# COSCO SHIPPING ENERGY TRANSPORTATION CO., LTD.*
# 中遠海運能源運輸股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1138)**

## OVERSEAS REGULATORY ANNOUNCEMENT IN RELATION TO REPLY TO ENQUIRY LETTER FROM THE SHANGHAI STOCK EXCHANGE

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

References are made to the announcement of COSCO Shipping Energy Transportation Co., Ltd. (the "**Company**") dated 28 December 2017 regarding the implementation of newly revised accounting standards for business enterprises and change in method of provision for liabilities (the "**Implementation and Change**"), and the overseas regulatory announcement of the Company dated 3 January 2018 regarding the receipt by the Company of the enquiry letter from the Shanghai Stock Exchange (the "**SSE**") in relation to the Implementation and Change(Shang Zheng Gong Han [2018] No. 0020) (上証公函[2018]0020號) (the "**Enquiry Letter**"), requesting the Company to elaborate on, and to provide further disclosure in relation to, the enquiries set out in the Enquiry Letter.

The Company has submitted a reply to the Enquiry Letter (the "**Reply**") to the SSE and published an announcement dated 10 January 2018 (the "**Announcement for the Reply**") regarding the Reply on the website of the SSE (http://www.sse.com.cn). The following is a translation of the official Announcement for the Reply for information purpose only.

By order of the Board
**COSCO SHIPPING Energy Transportation Co., Ltd.**
**Huang Xiaowen**
*Chairperson*

Shanghai, the People's Republic of China
10 January 2018

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. Huang Xiaowen, Mr. Liu Hanbo and Mr. Lu Junshan as executive Directors, Mr. Feng Boming, Mr. Zhang Wei and Ms. Lin Honghua as non-executive Directors, Mr. Wang Wusheng, Mr. Ruan Yongping, Mr. Ip Sing Chi, Mr. Rui Meng and Mr. Teo Siong Seng as independent non-executive Directors.*

* *for identification purpose only*

Stock code: 600026 | Stock short name: COSCO SHIPPING Energy | Notice No.: Lin2018-003

**COSCO SHIPPING ENERGY TRANSPORTATION CO., LTD.**
**The Announcement for the Reply to the Enquiry Letter from the Shanghai Stock Exchange regarding the matters in relation to the Change in Method of Provision for Liabilities by COSCO SHIPPING Energy Transportation Co., Ltd.**

The board of directors and all directors of the Company warrant that this announcement does not contain any misrepresentations, misleading statements or material omissions, and jointly and severally take responsibility as to the truthfulness, accuracy and completeness of the content of this announcement.

According to the relevant requirements set out in the Enquiry Letter from the Shanghai Stock Exchange regarding the matters in relation to the Change in Method of Provision for Liabilities by COSCO SHIPPING Energy Transportation Co., Ltd.(Shang Zheng Gong Han [2018] No. 0020) (《關於對中遠海運能源運輸股份有限公司變更預計負債計提方式事項的問詢函》(上証公函【2018】0020號)) (the "**Enquiry Letter**"), COSCO SHIPPING Energy Transportation Co., Ltd. ("**COSCO SHIPPING Energy**" or the "**Company**", and together with its subsidiaries, the "**Group**") has analysed and replied to the relevant questions, and Baker Tilly China Certified Public Accountants (special general partnership) has given their opinions in relation to the contents of the reply to the Enquiry Letter, details of which are set out below:

1. **As shown in the Announcement[1] , the method of provision for anticipated liabilities on long-term chartering contracts was changed, effective from 28 December 2017.The increase in net profit attributable to shareholders of the parent company for 2017 due to the adjustment is expected to be approximately RMB361 million. Please further disclose the calculation of above amount and the period for which the financial statements were affected.**

**Reply:**

Before the change in the method of provision for anticipated liabilities, according to the two-year quotation of the Forward Freight Agreement (**FFA**), the anticipated losses of chartering contracts for the next two years would be estimated as at the end of each accounting year and provision would be made in respect of such anticipated liabilities.

[1] For the purposes of the English translation of the Announcement for the Reply in this announcement, the "Announcement" refers to the announcement of the Company published on the Shanghai Stock Exchange on 28 December 2017, contents of which are set out in the announcement of the Company dated 28 December 2017 published on The Stock Exchange of Hong Kong Limited regarding the Implementation and Change.

If this method of provision for anticipated liabilities are continuously adopted, the balance of the anticipated liabilities of the Group as at the end of 2017 would be approximately RMB416 million, of which the balance of the anticipated liabilities of three VLCCs, namely "DS Vision", "DS Venture" and "Hong Kong Spirit", are approximately RMB379 million, and the balance of the anticipated liabilities of two dry bulk carriers, namely "Elvia" and "Piavia", are approximately RMB37 million. According to the method of provision for anticipated liabilities after the change, the anticipated future income of chartered ships with leases due to end within one year in future will be compared with the anticipated income estimated according to the judgment of the management on the market trend for the forthcoming one year, and a provision for anticipated liabilities will be made where loss incurred. According to the method of provision for anticipated liabilities after the change, the balance of the anticipated liabilities of the Group as at the end of 2017 would be approximately RMB55 million, of which the balance of the anticipated liabilities of Hong Kong Spirit is approximately RMB18 million, and the balance of the anticipated liabilities of two dry bulk carriers, namely "Elvia" and "Piavia", are approximately RMB37 million. In summary, the impact of the old and new accounting estimates on the amounts for the whole year of 2017 is expected to result in the increase in the net profit attributable to shareholders of the parent company for 2017 by approximately RMB361 million.

The above changes in accounting estimates are subject to prospective application method. After being approved by the board of directors of the Company, the changed accounting estimate shall be applicable from the initial date of the Group's undisclosed financial reporting period (i.e. 1 October 2017), affecting the financial statements of the Group for the fourth quarter of 2017 and subsequent accounting periods.

**Opinions of the Accountant:**

We reviewed the affected amount due to the changes in the method of provision for liabilities on long-term chartering contracts of COSCO SHIPPING Energy and examined the period for which the financial statements are affected. In our opinion, such amount and period are in line with the requirements of Accounting Standard for Business Enterprises.

2. **As shown in the Announcement, in order to reduce the impact of the difference between the accounting estimates and the actual market information, the method of making provision for anticipated liabilities for long-term ship chartering contracts is adjusted to making provision for anticipated liabilities for chartered ships with leases due to end within one year in future. Please explain the necessity and reasonableness of changing the method of provision for anticipated liabilities, with reference to the current operating status of the Company and other companies in the same industry.**

**Reply:**

According to the Accounting Standards for Business Enterprises No. 13-Contingent liabilities：

Article 4 Anticipated liabilities shall be recognized when the obligations pertinent to the contingencies satisfy the following conditions:

(1) such obligations are present obligations undertaken by the Company;

(2) the performance of such obligations may result in outflow of economic benefits;

(3) the amount of such obligations may be reliably measured.

Article 8 Where a contract to be performed becomes a contract in loss and the obligations thereunder are qualified by the recognition criteria set out in Article 4, it shall be recognized as anticipated liability.

Contract to be performed represents the contract to which all parties have not yet fulfilled any contractual obligations or have partially performed equivalent obligations.

Contact in loss is identified when the inevitable cost for performance of the contractual obligation exceeds the inflow of expected economic benefits.

Article 12 An enterprise shall review the book value of anticipated liabilities on the balance sheet date. If there is clear evidence which indicates that the book value cannot genuinely reflect the prevailing best estimated amount, then adjustment shall be made to the book value pursuant to the prevailing best estimated amount.

The Group's provision made for anticipated liabilities for long-term ship chartering contracts as contacts in losson the balance sheet date is in compliance with the requirements for recognition of anticipated liabilities of the Accounting Standards for Business Enterprises.

A greater deviation has arisen between the two-year quotation of the FFA for estimating the anticipated losses to be incurred by the ship chartering contracts in the next 2 years and the actual market information in 2017.After calculation based on the quotation of the FFA in December 2016, the estimated TCE (Time Charter Equivalent) in the quotation of FFA TD3 for 2017 will be approximately US$16,800/day. The actual operating TCE of the three VLCCs for which the Group made provision for anticipated liabilities in 2017 will be approximately US$25,800/day. The ratio of the actual amount and estimated amount for 2017 is 154%, representing a significant difference.

The international shipping market is subject to various factors, such as politics, economy, supply and demand and natural conditions. As a result, the freight rate is subject to fluctuations, which caused great difficulties in forecasting future freight rate. As the deviation of the FFA index will reduce the forecast accuracy of the forecasted operating profit of ships for the next 2 years on the balance sheet date of 2017, the Group will no longer entirely refer to the FFA index in making estimation after the change.

The management of the Company may reasonably predict the market return level of the next year based on the quotations of the valid time charter market, the forecasts by relevant institutions and the actual operation of the Company. The changed provision method can better reflect the reliability of provision for anticipated liabilities for long-term ship chartering contracts.

According to public information, the large international shipping companies, namely MOL, NYK, Diana Shipping and COSCO SHIPPING Holdings Co., Ltd., have made provisions for liabilities for the loss of ship chartering contracts.

**Opinions of the Accountant:**

We have compared and analyzed quotations of the FFA with actual market prices and considered other shipping companies' provision for liabilities for the loss of ship chartering contracts. In our opinion, the change in method of provision for liabilities of COSCO SHIPPING Energy is in line with the actual operation of COSCO SHIPPING Energy and the provisions of Accounting Standards for Business Enterprises.

3. **As shown in the Announcement, after the change in method of provision for liabilities: the anticipated future income of chartered ships with leases due to end within one year in future will be estimated according to the judgment of the management on the market trend for the forthcoming one year, and the amount of provision for anticipated liabilities to be made will be the amount of contract rental after deducting the anticipated income. Please describe the details of the change in method of provision for liabilities, including but not limited to the composition of anticipated liabilities, the method of provision, the business and the contract involved.**

**Reply:**

Descriptions of the ship chartering contracts involved in the change in provision for liabilities:

1. On 28 May 2008, China Shipping Development (Hong Kong) Wytex Limited, a subsidiary of the Company, entered into a time charter with Dr. Peters, a German company, in respect of two VLCCs, namely "DS Venture" and "DS Vision", for a term of 16 years with a rental of US$53,475 per day for each vessel respectively. These two vessels were delivered in the first quarter and third quarter of 2011, respectively.

2. COSCO SHIPPING Tanker (Dalian) Co., Ltd. (大連中遠海運油品運輸有限公司) ("**Dalian Tanker**"), subsidiary of the Company, entered into a time charter contract with High-Q Investments Limited, in respect of a VLCC, namely "Hong Kong Spirit", for a term of 5 years (±30 days) with a rental of US$37,500 per day. This vessel was delivered on 1 June 2013.

The above three VLCCs are used primarily for the transportation of crude oil from the Middle East to the Far East (in particular, from the Middle East to the PRC), and are used for self-operation.

3. Dalian COSCO (大連油運) entered into a time charter with Elvia SchiffahrtsgesellschaftmbH& Co. KG in respect of a bulk vessel, namely "Elvia", for a term of "4+1+1+1" years (±60 days) with a rental of US$25,500 per day and the vessel was delivered on 30 August 2011. The vessel is used for POOL operation and provides coal transportation in Europe.

4. Dalian COSCO (大連油運) entered into a time charter with PiaviaSchiffahrtsgesellschaftmbH& Co. KG in respect of a bulk vessel, namely "Piavia", for a term of "4+1+1+1" years (±60 days) with a rental of US$25,500 per day and the vessel was delivered on 30 August 2011. The vessel is used for POOL operation and provides coal transportation between Australia, the PRC, Japan and South Korea.

Before the change:

Based on the FFA TD3 quotation,the TCE (Time Charter Equivalent) of the three VLCCs rented by the Group is estimated to be approximately US$14,700 per day for 2018 and approximately US$18,300 per day for 2019 and the provision for liabilities made at the end of 2017 was approximately RMB379 million. It is estimated that the daily rental of the two bulk vessels for 2018 will be approximately US$10,000 per day. The provision for liabilities made at the end of 2017 was approximately RMB37 million.

As at the end of 2017, the total provision for the liabilities of the above two items was RMB 416 million.

After the change:

The anticipated future income of chartered ships with leases due to end within one year in future will be estimated according to the judgment of the management on the market trend for the forthcoming one year, and the amount of provision for anticipated liabilities to be made will be the amount of contract rental after deducting the anticipated income.

According to the valid quotations from time charter market, the forecasts by relevant institutions and the actual operation of the Company, the management of the Company expected that the TCE of "Hong Kong Spirit" vessel will be approximately US$19,300 per day for 2018, and the provision for liabilities made at the end of 2017 was approximately RMB18 million. The management of the Company expected that the daily rental of two bulk vessels will be approximately US$10,000 per day for 2018, and the provision for liabilities made at the end of 2017 was approximately RMB37 million. The provision for liabilities made for recognized losses of above vessels charter contracts were approximately RMB55 million.

**Opinions of the Accountant:**

We have examined and understood the long-term chartering contracts and businesses involved in COSCO SHIPPING Energy's anticipated liabilities and reviewed the composition of and method of provision for COSCO SHIPPING Energy's anticipated liabilities. In our opinion, the change in method of provision for liabilities of COSCO SHIPPING Energy is in line with the provisions of Accounting Standards for Business Enterprises.

Board of Directors
COSCO Shipping Energy Transportation Co., Ltd.
10 January 2018