



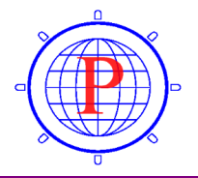
IIR LONDON

**SHIPPING FINANCE CONFERENCE, 25th-
26th September 2001**

**‘The Outlook For the Small and Medium Sized Owner In The
Consolidating Global Industry’**

Mr. TED PETROPOULOS, MANAGING DIRECTOR

PETROFIN S.A.



The Shipping Industry is one of the most fragmented in the world

- **Considerable consolidation forces are at work**
- **Significant consolidation is already taking place among companies controlling the movement of cargoes**
- **The shipowning industry too is beginning to respond to the consolidation challenge**



The Shipping Industry is one of the most fragmented in the world

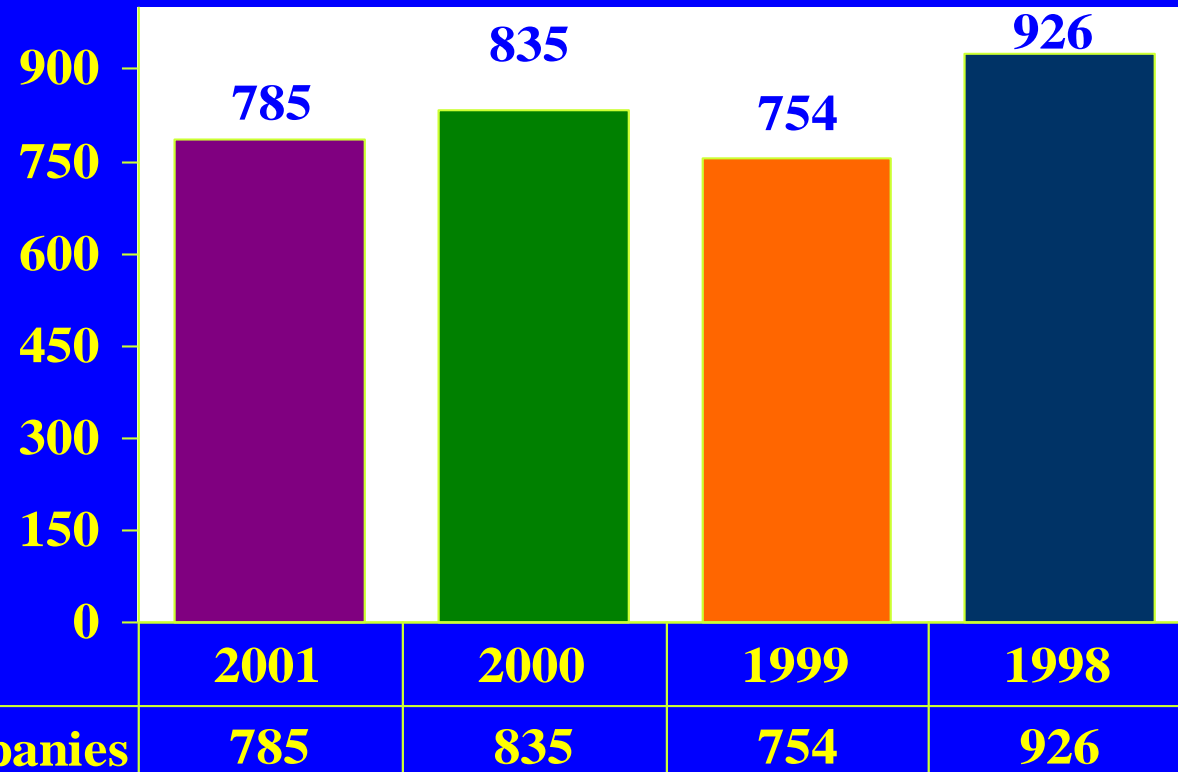
- It is estimated that there are today just under 9,000 shipmanagement entities of which most are single shipowning / management companies
- In Greece alone, according to the latest published *Petrofin Research*©, there were 785 shipping entities controlling a fleet of just under 4,000 ocean going vessels.
- The trend over the last 3 years has been one of *Consolidation*



Number of Greek Shipping Companies in operation Comparison between 2001, 2000, 1999 and 1998

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18.57% LESS companies in 1999
10.74% MORE companies in 2000
5.98% LESS companies in 2001



| | | | | |
|---------------------|-----|-----|-----|-----|
| Number of Companies | 785 | 835 | 754 | 926 |
|---------------------|-----|-----|-----|-----|



A Brief Review of the factors behind the Consolidation Process

Investment

Financial

Capital

Operating savings

Opportunistic

Market

Regulatory

Chartering

Organizational

Crewing

Insurance

Dynamic



Compensating Strengths of a small owner

- **Flexibility**
- **Quick decisions**
- **Commitment**
- **Short communications**



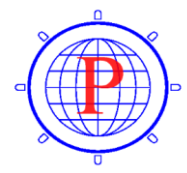
The Strategic Dilemmas

- **Remain Independent**
- **Dispose tonnage**
- **Merger**
- **Associate**



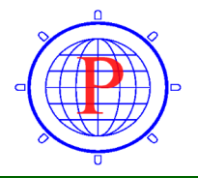
Difficulties associated with mergers and acquisitions

- **Character differences among principals**
- **Differences in management styles, systems and procedures**
- **Differences in strategic and tactical goals**
- **Personnel related problems; dismissals, clashes, prejudices**
- **Syndrome of Conqueror/Vanquished**



cont. Difficulties associated with mergers and acquisitions

- **Loss of freedom and flexibility**
- **Reduced commitment – growing indifference**
- **Slower decisions; investment, financial, operating**
- **Problems with succession, nepotism**



Difficulties associated with associations

- **Historically involve only employment pools and not owning / operating pools and / or associations**
- **Loose structures tend to be ineffective**
- **Lack of long term commitment by participants weakens effectiveness**
- **Savings / Benefits: rather inconclusive**
- **Limited success thus far**



Is there a better model for the small owner?

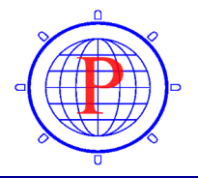
The short answer is ***YES***



Introducing the Petrofin concept / model

The aims of the concept / model are to:

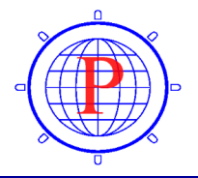
- **Develop the benefit of economies of scale usually obtained in mergers and strong associations**
- **Maintain the positive elements of individuality, flexibility and commitment that characterize smaller owners**



Introducing the Petrofin concept / model

The aims of the concept / model are to:

- **Reduce friction and areas of potential conflict**
- **Provide a long term framework for development and exploitation of market opportunities, and**
- **Render the small owner more financeable and increase his investment returns through better investment decisions, upgraded management, enhanced income and reduced costs.**



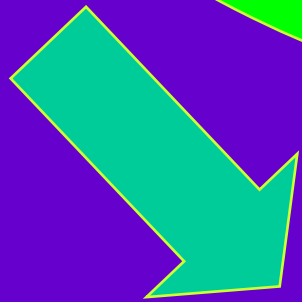
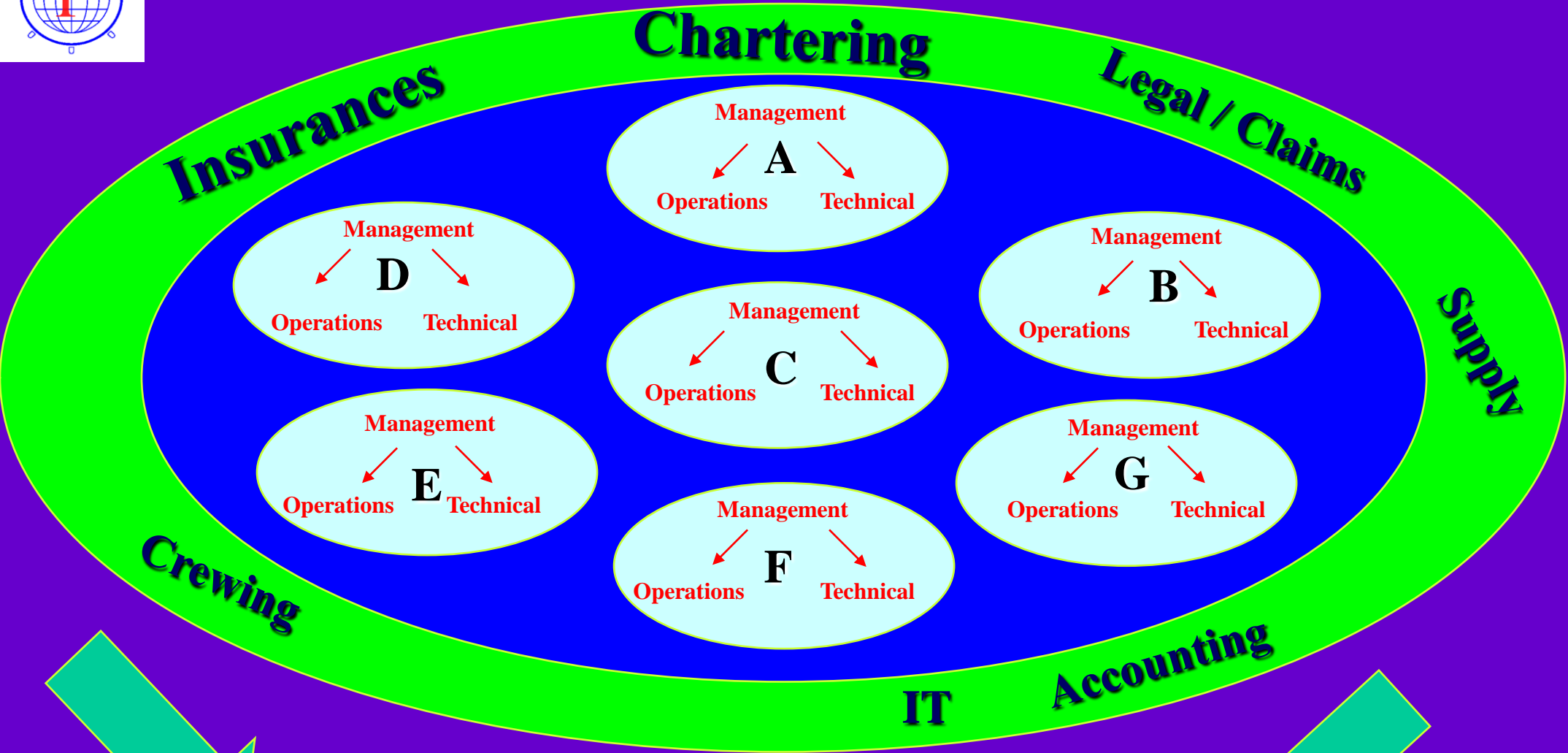
Pooling of small owners as an alternative to Consolidation

We believe that the ability of the small owner to manage his fleet will be preserved and enhanced if the following model is applied:

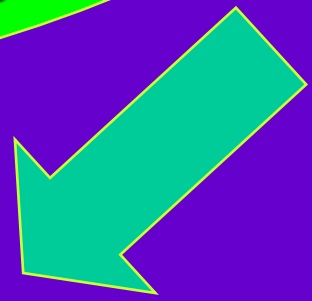
- **Pool together 8-10 small owners owning fleets of, say, 2-3 vessels each**
- **Shared ownership of Management company BUT individual shipowning interests remain intact**
- **These owners can finally take advantage of economies of scale, AS WELL AS improve their image to shipfinance banks**



PETROFIN POOLING MODEL FOR SMALL OWNERS



Financial Planning
Economies of Scale
Quality Upgrading



Financeability for
fleet renewal /
survival



Pooling of small owners as an alternative to Consolidation

- **The Pool retains individual Management decisions, Operations and Technical activities**
- **A strong PERIPHERAL set of services by well established professional departments is provided for the benefit of all pool members in the areas of: Accounting, Crewing, Insurances, Chartering, Legal / Claims, IT, Financial Planning, and Supply.**
- **These peripheral departments are owned by the pool, have strong managements, charge pool members at rates that are competitive and cover their breakeven costs and are staffed by professionals hired for each function.**



Accounting

- **One Accountant with 2 assistants will keep individual segregated fleet accounts and produce results to an internationally accepted standard.**
- **There is no access to accounting information across members.**
- **The cost of this is substantially lower when 8-10 fleets are treated as a 'package'.**
- **Financial management reports can be produced quickly and used effectively.**



Chartering

- **The Pool would employ an established professional Chartering manager and a small support team.**
- **The Chartering department would have centralized knowledge and skills, the ability to attract chartering professionals, a stronger market presence, enhanced negotiating position with Charterers and the ability to enter into contracts of affreightment and / or direct business with end users.**



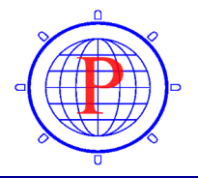
Insurances

- **This is an area where substantial cost benefits can be gained.**
- **Insuring a Pool of over 20 vessels is a much less costly affair than insuring individual 2-3 vessel fleets**
- **The ‘fleet policy’ can be more effectively negotiated every year**
- **The department would be able to attract and supply the cost of an insurance manager with long experience and ability to assist in all insurance related matters.**
- **The pool may develop its own captive insurance company (self-insured) and reinsurance cover that may reduce overall costs.**



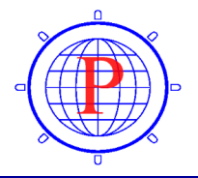
Crewing

- **An in-house Crewing specialist department offers substantial benefits in:**
 - **Crew identification and quality**
 - **Training**
 - **Homogeneity of fleets' crews**
 - **Ability to offer careers to officers and long-term assured employment**
 - **Benefits in establishing own local crewing network (if desired)**
 - **Benefits of scale**
 - **Reduced costs**



Supply, Legal / Claims, IT

- **Substantial gains in all the above areas**
- **Supplies can be negotiated on a bulk basis, supplier contacts and discounts can be enhanced, warehouses can be kept in key ports of the world for inventories / reconditioned parts**
- **Legal / Claims; Benefits can be obtained from using specialist staff to handle these claims for all members**
- **IT; Benefits of standardization and knowledge, ability to develop cost effective and efficient IT systems for all members**
- **Ability to resolve problems with in-house expertise**



OVERALL BENEFITS

- **Exploitation of some economies of scale**
- **Quality upgrading of departments**
- **Better financial planning**
- **Enhanced financeability for fleet renewal / survival**
- **Improved status with banks, suppliers, investors, etc.**
- **Better investment returns**
- **Pool costs kept to a minimum**
- **Independence – commitment – flexibility preserved**
- **Enhanced investment and financial opportunities**