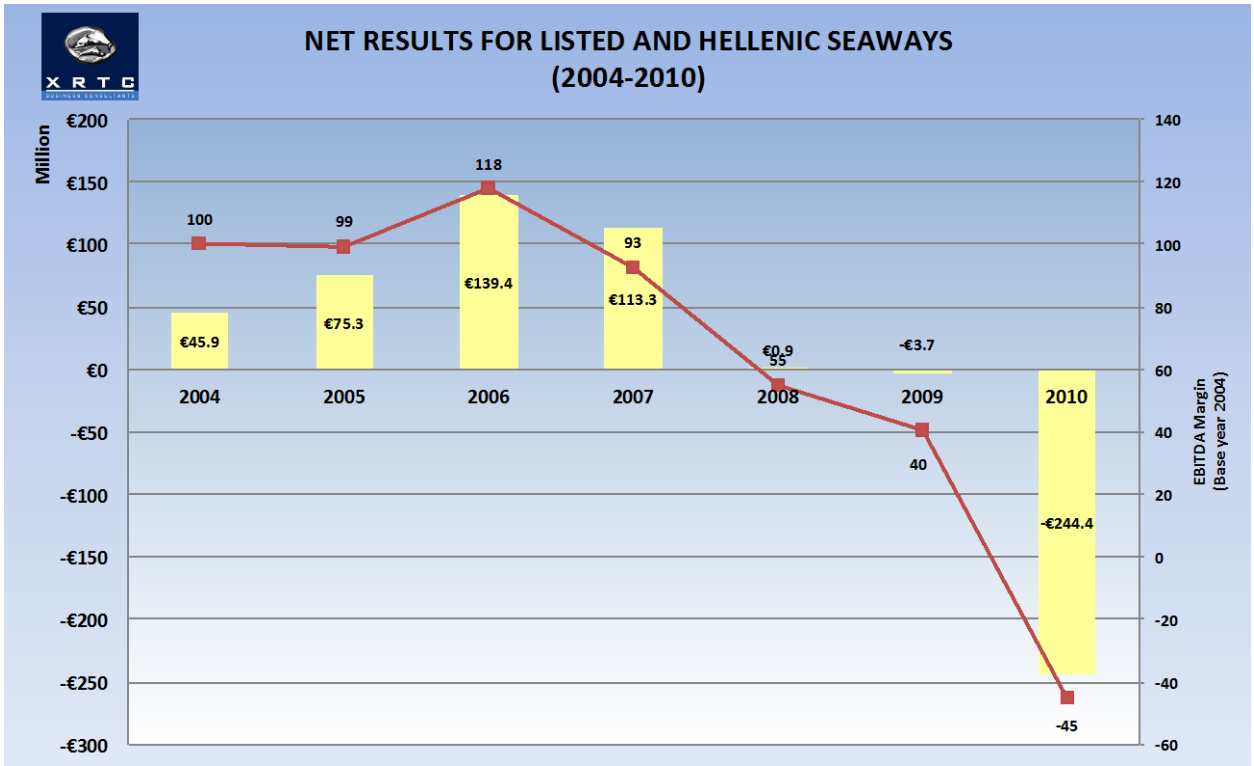
Annual Report on the Greek Ferry Sector
(2010-2011)

"Danger in sight"



August 2011

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1. INTRODUCTION

The high level of uncertainty mentioned in last year's report have not only decreased but to the contrary remains at even higher levels impeding any effort to come up with any sort of sound conclusions for the Greek ferry sector. The worsening of the business environment is the result of exogenous factors arising locally, regionally and of course globally.

The present crisis of the Greek economy continue to create significant operating problems to the companies of the sector which are mainly attributed to (a) the decrease in demand due to the shrinking of the households' purchasing power (b) the lack of decisive strategic action by the Greek State especially in the case of subsidised itineraries where the significant delays in payments on behalf of the State is a threat to many ferry operators (c) the protests as a result of the social unrest, which have led to the cancellation of arrivals of many tourist (d) the credit risk associated with the debtors of the ferry companies, many of which face significant difficulties due to the economic stagnation.

Among the positive developments is the elimination or decrease of certain taxes, which were encapsulated in the final ticket price making them somewhat cheaper. This move on behalf of the Greek State is a step forward to the rationalisation of the cost structure of the sector and is expected to be to the benefit of the final consumer in the long-run. For the time being, ferry operators have announced decreases in ticket prices between 8% and 10% due to economic conditions.

In reference to the regional developments the political crisis in North Africa (Egypt, Libya) created a number of opportunities for the Greek ferry companies, which were not left unattended. The reflexes of the sector via the transportation of citizens out of the turmoil areas assisted in the improvement of its financial situation but most importantly of its image to the global community.

There are number of global factors though which affect the sector at very significant levels. Among these factors and probably the most important one is fuel. In 2010 the fuel cost percentage to the total operating cost reached the level of 45%! Exchange rate risk comes second due to the stronger Euro against the US Dollar. The strong Euro is assisting but the very high levels of volatility are a threat as well. The third factor is associated to the key interest rate as is set by E.C.B. (European Central Bank). The recent increase by 25 basis points is a rather alarming development since it will increase the cost of funding.

Ferry operators try to be adapted to the high levels of uncertainty via a number of mainly defensive actions. Characteristic is the case of the sale's cancellation of MINOAN LINES's stake in HELLENIC SEAWAYS to ANEK LINES due to the inability of ANEK LINES to proceed to the payment of the second instalment in November of 2010. A number of aggressive actions have also been reported, among which, is the pricing policies in key itineraries with high competition levels. The very cheap ticket offers have led to the decrease in revenues per transported unit resulting to disappointing EBITDA results, which will be analysed in the later sections.

Of special interest is the recent cooperation between ATTICA GROUP and ANEK LINES in the itineraries of Adriatic Sea and Crete. The decrease in passenger, car and truck demand along with the shrinking of market shares, force companies to seek strategies that will lead to economies of scale. At XRTC we kept saying during the last couple of years that such moves are imperative for the survival of the companies and of the sector as a whole.

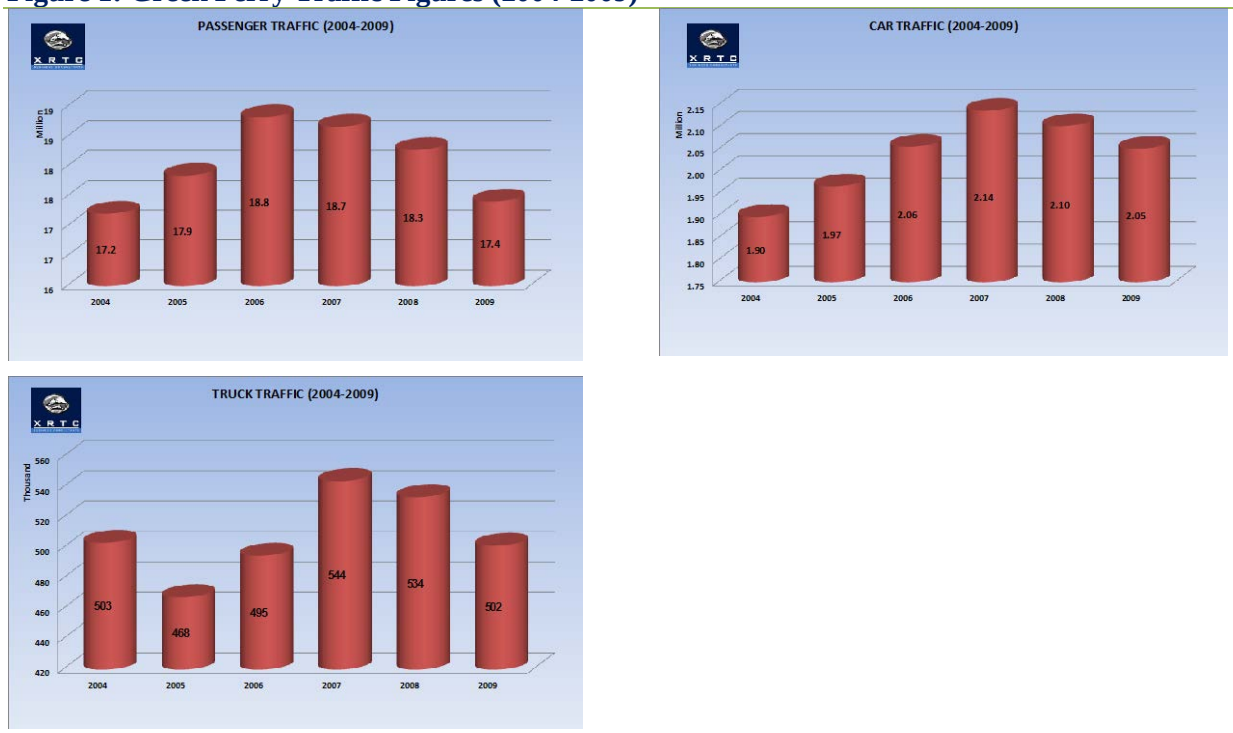
This year's report aims to provide an as much complete as possible picture of the Greek ferry sector since 2004 in order for the reader to understand why and how the sector has reached the present status. The demand and supply levels of the sector are next, followed by the shareholder structure (section 2), the financial analysis (section 3) and the subsidies' status (section 5). Finally in the last section conclusions are presented along with some key comments on the future prospects of the industry.

2. GREEK FERRY SECTOR MARKET PRESENTATION

2.1. Market Overview

According to the National Statistical Service of Greece (N.S.S.G.) figures, it can be seen that the Greek ferry sector is on a downward slope as traffic figures in passengers, cars and trucks decrease especially after 2007 (Figure 1). As seen, in 2009 demand decreased even further resulting in significant decreases in revenues stemming partly from the increasing fuel costs. It must be clarified that in this set of data, traffic related to short distance mainly commuting services, is not included.

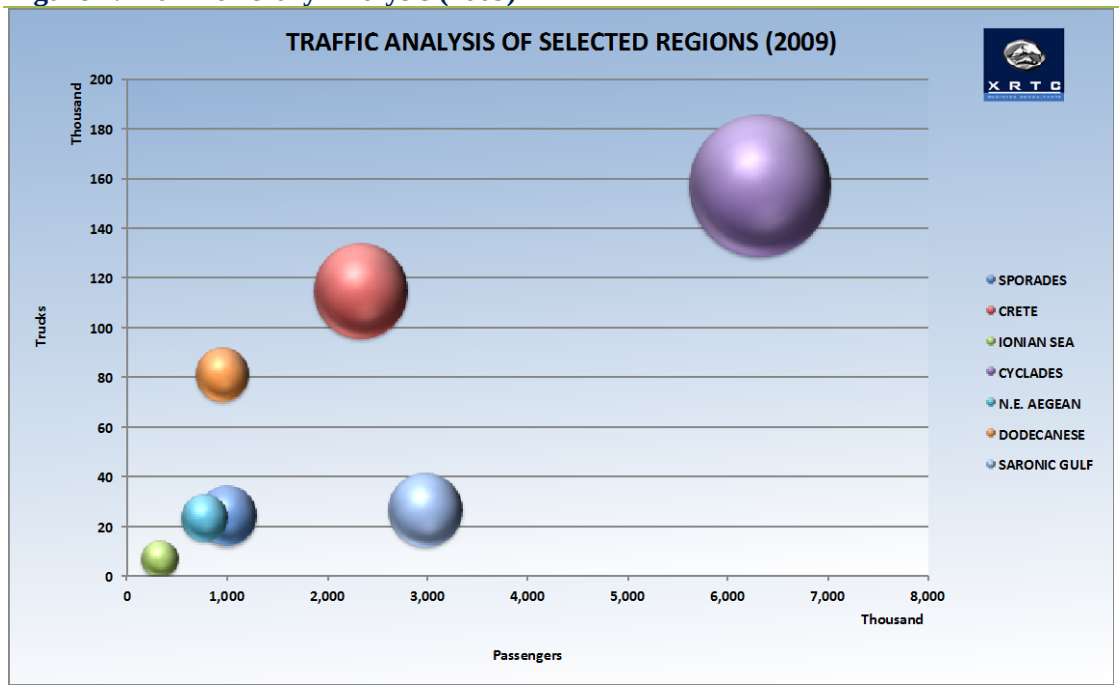
Figure 1: Greek Ferry Traffic Figures (2004-2009)



Source: XRTC Ltd. based on N.S.S.G and Port Authority data

A more detailed presentation of the main itineraries is presented in Figure 2. As seen, itinerary analysis is based on annual passenger, car and truck traffic volumes. It is clarified that passenger traffic is shown on the horizontal axis, car traffic on the vertical axis and truck volume is depicted on the bubble size. Cyclades appears to be leading with Crete, Saronic Gulf and Dodecanese following. In the last positions we find the areas of the N.E. Aegean, Sporades and Ionian Sea.

Figure 2: Main Itinerary Analysis (2009)

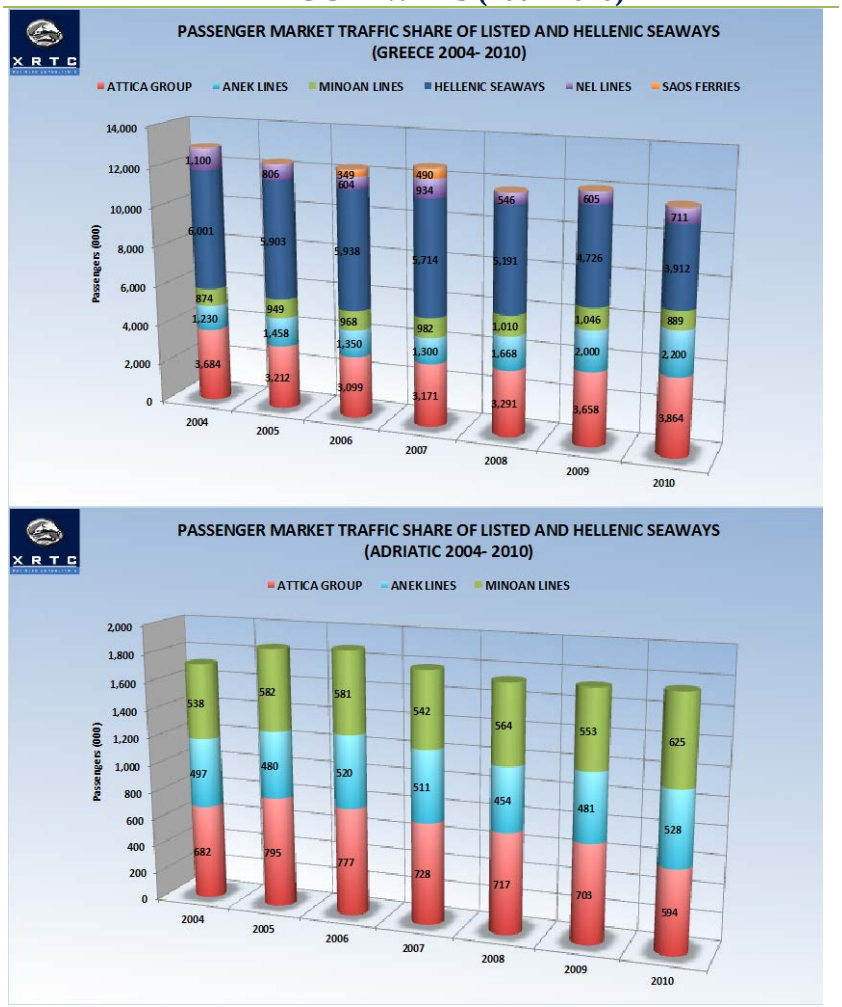


Source: XRTC Ltd. based on N.S.S.G and Port Authority data

2.2. Demand Analysis of Listed Companies and HELLENIC SEAWAYS

The analysis that follows encapsulates the ferry companies listed in the Athens Exchange and HELLENIC SEAWAYS. The results presented in this section focus on the traffic numbers of Greece and Adriatic Sea area

Figure 3: Passenger Traffic Figures of Listed Companies and HELLENIC SEAWAYS (2004-2010)



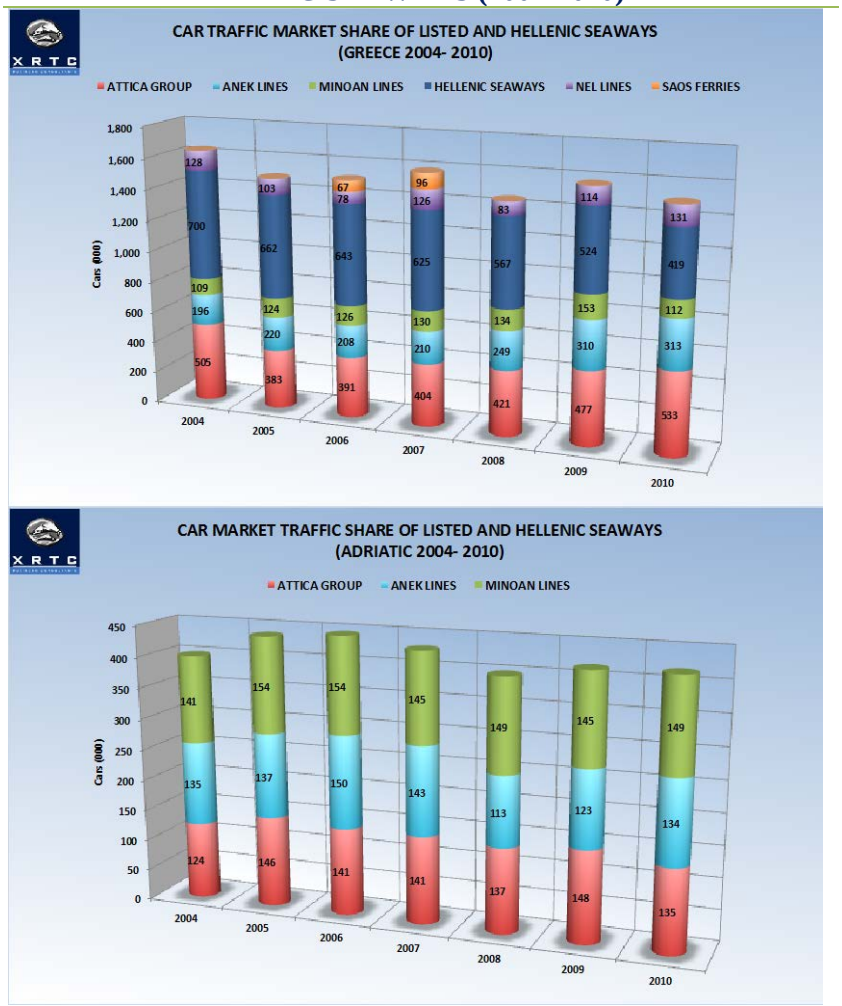
Source: XRTC Ltd.

As presented in Figure 3 passenger traffic for the listed companies and HELLENIC SEAWAYS appears unchanged compared to 2009 with the Greek market decreasing by -4% and the Adriatic sea showing signs of stability.

In the Greek market the ferry operators that show decreasing demand passenger figures are HELLENIC SEAWAYS (-17%) and MINOAN LINES (-15%), whereas ANEK LINES, NEL LINES, and ATTICA GROUP present increased figures by 10%, 18% and 6% respectively.

The numbers in Adriatic Sea remain rather mixed with ATTICA GROUP reporting a decrease of -16% and MINOAN LINES and ANEK LINES presenting increases of 13% and 10% respectively.

Figure 4: Car Traffic Figures of Listed Companies and HELLENIC SEAWAYS (2004-2010)



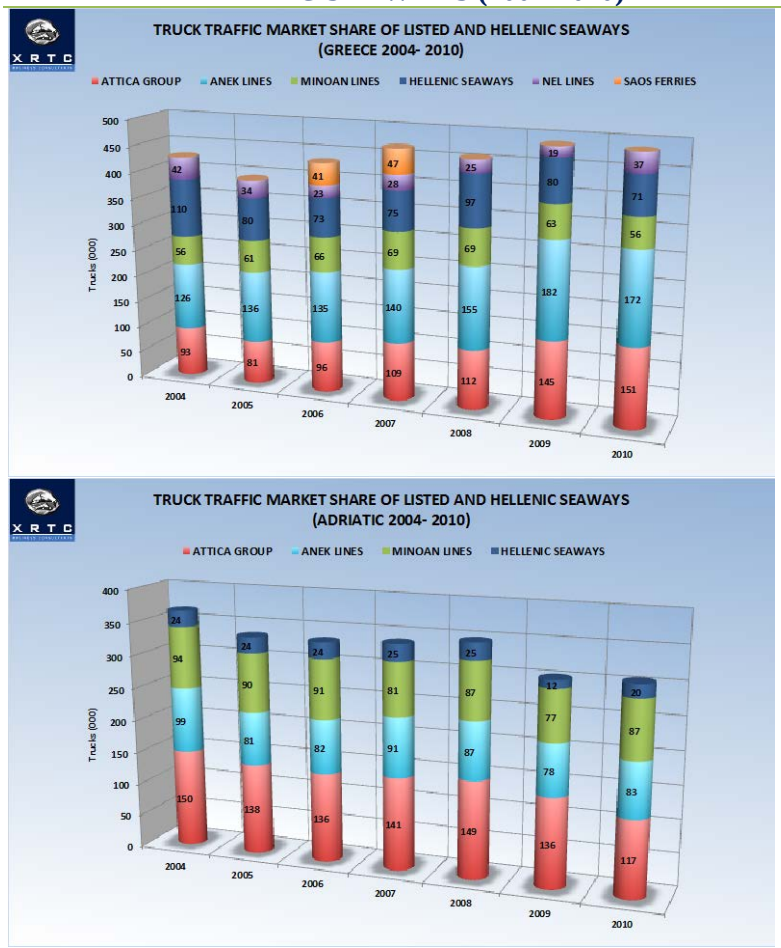
Source: XRTC Ltd.

Car traffic figures decreased by -4% in the Greek market whereas there is a marginal increase of 1% in the Adriatic Sea. (Figure 4).

In the local market the ferry companies, which illustrate decreased car demand figures are HELLENIC SEAWAYS (-20%) and MINOAN LINES (-27%). ANEK LINES, NEL LINES and ATTICA GROUP show increases of 1%, 14% and 12% respectively

In Adriatic Sea the situation remains discouraging and mixed with ANEK LINES and MINOAN LINES reporting increases of 9% and 3% respectively, while ATTICA GROUP reports a -9% decrease.

Figure 5: Truck Traffic Figures of Listed Companies and HELLENIC SEAWAYS (2004-2010)



Source: XRTC Ltd.

Of special interest are the volumes in truck numbers in the itineraries of the Greek market, which are rather mixed (Figure 5). MINOAN LINES and HELLENIC SEAWAYS have reported decreases of -11% and -5% respectively, whereas NEL LINES has doubled its volumes and ATTICA GROUP has reported an increase of 4%.

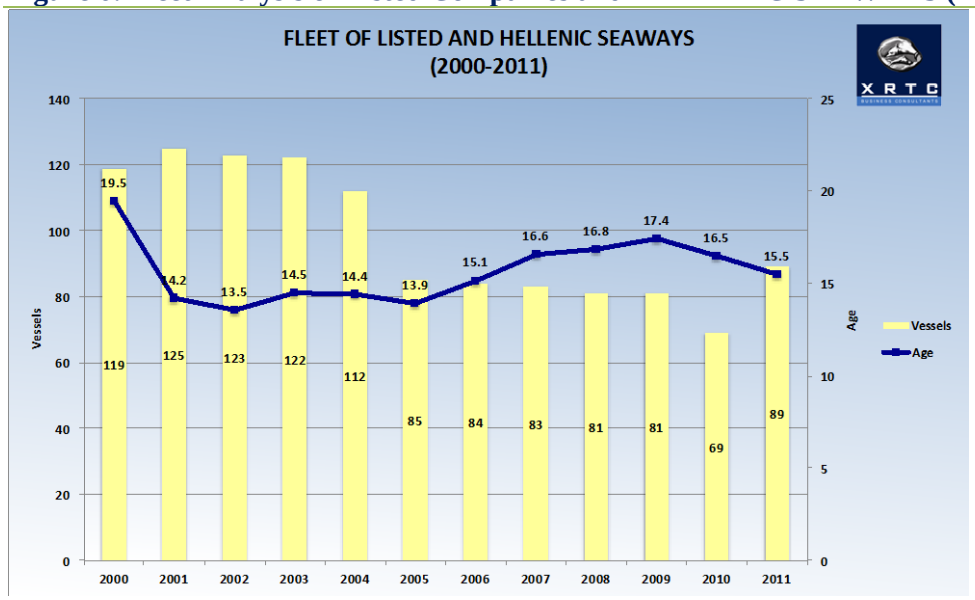
Adriatic market shows signs of maturity in all itineraries where the Greek ferry companies operate with the overall picture being rather mixed (Figure 5). ATTICA GROUP has reported a decrease of -14% whereas ANEK LINES, MINOAN LINES and HELLENIC SEAWAYS report increases of 6%, 13% and 64% respectively.

It is worth pointing out that the significant increase in traffic numbers for NEL LINES compared to the rest of the companies is mainly due to higher utilisation of its fleet, which is attributed to the lengthen of the operating period of its high speed vessels, the return of chartered capacity from abroad and the introduction of vessels which were under significant repairs

2.3. Supply Analysis of Listed Companies and HELLENIC SEAWAYS

As presented in Figure 6, after a period of six years where fleet numbers were steadily decreasing, in 2011 we see a reversal of this trend by 28%. This impressive increase is attributed to NEL LINES. The company strengthened its fleet by 15 vessels aiming at covering the gap created by the exits of SAOS FERRIES, KALLISTI FERRIES and GA FERRIES. As far as the rest of the companies are concerned marginal changes are reported depending on the strategic philosophy adopted by each one of them.

Figure 6: Fleet Analysis of Listed Companies and HELLENIC SEAWAYS (2000-2011)

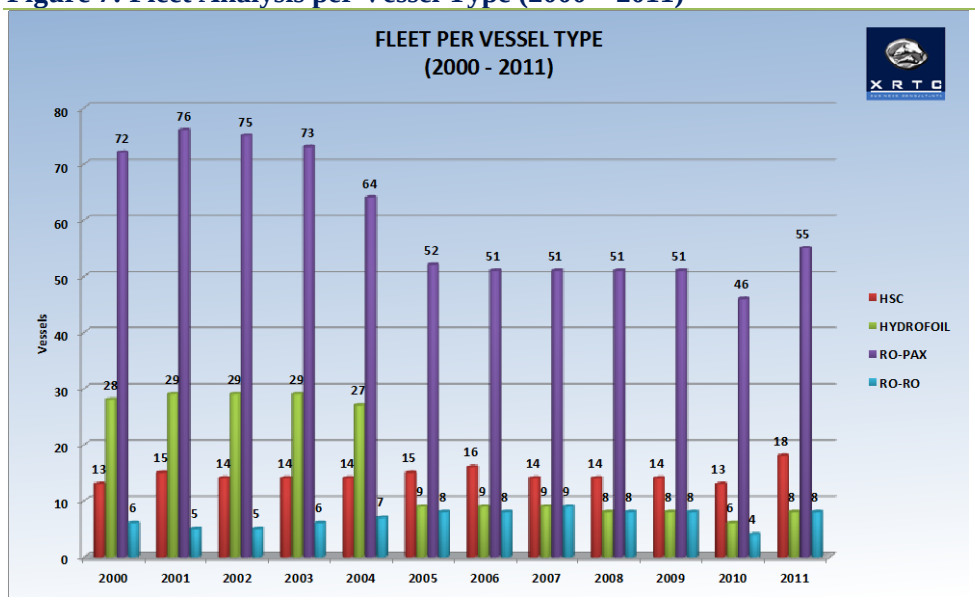


Source: XRTC Ltd.

The increase in capacity is also observed in the vessel types that companies prefer to operate. As illustrated in Figure 7, in 2011 the number of RO/PAX, RO/RO and HSC has increased. The current economic conditions have forced companies to aim for strategies, which will enable them to operate younger in age vessels with lower operating expenses. It is worth mentioning here that companies continue to focus on strategies of efficient asset utilisation via:

- The dual sale, purchase and charter of vessels
- The geographic diversification of the fleet at local and regional level
- The cooperation in itineraries with intense competition

Figure 7: Fleet Analysis per Vessel Type (2000 – 2011)



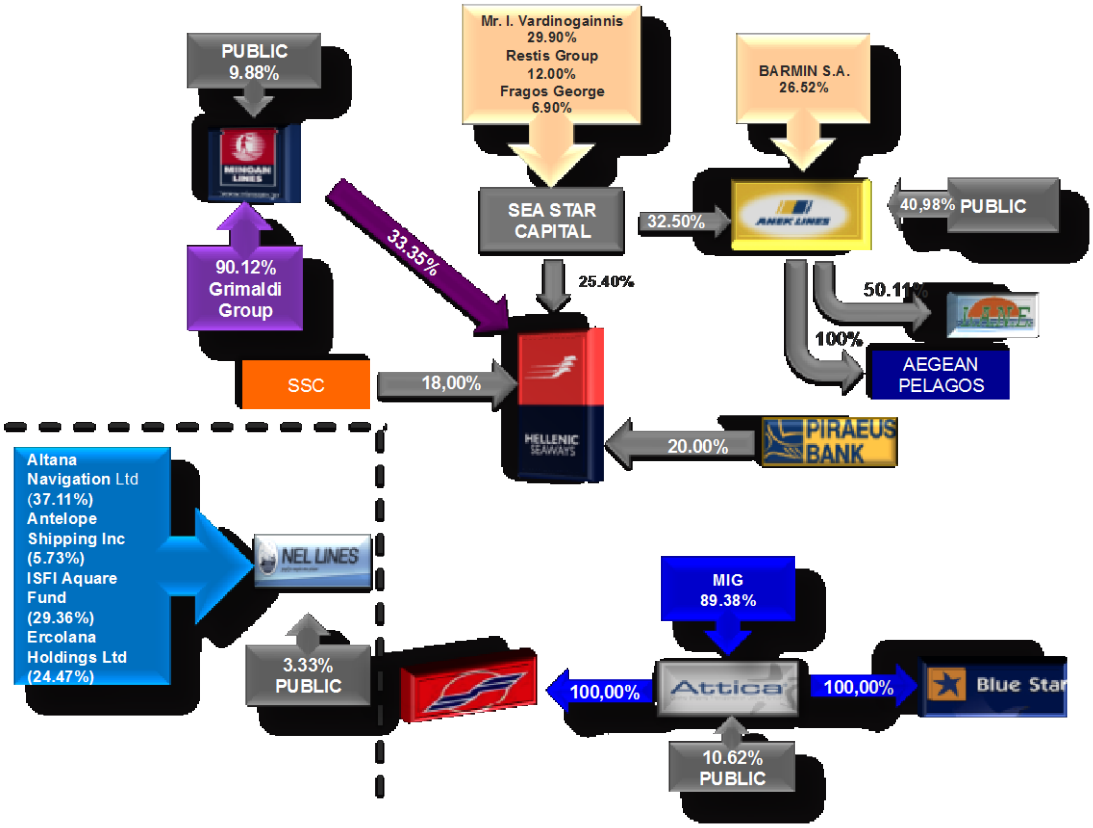
Source: XRTC Ltd.

Characteristic is the case of NEL LINES which in 2010 chartered a significant number of vessels; RO/PAX type EUROPEAN EXPRESS, ALCYONI, AQUA JEWEL, ΚΥΚΛΑΔΕΣ EXPRESS, AQUA MARIA, ROPAX 1, ROPAX 2, KOSTANTINOS G, PENELOPE and ARPERIA and RO/RO type IPPOTIS, COLOSSUS and MYCONOS. HELLENIC SEAWAYS converted RO/RO HELLENIC VOYAGER into a RO/PAX type vessel under the name of NISSOS RHODES, which has been deployed in the Dodecanese area, while ATTICA GROUP sold SUPERFERRY II and is expecting the arrival of the second RO/PAX BLUE STAR PATMOS in 2012 following RO/PAX BLUE STAR DELOS, which will be delivered this year.

2.4. Market Shareholder Structures

During the last 12 months there is limited reported activity in the shareholder structures of the Greek ferry companies with two developments standing out. The first one relates to the non-completion of the sale of the MINOAN LINES stake at HELLENIC SEAWAYS to ANEK LINES due to the market conditions. The second development is the dominance of Mr. Miltiadis-Michael Vegger in NEL LINES with just four stakeholders controlling 97% of the company. Today the Greek Ferry sector is dominated by five main groups of companies as presented in Figure 8.

Figure 8: Shareholder Structure 2011



Source: XRTC Ltd.

Table 1 presents a detailed road map of the strategies that has been adopted by ferry operators since 2005. The mergers, acquisitions and co-operations are the result of different reasons among which are market maturity levels, high competition levels and perceived business opportunities.

TABLE 1: SHAREHOLDER STAKE EVOLUTION (2005-2011)

02.2005	ATTICA GROUP owns 9.51% of MINOAN LINES
05.2005	Participation by 18.9% of Edgewater Holdings Inc in ANEK Lines Persons involved: A. Ventouris/ I. Vardinogiannis
09.2005	ATTICA GROUP owns 11.61% of MINOAN LINES
02.2006	Acquisition of C-LINK by NEL LINES Persons involved: A. Ventouris
02.2006	Acquisition by Laskaridis group 12.23% of HELLENIC SEAWAYS Persons involved: P. Laskaridis/P. Panagopoulos
07.2006	BLUE STAR FERRIES purchases DANE ships
12.2006	Participation by 14.24% of ATTICA GROUP in MINOAN LINES
02.2007	Participation by 22.25% of ATTICA GROUP in MINOAN LINES
03.2007	Participation of ATLANTICA DI NAVIGAZIONE in ANEK LINES Persons involved: E. Grimaldi/I. Vardinogiannis
07.2007	Acquisition by Laskaridis group 22.25% of MINOAN LINES Persons involved: P. Laskaridis/P. Panagopoulos
10.2007	Acquisition of ATTICA GROUP by MIG (51.64%) Persons involved: A. Vgenopoulos/P. Panagopoulos
12.2007	Laskaridis exits the ferry sector. Sale of MINOAN LINES and HELLENIC SEAWAYS stakes Persons involved: P. Laskaridis/I. Vardinogiannis
01.2008	MIG raises its stake in ATTICA GROUP at 91.1% and at BLUE STAR FERRIES at 84.45%
02.2008	Exchange of share stakes between MINOAN LINES and ANEK LINES Persons involved: E. Grimaldi/I. Vardinogiannis
04.2008	Participation of ANEK LINES in NEL LINES Persons involved: A. Ventouris/I. Vardinogiannis
12.2008	Merger of BLUE STAR FERRIES and ATTICA GROUP under ATTICA GROUP
04.2009	Agreement of purchase of the MINOAN LINES stake in HELLENIC SEAWAYS by ANEK LINES. ANEK LINES participation in HELLNIC SEAWAYS is estimated at 66%. Persons involved: E. Grimaldi/I. Vardinogiannis
09.2009	Sale of 19,98% stake Edgewater Holdings Inc in NEL LINES to Antelope Shipping Inc. Persons involved: A. Ventouris/Miltiadis-Michael Vegger
02.2010	Piraeus Bank participates with 11% in HELLENIC SEAWAYS Persons involved: SEA STAR/PIRAEUS BANK
05.2010	Grimaldi Compagnia di Nagigazione raises its stake in MINOAN LINES at 90% Persons involved: E. Grimaldi
05.2010	A. Ventouris represents via CERBERUS & PARTNERS 5.02% in NEL LINES Persons involved: A. Ventouris
11.2010	Cancellation of agreement between MINOAN LINES and ANEK LINES regarding the sale of HELLENIC SEAWAYS stake of the former to the latter. Persons involved: E. Grimaldi/ I. Vardinogiannis
02.2011	NEL LINES stock is under supervision due to cartel practices between Altana Navigation Limited, Ercolana Holdings Ltd, ISFI Square Fund Ltd and Antelope Shipping Inc.

Source: XRTC Ltd.

In Table 2 the fleet size for each of the five main groups is presented. It must be mentioned though that there are smaller companies size-wise with significant contribution to the market. Our estimation is that there is still ground for more mergers and acquisitions in the immediate future, which are necessary for the survival of the companies under the new economic conditions. The cooperation between ANEK LINES and ATTICA GROUP is such an example.

TABLE 2: FLEET PER GROUP

	Fleet
ANEK LINES	14
ATTICA GROUP	13
MINOAN LINES	7
NEL LINES	22
HELLENIC SEAWAYS	33

Source: XRTC Ltd.

3. MARKET FINANCIAL ANALYSIS

According to European legislation 1606/2002 and based on the Greek state law 3229/2004 (as amended from state law 3301/2004) Greek companies listed in any Stock Market (Local or abroad) are obliged to publish their consolidated financial statements based on the international financial standards as of 01.01.2005. Thus the financial data used in this report starting from 2004 onwards are published based on these international standards. The financial analysis to follow focuses on the following basic categories:

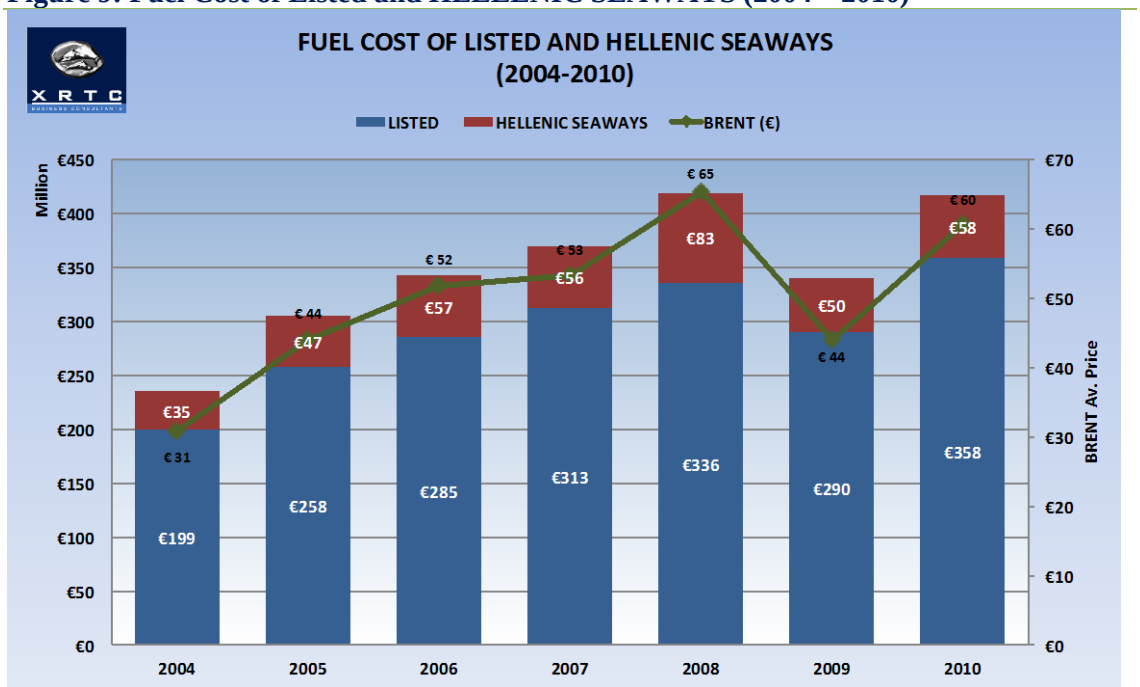
- Cost analysis,
- Total turnover from operations,
- EBITDA,
- Net results before tax
- Bank debt
- Financial ratios

The report will present the market analysis which consists from data deriving from the five listed ferry companies in the Athens Exchange – namely ANEK LINES, ATTICA GROUP, BLUE STAR FERRIES, MINOAN LINES, NEL LINES and HELLENIC SEAWAYS, the sole non-listed ferry company which is also part of our analysis due to its fleet size, its numerous destinations as well as its financial performance.

3.1. Cost Analysis

The price increase of bunkers during the past years has substantially burdened the financial results for each and every company individually. The 30% increase in BRENT prices compared to 2009 has asked significant pressure on Greek ferry Companies especially those operating high speed vessels the consumption of which is notably higher than that of conventional vessels. Of interest is the fact that even the strong Euro was not enough to offset the high fuel prices as it did in the previous years. Figure 9 shows the bunker cost evolution since 2005 in absolute numbers along with the BRENT evolution during that period expressed in Euros.

Figure 9: Fuel Cost of Listed and HELLENIC SEAWAYS (2004 – 2010)



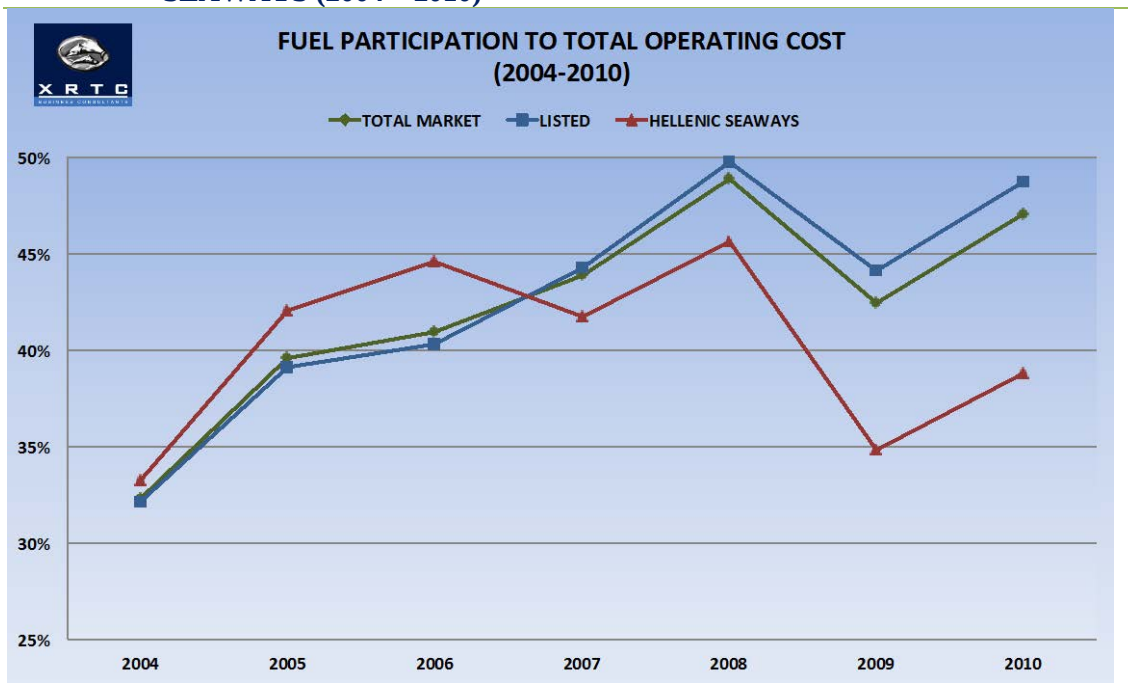
Source: XRTC Ltd.

A better understanding of the effect that bunkers have on the total expenses is provided in Figure 10. As seen the contribution of bunkers after a period of continuous increase from 32% in 2004 to 48% in 2010. This has forced companies to seek for different strategies at operational level in order to minimise costs. Among those strategies are:

- the decrease in fleet numbers
- the slow steaming
- the investment in new technology vessels which are cheaper to operate
- the cooperation with other companies in specific itineraries
- the rationalisation of fleet scheduling

It is worth pointing here that HELLENIC SEAWAYS is the company that appears to be affected less by the increasing fuel prices compared to the listed ones.

Figure 10: Fuel Cost Contribution to Total Operating Costs for Listed and HELLENIC SEAWAYS (2004 – 2010)

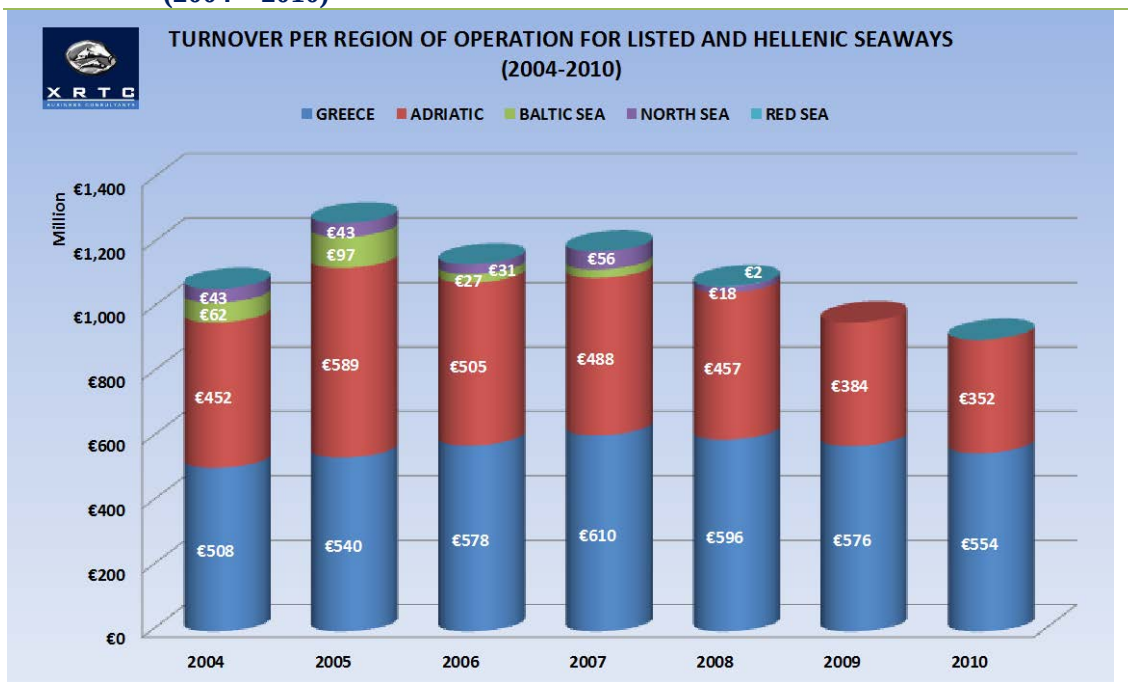


Source: XRTC Ltd.

3.2. Turnover from Operations

Revenues for the five listed companies and HELLENIC SEAWAYS continue the downward trend reaching the level of just above €900 million (Figure 11). This decrease in revenues is attributed mainly to the lack of geographic diversification strategies and to the decrease in revenues stemming from the two main areas of operation; Greece and Adriatic Sea.

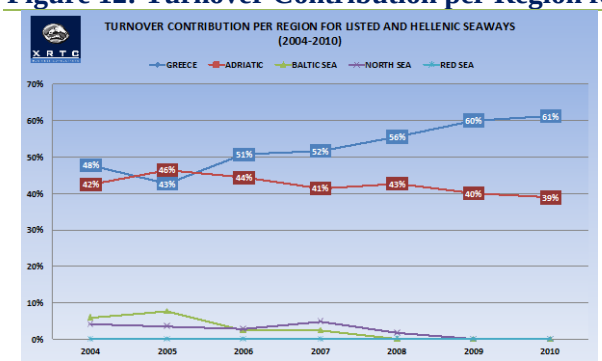
Figure 11: Turnover per Region of Operation for Listed and HELLENIC SEAWAYS (2004 – 2010)



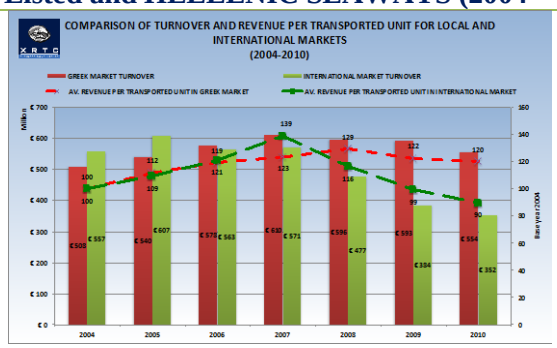
Source: XRTC Ltd.

Of interest are Figures 12a and 12b where revenue sources are seen. Characteristic is the case of the Adriatic Sea where revenues represent 39% of total operations due to the decreasing demand and increasing levels of competition. These reported revenue levels from the specific region are the lowest since 2004. This is also seen in Figure 12b where the average revenue per transported unit has decreased at 90% level compared to 2004 in Adriatic Sea. Despite the fact that the respective performance in the Greek market is improved by 20% by itself is not enough to offset any losses in the Adriatic Sea.

Figure 12: Turnover Contribution per Region for Listed and HELLENIC SEAWAYS (2004 – 2010)



(α)



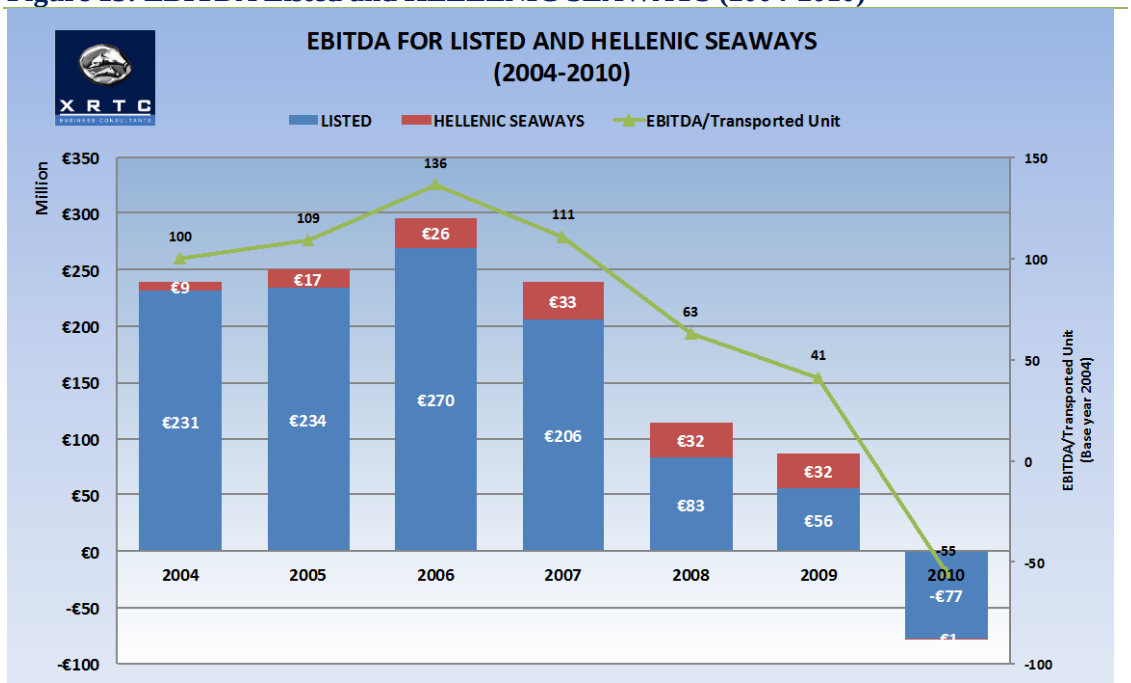
(β)

Source: XRTC Ltd.

3.3. EBITDA

EBITDA results are the worst in decades! As seen in Figure 13 the per transported unit EBITDA results are at a negative territory being three time lower compared to 2004 which is the base year.

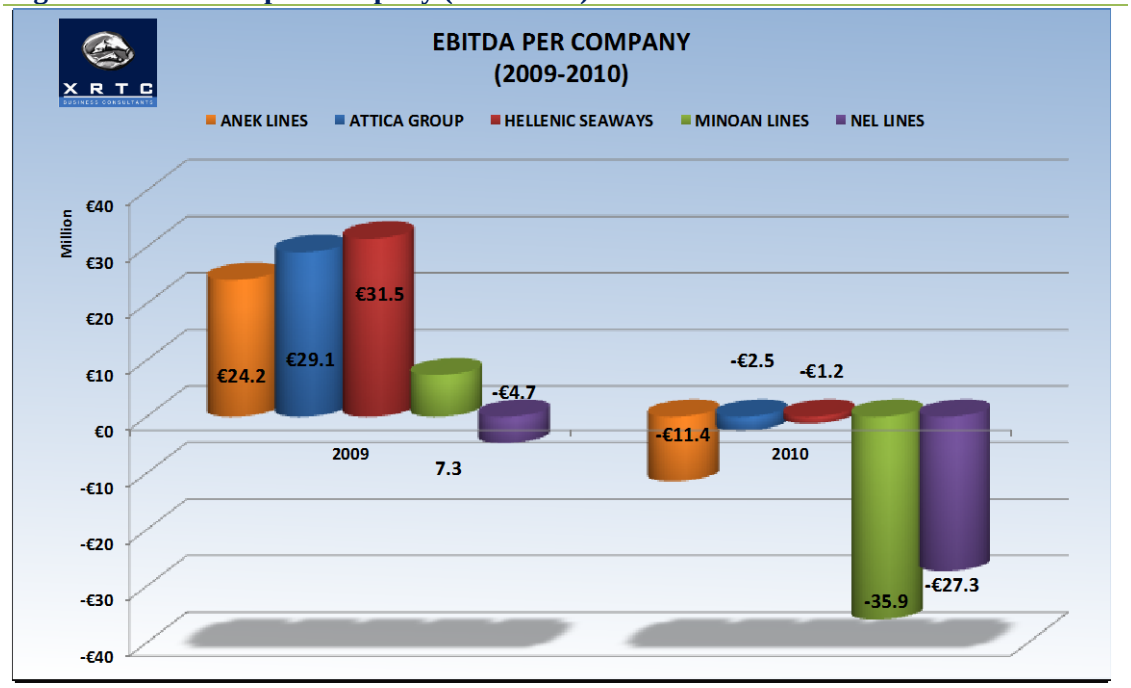
Figure 13: EBITDA Listed and HELLENIC SEAWAYS (2004-2010)



Source: XRTC Ltd.

Characteristic is the case of ANEK LINES which reports a decline in the EBITDA results by -147% compared to a year ago, MINAON LINES and NEL LINES are much worse with -590% and -486% respectively and ATTICA GROUP and HELLENIC SEAWAYS joining the group with -109% and -104% respectively. This picture, which is expected to continue in the near future, is the result of two key factors; the decreasing demand and the aggressive pricing policies adopted during the last couple of years by companies in key itineraries. The offering of very cheap tickets is of marginal or no actual profit for them. It should be remembered that such policies could not be part of long-term viable strategies. On the contrary they can potentially become a threat for the survival of any company.

Figure 14: EBITDA per Company (2009-2010)

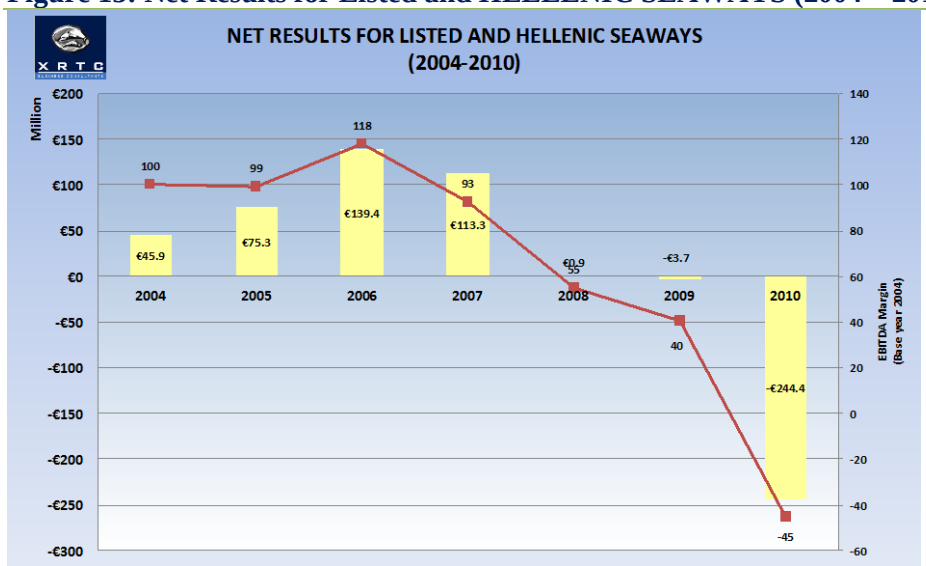


Source: XRTC Ltd.

3.4. Net Results before Tax

Net results are bound to continue the negative trend, which began in 2007 as seen in Figure 15. The entire sector reports negative net results before tax; ANEK LINES (-88 mil.), ATTICA GROUP (-44 mil.), NEL LINES (-43 mil.), MINOAN LINES (-40 mil.) and HELLENIC SEAWAYS (-27 mil.). This picture is the result of the decreasing demand and the aggressive pricing policies adopted during the last couple of years by companies in itineraries with high levels of competition.

Figure 15: Net Results for Listed and HELLENIC SEAWAYS (2004 – 2010)



Source: XRTC Ltd.

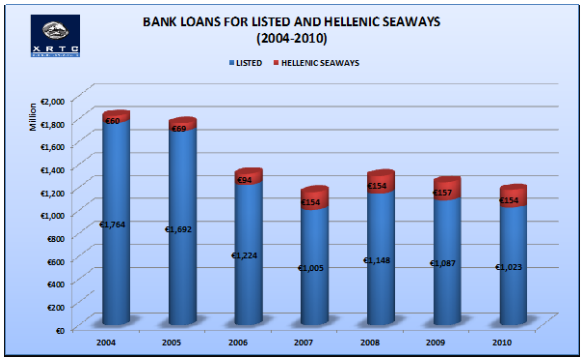
3.5. Bank Debt

As presented in Figure 16a, bank liabilities decreased by -5% compared to 2009. Bank loan levels have stabilised significantly during the last years due to:

- loan restructuring and smooth payment of liabilities
- sale of vessels where part of the cash received was used for the reduction of loan exposure

As seen in Figure 16b bank exposure in the ferry sector shows a marginal decrease due to the decrease in loan bank debt exposure of MINOAN LINES (-3%), ATTICA GROUP (-8%), NEL LINES (-26%) and HELLENIC SEAWAYS (-2%). The impressive improvement in NEL LINES debt is due to the decrease in ling-term debt by 20% and the decrease of short-term debt by as well compared to 2009.

Figure 16: Bank Loans of Listed and HELLENIC SEAWAYS (2004-2010)



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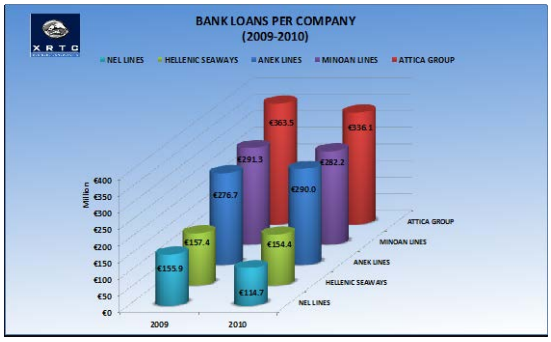


(β)

(γ)

Source: XRTC Ltd.

There is no doubt that shipping finance has been affected by the recent financial and economic crisis. The Greek ferry was bound to be affected even more due to the inability of the Greek State to proceed to the so needed structural reforms, which could have enabled the competition of the market. The late reaction by the State in 2006 in enhancing the competition was too late for the banking industry to return to the specific market. Today the sector is faced with significant lack of support from the banking industry leading to lack in further investments related to fleet renewal strategies.

Of significance is the capitalisation of ANEK LINES debt and HELLENIC SEAWAYS by Piraeus Bank in 2010, which returned via this action to the shareholders' index of the ferry sector. Among the positive issues is the fact

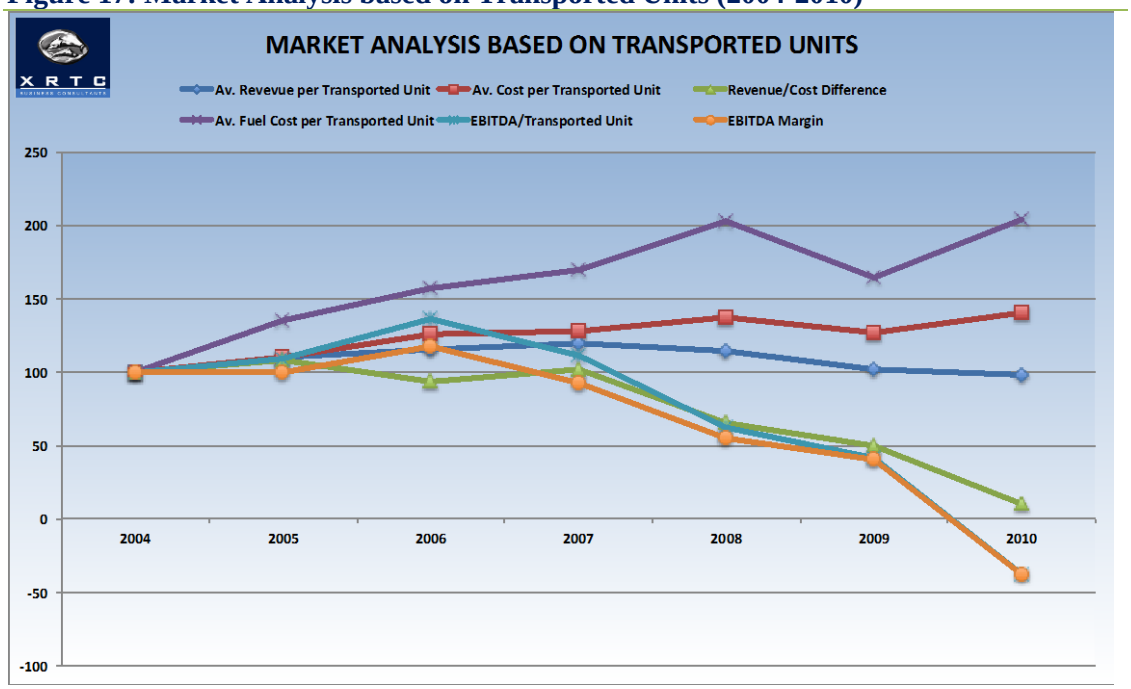
that most banks avoided the liquidation of assets using tools like debt restructuring in order to assist the efforts of their customers during this difficult period.

Another important issue is that from now on the loans for the Greek ferry sector will be more expensive by 300% and 400% compared to 2006. This implies that any new investment opportunity should be accompanied by limited uncertainly levels.

3.6. Company Comparative Analysis

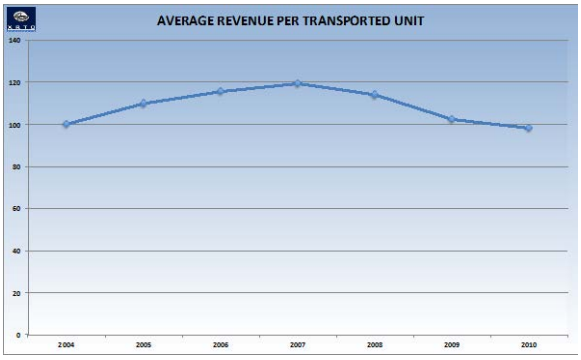
Figure 17 illustrates the main reasons, which have led to the status the ferry sector stands today. The analysis of operating costs, fuel costs, revenues and EBITDA presented is based on the transported units. It is reminded here that transported units are the sum of passengers, trucks and cars serviced by the ferry companies. The results show that the average revenue per transported unit has reached the levels of 2004, which is used as the base year. Operating expenses per transported unit have risen by 50% compared to 2004, which mainly attributed to the doubling of fuel costs during the respective period. The decrease is revenue and the increase in costs has shrunk EBITDA margin per transported significantly reaching negative levels. This practically means that companies are no longer able to operate not only in the short but in the long run either due to the lack of capital for the financing of current assets and future investments.

Figure 17: Market Analysis based on Transported Units (2004-2010)



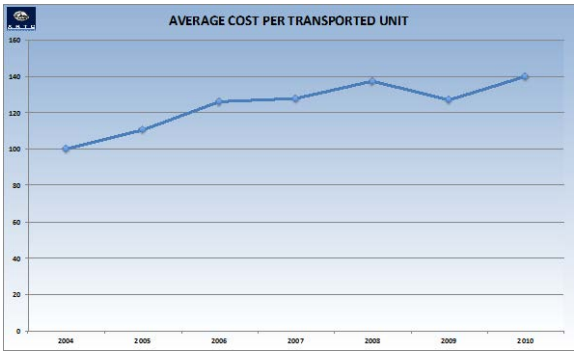
Source: XRTC Ltd.

Figure 17a: Average Revenue per Transported Unit



Source: XRTC Ltd.

Figure 17b: Average Cost per Transported Unit

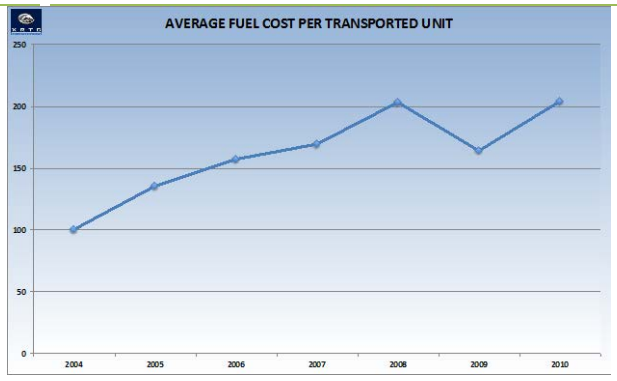


Source: XRTC Ltd.

Figure 17c: Revenue/Cost Differnece per Transported Unit

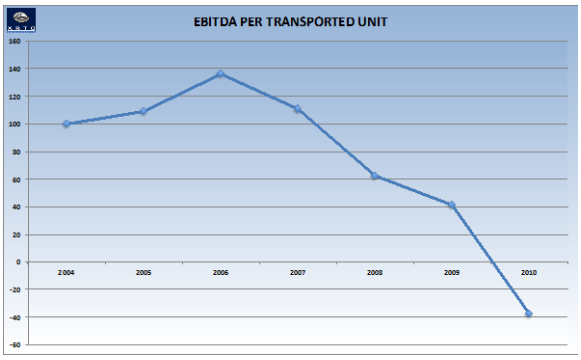
Source: XRTC Ltd.

Figure 17d: Average Fuel Cost per Transported Unit



Source: XRTC Ltd.

Figure 17e: EBITDA per Transported Unit



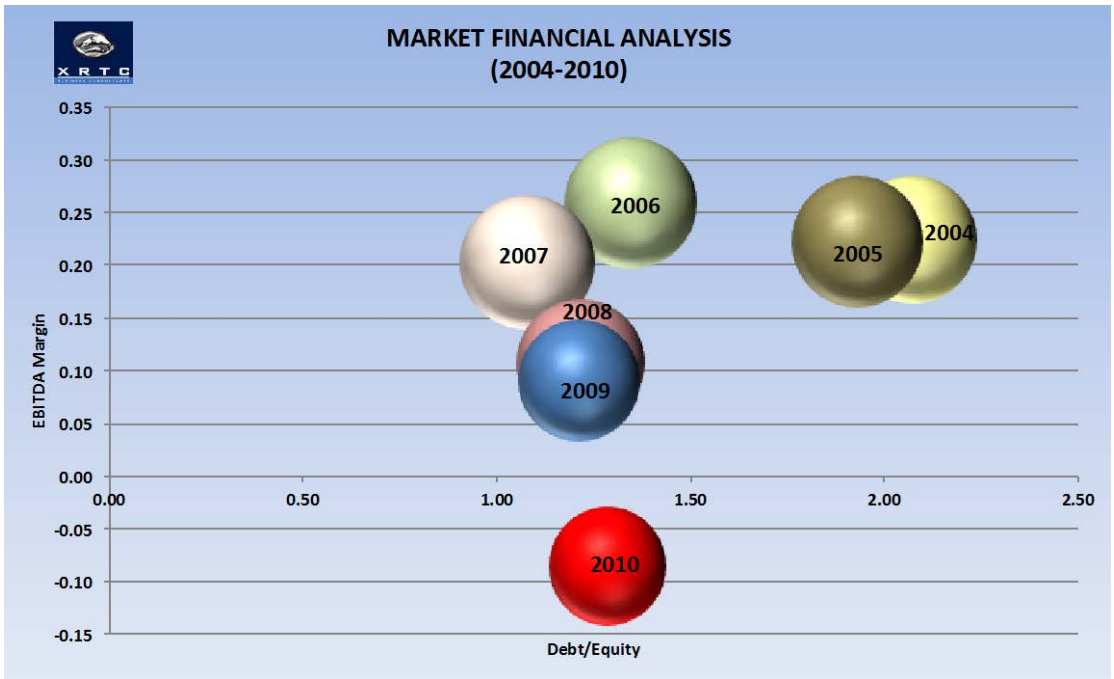
Source: XRTC Ltd.

Figure 17f: EBITDA Margin per Transported Unit

Source: XRTC Ltd.

Analysing the market as a whole (Figure 19) a further decrease of -5% in the revenues of 2010 is seen compared to 2009, which in real terms is less by €300 mil compared to 2007. EBITDA results present also a decrease for fifth consecutive year reaching an all time negative record. Since 2005 companies have begun an effort to minimize their bank loans either via the sale of vessels or via the restructuring of their loans. This effort appears to be somehow fruitful as the picture in that aspect is rather improved.

Figure 18: Market Financial Analysis (2004-2010)



Source: XRTC Ltd.

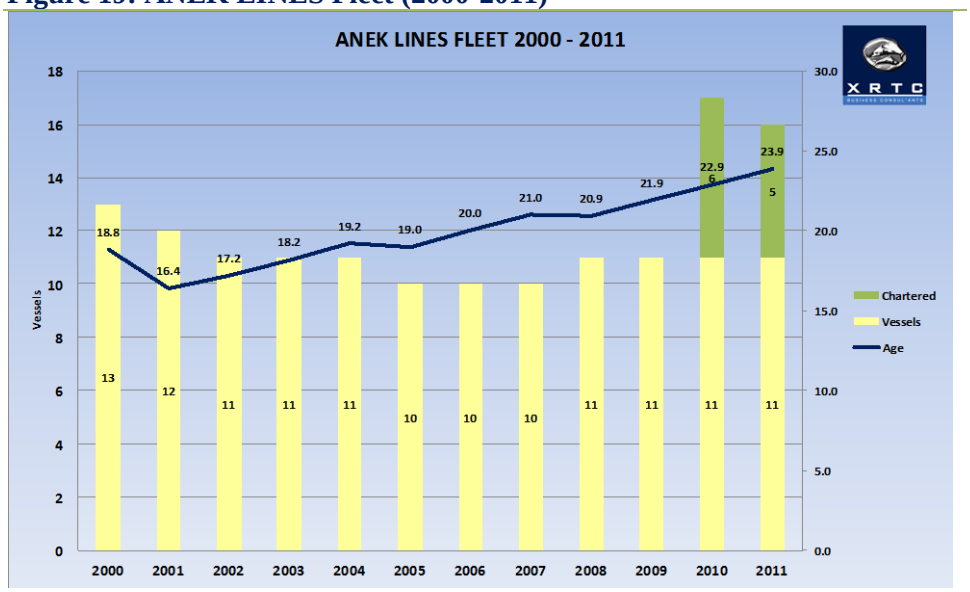
The overall picture of the sector indicates that any profit margins have disappeared and significant losses have taken place leading the industry to disaster. In the case banks were after even the partial payment of the loans the Greek ferry would have been put under serious pressure. It should be pointed out here that in order companies to be viable and at the same time be able to make new investments they should aim for an EBITDA margin of at least 25%.

4. COMPANY PRESENTATION AND ANALYSIS

4.1. Listed

4.1.1. ANEK LINES

Figure 19: ANEK LINES Fleet (2000-2011)



Source: XRTC Ltd.

ANEK LINES continues the chartering strategy of vessels in order to meet its needs. The company operates 16 vessels in total of which 11 are owned with an average age of 23 years being among the highest of the sector (Figure 19).

The company has chartered HIGHSPEED 1 and ARTEMIS from HELLENIC SEAWAYS and also manages IERAPETRA and V. KORNAROS from the sister company LANE LINES. In addition it operates a Ro/Ro vessel, which is deployed in the N.E. Aegean region.

TABLE 3: ANEK LINES FLEET DEPLOYMENT 2011

Type	Number	Region
RO-PAX	4	Adriatic
RO-PAX	4	Crete
RO-PAX	2	N.E. Aegean
RO-PAX	3	Cyclades
RO-PAX	2	Dodecanese
RO-PAX	1	Chartered

Source: XRTC Ltd.

As presented in Table 3, four vessels are deployed in the area of Adriatic Sea, four in Crete, two in N.E. Aegean, two in Dodecanese, three in Cyclades and one is chartered abroad (EL. Venizelos)

During the last couple of years the company examines the possibility of extending its geographic diversification strategy away from Adriatic and Crete. N.E. Aegean routes, along with the subsidised itineraries connecting Crete with other regional islands form the key areas of this strategy. In the N.E. Aegean the company has deployed a Ro/Ro vessel after the exit of Ro/Pax Lissos.

In 2010 the financial results are negative for forth consecutive year. As seen in Table 4 revenues drop by -4%, EBITDA by an impressive -147% and net results by -130%. Clear is the effort aiming at the controlling of operating expenses, which increase by 7% and fuel costs by 22% compared to a year ago. Long-term liabilities increased by 10% after an 8% decrease last year, which is attributed to the first instalment for the purchase of the 33.35% of HELLENIC SEAWAYS. Unfortunately for the company this move was never completed.

TABLE 4: ANEK LINES BASIC FIGURES (2009-2010)

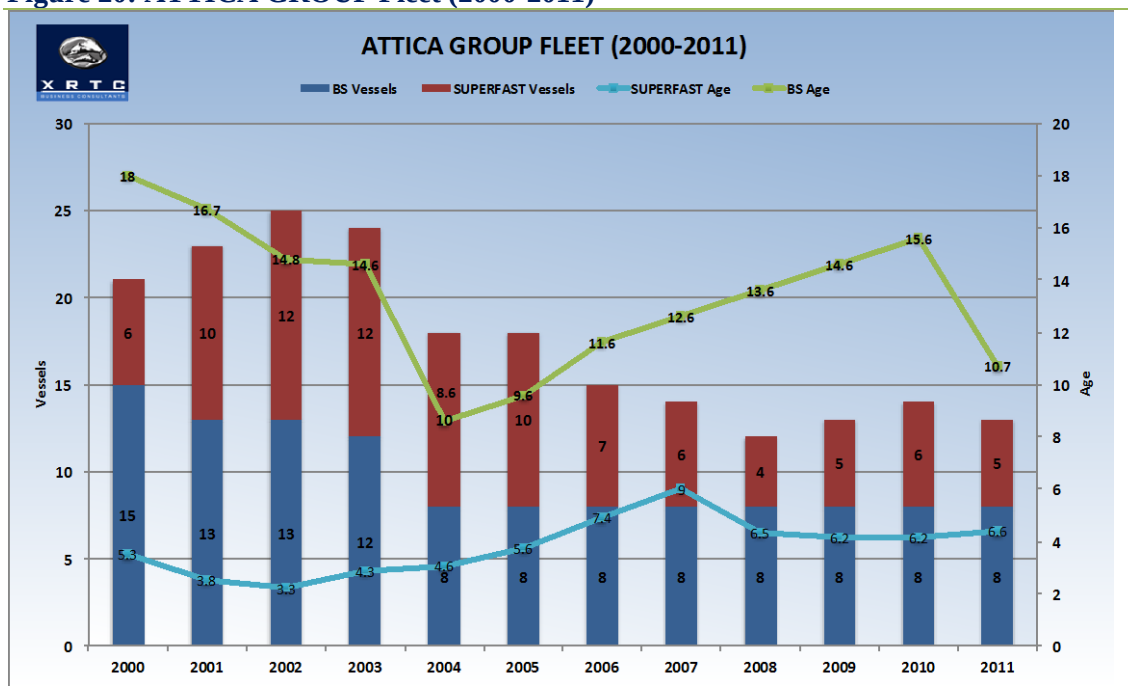
	2009	2010	Δ%
Passenger Traffic	2,500,000	2,700,000	8%
Car Traffic	433,000	447,000	3%
Truck Traffic	260,000	255,000	-2%
Turnover	€ 274,572,000	€263,125,000	-4%
EBITDA	€ 24,200,000	-€11,400,000	-147%
Net Results	-€ 4,965,000	-€11,400,000	-130%
Cost of Sales	€ 225,050,000	€240,769,000	7%
Fuel Cost	€ 98,509,000	€119,898,000	22%
Long-term Liabilities	€ 206,372,000	€227,184,000	10%

Source: XRTC Ltd.

4.1.2. ATTICA GROUP

Today the company operates a fleet of 13 vessels out of which five belong to SURERFAST FERRIES and eight to BLUE STAR FERRIES (Figure 21).

Figure 20: ATTICA GROUP Fleet (2000-2011)



Source: XRTC Ltd.

The average fleet age is one of the lowest in the sector sticking to the company's philosophy since its early beginning. In March the company completed the sale of Superferry II and is waiting for the delivery of BLUE STAR DELOS and BLUE STAR PATMOS. The company continues to operate in Adriatic Sea with four vessels, in Cyclades with four as well, three are deployed in Dodecanese and two in Crete (Table 5).

TABLE 5: ATTICA GROUP FLEET DEPLOYMENT 2011

Type	Number	Region
RO-PAX	4	Adriatic
RO-PAX	4	Cyclades
RO-PAX	3	Dodecanese
RO-PAX	2	Crete

Source: XRTC Ltd.

The financial results of 2010 are not differentiated much from the market. As presented in Table 7, on one hand there is an increase in passenger and car traffic figures but on the other hand truck demand decreased by -5%. Revenues are lower by -10% for second year in a row, which partly is due to the aggressive pricing policies followed in the areas of high competition (Adriatic and Crete). Operating expenses are reported higher by 1% with fuel cost increasing by 8% compared to 2009. It is worth mentioning that when comparing revenue growth between Greece and Adriatic Sea the former market shows no significant changes whereas the latter a decrease of -15% for a second year in a row mainly due to the increased competition in the region and the global economic crisis. EBITDA results are reported significantly lower to 2009 due to:

- €0.7 million loss in the Adriatic Sea
- €4.2 million loss from financial expenses
- €4.5 million contribution to the Greek State as part of social responsibility fund

TABLE 6: ATTICA GROUP BASIC FIGURES (2009-2010)

	2009	2010	Δ%
Passenger Traffic	4,361,833	4,457,821	2%
Car Traffic	625,497	668,115	7%
Truck Traffic	281,827	267,577	-5%
Turnover	€ 302,478,000	€ 271,521,000	-10%
EBITDA	€ 29,100,000	€ -2,500,000	-109%
Net Results	-€ 23,880,000	-€ 44,400,000	-86%
Cost of Sales	€ 246,183,000	€ 247,597,000	1%
Fuel Cost	€ 110,184,000	€ 119,466,000	8%
Long-term Liabilities	€ 332,362,000	€ 299,008,000	-10%

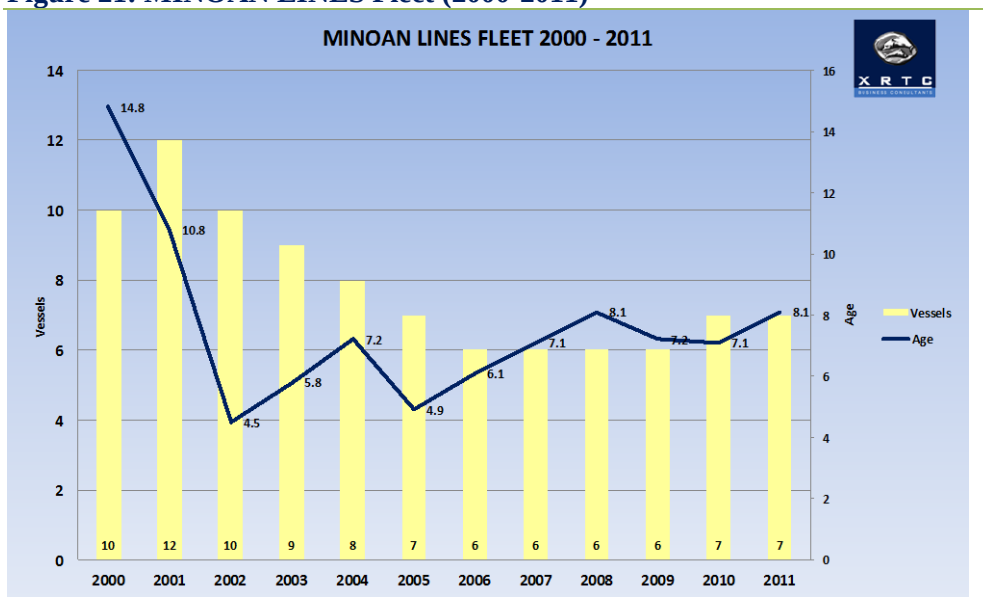
Source: XRTC Ltd.

The company continues its agile strategy in the current uncertain business environment. Of interest is its ability of raising €41.6 million last January strengthening its liquidity enabling its viability in the areas of high competition where it operates.

4.1.3. MINOAN LINES

The company being part of a strong European Group has the ability to implement a rather aggressive policy in the Greek market. The deployment of CRUISE OLYMPIA and CRUISE EUROPA in the Adriatic Sea is part of this aggressive strategy. Today the company operates one of the youngest in age and modern fleets, which is the result of the strategy adopted in recent years in investing in new building projects (Figure 21).

Figure 21: MINOAN LINES Fleet (2000-2011)



Source: XRTC Ltd.

At present the company operates two vessels in the Piraeus-Iraklion itinerary and five in Adriatic Sea (Table 7). The company expressed its interest in deploying its newest vessel OLYMPIA PALACE in the Piraeus-Chania itinerary but later in the year it withdrew this interest due to the high levels of competition staying with the two in service vessels (KNOSSOS PALACE and FESTOS PALACE) in the Piraeus – Iraklion itinerary.

TABLE 7: MINOAN LINES FLEET DEPLOYMENT 2011

Tyoe	Number	Region
RO-PAX	5	Adriatic
RO-PAX	2	Crete

Source: XRTC Ltd.

As presented in Table 8, the company reports higher truck traffic numbers (2%) compared to year ago but significantly lower passenger (-7%) and car (-12%) traffic figures. The impressive EBITDA decrease by -590% compared to 2009 is attributed to the increasing fuel costs by 33% and the significant ticket discounts minimising the profit margin substantially.

TABLE 8: MINOAN LINES BASIC FIGURES (2009-2010)

	2009	2010	Δ%
Passenger Traffic	1,599,000	1,514,000	-7%
Car Traffic	298,000	261,000	-12%
Truck Traffic	139,700	143,000	2%
Turnover	€ 171,278,000	€169,374,834	-1%
EBITDA	€ 7,330,000	-€35,900,000	-590%
Net Results	€ 32,385,000	-€40,816,239	-226%
Cost of Sales	€ 149,834,000	€169,696,719	13%
Fuel Cost	€ 65,605,000	€87,104,258	33%
Long-term Liabilities	€ 7,025,000	€266,592,530	3695%

Source: XRTC Ltd.

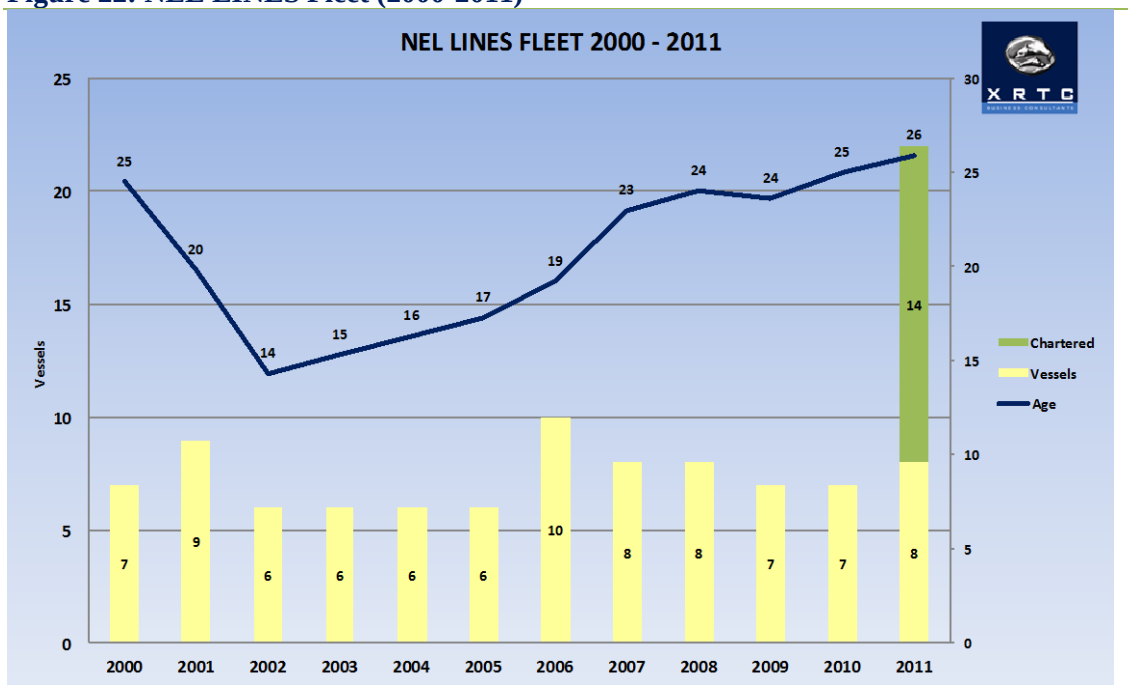
Finally the increase of long-term liabilities by 3695% is not due to new loans but relates to the obligation by the capital market commission to transfer last year's short-term liabilities to long-term liabilities due to the non-compliance of the EBITDA/Net Financial results ratio.

4.1.4. NEL LINES

The company operates a fleet of 22 vessels, with average age of 26 years (Figure 22). The restructuring program, which began four years ago, is still under way aiming at the strengthening of the company's presence in Greece. Part of the program is purchase of RED SEA II, which has been renamed PANAGIA PAROU, the sale of PANAGIA HOZOVIOTISSA and the chartering of the following vessels:

- CYCLADES EXPRESS (HSC)
- ALCYONI (HSC)
- EUROPEAN EXPRESS (RO/PAX)
- AQUA JEWEL (RO/PAX)
- AQUA MARIA (RO/PAX)
- HERCULES (RO/PAX)
- OLYMPOS (RO/PAX)
- KOSTANTINOS G (RO/PAX)
- PENELOPE (RO/PAX)
- ARBERIA (RO/PAX)
- IPPOTIS (RO/RO)
- COLOSSUS (RO/RO)
- MYCONOS (RO/RO)

Figure 22: NEL LINES Fleet (2000-2011)



Source: XRTC Ltd.

As presented in Table 9, the main areas of operation are Cyclades and N.E. Aegean. The company is expected to operate in two new itineraries (Piraeus – Samos – Ikaria and Piraeus – Dodecanese) with RO/RO vessels.

TABLE 9: NEL LINES FLEET DEPLOYMENT 2011

Type	Number	Region
RO-PAX	1	Cyclades
HSC	1	Cyclades
RO-PAX	4	N.E. Aegean
HSC	1	N.E. Aegean
HSC	2	Sporades
RO-PAX	2	Adriatic
RO-RO	3	Cyclades/Dodecanese
RO-PAX	4	Idle
HSC	4	Idle

Source: XRTC Ltd.

As illustrated in Table 10, the company is still under pressure for the third consecutive year. Despite the improvement in revenues by 44%, Net results and EBITDA appear rather disappointing. In reference to traffic numbers passengers, cars and trucks appear to be substantially improved with the main reason behind this positive result being the deployment of its fleet in new areas of operation and the redeployment in areas where it had exited in the past.

TABLE 10: NEL LINES BASIC FIGURES (2009-2010)

	2009	2010	Δ%
Passenger Traffic	605,183	711,488	18%
Car Traffic	114,356	130,746	14%
Truck Traffic	18,586	37,436	101%
Turnover	€ 39,379,000	€56,635,132	44%
EBITDA	-€ 4,659,000	-€27,301,142	-486%
Net Results	-€ 20,321,000	-€43,365,848	-113%
Cost of Sales	€ 36,500,000	€77,779,654	113%
Fuel Cost	€ 15,551,000	€31,912,374	105%
Long-term Liabilities	€ 131,004,000	€116,135,851	-11%

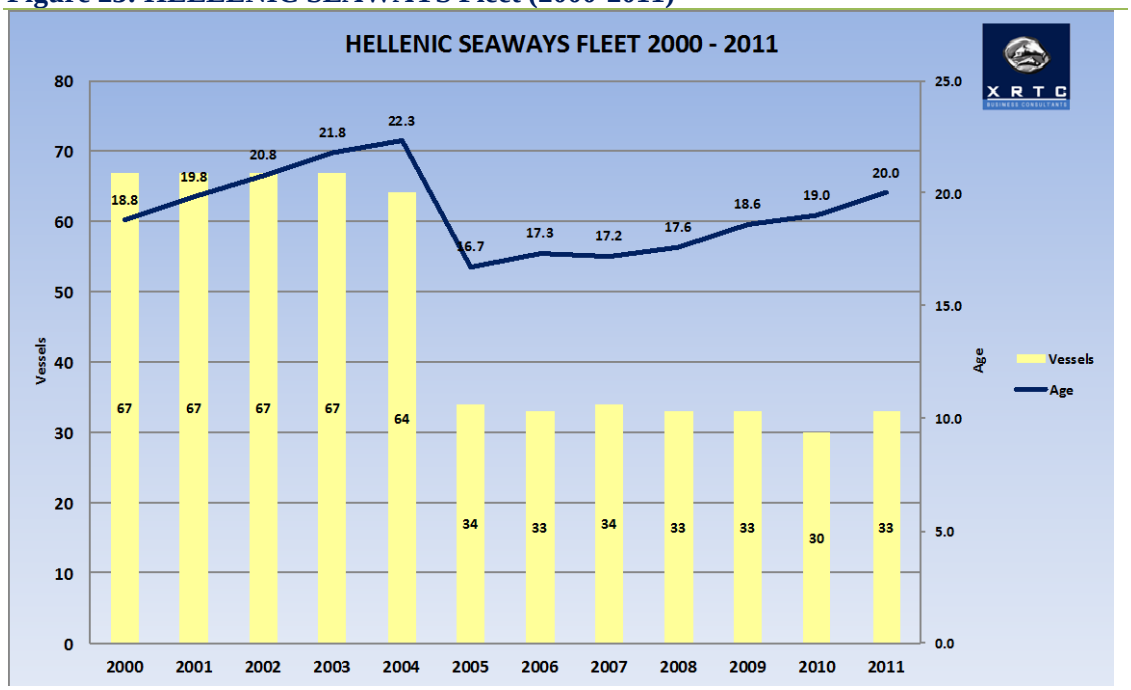
Source: XRTC Ltd.

4.2. Non-Listed Companies

4.2.1. HELLENIC SEAWAYS

HELLENIC SEAWAYS controls the biggest fleet among the Greek ferry operators. As illustrated in Figure 23, today the company operates 33 vessels of different types focusing in the Aegean Sea. Of those 11 are High-speed, eight hydrofoils, 11 RO/PAX and 3 RO/RO after the conversion of RO/RO HELLENIC VOYAGER to RO/PAX NISSOS RODOS.

Figure 23: HELLENIC SEAWAYS Fleet (2000-2011)



Source: XRTC Ltd.

As seen in Table 11 the company operates its fleet in the areas of Cyclades, Saronic, Sporades, Crete, N.E. Aegean and Adriatic Sea with four RO/RO vessels focusing on the demand of trucks and cars.

TABLE 11: HELLENIC SEAWAYS FLEET DEPLOYMENT 2011

Type	Number	Region		Type	Number	Region
RO-PAX	3	Saronic Gulf		HSC	5	Cyclades
RO-PAX	2	Cyclades		HSC	4	Sporades
RO-PAX	1	Sporades		HSC	2	Crete
RO-PAX	2	N.E. Aegean		HYDROFOILS	5	Saronic Gulf
RO-PAX	2	Chartered		HYDROFOILS	3	Sporades
RO-PAX	1	Dodecanese		RO-RO	2	Adriatic
				RO-RO	1	Idle

Source: XRTC Ltd.

The financial results are aligned with the rest of the companies of the sector (Table 12). Traffic numbers are decreased by -17% in passengers, -20% in cars and -23% in trucks leading in -14% decrease in revenues compared to 2009. The shrinking of income along with the increase in operating and fuel costs by 5% and 17% respectively resulted in the decrease by -311% in Net results compared to a year ago.

TABLE 12: HELLENIC SEAWAYS BASIC FIGURES (2009-2010)

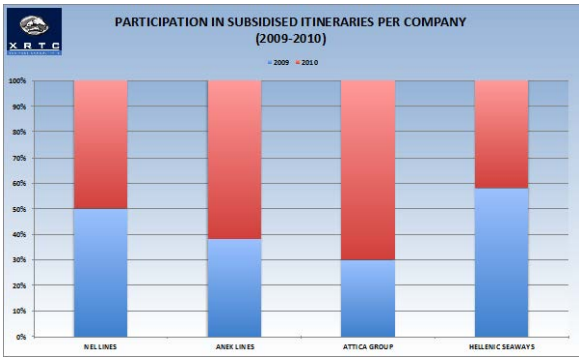
	2009	2010	Δ%
Passenger Traffic	4,726,192	3,911,889	-17%
Car Traffic	524,081	419,337	-20%
Truck Traffic	92,223	71,427	-23%
Turnover	€ 178,335,000	€153,394,000	-14%
EBITDA	€ 31,500,000	-€1,195,000	-104%
Net Results	€ 13,042,000	-€27,515,000	-311%
Cost of Sales	€ 142,519,000	€149,149,000	5%
Fuel Cost	€ 49,645,000	€57,889,000	17%
Long-term Liabilities	€ 129,542,000	€114,833,000	-11%

Source: XRTC Ltd.

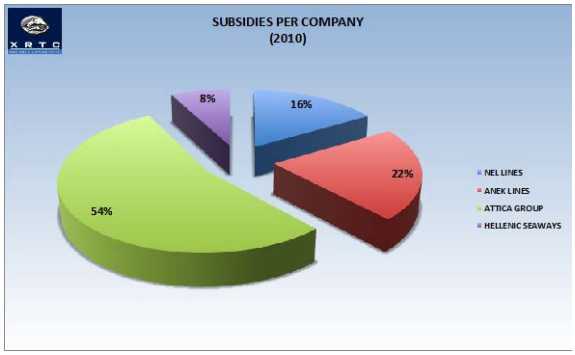
5. SUBSIDIES

The situation in the subsidised itineraries is not getting any better mainly due to the lack of orientation by the Greek State on the issue. Despite the governments efforts to improve things there are still many basic problems that remain to be solved. The economic crisis the Greek economy is going through makes things even worse due to the limitation of funds, with the risk of many islands of the Greek archipelagos becoming isolated. It should be mentioned here though that the ferry sector is the least favoured among the rest of the transported modes (air, train, public transport) assisted by the Greek State.

Figure 24: Ferry Subsidies Analysis



(α)



(β)

Source: XRTC Ltd.

The current economic conditions have forced the leaders of the sector to bid for subsidised itineraries in order to strengthen their balance sheets. ATTICA GROUP, ANEK LINES, HELLENIC SEAWAYS and NEL LINES increase their stakes during the last three years offering even their younger vessels with the end consumer obtaining most benefits. As presented in Figure 24 the total benefit for these companies accounts around €100 million with ATTICA GROUP leading. It is worth pointed out here that despite the fact the total stake of these companies has increased by 55% compared to a year ago the danger of many islands becoming isolated during the winter of 2012 is

rather high since most of these itineraries are of rather high cost and lead to higher losses compared to the given subsidy.

6. CONCLUSIONS

The prevailing conditions in the Greek Coastal Ferry Market can be characterized as very critical. On the one hand, the Greek ferry companies confront a series of dilemmas which mainly concern their viability and on the other hand, the Greek State finds itself in great strains since the sector's role is vital for the social and developmental conditions of the Greek islands. The sector has witnessed the greatest losses in its history; a fact that may be proven as a prime opportunity for all relevant stakeholders to agree in a mass restructuring of the sector which will primarily ensure the smooth and continuous transportation of goods and passengers from and to the Greek islands.

Under these significantly adverse circumstances, the Greek State must re-plan and create such conditions which will lead to all year round smooth servicing of the Greek Islands and support in real economic terms the efforts of survivorship which are made by all companies in the sector. Companies' main objective was and still is, to reduce as much possible their operating expenses. The abolishment of a series of taxes for 3rd parties which had been increasing the ticket's price by over 20% is believed to be a significant step towards the right direction and is a decision attributed to the last Minister's cabinet. However, a lot more needs to be done for the itineraries which fall in the public service rules. The delays realized in subsidies' payments impose great financial burden to the companies, influence negatively their liquidity and force them to postpone its services to particular itineraries. The road equivalent tariff (RET) notion which is being asked to calculate in the recent call for studies from the Ministry is towards the right direction but needs further calibration in order to absorb better the real needs of the islanders. Unfortunately, their fate is still based in poorly applied measures which are broadly considered as insufficient and limited to secure even acceptable levels transportation and local development. The Greek State with its ruling power has to re- act in market and timing terms.

From a purely technocratic point of view, we cradle that the abolishment of the Ministry of Merchant Marine or the Ministry of Aegean and Maritime Policy or simply of the Ministry of Greek Maritime Affairs, created numerous dysfunctions in the whole coastal ferry system. The traditional model in the implementation of maritime policy by the government was vertically organized and with specifically described authorities. Traditional model's dismantling in General Secretaries with wide range of duties and without cohesion endangers government's clear decision to implement a targeted coastal ferry policy.

We believe that all relevant aspects are currently mature enough and call for a general revision and restructuring of the current management model. The objective should be only one: The creation of a new and efficient management model while applying the well tested traditional aspects of older model.

From the other side, the companies must re-organize and re-design their internal procedures focusing in efficient operational functions and better adaptation to competition levels. Moreover, their management should act proactively towards the competition and in a more rational manner. The hostile competition environment which was systematically cultivated during the last years and mainly through price dumping policies led to dramatic reduction in their average income per sea transportation unit and sent their EBITDA in negative levels. In our analysis we insist in promoting ways for all companies to return in positive EBITDA since only then the sector could become viable in the long run. Undoubtedly, increase competition levels in something that is much wanted and needed from the ferry services users, if of course market viability is not at stake. Continuous rivalry for market share increase which took place in the last 4 years was totally in the wrong direction since the basic element missing was demand. Demand drivers were vanished due to the on-going economic crisis in the local, regional and global level. Companies' strategies focusing in attracting bigger market shares were proven mines in the hands of their management teams. Besides the critical role of the companies in distorting viable market conditions, we have to allocate certain responsibilities in the State authorities which confronted ferry market players as members of a cartel keeping ticket prices high which were just enjoying fat incomes. However, the facts speak for themselves; sector's unionized approach towards the State was vanished while their financial situation is deep in red.

Analyzing thoroughly the strategic moves that were completed recently from ANEK LINES and MINOAN LINES to cancel their agreement for the purchase of latter's stake in HSW from the former, we derive that the companies' rational towards the market conditions has been adapted without prejudice. Moreover, the recent partnership achieved between ANEK LINES and ATTICA GROUP strengthens their market positions, allows them to spare their resources and operate them in more efficient and market responsive way. One more positive aspect of such synergies is the increased ability for geographic dispersion, a strategy which is more than ever needed from the market players.

The third market pillar, namely the ship finance sector carries on for a second consecutive year to be hesitant and skeptical to service even its traditional clients. Banks' reluctance and inability to provide credit in the sector should be re-examined and re-evaluated in order to capture companies' seasonal cash flows and operating dysfunctions. As it concerns the companies' ability to raise funds from the Greek Stock Exchange, it is considered as rather impossible mainly due to the prevailing overall market conditions.

Our forecast for the year end is also gloomy like last year. 2011 will find companies' increased profits period to shrink in the levels witnessed bank in the '90s, when the revenues made in summer months were circa 60%-70% of their total. It has also to be noted that in the land mark year of 2008 this percentage for the specific period was 37%. Considering that the Greeks purchase power is further reducing due to the implementation of a strict stabilization program imposed from the Troika, the small weekend trip to an Aegean island for the majority of Greek passengers became a luxury item for the months of May, September and October. The sector currently witnesses extensive problems not mainly in passenger traffic but mainly in car and truck traffic where it gains the most. Bigger is the shrink of revenues in the Adriatic Sea where the continuous reduction in imports and the trivial increase in exports have dismissed cargo transportation needs. If in this equation, we insert the oil price increases then the burden becomes much heavier for the companies' financial positions.

There are clear signs in the market for cutbacks in itineraries number on a 12- month basis and that should not be considered as a market threat but as a pure analysis outcome. Companies must reduce significantly their costs and expenses even if they are striving towards this goal for the last 2 years without compromises in seaworthiness and maintenance of course. Possible alternatives from this gloomy situation could be the exploitation of their vessels in regions which reside people with higher purchase power and/or implement vessels substitution strategies in local market with older and more operationally flexible tonnage.

As for the Greek State, it has to create a well designed network of coastal ferry services with primary aim to attract companies' interest, even for part time exploitation of the vessels in a 9-month period from September to May. Likewise, it has to relax the vessels' manning rules which directly affect their operating expenses. It is far more important to operate the vessels in Greek waters providing jobs to Greek seamen than to cut a little their overall remuneration for the sake of zero unemployment. The Greek State should act as the ruler and ensure peaceful employment conditions and zero unemployment levels. Additionally, the regional autonomous prefectures have to have as primary objective to preserve the connection of their small ports with the mainland and remain timid in their claim for more transportation than is realistically needed. The approach has to be technocratic in all aspects while minimizing policies and measures which provide only short term solutions that we used to witness for decades.

The overall condition is judged very critical and the efforts should be well coordinated leaving aside practices and behaviors of the past. At last, it is absolutely necessary to have common approach with common objectives which will allow the existence of the sector as is and without any compromise in regional cohesion, in unemployment and in safety.

Negative results seen in 2010 financial statements and the forecasted losses for 2011 prove that the Greek coastal ferry market is in jeopardy and the resolution could come only though broad and sincere consensus.

TABLE 15: SWOT ANALYSIS

Strengths	Weaknesses
• Relatively young Fleet. • Strong management teams. • Modest geographical dispersion. • Good banking relations. • Rationalization trends in competition levels. • Sector with strong safety measures regulatory framework.	• Reduced to zero liquidity levels. • Limited fund raising ability. • Weak and divided owners Unions (ΕΕΑ/ΣΕΕΝ). • Increased EBITDA losses. • Limited public investment to regional ports development. • Extremely high vessels' operating costs due to backdated laws and regulations. • Delays in government decision making process due to continuous changes in Ministry management.
Opportunities	**Threats**
• Significant decrease in vessels values which provides room for investing in low market level. • Exploitation of vessels in subsidized itineraries. • Possible reduction in manning costs due to the general fall of wages in the Greek economy. • Possible merger of the sector's divided owners' unions. • Increasing trend of transferring ports operation and management to global port and terminal operators.	• Increasing fuel related costs. • Continuous decrease in demand of ferry services in both Adriatic Sea and Greece. • Local economy in recession and global negative economic climate. • Greek passengers' general financial weakness due to wages reductions. • Bank financing in very weak position. • Great delays in subsidies payments due to the State's economic condition. • Strong and frustrated demonstrations from the local seafarers' unions.

Source: XRTC Ltd.

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