NOTOS GROUP

NOTOS QUARTERLY Q2/2016

SHIPPING MARKETS IN ROUGH SEAS

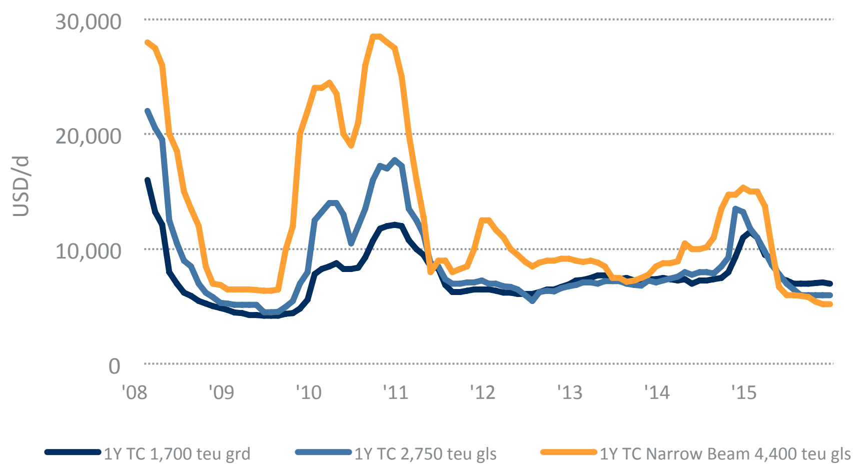
SHIPPING MARKETS

CONTAINERS: ONGOING STRUGGLE

Whilst there were active months for fixtures in the charter market, rates remained firmly in the doldrums. In the smaller containership sizes, charter rates have fared slightly better compared to Panamax and Post-Panamax charter rates which fell further during the last couple of months, leading to the development of a 'two tier market'.

The proportion of overall idle containership fleet capacity stood at 5% in mid-June 2016, according to Clarksons Research. This is the lowest number since October last year.

DEVELOPMENT OF A 'TWO TIER MARKET'



Source: Clarksons 06/2016

A SEGMENT ABOLISHES ITSELF

In the current market however, it seems easier to find employment for either a large vessel of above 7,500 teu capacity or for a small vessel of 3,000 teu capacity. The challenge is to find a decent employment for the ships of in-between sizes. That there are only very few newbuildings on order for such 'in-between' sizes is another indicator of the gloomy market perspectives.

DRY BULK: RECOVERY STILL ON THE SIDELINE?

The BDI lost its momentum after it met its year-high in mid-April at slightly above 700 index points. Since then, the movement has been more or less sideways with current levels around 600 points. Nevertheless, this gives a glimpse of hope regarding the expected development of dry bulk charter rates and asset values for the rest of this year. Although charter rates are still around opex level, they have remained well above crew costs. However, this positive news is only partially reflected in rising asset values which are still trading below 2015 values in all segments.

IS THE POSITIVE MOMENTUM STRONG ENOUGH?

With Capesize rates in the region of USD 8,000/d to USD 9,000/d, a temporary ceiling seems to be forming. At this point, owners would usually reactivate idle ships and more tonnage is expected to return to the market. Additionally, China surprised with stronger iron ore imports and higher steel outputs lately. Still, we think that this spike might be only short-lived as the Chinese government has announced an initiative to shut down older, inefficient steel mills in order to reduce emissions.

LARGE ORDERBOOK STILL RISING

The orderbook is still quite large with about 200 Capesize bulkers hitting the water this year and at least another 100 vessels to be delivered in 2017. Accordingly, the pressure on this segment remains very high, especially due to the decreasing ton-mile effects and the large Valemax program beginning to materialize in the short term. Despite this, Q2/2016 saw additional newbuilding orders of DWT 4.0m; although moderate when compared to previous quarters. Scrappings are at record highs but expected to diminish in the second year-half due to the monsoon season on the Indian subcontinent.

SOUTH AMERICA COMES TO THE RESCUE

The exceptionally good harvest season in South America has been an encouraging development for Panamax and smaller vessels recently. However, this positive effect will come to an end in late August once the South American grain-export season is over.

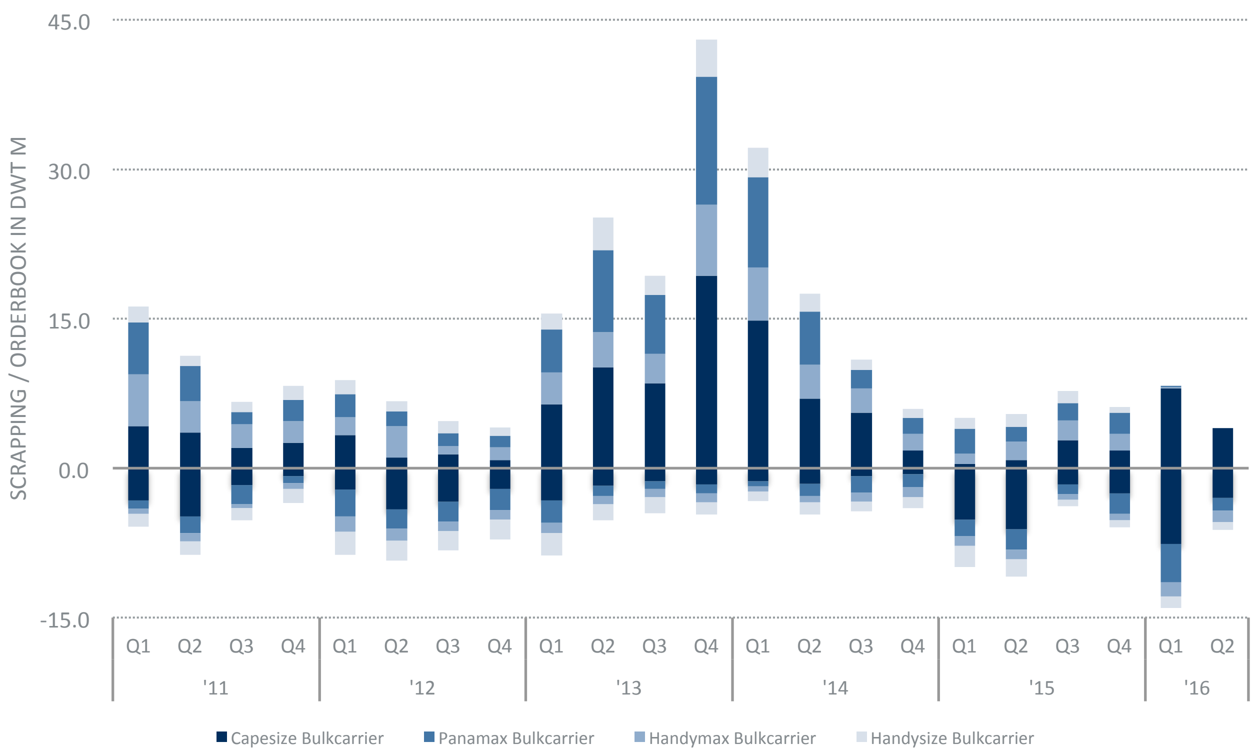
LISTED COMPANIES SEEMINGLY AT THE TURNING POINT

Most listed dry bulk companies are still standing, albeit badly bruised. Some are not compliant to their listing requirements or have moved to the mid-cap section or even to an OTC status. Still, first small signs of recovery can be seen in the stock market. Navios Maritime Holdings is back in compliance with the NYSE listing requirements and trading above USD 1.00. Pacific Basin was able to successfully place new shares and gather an amount of approximatly USD 250m to refinance its bond due in October and strengthen its equity position.

OVERCAPACITY REMAINS DRY BULK'S BURDEN

Overall, China's economy has started to show indications of stabilization. The Indian economy has drastically improved during the last two months. As such, the worst seems to be over for the dry bulk market. However, global economic development remains on shaky ground while a large number of newbuildings will enter the market this year. The supply-demand imbalances are therefore likely to persist for some more time.

SCRAPPINGS CANNOT KEEP UP WITH NEWBUILDING ORDERS



Source: Clarksons 06/2016

TANKERS: A COLD SUMMER AFTER A HOT WINTER

Almost everyone predicted that the tanker market would come down from its high by mid 2016. This has come true as the VLCC spot rates currently have dropped to their lowest levels since October 2014. The vessel prices have also fallen significantly. The reason for this development lies in the increased availability of tonnage meeting lower demand growth. This year alone, tanker tonnage has grown by DWT 11.8m net. We expect the fleet to continue to increase in 2017 and 2018 and such increase to be higher than the rise in demand.

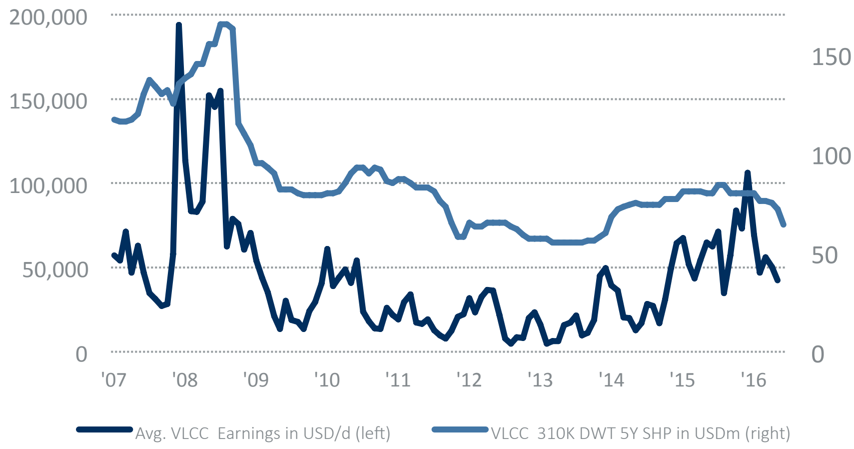
JUST A STORM IN THE TEA CUP?

Does this mean that the tanker segment will meet the same fate as the bulkers did? From our point of view, this is very unlikely. We believe in a solid outlook for the tanker market, with oil market funda-mentals responding strongly to lower prices, which is positive for oil trade and transport.

SECONDHAND PRICES DISREGARD SOLID EARNINGS SITUATION

Since the beginning of 2015, asset prices for tankers have been less volatile than the tanker earnings, indicating that the sale-and-purchase markets were more sluggish than the charter markets. A five year old VLCC, according to Clarkson, was valued at USD 77.0m in October 2014 and peaked at USD 84.0m in July/August 2015. Then the fallback started, resulting in a price tag of USD 75.9m at the end of the first quarter 2016. At the beginning of June 2016, it had even sunk to USD 66.0m which is below the level at which it started in 2015. This value loss indicates that the markets are seemingly unimpressed by the current solid earnings situation of tankers. Instead, markets seem to price the tanker vessels in accordance with their expectation that the actual oil consumption rather than storage will drive demand for future seaborne oil transport.

MISMATCH OF ASSET PRICES AND EARNINGS



Source: Clarksons 06/2016

LPG: ON THE WAY DOWN

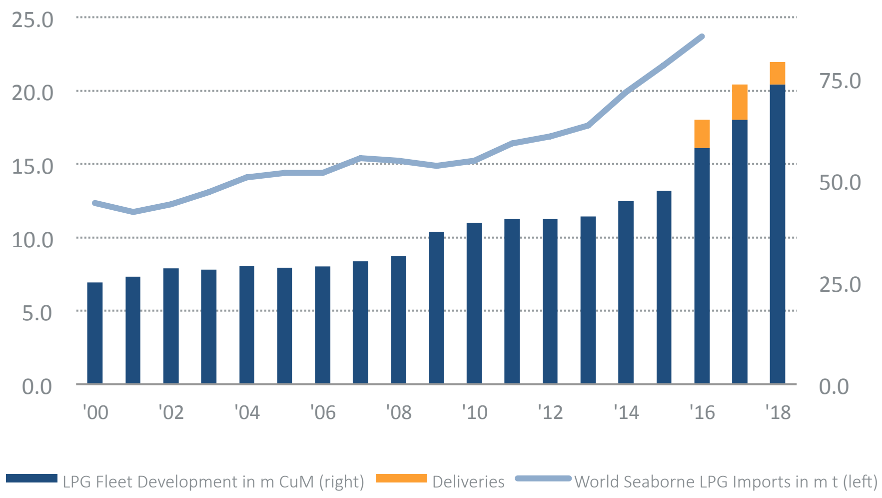
Since the beginning of 2016, 25 new Very Large Gas Carriers or 'VLGCs' entered the market, an increase of about 13% of the existing fleet. Another 23 vessels will be delivered until year-end while another 47 vessels will hit the water in the next couple of years. All in all, the orderbook amounts to about 32% of the current fleet. Despite the large fleet growth, most gas companies like Dorian LPG or Aurora LPG maintain a positive outlook.

In 2016, global seaborne LPG exports are forecast to increase by 9%. Taking the development of the order book and the expected LPG exports into account, this is likely to lead to a reduction in vessel utilization down from the extraordinary highs seen last year.

WILL FUTURE LPG DEMAND ABSORB DELIVERIES?

Following its expansion, the Enterprise Terminal in the US Gulf is now able to dispatch ten additional vessels per month. In addition,

STRONG DEMAND GROWTH IN 2014/15 HAS KEPT UP WITH INCREASING LPG DEMAND



Source: Clarksons 06/2016

about USD 20,000/d at the end of May 2016. This implies, the charter rates are below the average cash break even rate of about USD 22,500/d reported by Avance Gas. In case the seasonal summer high finally shows up, we expect only a modest improvement in charter rates which will be able to provide only a temporary relief to the owners of LPG carriers.

the improved Phillips 66 Terminal is expected to increase its exports from the third quarter. The biggest LPG importers, China and India, show signs of a rising demand: In the first quarter of this year, China imported 3.6m tonnes of US LPG exports, an increase of 1.4m tonnes. The outlook for further LPG imports remains positive. India´s LPG imports are estimated to rise over 10m tonnes in 2016 compared to 9.2m tonnes in 2015 due to the Indian government's efforts to promote energy diversification. However, these positive effects may be mitigated partly by the opening of the new Panama Canal which is likely to reduce the ton-mile demand for LPG carriers on the US-Asia trade.

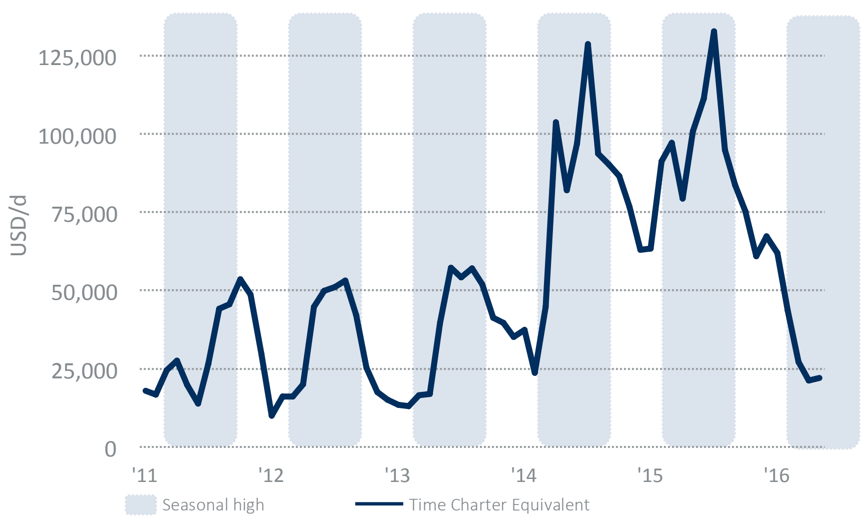
CHARTER RATES NOW BELOW BREAK EVEN

Due to the high number of deliveries and the weak seasonal effect in winter/spring this year, the LPG charter rates have decreased constantly from about USD 70,000/d at the beginning of 2016 to

LNG: WAITING FOR THE UPSWING

The LNG (Liquefied Natural Gas) market seems to be bottoming out and waiting for the upswing. Average spot charter rates for CuM 160,000 LNG carriers oscillated between USD 33,000/d and USD 27,500/d over the last year. The current orderbook shows 143 vessels which is about 34% of the fleet. While until recently only 12 vessels with

WILL VLGC TIME CHARTER EQUIVALENTS MISS THEIR SEASONAL HIGH IN 2016?



Source: Clarksons 06/2016

CuM 1,908m have been delivered, another 36 vessels with CuM 5,527m will start operating by the end of 2016, increasing the pressure in the market. However, we found that May 2016 was the seventh month in a row with no newbuilding contracts having been signed. Only on 9 June 2016, Lloyd's List reported that Maran Gas Maritime ordered two LNG carriers plus two pairs of optional vessels, with delivery in the first quarter of 2019. At last, the spell of exorbitant orderbook growth of previous years seems to have come to a halt.

FSRU'S - A VERITABLE ALTERNATIVE TO BUILDING TERMINALS

Due to a faster development timeline and lower upfront capex outlays compared to onshore regasification, the floating storage regasification units or 'FSRUs' will allow many more countries to participate in the LNG market. Currently, the FSRU fleet consists of 24 vessels; thereof, 19 vessels were purposely built and five vessels converted from older LNG carriers. Fearnleys Securities has calculated, that conversions take 12 to 18 months of engineering and yard work with cost estimates between USD 60m to USD 100m.

THE 'MAGIC FORMULA' FOR SELF-GENERATED DEMAND

Seven FSRU newbuildings are currently reported, of which three are already under construction. Last year, Egypt, Jordan and Pakistan joined the LNG market and this year, Ghana and Colombia are supposed to follow. About 40 new FSU / FSRU projects are in the pipeline and will enable more countries like Albania, Cyprus, Myanmar or Vietnam to enter the LNG market. According to Fearnley Securities, more than 140m tonnes p.a. of new LNG supply is expected to enter the market within the next five years which equals about 45 FSRUs. This new supply, in turn, will suppress the natural gas price and might render new LNG projects unprofitable. Nevertheless, we expect the lower LNG price to boost demand and generate more global seaborne LNG trade.

OFFSHORE: UNDER CONSTANT PRESSURE

Charter rates in the offshore markets are still on their way south. Large AHTS are now trading at USD 22,650/d and large PSV at USD 14,500/d. As of May this year, 1,439 offshore supply vessels were in lay-up, about 25% of the total offshore fleet. Furthermore, 337 of these laid-up vessels have been out of service for more than two years. Over 500 laid-up vessels are relatively young, so we expect these to re-enter the market at some point of time. Given the constantly negative outlook for the oil and gas industry, we still do not expect any significant improvements in the short- to medium-term.

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