"K" Line LNG Shipping (UK) Limited

Report and Financial Statements

31 December 2009

Registered No 5356484

Directors
Captain A Shoji
N Shiba

Secretary
P Rogers

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

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Mizuho Corporate Bank, Ltd
Bracken House
One Friday Street
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62 Threadneedle Street
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2009

Results and dividends

The loss for the year, after taxation, amounted to US$4,375,269 (2008 – loss of US$3,370,797) The directors do not recommend the payment of any dividends

Principal activities and review of the business

The principal activities of the company during the year 2009 were the ownership and ship management operations of LNG vessels

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

	2009	*2008*	*Change*
	$000	*$000*	*%*
Turnover	52,182	70,074	-26%
Loss after tax	(4,375)	(3,371)	30%
Shareholders' funds	1,042	5,417	-81%
Cash at bank	6,305	14,376	-56%

The reduction in turnover is mainly attributed to a decrease in time chartering activities as well as the lower prevailing market rate for chartering out

Cash balance decreased as a result of the above

The authorised share capital is denominated in GBP and has been translated into US$ at the historical rates ruling on the respective dates when the shares were authorised

Future developments

The directors aim to maintain the management policies which have resulted in the company's growth in recent years They consider that 2011 will show a more stable growth in turnover arising from continuing operations because of the start of a major new contract for the time charter of the owned vessel

Directors

The directors who served the company during the year are as listed below

Captain T Igarashi	(resigned 31 March 2009)
N Shiba	
Captain A Shoji	(appointed 1 April 2009)

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 company'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 company to generate a profit

- Treasury operations and financial instruments

The company 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 company 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 company 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 company 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

- Liquidity risk

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

The company 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 Company 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 company does not suffer from significant bad debt expense

Directors' report

Going Concern

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

The Company 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 Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have a reasonable expectation that the 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' statement as to disclosure of information to auditors

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 company'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

Auditors

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

By order of the board

P Rogers

Secretary

23 APR 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 company and of the profit or loss of the company 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 company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the members of "K" Line LNG Shipping (UK) Limited

We have audited the financial statements of "K" Line LNG Shipping (UK) Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 20 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 auditors

As explained more fully in the Statement of directors' responsibilities set out on page 5, 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 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 (APB'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 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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss 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 auditors' report

to the members of "K" Line LNG Shipping (UK) 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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 28 APR 2010

Profit and loss account

for the year ended 31 December 2009

	Notes	2009 US$	2008 US$
Turnover	2	52,181,914	70,073,669
Cost of sales		(52,080,898)	(31,554,904)
Gross profit		101,016	38,518,765
Administrative expenses		(4,869,281)	(6,328,458)
Operating (loss)/profit	3	(4,768,265)	32,190,307
Interest receivable	6	143,625	401,731
Interest payable and similar charges	7	(3,766,555)	(4,153,035)
Foreign exchange gain/(loss) on retranslation of loans		4,666,012	(33,919,886)
		1,043,082	(37,671,190)
Loss on ordinary activities before taxation		(3,725,183)	(5,480,884)
Tax on loss on ordinary activities	8	(650,086)	2,110,087
Loss for the financial year	16	(4,375,269)	(3,370,797)

Statement of total recognised gains and losses

for the year ended 31 December 2009

There are no recognised gains or losses other than the loss of US$4,375,269 (2008 – US$3,370,797) attributable to the shareholders for the year ended 31 December 2009

Balance sheet
at 31 December 2009

	Notes	2009 US$	2008 US$
Fixed assets			
Tangible fixed assets	9	149,939,839	155,302,390
Current assets			
Stocks	10	689,446	–
Debtors	11	23,005,006	20,781,094
Cash at bank		6,305,322	14,376,240
		29,999,774	35,157,334
Creditors: amounts falling due within one year	12	(24,711,030)	(17,373,710)
Net current assets		5,288,744	17,783,624
Total assets less current liabilities		155,228,583	173,086,014
Creditors amounts falling due after more than one year	13	(154,186,905)	(167,669,067)
		1,041,678	5,416,947
Capital and reserves			
Called up share capital	15	6,300,233	6,300,233
Profit and loss account	16	(5,258,555)	(883,286)
Shareholders' funds	16	1,041,678	5,416,947

These financial statements which comprise of the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes were approved by the Board of Directors and were signed on its behalf by

A Shoji
Director

Date 2 3 APR 2010

Company registered number 5356484

Notes to the financial statements

at 31 December 2009

1. Accounting policies

Basis of preparation

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

The directors consider that the company's functional and reporting currency is the US$ because its business contracts are in US$

Going Concern

The directors have a reasonable expectation that the 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

Statement of cash flows

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a statement of cash flows in the financial statements on the grounds that the company is wholly owned and its parent company publishes consolidated financial statements

Stocks

Stocks consist of bunker fuel oil and diesel fuel oil which are ascertained on a "first-in-first-out" basis These are stated at the lower of cost and net realisable value

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation and impairment losses Depreciation is calculated on the straight line basis to write off the cost of the assets net of residual value over their expected useful life Cost of vessels includes the cost of any major enhancement and improvement which increase the future benefits from the vessel beyond their previously assessed standard of performance Expenditure for routine replacements and repairs is written off immediately in the profit and loss account

The depreciation rates used are as follows

Vessel	–	30 years
Equipment	–	3 years

An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the profit and loss account

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

Leases

A lease is recognised as finance lease if it transfers substantially to the Company all the risks and rewards of ownership

Assets acquired by way of finance leases are stated at an amount equal to the lower of the fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses The corresponding liability is included in the balance sheet as loans In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease when it is practicable to determine, otherwise, the Company's incremental borrowing rate is used

Lease payments are apportioned between the interest expense and the reduction of the outstanding liability Interest expense, which represents the difference between the total leasing commitments and the

Notes to the financial statements

at 31 December 2009

1. Accounting policies (continued)

fair value of assets acquired, is recognised as an expense in the profit and loss account over the term of the relevant lease so to produce a constant periodic rate of change on the remaining balance of the obligation for each accounting period

Debtors

Debtors are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts Allowance for doubtful debts is made based on possible losses which may arise from non-collection of certain amounts

Turnover recognition

(i) Charter hire income

The time charter equivalent of income from the Company's vessel chartering activities is recognised on a time proportion basis

(ii) Management fees

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

Deferred taxation

Deferred tax 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 a right to pay less or to receive more, tax, with the following exception

- 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

Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year

Foreign currencies

Transactions in Sterling and other foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in currencies other than the US$ are retranslated using the rate of exchange ruling at the balance sheet date and gains or losses on translation are included in the profit and loss account

The exchange rate between GBP and USD was 1 615 at 31 December 2009

Derivative instruments

The company uses interest rate swap contracts to reduce interest rate exposures The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates

Notes to the financial statements

at 31 December 2009

2. Turnover

Turnover, which arises on continuing activities, represents the amounts receivable for services provided during the year, exclusive of VAT

	2009 US$	2008 US$
United Kingdom	24,127,178	47,828,840
Rest of the World	28,054,736	22,244,829
	52,181,914	70,073,669

3. Operating (loss)/profit

This is stated after charging/(crediting)

	2009 US$	2008 US$
The remuneration of auditors is analysed as follows		
Audit of the financial statements	20,480	34,794
Other fees to auditors - taxation services	34,313	62,796
Depreciation of owned assets	25,577	13,706
Depreciation of leased assets	5,361,146	5,361,146
Finance Lease and hire purchase contracts	1,400,203	2,054,277
Net loss on foreign currency translation	13,763	860,193

4. Directors' emoluments

The remuneration paid to directors was

	2009 US$	2008 US$
Emoluments	350,288	383,130

No pension contributions were paid by the Company to directors during the year

The amounts in respect of the highest paid director are as follows

	2009 US$	2008 US$
Emoluments	180,661	191,255

Notes to the financial statements

at 31 December 2009

5. Staff costs

	2009	*2008*
	US$	*US$*
Wages and salaries	2,207,449	2,687,593
Social security costs	122,783	131,055
Other pension costs	130,713	129,982
	2,460,945	2,948,630

The monthly average number of employees during the year was as follows

	2009	*2008*
	No	No
Administrative staff	21	20

6. Interest receivable

	2009	*2008*
	US$	*US$*
Bank interest receivable	6,572	185,707
Loan interest receivable	137,053	216,024
	143,625	401,731

7. Interest payable and similar charges

	2009	*2008*
	US$	*US$*
Bank interest payable	7,532,520	2,110,762
Finance lease net of interest rate swap	(3,765,965)	2,042,273
	3,766,555	4,153,035

Notes to the financial statements

at 31 December 2009

8. Tax

(a) Tax on loss on ordinary activities

The tax (credit)/charge is made up as follows

	2009 *US$*	*2008* *US$*
Current tax		
UK corporation tax	654,865	317,998
Adjustment in respect of previous periods	3,262	(2,426,229)
Total current tax (note 8(b))	658,127	(2,108,231)
Deferred tax		
Origination and reversal of timing differences (note 8(c))	(8,041)	(1,856)
Tax on loss on ordinary activities	650,086	(2,110,087)

(b) Factors affecting current tax (credit)/charge

The differences are reconciled below

	2009 *US$*	*2008* *US$*
Loss on ordinary activities before tax	(3,725,183)	(5,480,884)
Loss on ordinary activities by standard rate of corporation tax in the UK of 28% (2008 – 28 5%)	(1,043,051)	(1,562,052)
Expenses not deductible for tax purposes	1,691,636	1,878,177
Depreciation in excess of capital allowances	6,280	1,873
Other timing differences	–	–
Adjustments in respect of previous periods	3,262	(2,426,229)
Total current tax (note 8(a))	658,127	(2,108,231)

Notes to the financial statements

at 31 December 2009

8. Taxation on profit on ordinary activities (continued)

(c) Deferred tax

The deferred tax liability included in the balance sheet is as follows

	2009	*2008*
	US$	*US$*
Decelerated capital allowances	(8,722)	(681)
Deferred tax asset	(8,722)	(681)

	US$
At 31 December 2008	(681)
Profit and loss account movement arising during the year (note 8(a))	(8,041)
At 31 December 2009 (note 11)	(8,722)

9. Tangible fixed assets

	Vessel	*Equipment*	*Total*
	US$	*US$*	*US$*
Cost			
At 1 January 2009	160,834,391	66,757	160,901,148
Additions	–	24,172	24,172
At 31 December 2009	160,834,391	90,929	160,925,320
Depreciation			
At 1 January 2009	5,584,527	14,231	5,598,758
Charge for the year	5,361,146	25,577	5,386,723
At 31 December 2009	10,945,673	39,808	10,985,481
Net book value			
At 31 December 2009	149,888,718	51,121	149,939,839
At 1 January 2009	155,249,864	52,526	155,302,390

Vessel with net book value of US$149,888,718 (2008 – US$155,249,864) has been placed as security under finance lease arrangement

Notes to the financial statements

at 31 December 2009

10. Stocks

	2009	*2008*
	US$	*US$*
Stocks	689,446	–

Stocks consist of bunker fuel oil and diesel fuel oil

11. Debtors

	2009	*2008*
	US$	*US$*
Amounts owed from group undertakings	–	235,770
Prepayments and accrued income	3,480,743	240,751
Loans receivable from group undertaking	15,353,078	15,216,024
Corporation tax	1,441,287	1,649,046
Other debtors	2,721,176	3,438,822
Deferred tax asset	8,722	681
	23,005,006	20,781,094

12. Creditors: amounts falling due within one year

	2009	*2008*
	US$	*US$*
Trade creditors	1,128,867	1,837,785
Amounts owed to group undertakings	1,281,129	34,935
Accruals and deferred income	13,231,216	6,186,042
Obligations under finance leases and hire purchase contracts (note 14)	9,069,818	9,314,948
	24,711,030	17,373,710

13. Creditors: amounts falling due after more than one year

	2009	*2008*
	US$	*US$*
Obligations under finance leases and hire purchase contracts (note 14)	154,186,905	167,669,067
	154,186,905	167,669,067

Notes to the financial statements

at 31 December 2009

14. Obligations under finance leases and hire purchase contracts

Amounts due under finance leases

	2009 US$	2008 US$
Amounts payable		
Within one year	11,763,520	12,463,542
In two to five years	47,553,041	49,603,249
In more than five years	133,956,406	149,497,479
	193,272,967	211,564,270
Less finance charges allocated to future periods	(30,016,244)	(34,580,255)
	163,256,723	176,984,015

Analysis of present value of finance lease liabilities

	2009 US$	2008 US$
In one year or less or on demand	9,069,818	9,314,948
In more than one year but not more than five years	36,279,272	37,259,793
In more than five years	117,907,633	130,409,274
	163,256,723	176,984,015

The rate of interest payable on the finance lease is 0 275% above LIBOR

15. Share capital

Authorised	*2009 US$*	*2008 US$*
Ordinary shares of £1 each	44,918,872	44,918,872

Allotted, called up and fully paid	*No*	*2009 US$*	*No*	*2008 US$*
Ordinary shares of £1 each	3,536,143	6,300,233	3,536,143	6,300,233

The authorised and issued share capital is denominated in GBP and has been translated into US$ at the historical rates ruling on the respective dates when the shares were authorised and issued

Notes to the financial statements

at 31 December 2009

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital US$	*Profit and loss account US$*	*Total share-holders' funds US$*
At 31 December 2007	6,300,233	2,487,511	8,787,744
Loss for the year	–	(3,370,797)	(3,370,797)
At 31 December 2008	6,300,233	(883,286)	5,416,947
Loss for the year	–	(4,375,269)	(4,375,269)
At 31 December 2009	6,300,233	(5,258,555)	1,041,678

17. Defined contribution pension scheme

The assets of the scheme are held separately from those of the company in an independently administered fund The pension cost and charge represent contributions payable by the company to the fund and amounted to US$130,713 (2008 – US$129,982) The amount of outstanding contributions at the year end was US$nil (2008 - US$nil)

18. Derivatives

The company uses interest rate swap contracts to reduce interest rate exposures The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows

	2009 US$000	*2008 US$000*
Interest rate swaps	(5,351,449)	(5,571,789)

19. Related party transactions

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

Other related party transactions

During the year the company entered into transactions, in the ordinary course of business, with other related parties Transactions entered into, and trading balances outstanding at 31 December 2009, are as follows

Related party	*Income from related party $*	*Purchases from related party $*	*Amounts owed from related party $*	*Amounts owed to related party $*
Polar LNG Shipping (UK) Limited				
2009	11,345,993	–	–	607,849
2008	9,864,329	–	1,543,254	13,322

"K" Line Holding (Europe) Limited owns 42 5% of the ordinary shares in Polar LNG Shipping (UK) Limited

Notes to the financial statements

at 31 December 2009

20. Ultimate parent undertakings and controlling party

The immediate parent undertaking is "K" Line Holding (Europe) Limited The financial statements of "K" Line Holding (Europe) Limited represent the smallest group in which the company is consolidated and may be obtained from the company's registered office

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 largest group in which the company is consolidated, are available from Kawasaki Kisen Kaisha Limited, Hibiya Central Buildings, 2-9 Nishi-Shinbashi 1 - chome, Minato-ku, Tokyo 105-8421, Japan