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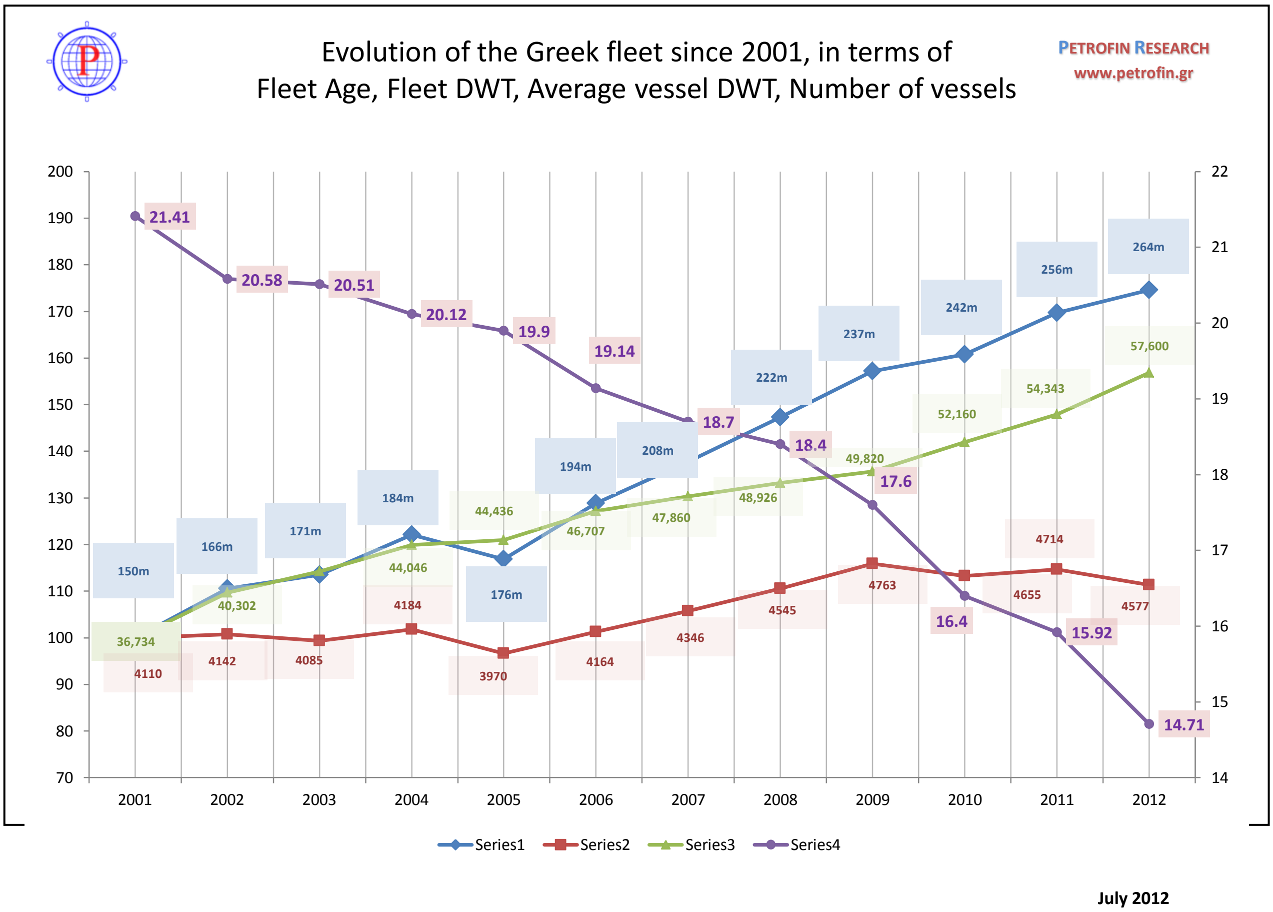
Petrofin Research ©

For Nafs
November 2012

Greek shipping: Can the journey continue?

The Greek fleet has continued with its dynamic evolution. According to recently released Petrofin Research ©,the Greek Fleet compared to one year ago, in terms of number of vessels fell by 137 vessels (approx. 3%) according to deadweight capacity with the average vessel age falling from 15.9 years to 14.7 years over the year.

In table 1, readers can see the evolution of Greek shipping over the last 12 years in terms of 1) Fleet age, 2) Fleet DWT, 3) Average Vessel DWT and 4) Number of Vessels.



whilst DWT capacity grew from 119,213,341 to 124,813,467mDWT. Average fleet age fell again from13.14 to 11.66 whilst the number of dry bulk companies fell from 339 to 330.

In the tanker sector (over 20,000DWT), the number of vessels rose from 737 to 740 with DWT capacity also rising from 96,899,777 to 97,856,568. Average fleet age fell from 8.95 to 8.72 whilst the number of tanker companies also fell from 93 to 90. The latter may be

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explained by the higher scrapping of older tankers representing the last assets of some companies.

The container sector (over 20,000DWT) shows a somewhat different development. Whereas the number of vessels rose from 189 to 224 over the period and so did in DWT capacity from 10,642,047 to 12,381,837, the average age remained practically unchanged. This may be explained by the poor market resulting in vessels being kept longer. The number of companies in the container sector actually rose from 22 to23 representing, together with the increase in the number of vessels, the greater interest by Greeks in container vessels.

So, can the journey by the Greek shipping industry continue?

The shipping industry like all capital intensive industries requires capital and finance. Whereas capital in the form of equity has continued to be relatively abundant, shipfinance has not.

Specifically, the excellent years that have preceded this slump have enabled many Greek companies to build up substantial cash reserves. Admittedly, a great deal has been committed in vessel acquisitions (both newbuilding and second-hand) at high prices. However, cashflow had remained high too, resulting in a dramatic lift in the fortunes of Greek shipping. A select few owners did resist investing in high price vessels altogether and these owners how find themselves in a particularly advantageous position to exploit current vessel low prices. Indeed, the dramatic falls in vessel prices have resulted in many owners now targeting shipping re-entry or expansion, as particularly attractive options.

If shipping capital is still relatively abundant for new shipping investments, the same does not apply for ship finance, where one by one key shipping banks for Greek shipping have been leaving the industry. To name but a few, Commerzbank, Lloyds Banking group, Natixis, Bank of Ireland and others have decided to leave shipping with others, such as RBS and HSH severely limiting their shipping exposure.

All in all, ship finance has been a disaster area, where able, willing and committed to shipping banks have been reduced to a mere half a dozen. For Greek owners, the plight of loan providers has been exacerbated by the plight of Greek banks caught in the Greek crisis and which have been traditionally very supportive of their clients. As such, the lack of loan capital has been unprecedented and has turned the largest Greek owners to other financial sources in the Far East (with limited success) or to alternative forms of capital or finance. In general, one could surmise that although the low prices of modern tonnage across all

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sectors (save LNGs and offshore) have been attractive, a number of potential Greek buyers have been held back from doing so through lack of finance.

Despite the above, a quick look at Greek sale and purchase transactions in the first 9 months of this year shows that Greeks still accounted for a surprisingly high 15.42 % of global sales, compared with 18.54% of those 5 years ago (Clarkson's Shipping Intelligence Weekly). Interestingly, most of the S&P activity by Greeks has been on the purchasing side which amply demonstrates the ability and resolve of Greek owners to take advantage of the current shipping crisis in order to grow their fleets. Still, comparing Greek S&P transactions in 2012 to those of, say, 2007 shows that today's activity is still running at approx. 50% of the 2007 levels (Clarkson's Shipping Intelligence Weekly).

The overall number and DWT of Greek vessels is also affected by the rate of newbuilding deliveries and orders.

Whereas newbuilding deliveries are still taking place at record levels (especially for dry bulk vessels) new building orders have slowed down.

Latest Golden Destiny statistics show that in the first nine months of 2012, Greek newbuilding orders were down 32%, as compared to 20% globally. In total, 97 new orders were placed involving $3.8bn, as opposed to $8bn for the whole of 2011, clearly demonstrating the slowdown.

Looking at newbuilding orders per sector, dry bulk carriers were down from 54 to 40 orders, Containers from 46 to 20, whilst tankers actually rose from 16 to 20 vessels.

The third force at play is scrapping, where activity has risen attracted by the high scrap prices. There are no readily available Greek scrapping statistics, but looking at the global picture, we can compare scrapping levels over the first 9 months in 2012 at 44.4mDWT, compared to 40.8mDWT for the whole of 2011 and 25.5mDWT for the whole of 2010 (Clarkson's Shipping Intelligence Weekly).

Lastly, another force at play is the pressure by banks for financially weak Greek owners to dispose of tonnage either willingly or unwillingly. This has largely not happened in large numbers, as Greek owners maintained on the whole their relationship with their banks and have found a way for more time to be given to them to survive the crisis.

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Looking at the combined effects of all the above factors, we would anticipate that the overall number of Greek vessels may show a second year on year decline from today's 4,577 vessels.

However, in terms of DWT, we believe the growth trend shall continue, although at a reduced pace. In every previous shipping crisis, Greek shipping survived the crisis and came out of it much larger and stronger. It would be interesting to see whether the current unprecedented shipping crisis levels for vessels' freights and financial pressures will continue to slow down the growth of Greek shipping in the years to come. I personally believe that Greek shipping will continue to grow in the future as Greeks remain more than ever committed to growing their fleets at today's depressed vessel prices provided, however, that ship finance availability shall recover in the years to come and new active lenders shall emerge.

In recent months, US finance equity funds have been targeting shipping as a good recovery opportunity and have been acquiring modern vessels often in conjunction with Greek owners to whom they have entrusted the vessel selection, commercial and technical management and with whom they have invested jointly. History has shown that when the private equity funds' sale targets shall be reached, it would often be Greeks that would acquire their vessels.

In conclusion, therefore, although Greek shipping is together with those of other shipping nations going through a storm, it is expected to survive and to remain a large global force and for its age profile to continue to improve. The degree to which Greek shipping shall be able to outpace the growth of other shipping nations, will also depend on the support of the shipping financial community, as well as the innovation and adaptability of Greeks.

It is our opinion, therefore, that the journey of Greek shipping will continue and that the market will present interesting and challenging opportunities for Greek owners, especially in the next couple of years.