5 January 2011

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Board Members and Staff:

Thank you for your invitation to comment on the proposed changes to lease accounting standards as outlined in the August 2010 Exposure Draft.

Hanjin Shipping Co., Ltd.(the “Company”) was established in 1949 and has engaged in the container and bulk shipping business. The Company’s headquarter is located in Seoul, Korea and its stocks are listed on the Korea Exchange. As of September 30, 2010, the Company is operating 102 container ships with a total carrying capacity of 470,437 TEU and 97 bulk ships with total freight tonnage of 9,472,830 tons. This includes ships chartered on a long-term basis.

We think that it is reasonable of the overall lease accounting standards, however, the nature of industry or contract should be considered fully for its implementation regarding the definition of lease. Especially, we are concerned that it is likely to be classified as a lease contract if it complies with the definition of lease, although it is clear that a time-charter contract in the shipping industry is considered as a marine transportation service contract.
It is our opinion that these accounting treatments might cause incomprehensive reflection of economic substances for time-charter contract, serious misjudgment by the general users of these accounting information, and adverse effects for the sustainable economic growth of the shipping business.

As the company will describe the concrete grounds to identify time charter contract and lease contract as the following, we will highlight the importance to supplement the guiding principles in lease accounting standards reflecting nature of the shipping industry as well as individual contracts.

Yours truly,

President & CEO Y. M. Kim
HANJIN SHIPPING CO., LTD.
1. Definition of Lease

- Comparative Study on the T/C and Lease Contract

Even though time charter contract in the shipping industry is clearly distinguished from lease contract in its nature of contract, it is not clear whether time charter contract is accounted for in accordance with lease standards, due to insufficient definition of the term lease. Additional guidelines to reflect characteristics of industry and natures of individual contracts sufficiently should be included in the lease standards to resolve this misalignment.

<table>
<thead>
<tr>
<th>Division</th>
<th>Time Charter Contract</th>
<th>Lease Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nature of Contract</td>
<td>Marine Transportation Service Contract</td>
<td>Exclusive utilization contract for specific assets</td>
</tr>
<tr>
<td>2. Management Responsibility</td>
<td>Vessel owner takes management responsibility for the chartered vessel and the crews</td>
<td>Lessee takes management responsibility for the leased assets for the lease period</td>
</tr>
</tbody>
</table>
| 3. Occurrence of liabilities to make payments | Only if vessel owner keep the vessel and crews seaworthy and provide the charterer with transportation service fully, charterer takes on the liabilities to pay charterage.  
If these conditions are not met, charterer doesn’t take on the liabilities to pay charterage. | Because lessor fulfills all obligations at the date of commencement of a lease, Lessee takes on liabilities to make lease payments at the date of commencement of a lease |
| 4. Account on off Hire period  | If charterer recognizes a liabilities to pay charterage fully at the date of commencement of charter, charterage for off-hire period can be accounted for as non-operating income. | No pertinent data |
1. Definition of Lease

- **Definition of Time Charter Contract**
  - A time charter is a contract to be provided with the comprehensive transportation service of a chartered vessel, crews and the owner’s operation know-how for a specific period of time.
  - While lease contract places the focus on the utilization agreement of material resources, the time charter considers material resources some of the components required to provide the transportation service.

- **Time Charter Contract vs. Lease Contract**
  - A time charter is a contract to be provided with total transportation service by the owner, if transportation service is not conducted properly due to negligence from either one of the chartered vessel, crews or the owner’s operation know-how, these situations will result in being waived from payment liabilities of the charterage to the vessel owner.
  - On the contrary, Lessee is interested in only making good use of the material resources under lease contract. If material resources are scheduled to perform properly, in return, the lessee takes on the liabilities to make lease payment to the lessor (the managing responsibility of material resources is under the lessee’s control).
1. Definition of Lease

- **Management Responsibility**

According to the time charter contract, the owner has the responsibility of managing and operating the chartered vessel including human resources all together, whereas, Lessee is in charge of managing and operating the specific property owned by the lessor under the lease contract.

<table>
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<tr>
<th>Division</th>
<th>Time Charter Contract</th>
<th>Lease Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>① Vessel control and managing responsibility</td>
<td>Vessel Owner</td>
<td>Lessee</td>
</tr>
<tr>
<td>② Vessel Operation (Seaworthiness) Responsibility</td>
<td>Vessel Owner</td>
<td>Lessee</td>
</tr>
<tr>
<td>③ Vessel maintenance expense (Tip 1) payment</td>
<td>Vessel Owner</td>
<td>Lessee</td>
</tr>
<tr>
<td>④ Vessel Captain &amp; Crew hiring and managing</td>
<td>Vessel Owner</td>
<td>Lessee</td>
</tr>
<tr>
<td>⑤ Off Hire Provision</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

*Vessel Owner takes managing and operating responsibility of the chartered vessel and human resources for the chartered period.*

(Tip1) Vessel Maintenance Expense : Insurance, Vessel Repair, Store Supply Expense, Lubricant expense, Taxes, etc
1. Definition of Lease

- **Timing of Occurrence of liabilities to make payments**

A time charter is a contract to be provided with the marine transportation services using material resources (vessel) and human resources (crews) for a specific period of time. Liabilities to make charterage payment by the charter become effective after transportation service is fully provided by the vessel owner.

- Payment liabilities does not become effective at the date of commencement of charter.

<table>
<thead>
<tr>
<th>Time Charter Contract</th>
<th>Lease Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Time Charter is only a promise to provide transportation service by the owner for a specific period of time.</td>
<td>- Lessor fulfills all obligations at the date of commencement of a lease.</td>
</tr>
<tr>
<td>- The owner has a claim for the charterage after transportation service has been fully provided.</td>
<td>- Lessor has a claim for the lease payment at date of commencement because Lessor fulfills his obligations.</td>
</tr>
<tr>
<td>- Charterer doesn't take on the liabilities to pay charterage in case that the owner is negligent of his duties to keep the vessel and crews seaworthy and doesn't provide transportation service fully.</td>
<td>- Lessee takes on the liabilities to make lease payment for the total lease period because lessee take whole managing and operating responsibility for the leased assets as soon as lease commencement.</td>
</tr>
<tr>
<td>- After charterer recognizes a liabilities to pay charterage fully at the date of commencement of charter, charterage for the non-operating period caused by failing to keep vessel and crews seaworthy will be recorded as non-operating income.</td>
<td>- Liabilities reduction by lessor’s negligence is totally unnecessary because lessor does not take on any additional performance obligations after lease commencement.</td>
</tr>
</tbody>
</table>

**Unfulfilling the requirement to record liabilities**

**Fulfilling the requirement to record liabilities**
1. Definition of Lease

Example: Accounting Treatment on Off Hire

Even though there is no actual transactions at time of off-hire, there can be a large scale of non-operating income according to the exemption of lease liabilities for the reason that the liabilities for the charterage has been recorded in the accounting book at the time of the vessel charter commencement.

The charterer A make a T/C contract with the vessel owner B as followings:

- On-hire Period: Jan. 01. 2010 ~ Dec. 31. 2014 (5 years)
- Charterage: US$ 10,000/Day
- Off Hire Period: Vessel repair period (30 days)

※ Off Hire: No payment responsibility of the charterage within non-operating period by vessel and crew.

< Accounting Treatment >

<table>
<thead>
<tr>
<th>At the time of vessel charter</th>
<th>(D) Right to use Vessels</th>
<th>18,250,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Tip1) US$ 10,000 × 365 days × 5 years = US$ 18,250,000</td>
<td>(C) Lease Liabilities</td>
<td>18,250,000</td>
</tr>
<tr>
<td>At the time of Accounting Closing (Dec. 31. 2010)</td>
<td>(D) Depreciation – Vessel Lease Liabilities</td>
<td>3,650,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>3,650,000</td>
</tr>
<tr>
<td></td>
<td>Gain on exemption of lease liabilities</td>
<td>300,000</td>
</tr>
<tr>
<td>(Tip2) US$ 10,000 × 30 days = US$ 300,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In case that charted vessels are 100 vessels, there will be a gain on exemption of lease liabilities as following

US$ 300,000 × 100 VSLs = US$ 30,000,000
2. Lessee’s Accounting

- **Misalignment of ED**

  Per the contents proposed by the ED, the accounting treatments of lessor and lessee are not consistent and there may be deterioration in comparability and difficulty in application. We think that as the lessor can apply the performance obligation approach or derecognition approach on the basis of whether the lessor retains exposure to significant risks or benefits associated with the underlying asset, the lessee’s accounting treatments should be different in accordance with whether the exposure of significant risks and benefits will be transferred to reflect the economic substance properly.

- **Counterproposal of accounting treatment**

  Followings are our counterproposal to settle this misalignment.

  - The classification of accounting treatments by the lessee to be consistent with accounting treatments by the lessor (Applying the performance obligation approach or derecognition approach in accordance with the migration of economic risks and benefits).
  - For the lease transactions of Performance obligation approach applied by the lessor, the lessee recognizes the liabilities to make lease payments, record right-of-use asset as a total sum and the net lease liabilities in the statement of financial position. Net lease liabilities is the liabilities to make lease payments minus right-of-use asset.

  By introducing the above mentioned counterproposal of accounting treatments, the lessee recognizes lease transactions on the financial statements according to the economic substances with the same as the lessor. It also increases the availability and consistency of financial information between the concerned parties (the lessor/lessee).
3. Accounting on the short-term Lease

- **Misalignment of ED**

In case of short-term lease, we have an opinion that there should be consistency of accounting treatments for the concerned parties (the lessor/lessee). We think that it is not consistent with lessor’s accounting treatments for lessee to recognize assets and liabilities for short-term lease at the undiscounted amount at the date of commencement of a lease.

- **Counterproposal of accounting treatment**

We think that for the short-term lease, it is more proper to recognize the expense at the point when the contractual fee is paid over the lease term. We have an opinion that these accounting treatments are more consistent with lessor’s accounting treatments. Also it is possible to provide financial statement users with sufficient information by disclosing assets and liabilities as a footnote if necessary.
4. Effective Date of ED

When lease standards are to be introduced, the liabilities ratio in the countries applicable to IFRS earlier than any other countries will increase dramatically. Also, it will make against the advantages and be unfair compared with non-applicable countries. Therefore, there will be a possibility of prominent damage on the comparability of financial statement among the concerned countries as a result of introduction of lease standards without considering the period of introduction.

In addition to that, we expect that considerable amount of costs and efforts shall be required for its extensive implementation including system modification, in case of the application of newly lease standards. Therefore, we strongly recommend to postpone the introduction of newly lease standards for a considerable period, after considering the introduction period of lease standards for all other countries and its expected costs.