

Market Commentary

November 10, 2010

Greece's Shipping Sector: Overview and Outlook

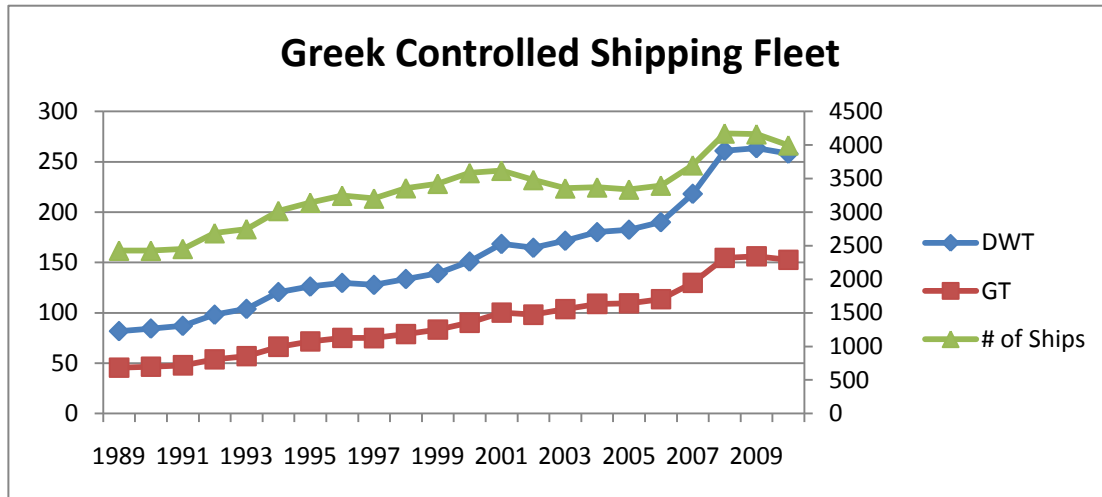
Overview

- **Greece is a maritime nation by tradition and is one of the world's largest shipping powers.** Greek shipping is one of the healthiest and most dynamic sectors of the Greek economy representing approximately 8% of the country's GDP. Given the importance of the sector to the economy, Greece is one of the few nations in the world - and the only country in the European Union - which operates an independent Ministry for handling matters of maritime transportation and merchant marine.
- **Maritime transportation is quite significant for the European Union, as exports transported by sea account for 90% of its external trade and 41% of its internal trade.** Greece is a major international shipping point, and its control of 40% of the European Union vessels, position the country as a key contributor for international trade flows inside and outside of the European Union. Furthermore, across the global landscape, Greek interests control approximately 8% of the world vessels in service (and on order) and 14.9% of the world fleet's dead weight. More specifically, its contribution is most considerable in the four types of ships carrying the majority of the world's cargo for: crude oil, gas and chemicals, bulk cargo, aircraft parts and ore.
- **Financing for this vital sector, as well as asset values, were adversely impacted by the financial crisis and the contraction of the domestic economy.** Illustrating the importance of the sector to Greece's economy, total commitments from the domestic and international banking community amounted to \$67 billion at year-end 2009, and these commitments have been growing during 2010, with a positive outlook for 2011 and beyond based on a gradually improving domestic and global economy.

Macros

According to industry sources, Greek ship owners control the world's largest merchant fleet both for passenger and cargo trade. According to the latest statistical data of the Lloyd's Register of Shipping (Fairplay), there are 3,996 vessels controlled under Greek interests for the various weight categories. These vessels include 258,121,898 in total Dead Weight Tonnage ("DWT") and 152,616,046 in total Gross Tonnage ("GT"), including 826 new vessels being built for an additional 40,975,985 GT.

After several years of steady state increase both in terms of vessels, dead weight tonnage and gross tonnage, the last two years have shown decreases and, more specifically when compared to 2009, there has been a decrease of 165 vessels, translating to 543,885 in DWT and 359,857 in GT. These statistics demonstrate a fairly sizable decrease, although not as much as had been feared, given the weak domestic and international economic environments.

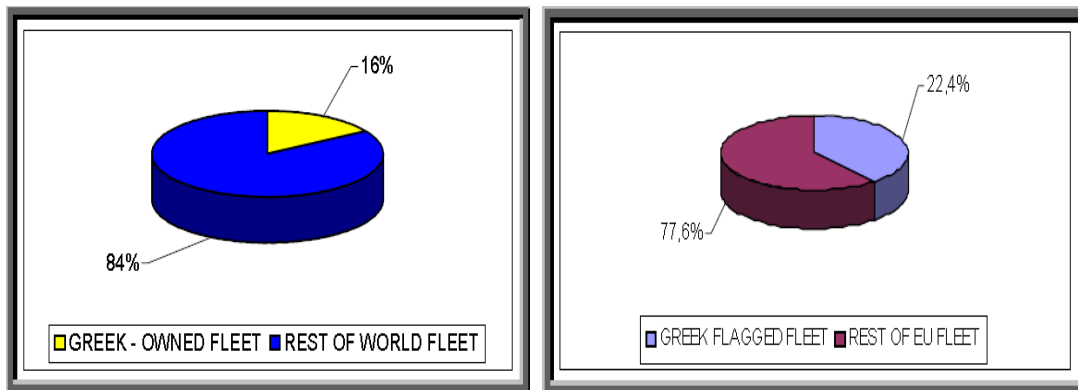


Source: Greek Shipping Cooperation Committee; data by the Lloyd's Register of Shipping - Fairplay

As far as the quality of the Greek registry is concerned, it should also be stressed that, according to the Paris MOU classification* under the international league table of all maritime states, the Greek flag is in the White Zone: i.e., the highest quality. Equally impressive is the steady gradual renewal of the Greek merchant fleet which has been observed over the course of many years.

Through an aggressive new building program, Greek ship owners have added new ships to their collective fleet making significant strides over the past ten years both in terms of size and fleet age. As a result, they now control 25% of the dry bulk capacity and oil tanker vessels across the world and have also managed to modernize their fleets making them progressively younger. The average fleet age reached 11.9 years in 2009, versus 12.5 years in 2008, while there is also an overall tendency to continue to build larger - but fewer - vessels driving the average age further down.

*The Paris Memorandum of Understanding on Port State Control categorizes nations in Black/Grey/White with the White Zone being of the highest quality.



Source: Greek Ministry of Shipping

As Greece's owned and/or flagged fleet is in the top ranks within the world and the EU, Greece's interest in providing international shipping services is probably more important than any other International Maritime Organization (IMO) member - and this fact established Greece's unquestionable right to be included among the 10 countries in the IMO's Council Members. As a result, Greece has for decades been elected as a core member of the Council. Since 2004, and for the current four year term, the IMO has a Greek Secretary General who was a former Captain of the Hellenic Coast Guard. It should be noted that the IMO is the only international organization to be headed by a Greek national.

Contribution to the Local Economy

The shipping industry is one of the most vital branches of the national economy. It provides employment for more than 20,000 Greek seafarers, representing approximately 3% of the Greek labor force - while also providing subsistence to 5% of the Greek population. Moreover, Greek shipping renders the supply for various ancillary services, such as agencies, suppliers, banking, shipbuilding, and ship repairing.

The above shipping related activities provide employment for a further 1.5% of the country's labor force and thereby support an additional 3% of the population. The ratio of seafarers and people involved in shipping (4.5 % of the country's total population) is relatively high when compared to other countries. This ratio is one of the highest in the world; an additional testimony to Greece's strategic national interest in supporting the shipping sector.

Moreover, domestic shipping for Greece is a key transportation medium not only within the Greek mainland and its islands, but also for connecting Greece to countries along the sea fronts in the Adriatic, Mediterranean and Black Sea. In 2009 Greek shipping transported over 44 million passengers in its geographic territory of which the majority (42 million) pertained to in-country movements, particularly for access to the islands from the mainland. Additionally, it facilitated the movement of over 102 million units of goods within and outside of Greek borders, actively contributing the country's importing and exporting activities.

2009 Greek Shipping Transports					
<i>(in 000)</i>					
Passengers & Goods	Q1	Q2	Q3	Q4	Total
Total Passengers	<u>6394</u>	<u>11894</u>	<u>19132</u>	<u>7453</u>	<u>44873</u>
Passengers Within Borders	6140	11416	17927	7121	42604
Passengers Outside Borders	254	478	1205	332	2269
Total Goods (units)	<u>25947</u>	<u>26256</u>	<u>26465</u>	<u>23995</u>	<u>102662</u>
Goods Within Borders	6993	8741	9756	7030	32520
Goods Outside Borders	18954	17515	16709	16965	70143
Imports	11823	11575	11548	11768	46714
Exports	7131	5940	5161	5197	23429

Source: Greek Statistical Administration

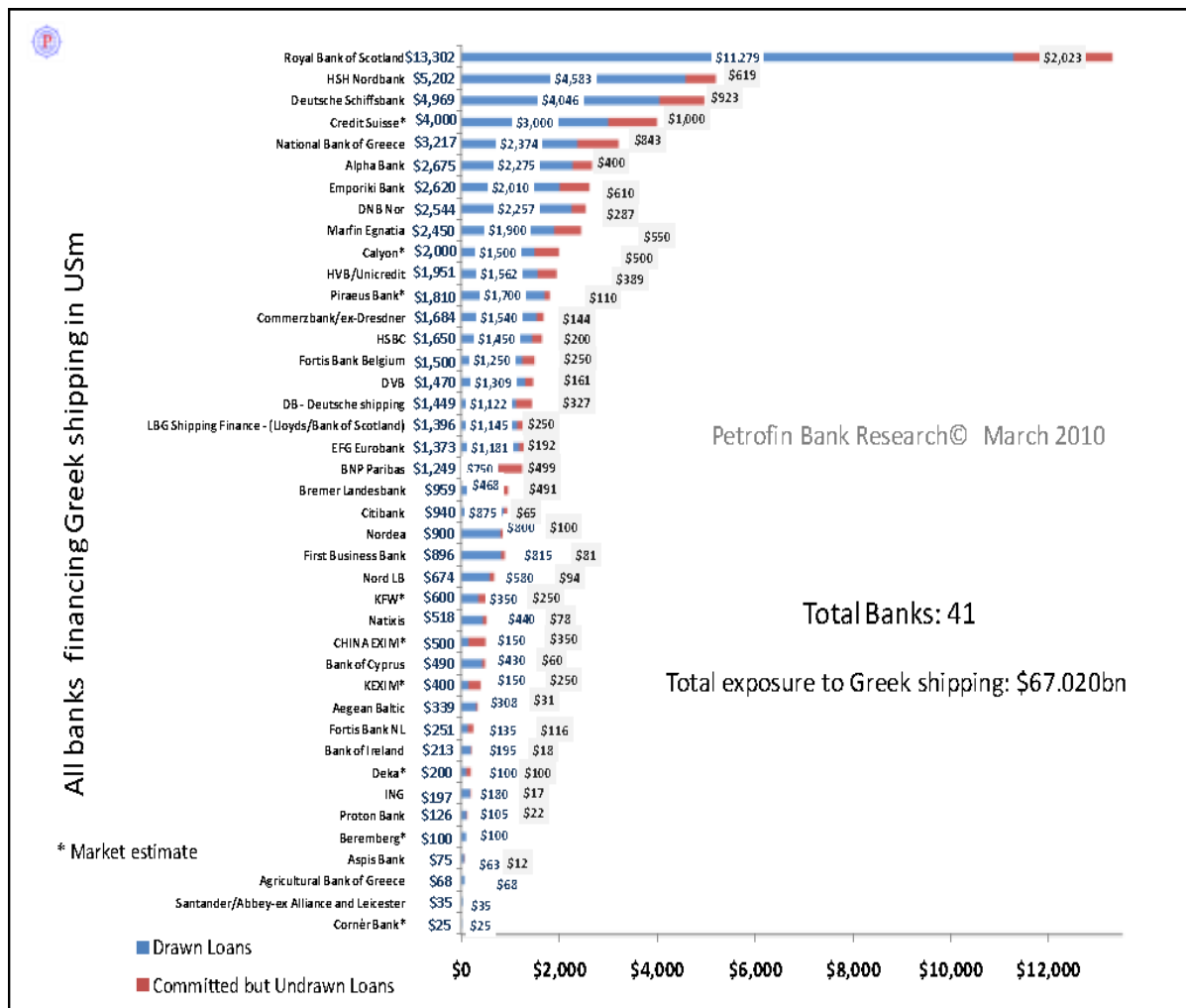
Greek Shipping Finance

Following steady year over year increases, growth in shipping finance has somewhat declined, reflecting the national and international economic downturn. Total loans (drawn and committed), booked both in Greece and worldwide, for the end of year 2009 was \$67.0 billion; a decline of 8.5% from 2008's \$73.3 billion for the first time in 9 years. This brings Greek ship finance total back to 2007 levels, which were \$66.9 billion.

	December 2001	December 2002	December 2003	December 2004	December 2005	December 2006	December 2007	December 2008	December 2009
Growth percentage		28.66%	20.19%	26.61%	11.62%	28.45%	44.31%	9.39%	-8.478
Total Greek Shipping Portfolio	\$16,525m	\$21,261m	\$25,554m	32,353m	\$36,112m	\$46,387m	\$66,941m	\$73,228m	\$67,020m

Source: Petrofin Bank

Royal Bank of Scotland (RBS) continues to be by far the leader in Greek shipping finance with \$11 billion in drawn loans and another \$2 billion in committed - but undrawn - loans totaling over \$13 billion – a substantial commitment for any single financial institution. RBS, HSH Nordbank, Deutsche Schiffsbank, Credit Suisse and National Bank of Greece (“NBG”) account for over \$30 billion (or 45%) of the total exposure, with NBG marginally leading the Greek banks. In terms of top 10 banks, their combined market share is approximately 65% of banking commitments to the shipping sector and in addition to the aforementioned banks these also include: Alpha Bank, Emporiki Bank, DNB Nor, Marfin Egnatia and Calyon. Hence, the top ten dominate the market.



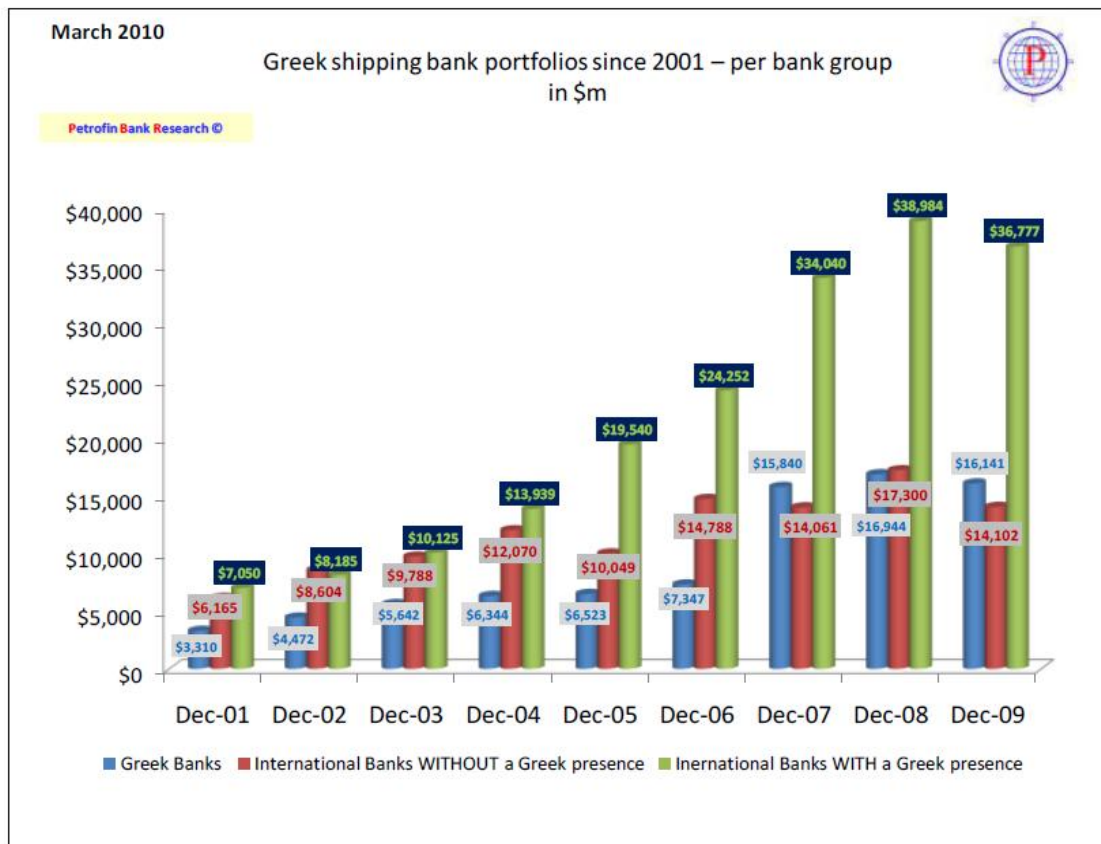
Source: Petrofin Bank

Distribution of Outstanding Loans by Greek and Non-Greek banks

Due to the size of the Greek shipping industry and its significant financing needs, banks engaging in Greek ship financing come from a number of different countries, with European banks, so far, being the key contributors. Although European banks continue to account for the vast majority of total loans, in 2009-2010 there are market reports of two new banks from the Far East being involved in Greek ship finance (KEXIM and CHINA Import and Export). This is another example of a Far East player movement (as with COSCO: the Chinese investor and seaport managing company, which has taken over the interests and management from the Greek government for Greece's largest container terminal in the Port of Piraeus) demonstrating the interest of foreign direct investment into Greece's large shipping industry.

Government controlled privatizations in port activities and terminals, present large scale opportunities for foreign direct investment in Greece's shipping sector. As with the Piraeus Port deal, another recent deal between Thessaloniki port and Hutchinson did not materialize and the Greek government is currently considering alternative options for the privatization of the Thessaloniki container terminal.

It is estimated that government owned privatization and further port expansion amounts to an overall €6 billion). Moreover, other significant opportunities are expected to emerge in the face of these privatizations, mostly in the area of services, such as: shipping agents, transportation, tax and financial advisors, law firms, etc... Furthermore, the need in uplifting the port profiles via the offering of more consumer-centric services can present significant new real estate development opportunities as well as other consumer services in the adjacent communities. Following the two ports of Piraeus and Thessaloniki, the next wave of 10 regional Greek ports will be tendered under phase two of the government's privatization process.



Source: Petrofin Bank

Ship financing by Greek banks has remained fairly flat for the past few years, due to a combination of lower sector demand and Greek ship owner preference with foreign banks due to ticket size satisfaction and more attractive loan terms. Given the current recession and due to the lack of trust in the Greek economy, Greek banks do not have access to inter-bank funding (as in the past), sizable deposit bases have been exiting the country and the only source for funding has been with the European Central Bank. This basically translates to limited and expensive funding from the attraction of deposits. Hence, Greek banks face difficulties in the issuance of large ticket / low margin loans, as is the case with shipping loans. This situation gives rise to search for alternative financing means, particularly by investors who wish to invest in the Greek shipping sector, especially when new ship buildings start to go on the rise again. These current needs seem to be satisfied by Chinese banks as indicated earlier.

Conclusion

The Greek shipping industry is unquestionably one of the largest and most significant in the world, representing 22.4% of EU gross tonnage for vessels under EU flag and holding 16% of the world's total tonnage. Apart from its size, it is also a key component for the Greek economy as it employs almost 5% of the Greek population, not considering the benefits that it also provides to a number of ancillary services that are connected to it.

The decreased financing needs in 2009 demonstrated that this year was a catalyst for the shipping industry as the sector declared a slow down due to the cancellation of new ship building - especially considering that almost 85% of financing relates to committed - but undrawn - loans for newly built ships. Given the crisis in international liquidity, global banking problems, loss of consumer confidence, the significant downturn of international trade and the decreasing value of vessels and freights, the effects on Greek ship finance have been modest as there have not been any mergers, acquisitions, bankruptcy filings, or substantial lay-offs. It is said that this year was a year of adaptation by both owners and banks, with both trading carefully as to find a way to ride out the storm and deal with lower cash flows and vessel value problems.

Despite the above challenges faced by the industry last year, 2010 has shown some signs of recovery as the rate of decline of Greek ship finance has slowed down. There is increasing evidence that some fresh lending has begun and a few banks have expanded their budgets. Moreover, it is anticipated that a greater presence by Far East banks and other smaller banks seeking to take advantage of attractive 'bankers terms'.

For 2011 and beyond, the expectation is for a slow recovery in the sector, fueled by foreign investors from the Far East, Middle East and elsewhere who are seeking to capitalize on market opportunities arising from the weak economy, the Greek government's foreign direct investment incentives, and general government reform providing grounds for increased competition.

Sources:

- Greek Ministry of Shipping; Petrofin Bank; Greek Statistical Administration; Greek Shipping Cooperation Committee Lloyd's Register of Shipping – Fairplay.

The information contained in this report is not a recommendation or offer to invest and solely represents the author's opinion. This report can be reprinted with implicit permission as long as it is accompanied with credit. © Nova Capital Partners, LLC.