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Lateral Thinking

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IN THIS ISSUE

EUROFIN GROUP

This Newsletter is the official newsletter published by Eurofin Group on a monthly basis. The purpose of the Newsletter is to provide an up-to-date summary and insight on current developments in both the private and public sectors in Greece and to highlight potential opportunities. The intended audience of the Newsletter is our clients, prospective investors and market participants all over the world.

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

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

Having established and operated our Athens office for over 25 years, we have been witnessing, monitoring and analyzing the developments in Greece. During the recent years nonetheless, where the country has been in the forefront of global news for all the wrong reasons, we have kept a close watch on these developments, in an effort to share our observations with our audience.

NATIONAL ECONOMY NEWS AND TRENDS

- Greece's economic contraction in the first quarter of the year was bigger than originally thought. Hellenic Statistical Authority (ELSTAT) data showed that gross domestic product fell 1.4% year-on-year, against a previous estimate for 1.3% drop.
- State debts to third parties continued to swell in March, as official figures released by the Finance Ministry showed a €200 million increase in the state's arrears to its suppliers and taxpayers. This also partly explains the significant rise in the primary budget surplus recorded in March.
- The average time it takes for the Greek state to make payments to the private sector has more than doubled from 49 days in 2015 to 115 days this year, according to the European Payment Report 2016 by Intrum Justitia, one of Europe's biggest firms in debt collection and bad-loan management.
- Almost 58,000 Greek enterprises are still awaiting VAT rebates from the State, while the sum that the Greek State has to pay exceeds €1 billion and it is set to rise up to the end of the year's first half. The longest delays have been recorded at the Large Enterprises Monitoring Centre, where the average waiting time amounts to 1,391 days, or just shy of four years.
- Trouble with transactions between enterprises are also continuing to increase, with the report confirming the explosive problem of cash shortfalls in the market, hampering the operation of the business sector and any hopes of recovery. The average time of payment in transactions between enterprises has almost doubled within a year, from 32 days in 2015 to 63 days in 2016, as has the time it takes consumers to pay enterprises, from 21 days to 41.
- With a tentative debate under way on relieving Greece's debt load, Bank of Greece (BoG) Governor Yannis Stournaras called for Greece's primary surplus target for 2018 to be lowered from 3.5% to 2% of GDP, saying such a move could lighten Greek debt significantly.
- Short-dated Greek yields were set on 27/5/2016 for their biggest monthly fall since August after the bailout deal with creditors and hopes that the ECB would resume accepting the country's bonds for its QE program.
- Greece's annual EU-harmonized inflation rate stayed negative in April for the second month in a row after a positive reading in February, according to statistics service data. The reading in April was -0.4%, easing from -0.7% in March, where consumer prices were led lower by housing costs, durable goods, foods and non-alcoholic beverages, apparel and footwear.
- Greece's current account deficit shrank in March from the same month a year earlier, helped by a lower trade gap and a stronger income account surplus, according to the BoG. The data showed the deficit reached €708 million ($793.67 million) from €1.48 billion in March 2015.
- Greek unemployment dipped slightly to 24.2% in February from 24.4% the previous month, according to data published by the European statistical authority, Eurostat.
- Some 95% of the €220 billion disbursed to Greece since the start of the financial crisis as loans from the bailout mechanism have been directed toward saving the European banks. This means that about €210 billion was eventually channeled to the Eurozone credit sector while just 5% ended up in State coffers, according to a study by the European School of Management and Technology (ESMT) in Berlin.
- There are serious concerns about the long-term sustainability of Greek debt, a document prepared by the euro zone's bailout fund ESM showed recently, as finance ministers started a discussion of how to make Greece's debt servicing costs manageable.
- The IMF issued its own Debt Sustainability Analysis (DSA), proposing measures that could reduce the Greek national debt by up to 50% of GDP by 2060, while making it clear that the existing targets of the Greek program cannot be implemented, because according to the IMF Athens will not implement the necessary austerity measures and required reforms.
- As soon as the EU ends its trade embargo with Russia, Greece will seek to obtain a license to manufacture Kalashnikov assault rifles in Patra, Defence Minister Panos Kammenos said recently.

- Moody's stated that it viewed as "credit positive" the decision of the Eurogroup regarding the disbursement of the €10.3 billion bailout tranche to Greece and the agreement on a debt resettlement in the future, but warned of the risks that the implementation of the agreed program runs.
- The full ownership – and not just the management – of State properties, is being transferred to the Public Properties Company (ETAD) and through it to the planned Hellenic Holdings and Property Company (EESP). This concerns the vast majority of the state's real estate assets, most of which were controlled by the Finance Ministry.

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FINANCIAL MARKETS NEWS

- Alpha Bank will form a joint venture with Spain's Aktua to manage a loan portfolio, consisting of mortgages, consumer loans and even some small business loans that have been delayed for at least a year, adding up to €11 billion and find solutions such as debt haircuts or property sales for the borrowers.
- Eurobank and Alpha Bank signed a binding agreement with KKR Credit as part of efforts to deal with an initial €1.2 billion worth of non-performing corporate loans.
- The Black Sea Trade and Development Bank will offer Greek enterprises loans totaling €180 million up to the end of 2018, raising its target share in disbursements for Greece – one of its main stakeholders – to 16.5%.
- Bank deposits (domestic enterprises and households) dropped by 0.2% month on month, a 12.3% drop year-on-year, to €121.5 billion in March according to data released by the BoG. They also dropped for a fourth straight month in April, coming to €121.43 billion, down 0.04% from the previous month, according to the same source.
- A total of €15 billion in loans to major business groups – of which €11 billion are considered nonperforming – should be entered into a special mechanism for their efficient and faster restructuring, the Hellenic Financial Stability Fund (HFSF) recommended recently, just as NPL management in Greece is set to enter a new era from June 16 with the second wave of liberalization for their sale.
- Interest rates for time deposits posted a fresh decline in March, to average at 0.88%, bank data show. The drop in time deposit rates has been systematic in recent months and is attributed to credit institutions' general policy shift toward reducing their cost of money, as well as the declining course of interest rates on a European level.
- The European Bank for Reconstruction and Development expects its first deal to take over bad Greek loans in the coming weeks. Sabina Dziurman, the EBRD's director for Greece and Cyprus, told Reuters the move should set the bank's spending in Greece this year on course to top the €320 million laid out last year.
- The ECB's nascent policy on working off bad bank loans may be extended to smaller lenders not directly supervised by the ECB. The ECB is crafting new guidelines aimed at forcing banks, especially in financially stretched countries such as Italy, Greece and Portugal, to reduce the pile of soured credit sitting on their balance sheet.
- BoG announced that following a request to the ECB, the latter agreed to lower the ELA threshold for Greek banks to €69.1billion from €69.4billion, previously.
- Eurobank turned profitable in the first quarter for the first time since the third quarter of 2011, helped by lower provisions for impaired loans and stronger net interest income.
- Greek banks are aiming to reduce nonperforming exposures (NPEs) from about €110 billion today to €65-70 billion in 2018. This is a very ambitious target which would require a stable economic environment, strong growth rates and a number of reforms in the country's legal and

tax framework for the banks to be able to proceed rapidly and decisively toward debt restructuring, loan sales and bad loan write-offs.

- Piraeus Bank shrank its loss in the first quarter, helped by a sharp drop in provisions for impaired loans. Moreover, it will sell part of its 28% stake in insurer European Reliance to the European Bank for Reconstruction and Development (EBRD).
- The European Investment Fund (EIF) and the Cooperative Bank of Karditsa have signed the first guarantee agreement aimed at supporting micro-enterprises in Greece under the EU Programme for Employment and Social Innovation (EaSI). The guarantee agreement will cover a loan portfolio of €5 million for over 300 micro-borrowers targeting mainly farmers, young unemployed borrowers, cooperatives and social enterprises, as well as micro businesses active in the green economy.

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BUSINESS NEWS

- Passenger traffic from abroad to the Athens International Airport recorded an annual decline in April for the first time in several years, amounting to -0.5%. The 4.3% rise in domestic traffic led overall passenger numbers to an annual increase of 1.2%.
- The Coca-Cola Company is upgrading Athens's role in its system, as its local unit will control activities in 26 countries, including Russia's particularly sizable market. Based on the new structure, to apply as of August 1, the world's biggest non-alcoholic beverage enterprise has announced the new Athens-based Central and Eastern Europe unit will now be responsible for three more markets: Russia, Ukraine and Belarus.
- Andromeda is set to be the first Greek aquaculture company to be sold to an international fund, and it is believed that the local fish farming sector's two biggest players, Selonda and Nireus, may be fated to follow a similar course. Global Finance announced the sale of 90% of its holding in Andromeda to the Amerra Capital Management LLC fund, which is based in New York.
- At a time when the ECB has just started buying corporate bonds, reducing the cost of borrowing for European enterprises, Greek companies can only borrow at very high interest rates owing to the country risk. Consequently, Greek enterprises' foreign rivals can today borrow at rates below 3%, while in Greece the owners of blue chip companies have to pay an average rate of 6-7%.
- Greece slid closer to the bottom of the global competitiveness list in 2015, as it dropped six positions to 56th out of the 61 countries surveyed by the International Institute for Management Development (IMD). The downward spiral of the Greek economy last year, with the imposition of capital controls and the credit crunch, saw confidence in the country as well as its enterprises drop anew.
- Greeks remained very pessimistic in the first quarter of the year, as the reading of the consumer confidence index compiled by Nielsen remained at 53 points, the same as in the three previous quarters. The comparison with a year earlier is staggering as the reading for the quarter that had included the January 2015 elections was 12 points higher.
- The Canadian mining group Eldorado Gold confirmed that it was resuming work at a controversial site in Skouries, Chalkidiki, after the Environment Ministry approved a technical study for the project. In a statement on its website, Eldorado Gold said works at the site were resuming following their suspension in January when the government called for a review of the project.
- The start of the tourism season in April and the fact that the Easter holiday landed at the end of that month appear to have boosted employment in Greece, as the Labour Ministry's Ergani

hirings database recorded an increase of 90,631 salaried jobs over the month, according to the balance between hirings and departures. A year earlier the balance had been positive by 80,223 jobs, with the increase attributed to the 28,697 additional hirings last month compared to April 2015.

- Greek exports ended the first quarter of the year down from the same period in 2015, according to data from ELSTAT and the Panhellenic Exporters Association (PSE). If that trend continues this year it will deprive the economy of one of its few redeeming features.
- Fraport group head Stefan Schulte has pledged investments of over €1 billion and staff hirings at the 14 regional airports whose management has been undertaken by the consortium led by the German firm.
- The Greek government has made another last-minute change to the gaming taxation, replacing the scalable 30-35% GGR (Gross Gaming Revenue) duty (depending on annual GGR generated by operators) with a flat 35% duty across-the-board. The amended provisions create a level playing field in the gaming market with online operators now being liable to the same betting duty as OPAP, while the 35% duty will be applied retroactively from 1st Jan 2016.
- The domains of sales, information technologies and marketing/communications are expected to see the most hirings planned in Greece within 2016, Randstad's annual survey on human resource and salary trends has shown. The survey questioned 340 decision-making officials in various sectors in Greece between November 2015 and February 2016 and showed that over 80% of participating companies were affected by the economic situation in 2015.
- Expanding supermarket chain Metro, which owns MyMarket and recently bought out the Greek network of Veropoulos, intends to invest a total of €100 million in the modernisation of Veropoulos supermarkets up to 2018, according to the company's managing director, Aristotelis Panteliadis.
- More than half of the multinationals active in Greece have introduced complaint hotlines for cases of fraud and corruption, according to a senior Ernst & Young Greece official. The practice has picked up in the last 18 months, having been widely unknown in Greece as recently as three years ago, unlike in other countries, mainly the US, where it is now an established part of the corporate culture.
- Greece's biggest betting firm OPAP was hit by higher taxation and lower revenues in the first quarter, with net profit dropping by 26.3%.
- Greece's Purchasing Managers Index (PMI) showed an improvement in April compared to March, but remained below the 50-point level that marks the limit between recession and expansion, according to data compiled by Markit.
- Greece currently ranks as the EU country with the highest taxation on small and medium-sized enterprises (SMEs), according to a survey by the OECD, which puts it beside Germany at the top spot of its Europe list.
- The concentration of Greek car importers continues, with the signing of a provisional agreement for the acquisition of a majority stake in the P&R Davaris Group, which controls Hyundai Hellas and imports Hyundai and Kia vehicles, by the Vassilakis Group, owner of Autohellas.

Real Estate

- The Greek Competition committee arraigns 60 construction groups for market and price fixing, in the context of its multi-year review of the construction market. The committee has made an extensive survey of all the public construction projects from 1989 to date and has reportedly pinpointed responsibilities even for politicians along with companies.
- The first couple of months of 2016 find residential property sales in even worse shape than last year when one takes into account the flow of funding from banks to the housing market, which fell 4.1% from the same period last year – where the annual decline had come to 1.6%. According to the BoG, local lenders disbursed some €133.3 million for housing purposes in January and February 2016. This is a result of the reduced demand in the market as well as

banks' reluctance to increase loan issues or even to consent to the refinancing of existing loans before the picture regarding house repossessions and nonperforming loans becomes clearer.
- The properties that have seen their value nosedive since the start of the crisis are also those that show the biggest gap between market prices and so-called objective values, i.e. the property rates used for tax purposes. Estate agencies estimate that the total decline in prices for older apartments has been around 50 percent since 2009, without their taxation coefficient reflecting it.

Tourism

- Greece has earned the fourth place in Europe with regard to the quality of its bathing waters for this year, according to data published by the European Environment Agency. The report noted that 97.2% of areas inspected were deemed to be outstanding. The organization also announced that the country was positioned third worldwide in terms of Blue Flag certification, with 430 beaches and 9 marinas for 2016.
- A Cyprus-based budget airline, Cobalt, announced it will launch passenger flights to Greece and Britain from June.
- Online rates for Greek hotels in May are showing a 9.8% increase compared to a year earlier, according to Trivago data, with an average rate of €90 per double room per night. The main reason for this rise is the increase in the VAT imposed on hotel accommodation, from 6.5% last year to 13% this year.
- The Ionian islands are expected to enjoy this year a double-digit percentage rise in tourism arrivals compared to last year, as the region has not been affected by the migration problem that has affected the image of other, mainly Aegean destinations.
- The Athens Ledra, a luxury hotel on Syngrou Avenue, was forced into closure under the burden of its debts to banks and the Social Security Fund (IKA), which are said to top €40 million.
- Travel guide publisher Lonely Planet has released its annual list of top European destinations to visit in 2016, naming the southern Greek region of the Peloponnese as its Number 1 choice.
- Russian tourists in Greece this year will reach the 1 million mark, according to the head of Russia's Federal Agency for Tourism, Oleg Safonov.
- Greece plans to spend almost half a million Euros advertising the country as a tourism destination on Yahoo and the Travel Channel. The cooperation between the Greek National Tourism Organization (GNTO) and Yahoo will include three-month campaigns for the US, with 19.8 million ads and the markets of the UAE, Saudi Arabia, Qatar, Oman and Bahrain, with 50.5 million ads.
- The Wyndham Hotel Group has reportedly signed a deal for the long-term lease of a hotel located on Karaiskaki Square in central Athens, sources said. According to the sources, the US hotel chain aims to operate the establishment by early 2017.

Energy

- Greece's sole oil producer, Energean Oil & Gas, has stepped up daily production by about 30% since early January, as the debt-ridden country seeks to tap into its limited oil reserves.
- Bulgarian state energy holding company BEH and Greek natural gas company Gastrade have set up a joint task force to prepare a proposal to build an off-shore liquefied natural gas (LNG) terminal in northern Greece. Greece currently has one LNG terminal on an islet off Athens and Gastrade, part of Greek energy group Copelouzos, is planning a second LNG terminal near the northern city of Alexandroupoli.
- Greece's dominant power utility Public Power Corporation (DEI) reported a 10% rise in first-quarter core profit, helped by energy savings from declining oil prices and lower provisions for unpaid bills. However, it is under threat from the explosive mix of increasing debts from consumers' unpaid electricity bills and the obligation it has undertaken to reduce its use of lignite in power production.

- Electricite de France’s interest in Public Power Corporation has been revived by new regulations on the electricity market in the bailout agreement, while domestic energy groups are also looking to get in on the game as genuine opportunities for investment and competition appear to be opening up for the first time.

Investments

- Despite the government’s pledges to try to attract investment to kick-start the economy, it has decided to raise the tax on property investment companies (AEEAP) more than sevenfold. The increase in the tax AEEAP firms pay on their assets (properties and cash) will grow from 0.105% to 0.75%.
- Some hedge funds are eyeing investments in Greek stocks and debt, predicting a recovery after seven years of crisis even while politicians continue to wrangle over reforms needed to secure more aid. They say last year’s recapitalization of Greek banks and new bankruptcy rules that should make it easier for lenders to sell their non-performing loans, plus a fall in stock prices to historic lows, create opportunities for risk-taking investors.
- The new investment incentives bill put up for public consultation provides for stricter procedures on the concession of subsidies, as well as new categories of subsidized expenses, such as salary costs. In practice, the new draft law reflects the current facets of the Greek economy: an economy in deep crisis with a banking system that is particularly cautious when it comes to financing and a Public Investments Program that has shrunk substantially.
- Brussels’ decision to tighten the rules on public-private partnerships is raising serious obstacles to the plans of Greece’s Infrastructures Ministry for a new generation of projects through concession contracts. The European Commission’s statistics authority (Eurostat) demands that all member-states retain only a small holding and limited rights in the special purpose companies that manage PPPs; otherwise, the private party’s bank loans and the cost of construction would count toward the national debt.

Technology - Communications

- The telecommunications market has been stunned by the agreement between the government and the country’s creditors about taxing the Internet and pay-TV. Market professionals note that the agreement for a 5% tax on every Internet connection and a 10% levy on every pay-TV subscription will both damage growth and be impossible to implement.
- The Greek information technology and communications market is showing two clear trends, according to the European Commission’s Special Eurobarometer: The recession has led Greeks to slash spending on electronic communications, including cell phones, and the country is stuck in a rut of obsolete technologies.
- Regarding the cuts in expenditure, the Eurobarometer report confirms the major drop in revenues that Greek telecom firms have pointed to, particularly in the mobile phone industry: Last year the share of households using both landlines and cell phones fell by five percentage points, to 72% from 77% in 2014.
- Greece's biggest telecoms operator OTE reported a 16% drop in first-quarter net profit, as bailout measures hit demand for its mobile services, and said it saw more challenges this year.

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TENDERS - PROCUREMENTS

- Greece will conclude the sale of a prime seaside property at Ellinikon in June, boosting proceeds from state sales this year to more than €2 billion, according to the privatization agency chief. Greece clinched the €915 million deal for the sale and long-term lease of Ellinikon property to a consortium led by Lamda Development, with Chinese and Abu Dhabi-based firms, in 2014.
- Greece has extended to June 27 the deadline for bids to build and operate a new airport on the island of Crete, an Infrastructure Ministry official familiar with the matter said recently. The government had initially set a May 6 deadline for submission of binding bids for the build-operate transfer (BOT) project worth an estimated €850 million.
- Railway properties firm Gaiaose is planning to concede three more freight centres via tender procedures in the next 12 months, besides the Thriasio centre, which will see its tender completed by the end of June if the firm's efforts are successful. Gaiaose will then announce a tender for the freight centre at the Gonou military camp in Thessaloniki, likely in the last quarter of the year, while in the first half of 2017 the Alexandroupoli centre will follow. There are also plans for the development of a freight centre at Larissa in central Greece.
- The completion of the transaction for the sale of 67% of Piraeus Port Authority (OLP) to Cosco is still pending due to obstacles and delays, as demonstrated by the interrupted OLP general meeting. The main issue on the agenda of the extraordinary meeting had been the approval of the concession contract between the Athens-listed company and the Chinese firm, but it never got to be discussed.
- Greece will invite investors to submit binding bids for a majority stake in the country's second largest port in Thessaloniki at the end of September. Under its third international bailout agreed in July, Greece will sell a 67% stake in the port.
- The government has decided on a formula for the further privatization of OTE in a way that will preserve the state's rights in Greece's main telecommunications provider. The Finance Ministry has opted to transfer its 5% stake in OTE to state privatization fund TAIPED, with the fund holding on to 1% and the remaining 4% going to the Social Security Foundation (IKA).
- Greece will push back by three weeks a deadline for binding bids to sell its railways operator Trainose after investors asked for more time to prepare, according to a privatization agency official.
- A tender for four national TV broadcasting licenses on Greece's digital network was launched on Friday, May 20th by the government, which aims to wrap up the process before the end of August.

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GREEK CONTROLLED SHIPPING MARKET DEVELOPMENTS

The past month has been a relatively quiet month for Greek shipowners on the 2nd hand S&P market and even more so on the newbuilding side with very few orders being placed. Greek owners are sitting in wait for opportunities, especially in the dry bulk sector where vessel prices are still severely depressed. For example, a Capesize newbuilding if ordered now is about US$43 million depending on the yard, but any Cape with a prompt delivery has a value of close to US$35 million. Secondhand Panamax and Supramax values are faring better, but are still far below what they were a few years ago. Despite a slight recovery in the BDI since its historical low in February, the market sentiment is negative. That being said, Greek owners are probably biding their time for what they consider to be "rock bottom" prior to snapping up cheap vessels.

Offshore and LNG are suffering, with the price per barrel of crude still being below $50. Containers are too many and the big players are ordering more, very large vessels (21,000 Teu). Several asset sizes seem to be replacing slightly smaller vessels and there is uncertainty about what owners will do with their ships. The dry bulk sector, where most traditional small Greek shipowners invest in, is far too oversupplied and without financing to modernise their fleets, there seems to be little light at the end of the tunnel. China, the biggest importer of iron ore and coal seems to buy plenty of the commodities one month and then hold off buying for a few more months. This has prevented a steady increase in bulker rates across all sizes.

Tankers are the only vessels still making a good return after opex and loan repayment. This is less evident in the products sector and more so in the crude sector. However, there seems to be an overall push from several nations, including Iran to curb their production. Production is what drives demand for seagoing transportation rather than demand from the consumer. Therefore, if there is an overall decrease in production, perhaps tanker rates will fall. On the other hand, OPEC nations have been trying to push this for several months without success and if the price of oil increasing, then shale oil once again becomes a threat to OPEC's market share.

On a final note, the first week of June was Posidonia, where the exhibition was very well attended as were the many cocktail parties during the week and in the weeks preceding Posidonia. The overall impression was that it was a bit subdued compared to previous years, but that is to be expected given the current shipping market.

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