

Note 1 - Summary of significant accounting policies

The Containership Company ASA (TCC ASA) is a public limited company, incorporated in Norway, headquartered in Oslo. Address headquarter: Strandveien 50, 1366 Lysaker, Norway.

1.1 Basis for preparation of the annual accounts

The Containership Company ASA's consolidated financial statements have been prepared in accordance with rules of the Norwegian accounting act and regulations to § 3-9 5th paragraph of the Norwegian Accounting Act, referred to as Simplified International Financial Reporting Standards.

The consolidated financial statements are based on historical cost, with the exception of the following:

- Financial instruments at fair value through profit or loss, financial instruments which are available for sale and recognised at fair value, and loans, receivables and other financial liabilities which are recognised at amortised cost.

The consolidated financial statements have been prepared on the basis of uniform accounting principles for similar transactions and events under otherwise similar circumstances.

1.2 Functional currency and presentation currency

The Group's presentation currency is USD. This is also the parent company's functional currency. The statement of financial position figures of subsidiaries with a different functional currency are translated at the exchange rate prevailing at the end of the reporting period while the statement of comprehensive income figures are translated at average annual exchange rate. Exchange differences are recognised in other comprehensive income ("OCI"). When investments in foreign subsidiaries are sold, the accumulated translation differences relating to the subsidiary attributable to the equity holders of the parent, are recognised in the statement of comprehensive income.

1.3 Consolidation principles

The Group's consolidated financial statements comprise The Containership Company ASA and companies in which The Containership Company ASA has a controlling interest. A controlling interest is normally obtained when the Group owns more than 50% of the shares in the company and can exercise control over the company. Minority interests are included in the Group's equity.

The purchase method is applied when accounting for business combinations. Companies which have been bought or sold during the year are included in the consolidated financial statements from the date when control is achieved and until the date when control ceases.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The consideration is recognised at fair value and the difference between the consideration and the carrying amount of the asset is recognised at the equity attributable to the parent.

In cases where changes in the ownership interest of a subsidiary lead to loss of control, the consideration is measured at fair value. Assets and liabilities of the subsidiary and non-controlling interest at their carrying amounts are derecognized at the date when the control is lost.

Differences between the consideration and the carrying amount of the asset are recognised as a gain or loss in profit or loss.

Investments retained, if any, are recognized at fair value, and surplus or deficits, if any, are recognised in profit and loss as a part of gain/loss on subsidiary disposal. Amounts included in other comprehensive income are recognised in profit or loss, or directly as equity.

All other investments are recognised in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Inter-company transactions and inter-company balances, including internal profits and unrealised gains and losses, are eliminated. Unrealised gains linked to transactions with associates and joint ventures are eliminated according to the Group's share in the entity. Correspondingly, unrealised losses are eliminated but only to the extent that there are no indications of impairment in the value of the asset that has been sold internally.

In the parent company financial statements investments in subsidiaries that are not classified as held for sale is accounted for at cost, and are subject to review for impairment when indications of impairment are present.

1.4 The use of estimates when preparing the annual accounts

The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities. This particularly applies to the depreciation of tangible fixed assets, evaluation of goodwill and evaluations related to acquisitions and pension commitments. Future events may lead to these estimates being changed. Estimates and their underlying assumptions are reviewed on a regular basis. Changes in accounting estimates are recognised during the period when the changes take place. If the changes also apply to future periods, the effect is divided among the present and future periods.

1.5 Foreign currency

Transactions in foreign currency

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into USD using the exchange rate applicable at the end of the reporting period. Non-monetary items that are measured at their historical price expressed in a foreign currency are translated into USD using the exchange rate applicable on the transaction date. Non-monetary items that are measured at their fair value expressed in a foreign currency are translated at the exchange rate applicable at the end of the reporting period. Changes to exchange rates are recognised in the statement of comprehensive income as they occur during the accounting period.

Foreign operations

Assets and liabilities in foreign operations, including goodwill and fair value adjustments, are translated into USD using the exchange rate applicable at the end of the reporting period. Incomes and expenses relating to foreign operations are translated into USD using the average exchange rate. Exchange-rate differences are recognised in other comprehensive income ("OCI").

Translation differences due to the translation of a net investment in foreign are specified as translation differences in the equity statement. Translation differences previously recognised in equity are recognised in the statement of comprehensive income when the foreign operations are disposed of.

1.6 Revenue recognition

Revenue is recognised when it is probable that transactions will generate future economic benefits that will flow to the company and the amount can be reliably estimated. Revenues are presented net of value added tax and discounts.

Revenue from the sale of freight services and T/C-hire is recognised at fair value, net of discounts. Freight revenue and expenses relating to vessel voyages and T/C-hire are accrued on the basis of the number of days that the voyage lasts before and after the end of the accounting period.

Revenue from sale of vessels is recognised at the time transfer of risk and control associated with ownership is transferred to the buyer.

Intra-group sales are eliminated.

Dividend is recognised in the statement of comprehensive income when the shareholders' right to receive dividend has been determined by the general meeting.

1.7 Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities, with the exception of:

- temporary differences linked to goodwill that are not tax deductible
- temporary differences related to investments in subsidiaries, associates or joint ventures when the Group controls when the temporary differences are to be reversed and this is not expected to take place in the foreseeable future.

Deferred tax assets are recognised when it is probable that the company will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset. The companies recognise previously unrecognised deferred tax assets to the extent it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the company no longer regards it as probable that it can utilise the deferred tax asset.

Deferred tax and deferred tax assets are measured on the basis of the expected future tax rates applicable to the companies in the Group where temporary differences have arisen.

Deferred tax and deferred tax assets are recognised at their nominal value and classified as non-current asset investments (long-term liabilities) in the balance sheet.

Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.

Tonnage tax is considered to be an operational expense and is included in "Other operating expenses"

1.8 Tangible assets and impairment

Tangible assets are valued at their cost less accumulated depreciation and impairment losses. When assets are sold or disposed of, the carrying amount is derecognised and any gain or loss is recognised in the statement of comprehensive income.

Depreciation is calculated using the straight-line method over the following useful life:

Machinery and equipment	3-5 years
Containers	20 years

The depreciation period and method are assessed each year. A residual value is estimated at each year-end, and changes to the estimated residual value are recognised as a change in an estimate.

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Assets under construction are classified as non-current assets and recognised at cost until the production or development process is completed. Assets under construction are not depreciated until the asset is taken into use.

1.9 Operational leasing

(i) The Group as a lessee

Leases for which most of the risk and return associated with the ownership of the asset have not been transferred to the Group are classified as operating leases. Lease payments are classified as operating costs and recognised in the statement of comprehensive income in a straight line during the contract period.

(ii) The Group as a lessor

The Group presents assets it has leased to others as non-current assets in the balance sheet. The rental income is recognised as revenue on a straight line basis over the term of the lease.

Direct costs incurred in establishing the operating lease are included in the leased asset's carrying amount and are expensed over the term of the lease on the same basis as the rental income.

1.10 Non - current assets held for sale and discontinued operations

Non-current assets and groups of non-current assets and liabilities are classified as held for sale if their carrying amount will be recovered through a sales transaction instead of through continued use. This is only regarded as having been fulfilled when a sale is highly probable and the non-current asset (or groups of non-current assets and liabilities) is available for immediate sale in its present form. The management must be committed to a sale and the sale must be expected to be carried out within one year after the classification date.

Non-current assets and groups of non-current assets and liabilities which are classified as held for sale are valued at the lower of their former carrying amount or fair value minus sales costs.

1.11 Financial instruments

In accordance with IAS 39, *Financial instruments: Recognition and measurement*, financial instruments within the scope of IAS 39 are classified in the following categories: at fair value with changes in value through profit or loss, held to maturity, loans and receivables, available for sale and other liabilities.

Financial instruments that are primarily held with the objective of selling them or buying them back in the short term, financial instruments that form part of a portfolio of identified instruments which are managed together and where there are clear traces of short-term gain realisation, or derivatives that are not designated as hedging instruments are classified as held for trading purposes. These instruments form part of the category of financial instruments recognised at their fair value with changes in value through profit or loss, together with financial instruments which qualify for, and have been designated as, instruments recognised at their fair value with changes in value through profit or loss. Financial guarantee contracts are measured according to IAS 37 or IAS 18, whichever produces the higher amount, unless the contracts qualify for and have been designated as instruments at fair value with changes in value through profit or loss.

Financial assets with fixed or determinable cash flows and a specific redemption date which the Group intends and is able to keep until maturity are classified as investments held to maturity, with the exception of those instruments which the company designates as being at fair value with changes in value through profit or loss or available for sale or which meet the criteria for forming part of the loans and receivables category.

Financial assets with fixed or determinable cash flows that are not quoted in an active market are classified as loans and receivables, with the exception of instruments that the Group has designated as being at fair value with changes in value through profit or loss or available for sale.

All other financial assets are classified as being available for sale.

Financial liabilities that do not form part of the held for trading purposes category and which have not been designated as being at fair value with changes in value through profit or loss are classified as other liabilities.

Financial instruments that are held to maturity are included in fixed asset investments unless the redemption date is less than 12 months after the end of the reporting period. Financial instruments in the held for trading purposes group are classified as current assets. Financial instruments that are available for sale are presented as current assets if the management has decided to sell the instrument within the 12-month period following the end of the reporting period.

Investments that are held to maturity, loans and receivables and other liabilities are recognised at their amortised cost. Financial instruments that are classified as available for sale and held for trading purposes are recognised at their fair value, as observed in the market at the end of the reporting period, without deducting costs linked to a sale.

The gain or loss resulting from changes in the fair value of financial investments that are classified as available for sale is recognised directly in equity until the investment is sold. When the investment is sold, the accumulated gain or loss on the financial instrument that has previously been recognised in equity is reversed and the gain or loss is recognised in the statement of comprehensive income.

Changes in the fair value of financial instruments classified as held for trading purposes or designated as being at fair value with changes in value through profit or loss are recognised in the statement of comprehensive income and presented as a financial income/expense.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transaction; reference to the current fair value of other instruments that is substantially the same; discounted cash flow analysis or other valuation models.

1.12 Derivatives that are not hedging instruments

Financial derivatives that are not recognised as hedging instruments are assessed at their fair value. Changes in the fair value are recognised in the statement of comprehensive income as they arise.

An embedded derivative is separated from the host contract and recognised as a derivative if, and only if, all the following conditions are met:

- The financial characteristics of and financial risk relating to the embedded derivative are not closely related to the financial characteristics of and financial risk relating to the host contract.
- A separate instrument with the same conditions as the embedded derivative would have complied with the definition of a derivative.

- The combined instrument (the main contract and embedded derivative) is not measured at its fair value with changes in value recognised in profit or loss.

1.14 Inventories

Inventories of bunker are recognised at the lowest of cost or net selling price. The net selling price is the estimated selling price in the case of ordinary operations minus selling costs. The cost is arrived at using the FIFO method.

1.15 Cash and cash equivalents

Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments that can be immediately converted into a known amount of cash and have a maximum term to maturity of three months.

In the statement of cash flows, the overdraft facility is stated minus the balance of cash and cash equivalents.

1.16 Equity

Equity and liabilities

Financial instruments are classified as liabilities or equity in accordance with the underlying economical realities.

Interest, dividend, gains and losses relating to a financial instrument classified as a liability will be presented as an expense or income. Amounts distributed to holders of financial instruments that are classified as equity will be recorded directly in equity.

Treasury shares

When treasury shares are repurchased, the purchase price including directly attributable costs is recognised in equity. Treasury shares are presented as a reduction in equity. Losses or gains on transactions involving treasury shares are not recognised in the statement of comprehensive income.

Costs of equity transactions

Transaction costs directly related to an equity transaction are recognised directly in equity after deducting tax expenses.

Other equity

(a) Reserve

This reserve contains the total net increase in the fair value of non-current assets that have been revalued at an amount which exceeds their cost. The reserve also contains total net changes in the fair value of financial instruments classified as available for sale until the investment has been sold or it has been determined that the investment is of no value.

(b) Translation differences

Translation differences arise in connection with exchange-rate differences of consolidated foreign entities.

Exchange-rate differences in monetary amounts (liabilities or receivables) which are in reality a part of a company's net investment in a foreign entity are also included as translation differences.

If a foreign entity is sold, the accumulated translation difference linked to the entity is reversed and recognised in the statement of comprehensive income in the same period as the gain or loss on the sale is recognised.

1.17 Employee benefits

The Group has made contributions to local pension plans classified as defined contribution plans. These contributions have been made to the pension plan for full and eligible part-time employees. The pension premiums are charged to expenses as they are incurred.

1.18 Provisions

A provision is recognised when the Group has an obligation (legal or self-imposed) as a result of a previous event, it is probable (more likely than not) that a financial settlement will take place as a result of this obligation and the size of the amount can be measured reliably. If the effect is considerable, the provision is calculated by discounting estimated future cash flows using a discount rate before tax that reflects the market's pricing of the time value of money and, if relevant, risks specifically linked to the obligation.

A provision for a guarantee is recognised when the underlying products or services are sold. The provision is based on historical information on guarantees and a weighting of possible outcomes according to the likelihood of their occurrence.

Restructuring provisions are recognised when the Group has approved a detailed, formal restructuring plan and the restructuring has either started or been publicly announced.

Provisions for loss-making contracts are recognised when the Group's estimated revenues from a contract are lower than unavoidable costs which were incurred to meet the obligations pursuant to the contract.

1.19 Contingent liabilities and assets

Contingent liabilities are not recognised in the annual accounts. Significant contingent liabilities are disclosed, with the exception of contingent liabilities that are unlikely to be incurred.

Contingent assets are not recognised in the annual accounts but are disclosed if there is a certain probability that a benefit will be added to the Group.

1.20 Events after the reporting period

New information on the company's financial position on the end of the reporting period which becomes known after the reporting period is recorded in the annual accounts. Events after the reporting period that do not affect the company's financial position on the end of the reporting period but which will affect the company's financial position in the future are disclosed if significant.

All figures are presented in USD unless otherwise is specified.