Eurofin
Lateral Thinking

NEWSLETTER

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Greece

EUROFIN GROUP

The purpose of this newsletter is to provide an up-to-date summary of current developments in both the private and public sectors in Greece and highlight areas of potential interest for prospective investors all over the world.

The Eurofin Group is an investment banking boutique established in 1984. With offices in London, Athens and Singapore, Eurofin offers advisory services and assistance to companies and individuals conducting business or considering investments in a number of different industries and countries.

Although the main focus of the Group is in the shipping industry, over the years Eurofin has also been active in other sectors such as Energy, Telecoms and Tourism among others.

Having established our Athens office in 1989, we have kept a close watch on the developments in Greece, especially in the past few years as the country has been in the forefront of global news due to all the wrong reasons.

NATIONAL ECONOMY NEWS AND TRENDS

- The Greek government decided to utilize a rarely used stratagem to postpone the repayment of €300 million to the IMF falling due on 5th June by declaring that all payments falling due in June, totalling €1.6 billion, will be lumped together and paid at the end of the month. Although technically not a default, as this move is allowed by the existing IMF documentation, this action was last used by Zambia, in the 1980's. This brings to the fore the question of whether a default will actually be declared due to lack of funds or the refusal of Syriza (especially its left wing section) to make any repayments until an agreement with the creditors is reached, or a combination thereof. This is a high risk strategy, of who will blink first, creditors or Greece with possibly a doubtful and certainly harmful outcome.
- Greece's economy went back into recession in the first quarter as a standoff with its international creditors renewed doubts about its place in the Euro area. Gross domestic product contracted 0.2% in the three months through March after shrinking 0.4% in the previous period, according to the European Union's statistics office. The median estimate in a Bloomberg survey was for a 0.5% drop.
- The net revenues of the budget are marginally within target, largely thanks to the inclusion of €555 million from bank bailout fund HFSF and not the collection of taxes. The revenues have deteriorated further in April, both in terms of direct and indirect tax collection, with value-added tax takings at a record low.

- The central government cash balance posted a deficit of €1.49 billion in the first four months of the year against a deficit of €1.27 billion in the same period last year, according to data released by the Bank of Greece, as both revenues and expenditure recorded a decline from the year before.
- The government is planning to offer a cash return incentive for Greeks who as of July 1 use debit or credit cards on certain islands for purchases above a threshold of €50 or €70. The measure is expected to be implemented on a pilot basis on 22 Greek islands where some 50,000 Points of Sale card terminals will cover virtually all enterprises.
- Greek consumer prices fell by 2.1% y-o-y in April, with the annual pace of deflation unchanged from the previous month, according to country's statistics service data. Greece's EU-harmonized deflation rate slowed, showing a prices' decrease by 1.8% in April from a 1.9% decline in March.
- The Labour Ministry and the salaried workers' supplementary pension fund (ETEA) are seeking solutions to find ways to cover pensions due in June for over 1 million recipients, after the revelation – and urgent withdrawal – of a proposal to liquidate bonds at a 25% loss to cover the fund's €100 million deficit.
- According to the European Commission's "Spring Report" the Greek GDP is seen growing by just 0.5% in 2015 and 2.9% in 2016 vs. the "Winter Report" forecasts of 2.5% and 3.6% respectively. The government expects a 1.4% growth rate for this year.
- The IMF is working with authorities in south-eastern Europe to prepare for the event of a Greek default, Jorg Decressin, Deputy Director of the Fund's Europe department, has told The Wall Street Journal, as several Greek lenders are active in Bulgaria, Romania, Albania and Serbia.
- The number of registered unemployed at the Greek Manpower Organization (OAED) posted a small annual decline of 1,171 workers in March, bringing the total to 1,057,050 people. In February it had come to 1,061,221.
- Greece has gathered €600 million ($673.56 million) of local government and other public entity funds as a result of a recent legislative act to help it deal with a cash crunch, according to the government's spokesman.
- State revenue losses from owners of expensive vehicles who have not paid their road tax come to an estimated €95 million per year. Many cars with engines of 2 litres or more have been taken off the road and their plates submitted to the authorities to avoid having to pay the tax, while a number of such vehicles have been sold and exported to other countries.
- The government is planning to issue a special card to 150,000 citizens through National Bank of Greece which they will be able to use to purchase food as part of a new program to help the poor designed by the Labour Ministry.
- More than 800,000 people have claimed a pension from the Social Security Foundation (IKA) in the last six years, peaking in 2010 with 167,665 workers filing for retirement.
- Most top credit rating agencies say they would not cut Greece's rating to default if it misses a payment to the International Monetary Fund or European Central Bank, a stance that could keep vital ECB funding flowing into the financial system.
- As uncertainty about Greece's future in the Eurozone grows, the first official documents making reference to "payments in Euros or any national Greek currency at the time" have made an appearance, at the Municipal Port Fund of Rethymno, Crete. This provision is seen in at least two tenders announced by the Cretan city's port fund in February and March in relation to the financial obligations of contractors who win concession rights from the fund for the next five years.

FINANCIAL MARKETS NEWS

- Figures from the European Central Bank showed more than €5 billion ($5.5 billion) were withdrawn in April. That leaves household deposits at the end of the month at €139.4 billion ($151.9 billion), down from €145 billion in March and €164.3 billion in November 2014. The figure is the lowest since November 2004, when deposits stood at €137.2 billion.
- Credit expansion remained in negative territory last month as it contracted by 2.4% in April, according to data released by the Bank of Greece. In March the decline had come to 2.5% y-o-y.
- Greek banks are facing the spectre of nonperforming loans climbing to €100 billion – or 45% of all loans issued – in the coming months owing to the seemingly endless uncertainty in the local

economy. Bank officials say that at the end of the first quarter of the year more than one in three loans (35%) was in the red, its repayment having been delayed by at least 90 days, amounting to a total of €75 billion, having a direct impact on banks' liquidity and fundamentals.

- The European Commission's Directorate-General for Competition is to ask Greek banks to revise their restructuring plans in light of the rapid deterioration of financial conditions in the country.
- Eurobank reported a drop in its first-quarter losses to €94 million – against losses of €524 million in October-December – and a 7.2% quarterly increase in profits before provisions. The fourth-biggest lender in Greece said that its deposits had declined a remarkable €5.9 billion to €34.9 billion as a result of the outflow recorded mainly in the first couple of months of the year. Provisions in the first quarter amounted to €303 million, with accumulated provisions covering 55.6% of nonperforming loans.
- Turkey's Finansbank, owned by National Bank of Greece, said that its net profit in the first quarter more than doubled to 283 million lira ($106.83 million). The bank's net profit in the same period of 2014 was at 129 million liras, it said in a stock exchange filing.
- Listed company Hellenic Exchanges announced that its first-quarter net profit amounted to €4.1 million against €4.8 million a year earlier. Turnover dropped to €10.1 million from €10.3 million in 2014, and its net profit per share came to €0.05 down from €0.08 per share last year.
- Moody's rating agency downgraded Greece's government bond rating to Caa2 from Caa1, with a negative outlook. The key reasons for doing so are the "high uncertainty over whether Greece's government will reach an agreement with official creditors in time to meet upcoming repayments on marketable debt" and the "significant implementation risks of a follow-up, medium-term financing program even if an agreement is reached, given the weakened economy and a fragile domestic political environment."
- Piraeus Group announced the sale of 98.5% of its Egyptian subsidiary, Piraeus Bank Egypt, to Al Ahli Bank of Kuwait (ABK) for $150 million. The statement noted that the price agreed amounts to 1.5 times the Egyptian lender's equities.

BUSINESS NEWS

- Over 140 weekly flights on new routes, an additional 189 flights on existing routes and 10 new destinations make up the picture at Athens International Airport this summer. Last year's increasing arrivals flow has continued in the first few months of 2015, with flights expected to post a 16% increase this summer. The growth rate in arrivals reached 20% in the first quarter of the year at the country's biggest terminal.
- An agreement has been reached for Selonda Fish Farming to absorb Dias Aquaculture, with the former acquiring the latter's assets while Dias's obligations will be covered by banks, according to the agreement signed recently. Selonda will therefore obtain some additional installations that will allow it to increase its fish output to 35,000 tons per annum, while Dias will avoid a complete downgrading of their production activities by contributing instead toward the creation of the biggest enterprise in Greek and Mediterranean fish farming.
- Car registrations grew 47.2% in April totalling 11,611 vehicles (new or used ones), up from 7,888 in the same month last year (an increase in passenger cars was 52.8%), according to Hellenic Statistical Authority data. Motorcycle registrations totalled 3,567 in April, up 25.2% from the same month last year, while in the four-month period from January to April, motorcycle registrations totalled 9,688, up 13.6% from the corresponding period last year. However, different proposed scenarios of changes to value-added tax rates have paralyzed the car market during the last month. Expectations for a rate cut from 23 to 18%, and the government's intention to revise incentives for vehicle withdrawals have resulted in a 30% drop in sales and orders since early May.
- The Finance Ministry has announced plans to change the way that cars are taxed in Greece. According to the ministry's statement, vehicles will be taxed according to their retail price rather than engine size, as is currently the case. The government also plans to introduce a pollution tax for older and less environmentally friendly vehicles.
- Drinks bottler Coca-Cola HBC AG said first-quarter sales volumes rose by 7.2%, helped by four extra selling days versus last year, the earlier timing of the Easter holiday and a good performance in Nigeria, Poland, Romania, Hungary and the Czech Republic. Chief Executive Dimitris Lois said it was a "solid quarter," after plans to stabilize volumes in Europe and to mitigate the adverse impact of currencies in some emerging markets proved effective.

- From the start of the recession in 2008 up to 2014 more than 200,000 small and medium-sized enterprises are estimated to have shut down, which means that a quarter of this sector has been wiped out, according to commerce register figures.
- The dominant feature of the Greek business sector in recent months has been stagnation, even in cases classified as entrepreneurship of necessity. The trend that started in fall 2014 strengthened in the first quarter of 2015, resulting in a 21.8% y-o-y drop in the creation of new enterprises in January-March, according to the General Commercial Register.
- Exports excluding fuel products recorded an impressive performance in March thanks to the major drop in the Euro's exchange rates. They registered the biggest growth of the last 27 months with their value amounting to €1.633 billion, which was 20.7% above the figure for March 2014, according to the Hellenic Statistical Authority.
- Greek businesses will have to write off non-performing debts adding up to 10.4% of their annual turnover as they can no longer expect to collect them. This is the highest rate in the European Union, according to the "European Payment Report 2015" drafted by the Swedish collection firm Intrum Justitia.
- Bonds of Frigoglass SAIC surged to an eight- month high after the Greek refrigeration supplier said it will sell its glass unit to pay down debt and focus on its core cooling business. The company's €250 million ($279 million) 8.25% notes due May 2018 rose 4.9 cents on the euro to 100.7 cents, according to data compiled by Bloomberg.
- Greeks placed €5.9 billion worth of debts on games of chance in 2014, showing a rise of 9% compared to the year before, based on data published by the Gaming Commission (EEEP). 2014 was the first year that the Greek gaming industry saw a rebound since 2009.
- Greek betting firm OPAP reported an 18% rise in its first-quarter net profit, helped by the launch of new games and cost controls.
- Greek-owned United Caribbean Lines Florida has secured one of the first few licenses for the operation of coastal shipping services between the US and Cuba from the US Department of the Treasury, after about half a century without a service.
- Greek industrial output rose for the second month in a row in March, increasing by 5.0% compared to the same month a year earlier after a 1.9% rise in February, according to the national statistics service data. Manufacturing production rose 8.2% from the same month a year earlier, while mining output declined by 12.3% and electricity production increased by 1.7%.
- Greece's biggest toy retailer Jumbo posted a 7% rise in profit for the nine-month period ending in March and reaffirmed its forecast for a 4-6% rise in full-year sales despite tough conditions in Greece. Despite a six-year recession in Greece, Jumbo has fared well, helped by its expansion into foreign markets.
- The Greek economy could enjoy additional revenues of €250 million per year from olive oil exports if the commodity were utilized appropriately (i.e. not exported in bulk) and standardized in Greece with its own distinctive identity, according to a report by the National Bank of Greece.
- Supermarket chain Sklavenitis announced that it is in the process of absorbing the Greek retail network of rival chain Veropoulos, to be completed by the end of the year. The merger of the two networks will create a national champion in the retail commerce and cash & carry sectors, with a possible annual turnover of €2 billion and a network of 342 branches across the country.
- The favourable shift in the exchange rate of the Euro against the US Dollar has led to the creation of two categories among Greek listed companies, as those who export their products to Dollar markets have seen their cash reserves soar. On the other side, the majority of listed firms are struggling to survive in the Greek economy while all sectors are shrinking due to the state having halted payments to the private economy.

Real Estate

- The Hellenic Statistical Authority announced that building activity (measured by the number of new building permits issued) increased by 10.2% y-o-y. Furthermore, building activity and the corresponding volume retreated 14.1% and 1.8% respectively over the trailing 12 months.
- China Pacific Construction Group (CPCG), China's largest private builder by revenue, is in talks for contracts in European countries such as Greece, Bulgaria and Albania, according to the company founder Yan Jiehe.
- Demand in the local housing market has dropped to almost zero and many Greeks are avoiding property purchases due to the high taxation involved, according to a survey carried out by the University of Macedonia for Skai TV. A remarkable 37% of citizens responded that they would

not buy a residence even if they had the money for it, against just 29% who said that if they had the money they would make a purchase now that the market is full of bargains.

- This illustrates the difficulty that the market is having in absorbing the supply of unsold residential properties, estimated to range between 200,000 and 250,000 units around the country. This is said to include 50,000-60,000 holiday homes and 80,000-90,000 newly built properties. The rest are used houses whose owners in most cases cannot pay the taxes their ownership entails.

Tourism

- TEMES SA has put in the finishing touches on its plan for new investments at its Costa Navarino resort in the south-western Peloponnese. The program provides for two new hotels, a 36-hole golf course and luxury tourism accommodation. The investments are set to exceed €240 million, while also generating an estimated 900 jobs.
- The German-Greek Business Association (DHW) expressed worries over reported planned tax hikes by the SYRIZA led-government, especially after recent statistics pointing to a 25% decline in tourism bookings from Germany.
- Greece's hotel sector is presently witnessing plenty of action in terms of new acquisitions and the opening of luxury units, with the involvement of domestic firms as well as companies from the US, Russia, Germany and Cyprus. These actions include the completion of the buyout of a hotel at Nea Potidea in Halkidiki, central Macedonia, by Russian entrepreneurs and the acquisition of a hotel unit by a Greek firm at Iraklio on Crete. Furthermore, a company controlled by a US-Greek investment fund opened a new hotel in Halkidiki, while a Cypriot enterprise has in recent days started operating a new hotel unit on Rhodes that has been leased on a long-term basis by a German tour operator.
- After the drachma clauses seen in tourism contracts, foreign tour operators are now forcing hoteliers in Greece to sign contracts with a Greek default clause. Foreign organizers of international conferences have been introducing default clauses to contracts forcing the non-payment of compensation in case the country defaults and they decide to cancel their events. Furthermore, there are some operators who are going as far as to demand that contracts for next year also contain clauses regarding a possible VAT hike, insisting on any additional taxes being covered by the hotels.
- Santorini and Myconos are home to the most expensive hotel properties in Greece, followed by Corfu, Paros, Hania and Rhodes. However, there is an oversupply of hotel units for sale as, despite the significant rebound in tourism last year, many entrepreneurs remain in a very difficult financial situation and are trying to find buyers, according to a survey by chartered surveyors Geoaxis.
- Guests and staff at the Pentelikon Hotel in northern Athens were informed that it was closing down due to financial problems. Visitors were advised to find alternative accommodation, while employees were told they would not be needed after the noon of the closing day.
- The cruise tourism sector contributes almost €2 billion to Greece's gross domestic product every year, according to the chairman of CLIA Europe and executive president of MSC Cruises, Pierfrancesco Vago.
- Data released by tourism professional association SETE show the effect of ongoing uncertainty has become apparent in arrival figures at the country's top tourism destinations. Despite the increases experienced for the Athens airport, figures show that in April there was a y-o-y drop in arrivals of 26.9% at the airport in Kos, 22.1% in Cephalonia, 7.4% in Iraklio on Crete, and 31.1% in Myconos.

Energy

- The only foreign investor in the Greek electricity market is said to be pondering the option of withdrawing. Italy's Edison, controlled by Electricite de France, closely watches the developments in the liberalization of the power sector for signs of what course the government intends to pursue. Although it is eager to increase its involvement, Edison officials say that the company will not tolerate constant losses.
- Russian President Vladimir Putin told Greek Prime Minister Alexis Tsipras by phone that Russia was willing to provide financing to Greek companies involved in a planned extension to the Turkish Stream gas pipeline project. Russia's Gazprom plans to supply up to 63 billion cubic metres (bcm) of gas per year via Turkish Stream and create a gas hub on the Turkish border with Greece, through which it wants to transit 47 bcm annually into countries in Southern

Europe.

- The partial rather than complete lifting of distortions in the electricity market has worked in favour of imports and has not produced an increase in lignite use, as expected, the official data of the Public Power Corporation and the Hellenic Electricity Market Operator (LAGIE) showed for 2014 and the first quarter of 2015. This has left some multimillion-euro investments inactive and undermines the long-term security of the country's electricity system.

Investments

- Several foreign investors have pulled out of the Greek stock market, with net outflows since the start of the year being estimated at €500 million. In March alone, the departure of stock investors translated into the flight of €169.31 million, following the loss of €162.17 million in February.

Technology - Communications

- Delivery Hero, in which German e-commerce investor Rocket Internet holds a 39% stake, has acquired Greece's top takeaway delivery company, e-Food, Rocket said, without giving financial details.
- Forthnet SA, Greece's largest pay-TV provider, is speeding up talks with creditors on refinancing, its chief executive officer said. The company, which is the subject of two separate bids from Deutsche Telekom AG and Vodafone Group Plc, is considering issuing a €100 million ($113 million) convertible bond.
- Moody's downgraded the credit rating of OTE telecom to B3 from Ba3, with a negative outlook. OTE posted a 27.6% drop in first quarter net profit, hurt by stricter tax treatment.
- OTE telecom is said to be in talks regarding the acquisition of Albanian telecommunications firm Albtelecom, having had a presence in the neighbouring country since 2000 through the AMC cell phone company.
- Online media publishers have written to the government to ask it to abandon the idea of introducing a 20% tax on advertisements placed on news websites.

TENDERS - PROCUREMENTS

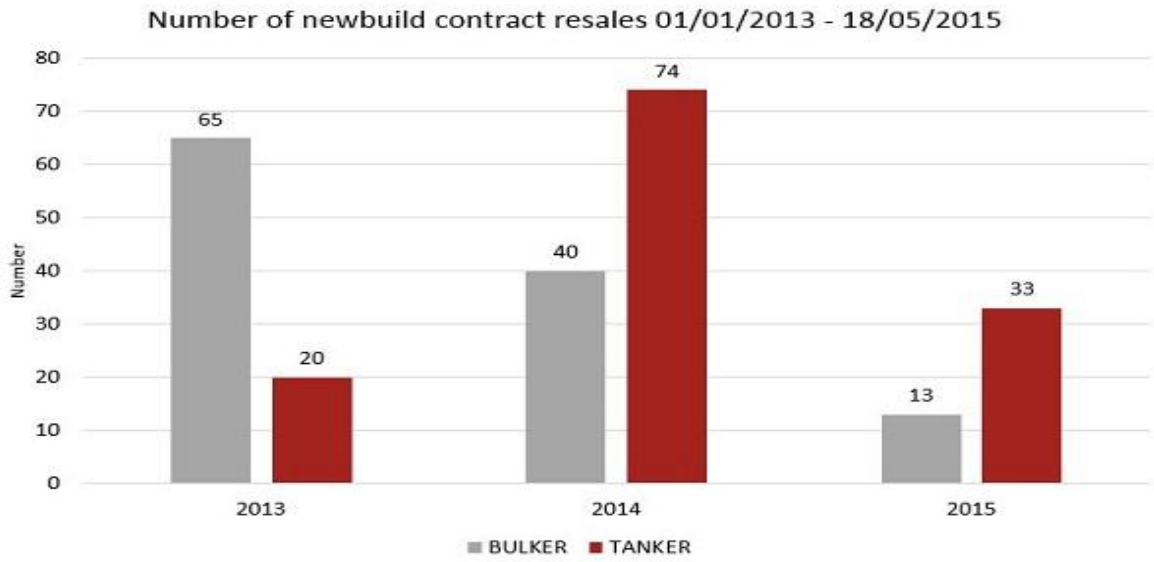
- Greece is trying to change the conditions of a deal to lease 14 regional airports to a joint venture led by German airport operator Fraport, a source familiar with the matter told Reuters. The deal, worth €1.2 billion ($1.3 billion), was agreed in 2014 but has been hit by turmoil caused by the election of the new government in January. The Greek government now wants a stake in the consortium, which also includes Greek energy firm Copelouzos, and wants to cut the number of airports in the deal to seven.
- Greece has asked three firms to submit binding bids by September for a majority stake in the country's biggest port of Piraeus, a senior privatization official told Reuters recently, unblocking a major asset sale. Greece had shortlisted China's COSCO Group and four other groups for a 67% stake in Piraeus Port last year but the sale was halted after the new government came to power this year. The new terms provide for the preferred bidder to get 51% of the company, expanding to 67% if they implement investments of €350 million in the first four years.
- The tender process for the Thriasio freight centre is about to restart, with candidate investors set to receive the terms so that there may be tangible progress by end-June. If everything goes according to the plan of GAIAOSE, the Hellenic Railways' subsidiary which utilizes the group's properties, there will be a two-month period for the submission of binding offers and a total of 140 days for the preferred bidder to be selected and the transaction to be completed.

GREEK CONTROLLED SHIPPING MARKET DEVELOPMENTS

During May the dry bulk shipping market remained subdued with Freight rates in all main sectors barely covering operating expenses. On 29th May the Average Daily Time Charter Equivalent (TCE) rate stood at

$6,510 for Capesize, at $6,330 for Panamax and $5,635 for Supramax Dry bulk vessels respectively. On that date, the Baltic Dry Index (BDI) closed at 589 points (down by 37% from May 2014, when it was 934 points). In the wet sector, May ended with euphoria for tanker owners as Freight rates were rather strong in all sub-sectors; on 29th May the daily TCE rate for VLCCs stood at $56,306, for Suezmaxes at $49,560, for Aframaxes at $41,973 and MR Product Tankers at $22,384. Meanwhile, LNG spot rates remain weak and during the last week of May they stood at $33,000/day; down by 54% from $72,000/day at beginning 2015. The LPG market remains rather healthy with the spot market showing signs of continuous upward trend; on 29th May the VLGC (82,000 m³) and the Handy (22,500 m³) sectors recorded daily TCE of $66,000 and $28,768 respectively. During May, the container sector continued its upward trend with all sub-sectors generating daily TCE in excess of the $10,000 threshold; daily rates for Handy (1,700 TEU) stood at $11,000, for Sub-Panamax (2,750 TEU) at $13,250 and Panamax (4,400 TEU) at 15,350.

On the Sale & Purchase market, during May, as a result of the poor Dry Bulk shipping market conditions, there was increased scrapping of older Dry Bulk tonnage. On the other hand, as per VesselsValue.com graph below, the strong earnings environment and the positive sentiment in the Tanker shipping sector elevated buyers interest and we witnessed during the month an increased buying activity for Tanker resales. Data taken from Vessels Value in the following graph shows the number of bulker and tanker newbuilding contract resales from 01/01/2013 – 18/05/2015.



On the ship-financing side, during May 2015, Greek shipowners were relatively active, successfully tapping a number of different forms of finance and in particular the US Capital markets:

- NYSE-listed Tsakos Energy Navigation- TEN (N. Tsakos) raised US$85m through its public offering of 8.75% Series D Cumulative Redeemable Perpetual Preferred Shares, sold at US$25 per share.

- Diana Shipping (S. Palios) raised US$55m in a public offering of unsecured notes due to mature May 15, 2020. The Notes carry interest of 8.5% p.a. The company said it intends to use the proceeds for general corporate purposes and working capital, which may include the acquisition of additional new or secondhand vessels or the construction of newbuildings.

- Nasdaq-listed Star Bulk Carriers completed an equity follow-on public offering raising US$180m, selling 56.25m shares at a price of US$3.20 each. The move, which gives Oaktree Capital Management and Star's CEO Petros Pappas, larger holdings in the company, is an exercise aimed at strengthening its balance sheet in a difficult market.

- NYSE-listed container ship owner Costamare (C. Constantakopoulos) is seeking to raise US$111m in an equity offering, selling 4m preferred shares. According to Costamare the offering of "Series D Cumulative Perpetual Preferred Stock", has an 8.75% payout, priced at US$25 a share. The company's plan is to use the funds for general corporate purposes, including making vessel acquisitions or investments.

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