Company Number 5005018

# "K" Line Holding (Europe) Limited

## Report and Financial Statements

31 December 2011

**Directors**
K Terashima
T Suzuki
E Tomioka

**Secretary**
P Rogers

**Auditor**
Ernst & Young LLP
1 More London Place
London SE1 2AF

**Bankers**
Mizuho Corporate Bank Limited
Bracken House
One Friday Street
London EC4M 9JA

**Registered Office**
River Plate House
7-11 Finsbury Circus
London EC2M 7EA

Registered No 5005018

# Directors' report

The directors present their report and financial statements of the group for the year ended 31 December 2011

## Results and dividends

The group profit for the year after taxation amounted to £12m (2010 – loss of £41m) The directors do not recommend a final dividend (2010 – £nil)

During the year 15,583,040 ordinary shares of £1 each were issued at par for cash for a consideration of £15 6m

## Principal activities and review of the business

The company acts as a holding company The principal activities of the group are that of general shipping agents for container ships and car carriers, operation and management of bulk, LNG and heavy lift vessels as well as road haulage

The group's key financial performance indicators during the year were as follows

| | *2011* | *2010* | *Change* |
|---|---|---|---|
| | *£000* | *£000* | *%* |
| Turnover – group and share of joint venture | 279,030 | 316,805 | (12%) |
| Profit/(loss) after tax | 11,809 | (40,775) | 129% |
| Shareholder's funds | 171,825 | 140,492 | 22% |
| Cash at bank and in hand | 33,260 | 47,786 | (30%) |

Turnover decreased by 12% during the year as a result of the market rate for freight during the year being volatile and lower than the previous year as well as the disposal of the heavy lift business division

## Events since the balance sheet date

*"K" Line Bulk Shipping (UK) Limited New loans*

Since the start of the new financial year, 3 new bulk vessels that were under construction have been delivered In this respect, new loans have been secured as follows (a) 10-year loan amounting to $31 5m dated 27 January 2012 with interest at bank rate + margin (b) 7-year loan for $31 5m dated 13 July 2012 with interest at libor + margin (c) 7-year loan for JPY5 8b dated 19 July 2012 with interest at libor + margin

## Future developments

The directors aim to maintain and strengthen the management policies which will ensure the continuity of business in the foreseeable future They consider that 2013 will show a slow growth in sales from continuing operations because of the current economic downturn, however, they believe that the latter part of year 2013 will start to bring positive results to the group as a whole

# Directors' report

## Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as

### Competitive risks

The existence of medium to long-term contracts with some customers minimises the group's exposure to a certain extent

### Legislative risks

In the UK and Europe, the main legislative risks are EU competition law, employment law and tax law These standards are subject to continuous revision, however, they are not expected to have a material impact on the ability of the group to generate a profit

### Treasury operations and financial instruments

The group operates a treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the company's activities

### Financial instrument risks

The group has established a risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives

The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level

### Use of derivatives

The group uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency The group also uses interest rate swaps to adjust interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements During the year, a forward freight agreement and bunker swap agreement was also used to minimise the fluctuations in market freight rates and bunker rates

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

The group manages its cash flow in order to maximise interest income and minimise interest expense, whilst ensuring the company has sufficient liquid resources to meet the operating needs of the business

### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation Group policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures

All customers who wish to trade on credit terms are subject to credit verification procedures Trade debtors are reviewed on a regular basis and provision is made for doubtful debts where necessary The group does not suffer from significant bad debt expense

# Directors' report

## Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out above

The group has considerable financial resources together with existing contracts with a number of customers and suppliers across different geographic areas and industries As a consequence, the directors believe that the group and company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have a reasonable expectation that the group and company has adequate resources to continue in operational existence for the foreseeable future Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements

## Directors

The directors who served the company during the year and as at the date of this report are as follows

| | |
|---|---|
| K Terashima | |
| T Suzuki | (appointed 1 July 2011) |
| K Kuroya | (resigned 30 June 2011) |
| E Tomioka | (appointed 1 July 2012) |
| N Ando | (resigned 30 June 2012) |

## Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with

At 31 December 2011, the group had an average of 21 days' (2010 – 17 days') purchases outstanding in trade creditors

## Employment policy

The group has given full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities

The group has a policy of employee involvement by making information available to all employees on matters of concern to them on a regular basis Information concerning the group's business plans and financial performance is also published on the group's intranet and web sites All employees have access to the group's intranet and internet

The group maintains a policy of encouraging personal development and training

## Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

# Directors' report

## Auditor

A resolution to reappoint Ernst & Young LLP as auditor will be put to the members at the Annual General Meeting

On behalf of the Board of Directors

P Rogers
Secretary

Date 27 SEP 2012

# Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group's and the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

# Independent auditor's report

**to the members of "K" Line Holding (Europe) Limited**

We have audited the financial statements of "K" Line Holding (Europe) Limited for the year ended 31 December 2011 which comprise Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets and the related notes 1 to 28 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

## Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

## Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent undertaking's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

# Independent auditor's report

**to the members of "K" Line Holding (Europe) Limited**

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent undertaking, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent undertaking financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Mohan Pandian, (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
Date 2 8 SEP 2012

# Group profit and loss account

**for the year ended 31 December 2011**

| | Notes | 2011 £000 | 2010 £000 |
|---|---|---|---|
| ***Turnover*** | | | |
| Total group and share of joint venture | | 279,030 | 316,805 |
| Less share of joint venture turnover – discontinued operations | 2 | (28,420) | (61,422) |
| | 2 | 250,610 | 255,383 |
| Cost of sales | | (215,191) | (206,139) |
| ***Gross profit*** | | 35,419 | 49,244 |
| Administrative expenses | | (39,479) | (20,107) |
| ***Group operating (loss)/profit*** | 3 | (4,060) | 29,137 |
| Share of operating profit/(loss) in joint venture – discontinued operations | | 5,465 | (1,986) |
| Share of operating profit/(loss) in associate | | 505 | (547) |
| Amortisation of goodwill arising on acquisition of joint venture | 13 | (11,097) | (28,892) |
| Profit on sale of joint venture – discontinued operations | 13 | 37,285 | - |
| ***Total operating profit/(loss) group and share of joint venture and associate*** | | 28,098 | (2,288) |
| Interest receivable and similar income | 7 | 1,610 | 449 |
| Interest payable and similar charges | 8 | (8,505) | (9,675) |
| Exchange loss – retranslation of loans | 9 | (14,006) | (30,985) |
| ***Profit on ordinary activities before taxation*** | | 7,197 | (42,499) |
| Tax on profit/(loss) on ordinary activities | 10 | 4,612 | 1,724 |
| ***Profit/(loss) for the financial year*** | 22 | 11,809 | (40,775) |

# Group statement of total recognised gains and losses

**for the year ended 31 December 2011**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Loss for the financial year excluding share of profit/(loss) of joint venture and associate | (28,894) | (34,097) |
| Share of joint venture's profit/(loss) for the year – discontinued operations | 3,050 | (6,143) |
| Profit on disposal of joint venture – discontinued operations | 37,285 | - |
| Share of associate's profit/(loss) for the year | 368 | (535) |
| Profit/(loss) for the financial year attributable to members of the parent undertaking | 11,809 | (40,775) |
| Exchange difference on retranslation of net assets of subsidiary undertaking | 3,941 | (3,325) |
| ***Total recognised gains/(losses) related to the year*** | 15,750 | (44,100) |

# Group balance sheet

**at 31 December 2011**

| | Notes | 2011 £000 | 2010 £000 |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Tangible assets | 12 | 417,394 | 327,579 |
| Investments | | | |
| Investment in joint venture | | | |
| Share of gross assets | | - | 189,239 |
| Share of gross liabilities | | - | (127,155) |
| | 13 | - | 62,084 |
| Investment in associate | 13 | 227 | (141) |
| Other investments | 13 | 47 | 47 |
| | | 417,668 | 389,569 |
| ***Current assets*** | | | |
| Stocks | 14 | 6,444 | 4,566 |
| Debtors | | | |
| due after one year | | 86,869 | 156 |
| due within one year | | 101,222 | 99,235 |
| | 15 | 188,091 | 99,391 |
| Cash at bank and in hand | | 33,260 | 47,786 |
| | | 227,795 | 151,743 |
| ***Creditors*** amounts falling due within one year | 16 | (83,377) | (76,883) |
| ***Net current assets*** | | 144,418 | 74,860 |
| ***Total assets less current liabilities*** | | 562,086 | 464,429 |
| ***Creditors*** amounts falling due after more than one year | 17 | (389,942) | (323,921) |
| ***Provisions for liabilities*** | | | |
| Provision for liabilities | 20 | (319) | (16) |
| ***Net Assets*** | | 171,825 | 140,492 |
| ***Capital and reserves*** | | | |
| Called up share capital | 21 | 84,881 | 69,298 |
| Profit and loss account | 22 | 86,944 | 71,194 |
| ***Shareholder's funds*** | 22 | 171,825 | 140 492 |

The financial statements were approved by the Board of directors and signed on their behalf by

K Terashima

Director

Date **27 SEP 2012**

# Company balance sheet

**at 31 December 2011**

| | Notes | *2011* *£000* | *2010* *£000* |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Investments | 13 | 50,411 | 45,113 |
| ***Current assets*** | | | |
| Debtors | | | |
| amounts falling due after one year | | - | 156 |
| amounts falling due within one year | | - | 208 |
| | 15 | - | 364 |
| Cash at bank and in hand | | 2,063 | 1,280 |
| | | 2,063 | 1,644 |
| ***Creditors*** amounts falling due within one year | 16 | (78) | (74) |
| ***Net current assets*** | | 1,985 | 1,570 |
| ***Net assets*** | | 52,396 | 46,683 |
| ***Capital and reserves*** | | | |
| Called up share capital | 21 | 84,881 | 69,298 |
| Profit and loss account | 22 | (32,485) | (22,615) |
| ***Shareholder's funds*** | 22 | 52,396 | 46,683 |

The financial statements were approved by the Board of Directors and signed on their behalf by

K Terashima

Director

Date 27 SEP 2012

# Notes to the financial statements

**at 31 December 2011**

## 1. Accounting policies

***Basis of preparation***

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

***Going concern***

The directors have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements

***Group financial statements***

The group financial statements consolidate the financial statements of "K" Line Holding (Europe) Limited and its subsidiary undertakings These financial statements are drawn up to 31 December each year No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006

Unless otherwise stated, the acquisition method of accounting has been adopted Under this method, the results of subsidiary and associated undertakings acquired or disposed of in the year are included in the group profit and loss account from the date of acquisition or up to the date of disposal

Entities in which the group holds an interest on a long term basis and are jointly controlled by the group and one or more other ventures under a contractual arrangement are treated as joint ventures In the group financial statements, joint ventures are accounted for using the gross equity method

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates In the group financial statements, associates are accounted for using the equity method

Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company

***Statement of cash flows***

The company has taken advantage of the exemption available in FRS 1 (Revised) not to disclose a statement of cash flows as the company is a wholly owned subsidiary of a company whose financial statements are publicly available

# Notes to the financial statements

**at 31 December 2011**

## 1. Accounting policies (continued)

***Tangible fixed assets***

All fixed assets are initially recorded at cost

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows

| | | |
|---|---|---|
| Leasehold building | – | 8-10 years straight line |
| Leasehold property | – | over the lease term |
| Fixtures and fittings | – | 5-10 years straight line |
| Tractors and trailers | – | 6-7 years straight line |
| Motor vehicles | – | 25% reducing balance |
| Shipping vessels | – | 15-30 years straight line |
| Dry docking assets | – | 2-5 years straight line |

Assets under construction are not depreciated

The cost of tangible fixed assets includes expenditure incurred during construction, delivery and modification Where a substantial period of time is required to bring the asset into use attributable finance costs are capitalised and included in the cost of the relevant asset

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

***Goodwill***

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life, assessed on an individual acquisition basis, up to a presumed maximum of 5 years It is reviewed for impairment at the end of the first full financial year following the acquisition and when events or changes in circumstances indicate that the carrying value may not be recoverable

***Investments***

Investments held as fixed assets are stated at cost less provision for any impairment

The carrying values of fixed asset investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

***Stocks***

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

# Notes to the financial statements

**at 31 December 2011**

## 1. Accounting policies (continued)

***Deferred taxation***

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

***Foreign currencies***

***Company***

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Gains and losses on exchange are dealt with in the profit and loss account

***Group***

For consolidation purposes, the financial statements of overseas subsidiary undertakings are translated at the closing exchange rates Exchange differences arising on these translations are taken directly to reserves The exchange differences arising on the retranslation of opening net assets is taken directly to reserves

***Leasing and hire purchase commitments***

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and hire purchase contracts and represents a constant proportion of the balance of capital repayments outstanding

Rentals paid under operating leases are charged to income on a straight line basis over the lease term

***Pensions***

The company and group operate a defined contribution pension scheme Contributions are charged in the profit and loss account as they become payable

***Derivative instruments***

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates The company also uses interest rate swap contracts to reduce interest rate exposures The group does not apply hedge accounting for any of the derivative instruments

# Notes to the financial statements

**at 31 December 2011**

## 1. Accounting policies (continued)

***Loans Receivable***

Loans and receivables are non-derivative financial instruments which have a fixed or easily determinable value They are recognised at cost, less any provisions for impairment in their value

***Interest bearing loans and borrowings***

All interest bearing loans and borrowings are initially recognised at net proceeds After initial recognition the debt is increased by the finance cost in respect of the reporting period and reduced by repayments made in the period Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount

***Revenue recognition***

Revenue is recognised to the extent that group obtains the right to consideration in exchange for its performance Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty The following criteria must also be met before revenue is recognised

(i) Charter hire income The time charter equivalent of income from the company's vessel chartering activities is recognised on a time proportion basis whilst voyage charter income is recognized on voyage completion basis

(ii) Management fees The fees earned from the management of vessels, crew and technical matters are recognised when services are rendered

## 2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties in respect of the group's continuing activity as stated in the directors' report

An analysis of turnover by geographical market is given below

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| United Kingdom | 50,365 | 55,754 |
| Rest of Europe | 156,391 | 128,800 |
| Rest of world | 72,274 | 70,829 |
| | 279,030 | 255,383 |

Vessel charter hire income included above is £186,140,156 (2010 £184,803,823)

An analysis of turnover by geographical market for the joint venture is given below

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| United Kingdom | 284 | 614 |
| Rest of Europe | 16,767 | 36,239 |
| Rest of world | 11,369 | 24,569 |
| | 28,420 | 61,422 |

# Notes to the financial statements

**at 31 December 2011**

## 3. Operating (loss)/profit

This is stated after charging/(crediting)

| | | *2011* | *2010* |
|---|---|---|---|
| | | *£000* | *£000* |
| Auditor remuneration (note 4) | | 396 | 334 |
| Depreciation of owned tangible fixed assets | | 16,577 | 13,819 |
| Depreciation of assets held under finance leases and hire purchase contracts | | 4,247 | 4,003 |
| Operating lease rentals | – land and buildings | 1,292 | 959 |
| | – vessels and plant and machinery | 94,321 | 95,598 |
| Foreign exchange gains/(losses) | | 745 | (3,767) |
| Profit/(loss) on disposal of fixed assets | | 171 | (157) |
| Cancellation cost of vessel construction contract | | 12,990 | - |

## 4. Auditor remuneration

The remuneration of the auditor is further analysed as follows

| | | *2011* | *2010* |
|---|---|---|---|
| | | *£000* | *£000* |
| Audit of the financial statements | | 54 | 55 |
| Other fees to auditor | – local statutory audits for subsidiaries | 97 | 123 |
| | – taxation services | 80 | 131 |
| | – other services | 165 | 25 |
| | | 396 | 334 |

## 5. Directors' remuneration

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| Remuneration | - | - |

No pension contributions were paid by the company to directors during the year (2010 – £nil)

The directors were remunerated by other companies in the group where full disclosure has been made The directors did not recharge any remuneration from the other fellow group undertakings during the year in respect of their services to the Company The directors believe that it is impractical to apportion the amount paid by other fellow group undertakings to the directors of this Company between their services as directors of this company and their services as directors of the other fellow group undertakings

# Notes to the financial statements

**at 31 December 2011**

## 6. Staff costs

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| Wages and salaries | 17,912 | 17,208 |
| Social security costs | 1,286 | 1,227 |
| Other pension costs (note 26) | 895 | 832 |
| | 20,093 | 19,267 |

The average weekly number of employees during the year was made up as follows

| | *No* | *No* |
|---|---|---|
| Operational | 133 | 152 |
| Administration | 268 | 265 |
| | 401 | 417 |

## 7. Interest receivable and similar income

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| Bank interest receivable | 116 | 131 |
| Loan interest receivable | 1,481 | 231 |
| Other interest receivable | 13 | 87 |
| | 1,610 | 449 |
| Share of joint venture interest receivable | 9 | 57 |

## 8. Interest payable and similar charges

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| Bank interest payable | 11,952 | 13,250 |
| Finance lease charges net of interest rate swap | (3,773) | (3,665) |
| Other | 326 | 90 |
| | 8,505 | 9,675 |
| Share of joint venture's interest payable | 2,411 | 4,179 |

# Notes to the financial statements

**at 31 December 2011**

## 9. Exchange loss

In 2011, an exchange loss of £14,006,000 arose on retranslation of loans and finance lease obligations Key constituent of this exchange loss is £14m loss made on loan denominated in Japanese Yen whereas reporting currency of the subsidiaries with the loan is USD – due to JPY strengthening against USD a loss was made

In 2010, an exchange loss of £30,985,306 arose on retranslation of loans and finance lease obligations Key constituent of this exchange loss is £33m loss made on loan denominated in Japanese Yen whereas reporting currency of the subsidiaries with the loan is USD – due to JPY strengthening against USD a loss was made There was an exchange gain of £2m which has been made on settlement of loan in EUR

## 10. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| ***Current tax*** | | |
| UK corporation tax on the profit for the year | 1,092 | 269 |
| Adjustment in respect of prior periods | 539 | (388) |
| | 1,631 | (119) |
| ***Foreign tax*** | | |
| Current tax | 7 | 27 |
| | 7 | 27 |
| Total current tax (note 10(b)) | 1,638 | (92) |
| ***Deferred tax*** | | |
| Origination and reversal of timing differences | (5,920) | (1,632) |
| Effect of changes in tax rates on opening liability | (330) | - |
| Tax on profit/(loss) on ordinary activities | (4,612) | (1,724) |

# Notes to the financial statements

**at 31 December 2011**

## 10. Tax (continued)

(b) Factors affecting the current tax charge/(credit) for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26 5% (2010 – 28%) The differences are explained below

| | *2011* £000 | *2010* £000 |
|---|---|---|
| Profit/(loss) on ordinary activities before tax | 7,197 | (42,499) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 – 28%) | 1,907 | (11,900) |
| *Effects of* | | |
| Disallowable expenses | 10 | 11,304 |
| (Accelerated)/decelerated capital allowances | (1,915) | 1,233 |
| Adjustments in respect of prior periods | 538 | (388) |
| Unrelieved tax losses/(brought forward tax losses utilised) | 1,089 | (516) |
| Difference in tax rates | 2 | (4) |
| Tax losses carried forward | - | 145 |
| Excess foreign tax on overseas income | 7 | 34 |
| Current tax for the year (note 10(a)) | 1,638 | (92) |

(c) Deferred tax

The deferred tax included in the balance sheet is as follows

| | *2011* £000 | *2010* £000 |
|---|---|---|
| Included in debtors (note 15) | 208 | 1,603 |
| Included in creditors (note 16) | - | (7,675) |
| Included in provisions for liabilities (note 20) | (47) | (16) |
| | 161 | (6,088) |

| | *2011* £000 | *2010* £000 |
|---|---|---|
| Tax losses | - | 1,393 |
| Decelerated capital allowances | 208 | 202 |
| Accelerated capital allowances | (47) | (7,690) |
| Other timing differences | - | 7 |
| | 161 | (6,088) |

# Notes to the financial statements

**at 31 December 2011**

## 10. Tax (continued)

(c) Deferred tax (continued)

| | *£000* |
|---|---|
| At 1 January 2011 | (6,088) |
| Profit and loss account movement during the year (note 10(a)) | 6,249 |
| At 31 December 2011 | 161 |

There is an unrecognised deferred tax asset of £234,473 arising predominantly in respect of carried forward tax losses in "K" Line Holding (Europe) Limited This deferred tax asset has not been recognised as there is no reasonable indication that there will be suitable future taxable profits from which these timing differences can be deducted

The Chancellor announced in the UK Budget on 21 March 2012 that the full rate of UK corporation tax would reduce from 25% to 24% from 1 April 2012 and then by a further 1% each year until the rate reaches 22% with effect from 1 April 2014 The effect of these rate reductions on the company deferred tax balance has not been reflected in these accounts due to the relevant legislation not having been substantially enacted at the balance sheet date A reduction to 22% would reduce the company's unrecognised deferred tax asset by approximately £28,134 and recognised deferred tax asset by approximately £19,365

## 11. Loss attributable to members of parent undertaking

The loss dealt with in the financial statements of the parent undertaking was £9,870,051 (2010 – loss of £21,614,487)

# Notes to the financial statements
**at 31 December 2011**

## 12. Tangible fixed assets
***Group***

| | *Vessels* | *Vessel under construction* | *Leasehold property and improvements* | *Plant and machinery, fixtures and fittings* | *Motor vehicles* | *Total* |
|---|---|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* |
| Cost | | | | | | |
| At 1 January 2011 | 289,999 | 81,313 | 1,136 | 12,196 | 2,246 | 386,890 |
| Exchange adjustment | 2,237 | 629 | 29 | 6 | 2 | 2,903 |
| Additions | 113,406 | 110,580 | 16 | 1,616 | 55 | 225,673 |
| Disposals/transfers | - | (116,781) | (70) | (1,840) | (2,233) | (120,924) |
| At 31 December 2011 | 405,642 | 75,741 | 1,111 | 11,978 | 70 | 494,542 |
| Depreciation | | | | | | |
| At 1 January 2011 | 48,653 | - | 702 | 8,365 | 1,591 | 59,311 |
| Exchange adjustment | 375 | - | 28 | (43) | 49 | 408 |
| Provided during the year | 18,977 | - | 138 | 1,596 | 112 | 20,824 |
| Disposals | - | - | (57) | (1,611) | (1,727) | (3,395) |
| At 31 December 2011 | 68,005 | - | 811 | 8,307 | 25 | 77,148 |
| Net book value | | | | | | |
| At 31 December 2011 | 337,637 | 75,741 | 299 | 3,672 | 45 | 417,394 |
| At 1 January 2011 | 241,346 | 81,313 | 434 | 3,831 | 655 | 327,579 |

The net book value of vessels and plant and machinery above includes an amount of £91,553,824 (2010 – £93,348,875) in respect of assets held under finance leases and hire purchase contracts

The vessel has been placed as security under the finance lease agreement

The depreciation charged to the financial statements in the year in respect of assets held under finance lease arrangements and hire purchase contracts were £4,247,000 (2010 £4,003,000)

Included in additions under "Vessels" above is an amount of £4,324,812 (2010 £nil) relating to financing costs capitalised during the year

# Notes to the financial statements

**at 31 December 2011**

## 13. Investments

***Group***

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| Joint venture (a) | - | 62,084 |
| Associate | 227 | (141) |
| Unlisted investments | 47 | 47 |

(a) Joint venture

| | *Share of net assets* | *Goodwill* | *Total* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| At 1 January 2011 | 51,125 | 10,959 | 62,084 |
| Acquired during the year | 2,048 | - | 2,048 |
| Exchange adjustments | (1,096) | 138 | (958) |
| Share of profit retained by joint venture | 3,050 | - | 3,050 |
| Amortisation of goodwill | - | (11,097) | (11,097) |
| Consideration for disposal of joint venture | (92,412) | - | (92,412) |
| Profit on disposal of joint venture | 37,285 | - | 37,285 |
| At 31 December 2011 | - | - | - |

On 27 May 2011, "K" Line Heavy Lift (UK) Limited sold all its interests in the SAL group of entities to "K" Line Heavy Lift (Germany) GmbH for an agreed price of €105,807,450 together with the inter company balance receivable of €4,477,500 The disposal is analysed above

The profit attributable to members of the parent company includes profits of £3,050,000 incurred by SAL group of entities up to its date of disposal on 27 May 2011

Additional disclosures are given when the aggregate share of joint ventures exceeds the 15% thresholds under FRS 9 'Associates and Joint Ventures', as follows

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| Fixed assets | - | 162,527 |
| Current assets | - | 14,077 |
| Liabilities due within one year | - | (28,185) |
| Liabilities due after more than one year | - | (98,971) |
| Turnover | 28,420 | 61,422 |
| Operating profit | 5,465 | 1,986 |

# Notes to the financial statements

**at 31 December 2011**

## 13. Investments (continued)

***Company***

| | *Joint ventures and associate* | *Investment in subsidiary undertakings* | *Unlisted investments* | *Total* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| Cost | | | | |
| At 1 January 2011 | 23 | 70,213 | 47 | 70,283 |
| Acquisition during the year | - | 15,583 | - | 15,583 |
| At 31 December 2011 | 23 | 85,796 | 47 | 85,866 |
| Amounts provided | | | | |
| At 1 January 2011 | - | (25,170) | - | (25,170) |
| Provided during the year | - | (10,285) | - | (10,285) |
| At 31 December 2011 | - | (35,455) | - | (35,455) |
| Net book value | | | | |
| At 31 December 2011 | 23 | 50,341 | 47 | 50,411 |
| At 1 January 2011 | 23 | 45,043 | 47 | 45,113 |

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet

Details of the investments in which the group and the company (unless indicated) holds 20% or more of the nominal values of the class of share capital are as follows

| *Name of company* | *Holding* | *Proportion of voting rights held* | *Nature of business* |
|---|---|---|---|
| *Subsidiary undertakings* | | | |
| "K" Line Bulk Shipping (UK) Limited | Ordinary shares | 100% | Shipping |
| "K" Line LNG Shipping (UK) Limited | Ordinary shares | 100% | Shipping |
| James Kemball Limited | Ordinary shares | 100% | Road haulage |
| "K" Line (Europe) Limited | Ordinary shares | 100% | Shipping |
| "K" Line Heavy Lift (UK) Limited | Ordinary shares | 100% | Shipping |
| Ralph Morton Transport Limited | Ordinary shares | 100% | Road haulage |
| "K" Line Heavy Lift (Germany) GmbH | Ordinary shares | 100% | Shipping |
| *Associate* | | | |
| Polar LNG Shipping (UK) Limited | Ordinary shares | 42 5% | Shipping |

During the year, the haulage business within Ralph Morton transport Limited was transferred to James Kemball Limited

*Joint ventures*

In 2011, the additional net investments in the joint ventures amounted to £2,048,000

The investment in the joint ventures has been included in the company's balance sheet at its purchase cost and were disposed during the year

# Notes to the financial statements

**at 31 December 2011**

## 13. Investments (continued)

SAL Schiffahrtskontor Altes Land GmbH & Co KG - *
SAL Schiffahrtskontor Altes Land Verwaltungsgesellschaft mbH - *
Luhe Engineering GmbH - *
SAL Transport GmbH - *

HLL Heavy Lift + Load Sea Lion GmbH & Co KG - *
HLL Heavy Lift + Load Sea Lion Verwaltung GmbH - *

HLL Heavy Lift + Load Sea Tiger GmbH & Co KG - *
HLL Heavy Lift + Load Sea Tiger Verwaltung GmbH - *

HLL Heavy Lift + Load Sea Hawk GmbH & Co KG - *
HLL Heavy Lift + Load Sea Hawk Verwaltung GmbH - *

HLL Heavy Lift + Load Sea Eagle GmbH & Co KG - *
HLL Heavy Lift + Load Sea Eagle Verwaltung GmbH - *

HLL HEAVY LIFT + Load "ANNETTE" GmbH & Co KG - *
HLL HEAVY LIFT + Load "MARIA" GmbH & Co KG - *
HLL Heavy Lift + Load Annette Verwaltung GmbH - *

HLL Heavy Lift + Load Carrier GmbH & Co KG - *
HLL Heavy Lift + Load Carrier Verwaltung GmbH - *

HLL Heavy Lift + Load Project GmbH & Co KG - *
HLL Heavy Lift + Load Project Verwaltung GmbH - *

HLL Heavy Lift + Load Trina GmbH & Co KG - *
Heavy Lift + Load Trina Verwaltung GmbH - *

HLL Heavy Lift + Load Regine GmbH & Co KG - *
HLL Heavy Lift + Load Regine Verwaltung GmbH - *

SAL Agency GmbH - *

HLL Heavy Lift + Load ANNEGRET Verwaltung GmbH - *
HLL Heavy Lift + Load GRIETJE Verwaltung GmbH - *
HLL Heavy Lift + Load PAULA Verwaltung GmbH - *
HLL Heavy Lift + Load WIEBKE Verwaltung GmbH - *

HLL Heavy Lift + Load ANNEGRET GmbH & Co KG - *
HLL Heavy Lift + Load GRIETJE GmbH & Co KG - *
HLL Heavy Lift + Load PAULA GmbH & Co KG - *
HLL Heavy Lift + Load WIEBKE GmbH & Co KG - *

HLL Heavy Lift + Load MARIA Verwaltung GmbH - *
"K" Line Heavy Lift (Germany) GmbH - *

# Notes to the financial statements

**at 31 December 2011**

## 13. Investments (continued)

HLL Heavy Lift + Load Svenja GmbH & Co KG - *
HLL Heavy Lift + Load Svenja Verwaltung GmbH - *

HLL Heavy Lift + Load Lone GmbH & Co KG - *
HLL Heavy Lift + Load Lone Verwaltung GmbH - *

* All of these undertakings are registered and operate in Germany in the heavy lift sector of the shipping industry and were disposed of on 27 May 2011 as noted above
* 50% of the voting rights and shares held by a subsidiary undertaking

*Unlisted investments*

The group and company also own 10% of the issued share capital of "K" Line Logistics (UK) Limited which was acquired on 1 January 2004 for £6,642 and less than 1% of the issued share capital of Baltic Exchange Company Limited which was acquired on 1 January 2004 for £40,447

## 14. Stocks

| | | *Group* | | *Company* |
|---|---|---|---|---|
| | *2011* | *2010* | *2011* | *2010* |
| | *£000* | *£000* | *£000* | *£000* |
| Stocks | 6,444 | 4,566 | - | - |

Stocks consist of bunker fuel oil and diesel fuel oil which are stated at cost

## 15. Debtors

| | | *Group* | | *Company* |
|---|---|---|---|---|
| | *2011* | *2010* | *2011* | *2010* |
| | *£000* | *£000* | *£000* | *£000* |
| Loans receivable from group undertaking | 133,089 | 49,955 | - | 156 |
| Amounts owed by group undertakings | 5,220 | - | - | 206 |
| Amounts owed by related party undertakings | 5,222 | 3,064 | - | - |
| Trade debtors | 16,670 | 17,246 | - | - |
| Other debtors | 653 | 5,559 | - | - |
| Prepayments and accrued income | 27,029 | 21,964 | - | 2 |
| Deferred taxation (note 10(c)) | 208 | 1,603 | - | - |
| | 188,091 | 99,391 | - | 364 |

Amounts falling due after more than one year included above are

| | | *Group* | | *Company* |
|---|---|---|---|---|
| | *2011* | *2010* | *2011* | *2010* |
| | *£000* | *£000* | *£000* | *£000* |
| Loans receivable | 86,869 | 156 | - | 156 |

# Notes to the financial statements

**at 31 December 2011**

## 15. Debtors (continued)

Loans receivable include £39 538m (2010 – £49 799m) loans given to a group company "K" Line TRS These loans are renewable every three months Loan in the amount of £nil (2010 – £156,000) has been given by group parent undertaking to associate company Polar LNG Shipping (UK) Limited A loan in the amount of £93 552m (2010 – £nil) has been given to a group company "K" Line Heavy Lift Germany GmbH and its maturity date is July 2013

## 16. Creditors: amounts falling due within one year

| | | *Group* | | *Company* |
|---|---|---|---|---|
| | *2011* | *2010* | *2011* | *2010* |
| | *£000* | *£000* | *£000* | *£000* |
| Bank loans (note 18) | 24,575 | 18,186 | - | - |
| Overdraft | 21 | 64 | - | - |
| Obligations under finance leases and hire purchase contracts (note 19) | 7,623 | 7,186 | - | - |
| Trade creditors | 12,144 | 9,764 | - | - |
| Amounts owed to group undertakings | 8,211 | 10,683 | 15 | 27 |
| Amounts owed to related party undertakings | 625 | - | - | - |
| Current corporation tax | 1,593 | 283 | - | - |
| Deferred taxation (note 10(c)) | - | 7,675 | - | - |
| Other taxes and social security costs | 1,377 | 1,031 | - | - |
| Other creditors | 8,064 | 1,346 | - | - |
| Accruals and deferred income | 19,144 | 20,665 | 63 | 47 |
| | 83,377 | 76,883 | 78 | 74 |

The bank overdraft is secured by a mortgage over the leasehold property of a subsidiary company

## 17. Creditors: amounts falling due after more than one year

| | | *Group* | | *Company* |
|---|---|---|---|---|
| | *2011* | *2010* | *2011* | *2010* |
| | *£000* | *£000* | *£000* | *£000* |
| Obligations under finance leases and hire purchase contracts (note 19) | 106,609 | 106,935 | - | - |
| Bank loans (note 18) | 283,333 | 216,986 | - | - |
| | 389,942 | 323,921 | - | - |

# Notes to the financial statements

**at 31 December 2011**

## 18. Loans

| | | Group | | Company |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| Amounts repayable | | | | |
| In one year or less or on demand | 24,575 | 18,186 | - | - |
| In more than one year but not more than two years | 104,762 | 18,186 | - | - |
| In more than two years but not more than five years | 135,226 | 181,597 | - | - |
| In more than five years | 43,345 | 17,203 | - | - |
| | 307,908 | 235,172 | - | - |
| Less included in creditors | | | | |
| amounts falling due within one year | (24,575) | (18,186) | - | - |
| | 283,333 | 216,986 | - | - |

Group

*"K" Line Bulk Shipping (UK) Limited*

The first loan of $34,003,769 (JPY2,616,250,000) is repayable by 2016 in 16 equal instalments $17,936,054 (JPY1,380,000,000) and 1 final instalment of $16,067,715 (JPY1,236,250,000) The rate of interest payable on the loan is 0 17% above LIBOR The loan is secured by a fixed charge over the vessel

The second loan of $25,198,206 (JPY1,938,750,000) is repayable by 2016 in 17 equal instalments $13,671,367 (JPY1,051,875,000) and 1 final instalment of $11,526,839 (JPY886,875,000) The rate of interest payable on the loan is 0 20% above LIBOR The loan is secured by a fixed charge over the vessel

The third loan of $61,736,418 (JPY4,750,000,000) is repayable by 2014 in 9 equal instalments $11,112,555 (JPY855,000,000) and 1 final instalment of $50,623,863 (JPY3,895,000,000) The rate of interest payable on the loan is 0 70% above LIBOR The loan is secured by a fixed charge over the vessel

The fourth loan of $78,845,854 (JPY6,066,400,000) is repayable by 2014 in 11 equal instalments $16,684,429 (JPY1,283,700,000) and 1 final instalment of $62,161,424 (JPY4,782,700,000) The rate of interest payable on the loan is 0 65% above LIBOR The loan is secured by a fixed charge over the vessel

The fifth new loan of $41,774,890 (JPY3,214,160,000) is repayable by 2020 in 37 equal instalments $26,651,157 (JPY2,050,540,000) and 1 final instalment of $15,123,733 (JPY1,163,620,000) The rate of interest payable on the loan is 0 575% above LIBOR The loan is secured by a fixed charge over the vessel

The sixth new loan of $60,577,073 (JPY4,660,800,000) is repayable by 2021 in 38 equal instalments $39,116,194 (JPY3,009,600,000) and 1 final instalment of $21,460,879 (JPY1,651,200,000) The rate of interest payable on the loan is 0 55% above LIBOR The loan is secured by a fixed charge over the vessel

The seventh new loan of $30,975,000 is repayable by 2021 in 38 equal instalments $19,950,000 and 1 final instalment of $11,025,000 The rate of interest payable on the loan is 0 60% above LIBOR The loan is secured by a fixed charge over the vessel

# Notes to the financial statements

**at 31 December 2011**

## 18. Loans (continued)

*"K" Line Heavy Lift (UK) Limited*

The loan was drawn down from a total loan facility of €136,000,000 from syndication banks arranged by Mizuho Corporate Bank Ltd The first repayment on this facility was made on 15 July 2009 and will be followed by 3 equal annual payments of the same amount and a final payment of €104m The rate of interest payable on the loan is 0 23% above Euro base rate The maturity date for all outstanding loans against the facility is 15 July 2013 and the loan is secured by a guarantee from the ultimate parent undertaking

## 19. Obligations under finance leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts

| *Group* | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| Amounts payable | | |
| Within one year | 9,320 | 8,993 |
| In two to five years | 36,654 | 34,878 |
| Over five years | 86,661 | 89,815 |
| | 132,635 | 133,686 |
| Less finance charges allocated to future periods | (18,403) | (19,565) |
| | 114,232 | 114,121 |

Analysis of present value of finance lease and hire purchase liabilities

| | *2011* | *2010* |
|---|---|---|
| | *£000* | *£000* |
| In one year or less or on demand | 7,623 | 7,186 |
| In more than one year but not more than five years | 28,924 | 27,161 |
| In more than five years | 77,685 | 79,774 |
| | 114,232 | 114,121 |

The rate of interest payable on the finance lease is 0 275% above LIBOR The finance lease is secured by a fixed charge over the assets concerned

Annual commitments under non-cancellable operating leases are as follows

*Group*

| | | *2011* | | *2010* |
|---|---|---|---|---|
| | *Land and buildings* | *Plant and machinery (Other)* | *Land and buildings* | *Plant and machinery (Other)* |
| | *£000* | *£000* | *£000* | *£000* |
| Operating leases which expire | | | | |
| Within one year | 94 | 1,979 | - | 10,543 |
| Between two and five years | 1,059 | 58,097 | 1,072 | 41,008 |
| Over five years | 323 | 18,511 | 381 | 18,173 |
| | 1,476 | 78,587 | 1,453 | 69,724 |

# Notes to the financial statements

**at 31 December 2011**

## 19. Obligations under finance leases and hire purchase contracts (continued)

During the year the group held operating leases for 22 vessels (2010 – 18 vessels) for the purposes of trading in its bulk division

## 20. Provisions for liabilities

Group

The movement in the provision for liabilities during the year was

| | *Onerous lease* | *Dilapidation* | *Deferred Tax* | *Total* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| At 1 January 2011 | - | - | 16 | 16 |
| Profit and loss account movement arising during the year | 136 | 136 | 31 | 303 |
| At 31 December 2011 | 136 | 136 | 47 | 319 |

## 21. Issued share capital

| | | *2011* | | *2010* |
|---|---|---|---|---|
| *Allotted, called up and fully paid* | *No* | *£000* | *No* | *£000* |
| Ordinary shares of £1 each | 84,880,603 | 84,881 | 69,297,563 | 69,298 |

During the year, 15,583,040 ordinary shares of £1 each were issued at par

## 22. Reconciliation of shareholders' funds and movements on reserves

*Group*

| | *Share capital* | *Profit and loss account* | *Total share-holders' funds* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| At 1 January 2010 | 19,982 | 115,294 | 135,276 |
| Shares issued | 49,316 | - | 49,316 |
| Loss for the year | - | (40,775) | (40,775) |
| Exchange difference on retranslation | - | (3,325) | (3,325) |
| At 1 January 2011 | 69,298 | 71,194 | 140,492 |
| Shares issued | 15,583 | - | 15,583 |
| Profit for the year | - | 11,809 | 11,809 |
| Exchange difference on retranslation | - | 3,941 | 3,941 |
| At 31 December 2011 | 84,881 | 86,944 | 171,825 |

# Notes to the financial statements

**at 31 December 2011**

## 22. Reconciliation of shareholders' funds and movements on reserves (continued)

*Company*

| | Share capital £000 | Profit and loss account £000 | Total share-holders' funds £000 |
|---|---|---|---|
| At 1 January 2010 | 19,982 | (1,001) | 18,981 |
| Shares issued | 49,316 | - | 49,316 |
| Loss for the year | - | (21,614) | (21,614) |
| At 1 January 2011 | 69,298 | (22,615) | 46,683 |
| Shares issues | 15,583 | - | 15,583 |
| Loss for the year | - | (9,870) | (9,870) |
| At 31 December 2011 | 84,881 | (32,485) | 52,396 |

## 23. Derivatives

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates The group also uses interest rate swap contracts to reduce interest rate exposures During the year a forward freight agreement and bunker swap agreement was also used to minimise the fluctuations in market freight and bunker rates The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows

| | | Group | | Company |
|---|---|---|---|---|
| | 2011 £000 | 2010 £000 | 2011 £000 | 2010 £000 |
| Interest rate swaps | (4,014) | (3,942) | - | - |
| Forward foreign currency contracts | (4,763) | (5,811) | - | - |
| Bunker swap agreements | 35 | - | - | - |
| Forward freight agreements | - | - | - | - |

## 24. Events since the balance sheet date

*"K" Line Bulk Shipping (UK) Limited New loans*

Since the start of the new financial year, 3 new bulk vessels that were under construction have been delivered In this respect, new loans have been secured as follows (a) 10-year loan amounting to $31 5m dated 27 January 2012 with interest at bank rate + margin (b) 7-year loan for $31 5m dated 13 July 2012 with interest at libor + margin (c) 7-year loan for JPY5 8b dated 19 July 2012 with interest at libor + margin

## 25. Capital commitments

The group had capital commitments contracted but not provided for in the financial statements of £223,295,000 (2010 – £376,514,247)

## 26. Pensions

The group operates a defined contribution pension scheme The assets of the scheme are held separately from those of the group in an independently administered fund The pension cost charge represents contributions payable by the group

# Notes to the financial statements

**at 31 December 2011**

## 27. Related party transactions

The company has taken advantage of the exemption available in FRS 8 from disclosing transactions with related parties, 100% of whose voting rights are controlled within the Kawasaki Kisen Kaisha Limited group

During the year, Polar LNG Shipping (UK) Limited entered into transactions, in the ordinary course of business, with the following subsidiary undertakings and affiliates

| | *Income from related party* | *Purchases from related party* | *Amounts owed from related party* | *Amounts owed to related party* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| "K" Line (Europe) Limited | | | | |
| 2011 | - | - | - | 9 |
| 2010 | - | - | - | 12 |
| "K" Line LNG Shipping (UK) Limited | | | | |
| 2011 | - | 7,628 | - | 2,882 |
| 2010 | - | 7,150 | - | 1,257 |
| "K" Line Holding (Europe) Limited | | | | |
| 2011 | - | 1 | - | - |
| 2010 | - | 2 | - | 244 |
| Northern LNG Transport Co I Limited* | | | | |
| 2011 | - | 10,259 | - | - |
| 2010 | - | 9,909 | - | - |
| Northern LNG Transport Co II Limited* | | | | |
| 2011 | - | 9,624 | - | - |
| 2010 | - | 10,680 | - | - |
| StatoilHydroASA** | | | | |
| 2011 | 29,031 | 66 | 1,708 | - |
| 2010 | 26,645 | 1 | - | 118 |
| Mitsui & Co Limited*** | | | | |
| 2011 | - | - | - | - |
| 2010 | - | 1 | - | 53 |
| Iino Kaiun Kaisha Limited**** | | | | |
| 2011 | - | - | - | - |
| 2010 | - | - | - | 40 |
| J Watson***** | | | | |
| 2011 | - | 16 | - | - |
| 2010 | - | 16 | - | - |

* Polar LNG Shipping (UK) Limited charters each one of its vessels from Northern LNG Transport Co I Limited and Northern LNG Transport Co II Limited Both of these companies are affiliates of Kawasaki Kisen Kaisha Limited (the ultimate parent undertaking of "K" Line Holding (Europe) Limited)

**StatoilHydro ASA owns 32% of the ordinary shares in the company

***Mitsui & Co , Limited owns 14 5% of the ordinary shares in the company

# Notes to the financial statements

**at 31 December 2011**

## 27. Related party transactions (continued)

**** Iino Kaiun Kaisha, Limited owns 11% of the ordinary shares in the company

***** Mr J Watson is a partner in a firm of solicitors that provides legal services to the company on an arm's length basis

During the year "K" Line Europe Limited had entered into transactions, in the ordinary course of business with the following related parties

| | *Income from related party* | *Purchases from related party* | *Amounts owed from related party* | *Amounts owed to related party* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| SAL Schiffahrtskontor Altes Land GmbH & Co KG | | | | |
| 2011 | 5 | - | 36 | - |
| 2010 | 21 | - | 40 | - |

During the year "K" Line Bulk Shipping (UK) Ltd had entered into transactions, in the ordinary course of business with the following related party

Together with Cardinal Shipping Limited, "K" Line Bulk Shipping (UK) Limited entered into a partnership under the name of "E&K Amanda Partners" The main purpose of the partnership is to manage and operate a cape size vessel that is co-owned by each partner All profits or losses are to be shared equally between the partners

During the year, profit share of $1 75m (2010 $nil) has been included in the turnover (note 2). A management fee of $21k has been charged to E&K Amanda Partners At 31 December 2011, the balance receivable from E&K Amanda Partners amounted to $1 77m (2010 $nil)

# Notes to the financial statements

**at 31 December 2011**

## 27. Related party transactions (continued)

During the year, "K" Line Heavy Lift (UK) Limited had entered into transactions, in the ordinary course of business, with other related parties Transactions entered into, and trading balances outstanding as at 31 December, are as follows

| | *Shares of profit/(loss) from related party £000* | *Dividends received from related party £000* | *Amounts owed from related party £000* | *Amounts owed to related party £000* |
|---|---|---|---|---|
| SAL GmbH & Co KG | | | | |
| 2011 | (391) | - | - | - |
| 2010 | 2 | - | 167 | - |
| HLL Sea Lion GmbH & Co KG | | | | |
| 2011 | 181 | - | - | - |
| 2010 | (115) | - | 343 | - |
| HLL Sea Tiger GmbH & Co KG | | | | |
| 2011 | (119) | - | - | - |
| 2010 | (390) | - | - | 277 |
| HLL Sea Hawk GmbH & Co KG | | | | |
| 2011 | 125 | - | - | - |
| 2010 | 31 | - | 411 | 657 |
| HLL Sea Eagle GmbH & Co KG | | | | |
| 2011 | 183 | - | - | - |
| 2010 | (526) | - | 429 | - |
| HLL Annette GmbH & Co KG | | | | |
| 2011 | 277 | - | - | - |
| 2010 | 448 | - | 2,098 | - |
| HLL Maria GmbH & Co KG | | | | |
| 2011 | 968 | - | - | - |
| 2010 | (595) | - | 1,205 | - |
| HLL Grietje GmbH & Co KG | | | | |
| 2011 | (173) | - | - | - |
| 2010 | (532) | - | 488 | 227 |
| HLL Annegret GmbH & Co KG | | | | |
| 2011 | (49) | - | - | - |
| 2010 | 355 | - | 607 | - |
| HLL Paula GmbH & Co KG | | | | |
| 2011 | 128 | - | - | - |
| 2010 | (545) | - | 488 | 862 |
| HLL Wiebke GmbH & Co KG | | | | |
| 2011 | 21 | - | - | - |
| 2010 | (176) | - | 569 | - |

# Notes to the financial statements

**at 31 December 2011**

## 27. Related party transactions (continued)

| | Shares of profit/(loss) from related party £000 | Dividends received from related party £000 | Amounts owed from related party £000 | Amounts owed to related party £000 |
|---|---|---|---|---|
| HLL Carrier GmbH & Co KG | | | | |
| 2011 | 248 | - | - | - |
| 2010 | (1,742) | - | 386 | 2,382 |
| HLL Project GmbH & Co KG | | | | |
| 2011 | 160 | - | - | - |
| 2010 | (642) | - | 1,485 | - |
| HLL Trina GmbH & Co KG | | | | |
| 2011 | 19 | - | - | - |
| 2010 | (854) | - | 133 | - |
| HLL Regine GmbH & Co KG | | | | |
| 2011 | 712 | - | - | - |
| 2010 | (712) | - | - | 782 |
| HLL Atlas GmbH & Co KG | | | | |
| 2011 | - | - | - | - |
| 2010 | 7 | - | - | - |
| HLL Titan GmbH & Co KG | | | | |
| 2011 | - | - | - | - |
| 2010 | (15) | - | - | - |
| HLL Svenja GmbH & Co KG | | | | |
| 2011 | 1,065 | - | - | - |
| 2010 | (418) | - | - | 410 |
| HLL Lone GmbH & Co KG | | | | |
| 2011 | (304) | - | - | - |
| 2010 | (35) | - | - | 28 |
| 2011 Total | 3,050 | - | - | - |
| 2010 Total | (6,453) | – | 8,809 | 5,264 |

# Notes to the financial statements

**at 31 December 2011**

## 27. Related party transactions (continued)

During the year the "K" Line LNG Shipping (UK) Ltd entered into transactions with affiliates of Kawasaki Kisen Kaisha Limited, in the ordinary course of business, with other related parties Transactions entered into, and trading balances outstanding at 31 December 2011, are as follows

| | *Income from related party* | *Purchases from related party* | *Amounts owed from related party* | *Amounts owed to related party* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| Polar LNG Shipping (UK) Limited | | | | |
| 2011 | 7,628 | - | 2,882 | - |
| 2010 | 7,150 | - | 1,257 | - |
| J5 Nakilat No 3 Limited | | | | |
| 2011 | 3,484 | - | 323 | - |
| 2010 | 239 | - | 306 | - |
| J5 Nakilat No 7 Limited | | | | |
| 2011 | 3,475 | - | 365 | - |
| 2010 | 239 | - | 306 | - |
| Peninsula LNG No 2 Limited | | | | |
| 2011 | 3,551 | - | 513 | - |
| 2010 | 3,080 | - | 267 | - |
| Trinity LNG Transport S A | | | | |
| 2011 | 6,357 | | - | 625 |
| 2010 | 6,169 | - | 93 | - |

## 28. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Kawasaki Kisen Kaisha Limited, which is incorporated in Japan

The financial statements of Kawasaki Kisen Kaisha Limited, which represent the smallest and the largest group in which the company is group, are available from Kawasaki Kisen Kaisha Limited, Hibiya Central Buildings, 2-9 Nishi-Shinbashi 1 - chome, Minato-ku, Tokyo 105-8421, Japan