



**Verband  
Deutscher  
Reeder**

**ANSCHRIFT**  
Esplanade 6  
D-20354 Hamburg

**BRIEF**  
Postfach 30 55 80  
D-20317 Hamburg

**TELEFON**  
+49,40,35097-238

**E-MAIL**  
presse@  
reederverband.de

**WWW**  
reederverband.de

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## **Paradigm change regarding ship valuations Federal German government facilitates sustainable appraisal of vessels**

The German Shipowners' Association (*Verband Deutscher Reeder – VDR*) and the Central Association of German Shipbrokers (*Zentralverband Deutscher Schiffsmakler – ZVDS*) endorse the new rules and regulations submitted for ship valuations in connection with the creation of the new German Capital Investment Code (*Kapitalanlagegesetzbuch – KAGB*). “In doing so, the legislature has carried out a paradigm change,” says Dr Alexander Geisler, Managing Director of the Central Association of German Shipbrokers. The Capital Investment Accounting and Valuation Ordinance (*Kapitalanlage-, Rechnungslegungs- und Bewertungsverordnung – KARBV*), which entered into force along with the Capital Investment Code, recognises the discounted cash flow process as the standard method for determining the market value of ships.

“In adopting the new rules and regulations, not only does the federal German government comply with a request expressed by the maritime associations,” emphasises Ralf Nagel, CEO of the VDR. “Instead, it also implements an objective on a timely basis that was jointly established at the 8<sup>th</sup> National Maritime Conference.”

The participants at the Shipping Workshop as part of the National Maritime Conference held in Kiel early in April 2013 reached a consensus that the Long Term Asset Value (LTAV) concept can make a key contribution towards reducing the volatility on the maritime shipping markets as an alternative, long-term oriented valuation method.

“The LTAV can help shipping companies and ship financing banks navigate their way through the difficult crisis prevailing in the maritime shipping sector. This is why it is particularly gratifying that the first legislative steps have now been taken to entrench a valuation process that has been a standard in other areas for a long time now,” says Nagel.

In the past, the value of ships was determined above all within the scope of a comparative value process – as an estimation of the market value at a specific time. In the wake of the ongoing financial markets and economic crisis, in many cases this had proved to be unsuitable. Owing to the lack of an adequate number of representative ship purchases and sales, an increasing number of experts and brokers saw themselves incapable of carrying out the usual valuation based on market transactions that was common up to that point in time. In response to this market disturbance, not only did shipbrokers, shipowners, banks as well as auditing firms call for a modification of the past valuation practice; in adopting the LTAV, they also developed an alternative ship valuation method.

“In developing the Long Term Asset Value concept, the business community has presented a sound, logical solution that also delivers reliable results in times of crises. In addition, it is difficult to explain why different valuation principles should apply to ships than to real estate or enterprise valuations,” said Geisler in concluding his statement.



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+49.40.35097-0

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presse@  
reederverband.de

**WWW**  
reederverband.de

### **Background information on the LTAV**

The LTAV (Long Term Asset Value) is an independent basis for valuation purposes that is independent of market disturbances and oriented towards the long-term and sustainable earnings potential of a ship. The LTAV can be used for appraisals in particular when market disturbance occur as well as in the event of understatements or exaggerations occurring on the market. This is based on the present value or discounted cash flow (DCF) methods, which were adjusted to the requirements applicable to ship valuations. In developing this method, sustainable as well as statistically sound and transparent approaches were selected in order to duly take account of the volatility of the maritime shipping markets.

After the LTAV model had already met with substantial acceptance in the national and international maritime industry in recent years, in 2011 a separate association was set up with the objective of further developing and spreading this ship valuation model, namely LTAV e.V.

The purpose of this association is to promote the LTAV concept as an alternative ship valuation method developed by the maritime industry. The members of the association are shipowners, shipbrokers and auditing firms. Further particulars on the LTAV are available at: <http://www.long-term-asset-value.de>

### **For further information, please contact:**



Dr Alexander Geisler  
Managing Director  
Zentralverband Deutscher Schiffsmakler e.V.  
Phone: +49-40 / 32 60 82 or +49-40 / 33 05 63  
E-mail: [info@schiffsmakler.de](mailto:info@schiffsmakler.de)  
Web: [www.zvds.de](http://www.zvds.de)



Christof Lauer  
Press Officer  
VDR – Verband Deutscher Reeder  
Phone: +49-40 / 350 97-238  
E-mail: [lauer@reederverband.de](mailto:lauer@reederverband.de)  
Web: [www.reederverband.de](http://www.reederverband.de)