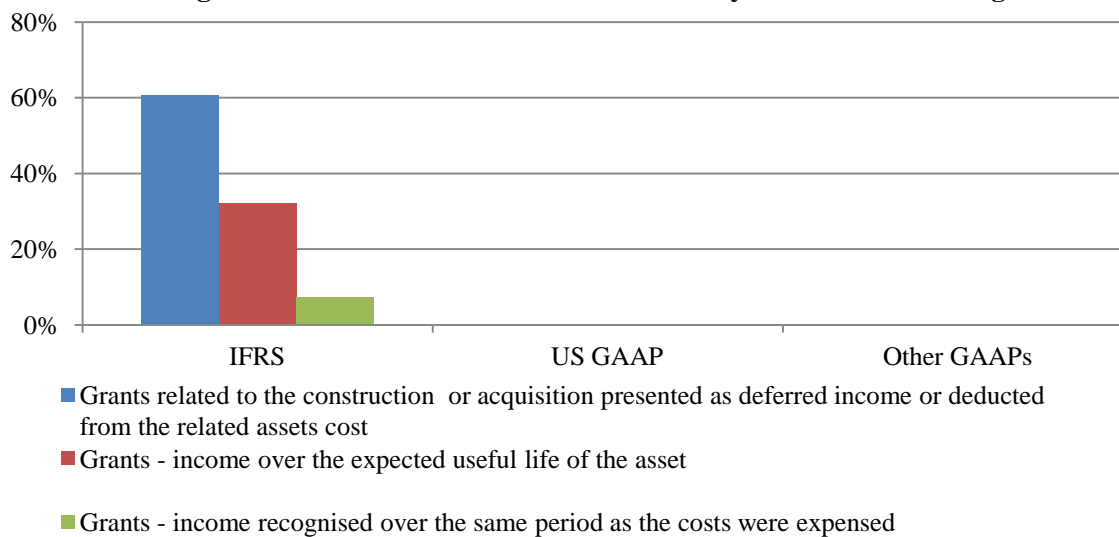
Other GAAPs

- 9.12 Other GAAPs like Japanese GAAP recognises government grants or subsidy upon receipt. It is also permitted to account for it as a reduction in the cost of assets.

9 GOVERNMENT GRANTS (cont'd)

Results of Survey

9.13 Revenue Recognition Methods for Government Grants by different accounting frameworks



Of the entities covered by our analysis, 28 entities under IFRS out of 100 entities recognised government grants.

9.14 Based on our survey, the following IFRS entities reported government grants based on the following methods.

- 2 entities recognised the government grants as income over the same periods as the related costs were expensed.
- 17 entities that recognised grants related to a construction or acquisition of a vessel or other PPE were presented in the balance sheet either as deferred income (8 entities) or deducted from the related asset's cost (9 entities).
- 9 entities recognised the grants as income over the expected useful life of the asset for which the grant was received.

9.15 No information on government grants for those entities reported under US GAAP and other GAAPs was noted. There are no specific guidance on government grants for US GAAP and other GAAPs.

10 LEASE CONTRACTS

Classification of leases as lessees

Requirements under IFRS

- 10.1 Leases are often used to finance vessels instead of bank or other borrowings. Leases are agreements in which the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a series of payments.
- 10.2 IFRS covers a wide range of operating and finance leasing transactions. It covers lease arrangements for all assets, with the exception of certain intangibles. Leases (including those within the scope of International Financial Reporting Interpretations Committee (“IFRIC 4 *Determining whether an Arrangement contains a Lease*”)) are classified as either operating or finance leases based on the facts and circumstances at their inception.
- 10.3 IAS 17 *Leases* defines a finance lease as one that transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee. The title may or may not eventually be transferred.
- 10.4 Operating leases are the remainder category. They are defined as all leases that are not finance leases.
- 10.5 Classification depends on substance rather than legal form. Contracts are often described as operating lease agreements, but analysis of their substance may result in their being classified as finance leases. IAS 17 lists the following qualitative indicators that individually or in combination would lead to a finance lease:
- the lease transfers ownership of the asset to the lessee;
 - the lessee has the option to purchase the asset at below market value so that it is reasonably certain that the lessee will exercise the option;
 - the lease term is for the major part of the asset’s economic life;
 - the present value of the minimum lease payments is close to the fair value of the leased asset when the lease contract is signed;
 - the leased assets are of a specialised nature so that only the lessee can use them without major modifications;
 - the lessor’s losses associated with the cancellation of a lease are borne by the lessee;
 - gains or losses from the fluctuation in the fair value of the residual accrue to the lessee for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease; and
 - the lessee extends the lease term at a below-market rent.
- 10.6 The indicators are not always conclusive. Careful review and consultation with specialists is recommended when classifying complex leases.
- 10.7 The shipping entity may also enter into an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. Examples of such arrangements include outsourcing arrangements and take-or-pay contracts. IFRIC 4 would be applicable to determine whether the arrangement is, or contains, a lease. If the entity chooses to apply IFRIC 4 prospectively, this determination would be based on the facts and circumstances existing at the start of the earliest period for which comparative information under IFRS is presented.
- 10.8 Below are examples of contractual arrangements that are leases:
- lease of equipment, land and buildings;
 - bareboat contracts in / out;
 - tax lease contracts;
 - slot rentals (NVOCCs); and
 - time charter contracts.

10 LEASE CONTRACTS (cont'd)

Classification of leases as lessees (cont'd)

Exceptions to IFRS

US GAAP

10.9 Under US GAAP, the guidance for leases applies only to PPE. It contains four specific criteria for determining whether a lease should be classified as an operating lease or a capital lease (i.e. equivalent of a finance lease under IFRS) by a lessee. Broadly, the criteria for capital lease's classification (similar lease classification identified in IFRS) address the following matters:

- Ownership transfer of the property to the lessee;
- Bargain purchase option;
- Lease term in relation to economic life of the asset;
- Present value of minimum lease payments in relation to fair value of the leased asset

10.10 The criteria contain specific quantitative thresholds such as whether the present value of the minimum lease payments equals or exceeds 90 % of the fair value of the leased property. However, under IFRS, there are no quantitative guidelines to apply (e.g. 90%).

Classification of leases as lessors

Requirements under IFRS

10.11 The lessor may be the legal owner of the asset, but the lessee may enjoy substantially all the risks and rewards of owning the asset. There are no incremental criteria for a lessor to consider in classifying a lease under IFRS. Accordingly, lease classification by the lessor and the lessee typically should be symmetrical.

Exceptions to IFRS

US GAAP

10.12 For a lessor to classify a lease as a direct financing or sales-type lease under the guidance, two additional criteria must be met. Under US GAAP, the lessor can classify leases that would otherwise be classified as direct-financing leases as leveraged leases if certain additional criteria are met. Financial lessors sometimes prefer leveraged lease accounting because it often results in faster income recognition. It also permits the lessor to offset the related non-recourse debt against the leveraged lease investment on the balance sheet. Leveraged lease accounting is not available under IFRS, potentially resulting in delayed income recognition and gross balance sheet presentation.

Other GAAPs

10.13 Under Japanese GAAP, transfer of ownership of the asset to the lessee at the end of the lease term requires the classification of the lease transaction as a finance lease. Transfer of ownership is only an indicator of a finance lease under IFRS. Unless transfer of ownership occurs, financing leases may be accounted for as operating leases accompanied with sufficient footnote disclosures.

10.14 Taiwanese GAAP is similar to US GAAP as to classification of leases.

10.15 Other GAAPs have no significant difference with IFRS.

10 LEASE CONTRACTS (cont'd)

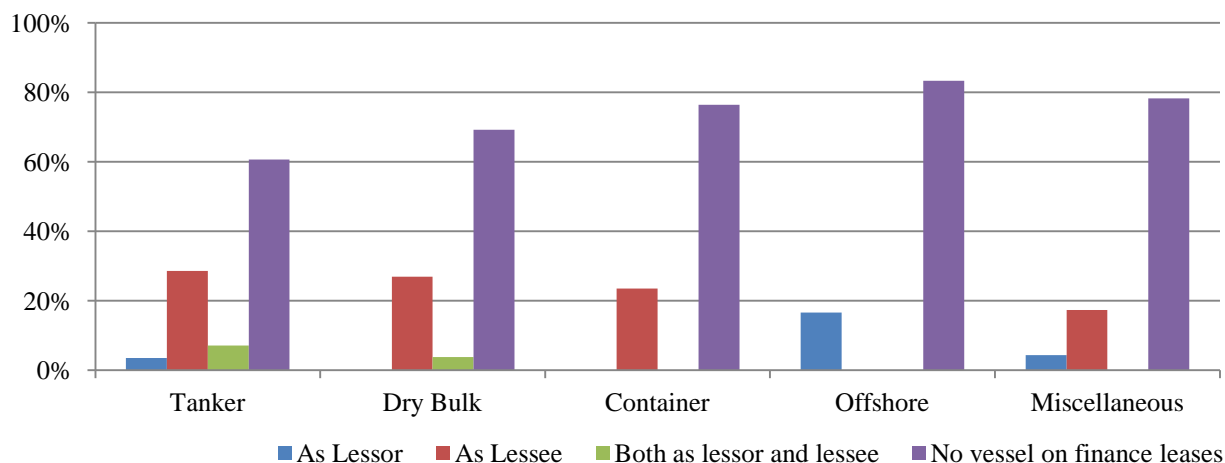
Classification of leases as lessors (cont'd)

Results of Survey

Finance Leases

10.16 The table and graph below show that, across various subsectors, only 29 out of the 100 entities covered by our survey entered into a finance leasing arrangement for their vessels.

10.17 Entities with vessels on finance leases by various subsectors



Subsector	Finance Leases				Total
	As Lessor	As Lessee	Both as lessor and lessee	No vessel on finance lease	
Tanker	1	8	2	17	28
Dry Bulk	-	7	1	18	26
Container	-	4	-	13	17
Offshore	1	-	-	5	6
Miscellaneous	1	4	-	18	23
TOTAL	3	23	3	71	100

3 and 23 entities were lessors and lessees, respectively, while 3 entities had transactions as both a lessor and a lessee. Of the 29 entities, 11 are from the tanker subsector, 8 from dry bulk subsector, 4 from the container subsector, 1 from the offshore subsector and 5 from the miscellaneous subsector.

Operating Leases

10.18 As shown on the table and graph below, 81 out of the 100 entities surveyed have vessels chartered-in or chartered-out which were accounted for as operating leases.

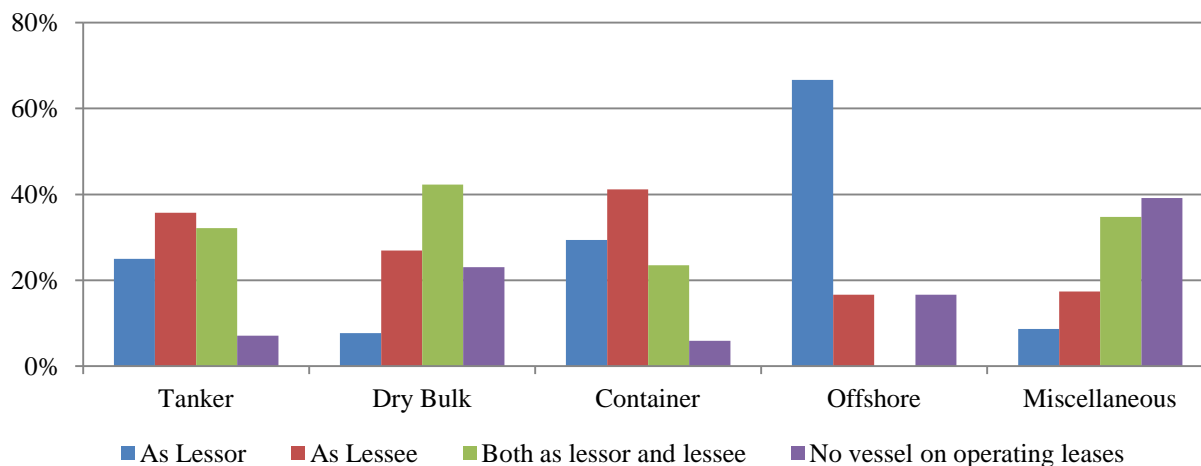
10 LEASE CONTRACTS (cont'd)

Classification of leases as lessors (cont'd)

Results of Survey (cont'd)

Operating Leases (cont'd)

10.19 Entities with vessels on operating leases by various subsectors



Subsector	Operating Leases				Total
	As Lessor	As Lessee	Both as lessor and lessee	No vessel on operating lease	
Tanker	7	10	9	2	28
Dry Bulk	2	7	11	6	26
Container	5	7	4	1	17
Offshore	4	1	-	1	6
Miscellaneous	2	4	8	9	23
TOTAL	20	29	32	19	100

20 and 29 entities were lessors and lessees, respectively. 32 entities had operating lease transactions as a lessor and as a lessee, while 19 did not have any operating lease transactions.

10.20 The survey results showed that operating lease arrangements are commonly used among these entities surveyed especially for charter hire transactions. The tanker subsector had the most share of operating lease arrangements (26 entities), followed by the dry bulk subsector (20 entities), container subsector (16 entities), miscellaneous subsector (14 entities) and offshore subsector (5 entities).

10.21 None of the 14 entities reporting under US GAAP had recognised finance leases as leveraged leases (refer to paragraph 10.12).

Accounting for Leases

Finance Leases

Requirements under IFRS

10.22 Assets acquired through finance leases are recognised in a lessee's balance sheet as PPE when the asset becomes available for use by the lessee. This is the beginning of the lease term and may be later than the date when a lease contract is signed.

10.23 The asset is recognised at its fair value or, if lower, the present value of the minimum lease payments, normally calculated using the interest rate implicit in the lease.

10.24 The lease payments are apportioned between the finance charges and the reduction of the principal of the outstanding finance lease liability using the effective yield method.

10 LEASE CONTRACTS (cont'd)

Accounting for Leases (cont'd)

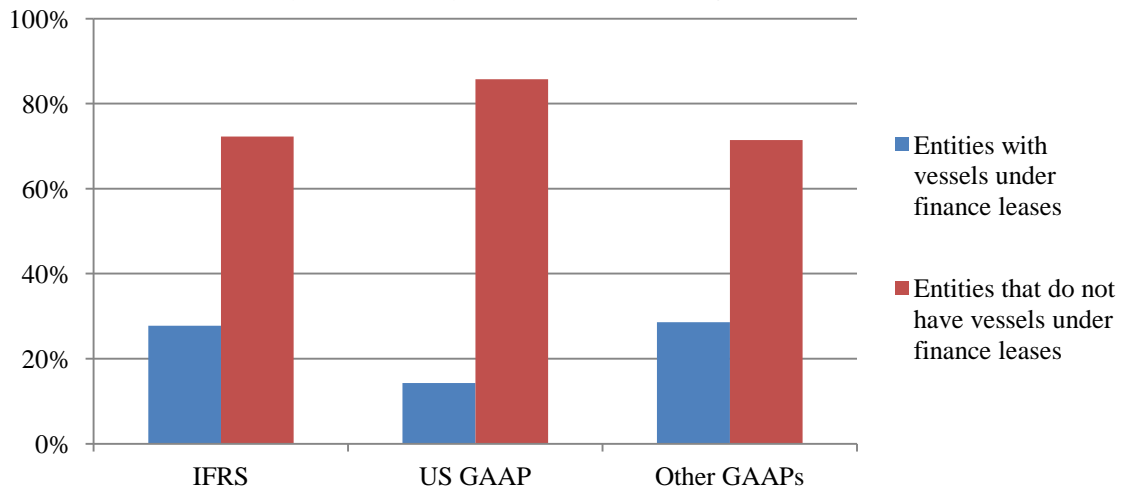
Finance Leases (cont'd)

Requirements under IFRS (cont'd)

10.25 The leased asset should be depreciated over its economic useful life or the lease term, if it is shorter and there is no reasonable certainty that the lessee will obtain ownership of the asset.

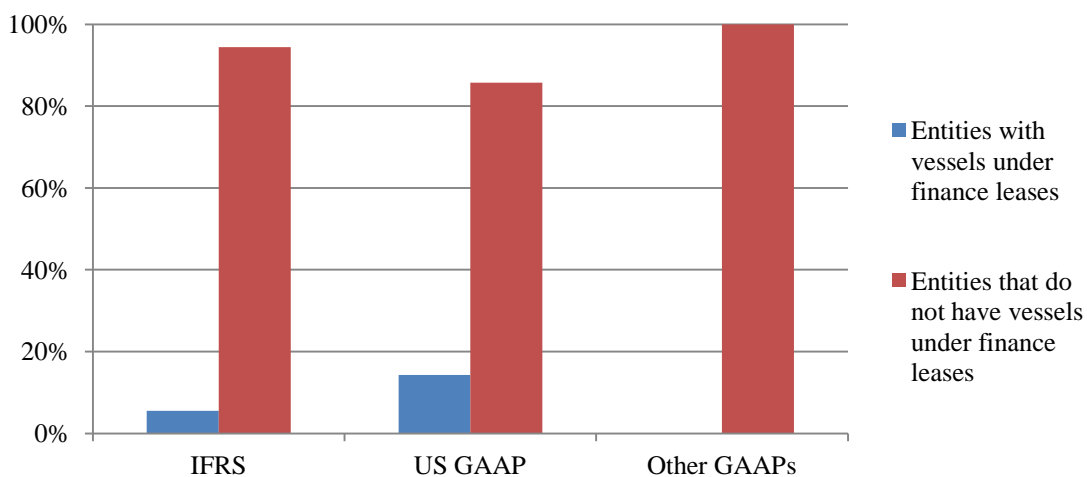
Results of Survey

10.26 Finance Leases – Entity as Lessee by different accounting frameworks



Of the 26 entities that entered into finance lease agreements as lessees, 20, 2, and 4 of these entities report under IFRS, US GAAP, and other GAAPs, respectively. The vessels were carried in the balance sheet and were depreciated over their expected useful lives on the same basis as owned assets.

10.27 Finance Leases – Entity as Lessor by different accounting frameworks



6 of the 100 entities have leased-out vessels accounted for as a finance lease (or capital lease under US GAAP).

10.28 4 of these entities report under IFRS. These entities accounted for finance leases consistent with the requirements of IFRS.

10 LEASE CONTRACTS (cont'd)

Accounting for Leases (cont'd)

Finance Leases (cont'd)

Results of Survey (cont'd)

10.29 2 entities reporting under US GAAP had chartered-out some of their vessels under long-term time charters and were accounted for as direct financing leases. For these charters classified as finance leases, the net investment in direct financing leases was recorded. This consists of the gross investment in the finance lease (the minimum lease payments plus the estimated residual value of the vessel) reduced by the unearned lease interest income (difference between the gross investment in the finance lease and the carrying value of the vessel).

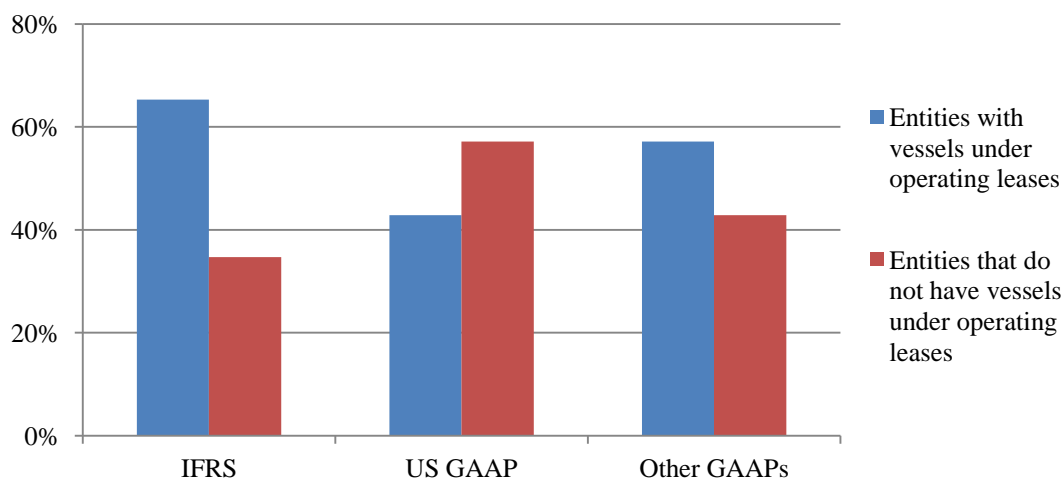
Operating Leases

Requirements under IFRS

10.30 Operating lease payments should be expensed on a straight-line basis over the lease term. The effect of unconditional rent escalation clauses – for example, rent increases by 5% each year – must be straight-lined. Rights and obligations, other than accrued or prepaid rent, are not recognised for operating leases. Operating leases are off - balance sheet arrangements.

Results of Survey

10.31 Operating Leases – Entity as Lessee by different accounting frameworks



61 of the 100 entities surveyed had entered into operating lease contracts to charter-in or sublease vessels from third parties, with 47, 6, and 8 entities reporting under IFRS, US GAAP and other GAAPs, respectively. These entities recorded lease payments as charter hire expenses in the income statement on a straight line basis over the lease term.

10.32 Following the IASB and FASB's exposure draft on lease accounting which will be re-exposed in the 2nd quarter of 2012, entities will require assets under operating leases to be accounted for under the right-of-use model. Operating leases will be abolished and all leases would be recorded on the lessee's balance sheet. This can cause substantial changes in the balance sheet and income statement.

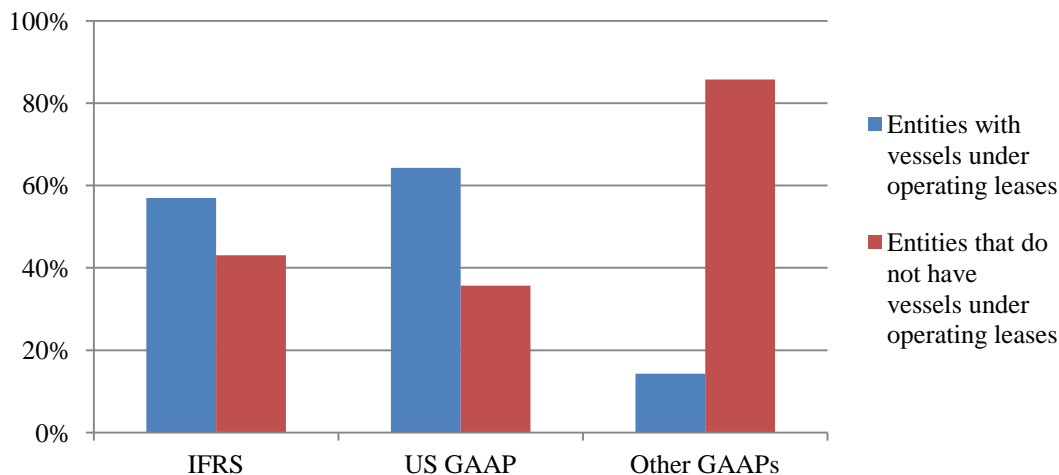
10 LEASE CONTRACTS (cont'd)

Accounting for Leases (cont'd)

Operating Leases (cont'd)

Results of Survey (cont'd)

10.33 Operating Leases – Entity as Lessor by different accounting frameworks



52 of the 100 entities surveyed have vessels that were chartered-out under time and bareboat charter agreements, with 41, 9 and 2 entities reporting under IFRS, US GAAP and other GAAPs, respectively. The vessels subject to operating lease were presented in the entities' balance sheets.

10.34 We noted that apart from these 52 entities, 30 other entities also recognised charter hire income from vessels. However, these 30 entities did not disclose that the charter agreements, were accounted for as operating lease.

Renewal / Extension Options

Requirements under IFRS

10.35 If the period covered by the renewal option was not considered to be part of the initial lease term, but the option is ultimately exercised based on the contractually stated terms of the lease, the original lease classification still applies. There is no requirement to consider a fresh lease classification of the lease including those based on the existing provisions of the lease arrangement and the renewal / extension option.

Exception to IFRS

US GAAP

10.36 The renewal or extension option of a lease beyond the original lease term, including those based on existing provisions of the lease arrangement, normally triggers a fresh lease classification.

Other GAAPs

10.37 There is no specific guidance under other GAAPs on renewal / extension option.

Results of Survey

10.38 None of the entities reporting under US GAAP and other GAAPs disclosed that a fresh lease classification was recognised based on the renewal or extension option of the lease beyond the original lease term.

11 SALE AND LEASEBACK ARRANGEMENTS

Requirements under IFRS

- 11.1 Sale and leaseback is frequently used to raise capital in the shipping industry. The transaction involves the sale of a vessel or other assets and the leaseback of the same assets, usually under a finance lease.
- 11.2 The form of these sale and leaseback transactions and their terms and conditions may vary significantly. Some of these sales and leaseback transactions may actually involve a genuine sales transaction and a genuine leasing transaction. However, some may merely be financing arrangements in substance.
- 11.3 Care must be exercised when evaluating certain transactions involving the legal form of a lease. IFRS and specifically SIC 27 (an interpretation from the Standing Interpretations Committee, now known as IFRIC) require that the substance of an arrangement overrides the legal form.
- 11.4 For example, an entity may sell a ship to a bank and enter into a lease-back agreement. The terms are such that the bank must sell the asset back to the entity at the end of a lease at an amount that has the overall effect, when also considering the lease payments, of providing the bank with a yield of LIBOR + a % margin. The assessment of such an arrangement is based on its substance as a bank borrowing rather than a sale and lease-back.
- 11.5 The future lease payments and the sale price are often interdependent because they are negotiated as a package. The accounting treatment of these transactions depends on the classification of the leaseback as either a finance or an operating lease.

Exceptions to IFRS

US GAAP

- 11.6 Under US GAAP, profit recognition on sale-leaseback transactions is based on the seller-lessee's retained interest in the asset (i.e. minor, more than but less than substantially all or substantially all) whilst under IFRS, the profit recognition on a sale-leaseback transaction is based on the classification (finance or operating leases) of the leaseback and whether the sale transaction was entered at fair value.
- 11.7 If the lease provides a residual value guarantee, gain is deferred until the end of the lease and amount is not amortised during the lease term.
- 11.8 US GAAP might lead to a delay in gain recognition as compared to IFRS.

Other GAAPs

- 11.9 Under other GAAPs, there is no specific guidance with respect to sale and leaseback arrangements.

Finance Lease

Requirements under IFRS

- 11.10 If the leaseback is a finance lease, any excess of the sales proceeds over the carrying amount is deferred, then amortised to income over the lease term. The "economic" ownership of the asset has not been transferred. It is inappropriate to recognise an accounting profit.
- 11.11 If the sales proceeds are less than the carrying amount, the loss is also deferred unless there has been an impairment of the asset's value.

Exceptions to IFRS

US GAAP

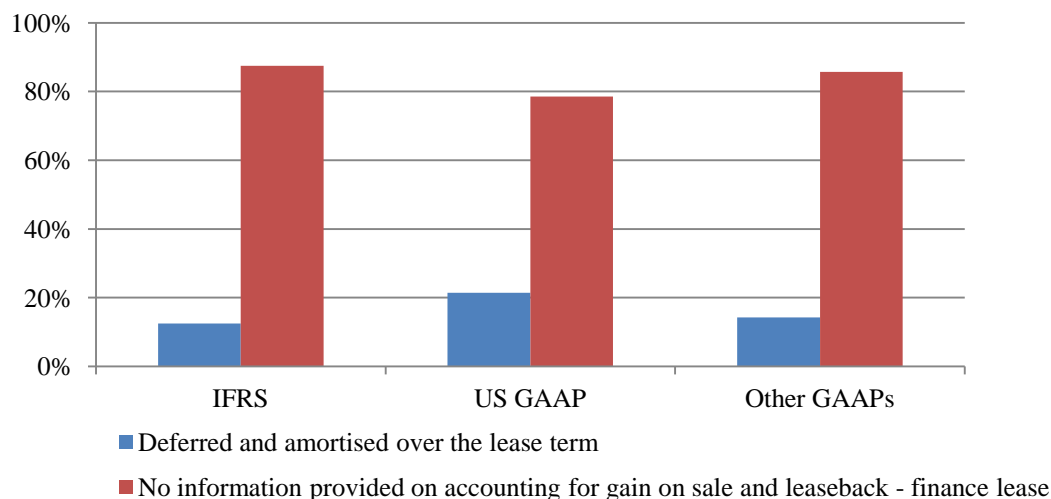
- 11.12 When a sale-leaseback transaction results in a capital lease, the gain is amortised in proportion to the amortisation of the leased asset.

11 SALE AND LEASEBACK ARRANGEMENTS (cont'd)

Finance Lease (cont'd)

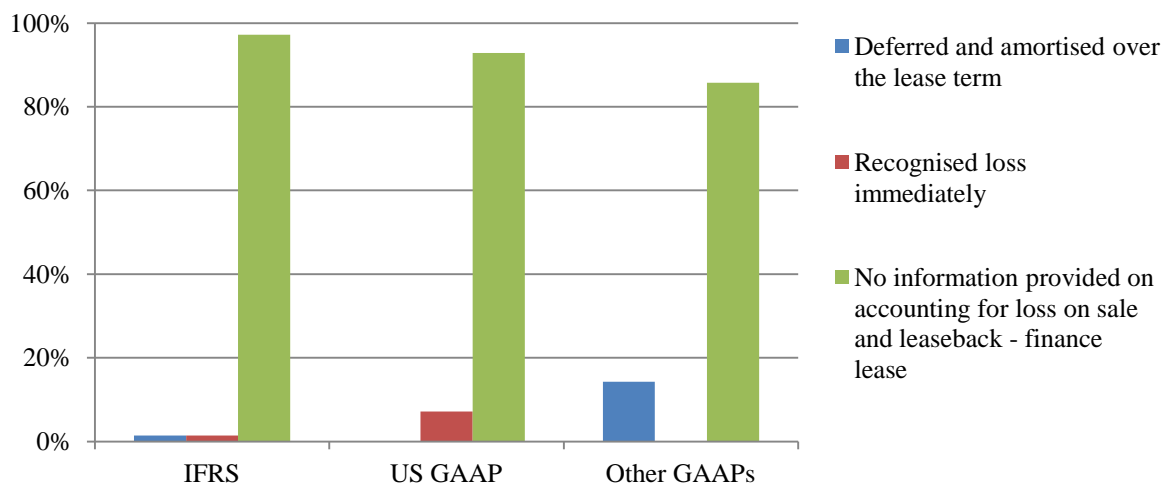
Results of Survey

11.13 Accounting for excess of sale proceeds over the carrying amount of vessel – leaseback is a finance lease



Of the 100 entities surveyed, 14 entities disclosed that gains on vessels sold and leased back under a finance lease are deferred and amortised over the term of the lease. 9, 3, and 2 of these entities are reporting under IFRS, US GAAP, and other GAAPs, respectively. 86 entities had not entered into sales and leaseback transactions.

11.14 Accounting for losses from sale and leaseback – leaseback is a finance lease



5 of the 100 entities surveyed have disclosed their accounting treatment for losses on vessels sold and leased back. 3 entities, 1 reporting under IFRS and 2 under other GAAPs, stated as an accounting policy that losses related to a sale and leaseback transaction is deferred and amortised in proportion to the gross rental on the time charter over the lease term. 2 entities, 1 reporting under IFRS and 1 under US GAAP, recognised the loss immediately when the fair value of the vessel at the time of the sale-leaseback is less than its book value.

11 SALE AND LEASEBACK ARRANGEMENTS (cont'd)

Operating Lease

Requirements under IFRS

11.15 If the leaseback is an operating lease, the accounting treatment is more complex because the sale price must be compared to the asset's fair value.

Is Sale price at Fair Value?	Accounting treatment
Sales price is at Fair Value	This is considered as a normal sale transaction, and any profit or loss arising from the sale is recognised immediately. It is not necessary for the seller-lessee to retain a minor portion under IFRS as compared to US GAAP (see 11.6 above).
Sale price is below Fair Value	Any profit or loss should be recognised immediately. However, if the loss is compensated for by future lease payments at below market price, it should be deferred and amortised to adjust the future rent.
Sale price is above Fair Value	The excess over fair value should be deferred and amortised to adjust the future rent.

Exceptions to IFRS

US GAAP

11.16 US GAAP requires the gain on a sale-leaseback transaction be deferred and amortised over the lease term. Immediate recognition of the full gain is normally appropriate only when the seller-lessee retains a minor portion.

11.17 If the seller-lessee retains more than a minor portion but less than substantially all of the asset life, a gain is recognised immediately to the extent that the gain exceeds the present value of the minimum lease payments.

Results of Survey

11.18 6 out of the 100 entities surveyed reporting under IFRS defined their accounting treatment for sales and leaseback transactions resulting in an operating lease in their notes to financial statements. These policies were consistent with the requirements under IFRS. However, none of these 6 entities disclosed specifically the sales and leaseback transaction in their notes to the financial statements.

11.19 None of the entities reporting under US GAAP and other GAAPs disclosed their accounting policy on sales and leaseback arrangements in their notes to the financial statements.

12 FUNCTIONAL CURRENCY

Requirements under IFRS

- 12.1 Shipping entities operate in an international environment and are exposed to a variety of currencies.
- 12.2 Functional currency is the currency of the primary economic environment in which the entity operates and expends cash. Presentation currency is the currency in which the financial statements are presented, and can take the form of any currency.
- 12.3 IFRS distinguishes between functional currency and presentation currency.
- 12.4 A shipping entity does not have a free choice of its functional currency under IFRS. Primary and secondary indicators should be considered in the determination of the functional currency of an entity. It needs to consider the following factors in determining its functional currency:
- 12.5 Primary Indicators
- What is the currency that mainly influences the shipping prices?
 - What is the currency that mainly influences labour, material and other costs of providing shipping services?
 - What is the currency of the country whose competitive forces and regulations mainly determine the shipping prices?
- 12.6 Secondary Indicators
- What is the currency in which funds from the financing activities are generated?
 - What is the currency in which receipts from operating activities are usually retained?
- 12.7 The consideration above is subjective and none of the factors is conclusive on its own.
- 12.8 If indicators are mixed and the functional currency is not obvious, management should use its judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated).

Exceptions to IFRS

US GAAP

- 12.9 There is no hierarchy of indicators to determine the functional currency of an entity. In those instances in which the indicators are mixed and the functional currency is not obvious, management's judgement is required so as to determine the currency that most faithfully portrays the primary economic environment of the entity's operations. Whereas under IFRS, a hierarchy of indicators to determine the functional currency exists.

Other GAAPs

- 12.10 Some GAAPs do not have the concept of functional currency and allow the use of any currency to be the base currency for measuring results and financial positions. The currency of the entity's country of incorporation is normally used.

12 FUNCTIONAL CURRENCY (cont'd)

Results of Survey

12.11 The table below shows the list of presentation and functional currencies used by entities in different accounting frameworks.

CURRENCY		FUNCTIONAL CURRENCY			PRESENTATION CURRENCY		
		IFRS	US GAAP	Other GAAP	IFRS	US GAAP	Other GAAP
United States, Dollar	USD	37	11	2	37	14	2
Europe, Euro	EURO	9	-	-	12	-	-
Denmark, Krone	DKK	1	-	-	2	-	-
Great Britain, Pound	GBP	1	-	-	2	-	-
Norway, Krone	NOK	6	-	-	5	-	-
Sweden, Krona	SEK	1	-	-	1	-	-
Singapore, Dollar	SGD	7	-	-	4	-	-
India, Rupee	INR	-	-	-	-	-	3
Thailand, Baht	THB	-	-	-	-	-	3
Taiwan, Dollar	TWD	-	-	2	-	-	5
United Arab Emirates, Dirham	AED	-	-	-	1	-	-
China, New Yuan	CNY / RMB	2	-	1	2	-	1
South Africa, Rand	ZAR	-	-	-	1	-	-
Hong Kong, Dollar	HKD	3	-	-	3	-	-
Malaysia, Ringgit	MYR	-	-	-	1	-	-
Philippines, Peso	PHP	-	-	-	1	-	-
United States, Dollar & Europe, Euro	USD & EURO	1	-	-	-	-	-
Not Disclosed		4	3	9	-	-	-
TOTAL		72	14	14	72	14	14

12.12 Functional Currency by different accounting frameworks

Accounting Framework	Functional Currency = Presentation Currency	Functional Currency ≠ Presentation Currency	Not disclosed in the accounting policy	Total
IFRS	57%	11%	4%	72%
US GAAP	11%	-	3%	14%
Other GAAP	1%	4%	9%	14%
Total	69%	15%	16%	100%

According to our survey,

- 69% of the 100 entities presented their financial statements using their functional currency and majority of which were under IFRS framework.
- 15% used a different currency to present their financial statements instead of their local functional currency.
- 16% did not indicate their functional currency in their accounting policies.
- USD is the most common functional and presentation currency used.

12 FUNCTIONAL CURRENCY (cont'd)

Results of Survey (cont'd)

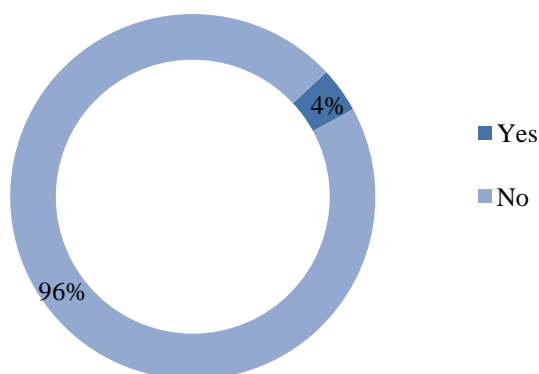
12.13 Functional Currency by various subsectors

Subsector	Functional Currency = Presentation Currency	Functional Currency ≠ Presentation Currency	Not disclosed in the accounting policy	Total
Tanker	21%	3%	4%	28%
Dry Bulk	16%	5%	5%	26%
Container	9%	4%	4%	17%
Offshore	6%	-	-	6%
Miscellaneous	17%	3%	3%	23%
Total	69%	15%	16%	100%

As analysed further by subsectors, of the 69% of the 100 entities whose functional currency is the same as its presentation currency, 21% were from miscellaneous subsector, followed by tanker (17%) and dry bulk subsectors (16%).

12.14 The remaining entities had different functional and presentation currency as shown as shown above.

12.15 **Did the entity include the determination of functional currency as a critical accounting judgment?**



4 out of the 100 entities surveyed included the determination of functional currency as critical judgement in the notes to the financial statements.

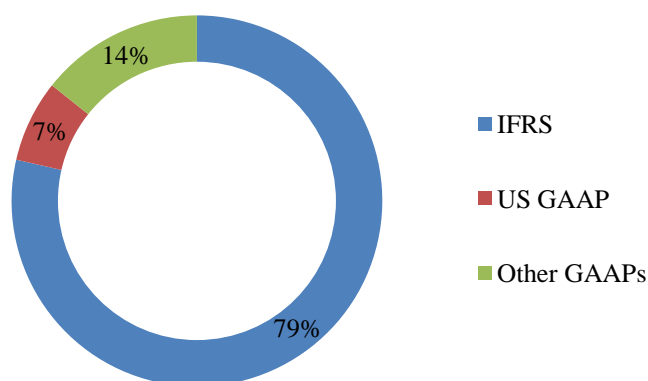
13 TONNAGE TAX

Requirements under IFRS

- 13.1 Tonnage tax is a tax levied on the registered tonnage of vessels multiplied by a fixed amount of deemed profit per ton, as opposed to the normal corporate tax, which is based on the actual accounting profits earned from the exploitation of vessels. It is an alternative method of calculating corporation tax on the profits earned by entities which own ships and elect to join the tonnage tax regime. To qualify for a tonnage tax regime, a shipping company must have a certain degree of ownership regarding the vessel and the required degree of ownership differs between different tonnage tax regimes highlighted in 13.3 below.
- 13.2 The main advantage of tonnage tax regimes is the low effective tax rate, in certain instances, less than 1%, when the shipping business is doing well. Only certain shipping activities qualify for a tonnage tax regime. Most tonnage tax regimes are applicable to the transport of goods and persons by sea in international traffic. Under some tonnage tax regimes towage, dredging and / or ship management activities may also qualify.
- 13.3 The following countries have implemented the tonnage tax principle:
- | | | |
|------------|------------------------|----------------|
| - Belgium | - India | - Poland |
| - Bulgaria | - Ireland | - South Korea |
| - Cyprus | - Italy | - South Africa |
| - Denmark | - Japan | - Spain |
| - Finland | - Malta | - Sweden |
| - France | - Netherlands | - UK |
| - Germany | - Netherlands Antilles | - USA |
| - Greece | - Norway | |
- 13.4 The above tonnage tax regimes differs in calculation methods, qualifying activities, ownerships, lock-up periods, capital gains, flag and management requirements.
- 13.5 Tonnage tax is an optional scheme. If an entity does not elect to be taxed under the tonnage tax principle, it will be taxed under the normal corporation tax principle.
- 13.6 Presentation of tonnage tax in the financial statements varies in practice. Some entities present this tax as part of operating expenses or a separate line item in the same area as income tax expense. However, International Financial Reporting Interpretations Committee (“IFRIC”) concluded that tonnage tax does not meet the definition of income tax expense (IAS 12 *Income Tax*). They further noted that, in accordance with IAS 1 *Presentation of Financial Statements*, an entity can present tonnage tax separately in the statement of comprehensive income.

Results of Survey

13.7 Entities that recognised tonnage tax by different accounting frameworks



The above graph comprises 28 entities that recognised tonnage tax by different accounting frameworks. It is noted that entities reporting under IFRS opted to be taxed based on the tonnage of vessels instead of taxed under the normal corporation tax principle.

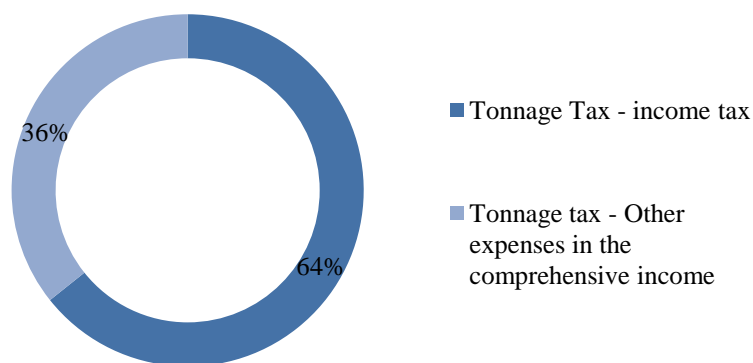
13 TONNAGE TAX (cont'd)

Results of Survey (cont'd)

13.8 The following are the list of countries that have implemented a tonnage tax principle together with their accounting framework.

Country	Accounting Framework
Belgium	IFRS
Denmark	IFRS
Finland	IFRS
Germany	IFRS
Greece	IFRS
India	Other GAAP
Italy	IFRS
Japan	Other GAAP
Norway	IFRS
South Africa	IFRS
UK	IFRS
US	US GAAP

13.9 Classification of Tonnage Tax



Based on our survey, 64% among the 28 entities recognised tonnage tax as a separate line item in the income tax expense section. Despite the fact that tonnage tax does not qualify under the definition of income tax, 18 entities presented tonnage tax as income tax expense. Please refer to the table below.

Recognition Method	IFRS	US GAAP	Other GAAP	Total
Charged to Income Tax Expense	15	-	3	18
Charged to Other Expenses in the Comprehensive Income	7	2	1	10

SECTION B

KEY PERFORMANCE INDICATORS

INTRODUCTION

- 1.1 The purpose of this survey is to analyse the key performance indicators (KPIs) of 100 entities in different subsectors of the shipping industry namely container, dry bulk, offshore, tanker and miscellaneous.
- 1.2 We have presented the average financial performance in each subsector and each accounting framework, by extracting the latest financial data from the publicly available annual reports of the 100 surveyed entities.
- 1.3 The financial performance of the various subsectors reporting under different accounting frameworks of the various subsectors has been measured on the basis of the following KPIs:

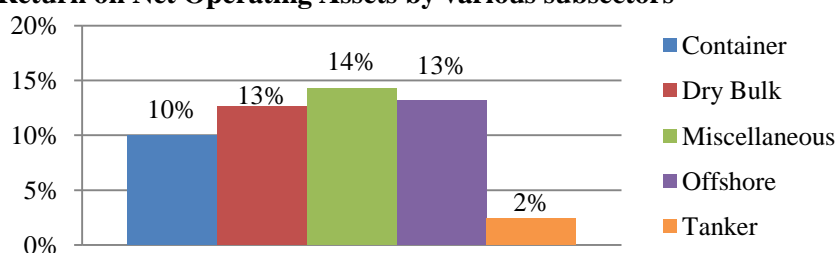
PROFITABILITY RATIOS

A Return on Net Operating Assets (“RONOA”)

- 2.1 RONOA is an indicator of how efficient management is at using its assets to generate earnings. It focuses on the operating portion of return which is calculated below. RONOA is displayed as a percentage. The higher the RONOA, the better is the profit performance of the entity. It also reflects management’s wise choices in allocating its resources.

$$\frac{\text{Earnings before interest and taxes}}{\text{Average (Working Capital + Net Fixed Assets)}} \quad (\text{reflected as a percentage})$$

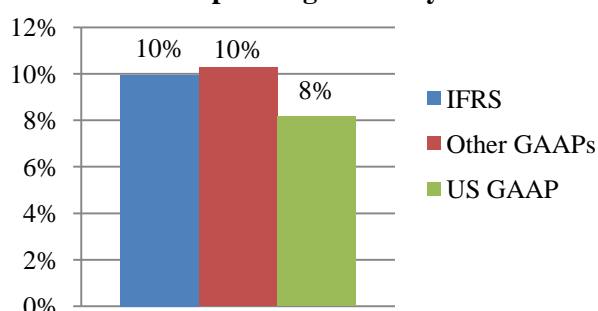
2.2 Return on Net Operating Assets by various subsectors



Miscellaneous subsector had the highest average RONOA because the cost of vessels in this subsector is generally lower as compared to the other subsectors.

- 2.3 Tanker subsector remained vulnerable as a number of the entities incurred losses. A number of entities disclosed in their annual report that this is due to:
 - Significant fall in demand of crude oil and petroleum products;
 - Changes in the production level of crude oil by the Organisation of Petroleum Exporting Countries and other key producers; and
 - Accelerated phasing out of single hull tankers which have been replaced by the double hull tankers imposed in US, European Union and the International Maritime Organisation (“IMO”).

2.4 Return on Net Operating Assets by different accounting frameworks



It has to be noted that US GAAP had the lowest average RONOA across the different accounting frameworks. A factor that affects the ratio could probably be the highly prescriptive revenue recognition guidance of US GAAP (See 7.11 in Revenue section).

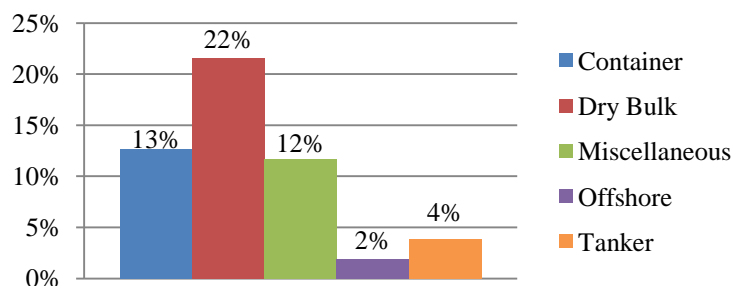
PROFITABILITY RATIOS (cont'd)

B Net Profit Ratio

2.5 This ratio determines the ability of an entity to withstand competition and adverse conditions like rising costs, falling prices or declining sales. The ratio measures the percentage of profits earned per dollar of sales and thus is a measure of efficiency of an entity.

$$\frac{\text{Earnings before interest and taxes}}{\text{Net Revenue}} \quad (\text{reflected as a percentage})$$

2.6 Average of net profit ratio by various subsectors



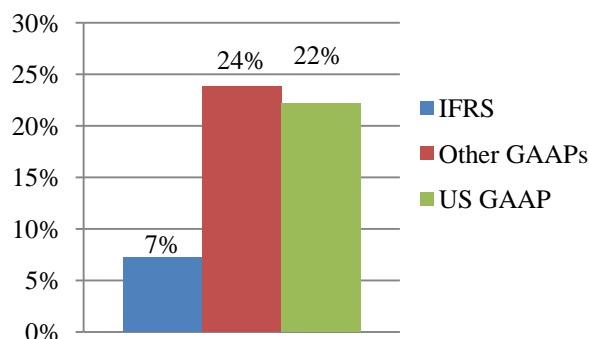
Based on our survey, the most attractive subsector is dry bulk. We noted that revenue of most entities under the dry bulk subsector was comparably higher than the rest of the subsectors. This is due to the following:

- The entities in general underwent streamlining to gain a better balance between supply and demand.
- Small bulk vessels have been used as a strategy to increase shipping activities. This is because small bulk and medium sized vessels operate more regionally and are not affected to a greater extent by the weaker demand.

2.7 However, the offshore subsector had the lowest net profit ratio. This could be due to the following:

- Increased cost in offshore exploration and development activity.
- Demand in the market requires vessels with higher capacity than what is available in the market today.
- Development of new vessel designs to cater the difficulties to operate in the Arctic areas.

2.8 Average of Net Profit Ratio by different accounting frameworks



The net profit ratio under IFRS is lower than US GAAP and other GAAPs as entities reporting under IFRS resulted in higher net revenue compared to those entities reporting under US GAAP and other GAAPs. This could probably be due to the revenue recognition guidance of IFRS which is not as extensive as US GAAP and other GAAPs. (See 7.15 in Revenue section).

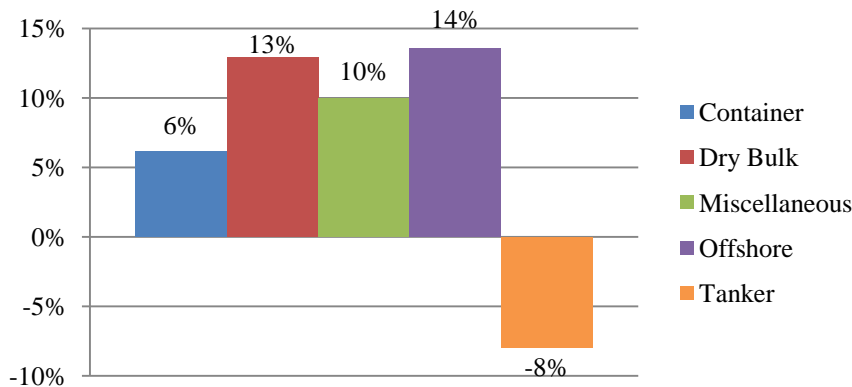
PROFITABILITY RATIOS (cont'd)

C Return on Equity

2.9 Return on equity measures an entity's profitability by revealing how much profit it generates with the money shareholders have invested.

$$\frac{\text{Net Income After Tax}}{\text{Average Shareholder's Equity}} \quad (\text{reflected as a percentage})$$

2.10 Return on Equity by various subsectors

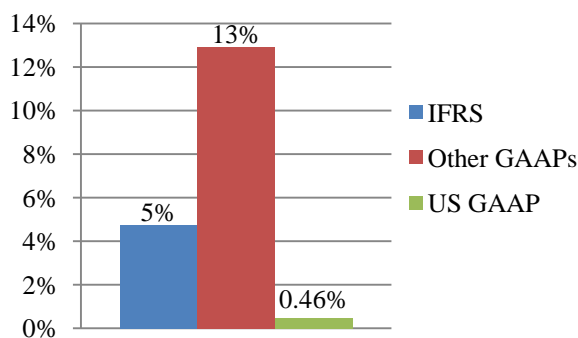


The above graph shows that the offshore subsector scored the highest among other subsectors, which could be due to:

- increased demand for offshore production facilities; and
- advantageous for offshore companies that cater for heavy engineering, ship repair and the design and construction / conversion of floating production and drilling vessels for the offshore oil and gas industry.

2.11 Meanwhile, the tanker subsector had the lowest profitability as a result of decreased charter hire rates caused by oversupply of vessel capacity that resulted in impairment of asset values.

2.12 Return on Equity by different accounting frameworks



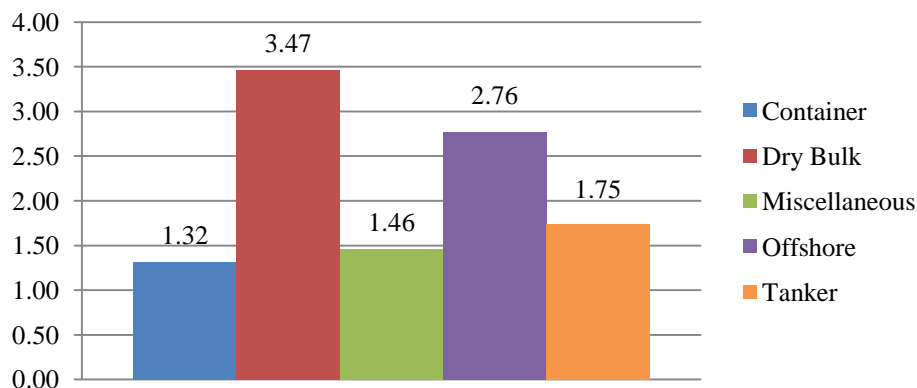
Most entities reporting under other GAAPs were from the dry bulk and container subsectors, and had a better return on equity than those entities reporting under US GAAP and IFRS. Entities under US GAAP had the lowest return on equity, mostly from the tanker subsector, reporting a net loss after tax.

LIQUIDITY RATIO

- 3.1 The ratio determines an entity's ability to pay off its short-term obligations. The higher the value of the ratio the larger the margin of safety that an entity possesses to cover its short-term debts.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

3.2 Liquidity Ratio by various accounting subsectors



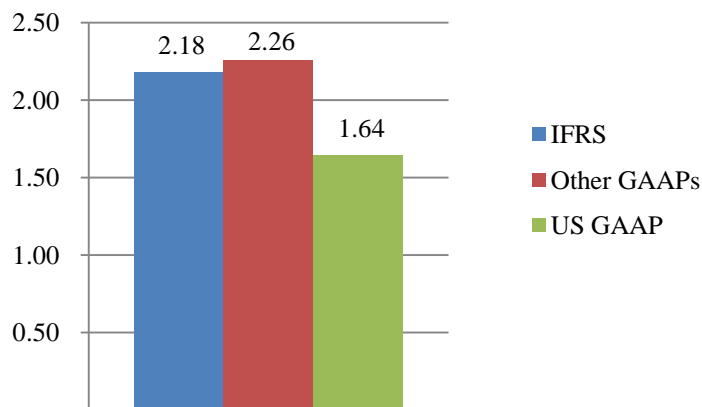
The dry bulk subsector had the most attractive liquidity ratio which could be due to its large amount of cash and cash equivalents. The reasons for the higher liquidity ratio could be due to:

- Sale of vessels.
- Cancellation of shipbuilding contracts, and hence, received a full refund including its interest.
- Significantly reduced net commitments in financing.

- 3.3 The container subsector on the other hand had the lowest ratio which could be due to:

- Increased bank loans and restructuring of debts to finance new vessel acquisitions and operations.
- Payment of short term and current portion of long term loans including its interest costs.

3.4 Liquidity Ratio by different accounting frameworks



Entities reporting under US GAAP had the lowest liquidity ratio. This could be affected by the large amount of debts reported by entities from container subsector.

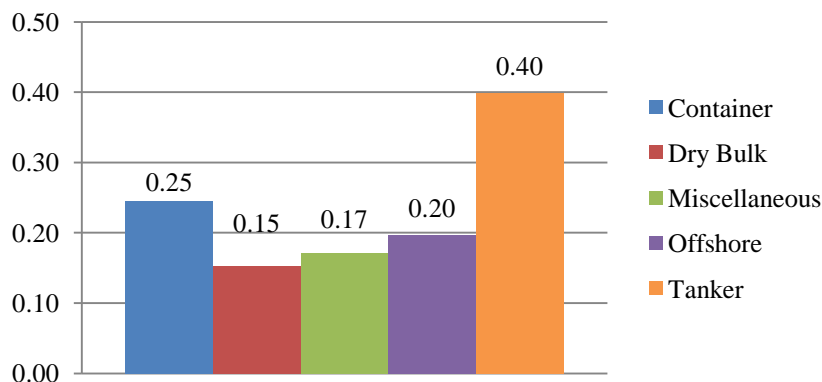
FINANCIAL STRUCTURE RATIOS

A Net Debt to Total Assets

- 4.1 The ratio measures an entity's financial risk by determining how much of the entity's assets have been financed by debt.

$$\frac{\text{Net Debt}}{\text{Total Assets}}$$

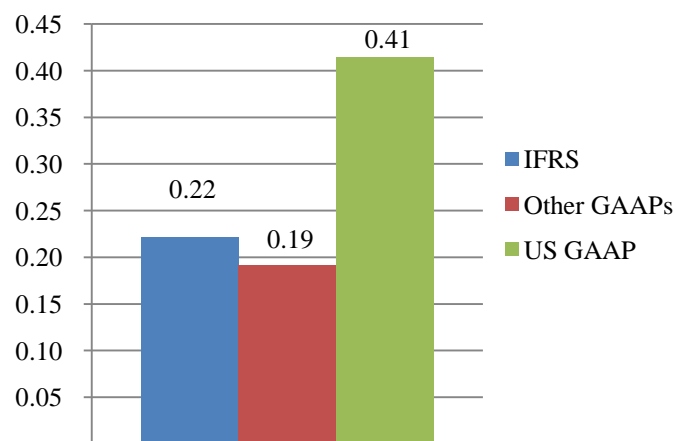
4.2 Net Debt to Total Assets by various subsectors



The dry bulk subsector scored a lower net debt to total assets compared to the other subsectors because they significantly increased their investments in vessels thereby increased their total assets. However, the tanker subsector had the highest ratio of net debt to total assets due to the increased debts to finance their purchases of new vessels.

- 4.3 The tanker subsector showed the least favourable result on net debt to total assets because entities under this subsector generally finance their investments in new vessels through debt financing.

4.4 Net Debt to Total Assets by different accounting frameworks



Entities reporting under US GAAP showed a higher net debt to total assets as compared to the entities reporting under IFRS and other GAAPs. Although not conclusive, this could be due to entities reporting under US GAAP are not able to capitalise borrowing costs as a component of the asset which might have resulted in a lower asset value than those with IFRS and other GAAPs. (Please refer to PPE section, page 10)

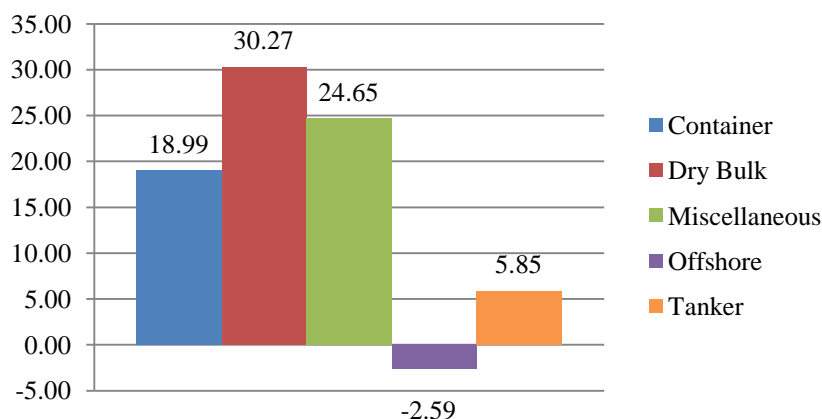
FINANCIAL STRUCTURE RATIOS (cont'd)

B EBITDA to Interest Coverage Ratio

4.5 This ratio assesses an entity's financial durability by examining whether it is at least profitably enough to pay off its interest cost.

$$\frac{\text{EBITDA}}{\text{Interest expense} - \text{Interest income}}$$

4.6 EBITDA to Interest Coverage Ratio by various subsectors



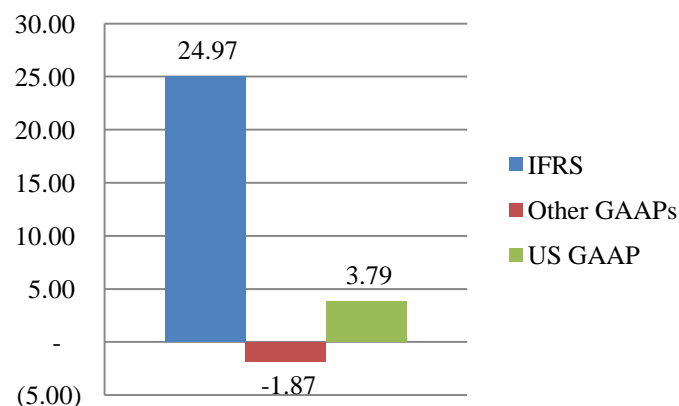
The above graph shows that the dry bulk subsector had the most favourable EBITDA to interest coverage ratio. This could be due to the following:

- Increased revenue trend.
- Streamlining for a better balance of supply and demand.
- Strategic decisions to operate more on fleets that were not greatly affected by the weaker demand, e.g. small and medium sized fleets.

4.7 On the other hand the offshore subsector had the lowest EBITDA to interest coverage ratio as:

- Offshore subsector remained vulnerable during 2010 which resulted to a lower EBITDA.
- Entities under the offshore subsector reported an increased trend of interest bearing debt.

4.8 EBITDA to Interest Coverage Ratio by different accounting frameworks



Other GAAPs had an unfavourable result due to an average increase of interest bearing debts from entities reporting under this framework. These entities are required to capitalise their borrowing costs that are attributable to the acquisition, consumption or production of a qualifying asset.

SECTION C
CONCLUSION

Section A Insights into the Significant Accounting Policies of the Shipping Industry

While IFRS standards are not industry-specific, the dynamics of the shipping industry raises particular issues. However, we noted that the different accounting policies are driven by the basis of accounting in the different jurisdictions.

We highlight the key issues and exception to IFRS in this publication, based on the most-recently available annual financial reports of 100 shipping entities. However, this publication offers guidance: it does not set out rules.

The issues that arise for your organisation will depend on individual circumstances.

IFRS is a major player in the current accounting regime, and its impact clearly extends beyond the realm of the CFO, financial controller or head of accounting. New skills and an understanding of the implications of IFRS are therefore required across the organisation.

IFRS is more principle-based and is less prescriptive than US GAAP and other GAAPs and thus its application requires additional judgement. Accordingly the disclosures accompanying financial statements become even more important to investors, as they provide information about the decisions made regarding various accounting alternatives and judgements made by management in preparing the financial statements.

Section B Summary on Benchmarking and Comparison of Performance of various subsectors

Ratio	Most Attractive	Least Attractive
RONOA	Miscellaneous subsector	Tanker subsector
Net Profit Ratio	Dry bulk subsector	Offshore subsector
Return on Equity	Offshore subsector	Tanker subsector
Liquidity Ratio	Dry bulk subsector	Container subsector
Net Debt to Total Assets	Dry bulk subsector	Tanker subsector
EBITDA to Interest Coverage Ratio	Dry bulk subsector	Offshore subsector

According to the annual reports included in the analysis, years 2010 and 2011 were considered a global economic recovery from the dramatic decline in seaborne trade for the shipping industry. Despite that, the industry was still faced with uncertainties and volatilities due to the continued vulnerability of the world economy.

Based on the KPI analysis, the dry bulk subsector performed best compared to the other subsectors in the shipping industry. They showed efficiency in allocating their resources and they have proven resilient in adverse conditions such as lower charter rates and rising costs.

The tanker subsector on the other hand did not have a great performance during the period under review. The tanker entities were significantly affected by the decline in demand of crude oil and petroleum products. Most tanker entities have come under pressure to renegotiate their debts.

Looking forward, the shipping industry needs to stabilise and strategise to regain and maintain stability in general. Currently, each subsector is under pressure from the significant increase in new vessels that have come into the fleet in 2010 not matched by the increase in demand. In addition, operating costs continue to rise.

APPENDIX 1

**LIST OF SHIPPING ENTITIES
INCLUDED WITHIN THIS SURVEY**

APPENDIX 1

List of shipping entities included within this survey

	Entity	Basis of accounting	Year ended
International Financial Reporting Standard (“IFRS”)			
1	A.P. Moller Maersk A / S	IFRS	31-Dec-2010
2	Attica Holdings S.A.	IFRS	31-Dec-2010
3	Bonheur ASA	IFRS	31-Dec-2010
4	Camillo Eitzen and Co. ASA	IFRS	31-Dec-2010
5	Campagnie Maritime Belge	IFRS	31-Dec-2010
6	Clarkson Plc	IFRS	31-Dec-2010
7	Compañía Chilena de Navegación Interoceánica S.A.	IFRS	31-Dec-2010
8	Compañía Sudamericana de Vapores	IFRS	31-Dec-2010
9	Courage Marine Group Limited	IFRS	31-Dec-2010
10	d’Amico International Shipping S.A.	IFRS	31-Dec-2010
11	Dampskibsselskabet Norden A / S	IFRS	31-Dec-2010
12	DFDS A / S	IFRS	31-Dec-2010
13	DHT Holdings, Inc.	IFRS	31-Dec-2010
14	Euronav N.V.	IFRS	31-Dec-2010
15	Exmar N.V.	IFRS	31-Dec-2010
16	Finnlines Plc.	IFRS	31-Dec-2010
17	Farstad Shipping ASA	IFRS	31-Dec-2010
18	First Ship Lease Trust	IFRS	31-Dec-2010
19	Fisher (James) & Sons Plc	IFRS	31-Dec-2010
20	Ganger Rolf ASA	IFRS	31-Dec-2010
21	Golden Ocean Group Limited	IFRS	31-Dec-2010
22	Goldenport Holdings Inc.	IFRS	31-Dec-2010
23	Grindrod Limited	IFRS	31-Dec-2010
24	Gulf Navigation Holding PJSC	IFRS	31-Dec-2010
25	Hapag-Lloyd AG	IFRS	31-Dec-2010
26	Hellenic Carriers Limited	IFRS	31-Dec-2010
27	I.M. Skaugen SE	IFRS	31-Dec-2010
28	Irish Continental Group Plc	IFRS	31-Dec-2010
29	Latvian Shipping Company and its Subsidiaries	IFRS	31-Dec-2010
30	Neste Oil Corporation	IFRS	31-Dec-2010
31	Nordic Tankers A / S	IFRS	31-Dec-2010

APPENDIX 1 (cont'd)

List of shipping entities included within this survey (cont'd)

	Entity	Basis of accounting	Year ended
International Financial Reporting Standard (“IFRS”) (cont'd)			
32	Norwegian Car Carriers ASA	IFRS	31-Dec-2010
33	Odfjell SE	IFRS	31-Dec-2010
34	Premuda S.p.A.	IFRS	31-Dec-2010
35	PT Berlian Laju Tanker Tbk and its Subsidiaries	IFRS	31-Dec-2010
36	Rederi AB Transatlantic	IFRS	31-Dec-2010
37	Rickmers Maritime	IFRS	31-Dec-2010
38	Royal Vopak N.V.	IFRS	31-Dec-2010
39	SBM Offshore N.V.	IFRS	31-Dec-2010
40	SCF (Sovcomflot) Group	IFRS	31-Dec-2010
41	Scorpio Tankers Inc.	IFRS	31-Dec-2010
42	Star Reefers Inc.	IFRS	31-Dec-2010
43	Stolt-Nielsen Limited	IFRS	30-Nov-2010
44	STX Pan Ocean Company Limited	IFRS	31-Dec-2010
45	Torm A / S	IFRS	31-Dec-2010
46	Touax SCA	IFRS	31-Dec-2010
47	Tui AG	IFRS	30-Sep-2011
48	U-Sea Bulk Shipping A / S	IFRS	31-Dec-2010
49	Viking Line Abp	IFRS	31-Dec-2010
50	Wartsila Corporation	IFRS	31-Dec-2010
51	Wilh Wilhelmsen Holding ASA	IFRS	31-Dec-2010
52	Wilson ASA	IFRS	31-Dec-2010

APPENDIX 1 (cont'd)

List of shipping entities included within this survey (cont'd)

	Entity	Basis of accounting	Year ended
Other Financial Reporting Standard (“FRS”), equivalent to IFRS			
53	China Shipping Container Lines Company Limited	Hong Kong FRS	31-Dec-2010
54	China Shipping Development Company Limited	Hong Kong FRS	31-Dec-2010
55	Chu Kong Shipping Development Company Limited	Hong Kong FRS	31-Dec-2010
56	Orient Overseas (International) Limited	Hong Kong FRS	31-Dec-2010
57	Jinhui Holdings Company Limited	Hong Kong FRS	31-Dec-2010
58	Pacific Basin Shipping Limited	Hong Kong FRS	31-Dec-2010
59	Shun Tak Holdings Limited	Hong Kong FRS	31-Dec-2010
60	Singamas Container Holdings Limited	Hong Kong FRS	31-Dec-2010
61	Sinotrans Shipping Limited	Hong Kong FRS	31-Dec-2010
62	MISC Berhad	Malaysia FRS	31-Mar-2011
63	Aboitiz Transport System (ATSC) Corporation	Philippine FRS	31-Dec-2010
64	ASL Marine Holdings Limited	Singapore FRS	30-Jun-2011
65	Chuan Hup Holdings Limited	Singapore FRS	30-Jun-2011
66	COSCO Corporation (S) Limited	Singapore FRS	31-Dec-2010
67	Jaya Holdings Limited	Singapore FRS	30-Jun-2011
68	Neptune Orient Lines Limited	Singapore FRS	31-Dec-2010
69	Pacific Shipping Trust	Singapore FRS	31-Dec-2010
70	Samudera Shipping Line Limited	Singapore FRS	31-Mar-2011
71	Sembcorp Industries Limited	Singapore FRS	31-Dec-2010
72	Singapore Shipping Corporation Limited	Singapore FRS	31-Mar-2011

APPENDIX 1 (cont'd)

List of shipping entities included within this survey (cont'd)

	Entity	Basis of accounting	Year ended
US Generally Accepted Accounting Standards (“US GAAP”)			
73	B+H Ocean Carriers Limited	US GAAP	31-Dec-2010
74	Costamare Inc.	US GAAP	31-Dec-2010
75	Danaos Corporation	US GAAP	31-Dec-2010
76	Eagle Bulk Shipping Inc.	US GAAP	31-Dec-2010
77	Euroseas Limited	US GAAP	31-Dec-2010
78	Global Ship Lease, Inc.	US GAAP	31-Dec-2010
79	Golar LNG Limited	US GAAP	31-Dec-2010
80	Horizon Lines, Inc.	US GAAP	31-Dec-2010
81	International Shipholding Corporation	US GAAP	31-Dec-2010
82	Knightsbridge Tankers Limited	US GAAP	31-Dec-2010
83	Ship Finance International Limited	US GAAP	31-Dec-2010
84	Teekay Tankers Limited	US GAAP	31-Dec-2010
85	Top Ships Inc.	US GAAP	31-Dec-2010
86	Tsakos Energy Navigation Limited	US GAAP	31-Dec-2010
Other Generally Accepted Accounting Standards (“Other GAAPs”)			
87	Great Eastern Shipping Company Limited	Indian GAAP	31-Mar-2011
88	Mercator Lines Limited	Indian GAAP	31-Mar-2011
89	Shipping Corporation of India Limited	Indian GAAP	31-Mar-2011
90	Kawasaki Kisen Kaisha, Limited	Japanese GAAP	31-Mar-2010
91	Mitsui O.S.K. Lines Limited	Japanese GAAP	31-Mar-2011
92	Chinese Maritime Transport Limited	Taiwanese GAAP	31-Dec-2010
93	Evergreen Marine Corp. (Taiwan) Limited	Taiwanese GAAP	31-Dec-2010
94	Shih Wei Navigation Co., Ltd. and Subsidiaries	Taiwanese GAAP	31-Dec-2010
95	U-Ming Marine Transport Corporation	Taiwanese GAAP	31-Dec-2010
96	Wan Hai Lines Limited	Taiwanese GAAP	31-Dec-2010
97	Yang Ming Marine Transport Corporation and Subsidiaries	Taiwanese GAAP	31-Dec-2010
98	Jutha Maritime Public Company Limited	Thai GAAP	31-Dec-2010
99	Precious Shipping Public Company Limited	Thai GAAP	31-Dec-2010
100	Regional Container Lines PCL	Thai GAAP	31-Dec-2010

ACKNOWLEDGMENT

We are grateful to the following panellists on the Advisory Board of this publication and would like to acknowledge their contributions.

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