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Lateral Thinking

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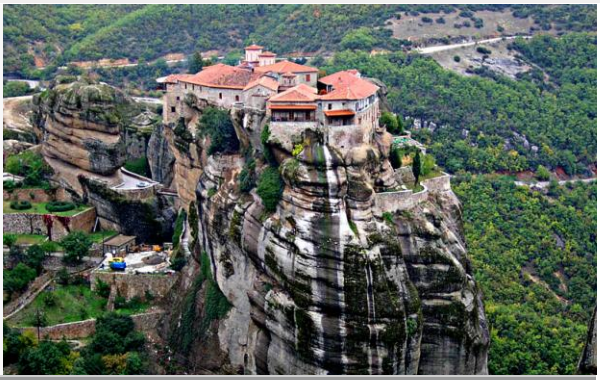

Business Opportunity Outlook

Greece

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EUROFIN GROUP

This Newsletter is the official newsletter published by Eurofin Group bi-monthly, covering the market for the last 2 months. 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

- **Greece's economy shrank during Q4 2016** after 2 consecutive quarters of growth, with its performance in the last quarter of 2016 turning out worse than projected. The seasonally adjusted, revised data showed a -1.2% decline in GDP, a worse performance than a -0.4% contraction projected in February's flash estimates by the Hellenic Statistical Authority (ELSTAT). The revised data points to a FY2016 real GDP drop of -0.1% vs. a 0.3% growth originally expected.
- Excessive taxation and taxpayers' increased use of plastic money for their payments to the state led to the creation of a **primary budget surplus** of almost €4.4 billion in 2016, according to provisional end-of-year figures released by the Finance Ministry. Greece's **current account deficit grew** in December 2016 compared to the same month a year earlier, according to the Bank of Greece (BoG), as the surplus of the country's primary income balance shrank. The data showed that the deficit reached €0.93 billion from €0.78 billion in December 2015.
- The **State's debts to its suppliers increased** by €1.6 billion during 2016, according to data issued by the Finance Ministry.
- Greece's **trade deficit swelled** considerably in 2016, as the slight increase in exports was unable to offset the losses from the far greater growth in imports, according to data of ELSTAT.
- State revenues came in at 6.4% above the budget target in January, according to provisional figures released by the Independent Authority for Public Revenue.
- The **net wealth of Greeks shrank** by €167 billion during the years of the financial crisis – i.e. almost one year's GDP – according to a survey by Credit Suisse. The Swiss bank estimates the net wealth of Greeks – that is net of loans – at €856 billion, against €1,023 billion in 2009, just before the country entered the bailout process.
- Without receiving another **bailout installment**, Greece can only finance its obligations for the first 4 or 5 months of 2017, according to a Eurobank study projecting the country's needs up until the end of the program next year and the course of the Greek debt.
- The taxation data highlight the **excessive taxation** on corporations during 2016 in comparison to 2015, a phenomenon expected to grow further this year. Businesses paid 37% more tax (or €1.074 billion) over 2015, while households paid €354 million more than the year before.
- Greeks' **taxpaying capacity has been exhausted**, leading to €13.9 billion in unpaid taxes last year alone, according to data issued by the Independent Authority for Public Revenue. This has taken the number of taxpayers with expired debts to the state to 4.14 million, almost half of the total.
- In a quarterly economic review, the Foundation for Economic and Industrial Research said **Greek GDP would grow by 1.5% to 1.8%** in 2017, which however, other studies and experts disagree with, estimating much lower growth if any.
- The **Greek economy will record economic growth rates higher than the Eurozone average** this year and in 2018, Moody's Investor Service said in its "Sovereigns -- Euro Area 2017 Outlook: Stable Outlook Amid Subdued Growth And Rising Political Risk" report.
- The underground economy, political uncertainty, high energy costs, the inefficiency of the state and corruption are the **five main obstacles** to the development of business activity in Greece. The underground economy is considered the biggest problem of the lot by almost half of the enterprises surveyed by EBRD.
- **Card transactions** rose by 50% in January, the first full month since the introduction of a law that only allows taxpayers who pay for purchases with plastic to qualify for an income tax discount.
- **Greece will have a primary surplus** in the budget of 3.7% of GDP in 2018, exceeding the target of 3.5% agreed with its Eurozone creditors, according to the European Commission forecast.

- **Fitch Ratings** has affirmed Greece's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'CCC'.
- **Internal devaluation in Greece** mainly concerns salaries and not the prices of commodities, the IMF said in a recent report, suggesting that living in this country has become much more expensive due to the decline of incomes and increases in taxes.

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FINANCIAL MARKETS NEWS

- **Alpha Bank** reached a deal to sell its wholly owned subsidiary Alpha Bank Srbija to Serbia's MK Group, which is involved in a range of businesses.
- **Greek private sector bank deposits** registered a drop in December after rising in the 2 previous months, according to BoG, with the fall attributed to statistical counting changes. Business and household deposits fell by €3.4 billion(or 2.7% m-o-m) to €121.4 billion, their lowest level since July 2003.
- In January **business and household deposits fell** by another €1.6 billion, or 1.3% m-o-m to €119.8 billion, their lowest level since November 2001. Moreover, a new wave of deposit outflows since the start of 2017 has seen some €2.8 billion leave bank accounts in the year to mid-February.
- **BoG** reported 2016 full-year profit of €1.09 billion, down from €1.16 billion a year ago.
- The ECB lowered in January the cap on **emergency liquidity assistance** (ELA) Greek banks draw from the domestic central bank by €4.2 billion, according to BoG. In February, it maintained the cap on ELA at €46.3 billion. The ELA ceiling is valid up to 9thMarch.
- **Eurobank** has hired HSBC and Mediobanca to help it find a "strategic partner" for its Romanian subsidiary, according to a source at the Greek bank.
- **National Bank of Greece** (NBG) announced that it entered into a definitive agreement with KBC for the sale of its 99.91% stake in UBB (Greek lender's Bulgarian subsidiary) and its 100% stake in Interlease E.A.D, for a total consideration of €610 million.
- **Famar**, a pharmaceuticals company in the Marinopoulos Group, will be the first Greek firm that US fund **KKR** includes in its **Pillarstone** corporate loan restructuring platform. Famar's inclusion is aimed at restructuring the company's existing loans of €150 millions, refinancing it with a fresh injection of €40 million, and then finding investors for it.
- **Total credit in Greece's banking system** contracted by 1.0% y-o-y in November after shrinking by 1.3% in the previous month, according to BoG data.
- **The finances of households and corporations in Greece**, which have deteriorated over the last 12 months, and the inefficiency of the banks' debt settlement strategies are reflected in the fact that about 4 in every 10 loans that had already been restructured are now in need of a new payment plan, according to a review of the country's credit sector published by the BoG.
- **Nonperforming loans** last month posted a major spike of almost €1 billion, reversing the downward course set in the last few months of 2016. This has generated major concerns among local lenders regarding their targets of reducing bad loans, as agreed with the Single Supervisory Mechanism (SSM) of the ECB for Q1 of this year.
- BoG data showed that in the first half of last year **the country's 4 main lenders** posted profits of €91 million, and in the first nine months of the year the combined earnings of Alpha, NBG, Piraeus and Eurobank amounted to €250 million. Converging estimates by senior bank officials put the net profits for the whole of 2016 at €300-400 millions, while for 2017 the earnings could double or rise even higher if the economy achieves a growth rate over 2%, as projected.
- The Hellenic Bank Association is asking for an increase in the limit on **cash withdrawals** per

bank account to €2,000 per month, from the current €840 per 14 days, along with a further relaxation of **capital controls**, mainly for enterprises.

- Greek banks will **write off debts** of €3 billion from nonperforming mortgage, consumer and small corporate loans by year-end, while by the end of 2019 the amount to be struck off is expected to total €14 billion. Debt write-offs will constitute an important instrument for clearing out the banks' nonperforming loan portfolios, starting with old loans that have not been serviced in more than two years.
- **Pancretan Bank** signed a €50 million contract with the European Investment Bank (EIB) for the funding of small and medium-sized enterprises, in the context of the EIB's Jobs for Youth initiative.
- 21% of all nonperforming loans in Greek banks' portfolios, worth more than €10 billion, concern borrowers who refuse to pay their dues despite being able to do so, in anticipation of some form of **favourable arrangement**.
- Demand for **credit and debit card terminals** doubled in the first few days of 2017, as the government's plans to consider only electronic payments toward attaining a tax discount on income tax, has forced Greeks to start using cards more instead of cash.

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BUSINESS NEWS

- After investments in infrastructure (through COSCO in Piraeus) and energy (through a cooperation agreement between Public Power Corporation and China Machinery Engineering Corporation), **Chinese enterprises** are now eyeing the sectors of food, services, tourism (and its infrastructure), scientific innovation, culture, property market and healthcare.
- The government is seeking to pique COSCO's interest in the sale of the Skaramangas and Elefsina **shipyards**, but the Chinese company appears reluctant to get involved in these over-indebted schemes.
- **COSCO** is activating its plan to create a **second logistics center** in Piraeus through the Piraeus Port Authority (OLP) it controls, having decided against entering the tender for the Thriasio field in western Attica, which will be launched in 2017 for the underground connection of OLP's facilities at the Car Terminal with the 90,000smq space formerly occupied by the Finance Ministry's Public Equipment Management Directorate (ODDY).
- **Air China** is planning to upgrade the air link between Greece and China. Soon it will start using bigger aircraft for the Athens-Beijing service, which in early summer will become more frequent and later on a direct one, according to Chinese Ambassador in Athens Zou Xiaoli.
- **Greece's annual EU-harmonized inflation rate picked up** in January 2017, according to statistics service data, with the reading being 1.5% from 0.3% in December 2016. Consumer prices were led higher by transport, housing, telecoms, alcoholic beverages and tobacco costs. The data also showed the headline consumer price index (CPI) rose to 1.2% y-o-y from 0% in December 2016, after a protracted deflation trend.
- **Economic sentiment** in Greece has improved during 2016, reaching its highest point in the last 15 months in December 2016 of 94.6 points, according to the index compiled by the Foundation for Economic and Industrial Research (IOBE).
- According to data from the General Commercial Register for 2016, just 28,669 **enterprises** were set up, even fewer than in the politically and financially turbulent 2015.
- The number of **unemployed people** registered with Greece's Manpower Organization (OAED) came to 1.07 million in December, showing a rise of 25k from the same month in 2015.
- Labour Ministry figures point to a dramatic increase in **layoffs over hirings** in January, making it the worst January for job openings over the last 15 years. At the same time, the growth in the number of people registered as unemployed with the OAED and the increasing

number of employers seeking applicants for flexible forms of work are fuelling the feeling of insecurity and highlighting the absence of an efficient investment and growth program.

- The 23.7% y-o-y **increase of health insurance activity** in November constitutes a clear sign of Greeks' shift toward private insurance in view of the problems in the social security system and public healthcare. It is also a sign of change in the climate of the insurance market from its negative past.
- **Greek retail sales** by volume fell by 1.0% in December 2016 compared to the same month a year ago after an upwardly revised 4.0% increase in November, according to statistics service ELSTAT.
- Almost 2 in every 3 Greek companies (63%) are considered posing a high **credit risk**, compared to just 6% in 2009, according to data compiled by ICAP, as the Greek production base is collapsing rapidly.
- State-owned **Hellenic Post SA** (ELTA) is seeking a solution to its serious liquidity problem in cooperation with the Ministries of Finance and Transport, claiming to be owed a total of €200 million in revenues from the service it supplies both to the public and the private sector.
- The Hellenic Competition Commission has imposed a fine of €1.05 million on 8 companies in the **Hondos** group, (engaged primarily in retail and the cosmetics sector) for cartel practices in determining the retail prices of their products.
- Cash shortages and the absence of positive sentiment have taken their toll on Greek **retail commerce** since the start of 2017, with the picture in the market strongly reminiscent of the days of 2012 and early 2013.
- European Commission data presented at a recent general assembly of **SMEs** showed that 2017 is expected to see a further decline of very small businesses in Greece.
- **Car registrations** posted a remarkable 22.8% annual increase in January 2017 as 13k cars (new or used in other countries) hit the Greek roads for the first time, compared to 10.7k in January 2016, according to data released on Wednesday by the ELSTAT.
- **Piraeus Port Authority** (OLP), whose management has been under China COSCO Shipping's control sinceQ4 of 2016, posted a 13% increase in pre-tax profits in 2016. This was achieved through a 20.3% drop in administrative costs and a 4.3% contraction in salaries, while turnover rose by 3.6% to €103.5 million, according to an announcement of the Athens-listed corporation.
- The climate in manufacturing slumped to a new 16-month low in January 2017, as the **Purchasing Managers Index**(PMI) compiled by Markit showed a decline to 46.6 points from 49.3 points in December 2016.
- Despite 2 private companies being granted licenses to operate **railway services** last year, Greece has not yet fulfilled its obligation as a member of the EU to open up the domestic market to anyone interested in entering the passenger and freight rail industry.
- Alvarez & Marsal sent its study for the **steel industry's restructuring** to the creditor banks and it has proposed the closure of at least one production unit, the further reduction of operating expenses at other units, mergers, the entry of strategic investors to bring in capital and know-how, and a significant reduction of obligations so as to result in a sustainable industry. Currently there are 4 steel plants operating in the country.
- **Greek supermarkets** endured their biggest annual turnover drop of recent years in 2016, according to market researchers IRI, while the first signs for this year are far from encouraging. Turnover of Greek supermarkets shrank by 6.5% y-o-y in 2016, while sales volume declined by 8.9%.
- **Daimler** proceeded with the acquisition of Greece's **Taxibeat** (the leading taxi services company) after offering a rumoured price around €43 million to a company that enjoys an annual growth rate of 180%.

Real Estate

- ELSTAT announced that **building activity** (new permits) retreated by 4.6% y-o-y over trailing 12 months in October 2016, while the corresponding volume fell by 22.1% y-o-y.
- **Luxury holiday homes** in Greece are the focus of foreign investors, with Mykonos and Santorini grabbing most of the attention thanks to the high yields they offer to those interested in leasing them out. According to Algean Property, transactions in this section of the market increased by at least 10% in 2016 vs. 2015.
- **Households' investment in homes** has slumped during the economic crisis, where on a 12-month basis duringQ1 2016 it is estimated totalling €1.2 billion, compared to €8.1 billion in 2008, representing an 85% fall, according to BoG.
- Greece's privatization fund said that it concluded the sale of the **Kassiopi seaside plot in Corfu** following the signing of the transaction with NCH Capital. The investment includes €23 million for the acquisition of the leasehold, €2.3 million of an earn-out clause and an estimated amount of €75 million for the development of the property. Total area transferred is c. 440,000 sqm with the right to build about 35,000 sqm including a luxury resort which will upgrade the island's tourism product and boost attraction of other investments.
- European Commission statistics show that Greece is behind only France and Britain in terms of **property tax** as a percentage of 2015 GDP. Greek owners have to pay 2.5% of GDP while in Germany the amount does not exceed 0.5% (the rate is even lower for neighbouring countries such as Italy, Cyprus, Bulgaria and Turkey).

Tourism

- **International arrivals in Greece by air** rose considerably in 2016 vs. 2015, according to data from the Institute of the Greek Tourism Confederation (SETE). Air arrivals from abroad increased by 9% to 16.87 million in 2016.
- **Cruise passenger visits** to Greek shores are projected to be lower in 2017 compared to 2016, while there are warning signs for next year too, according to schedules that international cruise companies have drafted for Greece.
- Greece has replaced Turkey as the second **most popular destination for Germans**, according to TUI Germany, and summer bookings for the country are currently up 41% from a year ago.
- Owners of **less expensive hotel** units at 20 popular destinations in Greece are trying to bolster bookings from the **British market** for the upcoming tourism season by offering rates starting from as low as €3.50 per person per night, far below cost.
- Greece's **tourism revenues** in the first 11 months of 2016 slumped compared to those of 2015, according to figures released by BoG. The decline in tourism revenues amounted to €914 million compared to a year earlier, a 6.6% annual drop with total revenues of €13 billion.
- **Investment interest in Greek tourism** has shifted over the last 25 years toward the creation of luxury hotels, a survey by SETE has found. The survey showed that in 1990 five-star hotels accounted for just 5% of total rooms and only 1% of hotel units, while in 2016 five-star units were more than three times higher, at 16.6% of room capacity.
- Data showed that **average spending per trip** by visitors to Greece in 2016 fell by 11.3% y-o-y to €514, against €579 in 2015.

Energy

- Greek-based **Energean** signed a deal with oil and gas firm TechnipFMC to help develop Israeli offshore gas fields Karish and Tanin. Energean plans to invest up to $1.5 billion to develop the two fields, which have combined reserves estimated at 2.4 trillion cubic feet.
- Soaring **fuel prices in Greece** have put the country in the unenviable position of being among the six most expensive countries in the world for unleaded gasoline, which are set to

have multiple consequences on the entire production chain. The latest tax increase on fuel consumption has also placed it among the 15 most expensive countries in the world when it comes to diesel.

- Shareholders of Greece's electricity utility **Public Power Corporation** (PPC) approved the transfer of a 51% stake in the **power grid operator ADMIE**, part of a spin-off scheme, which is a major term in Greece's bailout program.
- Two out of the country's three biggest **alternative providers of electricity**, Protergia, which belongs to the Mytilineos Group, and Elpedison, jointly controlled by Edison and Hellenic Petroleum, have openly disputed the model for **power auctions** aimed at reducing PPC's market share.
- The scenario of privatized spin-offs of **PPC**, which have been dubbed "Small PPCs," is back on the table as the first power auctions for the reduction of the PPC market share proved ineffective, while Brussels is asking Greece to comply with the decision of the European Court of Justice for breaking PPC's monopoly in lignite use for power production.
- **Public Gas Corporation** (DEPA) is weighing the idea of acquiring a 20% stake in the project of the planned LNG terminal off Alexandroupoli, in northern Greece, after the project received a fresh boost from the completion of the entry of GasLog (which belongs to shipowner Peter Livanos) with another 20% stake.
- Greece's biggest oil refiner **Hellenic Petroleum** reported a 17% rise in Q4EBITDA, helped by strong refining margins and exports. EBITDA – stripping out oil inventory holdings – came in at €215 million, up from €184 million in 2015.
- Greece plans to launch a **power trading exchange** next year to reform its electricity market in line with European plans for an interconnected energy grid which will help cut costs and improve energy security.
- **Electricity consumers** are expected to be asked to pay an extra €600 million. This is the amount PPC intends to claim through bills to cover the cost of public services such as the cost of supplying remote islands with power and special discounts for poor households.

Investments

- The Ministry of Culture has approved the environmental and architectural studies for a **major tourism investment** that is now cleared for implementation in **Corfu**. The investment concerns the creation by KLC III Hellas SA of a tourism accommodation complex covering 205,000 sqm at Aghios Stefanos.
- Following a meeting in Athens with **China Development Bank** (CDB) chairman Hu Huaibang, BoG Governor Yannis Stournaras expressed satisfaction with CDB's intention to expand its presence in Greece, mainly via the financing of **infrastructure projects**.
- **Three major Chinese funds** (Dalian Wanda Group Co, Silk Road Fund, COSCO Shipping and Chinese real estate developer Greenland Holdings Corp Global Port Fund) are planning to send missions to Athens in the coming months for talks concerning **investment projects** focused mainly on infrastructure, logistics and commercial real estate.
- **Foreign investors** lowered their exposure in the capitalisation of the **Greek stock market** in January, with their share falling to 60% from 61.4% in December 2016, AMNA reported, while the Greek investors' share was 40%.
- PwC's **M&A chart of Greece** in 2016 showed that **foreigners have been acquiring assets in Greece** while Greeks have generally been selling. In total, last year assets with a combined value of €4.4 billion changed hands in 38 transactions, while the value level is about 2.5 times that recorded in 2015.

Technology - Communications

- **Cosmote TV**, Greece’s biggest pay-TV platform in terms of customers, confirmed it has exceeded 500k subscribers, a figure that just a few months ago only rival **Nova** had reached, before losing ground to the Deutsche Telekom subsidiary.
- **Service providers Cosmote, Vodafone and Wind** are expected to spend some €250 million in order to meet the targets set in the new framework for the rollout of Next Generation Access networks by the Hellenic Telecommunications and Post Commission. This framework is based on the objectives of the European Digital Agenda, which requires 50% of European citizens to have access to broadband internet connections of at least 100 Mbps by 2020.
- London-based gaming services provider Betgenius will supply Greece-based **OPAP**, Europe’s fourth biggest betting firm, with a new sportsbook platform. OPAP has also picked Novomatic Lottery Systems as its new technology partner in numerical lotteries and Playtech’s BGT Sports to supply software and support for self-service betting terminals.

TENDERS - PROCUREMENTS

- Greece has given investors until 24th March to submit **binding bids** for a majority stake in its second biggest port, **Thessaloniki Port**. The sale of the 67% stake in the port is a key term of the country's current EU/IMF international bailout agreement.
- State sell-off fund TAIPED extended the deadline for the submission of binding bids for **carriage maintenance company ROSCO** until the end of June. Submission was supposed to have been completed by 31st January, but the delay in the privatization of the main railway service company, Trainose, forced the extension of the deadline to 30th June.
- The sale of a 30% stake in **Athens International Airport** has been put on ice for the time being, as authorities do not want to see the sale coincide with the extension of AIA’s concession contract.

GREEK CONTROLLED SHIPPING MARKET DEVELOPMENTS

January and February 2017 have been have been relatively active months for Greek shipowners. January was especially busy on the 2nd hand acquisition market with many bulk carriers snapped up at good prices. Since then, however, values of Dry Bulk vessels have strengthened and although demand in February remained high, the number of transactions was considerably reduced. Owners are busy inspecting vessels and are still keen to acquire tonnage, but many of them are hunting the same targets contributing to the increasing prices. There seems to be considerable demand for Japanese and Korean bulk carriers, but Chinese vessels are being left on the shelf.

Freight rates for the dry bulk sector have strengthened considerably since the start of the year with earnings for Capesize, Panamax and Supramax vessels increasing by 34%, 46% and 22% respectively. Freight rates for the tanker sector have dropped across the board, partly due to OPEC countries following through in throttling production and partly as a result of increased vessel supply.

On the finance side, there is activity among banks lending to the big shipping names, but there is still a large funding gap for smaller shipowners. That being said, there has been an increase in finance availability from debt funds and equity funds for smaller companies, but the pricing proves to be an impasse for many shipowners.

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