



SHIP MANAGEMENT SURVEY

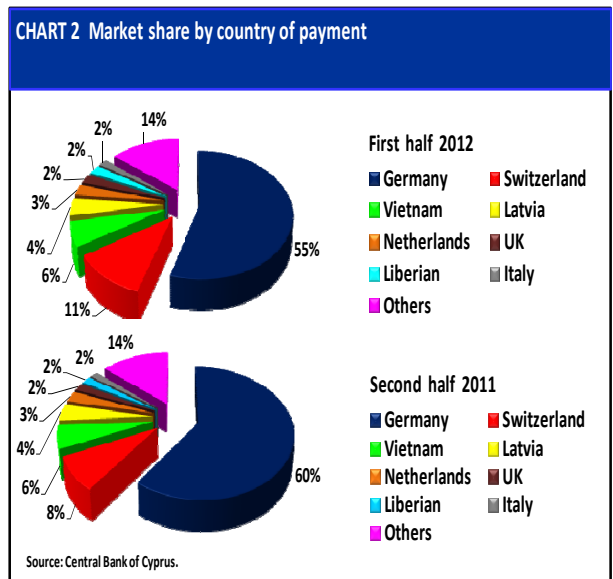
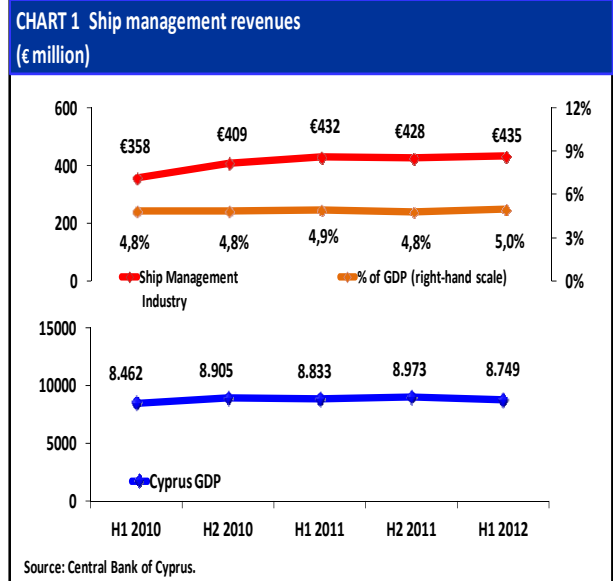
January – June 2012

1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS¹

Despite the global financial crisis, the revenues of the ship management industry in Cyprus increased by 2%, thus reaching 5% of the country's GDP. Germany's share in revenues remains high (at 55%), in line with previous periods. Most companies generate revenues within the range of €1,25 million - €15 million and 40% of the companies generate revenues in excess of €4 million. The industry remains relatively concentrated with 30% of the companies generating 88% of the revenues.

During the first half of 2012, the ship management industry in Cyprus has increased its revenues to €435 million (**Chart 1**). This represents a 2% increase when compared with the results of the second half of 2011 (€428 million). The size of the industry (not in value added terms but as turnover) rose to 5% of the country's GDP, which is the highest percentage that has been observed during the last two years. As shown in **Chart 2**, Germany remains the main trading partner albeit its share in revenues dropped from 60% to 55% in the first half of 2012.

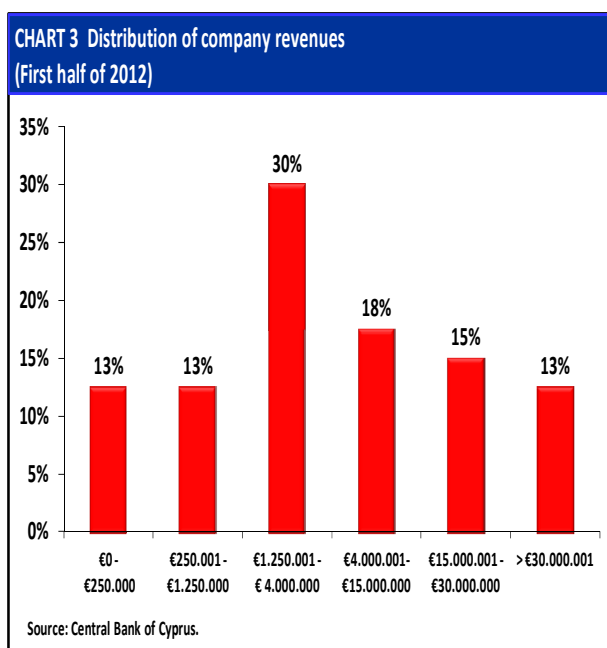
¹ The survey is conducted by the Balance of Payments Section of the Statistics Department of the Central Bank of Cyprus and concentrates primarily on transactions between resident ship management companies and non-residents. Please refer to the appendix for more details.



Other countries with considerable shares in revenues include Switzerland, Vietnam, Latvia and the Netherlands.

It should be noted at this point 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. In the future, other important and high growth markets can potentially enter the list of countries serviced by the shipping industry in Cyprus, like for example the countries in the BRIC group (Brazil, Russia India and China).

The distribution of revenues in an industry is a useful statistic in order to understand the market structure and identify the size of firms operating in the specific industry. For the ship management industry this is illustrated in **Chart 3**.



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). The structure of the distribution suggests that 48% of the companies have half-yearly incomes within the range of €1,25 million - €15 million. Also, 40% of the companies generate revenues in excess of €4 million.

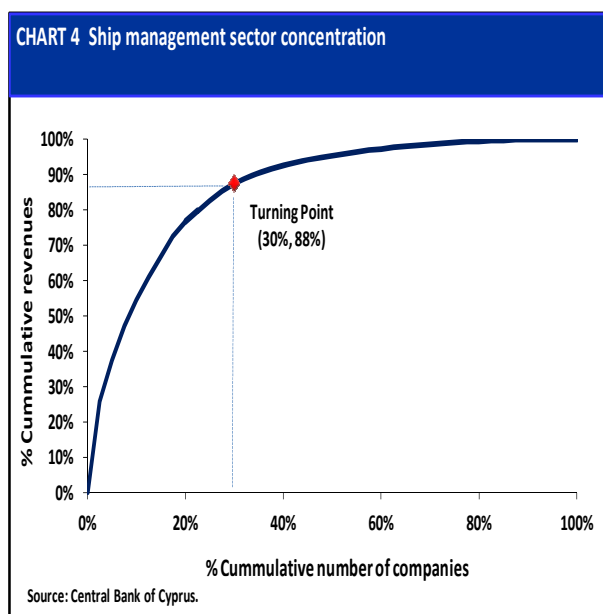
There are several factors affecting the distribution of revenues in an industry, many of which are historical and difficult to quantify. Possible explanations for the observed market structure in the shipping industry include the specialisation per type of ship management service (i.e. crew management, 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.

Chart 4 illustrates another important aspect of the market structure in an industry, namely market concentration.

The ship management industry in Cyprus is relatively concentrated with 30% of the companies accounting for 88% of the industry's revenues. The ranked cumulative percentage of companies contributing to ship management revenues is measured on the horizontal axis (e.g. the 30% level corresponds to the top 30% of companies in the industry in terms of half-yearly revenues). The vertical axis measures the respective percentage revenue contribution of these companies. The results suggest that the top 30% of companies contribute 88% of the industry's revenues.

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

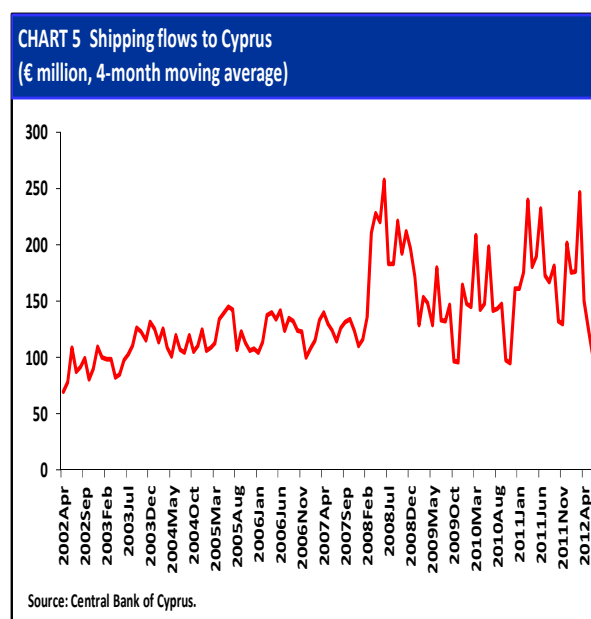
companies beyond the turning point provides less than a 1% increase in the cumulative revenues of the industry.



In order to better examine the long-run trend and the volatility of revenues in the ship management industry, monthly transaction volume data were compiled from a variety of sources including local banks. They are exhibited in **Chart 5** and represent 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). Due to the high volatility of the payment flows, these are not presented in raw data format but as a 4-month moving average, which enables us to identify the main trend underlying the series.

The time series exhibit an increasing trend as well as cyclical and seasonal characteristics that constitute the basic building blocs of successful forecasting models. There is also a large increase in revenues during 2008 and a subsequent decline in 2009 and 2010, following the beginning of the global financial

crisis. Despite this decline, revenues increased again in 2011, since the industry is more dependent on countries that were less affected by the economic crisis. During the first half of 2012 the series exhibited similar seasonal and cyclical characteristics as in the previous three years.

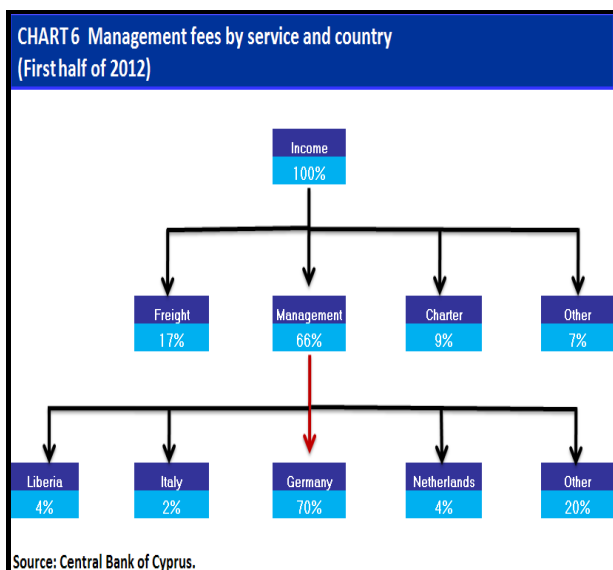


2. SHIP MANAGEMENT SERVICES

Core ship management services, such as crew, technical and full management, provided the majority of the industry's revenues for the first half of 2012 (66%). Within the ship management segment, crew management was the most important type of service with a 53% share, followed by full management with a 49% share. Germany remains the most important export destination for the industry, with a 70% share in the ship management segment.

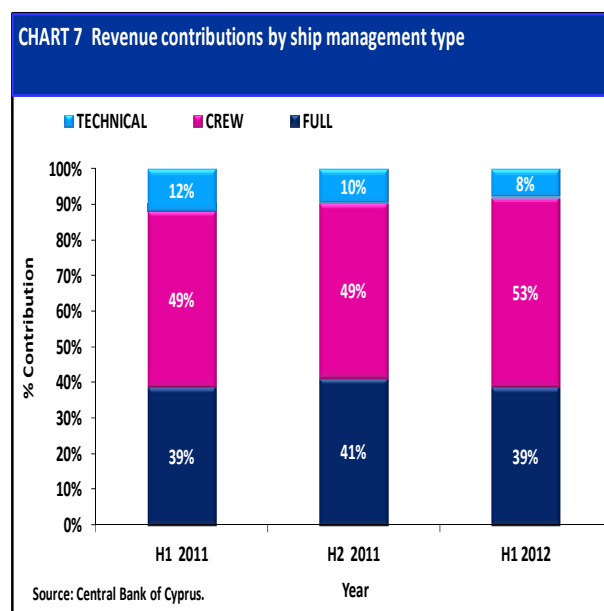
Chart 6 provides two sets of percentage contributions that characterise the ship management industry. The first set (first level in the tree diagram) refers to the different types of services that are provided by the industry, such as

freight services, ship management services and chartering. Ship management services correspond to 66% of the industry's revenues, highlighting the industry's specialisation in this field. Additional contributions are provided by freight (17%), chartering (9%) and other services (i.e. finance, logistics).



Since ship management services constitute the most important segment of the industry's revenues, they are further analysed by country in the second set of percentage contributions (second level in the tree diagram). Germany is by far the main subscriber to ship management services (accounting for 70% of the revenues). The recent approval by the European Union of the new fully upgraded Cyprus's tonnage tax system, which, according to various commercial shipping sources, is one of the most competitive shipping tax systems in the EU, has led to the increase registration of shipping companies in Cyprus and as a result thereof, of shipping revenues. If this trend continues in the future, the size of the industry would increase further, placing Cyprus even higher on the international shipping ranking.

In **Chart 7** the ship management revenues of the three last periods are decomposed by type of service. Crew management is the most important type of ship management service exported. It contributed 49% of the ship management revenues throughout 2011 and has increased further to 53% during the first half of 2012. In contrast, technical management is following a decreasing trend, with only 8% contribution during the period under review. 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.



The different types of ship management services are further analysed in Charts 8 and 9. Specifically, full management fees are decomposed by country in Chart 8 and similarly for crew management fees in Chart 9. Unlike the other types of services, **Chart 8** shows that only 14% of the revenues come from Germany in this case. Russia contributes 32% (the leading country), Malta 11% and the Marshall Islands 10%.

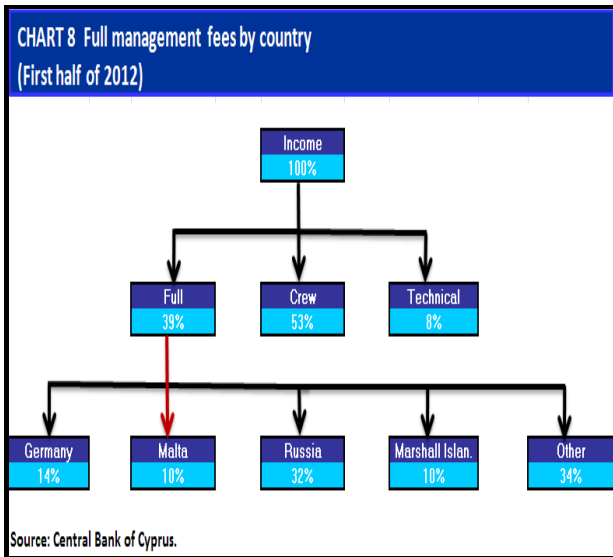
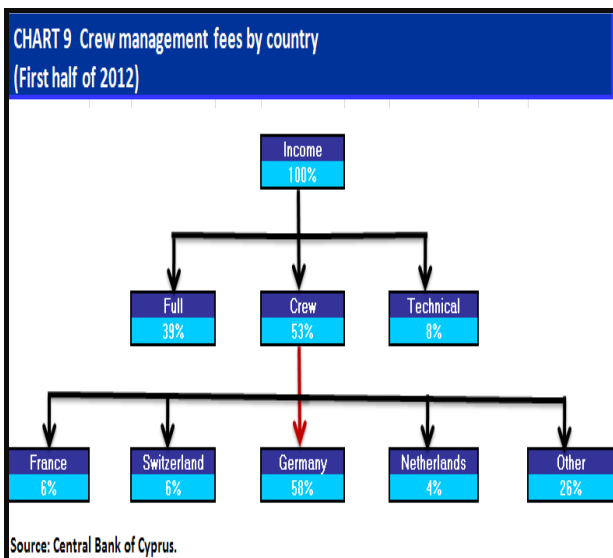


Chart 9 concentrates on crew management fees. During the first half of 2012 the majority of revenues came from Germany (58%) and the rest of the revenues were accounted for by many countries with relatively small contributions.

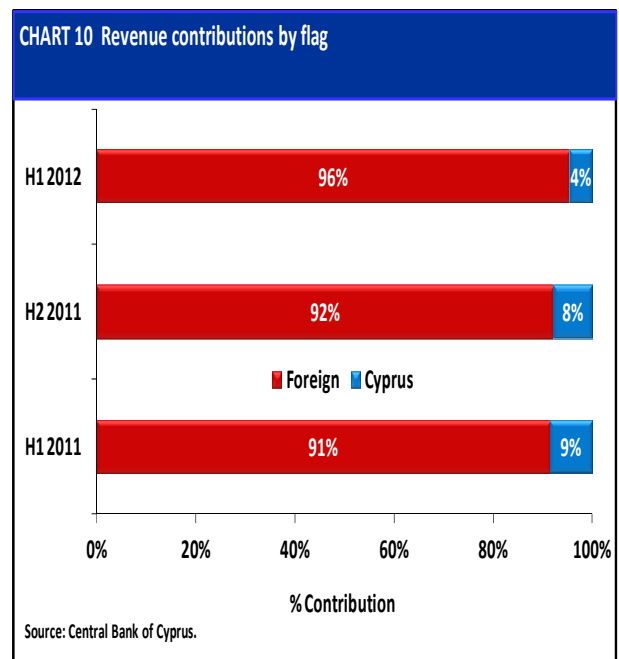


3. COUNTRY PORTFOLIOS

Most of the ship management services are provided to ships carrying foreign flags. Similarly with previous years Germany remains the most important export destination for ship management

services which, however, does not exhibit any further growth. In the future, the provision of ship management services can possibly extend to more countries. Client portfolio size is positively related with market share performance. Market share increases considerably when more than 40 ship owning companies are included in a company's client portfolio.

Chart 10 provides yet another decomposition of the revenues, this time by flag registration of the ships under management. It can be observed that the great majority of ships carry foreign flags. Further, the percentage of ships serviced and carrying the Cyprus flag has declined during the last six-monthly periods. Only 4% of the revenues came from ships carrying the Cyprus flag during the first half of 2012.



Revenues from ships under the Cyprus flag can potentially increase in the future given the size and importance of Cyprus's shipping registry. It is also expected that ship registrations will increase further, following the recent policy changes in taxation and flag benefits adopted by the government of Cyprus.

Chart 11 shows the market share per country of beneficial ship owner for the periods Jan-June 2012 and July-December 2011. German ship owners are the main source of revenues with a 63% share in the first half of 2012. A similar percentage share was also observed during the first half of 2011 (65%). Other countries in the ranking (albeit with significantly smaller shares) include the Netherlands, Curacao and Singapore.

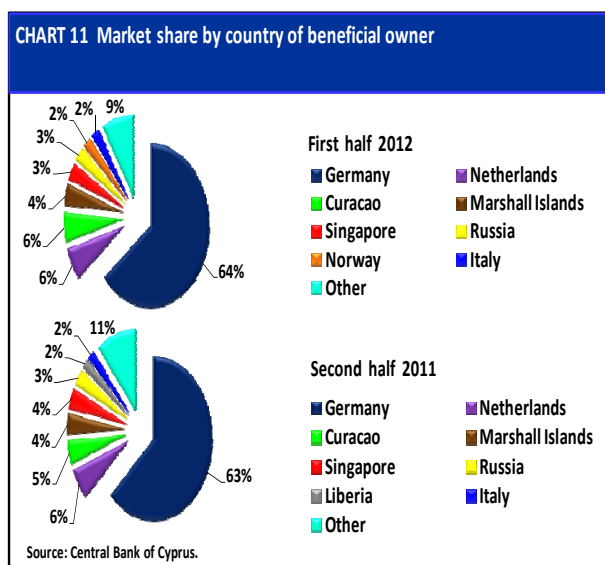
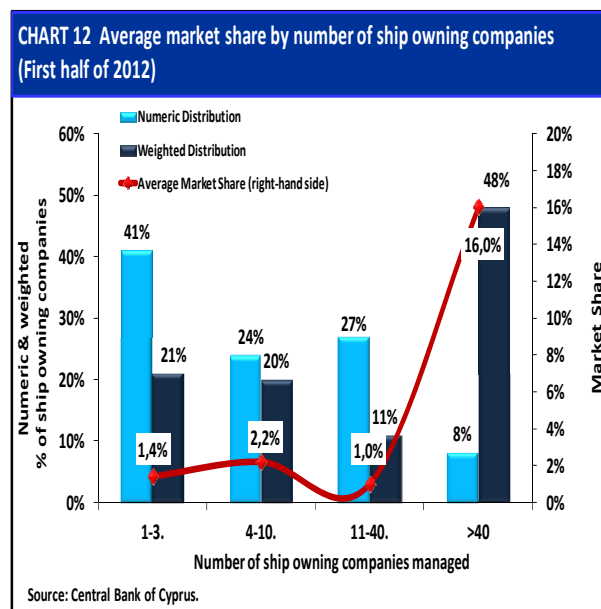


Chart 12 provides insights into the client portfolios of the companies and establishes a relationship between size (number of clients managed) and market share. The horizontal axis is segmented into four different size ranges (groups) in increasing order. The first group includes ship management companies that managed between 1 and 3 ship owning clients during the first 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

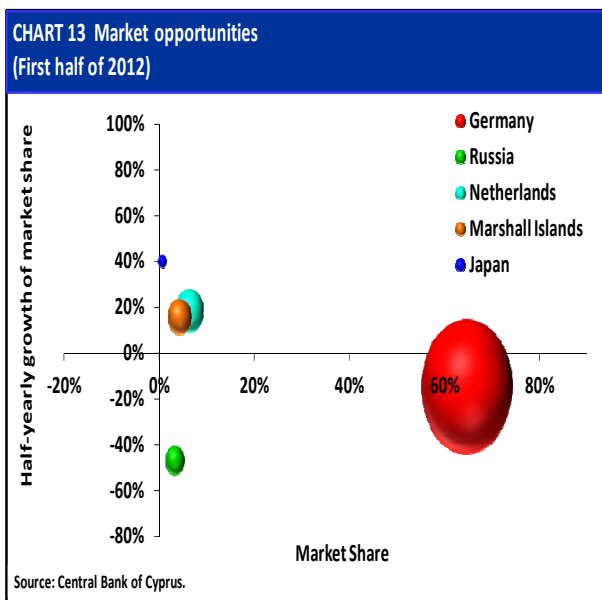
each group of companies. The right-hand vertical axis measures the average market share in each group. The results suggest that the companies in the first group accounted for 41% of the total population of ship management companies and generated 21% of the industry's revenues. The average company market share in this group was 1,4%. Similarly, the companies in the second group accounted for 24% of the population of ship management companies, generated 20% of the industry's revenues and scored an average share of 2,2%.



Evidently, most of the companies managed less than 10 ships during the first half of 2012, while strong market share performance is achieved with the handling of more than 40 ship owners. Only 8% of the companies handled more than 40 clients during the first half of 2012 and shared 48% of the industry's revenues. The average share in this group was 16%, which suggests that strong market share performance is associated with significantly large portfolios of clients. It can also be observed that in the last group (more than 40 ships managed) weighted distribution (48%) is significantly higher

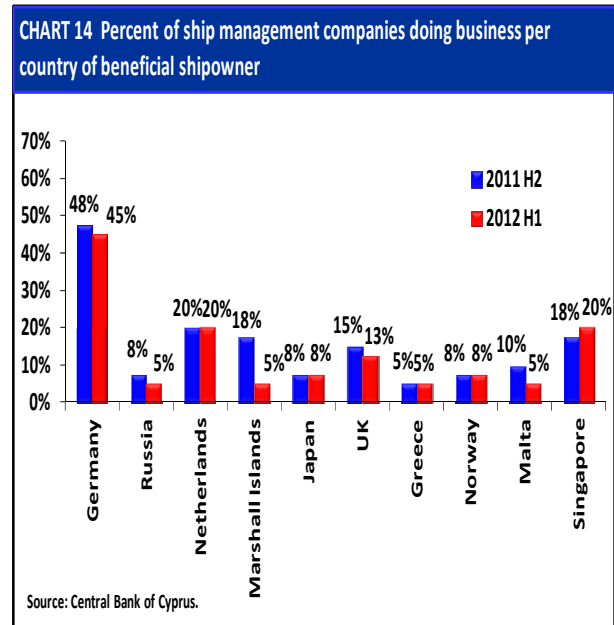
than the respective numeric distribution (8%). This suggests that a small number of companies receive a relatively high share of the industry’s revenues. As a result, there is considerable industry concentration, as was demonstrated in Section 1.

The relationship between market share and its growth differs by country, and is shown in **Chart 13**. The horizontal axis measures each country’s share in revenues, for the six-monthly period January-June 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 remains the most important market accounting for 60% of the revenues. Nevertheless, its share has remained stable during the period under examination. The Netherlands, the Marshall Islands and Japan exhibited the highest growth in revenues during the same period, while there was a drop in Russia’s share of revenues. In general though, the market shares of these countries remain small when compared with Germany.

Chart 14 provides useful information regarding the competitive presence in each country, by listing the percentage of companies registered in Cyprus that offered services in each country during the first half of 2012.



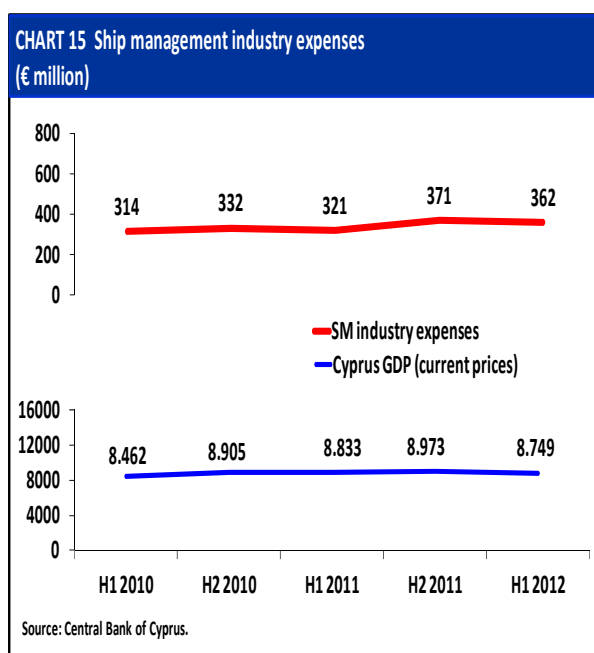
In line with previous results, this analysis shows that most companies offered ship management services to German ship-owners, indicating strong competition for the handling of German ship owning companies. Specifically, 48% of the companies offered their services in Germany during the first half of 2012. Competitive presence is not high in the other countries since percentage participation does not exit the 20% level in any of the countries. For example, in Russia services were offered by only 8% of these ship management companies, in the Netherlands the respective figure was 20% and in the Marshall Islands 18%.

4. SHIP MANAGEMENT EXPENSES

The aggregated level of expenses in the industry declined by 2% during the first half of 2012 closing at €362 million. Similarly with previous periods,

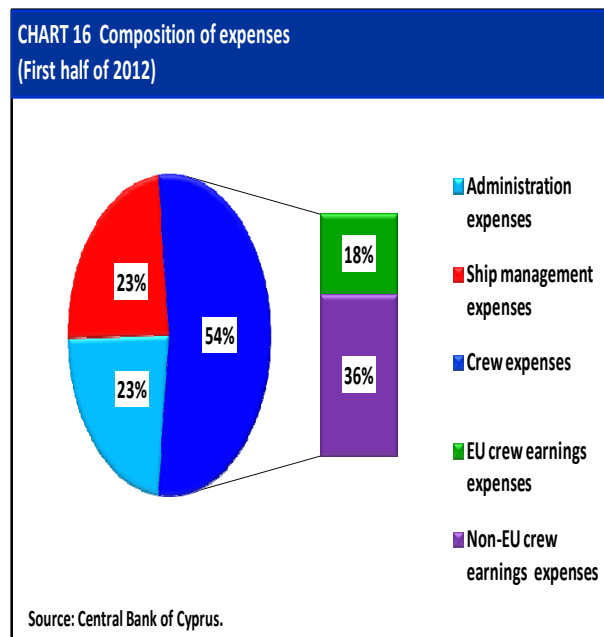
most of the expenses concern crew earnings and were paid to staff from the Philippines (30%), Poland (17%) and Ukraine (15%). A tighter budget policy is also observed in advertising expenses which have declined for second consecutive period.

The total amount of expenses paid by the ship management companies decreased during the first half of 2012, from €371 million to €362 million, nevertheless they remain higher than the amounts paid in 2010 and in 2011 (Chart 15). It is worth noting that these figures do not include the expenses paid in Cyprus and are compatible with the revenues reported in Chart 1, whereby amounts received from companies based in Cyprus are excluded.



The industry’s expenses are decomposed in Chart 16. The majority of the expenses concerned crew earnings with a 54% total contribution. Of these, 36% were paid to non-EU citizens and 18% to EU citizens. The rest of the industry’s expenses were directed to ship management (23%) and administration expenses (23%). The large share

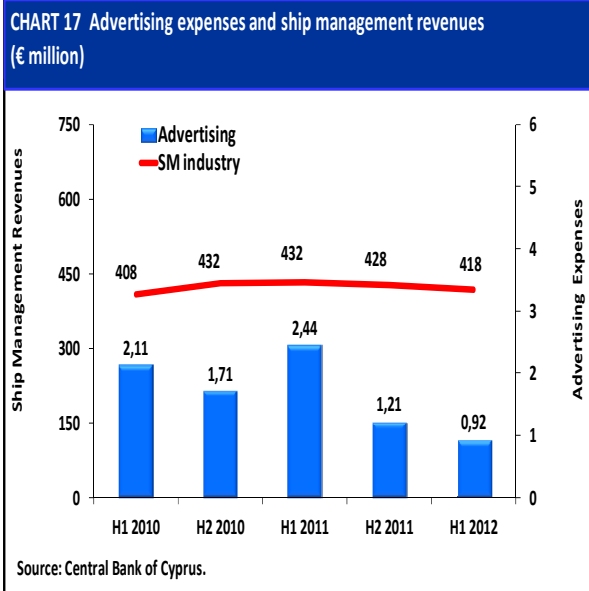
attributed to crew expenses further highlights the industry’s specialisation in the provision of crew and full² management services, as well as, the presence of some key large companies with relevant specialisation.



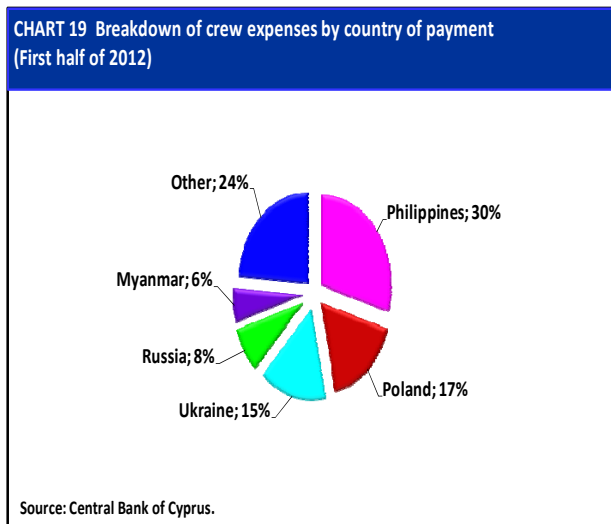
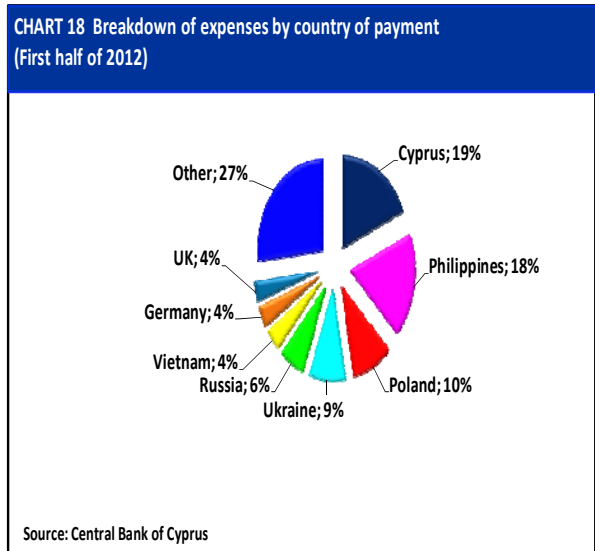
Aggregated advertising expenses decreased further during the first half of 2012 to €0,92 million, down from the €1,21 million recorded for the second half of 2012 and the €2,44 million recorded during the first half of 2011. This decline can be attributed to budget cuts imposed on advertising expenses by the companies as a result of the financial crisis. 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 relation between advertising expenses and revenues, mainly because advertising spending remains low relative to the size of revenues in the industry. As already mentioned in previous editions of this report, it is also important to analyse other forms of promotional and advertising activities that

² Crew management is included in full management contracts.

might be unique to the industry and are usually undertaken through organised bodies (e.g. the Cyprus Shipping Chamber), networking, trade shows and lobbying.



In **Chart 18** the expenses are decomposed by country of payment. This is an important distinction in the compilation of the balance of payments and the international investment position of the country. The chart shows the main countries to which most payment flows were directed during the first half of 2012 and their percentages in total expenses. Most of the expenses were accounted for by Cyprus (19%). Second were the Philippines (18%) and as can be seen from **Chart 19** (which concentrates only on crew expenses), payments to this country concerned predominantly crew expenses. Apart from the Philippines, high percentages of crew expenses were also directed to Poland and Ukraine.



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.