Contents

Part I  Introduction to Ship Financing

1  Demand and Supply of Maritime Transport Services: Analysis of Market Cycles ......................................................... 3
   Burkhard Lemper and Michael Tasto
   1.1  The Demand and Supply Side of Shipping Markets .......... 3
       1.1.1  The Demand Side ........................................... 4
       1.1.2  The Supply Side ............................................. 5
       1.1.3  World Seaborne Trade and Merchant Fleet Development ................................................................. 6
       1.1.4  How to Interpret and Work with Shipping Statistics ... 19
       1.1.5  Forecasting Challenges and Limitations ................. 22
   1.2  Analysis of the Market Cycles ..................................... 29
       1.2.1  Different Types of Shipping Cycles ...................... 29
       1.2.2  Lessons Learned from the Various Cycles ............... 30
       1.2.3  Lessons Learned in the Last Boom Period (2002–2008) ................................................................. 31
   References ........................................................................ 32

2  Loans and Risk Management Considerations .......................... 33
   Orestis Schinas and Sebastian Kewitsch
   2.1  Introduction .................................................................. 33
       2.1.1  Reviewing Loan Calculations ............................... 34
       2.1.2  Financial Viability Criteria .................................. 38
       2.1.3  Concluding Remarks ........................................... 39
   2.2  Analysing a Simple Case ............................................. 40
   2.3  Risk Management .......................................................... 42
       2.3.1  Project-Related Lending Risks .............................. 43
       2.3.2  Industry-Related Risks ....................................... 45
   2.4  Concluding Remarks .................................................... 54
## 3 Legal Treatment of Ship Finance Loans: Analysis of the Ship Loan Contract

Stefan Otto and Thilo Scholl

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>A Banker’s View on Shipping</td>
<td>55</td>
</tr>
<tr>
<td>3.1.1</td>
<td>Credit Crisis: The Effect of the Recession</td>
<td>55</td>
</tr>
<tr>
<td>3.1.2</td>
<td>Outlook on Shipping Markets</td>
<td>56</td>
</tr>
<tr>
<td>3.2</td>
<td>Commonly Used Structures</td>
<td>56</td>
</tr>
<tr>
<td>3.2.1</td>
<td>Debt Provision: Syndicated, Bilateral, and Club Transactions</td>
<td>57</td>
</tr>
<tr>
<td>3.2.2</td>
<td>Equity Contribution: Shares, Private Placements, or Private Equity</td>
<td>57</td>
</tr>
<tr>
<td>3.2.3</td>
<td>Mezzanine Finance</td>
<td>58</td>
</tr>
<tr>
<td>3.3</td>
<td>Analysis of the Loan Agreement</td>
<td>58</td>
</tr>
<tr>
<td>3.3.1</td>
<td>Term Sheet</td>
<td>59</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Loan Agreement</td>
<td>62</td>
</tr>
<tr>
<td>3.3.3</td>
<td>Closing of a Transaction</td>
<td>67</td>
</tr>
</tbody>
</table>

References ..................................................................... 67

## Part II Equity Financing

### 4 The German KG System

Max Johns and Christoph Sturm

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>KG as Incorporation</td>
<td>71</td>
</tr>
<tr>
<td>4.2</td>
<td>Historic Start with “ABC”</td>
<td>73</td>
</tr>
<tr>
<td>4.3</td>
<td>Forms of Funds</td>
<td>78</td>
</tr>
<tr>
<td>4.3.1</td>
<td>Single-Ship-Fund</td>
<td>78</td>
</tr>
<tr>
<td>4.3.2</td>
<td>Savings Fund</td>
<td>78</td>
</tr>
<tr>
<td>4.3.3</td>
<td>Fleet Fund (Flottenfonds)</td>
<td>78</td>
</tr>
<tr>
<td>4.3.4</td>
<td>Fund-of-Funds (Dachfonds)</td>
<td>79</td>
</tr>
<tr>
<td>4.3.5</td>
<td>Opportunity Funds</td>
<td>79</td>
</tr>
<tr>
<td>4.4</td>
<td>Participants</td>
<td>79</td>
</tr>
<tr>
<td>4.4.1</td>
<td>Ship-Owner/Ship Manager</td>
<td>79</td>
</tr>
<tr>
<td>4.4.2</td>
<td>Ship Financing Bank</td>
<td>80</td>
</tr>
<tr>
<td>4.4.3</td>
<td>Syndicator/Emission House</td>
<td>80</td>
</tr>
<tr>
<td>4.4.4</td>
<td>Trustee</td>
<td>80</td>
</tr>
<tr>
<td>4.4.5</td>
<td>Equity Broker</td>
<td>81</td>
</tr>
<tr>
<td>4.4.6</td>
<td>Advisory Board</td>
<td>81</td>
</tr>
<tr>
<td>4.4.7</td>
<td>Ancillary Service Providers</td>
<td>81</td>
</tr>
<tr>
<td>4.4.8</td>
<td>Investor</td>
<td>82</td>
</tr>
<tr>
<td>4.5</td>
<td>Strategic Approach and Key Features</td>
<td>82</td>
</tr>
<tr>
<td>4.6</td>
<td>Tonnage Tax</td>
<td>83</td>
</tr>
<tr>
<td>4.7</td>
<td>Outlook</td>
<td>85</td>
</tr>
</tbody>
</table>
5 Equity Capital Market in Shipping
Karsten Markwardt and Axel Schroeder
5.1 Introduction
5.2 General Principles of the AIFMD
5.2.1 Purpose and Scope of the AIFMD
5.2.2 Regulatory Requirements
5.2.3 Specifically: Valuation and Depositary
5.2.4 Transparency Requirements
5.2.5 EU Passport, Non-EU AIFs/AIFMs
5.3 Implementation of the AIFMD in Germany Through the Investment Code ("Code")
5.3.1 Purpose and Scope of the Code
5.3.2 Public AIFs and Special AIFs
5.4 Institutional Investors
5.4.1 Classification of Institutional Investors
5.4.2 Structures
5.5 Conclusion

6 Other Equity Markets for Shipping
Christian von Oldershausen
6.1 Norway and its Limited Partnership Structures
6.1.1 Norwegian Market for Private Equity Investment
6.2 Types of Structures
6.2.1 Norwegian Limited Partnerships
6.2.2 The Limited Partnership "KS"
6.2.3 The Silent Partnership "IS"
6.2.4 The Limited Liability Company "AS"
6.2.5 The General Partnership "ANS"
6.3 Taxation Aspects of Norwegian Limited Partnerships/Silent Partnerships
6.4 Example of a Typical Silent Partnership Transaction

7 Business Acquisitions as a Tool for Proactive Financial Management: The Case of Seanergy Maritime Holdings
Christina Anagnostara and Christos Sigalas
7.1 Background Information
7.2 The Acquisition of BET
7.3 Concluding Remarks

8 HCI Hammonia Shipping AG: A Case Study
Jan Willem Krutemeier
8.1 Introduction
8.2 Initial Public Offering
8.3 Company Structure
8.4 Business Model
8.4.1 Focus on Container Shipping
8.4.2 Involvement of the Initiators
8.4.3 Concept of Employment ........................................... 126
8.4.4 Currency ............................................................ 127
8.4.5 Dividends ............................................................ 128
8.5 Basic Income Tax Principles ........................................... 128
  8.5.1 Level of the Shipping Partnerships .............................. 128
  8.5.2 Level of the Holding Company HHX .............................. 128
  8.5.3 Level of the HHX Retail Investors .............................. 129
  8.5.4 Level of the HHX Institutional Investors ....................... 129
8.6 Corporate Governance and Compliance ............................ 130
  8.6.1 Financial Reporting ............................................. 131
  8.6.2 German Corporate Governance Code ............................. 131
  8.6.3 Risk Management System/Internal Monitoring System ........... 131
  8.6.4 Insider List (Insiderverzeichnis) ................................ 131
  8.6.5 Ad Hoc Disclosures ............................................. 132
  8.6.6 Directors’ Dealings .............................................. 132
  8.6.7 Voting Rights Announcements (Stimmrechtsmitteilungen) ........ 132
  8.6.8 Takeover Bid .................................................... 133
8.7 Development of the HHX Fleet ....................................... 133
8.8 Economic Development of the Company ............................. 134
8.9 Summary and Outlook ................................................. 137

Part III Asset Pricing

9 Valuing Vessels ........................................................... 141
  Daniel Mayr
  9.1 Introduction .......................................................... 141
  9.2 Reasons for Valuations and Valuation Approaches ................ 142
    9.2.1 Reasons for Valuations ....................................... 142
    9.2.2 Valuation Approaches ....................................... 142
  9.3 Equivalence of Value and Price ................................... 143
  9.4 The LTAV Method ................................................... 146
    9.4.1 Methodology .................................................. 146
    9.4.2 Determination of Free Cash Flows ............................ 147
    9.4.3 Determination of the Discount Rate (WACC) ................... 152
    9.4.4 Suitability of the LTAV Method ............................... 158
    9.4.5 Sample Calculation Using the LTAV Method .................. 159
  9.5 Possibilities for Applying the LTAV Method ....................... 159
    9.5.1 LTAV for Investment and Divestment Decisions ............... 159
    9.5.2 LTAV for Accounting Purposes of Vessel Owners ............ 161
    9.5.3 LTAV for Accounting Purposes of Banks ..................... 161
  9.6 Concluding Summary ............................................... 162
References ................................................................. 162
10 Developing a Dynamic Vessel Valuation Method Based on Real Market Transactions ........................................... 165
Andreas Mietzner

10.1 Introduction ............................................. 165
10.2 Other Approaches of Vessel Valuation ................................. 166
10.3 Algebraic Estimation on the Basis of “Last Done” ...................... 167
   10.3.1 Three-Level Approach .................................. 167
   10.3.2 Identification of Sales of Comparison ......................... 167
   10.3.3 Age Adjustment ........................................ 168
   10.3.4 Criticism ............................................. 172
10.4 Qualitative Adjusted and Audited Algebraic Estimation on the Basis of “Last Done” ...................... 173
   10.4.1 Incorporating Market Changes .............................. 173
   10.4.2 Adjusting the Age Adjustment Factor ........................ 176
   10.4.3 Incorporation of Other Attributes and Adaption of the Attribute Adjustment ...................... 181
   10.4.4 Ex-Post Auditing of the Result ............................ 182
10.5 Conclusion ............................................. 182

Part IV Institutional Framework

11 Shipping Finance in Greece .................................... 185
   Vera P. Alexandropoulou
11.1 History of Shipping and Ship Finance in Greece ........................ 185
11.2 Types of Ship-Owning Companies ................................ 186
11.3 Legal Framework ......................................... 187
   11.3.1 The Three Main Pillars ................................ 187
   11.3.2 Registration Issues .................................. 188
11.4 Taxation ............................................. 189
11.5 Financing ............................................. 191
   11.5.1 Loans ............................................. 191
   11.5.2 Regular Type Structure of Term-Loan Ship Finance ........ 192
   11.5.3 Mortgage .......................................... 193
   11.5.4 Alternative Forms of Financing ........................... 193
   11.5.5 The Global Economic Crisis and the Effect on Ship Financing ............................................. 196
   11.5.6 Examples of Ship Finance Transactions Involving Greek Companies ............................................. 197
11.6 Concluding Remarks ...................................... 198
References .................................................. 199
12 New Turkish Law on Ship Finance .............................................................. 201
Kerim Atamer
12.1 Introduction ............................................................................................. 201
12.2 Sources of Law .......................................................................................... 202
12.2.1 International Conventions ................................................................. 202
12.2.2 Conflict of Laws .................................................................................. 202
12.2.3 National Law ........................................................................................ 204
12.3 Rights In Rem ........................................................................................... 205
12.3.1 Definition and Legal Qualification of “Ship” ....................................... 205
12.3.2 Registration .......................................................................................... 206
12.3.3 Ownership ........................................................................................... 213
12.3.4 Usufruct ............................................................................................... 214
12.3.5 Mortgage on Ships and New Buildings .............................................. 214
12.3.6 Maritime Liens ..................................................................................... 222
12.4 Contractual Agreements .......................................................................... 223
12.4.1 Shipbuilding ......................................................................................... 223
12.4.2 Ship Sale and Purchase ....................................................................... 223
12.4.3 Financial Leasing .................................................................................. 224
12.4.4 Bareboat Charter and Temporary Change of Flag ......................... 225
12.5 Outlook ..................................................................................................... 225
References ...................................................................................................... 225

13 Double Tax Treaties: Practical Problems in Article 8 of the OECD Model Convention ......................................................... 229
Florian Haase
13.1 Introduction ............................................................................................... 229
13.1.1 Purpose of Double Tax Treaties ......................................................... 230
13.1.2 Brief History of Article 8 of the OECD Model Convention .............. 231
13.1.3 Reflection of Article 8 in German Tax Treaties .................................. 231
13.2 Article 8 of the OECD Model Convention ............................................. 233
13.2.1 General ................................................................................................. 233
13.2.2 Requirements (Paragraph 1) ............................................................. 234
13.2.3 Consequences (Paragraph 1): Tax Exemption ................................... 236
13.2.4 Inland Waterways (Paragraph 2) ....................................................... 236
13.2.5 Place of Management Aboard (Paragraph 3) .................................... 237
13.2.6 Pool Agreements, etc. (Paragraph 4) ................................................ 237
13.3 Major Practical Problems .......................................................................... 237
13.3.1 Preparatory and Ancillary Activities ................................................. 237
13.3.2 Containers ........................................................................................... 238
13.3.3 Bareboat Charter ............................................................................... 239
13.3.4 International Traffic .......................................................................... 239
13.4 Future Developments .............................................................................. 241
Part V  Challenges and Advances

14 Ship Leasing ........................................... 245
Philip Clausius
14.1 Overview ........................................... 246
14.1.1 General Leasing Definition ................. 246
14.1.2 Ship Leasing Definition ....................... 246
14.1.3 Ship Leasing Market Size ..................... 247
14.2 Leasing Motivations ............................ 248
14.2.1 Lessee’s Perspective .......................... 248
14.2.2 Lessor’s Perspective ......................... 251
14.3 Ship Lease Contract and Structure ............. 252
14.3.1 Time Charter .................................. 252
14.3.2 Bareboat Charter ............................... 253
14.3.3 “Hell and High Water” Bareboat Charter .... 254
14.3.4 Tax Leasing .................................... 255
14.3.5 Sale and Leaseback Transaction ............. 255
14.3.6 Optionality and Flexibility Features ......... 257
14.4 Lease Pricing ...................................... 258
14.4.1 Return on Asset/Return on Equity .......... 258
14.4.2 Cash Yield .................................... 259
14.4.3 Residual Value Impact on Pricing .......... 259
14.5 Risk Management ................................. 260
14.5.1 Credit Risk .................................... 261
14.5.2 Asset Risk .................................... 261
14.5.3 Financial Risk ................................ 262
14.6 Lessor Universe ................................... 263
14.6.1 Specialists Versus Generalists ............... 263
14.6.2 Corporate Lessors Versus Project Leasing Structures ...... 263
14.6.3 Bank Lessors Versus Independent Lessors .... 263
14.7 Latest Developments and Outlook ............... 263
14.7.1 Proposed Lease Accounting Changes ........... 263
14.7.2 Impact of Debt Funding Constraints .. 266
14.7.3 Impact of High Profile Industry Defaults .... 266
References ............................................. 267

15 Pools in International Shipping .................... 269
Basil Ph. Papachristidis and Phrixos B. Papachristidis
15.1 Background ........................................ 269
15.2 Shipping Pools and Their Raison d’Être .......... 271
15.3 Benefits to Owners ............................... 272
15.4 Financial Impact of Pooling ..................... 272
15.5 Typical Pool Structure .......................... 273
15.6 Determinants of Pool Points ..................... 274
17.14 Employment of Vessels: Index-Linked Employment from a Contractual Perspective 313
17.15 Legal Overview of Container Freight Swap Agreements 314
17.16 Credit Support Annex 315
17.17 Maritime Sector Regulatory Environment: EU 315
  17.17.1 Liner Conferences 316
  17.17.2 Shipping Consortia 316
  17.17.3 Freight Indices 317
17.18 Regulatory Environment: US 317
  17.18.1 US Perspective on CFDs 317
  17.18.2 History of CFDs 318
  17.18.3 Current US Shipping Climate/FMC Activities 319
  17.18.4 Conclusion and Opposition from the Industry 320

18 Islamic Finance in Shipping: Dawn of a New Reality 323
Nijoe Joseph
  18.1 Introduction 323
  18.2 Basis of Islamic Finance 325
    18.2.1 Prohibitions in Islamic Finance 325
  18.3 Islamic Financial Instruments of Ship Finance 326
    18.3.1 Murabaha ("Cost Plus" Finance) 326
    18.3.2 Istisna’a (Procurement) 328
    18.3.3 Musharaka (Partnership Financing or Profit and Loss Sharing) 330
    18.3.4 Ijara (Lease) 332
    18.3.5 Sukuk (Islamic Bonds): Al Ijara and Al Istisna’a 334
  18.4 Important Considerations in an Islamic Ship Finance 337
    18.4.1 Requirement of Title to the Asset 337
    18.4.2 Dispute Resolution and Governing Laws 338
    18.4.3 Sharia’a Compliance and Oversight 338
    18.4.4 Taxation and Capital Adequacy 339
  18.5 Conclusion 340
References 340

Part VI Related Services

19 Investor Relations and Their Role in Effective Corporate Communications 345
Nicolas Bornoizis
  19.1 What Are Investor Relations? 345
  19.2 A Historical Perspective on Investor Relations 347
  19.3 Investor Audience 348
    19.3.1 Growth Investors 348
    19.3.2 Value Investors 348
    19.3.3 Income Investors 349
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.3.4 Industry Specific Investors</td>
<td>349</td>
</tr>
<tr>
<td>19.3.5 Growth and Reasonable Price Investors</td>
<td>349</td>
</tr>
<tr>
<td>19.3.6 Arbitrage Investors</td>
<td>349</td>
</tr>
<tr>
<td>19.3.7 Quantitative Investors</td>
<td>350</td>
</tr>
<tr>
<td>19.3.8 Technical Analysis Investors</td>
<td>350</td>
</tr>
<tr>
<td>19.4 International Investor Relations</td>
<td>350</td>
</tr>
<tr>
<td>19.5 The Investor Relations Process: The IPO</td>
<td>351</td>
</tr>
<tr>
<td>19.6 The Investor Relations Process: After the IPO</td>
<td>352</td>
</tr>
<tr>
<td>19.7 The Investor Relations Firm</td>
<td>353</td>
</tr>
<tr>
<td>19.8 Shipping Investor Relations</td>
<td>353</td>
</tr>
<tr>
<td>19.9 Conclusion</td>
<td>354</td>
</tr>
</tbody>
</table>

20 The Role of Newbuilding Broker

Leandros von Ruffin-Zisiadis

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.1 The Newbuilding Broker</td>
<td>357</td>
</tr>
<tr>
<td>20.1.1 Information Gathering</td>
<td>359</td>
</tr>
<tr>
<td>20.1.2 Owners Background</td>
<td>359</td>
</tr>
<tr>
<td>20.1.3 Owners Trading Areas and Patterns</td>
<td>360</td>
</tr>
<tr>
<td>20.1.4 Owners Motivation</td>
<td>361</td>
</tr>
<tr>
<td>20.1.5 Yards Track Record and Background</td>
<td>361</td>
</tr>
<tr>
<td>20.1.6 Yards Current Status and Conditions</td>
<td>362</td>
</tr>
<tr>
<td>20.1.7 Yards Financial Status</td>
<td>363</td>
</tr>
<tr>
<td>20.1.8 The Letter of Intent</td>
<td>364</td>
</tr>
<tr>
<td>20.1.9 Technical Specifications and List of Suppliers</td>
<td>366</td>
</tr>
<tr>
<td>20.1.10 The Shipbuilding Contract</td>
<td>367</td>
</tr>
<tr>
<td>20.1.11 Description and Class</td>
<td>367</td>
</tr>
<tr>
<td>20.1.12 Contract Price</td>
<td>368</td>
</tr>
<tr>
<td>20.1.13 Adjustment of the Contract Price</td>
<td>368</td>
</tr>
<tr>
<td>20.1.14 Inspection and Approval</td>
<td>370</td>
</tr>
<tr>
<td>20.1.15 Trials and Completion</td>
<td>370</td>
</tr>
<tr>
<td>20.1.16 Delivery</td>
<td>371</td>
</tr>
<tr>
<td>20.2 The Shipbuilding Phase</td>
<td>371</td>
</tr>
<tr>
<td>20.2.1 Resale Opportunities</td>
<td>372</td>
</tr>
<tr>
<td>20.2.2 After Sales Service/Problem Solving</td>
<td>373</td>
</tr>
<tr>
<td>20.3 Concluding Remarks</td>
<td>373</td>
</tr>
</tbody>
</table>

About the Editors

Index