

Investment Challenges and Opportunities in Shipping

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Agenda

Shipping Industry – Key Issues

Ship Financing – Banks Under Pressure

Innovation

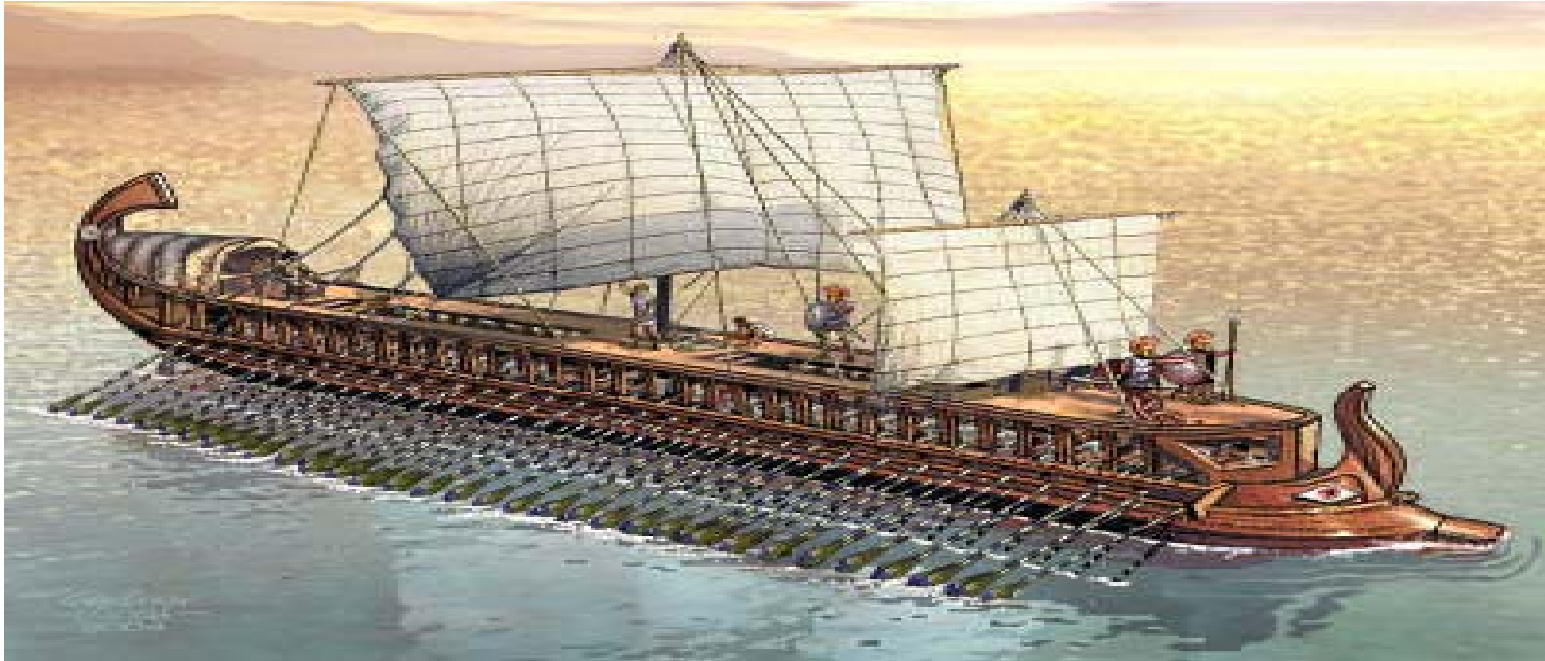
Distressed Asset Opportunities

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Shipping and Trade is not new to Greeks



Greek fleet amounts to 3,064 vessels or 15.3% in dwt. of the Global fleet

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The Greek economy – at the centre of international attention

- Greece is probably the most infamous country in Q1 2010 - childhood growing pains
- A crisis is always an opportunity to dispense medicine
- Eurozone political and economic credibility at stake

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Shipping and the Greek Economy – in love... but decoupled

- Corporate Income Taxes – favourable and negligible (mainly employee taxes and other local)
- Operating Regulation – International rules (IMO, SOLAS, etc.)
- Commercial activities – Common law, English courts
- Management – International, multicultural, quality
- Financial reporting – US GAAP, SEC rules, IFRS

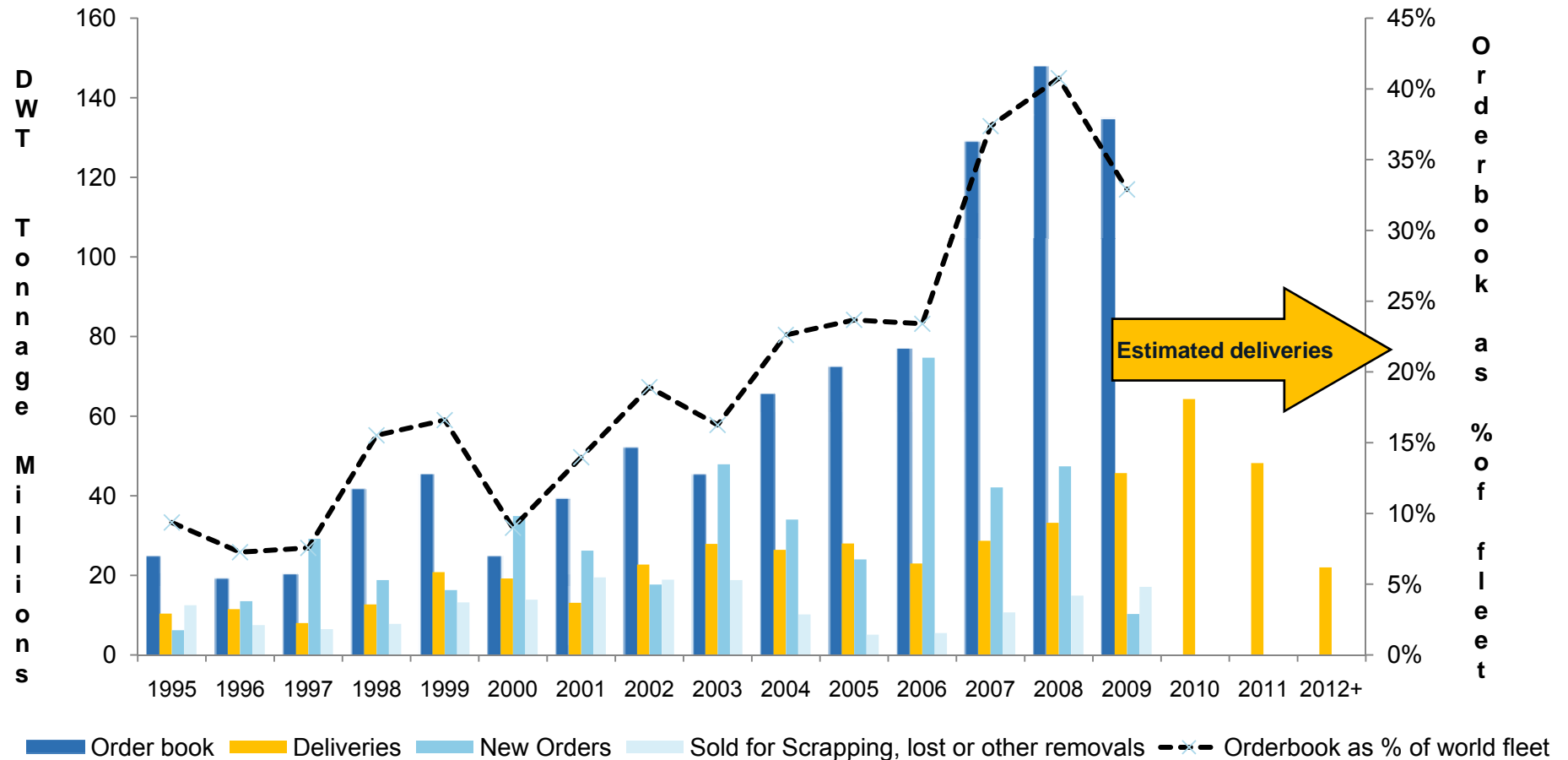
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Global tanker fleet – Orders, Deliveries and Scrapped tonnage – Outstanding order book at 32% of world fleet

Annual Tanker Fleet Statistics (in million dwt)

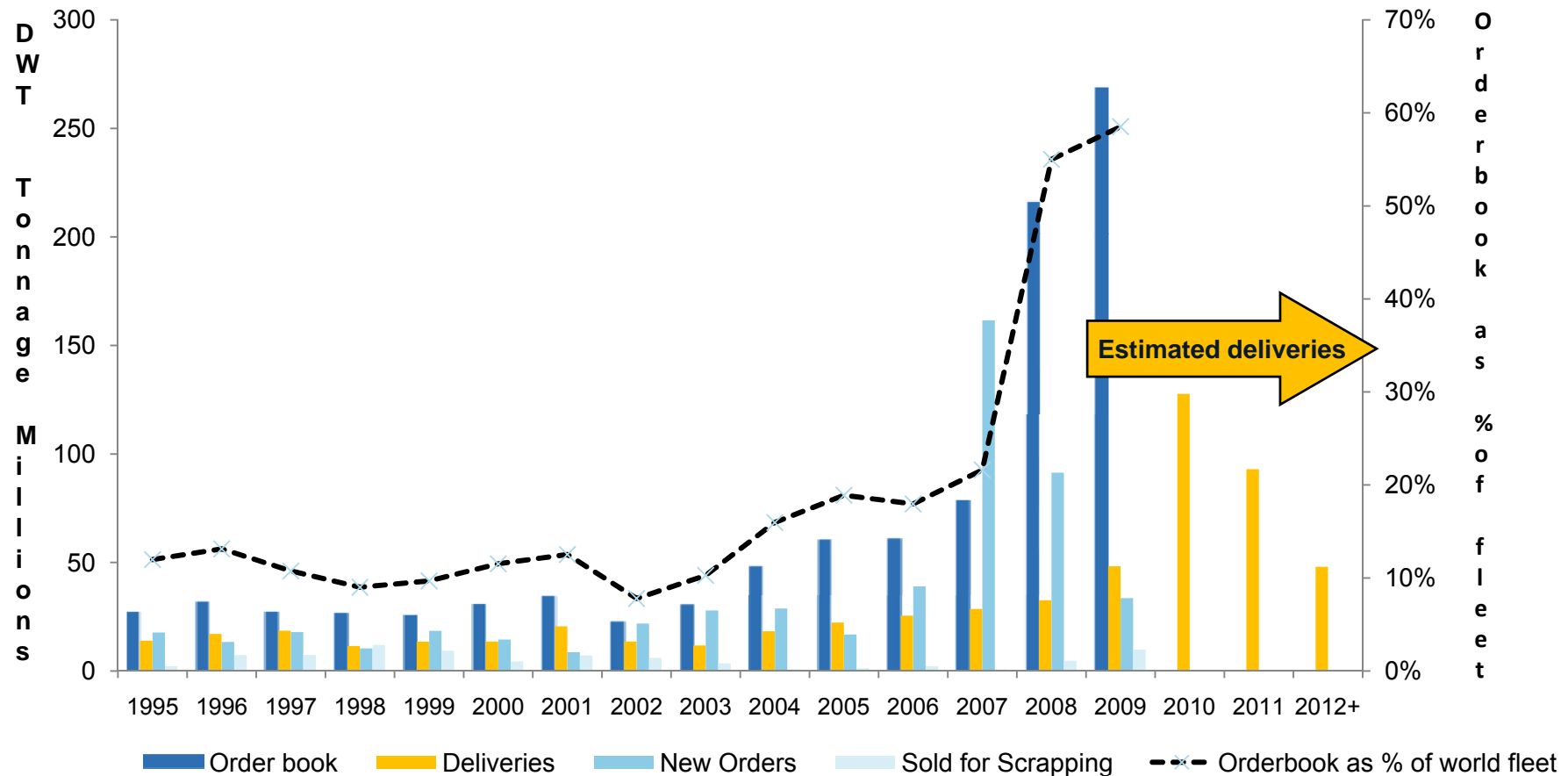


Source: RS Platou

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Global bulk carrier fleet – Orders, Deliveries and Scrapped tonnage – Outstanding orders are 59% of world fleet

Annual Dry Bulk Fleet Statistics (in million dwt)

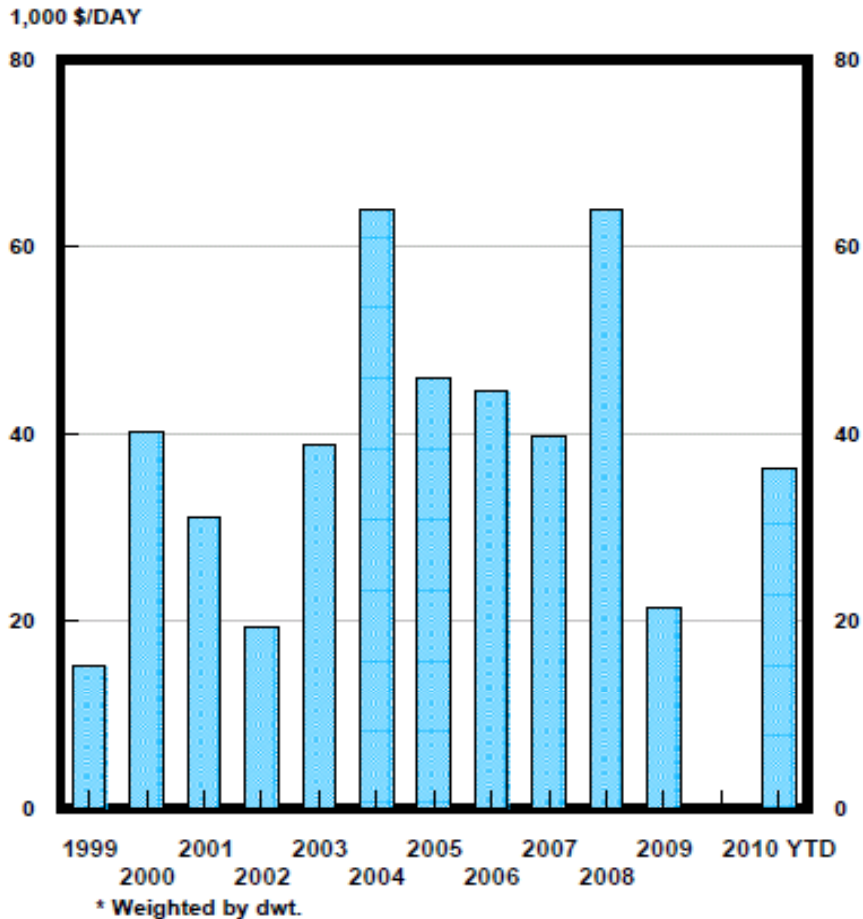


Source: RS Platou

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Tanker freight rates – strength in Q1 2010

Tanker Market Index*
(Annual Averages 1998-2010)



Source: RS Platou –March 2010

- Average Tanker rates have recovered substantially from their low points
- At the end of 2009 rates are significantly above lay-up levels but not necessarily covering full capital costs, due to a dramatic fall of oil consumption.
- However, some strong gains made during 2010 raising baseline expectations..

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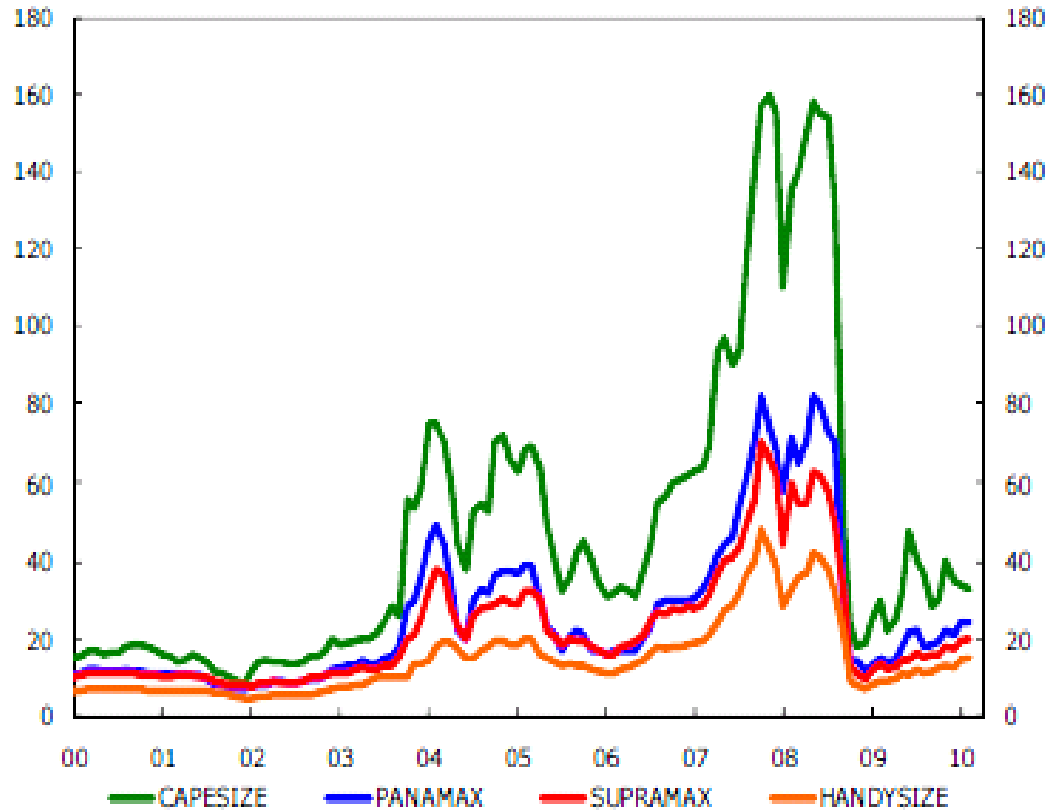
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Bulk Carrier market –Stronger than expected

12 Months /C Rates for Bulk Carriers

\$1,000/DAY



Source: R.S Platou March 2010

- Wider Asian economies domestic demand have been a key driver behind the recovery.
- Capesize class has been significantly influenced by robust Chinese demand for iron ore, coal and similar high volume products .

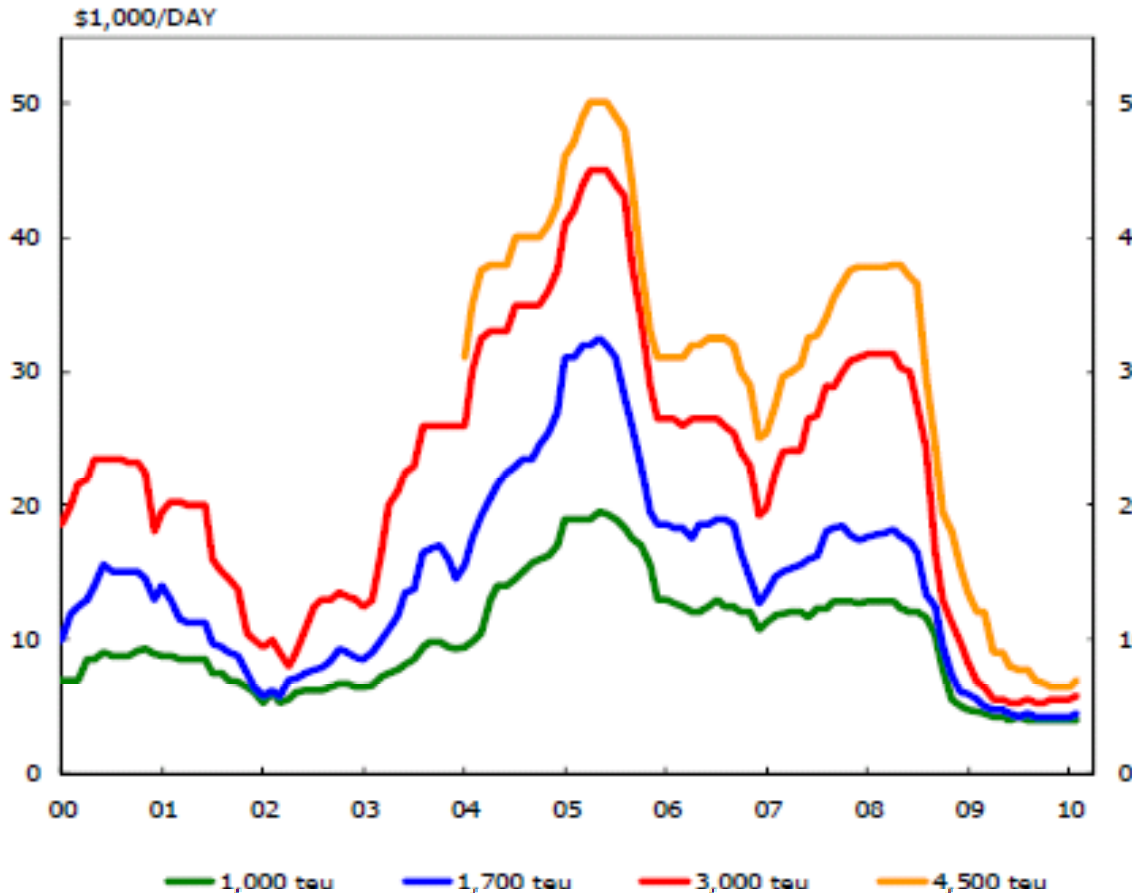
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The container market – challenging conditions

12 Months T/C Rates for Container Ships



Source: R.S Platou March 2010 2009

- Container market had a 10% CAGR growth reflecting consumer demand in the developed economies. This collapsed in 2008/09
- Slow demand recovery
- New build overhang

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Issues for many Shipping companies

- Borrowing covenant breaches (especially market value and earnings related breaches) – increases funding costs
- Counterparty risk - increased commercial disputes.
- Funding the order book and the business:
 - Banking system anaemic - uncertainties for 2 to 3 years
 - Equity – more expensive, more scarce
- Weak operating cash flows with dependence on asset sales to meet maturities

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Shipping companies response

- Reduce operating costs – includes outsourcing of technical management
- Merge operations with lower leveraged companies
- Insure counterparty risk
- Bypass banks, go to Bond markets
- Innovation – e.g. mandatorily convertible preferred stock
- Speed and clarity – position company to exploit investment appetite (PwC facilitates Shippers, Bankers and Investors)

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Case Study – Navios mandatorily convertible preferred stock

- The aggregate price of the four sister newbuildings was \$324.5million. Funded by:
 - bank loan \$ 180million
 - Cash \$32.1 m and
 - Mandatorily convertible preferred stock to the shipyard, low coupon, accretive to shareholders with a capped upside for the yard

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Issues for Banking system

- New Regulations (Basle III) will demand significantly more capital,
- Estimated at between \$120 bn to \$ 350 bn or \$ 1.5 trn to \$ 4.4 trn of fewer RWA (loans)
- Tougher rules, New capital definition, securitizations, Liquidity requirements, Large exposure restrictions, Trading book more expensive to hold
- Non performing loans currently require between 50% and 150% more capital and this is likely to increase further.

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Banking system response

- More selective lending and at higher spreads
- Balance sheet restructuring
 - Core and non core assets/customers (run off)
 - New Regulatory capital (incl Government)
 - Sell assets (healthy and stressed, core /non core)
- Closer and better monitoring of current exposures
- Mergers – non cash (reduce operating costs, greater exposure capacity)
- New equity

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The Greek ship-finance portfolio as of the end of 2009 amounted to \$67 bn down 9% on 2008

- The top ten banks still dominate the market with an 65% market share.

The top ten Banks ranked by portfolio size (in USD million)

	Portfolio	Market Share
Royal Bank of Scotland	13.302	19,85%
HSH Nordbank	5.202	7,76%
Deutsche Schiffsbank	4.969	7,41%
Credit Suisse*	4.000	5,97%
National Bank of Greece	3.217	4,80%
Alpha Bank	2.675	3,99%
Emporiki Bank of Greece	2.620	3,91%
DNB	2.544	3,80%
Marfin-Laiki	2.450	3,66%
Calyon*	2.000	2,98%
Total top ten Banks	42.979	64,1%

Source: Petrofin Bank Research -March 2010

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Specialist Investor Appetite

- Investor appetite for stressed debt manifests itself in the quantum of funds raised for this purpose recently
- PE firms and banks specialized in Shipping looking for vessel acquisition and the related debt opportunities

New funds announced or under discussion

Safe Ship Investment Fund	Leo Polemis launched a \$200m pe fund in April primarily positioned to take advantage of expected increase in distress sales of ships
Mari-Time Asset Fund	New \$160m fund to be launched in 2nd half of 2009 targeting institutional and high net worth investors. Focusing on newer tonnage using 100% equity.
Pareto	To launch distress fund
DVB	\$250m closed-end fund to focus on opportunistic investments in shipping & offshore. Existing vessels <15 years. Targeting \$300-400 m. from 5-7 institutional investors.
Tufton Oceanic Distressed Fund	To launch \$200 - 500 m fund in 1Q10 - Areas of focus will be vessel assets, including second-hand sales and shipyard contract re-sales; debt instruments such as senior, mezzanine, bond investments and portfolio acquisitions; and equity opportunities
Financier Capital Partner I	Financier Investment Group' s shipping fund, headed by Lemos, has raised \$600m to \$700m - is geared for panamax-bulker acquisitions built from 2004 onwards.
JPMorgan AMC	New \$750 million fund launched in order to invest in distressed shippers and debtridden fleet operators

Source: Marine Money - 30 April 2009

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Potential opportunities but Pricing gap remains

- Banks have sold shipping loan portfolios (healthy) - issues
 - Publicity shy
 - Debtor consent often required
 - Provisioning often not enough to avoid loss at realization
- Regulator and political pressures to deleverage
- Innovation, realism and partnership needed to unlock the system

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To Conclude

- Certain companies in Shipping industry are and will remain stressed, more failures likely
- Commercial banks have been the main shipping funders historically, but system is weakened
- Realism by participants (shippers, banks and specialist investors) needed to unlock opportunities
- Innovation, collaboration and speed are the ingredients to getting the win win deals done

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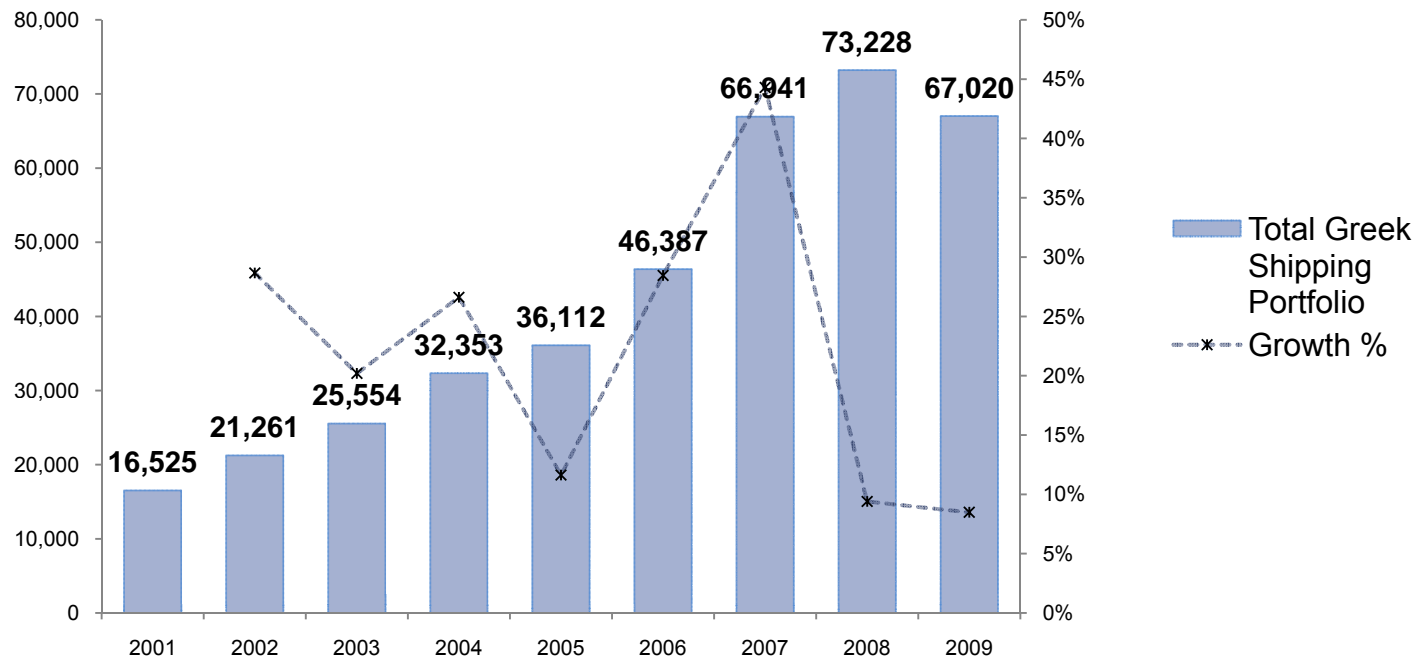
Final thoughts

Λόγος γάρ τούργον ου νικά ποτέ

Actions speak louder than words

Total loans booked both in Greece and worldwide amount to USD 67 billion, down by 8,48% from 2008

Evolution of Greek Shipping Portfolio (in USD Million)



Source: Petrofin Bank Research April 2009

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Tax Framework

- The Greek tax law has been, traditionally, favorable to shipping.
- Income from shipping activities is taxed on the basis of the vessels' tonnage.
- Consequently, tax calculated in the above matter is practically negligible.
- No other corporate taxation applicable to shipping income earned by Greek corporate entities involved therein or the shareholders thereof.
- The above reduced tax provisions apply to cargo and passenger shipping.
- Shipping income earned in Greece by vessels registered in other countries are mostly exempt from Greek tax, on the basis of the relevant Double Tax Treaties.
- The import and/or delivery of merchant vessels, the chartering thereof and supplies made thereto are exempt from VAT.
- Similarly, no inheritance or donation taxes are associated with merchant vessels in Greece.

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