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Lateral Thinking

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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 analysing 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

- The first draft of the 2017 budget tabled in Parliament includes new taxes, social security contribution hikes and pension cuts totaling €3.3 billion, of which €2.5 billion comes from taxes. It also includes an optimistic take on next year's growth, projecting it at 2.7% of GDP.
- The Finance Ministry fears that the 2019 target for a primary surplus of 3.5% of GDP will become irrevocable if negotiations on the midterm fiscal plan are not completed by year end. Unless the government votes the new midterm plan for 2017-2020 through Parliament by end of December, the plan to be submitted after January 1st will include binding limits on expenditure, meaning that Athens will be unable to reduce the target as it currently wants to.
- Representatives of Greece's international creditors are pushing for more austerity measures as they have detected a budget gap for next year of between 0.15% and 0.2% of GDP. Foreign auditors believe that the money that the government has budgeted to fund its Social Solidarity Income (SSI) program for Greeks hardest hit by austerity has not been secured, hence the budget gap.
- The Hellenic Statistical Authority (ELSTAT) revised last year's fiscal result down by half a percentage point of GDP, after processing updated figures and the adjustment of the GDP data. According to ELSTAT, the primary surplus recorded in 2015 amounted to just 0.2% of GDP (excluding the extraordinary cost of the banks' recapitalization), against an estimate for 0.7% in April.
- Greece's central government registered a primary budget surplus of €5.4 billion in the nine months to September, beating its target by €3.5 billion, helped by higher tax revenues and restrained spending, according to Finance Ministry data. The central government surplus excludes the budgets of social security organizations and local administration.
- European Stability Mechanism is examining short-term debt relief measures for Greece which, based on Eurogroup May 25, 2016 decisions, could be implemented after the completion of the first review, up to the end of the programme in 2018. Specifically, ESM is examining the extension of the average maturity of European Financial Stability Fund loans to 32.5 years (from 28 years currently) and measures to reduce interest rate risk.
- The disposable income of households shrank 0.7% y-o-y, amounting to €29.7 billion against €29.9 billion in April-June 2015. Notably, households paid 4.7% more for social security contributions this year than in 2015, and consumer spending dropped by 1.1%, from €32.2 billion to €31.8 billion in Q2 this year.
- The State is fast becoming one of the biggest debtors of the new Single Social Security Entity (EFKA), with the fund starting its first year of operation in 2017 with significant arrears. The State, which is the employer of hundreds of thousands of civil servants, has not been paying the entire amount of contributions due, thus depriving the system of revenues coming to at least €1 billion.
- Moody's affirmed Greece's government bond rating at Caa3, while the country's sovereign outlook remained stable. Despite the successful completion of the first review of the country's third bailout, international rating agency Moody's said Greece's continued timely access to official sector funding over the remainder of the bailout program remains uncertain.
- One in three Greeks were at risk of poverty or social exclusion in 2015, just below Romania (37.3%) and Bulgaria (41.3%), according to data released by the EU statistical agency, while Greece also showed the highest increase in the risk rate, which grew from 28.1% in 2008 to 35.7% percent in 2015.
- The debts of the private sector in Greece exceed the country's GDP, reaching c. €200 billion.
- August trading figures released by ELSTAT showed that exports posted a small improvement while the trade deficit expanded further due to imports of oil at higher prices. Still, imports in the first eight months of the year remained stagnant, unlike in previous years.
- Registered unemployment fell by 2.74% in September compared with August, or 24,581 less unemployed people, the Workforce Employment Organisation (OAED) said recently.

- Part-time or shift work has now become the norm in the Greek labour market, accounting for 6 out of every 10 new jobs created last month, according to Labour Ministry figures that reveal unprecedented changes in the features of employment in Greece.

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FINANCIAL MARKETS NEWS

- The Bank of Greece (BoG) submitted a request to the European Commission's Directorate-General for Competition (DGComp) for Attica Bank to draw cash from the Emergency Liquidity Assistance (ELA) mechanism through the issue of Greek State bonds that will be used as collateral. The European Commission has cleared Attica Bank's plan to issue government-guaranteed bonds.
- According to Moody's, Attica Bank's need to tap additional ELA funds is credit negative. As per the rating agency, the recent sharp increase of Attica Bank's ELA contrasts with the ELA decrease that Greece's four larger banks reported in the past few months.
- BoG announced that the ECB kept the ELA ceiling for Greek banks unchanged at €51.8 billion.
- The increase in Greek bank deposits in the period from May to August has exceeded €2.5 billion, with banks expecting greater inflows once the second bailout review is completed.
- However, Greek bank deposits dropped in September after a rise in the previous month, remaining at levels last seen 13 years ago and keeping banks hooked on central bank funding, according to data released by the BoG. Business and household deposits fell by €423 million, or 0.34% m-o-m, to €123.47 billion, their lowest since November 2003.
- Greek banks have resorted to buying back the repossessed houses they auction, in a bid to send a message to strategic debt defaulters, while intending to start taking control of companies that are unable to pay their debts.
- The flight of capital from Greek banks last year appears to have boosted bank deposits in Bulgaria and Romania, as Grexit fears, capital controls, the political uncertainty and the 23-day bank shutdown led many small and medium-sized enterprises to relocate from Greece to the other two Balkan states in the EU. Bank deposits in Bulgaria rose 10% last year while the corresponding figure in Romania was 8%, while Greece saw a 23% slump – greater even than at the beginning of the global crisis in 2008.
- The European Investment Fund (EIF) signed a deal to provide Greece's Eurobank with €230 million of loan guarantees to support SMEs and help the economy.
- Eurobank will start the process for the takeover of six hotel companies with nine units after the end of the tourism season, as collectively they owe €130 million to the lender which are currently termed as NPLs.
- National Bank of Greece (NBG) signed an agreement with the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the European Investment Fund (EIF) for the supply of €300 million aimed at supporting Greek enterprises, based on the participation of the EIB, the EBRD and the EIF in a securitization transaction executed by NBG two months ago.
- More than €20 billion, out of a total of €123 billion in deposits at Greek banks, are now considered to be "new money," some three months after the easing of capital controls. This new money is not affected by cash withdrawal limits, which today amount to €840 per couple of weeks.
- Concerns are growing with regard to the efficiency of the new institutional framework on the setup of companies to manage NPLs, as bank officials deem it very strict and dysfunctional, saying it will hamper the creation of an effective secondary market for bad loans.
- Loans that banks have issued since 2011 are showing exceptionally low rates of payment

delays. This concerns loans to both households and corporations, and comes despite the fact that economic conditions have deteriorated and the economy remains in contraction. Estimates by officials at Greece's four systemic banks say new loans issued after the country's entry into the bailout program are showing a single-digit rate of default, against an overall nonperforming rate of 46%.

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BUSINESS NEWS

- Traffic through Athens International Airport (AIA) is continuing to improve this year, as AIA reported a 14.6% annual increase in passenger numbers in September and 10.2% y-o-y growth in the first nine months of 2016. In September, AIA served 2.13 million passengers, of whom 1.4 million were on international flights, up 15%y-o-y, while the domestic network enjoyed a 14% growth to 725,552 passengers.
- Fraport has said that it intends to increase passenger traffic at Thessaloniki's Makedonia airport by 48% in the next decade, after 5.3 million passengers passed through Greece's second-largest airport last year.
- Owners of a number of small businesses have been making bogus hirings and reporting new employees that do not work or receive a salary, in order to receive a reduction in income tax and in their own social security contributions by paying insurance for the non-existent staff.
- Car registrations grew by 9.6% in September this year, reflecting almost exclusively sales of used cars, according to ELSTAT.
- The head of COSCO, Xu Lirong said that Cruise passenger traffic in the port of Piraeus currently numbers about 1 million per year with short-term target being to raise that figure to 1.5 million and long-term to 3 million with COSCO also accelerating investments for the further expansion of the cruise port.
- EBRD said it bought 15% of retailer Fourlis's €40 million bond last month, in another effort to kick-start the ailing Greek economy. Housemarket, a subsidiary of Fourlis which holds the IKEA franchise in Greece, Bulgaria and Cyprus, said that the first Greek corporate bond to be listed on the Athens stock exchange was oversubscribed 1.25x.
- Hellenic Petroleum was successful in tapping the credit markets by issuing a 5-year note bearing a 4.875% coupon for a final 5% yield. The group raised a total of €375 million, though offers reached a total of €700 million as per a company press release.
- Greek industrial output fell by 0.3% in August compared to the same month last year after an upwardly revised 4.7% increase in July, according to ELSTAT. Looking at index components, manufacturing production grew by 2.1% compared to the same month a year earlier, while mining output fell by 13.7% and electricity production decreased by 4.6%.
- Greek retail sales by volume declined by 2.6% in August compared to the same month a year ago after a downwardly revised 9.5% increase in July, according to ELSTAT.
- In the first half of 2017, Greek supermarket chain Sklavenitis will begin partial renovation works at all stores it receives from acquired rival Marinopoulos that are to remain in operation.
- An independent panel of social security experts has proposed a new minimum salary of €527.40 per month for the first year at work and of €556.70 for the second. This is an increase from the €511 per month that applies today for people aged up to 25 years old and represents the first time a link between the minimum wage and workers' experience has been proposed.
- The downturn in the Greek coastal shipping sector has continued over the last few years, according to a study by ICAP researchers. The report issued this week has found that passenger shipping has shrunk by about 32% in the last seven years where in the period from 2008 to 2015 local ferry companies recorded a loss of 7.8 million passengers and 2.9 million

vehicles (cars, trucks, motorcycles etc.).

- The number of health insurance policyholders went down by 10% or 93,869 people in the last 3 years, which is attributed to the financial crisis and the inability of households to cover the cost of a private program.
- The number of profitable companies listed in the Athens Stock Exchange surpassed the number of loss-making in the first half of 2016, for the first time since the end of Q3 of 2010, according to Beta Securities.
- The average rate of decline in sales across the supermarket sector over the first nine months of 2016 is estimated at 7.8% compared to the same period last year.
- Athens-listed firm Yalco Constantinou SA announced it has reached a provisional agreement for the sale of its Romanian subsidiary, Yalco Romania Srl as part of the restructuring process agreed with its crediting banks, so that it can concentrate on its domestic activities.

Real Estate

- The sale of the Astir Palace Resort by NBG and State sell-off fund TAIPED to Arab-Turk consortium Apollo Investment HoldCo – a subsidiary of Jermyn Street Real Estate Fund IV LP – was completed with the payment of the agreed price. The new owner of the complex at Vouliagmeni, southern Athens, paid out the amount of €393.1 million and acquired 88.5% of the shares of Astir Palace Vouliagmenis AXE.
- Alpha Bank agreed to sell the Hilton Hotel in Athens to the consortium comprising Greece's TEMES (the owner of Costa Navarino in the Peloponnese) and Turkey's Dogus Group. The two sides reached a deal for a price of €142 million, with the sole pending issue being the regulating authorities' approval.
- Banks are proposing that property foreclosures should be done electronically in a bid to overcome the resistance put up by a growing movement blocking repossessions at courts around the country. If adopted, the idea would mean that the physical presence of notaries – one of the main targets of protesters – would not be required.
- Banks are accelerating the procedures for the sale of properties that come into their ownership from debtors, as the administrative costs are on the rise. Among the increasing costs is the upcoming requirement for a certificate from a civil engineer stating that the property does not violate any town-planning laws, while the start of 2017 will see the return of the capital gains tax on property sales, eating into sellers' profits.
- The latest figures by the BoG for the first seven months of the year show that the net inflow of capital from abroad for the acquisition of properties in Greece increased by 16% on an annual basis, exceeding €115 million. The net flow of foreign capital has returned to positive territory even though in the first quarter of the year it had recorded a 14.4% decline from Q1 of 2015, as investment declined to €42 million from €49 million a year earlier.
- Greek home construction has fallen to a new low this year, with data showing that only 3,286 houses were completed in the first five months of 2016, down from 3,766 houses in January-May last year (i.e. a reduction of 12.7% on an annual basis).
- Prospects for the Greek residential property market remain particularly gloomy, according to a survey by PwC. Using a realistic scenario with 0.6% annual economic growth in which per capita GDP returns to pre-crisis (i.e. before 2008) levels in around 2030, the study forecasts that home prices will not return to their peak (of the 2002-08 period) before 2050.
- The decline in house rents in Greece has slowed down to an annual rate of 3.3% in the year to end-August, according to figures released by BoG. The deceleration began last year, when home rental rates fell by 4.4%, against 7.7% in 2014 and 6.8% in 2013. Since 2012 when the slide started in earnest, the average annual decline rate has come to 4.8%.
- Greek real estate company NBG Pangaea has announced a 4% increase in its turnover in the first half of the year, reaching €57.3 million against €55 million a year earlier. Its losses of €21.1 million in H1 of 2015 turned into gains of €21 million this year.
- The biggest drop in house prices since 2009 has been recorded in the northern and

northeastern suburbs of Attica, and to a somewhat lesser extent in the south of the region, with rate declines exceeding 50% against an average drop of 40-45% across Athens, according to BoG figures.

Tourism

- Three major hotels opened this summer in Athens; the new five-star, 216-room Electra Metropolis Hotel opened in the building that used to house the Education Ministry on Mitropoleos Street, an investment of over €15 million; the Athens Tiare Hotel, with 111 rooms on Omonia Square; the 94-room Athens Avenue Hotel on Syngrou Avenue. The next luxurious hotel arrival is expected on December 1, the Wyndham Grand Athens, on Karaiskaki Square. The hotel will have 276 rooms and 2,500 square meters of conference and function space. Finally, on Mitropoleos Street, the Daskalantonakis Group is preparing to open a hotel in the old Hytiroglou textiles store.
- Alternate Foreign Minister Nikos Xydakis is promoting the speedier issue of visas by Greek consular services in the 10 most important markets for Greek tourism where such paperwork is required. This follows the improvement in the time taken for visas to be issued this year in Russia, with the use of biometric data.
- Greeks cut back on vacations in 2015 in response to increased tax and other obligations, a trend that has continued into this year. The biggest reduction, according to figures released by ELSTAT, concerns those aged 25-44. In financial terms, Greeks' decision to shrink their vacations altogether cost the local tourism industry up to €121 million.
- General Secretary for public revenue Giorgos Pitsilis warned hotel enterprises to declare their real revenues because his agency already has a clear picture of each enterprise's turnover. Among a multitude of findings, including revenue discrepancies of up to €4.5 million, the State's new mechanism for monitoring tourism accommodation discovered hotel units that had an occupancy rate of 95% in July had declared no earnings during that month.
- Greece can expect to receive about 35 million holidaymakers in 2021, while its direct tourism revenues are projected to range around €19-20 billion in that year, not including revenues from transport services, according to the latest study by consulting firm McKinsey and the Association of Hellenic Tourism Enterprises (SETE).

Energy

- DESFA's privatization is in the final stretch, as sources familiar with the process say that the agreement for the transfer of a 66% stake in Greece's natural gas grid operator to Azeri firm Socar will be sealed soon. Socar's stake in DESFA's new share capital will likely drop below 36% eventually as Italy's Snam has entered the process in order to fulfil the condition set by the European Commission for the Socar stake to be reduced to a maximum of 49% due to EU competition and energy security concerns.
- More than one in seven gas stations in Greece deliver less fuel to their customers for their money, according to a National Technical University of Athens study, while another report showed that hikes in the special consumption tax on fuel will likely mean that the revenue target will not be met next year.
- Greece named a consortium of France's Total, its biggest oil refiner Hellenic Petroleum and Italy's Edison as the preferred bidder for an offshore gas drilling block in the west of the country. Hellenic Petroleum in a venture with Edison and Energean Oil, the country's sole oil producer, are already searching for oil in three onshore and offshore blocks in western Greece.
- The deadline for binding offers for the use of the natural gas pipeline between Bulgaria and Greece has been extended by a month to the end of November due to requests from bidders, the joint venture that runs the project said recently. Interconnector Greece-Bulgaria (IGB), estimated to cost €220 million, has received nine expressions of interest to transport gas through it for a total capacity of 4.3 billion cubic meters.

- The Energy Ministry will indirectly force electricity consumers to pay the bill for the deficit of RES (renewable energy sources) companies. An amendment tabled in Parliament to a bill on the Civil Aviation Authority provides for additional State revenues from power suppliers amounting to €45 million next year to go toward the coverage of the RES firms' deficit.
- The first electricity auction in Greece that was conducted by the Operator of the Electricity Market (LAGIE) saw prices range from a low of €37.37 per megawatt/hour (the starting price) up to 33 cents above that. The entire amount of electricity up for auction was sold, and 11 out of 12 participants got the quantities asked.

Investments

- There were positive signs from capital investments, as ELSTAT data showed an 18.3% annual rise in the April-June period to €3 billion, against €2.5 billion a year earlier.
- Fraport Greece will implement investments of €400 million at the 14 regional airports it has leased in the next four years, the company's executive director of commercial and business development, George Vilos, told a Greek Tourism Confederation (SETE) conference.

Technology - Communications

- Emirates Integrated Telecommunications Company (du) has again chosen Greek-based firm Echothrust Solutions to co-organize the "Capture The Flag" security competition, which took place as part of the du Cyber Security Conference 2016 in Dubai.
- Listed telecom service provider Forthnet is preparing to expand access to its Nova satellite platform by penetrating the cell phone market. Having restructured its debts, the company is now looking ahead, considering offering a quad play experience, by adding mobile services to its fixed-line, internet and pay-TV Nova3Play package.
- After several years of trying, the creation of a bad-customer register for cell phone service providers is finally going ahead. Similar to the Teiresias register for bad debtors at banks, the Tilegnous register will include cell phone subscribers who shift from network to network leaving debts at their old service providers.
- Greek lawmakers agreed to remove Parliament's right to veto any change in a shareholders' agreement controlling telecoms group OTE, paving the way for the State's sale of a 5%stake worth around €200 million

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TENDERS - PROCUREMENTS

- Greece's power utility PPC confirmed it had received two binding bids for a 24% stake in the country's power grid operator ADMIE. PPC said it was examining bids submitted by Italian power grid Terna jointly with infrastructure fund F2i and by China's State Grid International Development, while French power grid operator RTE, a unit of State-owned utility EDF, which was initially among the short-listed investors, did not make a bid.
- A single offer was submitted in the tender for the construction and operation of a new airport for Iraklio at Kastelli on Crete. The consortium of local construction firm GEK Terna and Indian group GMR was the only one to table a bid for the project, despite expectations there would be more participants.
- State sell-off fund TAIPED intends to sell 67% of Thessaloniki Port Authority (OLTH) in a single transaction and not in two packages, as previously announced and as was the case with Piraeus Port Authority, while the submission of binding offers is to be put off till early 2017.

- Greece has received two expressions of interest for the purchase of Rosco, its rail maintenance company, according to the country's privatization agency. It said it had received expressions from Ferrovie dello Stato Italiane SpA (Trenitalia) and Skoda Transportation.
- The Hellenic Republic Asset Development Fund (TAIPED) launched a process for the lease of Egnatia Odos, a major trade route that runs across northern Greece from east to west, and part of a bailout agreed with the country's international lenders.

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GREEK CONTROLLED SHIPPING MARKET DEVELOPMENTS

Greek owners continue to acquire additional tonnage as they find opportunities in the dry bulk sector for cheap vessels. They have been buying bulk carriers of all sizes over the past few months and it is likely that they believe the market has hit rock bottom after 8 years. With the number of dry newbuildings decreasing and the number of demolitions increasing, it seems that the vessel supply will be relatively steady. Therefore, it is likely that the market did finally bottom out over the summer and that the only way to go is up. Capesize and Panamax rates have improved for 2 months in a row and demand seems to be healthy for iron ore and coal cargoes. The sentiment is improving, let's hope it continues to do so.

There has also been continuing activity in tanker acquisitions, but this has remained fairly small and steady over the past year due to the strong charter market. There have been a few ups and downs for various reasons, but the crude market continues to perform at good levels, despite the increase in the price of oil.

Traditional finance continues to be available for the big names in shipping, but smaller owners are having to look elsewhere for funding their acquisitions. Although there has been an increase in available funding, it is becoming apparent that it will be at a much higher price. For many owners, this is difficult to stomach – the Greek shipping market was used to margins of around 1% - 1.5% in 2008 and has adapted to margins of 3.5% - 4%, but when the pricing becomes 10%+ it's a different story.

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