Restructuring process overview Croatian shipbuilding

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Introduction

Key facts

- **Territory:** 56,538 sq.km
- **Population[1]:** 4,28million
- **GDP per capita[2]:** USD 20,87bn
- **Nominal GDP[2]:** USD 89,76 bn
- **Capital:** Zagreb
- **Borders with EU:** Italy, Slovenia, Hungary
- **Other borders:** Bosnia-Herzegovina, Serbia, Montenegro

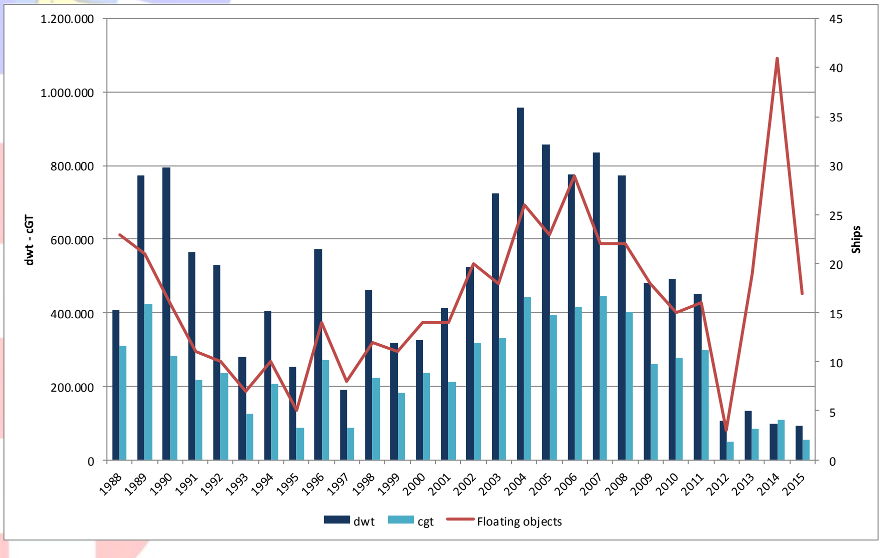
Recent milestones

- **1991** – Independence
- **1992** – UN and IMF membership
- **1997** – Investment grade ratings achieved
- **2000** – WTO membership
- **2003** – Formal application for EU membership
- **2004** – Official EU applicant status
- **2009** – NATO membership
- **2013** – EU membership

Croatian shipbuilding industry

- 2 % of GDP in last 10 (ten) years
- 5% of total industrial labour force → 10% with subcontractors
- 10 – 15% of total Croatian exports
- Since 1988 (3rd position in World orderbook after Japan and South Korea, with 2.7 % orderbook share measured in tdw), deliveries of 478 vessels, floating objects of various size and types of vessels
- Deliveries of 13.8 mil. tdw and 7.1 mil. cgt

Deliveries (1988 – 2015)



Leading Products

- Dry cargo vessels, RO-RO, Container vessels, Reefer vessels
- Product carriers, Chemical carriers, Asphalt carriers
- Car truck carriers
- Wagon carriers
- Dredgers
- Sea/river vessels
- Live stock carriers
- Cable layers
- Heavy lifters
- Ro-Paxes
- Car/passenger ferries
- Yachts
- Fishing vessels
- Barges (various types)







Why privatization?

Croatian shipyards have been receiving a **higher level of subsidies,** compared with other shipyards in EU, **in an form that are not acceptable and in contrary with the state aid regulations valid for the other EU shipbuilding countries**

According to the Stabilisation Agreement between Croatia and EU, signed in 2002, Croatia had to carry out the restructuring of the shipyards within 4 years (until 2006)

Croatia failed to fulfill such an obligation, within time designated, so it was further agreed that the restructuring will be implemented through the process of privatization in accordance with the **EC rules for restructuring of entrepreneurs in difficulties**

EU RULES FOR RESTRUCTURING OF ENTREPRENEURS IN DIFFICULTIES

A company/investor was obliged to:

estimate total restructuring costs and to indicate restructuring period

Anticipate own contribution (company + strategic partner), at the level of minimum of 50% of the total restructuring costs (during negotiations it was agreed the level of 40 %)

The result of the restructuring has to be a sustainable business operations

As a penalty for the previously received illegal state aids, the company was obliged to provide a compensatory measures , i.e. capacities reduction

The company throughout the period starting with the date of concluding SPA and ending on 31 December 2020, may not realize annual output, measured in cgt, higher than it was limitation, agreed with EC

EU RULES FOR RESTRUCTURING OF ENTREPRENEURS IN DIFFICULTIES

Total restructuring costs include:

- Granted state aids,
- Write off of the shipyard’s liabilities,
- Free capacity costs
- Reimbursement of capital
- Costs of the implementation of environmental protection system and standards,
- Costs of technological renewal (future investments),
- Costs of redundancies
- Costs of capacities closing
- State guarantees for advance payment
- Credits without state guarantees
- Recapitalization etc...

Monitoring process

EC monitoring shall be carried out each year of the restructuring period.

Croatian Shipbuilding Corporation (CSC) was nominated by Croatian Government and EC for monitoring and reporting on approved Programmes of Restructuring and Privatization Contracts

Croatia shall fully comply with all the arrangements for monitoring. In particular:

- supply the Commission with six-monthly reports concerning the restructuring of the benefiting companies, no later than 15 January and 15 July each year until the end of the restructuring period
- the reports shall contain all the information necessary to monitor the restructuring process, the own contribution, the reduction of capacity, the production limitation and the measures taken to ensure a return to viability
- Croatia shall submit reports on the annual output (measured in cgt) of the companies under restructuring no later than 15 July each year, until the end of 2020
- Croatia shall oblige the companies to disclose all relevant data which might, under other circumstances, be considered as confidential.

Process of Privatization

Before becoming a member state in July 2013, Croatia has privatized four (4) of their former state-owned shipyards:

- Uljanik on 15th December 2012
- Brodosplit on 28th February 2013
- Brodotrogir on 6th April 2013
- 3.Maj on 28th June 2013

The time-frame for achieving stabile business for Brodosplit, Brodotrogir and 3.Maj is the end of 2017

- Shipyard Kraljevica is still in the process of the bankruptcy procedure which started on 28th August 2012

Measures taken

In the last few years the activities of the Croatian Government were focused on:

- increasing of overall competitiveness of Croatian Shipbuilding Industry
- securing the business environment equal or at least close to the standards prevailing in EU shipbuilding industry

Main activities according to the Programmes of Restructuring:

- to invest in Shipyards under restructuring in 5 years (restructuring period) total abt. 353 mil. EUR, as eligible State Aid for restructuring
- to issue additional state guarantees for securing advance payments (only) of buyers for new projects, until reaching the total amount of abt. 57 mil. EUR (equivalents of state aid)

Results

World Orderbook

March 2013			
No.	Country	dwt	%
1.	China	105.749.300	46,54%
2.	South Korea	62.281.887	27,41%
3.	Japan	42.182.360	18,56%
4.	Philippines	4.393.222	1,93%
5.	Brazil	2.711.915	1,19%
6.	Vietnam	1.992.007	0,88%
7.	India	1.765.738	0,78%
8.	Taiwan	1.721.290	0,76%
9.	Iran	815.210	0,36%
10.	Romania	666.950	0,29%
11.	Turkey	629.333	0,28%
12.	USA	524.750	0,23%
13.	Russia	442.270	0,19%
14.	Netherlands	189.808	0,08%
15.	Croatia	182.200	0,08%
16.	Bangladesh	177.400	0,08%
17.	Argentina	153.064	0,07%
18.	Germany	142.100	0,06%
19.	Indonesia	104.730	0,05%
20.	Ukraine	71.405	0,03%
21.	Rest of World	318.132	0,14%
	TOTAL	227.215.071	100,00%
	Europe	2.566.888	1,13%

September 2015			
No.	Country	dwt	%
1.	China	124.731.110	44,39%
2.	South Korea	81.592.779	29,04%
3.	Japan	53.044.207	18,88%
4.	Philippines	8.433.499	3,00%
5.	Romania	3.122.635	1,11%
6.	Brazil	2.360.549	0,84%
7.	Vietnam	2.123.020	0,76%
8.	Taiwan	1.582.758	0,56%
9.	USA	1.066.270	0,38%
10.	Spain	647.500	0,23%
11.	Croatia	579.510	0,21%
12.	Iran	277.810	0,10%
13.	Turkey	255.546	0,09%
14.	Russia	218.180	0,08%
15.	Bangladesh	203.092	0,07%
16.	Netherlands	177.950	0,06%
17.	Indonesia	107.947	0,04%
18.	India	102.530	0,04%
19.	Argentina	98.400	0,04%
20.	Germany	95.480	0,03%
21.	Rest of World	179.660	0,06%
	TOTAL	281.000.432	100,00%
	Europe	5.245.991	1,87%

Source: IHS Fairplay

Results

European Orderbook

March 2013			
No.	Country	dwt	%
1.	Romania	666.950	25,98%
2.	Turkey	629.333	24,52%
3.	Russia	442.270	17,23%
4.	Netherlands	189.808	7,39%
5.	Croatia	182.200	7,10%
6.	Germany	142.100	5,54%
7.	Ukraine	71.405	2,78%
8.	Poland	62.680	2,44%
9.	Portugal	54.000	2,10%
10.	Italy	45.850	1,79%
11.	Lithuania	34.400	1,34%
12.	Czech Republic	26.750	1,04%
13.	Spain	6.852	0,27%
14.	Serbia	6.140	0,24%
15.	Greece	6.150	0,24%
16.	Rest of Europe	-	0,00%
	TOTAL	2.566.888	100,00%

September 2015			
No.	Country	dwt	%
1.	Romania	3.122.635	59,52%
2.	Spain	647.500	12,34%
3.	Croatia	579.510	11,05%
4.	Turkey	255.546	4,87%
5.	Russia	218.180	4,16%
6.	Netherlands	177.950	3,39%
7.	Germany	95.480	1,82%
8.	Italy	49.600	0,95%
9.	Poland	33.685	0,64%
10.	Serbia	30.650	0,58%
11.	Ukraine	28.955	0,55%
12.	Czech Republic	4.550	0,09%
13.	Greece	1.750	0,03%
14.	Rest of Europe	-	0,00%
	TOTAL	5.245.991	100,00%

Source: IHS Fairplay

Results

Orderbook as of 30th March 2013 (total value of 543 million USD)

Year	No.	tdw	cgt
2013	28	173.100	113.454
2014	8	9.100	54.912
Total	36	182.200	168.366

Results

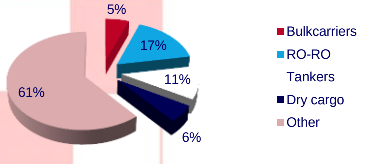
Orderbook as of 30th September 2015
(total value of 1,52 billion USD)

Year	No.	tdw	cgt
2015	10	133.505	108.081
2016	10	216.987	131.410
2017	17	193.275	213.345
2018	3	17.170	30.047
Total	40	560.937	482.883

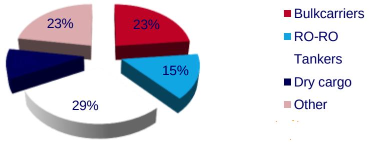
Results

Orderbook ratio 2013

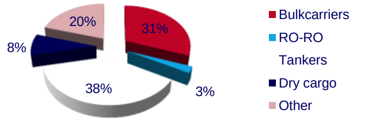
Vessels



cgt



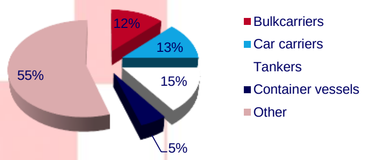
tdw



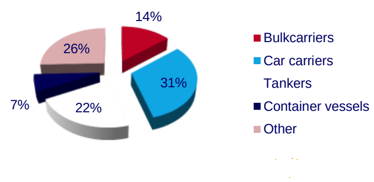
Results

Orderbook ratio 2015

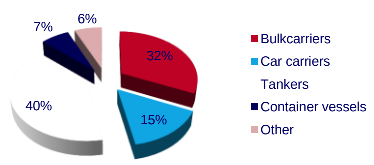
Vessels



cgt



tdw



Results

Newbuilding Capacities

YARD		ULJANIK		BRODOSPLIT				BRODOTROGIR	3. MAJ	
Building Berth (Slipway)	No.	1	2	1	2	3	4	1	1	2
Capacities, m	L	173	140	280	250	195	65	197	198	260
m	B	60	140	54	39,5	26	12	47	32	50
Cranes; t		1x 200	140	2 x 100**	1 x 100		2 x 40	1 x 100	1 x 300	
t		1 x 150	140	2 x 60	1 x 40			1 x 25	1 x 45	1 x 45
t		1 x 45							1 x 20	1 x 12
Vessel size max.	DWT	75.000	55.000	165.000	105.000	30.000	2.000*	50.000	70.000	110.000
				**1 tandem to berth No 2, *former naval						

Note: Slipway No. 4 is roof covered

Results

Newbuilding capacities

- **Abt. 7,200 employees** – own workforce in the Groups (Holdings) by the end of December 2014;
- **Abt. 6,100 employees** - own workforce in the Shipyards by the end of December 2014
- **Abt. 2,000 – 3,000 subcontractors** – workforce on site by the end of December 2014;
- **Total production** for three Shipyards in restructuring process (Brodosplit, Brodotrogir and 3.Maj) is limited in 10 years period (up to 2022) to 296,603 cGT/year (15 – 20 merchant ships); Uljanik has no limitation
- **Abt. 120 – 150,000 tons/year** of steel prefabrication capacity;
- **Productivity abt. 30 – 40 effective hours/cGT** (average);
- **Abt. 9 – 12 months** average time for ships under construction (keellaying to delivery)

Thanks for your attention!

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