



**14th Annual Report
for
Greek Ferry Market 2015**

***«Navigating...
in uncharted waters»***

July 2015

1. PREAMBLE

The present study for Greek Ferry market is being published for 14 consecutive years by XRTC Business Consultants Ltd. We have been trying to analyze in depth all parameters that influence and affect Greek Ferry market and as well as to evaluate the factors that shape this market.

The period 2000-2008 was admittedly among the most fruitful periods of the Greek ferry market, characterized by many investments in new building vessels, introduction of new itineraries and strong liquidity creating competitive environment, but also a period of numerous complaints from all relevant parties involved regarding the quality of the services offered. This market brisk changed completely after the burst of 2008 financial crisis which has been followed by a deeper recession of the Greek economy.

Recent years have been very dramatic for all economic sectors that are linked with Greek economy and Greek ferry market is one of those. Recall that this market has a unique characteristic; although ferry companies are privately owned, they provide a so called-public service which is sea transportation from mainland towards Greek islands and vice versa, safeguarding country's territorial cohesion. It is therefore absolutely reasonable that country's economic conditions will affect the sector along with other global economic conditions such oil price and/or exchange rate movements between €/US\$. In the last 7 years, strong structural changes took place in Greek ferry market such, implementation of economies of scale and scope as well as avoidance of world and Greek economic collapse.

It has to be noted that all ferry companies' operating and financial bleedings which took place the last 6 years showed a reverting mode in 2014 after all parties had recognized their bad condition and all parties involved like Greek State, banks and end users were all confident that 2015 results would be slightly better than in 2014 or at least at the same levels.

Unfortunately, Greek economy's current condition and Greek people mentality led the ferry sector again and very fast in front of unforeseeable events. The extraordinary situation that Greece faces currently, coincides with the pick of high season for the ferry sector creating a big economic shock not only for the companies and the users but also for the analyst himself.

This is why XRTC titled its present report "Navigating in uncharted waters" and we put emphasis on the significant efforts which all parties involved including companies, state, banks and users made the last years and led to realistic expectations while on the other hand, all these efforts face the uncertainty and above all the insecurity of providing services in the Greek economy which has this current shape.

2. GREEK ECONOMY & DOMESTIC FERRY MARKET

- ▶ Greek economy GDP Annual Change % almost perfectly correlated to Ferry Market's Annual EBITDA Margin Change %
- ▶ Macroeconomic Indicators have been stagnant with no hope to improve given the GREXIT scenario still in place
- ▶ EU Institutions and the rest of World push the Greek Government to get again in the track of implementing the structural reforms imposed in a fresh Memorandum or apply at least measures which have equivalent macroeconomic results
- ▶ Tourist arrivals in 2014 was in very high levels ie circa 18m BUT the impact in ferry shipping traffic is limited
- ▶ Touristic arrivals prospects for 2015 are not still very positive as it used to be (est. 23-25m) GIVEN the Government's lengthy negotiations process impeded further improvement of reservations from abroad
- ▶ Domestic demand for ferry services remains to be seen in summer months as seasonality remains sharp and given the GREXIT scenario it is seriously jeopardized

3. POINTS OF CONCERN

- The market shows some signs of reversing given last years' negative march. To this end, low oil prices help a lot while the scenarios of further consolidation are still on table.
- Greek economy was doomed in inactivity waiting for the first 6 months of this year the finalization of Greek government negotiations' with the Institutions and the final agreement.
- The companies' synergies in most routes are more than imperative.
- The main target of all companies' remains downsizing of operating costs giving emphasis in liquidity implementing various strategies' such as reduction of vessels' speed, elimination of port calls per itinerary, replacement of high costly vessels, strategic rationalization of vessels supplies, vessels sales etc.
- The effect of the banks transformation into main shareholders
- The Greek ferry companies' recapitalization is in progress successfully and is expected to be finalized.
- Strategies for internationalization of operations are necessary.
- The Ministry of Shipping & Aegean has to become active in order to assist in future developments.

4. GREEK FERRY SECTOR MARKET PRESENTATION

4.1 MARKET OVERVIEW

ANEK LINES

- 2 of its owned vessels chartered- out in foreign charterers till the beginning of 2013
- Since 2011 it has strong vessels' deployment synergies with Attica in Iraklion and in Ancona routes
- Anek Lines' affiliate Lane Lines chartered out "Ierapetra"
- Concluded the sale of "Lefka Ori" & "Sophocles B" and reduced by 21m its long-term debt.
- "Norman Atlantic" devastating incident
- It proceed to a London arbitration Court against Minoan Lines due to the latter's inability to provide Euro 45.5m for the acquisition of a 33.35% stake in Hellenic Seaways

ATTICA GROUP

- Sale of "Blue Star Ithaki" for E31,2m and an accounting profit of E4m
- Significant investment by Fortress Investment Group with E75m. The agreement concerns the issue of a 5Y secured bonds with an option for early repayment:
 - i. E25m will be in a senior secured bonds
 - ii. E50m will be convertible partly or in all in new shares through the issuance of a new E50m convertible bond from Attica. The conversion price is linked to EBITDA in the band of E1,0450 & E0,5775.

MINOAN LINES

- Concluded its equity capital increase by E30m with an issuance of 13.594.150 new shares. Its total shareholders capital reaches now E240,7m
- Achieved reduction in its debt margin, a fact that led to a reduction in its finance costs by 44% in 2014.

NEL LINES

- The Ministry of Shipping & Aegean revoked both Nel Lines & its affiliate C-Link Ferries' subsidies concerning the service of public supported itineraries which led to the release of Letters of Guarantee by an amount of E1,5m of those companies towards the Greek State. The two companies have proceed to an Appeal in Greek Courts.
- Its affiliate Pantheon Marine sold the vessel "Trader"
- From the beginning of 2015 its vessels "Aqua Jewel", "Taxiarchis" and " Mytilene" are arrested by those vessels' crews

HELLENIC SEAWAYS

- In July-August 2014 it sold its vessels "Express Santorini" and "Ocean Life" with E1,6m loss
- Chartered-out its vessel "Nissos Chios" to Baleria
- Succeeded in its negotiations to restructure its Long-Term debt while secured a Short-Term facility of E15m
- Its vessel "Nissos Mykonos" was awarded from the Ministry of Shipping and Aegean 2 subsidized route from Kavala to N.E Aegean Sea islands

4.2 COMPANIES FLEET

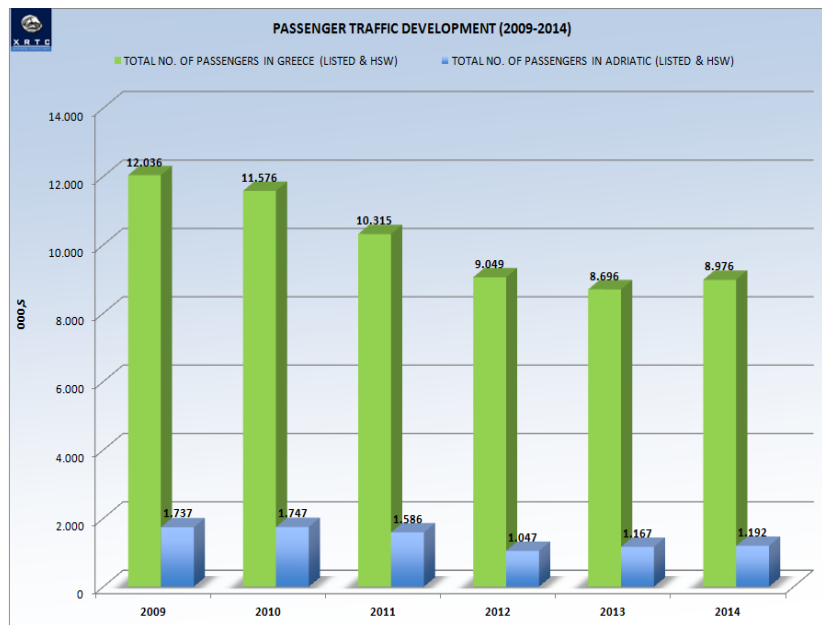
	Fleet
ANEK LINES	12
ATTICA GROUP	13
MINOAN LINES	7
NEL LINES	13
HELLENIC SEAWAYS	20

4.3 ANALYSIS OF TRAFFIC DEVELOPMENT

Pax traffic in both Greece & Adriatic show a marginal increase, 3% & 2%.

GREECE: Biggest increase achieved by Attica, 11% and biggest decrease Nel Lines by -20%

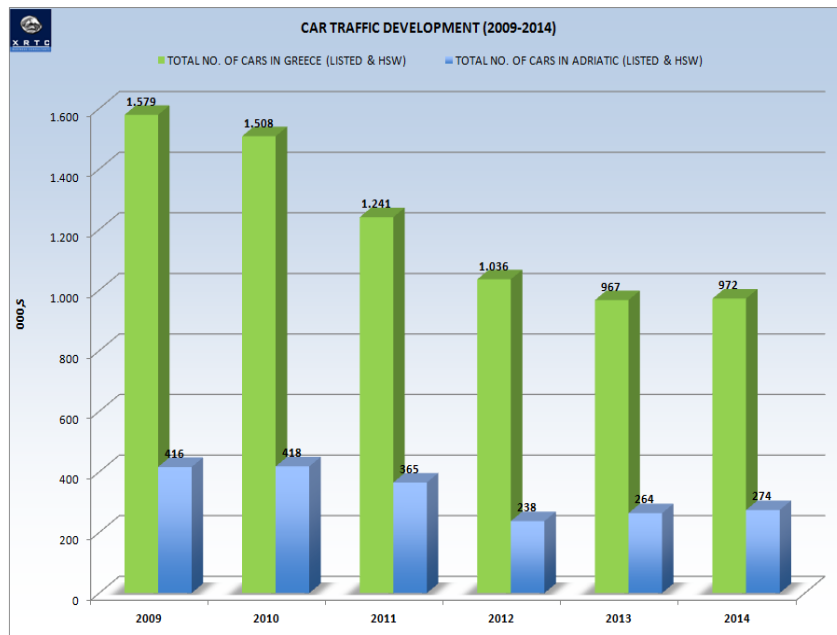
ADRIATIC: Biggest increase achieved by Minoan, 14% and biggest decrease Anek Lines by -11%



Cars traffic in both Greece & Adriatic show as well marginal increase, 1% & 4%.

GREECE: Biggest increase in achieved by Attica, 8% and biggest decrease Nel Lines by -24%

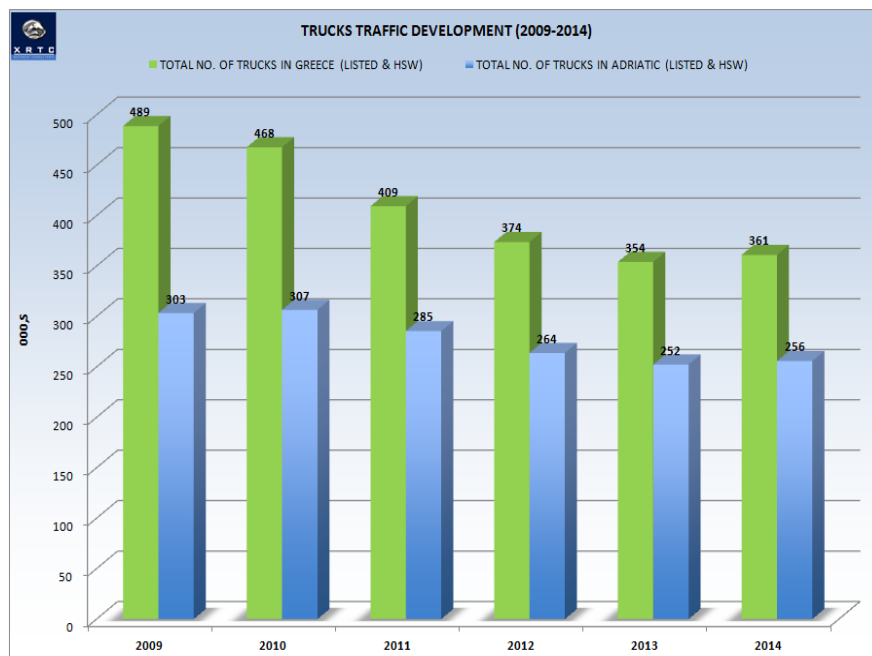
ADRIATIC: Biggest increase in achieved by Attica, 11% and biggest decrease Anek Lines by -10%



Trucks traffic in both Greece & Adriatic show as well marginal increase, 2% & 1%.

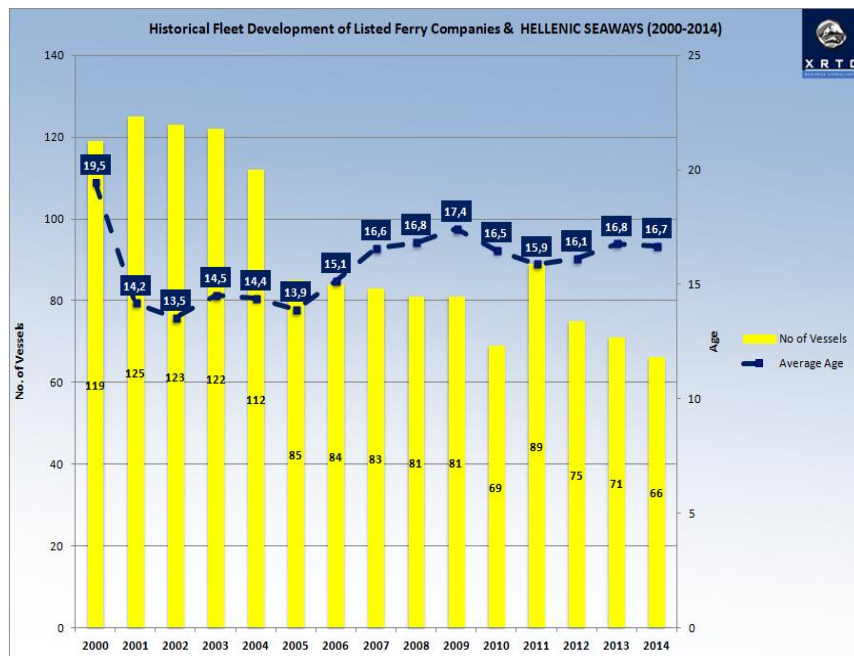
GREECE: Biggest increase in achieved by Attica, 7% and biggest decrease Nel Lines by -21%

ADRIATIC: Biggest increase in achieved by Minoan, 17% and biggest decrease HSW by -24%

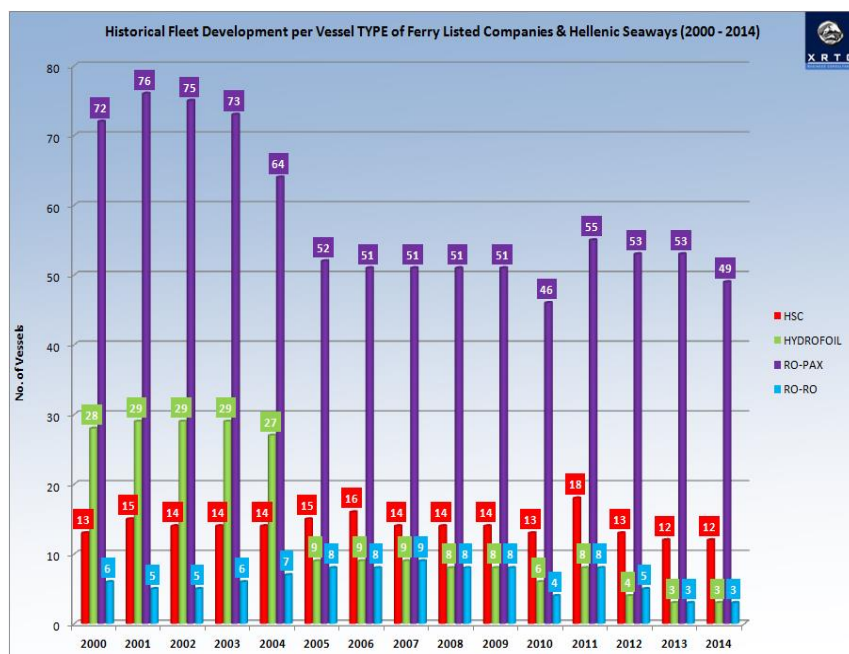


4.4 ANALYSIS OF FLEET DEVELOPMENT

The 5 Ferry Companies fleet decrease has been revealed in full in the decrease in number of ROUTES & CALLINGS



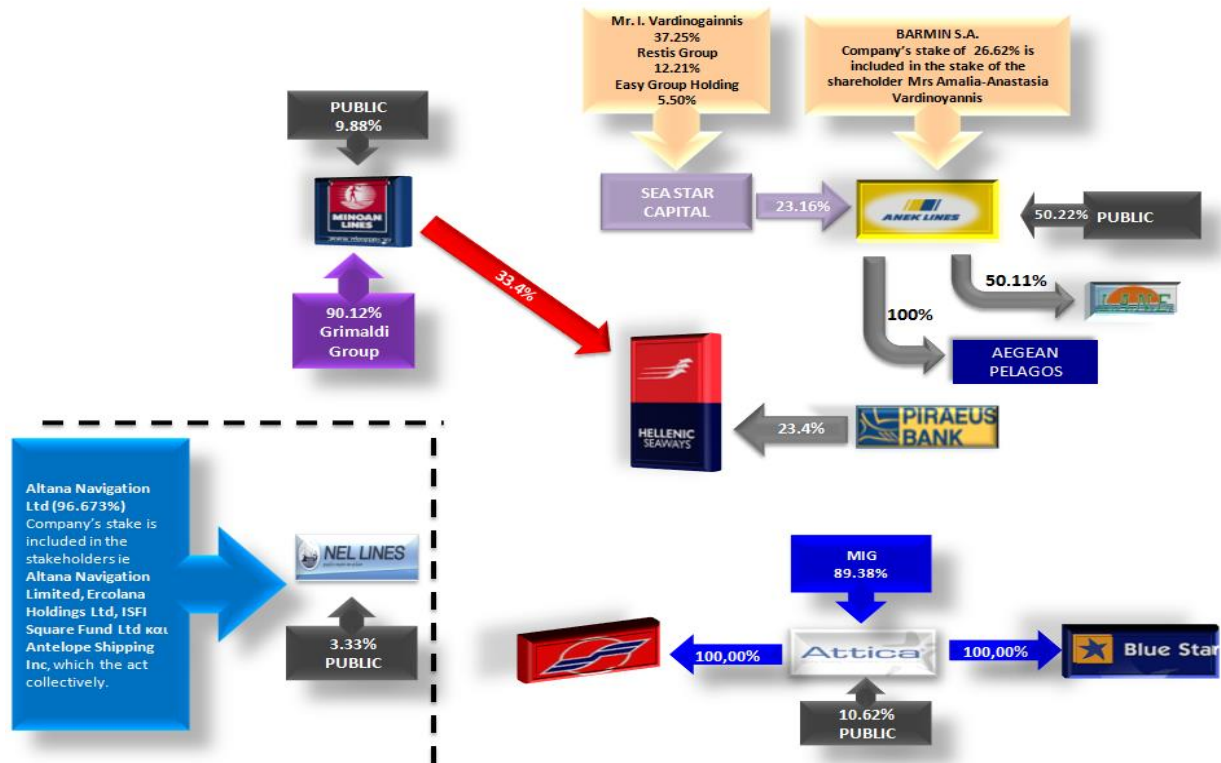
The Greek Ferry fleet is expected to decrease in absolute numbers



4.5 SHAREHOLDING STRUCTURE OF MAIN PLAYERS

During the period starting the beginning of 2013 up until July of 2014 no change has been effected in the shareholding structure of the ferry companies. The most important fact though is that the shares of Sea Star

Capital in Hellenic Seaways belong now to Piraeus Bank making the bank a big shareholder of the company. This development not only affects the company's flexibility but also converts the bank to an important player in Greek ferry market sector.



5. 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:

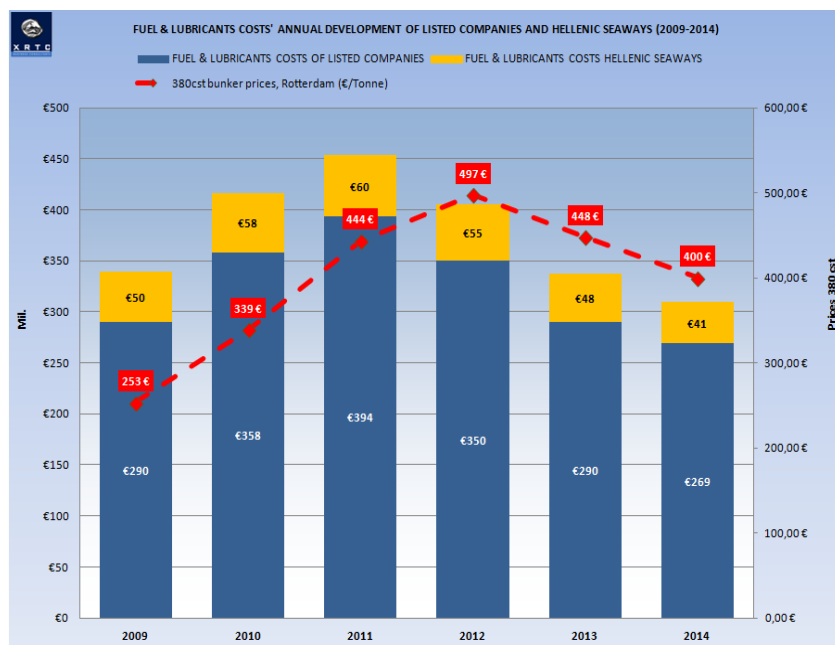
- Cost analysis,
- Total turnover from operations,
- EBITDA,
- Net results before tax
- Bank debt
- Financial ratios

The analysis made in this report is based on public data and on data derived from the four listed ferry companies in the Athens Exchange – namely ANEK LINES, ATTICA GROUP, 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/diversity, its numerous callings and destinations as well as its financial performance.

5.1 COST ANALYSIS

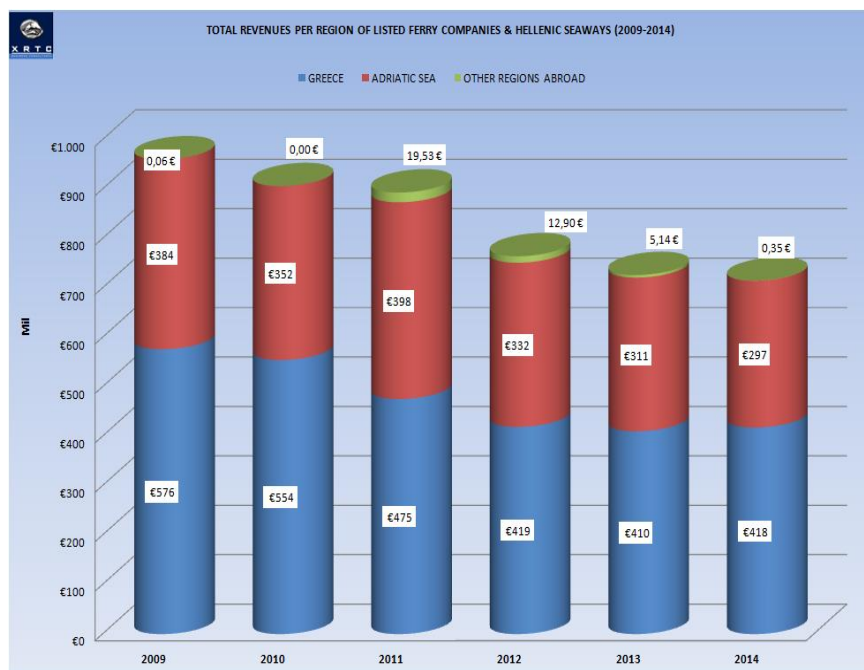
We have continuously stated that the bunker prices represent the most crucial parameter for the management of the Greek ferry companies' vessels. In 2014 the price of 380CST in Euro decreased -11%

compared to 2013 while during the period 2009-2014 the increase of the price is almost 60%. The Fuel & Lubricants costs decreased by 9% while the fleet has been also decreased by 17%. The following graph shows the bunker cost evolution since 2009 in absolute numbers along with the average annual price of 380CST Rotterdam expressed in €/Tonne.



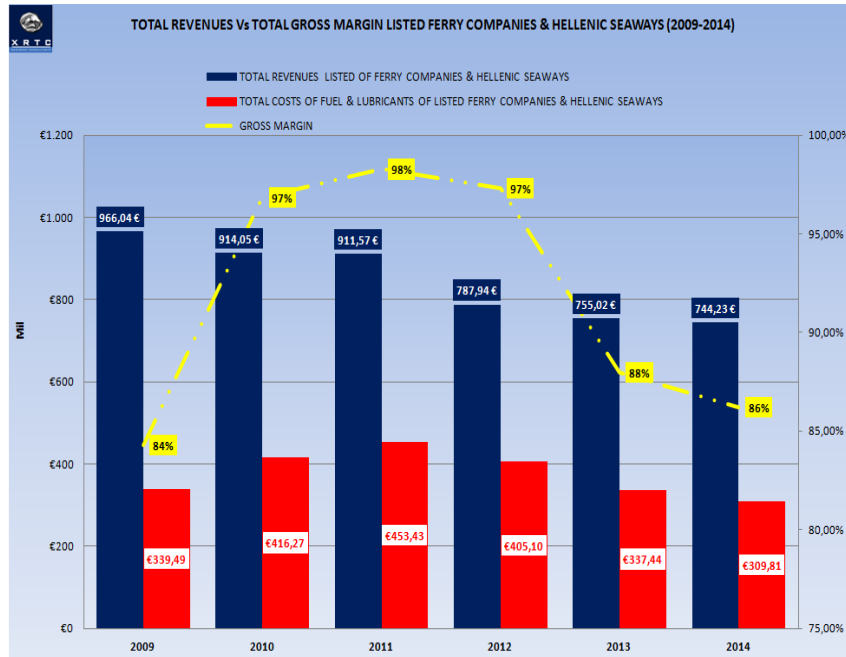
5.2 TURNOVER FROM OPERATIONS

Revenues of the four listed companies and HELLENIC SEAWAYS reached less than €800 million with a fleet reduction of -23% compared to 2009 and -7.5% compared to 2013. Low revenues are attributed mainly to the lack of demand occurring the last years in whole South Europe.



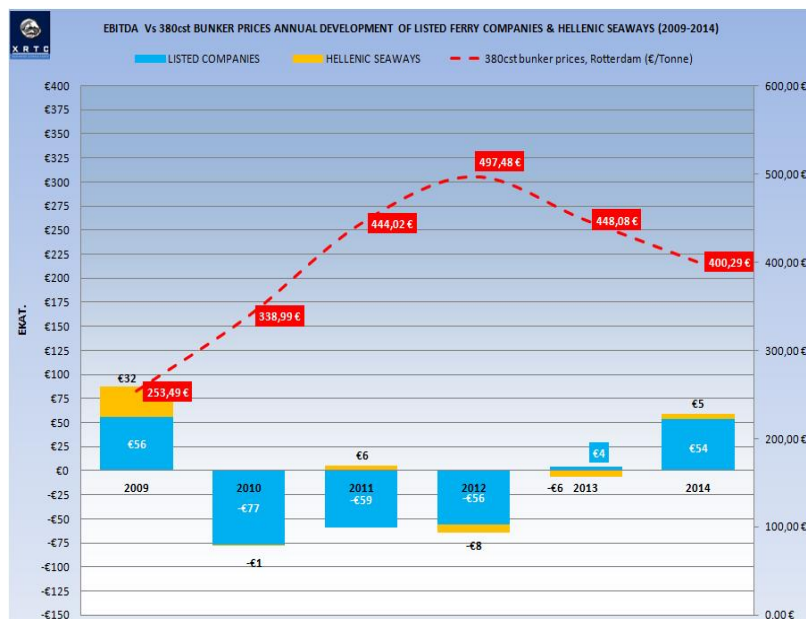
In the following very interesting graph we see that the average revenue per transported unit has decreased at -9% level compared to 2013 while it has increased at +9% level compared to 2009 in Adriatic Sea.

In the Greek market the average revenue per transported unit compared to 2013 has decreased at -19% while it has also decreased at -23% compared to 2009. All 5 Companies have succeeded to keep their operating costs lowest possible while they were “helped” from the low oil prices.



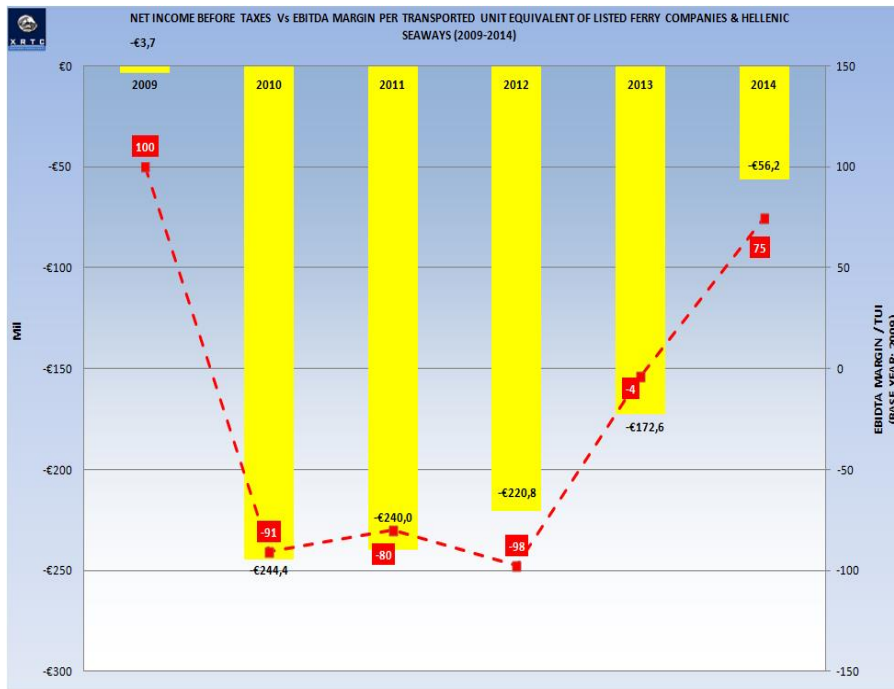
5.3 EBITDA ANALYSIS

It is extremely important to point out as we had predicted in our last report that the Total Earnings before Interest, Tax and Depreciation (EBITDA) in 2014 increased for 1st time after 5 consecutive years touching the amount of €59m (+290% compared to 2013). This increase relates to the 4 companies excluding NEL LINES.

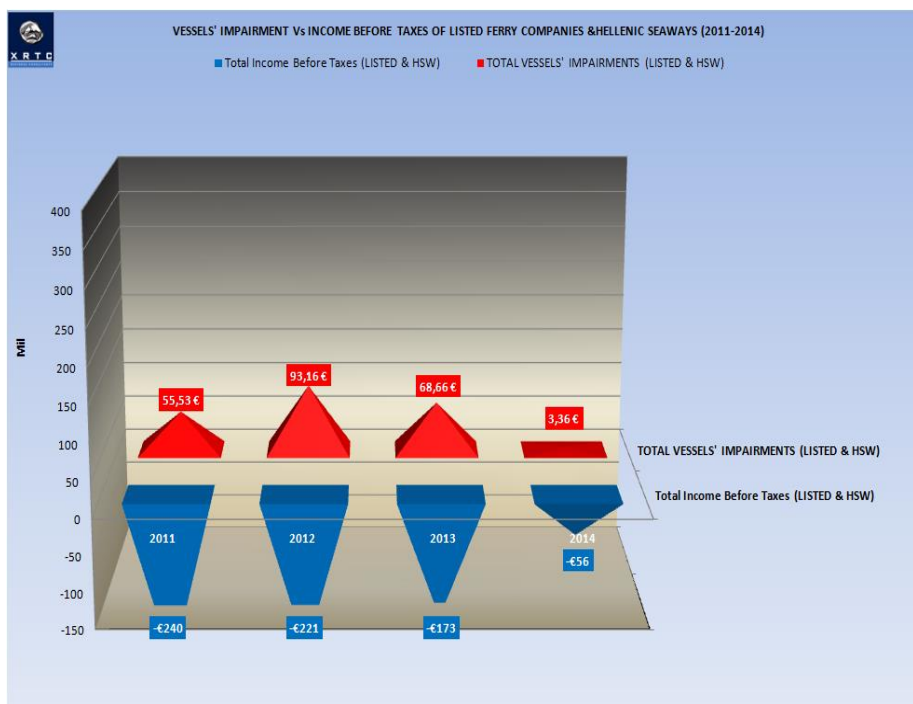


5.4 NET RESULTS BEFORE TAX

Net results show an improvement of +67.5% compared to 2013 following EBITDA path. But the total net results from 2009 to 2014 have been decreased at -14% while the accumulative Loss before tax for the 5 companies from 2009-2014 is at the level of **-€938m**. Per Company Net Results before Tax are as follows: ANEK LINES, ATTICA GROUP, NEL LINES, MINOAN LINES and HELLENIC SEAWAYS **-€18.8m**, **+€4.4m**, **-€24.2m**, **+€0.3m** and **-€17.9m** respectively.

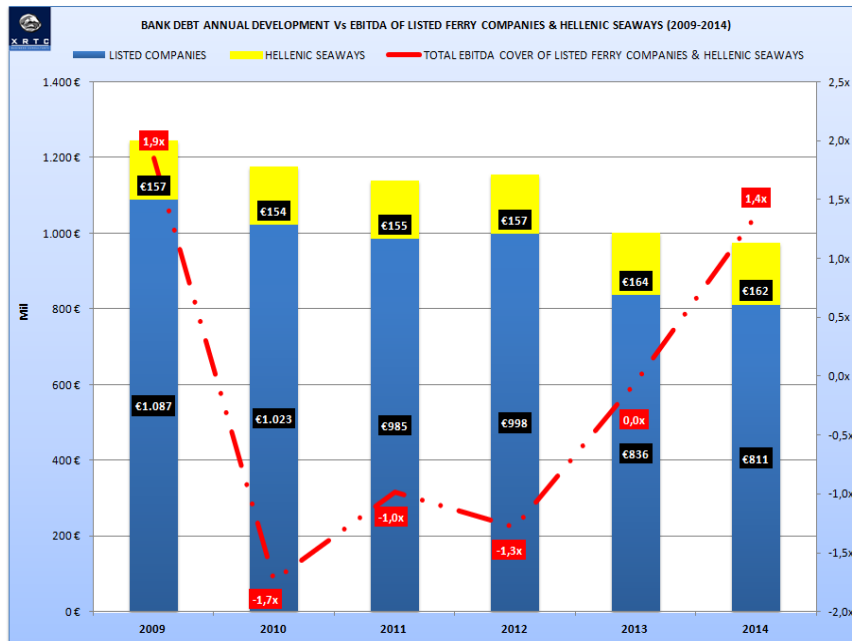


It is extremely important to mention that vessels' impairments tend to diminish (-95%). As it shows the following graph, vessels' impairments were reduced from 40% of Net Income before Taxes in 2013 to 6% in 2014.



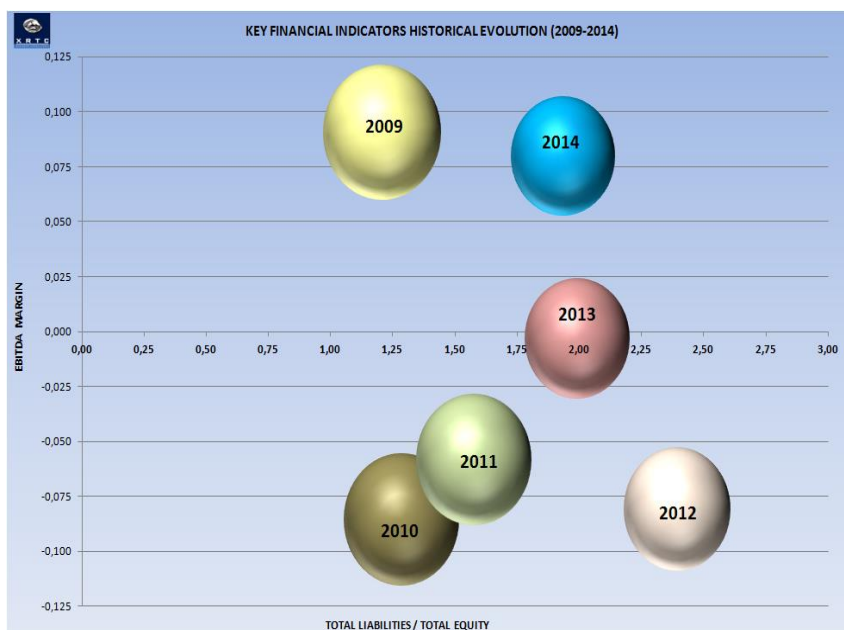
5.5 BANK DEBT

Bank liabilities decreased only by -2.7% compared to 2013. Anek achieved the best reduction by 4.20% and Nel Lines was the worst player by increasing its bank debt obligation by 3%. The EBITDA Cover again in positive ground but in very low levels. For accounting reasons most of the companies characterize their Long-term Liabilities as Short-Term Liabilities due to their inability to be repay them.

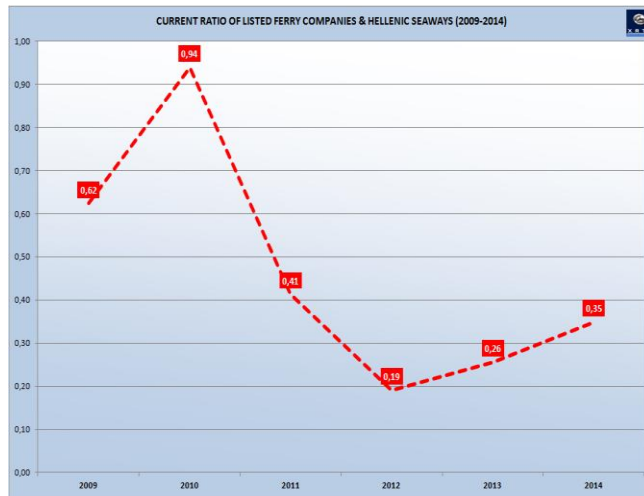


5.6 COMPANIES COMPARATIVE ANALYSIS

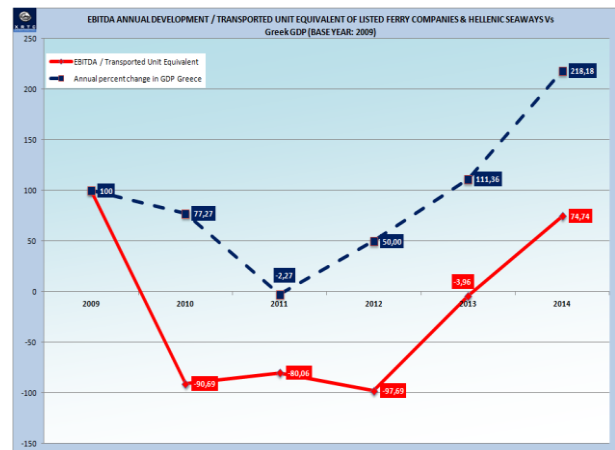
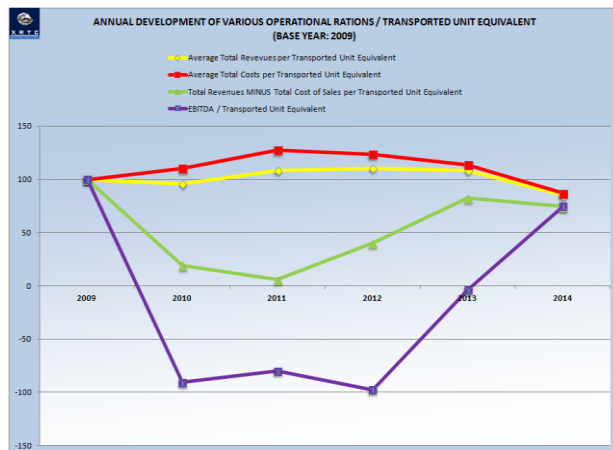
Although the steady improvement of the EBITDA margin and the ratio of Liabilities/Equity is positive the traffic data is in slight increase and cannot help the growth.



The vessels' sales and the slight EBITDA increases, improved Working Capital but there is still long way ahead...



The various Operational Ratios show improvement.



6. GREEK FERRY MARKET CONCERNS & PROSPECTS

- ▶ ALL Ferry Companies are trying and succeeded to minimize their Operating Costs and have improved their operating results through implementation of various strategies such as:
 - ✓ Withdrawal from certain itineraries
 - ✓ Significant reduction in operating speeds
 - ✓ Less port callings per itinerary
 - ✓ Un- economic vessels substitution
 - ✓ Vessels' supplies strategies rationalization
 - ✓ Vessels' sales
 - ✓ Capital Increases
 - ✓ Synergies in specific itineraries
- ▶ Not aware of new Minister's of Shipping & Aegean, domestic Ferry Shipping Policy
- ▶ Big problems to handle given the arrest of some vessels by its crews given the inability of some small companies and Nel Lines to remunerate them
- ▶ The so called "Routes of Public Interest" handling remains to be seen as well. The budget for all these routes has been seriously declined since 2009

- ▶ The effect of banks' transformation into shareholders ELA (ie Piraeus Bank is currently shareholder of Hellenic Seaways, ANEK & NEL)
- ▶ Banks have become major "ultimate" shareholders
- ▶ Greek banks have complete lack of flexibility given their full reliance on ELA to cover their daily capital needs
- ▶ Some Greek Banks have provided small working capital lines to some ferry companies



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