



SHIP MANAGEMENT SURVEY

July – December 2012

1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS¹

The revenues of the ship management industry in Cyprus decreased by 3% during the second half of 2012 as compared with the first half of 2012, thus reaching 4,7% of the country's GDP. Germany's share in revenues remains high at 59%, since revenues from this country were less affected. The majority of companies (45%) in the industry during the reporting period generated revenues within the range of €1,25 million - €15 million and 43% of the companies generated revenues in excess of €4 million. Market concentration continues to be high with 28% of companies generating 83% of the industry's revenues.

Ship management revenues in Cyprus decreased to €424 million (**Chart 1**) during the second half of 2012. When compared with the results of the first half of 2012 (€435 million), this represents a 3% decrease in value terms. As a result, the size of the industry (not in value added terms but as turnover) decreased to 4,7% of GDP. As shown in **Chart 2**, Germany is the most important country for the industry with a share of 59%.

¹ The survey is conducted by the Balance of Payments Section of the Central Bank's Statistics Department and concentrates primarily on transactions between resident ship management companies and non-residents. Please refer to the **Appendix** for more details.

CHART 1 Ship management revenues (€ million)

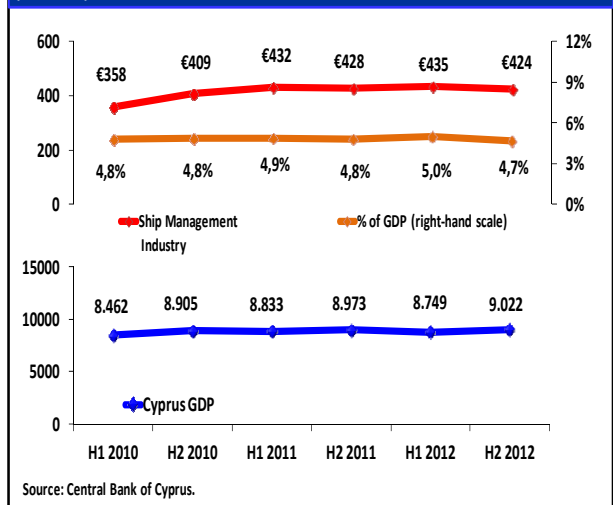
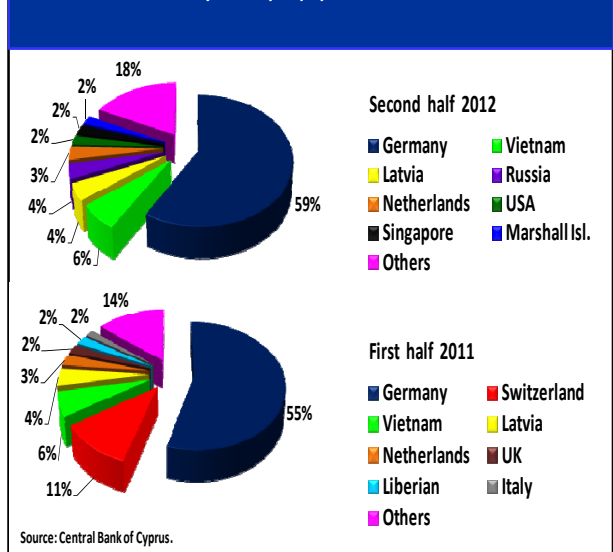
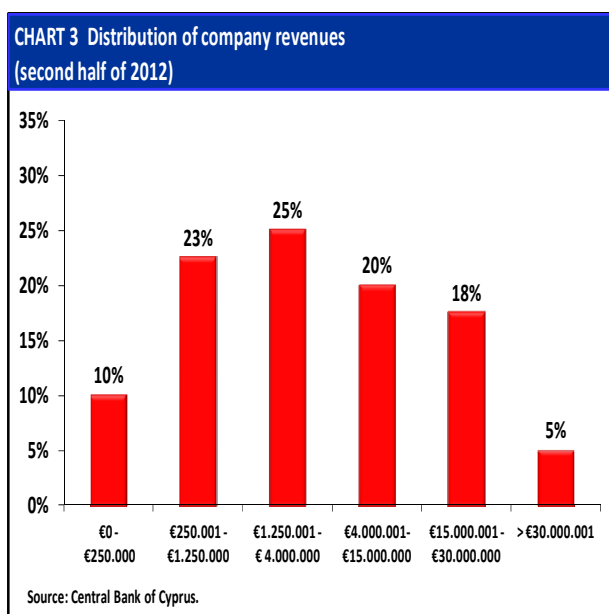


CHART 2 Market share by country of payment



Other countries with considerable shares in revenues include Vietnam, Latvia and Russia. It should be noted that the revenue analysis is based on the country from which the revenue is derived and not the country of residence of the beneficial owners of the ships under management.

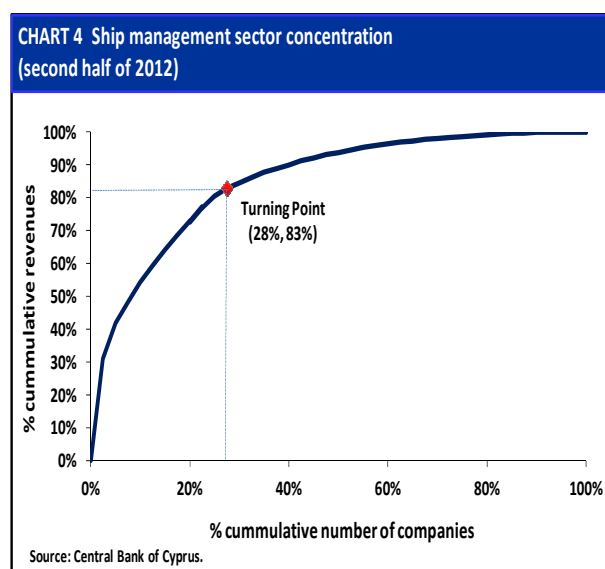
Chart 3 illustrates the distribution of revenues in the industry. This is a useful statistic in order to understand the market structure and the size characteristics of the firms associated with the industry.



The horizontal axis is segmented into several different revenue ranges in increasing order and all companies operating in the country have been allocated to one of these (disjoint) groups. As is common for frequency distributions, the vertical axis measures the percentage of companies belonging to each group (revenue-range). According to the segmentation results, 45% of the companies have half-yearly revenues within the range of €1,25 million - €15 million. Furthermore, 43% of the companies generate revenues in excess of €4 million.

The distribution of revenues in an industry emerges historically as the result of several different factors and influences. Possible explanations for the observed market structure in the shipping industry include the specialisation per type of ship management service (i.e. crew management, technical management, full management), the capital structure (sources of financing), the ownership status of the companies (e.g. member of a greater group which controls companies specialising in ship owning and chartering activities) and the country of the beneficial owner.

Another important aspect of the market structure characterising this industry, namely market concentration, is illustrated in **Chart 4**.



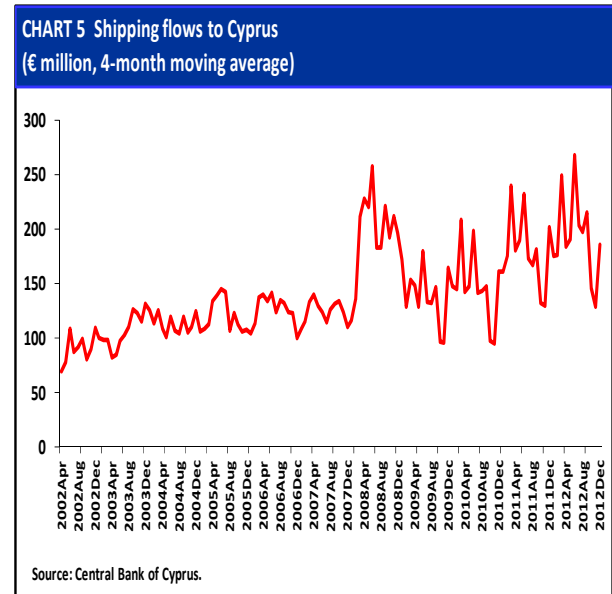
The chart shows that the top 28% of the companies account for 83% of the industry's revenues, which suggests that the industry is relatively concentrated. The ranked cumulative percentage of companies contributing to ship management revenues is measured on the horizontal axis (e.g. the 28% level corresponds to the top 28% of companies in the industry in terms of half-yearly revenues). The vertical axis measures the respective (aggregated)

percentage revenue contribution of these companies.

The turning point in the chart indicates the level at which a decline in the marginal contribution of companies to the industry's revenues is observed. Specifically, a 1% increase in the number of companies beyond the turning point provides less than a 1% increase in the cumulative revenues of the industry.

Chart 5 illustrates historical time series information on the level of inward transactions (flows) that were carried out by the shipping industry since 2002. These transactions concern revenues from the provision of shipping services abroad (both ship management and ship owning) and were compiled from monthly transaction volume data collected from a variety of sources including local banks. The time series information is particularly useful in order to examine the long-run trend and the volatility of revenues in the ship management industry. Since the recorded transactions exhibited high volatility, these are not presented in raw data format but as a 4-month moving average, which enables us to identify the key characteristics of the series.

As a result of the moving average smoothing procedure the trend, cyclical and seasonal characteristics of the time series can be easily identified in **Chart 5**. Throughout 2012, the series exhibited similar seasonal and cyclical characteristics as in the previous three years. There is an increasing trend during the period 2008-2012. However, it can also be observed that during the months August 2012 - December 2012 there was a decline in revenues that is consistent with the seasonal characteristics of the series. From December 2009 onwards, the series exhibit a distinct seasonal structure in line with the significant increase in volatility during the last three years.

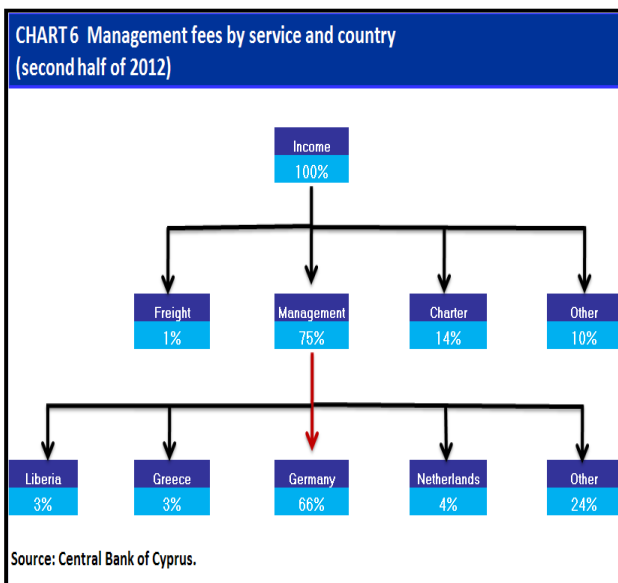


2. SHIP MANAGEMENT SERVICES

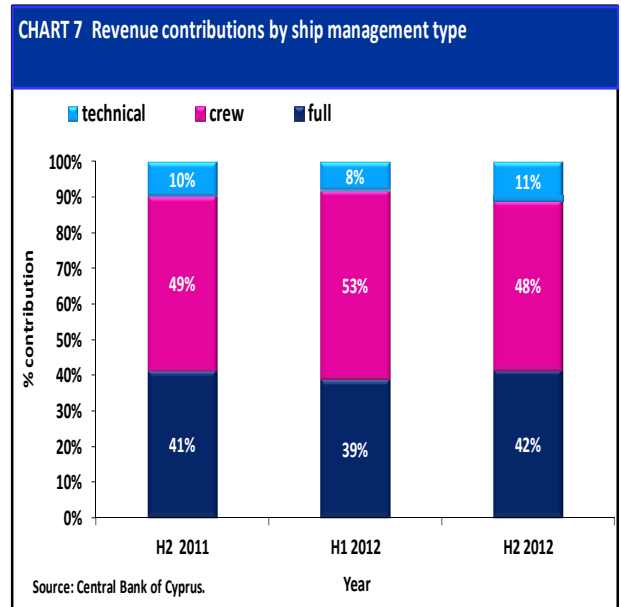
Crew, technical and full management services provided the majority of the industry's revenues for the second half of 2012 (75%). Crew management was the most important type of service within the ship management segment with a share of 48% and is followed by full management services with a share of 42%. Germany is the most important export destination for the industry, with a share of 66% in the ship management segment. However, its contribution with respect to full management services is only 27%.

Chart 6 (p. 4) provides a tree diagram with the most important percentage contributions that characterise the ship management industry. The first level in the tree diagram refers to the different types of services that are provided by the industry and include freight services, ship management services and chartering. Ship management services contribute 75% of the industry's revenues, chartering services 17%, freight services 1% and collectively the other services (i.e. finance, logistics) 10%. Ship management services are further

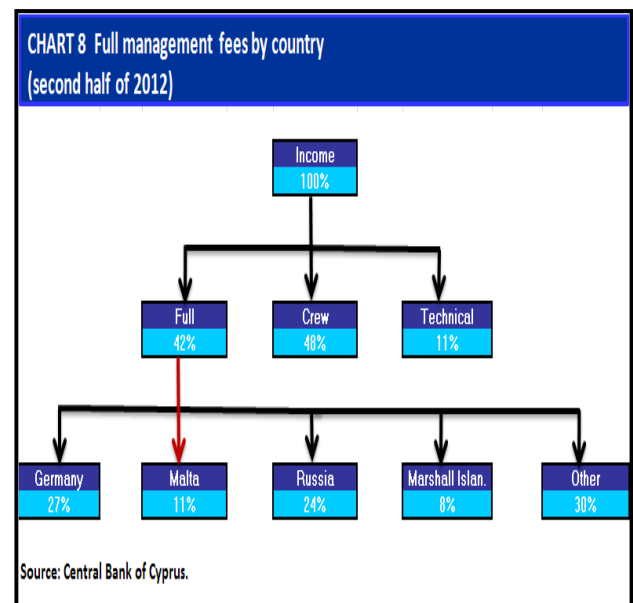
analysed by country in the second level of the tree diagram. Germany is the leading subscriber to ship management services, accounting for 66% of the revenues. Although the contributions by the other countries are significantly lower, it is expected that they will grow more in the future as a result of Cyprus's new, fully upgraded, tonnage tax system. It is considered one of the most competitive shipping tax systems in the EU and has led to an increase in the number of shipping company registrations in Cyprus.



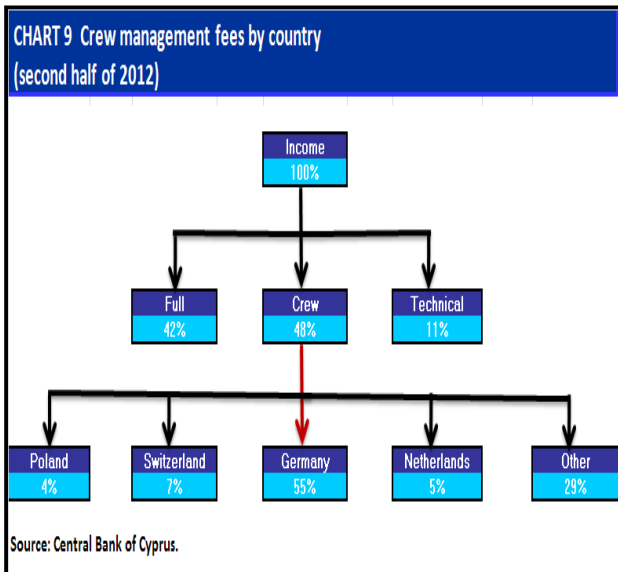
The ship management revenues of the last three periods are decomposed by type of service in **Chart 7**. Crew management provides the highest percentage contribution. Its contribution increased to 53% during the first half of 2012, but declined subsequently to 48% during the second half of the same year. In contrast, the contributions of technical and full management services increased to 11% and 42% of the total ship management revenues respectively during the second half of 2012. The large contributions of the crew and full management components highlight the presence of several large companies engaged in the provision of these types of services.



Charts 8 and 9 provide tree diagrams of the revenue contributions associated with full and crew management services. Specifically, full management fees are decomposed by country in **Chart 8** and similarly for crew management fees in **Chart 9** (p. 5). With respect to full management services (Chart 8), 27% of the revenues come from Germany, 24% from Russia, 11% from Malta and 8% from the Marshall Islands.



Germany's contribution to crew management revenues (**Chart 9**) for the same period was significantly higher, reaching 55%. The rest of the revenues in this segment were accounted for by several other countries with relatively small share contributions such as Switzerland (7%), the Netherlands (5%) and Poland (4%).

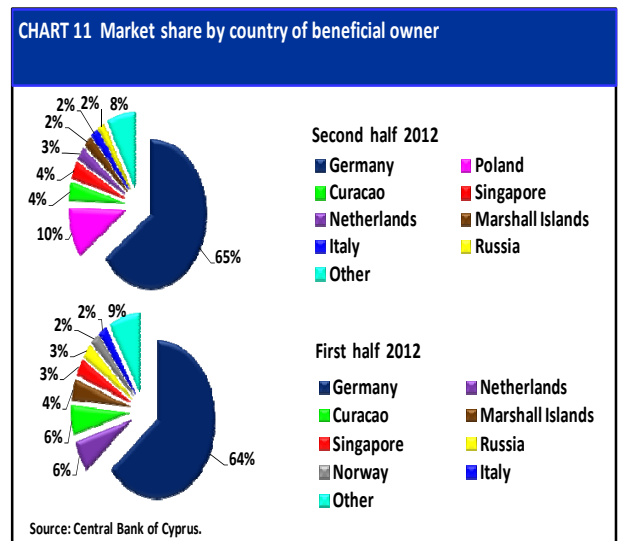
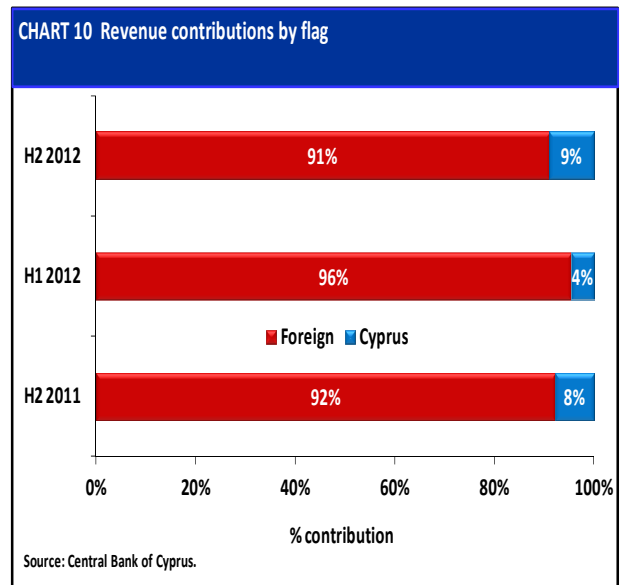


3. COUNTRY PORTFOLIOS

Most of the ship management services are provided to German ship owners whose ships carry foreign flags. However, despite its leading market share position, revenues from Germany did not exhibit any further growth during the last two years. There is a positive relationship between client portfolio size and market share performance. On average, strong market share performance is associated with the handling of more than 40 ship owning companies.

Chart 10 analyses revenues based on the flag registration of the ships under management. The great majority (91%) of the ships serviced by the industry carried foreign flags. Their contribution during the last two years has remained steadily above the 90% level. Revenues from ships under the

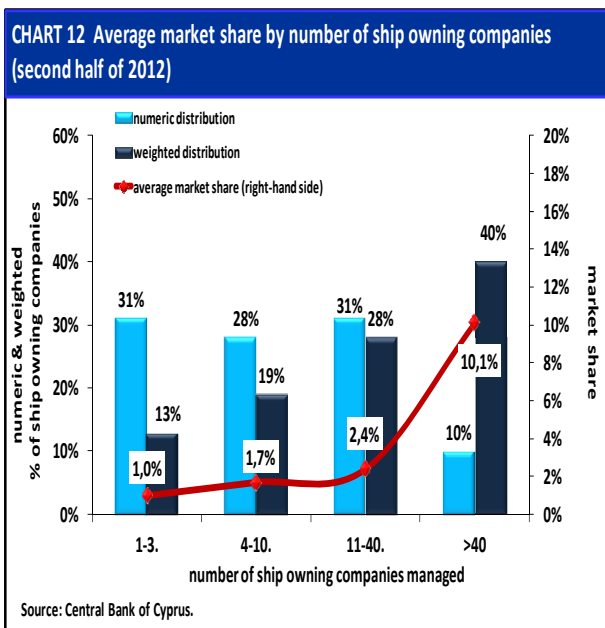
Cyprus flag can potentially increase in the future given the size and importance of Cyprus's shipping registry and recent policy changes in taxation and flag benefits adopted by the government of Cyprus.



A market share analysis by country of beneficial ship ownership is provided in **Chart 11**. In line with previous results, German ship owners provided 65% of the revenues during the second half of 2012. A similar percentage was also observed during the first half of 2011 (64%). Other countries in the ranking

(albeit with significantly smaller shares) include Poland, Curacao and Singapore.

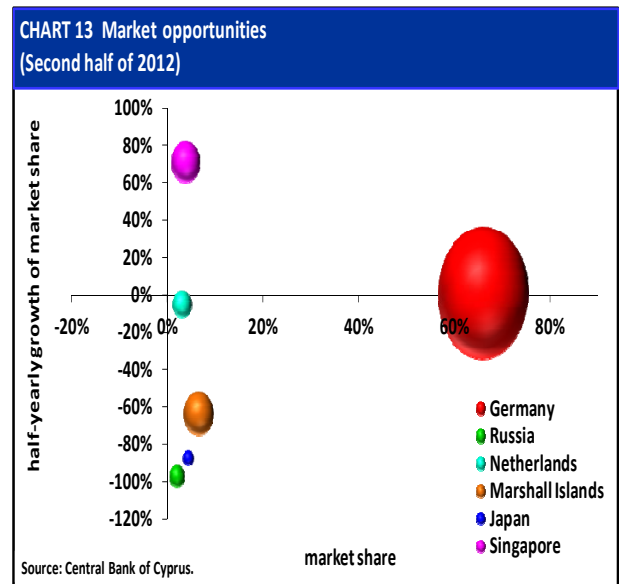
Chart 12 provides insights into the client portfolios of the companies and examines in particular the relationship between portfolio size (number of clients managed) and market share. The horizontal axis is segmented into four different size ranges (groups) in increasing order. The first group includes ship management companies that managed between 1 and 3 ship owning clients during the second half of 2012. The second group includes handlers of between 4 and 10 ship owners, the third group refers to handlers of between 11 and 40 ship owners and the fourth group represents handlers of more than 40 ship owners.



The vertical axis on the left-hand side of the chart measures the numeric and weighted distribution of each group of companies. The right-hand vertical axis measures the average market share in each group. The results suggest that the companies in the first group (managing between 1-3 ship owning clients) accounted for 31% of the total population of ship management companies and generated 13% of

the industry's revenues. The average company market share in this group was 1%. Similarly, the companies in the second group accounted for 28% of the population of ship management companies, generated 19% of the industry's revenues and scored an average share of 1,7%.

Only 41% of the companies handled more than 10 clients during the second half of 2012, but strong market share performance is achieved with the handling of more than 40 ship owners. Only 10% of the companies handled more than 40 clients during this period and shared 40% of the industry's revenues. The average market share in this group was 10,1%, which suggests that strong market share performance is associated with significantly large portfolios of clients. In the second best group (11-40 ship owning clients), the average market share performance was only 2,4%. As a result of this market concentration, a small number of companies receive a relatively high share of the industry's revenues.

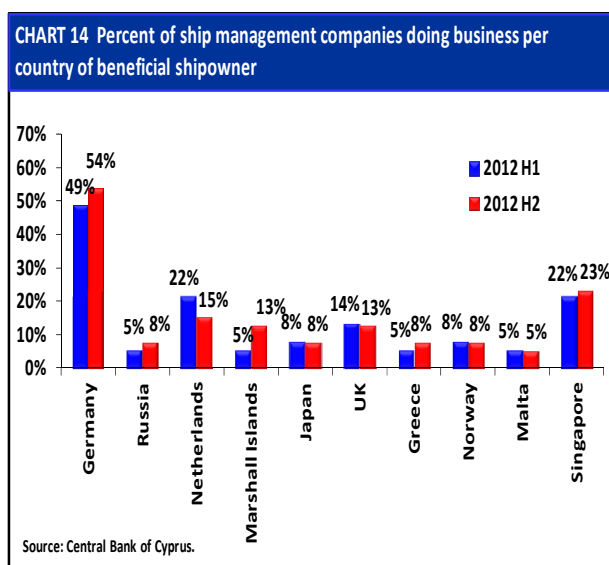


The relationship between market share and revenue growth by country, is illustrated in **Chart 13**. The horizontal axis measures each country's share in

revenues for the six-monthly period July-December 2012. The vertical axis measures the percentage change (half-yearly growth) in the share of each country. Furthermore, the size of each bubble in the chart is proportional to the size of revenues associated with each country.

Germany is the most important market, accounting for more than 60% of the industry’s revenues; however, it did not exhibit any revenue growth during the second half of 2012. Singapore exhibited the highest growth in revenues during the same period, while revenues from Russia, Japan and the Marshall Islands declined.

Chart 14 maps competitive presence in each country by listing the percentage of companies registered in Cyprus that have offered services in each country during the second half of 2012.

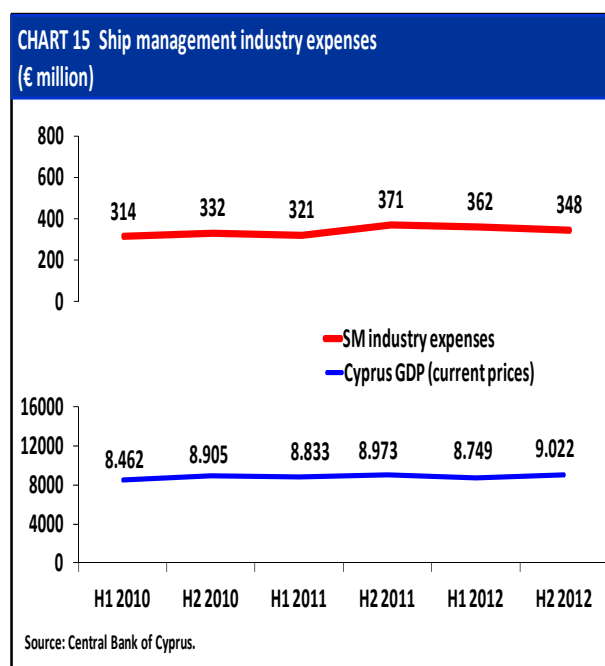


Competition for the provision of ship management services is strong only with regards to German ship owners since 49% of the companies offered their services in Germany during the second half of 2012. Competitive presence is particularly low in the other countries included in **Chart 14**. The provision of

services by Cypriot companies exceeds the 20% threshold only in the case of Singapore (23%).

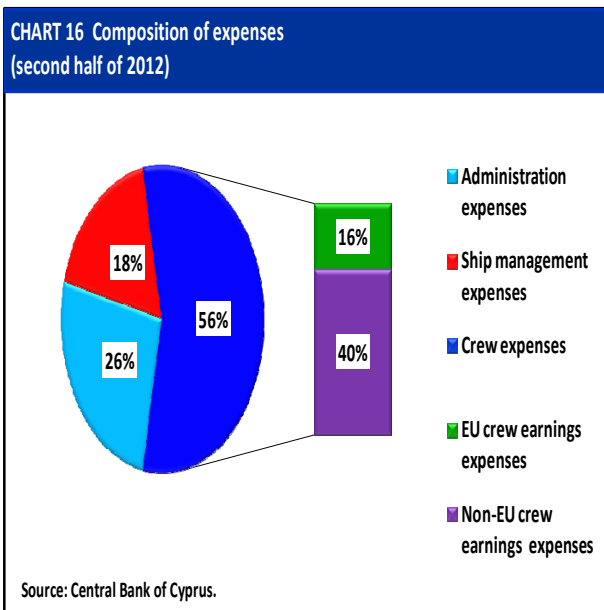
4. SHIP MANAGEMENT EXPENSES

Ship management expenses declined by 3,9% during the second half of 2012 and for third consecutive period. The majority of expenses concerned crew earnings and were paid to staff from the Philippines (21%), Poland (12%) and Ukraine (11%). Reductions were also observed in advertising expenses, in line with the decrease in revenues during the second half of 2012.



The total amount of expenses paid by the industry decreased during the second half of 2012, from €362 million to €348 million. A similar level of expenses was observed during the second half of 2010 (**Chart 15**). These figures do not include the expenses paid in Cyprus and are compatible with the revenues reported in **Chart 1** (p. 1), whereby amounts received from companies based in Cyprus are excluded.

Chart 16 provides an analytical decomposition of the industry’s expenses. Crew earnings accounted for 56% of the total amount. Of these, 40% were paid to non-EU citizens and 16% to EU citizens. All remaining outflows were directed to ship management (18%) and administration expenses (26%). The high percentage of crew expenses highlights the industry’s specialisation in the provision of crew and full² management services.



Aggregated advertising expenses decreased for the reference period, reaching €0,55 million during the second half of 2012. It is worth noting that during the first half of 2011 advertising expenses totalled €2,44 million. This decline is in line with the reduction in the industry’s revenues observed in **Chart 1** (p. 1). The left-hand axis in **Chart 17** indicates the level of ship management revenues and the right-hand axis the level of advertising expenses. There is no clear causal relationship between advertising expenses and revenues.

² Crew management is included in full management contracts.

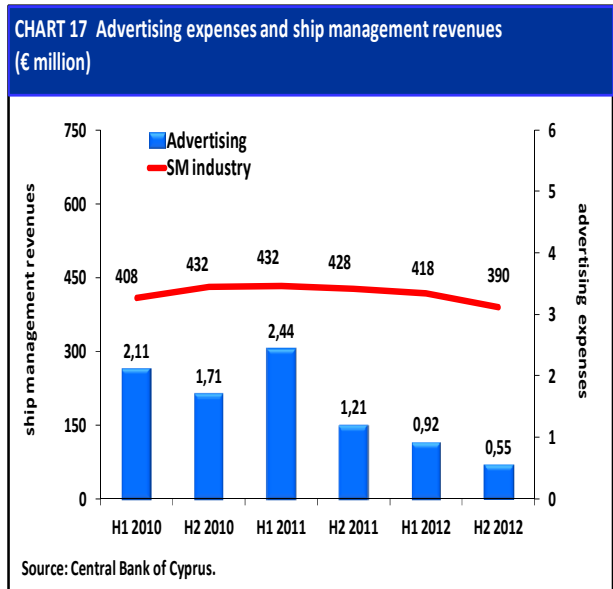
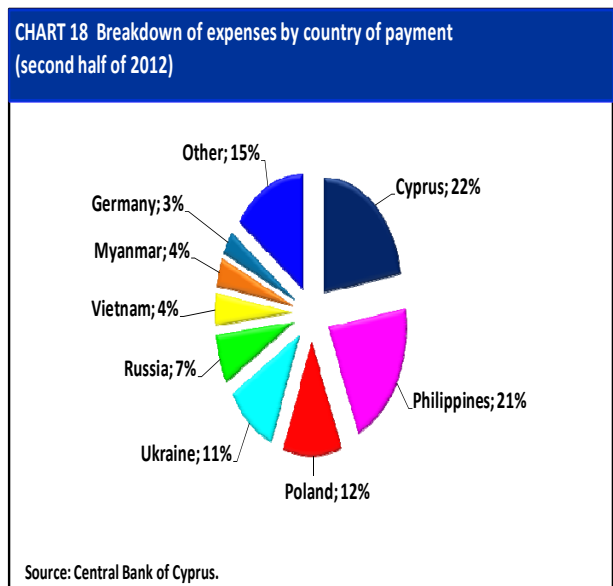
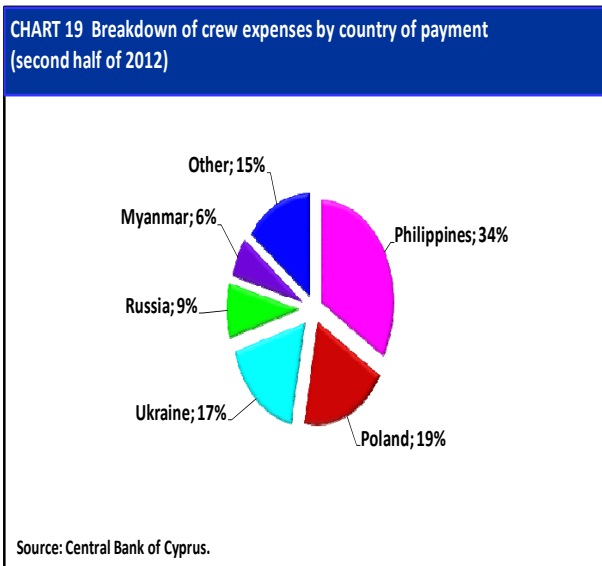


Chart 18 decomposes the industry’s expenses by country of outflow payment. This is an important distinction in the compilation of the balance of payments and international investment position accounts. Most of the expenses were directed to Cyprus (22%), the Philippines (21%), Poland (12%) and Ukraine (11%).



Since the majority of expenses concern crew earnings, these are further analyzed by country of

payment in **Chart 19**. There are no significant payments to Cypriot crew members in this case. Most of the crew expenses were directed to crew staff from the Philippines, Poland and Ukraine which also explains the relatively high percentages attributed to these countries in **Chart 18** (p. 8).



APPENDIX: SHIP MANAGEMENT SURVEY

The Ship Management Survey is conducted biannually by the Central Bank's Balance of Payments Section. The survey was launched in March 2009 and covers residents of Cyprus who provide ship management services to ship owning companies registered both in Cyprus and abroad.

The survey collects data from a representative sample of financial transactions (revenues and expenses) carried out between resident ship management companies and non-residents of Cyprus. In particular, the survey requires, among other things, the submission of:

1. Revenues by type of service provided to non-resident ship owning companies.
2. Revenues received from non-resident ship owning companies, by country from where the revenue is derived.
3. Revenues by country of flag registration of the ships whose ship management is performed by the resident ship management companies.
4. Revenues by country of residence of the ship owner, whose ships are managed by the resident ship management companies.
5. Payments made by resident ship management companies, by country of residence of the recipient.

The results of the survey include additional economic analysis, such as:

- Size of the ship management industry as a percentage of the Cyprus GDP.

- Level of concentration in the industry.
- Size of client portfolios of the ship management companies.
- Percentage of resident ship management companies which operate in different countries (analytically by country).
- Magnitude of total expenses in the industry.
- Identification of countries which offer market opportunities for further revenue growth.