PHILLIPS 66 PARTNERS LP
Form 10-Q
May 01, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 001-36011

Phillips 66 Partners LP
(Exact name of registrant as specified in its charter)

Delaware	38-3899432
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3010 Briarpark Drive, Houston, Texas 77042
(Address of principal executive offices) (Zip Code)

(855) 283-9237
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]
Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Consolidated Statement of Income — Phillips 66 Partners LP

	Millions of Dollars Three Months Ended March 31	
	2015	2014*
Revenues		
Transportation and terminaling services—related parties	$62.8	50.5
Transportation and terminaling services—third parties	1.1	1.3
Equity in earnings of affiliates	6.1	—
Other income	0.1	0.1
Total revenues and other income	70.1	51.9
Costs and Expenses		
Operating and maintenance expenses	14.8	11.7
Depreciation	5.1	3.6
General and administrative expenses	7.4	7.4
Taxes other than income taxes	1.3	1.2
Interest and debt expense	5.9	0.5
Total costs and expenses	34.5	24.4
Income before income taxes	35.6	27.5
Provision for income taxes	0.2	0.3
Net Income	35.4	27.2
Less: Net income attributable to predecessors	—	8.9
Net income attributable to the Partnership	35.4	18.3
Less: General partner’s interest in net income attributable to the Partnership	6.4	0.8
Limited partners’ interest in net income attributable to the Partnership	$29.0	17.5
Net Income Attributable to the Partnership Per Limited Partner Unit—Basic and Diluted (dollars)		
Common units	$0.39	0.25
Subordinated units—Phillips 66	0.35	0.24
Cash Distributions Paid Per Unit (dollars)	$0.3400	0.2248
Average Limited Partner Units Outstanding—Basic and Diluted (thousands)		
Common units—public	21,047	18,889
Common units—Phillips 66	21,468	17,544
Subordinated units—Phillips 66	35,217	35,217

*Prior-period financial information has been retrospectively adjusted for acquisitions under common control.
See Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income Phillips 66 Partners LP

	Millions of Dollars Three Months Ended March 31	
	2015	2014
Net Income	$35.4	27.2
Other Comprehensive Income	—	—
Comprehensive Income	$35.4	27.2

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet Phillips 66 Partners LP

	Millions of Dollars	
	March 31 2015	December 31 2014
Assets		
Cash and cash equivalents	$137.6	8.3
Accounts receivable—related parties	27.0	21.5
Accounts receivable—third parties	0.5	1.5
Materials and supplies	2.3	2.2
Other current assets	2.7	2.7
Total Current Assets	170.1	36.2
Equity investments	800.8	—
Net properties, plants and equipment	465.3	485.1
Goodwill	2.5	2.5
Intangibles	—	8.4
Deferred rentals—related parties	5.8	5.9
Deferred tax assets	—	0.5
Other assets	9.5	0.9
Total Assets	$1,454.0	539.5
Liabilities		
Accounts payable—related parties	$7.0	18.0
Accounts payable—third parties	14.7	10.2
Accrued property and other taxes	3.4	2.7
Accrued interest	4.2	1.9
Deferred revenues—related parties	1.7	0.6
Other current liabilities	0.3	0.3
Total Current Liabilities	31.3	33.7
Notes payable—related parties	—	411.6
Long-term debt	1,099.7	18.0
Asset retirement obligations	3.6	3.5
Deferred income taxes	0.3	—
Other liabilities	0.5	0.5
Total Liabilities	1,135.4	467.3
Equity		
Common unitholders—public (2015—24,138,750 units issued and outstanding; 2014—18,888,750 units issued and outstanding)	801.4	415.3
Common unitholder—Phillips 66 (2015—22,525,874 units issued and outstanding; 2014—20,938,498 units issued and outstanding)	58.0	57.1
Subordinated unitholder—Phillips 66 (35,217,112 units issued and outstanding)	117.2	116.8
General partner—Phillips 66 (2015—1,671,056 units issued and outstanding; 2014—1,531,518 units issued and outstanding)	(656.5)	(517.0)
Accumulated other comprehensive loss	(1.5)	—
Total Equity	318.6	72.2
Total Liabilities and Equity	$1,454.0	539.5

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows Phillips 66 Partners LP

	Millions of Dollars Three Months Ended March 31	
	2015	2014*
Cash Flows From Operating Activities		
Net income	$35.4	27.2
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	5.1	3.6
Deferred taxes	0.1	(0.1)
Deferred rentals—related parties	0.1	0.1
Undistributed equity earnings	(5.8)	—
Other	0.6	0.2
Working capital adjustments		
Decrease (increase) in accounts receivable	(4.5)	(9.6)
Decrease (increase) in materials and supplies	(0.1)	0.1
Decrease (increase) in other current assets	1.0	1.2
Increase (decrease) in accounts payable	(3.2)	(1.2)
Increase (decrease) in accrued interest	2.3	0.4
Increase (decrease) in deferred revenues	1.1	2.3
Increase (decrease) in other accruals	(0.7)	0.4
Net Cash Provided by Operating Activities	31.4	24.6
Cash Flows From Investing Activities		
Sand Hills/Southern Hills/Explorer equity investment acquisition	(734.3)	—
Gold Line/Medford acquisition	—	(138.0)
Capital expenditures and investments	(32.9)	(39.5)
Other	(5.5)	5.8
Net Cash Used in Investing Activities	(772.7)	(171.7)
Cash Flows From Financing Activities		
Net contributions from Phillips 66 to predecessors	—	19.0
Project prefunding from Phillips 66	—	2.2
Issuance of debt	1,168.7	—
Repayment of debt	(498.6)	—
Issuance of common units	396.4	—
Offering costs	(12.1)	—
Debt issuance costs	(8.9)	—
Distributions to general partner associated with acquisitions	(145.7)	(262.0)
Quarterly distributions to common unitholders—public	(6.4)	(4.3)
Quarterly distributions to common unitholder—Phillips 66	(7.1)	(3.7)
Quarterly distributions to subordinated unitholder—Phillips 66	(12.0)	(7.9)
Quarterly distributions to general partner—Phillips 66	(3.6)	(0.3)
Other cash contributions from Phillips 66	(0.1)	0.1
Net Cash Provided by (Used in) Financing Activities	870.6	(256.9)
Net Change in Cash and Cash Equivalents	129.3	(404.0)

Cash and cash equivalents at beginning of period	8.3	425.1
Cash and Cash Equivalents at End of Period	$137.6	21.1

*Prior-period financial information has been retrospectively adjusted for acquisitions under common control.
See Notes to Consolidated Financial Statements.

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Consolidated Statement of Changes in Equity Phillips 66 Partners LP

	Millions of Dollars						
	Partnership						
	Common Unitholders Public	Common Unitholder Phillips 66	Subordinated Unitholder Phillips 66	General Partner Phillips 66	Accum. Other Comprehensive Loss	Net Investment	Total
December 31, 2013	$409.1	48.6	104.9	11.5	—	169.9	744.0
Net income attributable to predecessors*	—	—	—	—	—	8.9	8.9
Net transfers to Phillips 66 from predecessors*	—	—	—	—	—	24.4	24.4
Contributions from Phillips 66 prior to acquisitions	—	—	—	—	—	4.0	4.0
Project prefunding from Phillips 66	—	—	—	—	—	2.2	2.2
Allocation of net investment—predecessors and deemed net distributions to General Partner	—	—	—	(422.0)	—	(138.0)	(560.0)
Net income attributable to the Partnership	4.4	4.8	8.3	0.8	—	—	18.3
Quarterly cash distributions to unitholders and general partner	(4.3)	(3.7)	(7.9)	(0.3)	—	—	(16.2)
Other contributions from Phillips 66	—	—	—	0.6	—	—	0.6
March 31, 2014*	$409.2	49.7	105.3	(409.4)	—	71.4	226.2
December 31, 2014	$415.3	57.1	116.8	(517.0)	—	—	72.2
Issuance of common units	383.9	—	—	—	—	—	383.9
Deemed net distributions to General Partner associated with acquisitions	—	—	—	(144.9)	—	—	(144.9)
Net income attributable to the Partnership	8.6	8.0	12.4	6.4	—	—	35.4
Acquired accumulated other comprehensive loss	—	—	—	—	(1.5)	—	(1.5)
Quarterly cash distributions to unitholders and general partner	(6.4)	(7.1)	(12.0)	(3.6)	—	—	(29.1)
Other contributions from Phillips 66	—	—	—	2.6	—	—	2.6
March 31, 2015	$801.4	58.0	117.2	(656.5)	(1.5)	—	318.6

	Common Units Public	Common Units Phillips 66	Subordinated Units Phillips 66	General Partner Units Phillips 66	Total Units
December 31, 2013	18,888,750	16,328,362	35,217,112	1,437,433	71,871,657

Units issued associated with the Gold Line/Medford acquisition	—	3,530,595	—	72,053	3,602,648
March 31, 2014	18,888,750	19,858,957	35,217,112	1,509,486	75,474,305
December 31, 2014	18,888,750	20,938,498	35,217,112	1,531,518	76,575,878
Units issued associated with the equity offering	5,250,000	—	—	—	5,250,000
Units issued associated with Sand Hills/Southern Hills/Explorer equity investment acquisition	—	1,587,376	—	139,538	1,726,914
March 31, 2015	24,138,750	22,525,874	35,217,112	1,671,056	83,552,792

*Prior-period financial information has been retrospectively adjusted for acquisitions under common control.
See Notes to Consolidated Financial Statements.

Note 1—Business and Basis of Presentation
Unless otherwise stated or the context otherwise indicates, all references to "Phillips 66 Partners," "the Partnership," "us," "our," "we," or similar expressions refer to Phillips 66 Partners LP, including its consolidated subsidiaries. References to Phillips 66 may refer to Phillips 66 and/or its subsidiaries, depending on the context.

Description of the Business
We are a Delaware limited partnership formed in 2013 by Phillips 66 Company and Phillips 66 Partners GP LLC (our General Partner), both wholly owned subsidiaries of Phillips 66. We are a growth-oriented master limited partnership formed by Phillips 66 to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum products and natural gas liquids (NGL) pipelines and other transportation and midstream assets. Our common units trade on the New York Stock Exchange under the symbol "PSXP."

Developments during the first quarter of 2015 included:

- Sand Hills/Southern Hills/Explorer Equity Investment Acquisition. On March 2, 2015, we acquired Phillips 66's one-third equity interests in DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills), as well as Phillips 66's 19.46 percent equity interest in Explorer Pipeline Company (Explorer).

- Issuance of Senior Notes. On February 23, 2015, we closed on a public offering of unsecured senior notes in an aggregate principal amount of $1.1 billion (Notes Offering).

- Issuance of Common Units. On February 23, 2015, we closed on a public offering of 5,250,000 common units for total proceeds (net of underwriting discounts) of $384.5 million (Units Offering).

- Formation of Bakken Joint Ventures. On January 16, 2015, we closed on the formation of two joint ventures with Paradigm Energy Partners LLC (Paradigm), in which we contributed a crude oil rail terminal growth project previously acquired from Phillips 66, to develop midstream logistics infrastructure in North Dakota.

As of March 31, 2015, our assets consist of one crude oil pipeline, terminal and storage system; three refined petroleum products pipelines, terminal and storage systems; two crude oil rail racks; two refinery-grade propylene storage spheres; two under-construction organic growth projects and five equity investments. Our assets are connected to, and integral to the operation of, seven of Phillips 66's wholly owned or jointly owned refineries.

We generate revenue primarily by charging tariffs and fees for transporting crude oil and refined petroleum products through our pipelines, and terminaling and storing crude oil and refined petroleum products at our terminals, rail racks and storage facilities. In addition, our equity-method affiliates generate revenue primarily from transporting NGL and refined petroleum products. Since we do not own any of the crude oil and refined petroleum products that we handle and do not engage in the trading of crude oil and refined petroleum products, we have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term.

Basis of Presentation
We acquired assets from Phillips 66 during 2014 that were considered transfers of businesses between entities under common control. This required the transactions to be accounted for as if the transfers had occurred at the beginning of the period of transfer, with prior periods retrospectively adjusted to furnish comparative information. Accordingly, the accompanying financial statements and related notes have been retrospectively adjusted to include the historical results and financial position of these acquired businesses prior to the effective date of each acquisition. We refer to

these pre-acquisition operations as those of our “Predecessors.”

The combined financial statements of our Predecessors were derived from the accounting records of Phillips 66 and reflect the combined historical results of operations, financial position and cash flows of our Predecessors as if such businesses had been combined for all periods presented.

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All intercompany transactions and accounts within our Predecessors have been eliminated. The assets and liabilities of our Predecessors in these financial statements have been reflected on a historical cost basis because the transfer of the Predecessors to us took place within the Phillips 66 consolidated group. The consolidated statement of income also includes expense allocations for certain functions performed by Phillips 66 and historically not allocated to the Predecessors' operations, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, information technology and procurement; and operational support services such as engineering and logistics. These allocations were based primarily on relative values of net properties, plants and equipment (PP&E) and equity-method investments, or number of terminals and pipeline miles. Our management believes the assumptions underlying the allocation of expenses from Phillips 66 were reasonable. Nevertheless, the financial results of our Predecessors may not include all of the actual expenses that would have been incurred had our Predecessors been a stand-alone publicly traded partnership during the periods presented.

All financial information presented for the periods after each respective business acquisition represents the consolidated results of operations, financial position and cash flows of the Partnership. Accordingly:

- Our consolidated statements of income, comprehensive income and cash flows for the three months ended March 31, 2015, consist of the consolidated results of the Partnership. Our consolidated statements of income, comprehensive income and cash flows for the three months ended March 31, 2014, consist of the combined results of our Predecessors prior to the effective date of each acquisition and the consolidated results of the Partnership.

- Our consolidated balance sheets at March 31, 2015, and December 31, 2014, consist of the consolidated balances of the Partnership.

- Our consolidated statement of changes in equity for the three months ended March 31, 2015, consists of the consolidated activity of the Partnership. Our consolidated statement of changes in equity for the three months ended March 31, 2014, consists of both the combined activity of our Predecessors prior to the effective date of each acquisition and the consolidated activity of the Partnership.

Note 2—Interim Financial Information

The interim financial information presented in the financial statements included in this report is unaudited and includes all known accruals and adjustments necessary, in the opinion of management, for a fair presentation of our financial position, results of operations and cash flows for the periods presented. Unless otherwise specified, all such adjustments are of a normal and recurring nature. Certain notes and other information have been condensed or omitted from the interim financial statements included in this report. Therefore, these interim financial statements should be read in conjunction with the audited consolidated financial statements and notes included in our 2014 Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2015, are not necessarily indicative of the results to be expected for the full year.

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Note 3—Equity Investments

Bakken Joint Ventures
On January 16, 2015, we closed on agreements with Paradigm to form two joint ventures to develop midstream logistics infrastructure in North Dakota. At closing, we contributed our Palermo Rail Terminal project for a 70 percent ownership interest in Phillips 66 Partners Terminal LLC, and $4.9 million in cash for a 50 percent ownership interest in Paradigm Pipeline LLC. We account for both joint ventures under the equity method of accounting due to governance provisions which require supermajority voting on all decisions that significantly impact the governance, management and economic performance of the joint ventures.

Sand Hills/Southern Hills/Explorer Pipeline Joint Ventures
In February 2015, we entered into a Contribution, Conveyance and Assumption Agreement with subsidiaries of Phillips 66 to acquire 100 percent of Phillips 66’s one-third equity interests in Sand Hills and Southern Hills, and 19.46 percent equity interest in Explorer. The Sand Hills pipeline is a 720-mile, fee-based pipeline that transports NGL from plants in the Permian Basin and Eagle Ford Shale to facilities along the Texas Gulf Coast and the Mont Belvieu market hub. The Southern Hills pipeline is an 800-mile, fee-based pipeline that transports NGL from the Midcontinent region to the Mont Belvieu market hub. The Explorer pipeline is an approximately 1,830-mile refined petroleum product pipeline extending from the Texas Gulf Coast to Indiana, transporting refined petroleum products to more than 70 major cities in 16 U.S. states. The transaction closed on March 2, 2015. Total consideration for the transaction was $1.01 billion consisting of $880 million in cash, funded by a portion of the proceeds from the Notes Offering and Units Offering; in addition, the Partnership issued 1,587,376 common units to Phillips 66 and 139,538 general partner units to our General Partner to maintain its 2 percent interest. Total transaction costs of $0.9 million were expensed as incurred in general and administrative expenses.

The following table summarizes our equity investments:

			Millions of Dollars	
	Percentage Ownership		Carrying Value March 31, 2015	December 31, 2014
DCP Sand Hills Pipeline, LLC	33.34	%	$417.0	—
DCP Southern Hills Pipeline, LLC*	33.34		220.6	—
Explorer Pipeline Company	19.46		104.7	—
Phillips 66 Partners Terminal LLC	70.00		43.5	—
Paradigm Pipeline LLC	50.00		15.0	—
Total equity investments			$800.8	—

*Includes a negative basis difference of $100 million relating to a prior sale to a related party.

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Earnings from our equity investments were as follows:

	Millions of Dollars	
	Three Months Ended March 31	
	2015	2014
DCP Sand Hills Pipeline, LLC	$4.3	—
DCP Southern Hills Pipeline, LLC	1.5	—
Explorer Pipeline Company	0.3	—
Phillips 66 Partners Terminal LLC	—	—
Paradigm Pipeline LLC	—	—
Total equity in earnings of affiliates	$6.1	—

Summarized 100 percent financial information for Sand Hills follows. Although the acquisition of Sand Hills closed on March 2, 2015, the entire three-month period ended March 31, 2015, is presented in the table below, along with the corresponding period of 2014, for enhanced analysis and comparability.

	Millions of Dollars	
	Three Months Ended March 31	
	2015	2014
Revenues	$51.0	23.2
Income before income taxes	32.8	9.5
Net income	32.4	9.3

Note 4—Properties, Plants and Equipment

Our investment in PP&E, with the associated accumulated depreciation, was:

	Millions of Dollars	
	March 31	December 31
	2015	2014
Cost:		
Land	$5.9	17.4
Buildings and improvements	27.7	27.3
Pipelines and related assets	180.1	165.0
Terminals and related assets	336.2	334.7
Rail racks and related assets	135.7	133.5
Construction-in-progress	32.0	54.5
Gross PP&E	717.6	732.4
Less: Accumulated depreciation	(252.3)	(247.3)
Net PP&E	$465.3	485.1

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Note 5—Debt

Long-term debt at March 31, 2015, and December 31, 2014, was:

	Millions of Dollars	
	March 31 2015	December 31 2014
2.646% Senior Notes due 2020	$300.0	—
3.605% Senior Notes due 2025	500.0	—
4.680% Senior Notes due 2045	300.0	—
Revolving credit facility	—	18.0
Note payable to Phillips 66 due 2019 at 3.0%	—	160.0
Note payable to Phillips 66 due 2019 at 3.1%	—	244.0
Note payable to Phillips 66 due 2019 at 2.9%	—	7.6
Debt at face value	1,100.0	429.6
Net unamortized discounts	(0.3)	—
Total debt	1,099.7	429.6
Short-term debt	—	—
Long-term debt	$1,099.7	429.6

Senior Notes
On February 23, 2015, we closed on the Notes Offering and issued the following unsecured senior notes:

- $300 million aggregate principal amount of 2.646% Senior Notes due February 15, 2020.

- $500 million aggregate principal amount of 3.605% Senior Notes due February 15, 2025.

- $300 million aggregate principal amount of 4.680% Senior Notes due February 15, 2045.

Total proceeds (net of underwriting discounts) received from the Notes Offering were $1,092.0 million. We utilized a portion of the net proceeds to partially fund the acquisition of the Sand Hills, Southern Hills and Explorer equity investments. In addition, the Partnership used a portion of the proceeds to repay the three notes payable to a subsidiary of Phillips 66. Interest on each series of senior notes is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on August 15, 2015.

As of March 31, 2015, the aggregate fair value of the senior notes was $1,098.0 million, which we estimated using quoted market prices. The fair value was determined using Level 2 inputs.

Revolving Credit Facility
During the first quarter of 2015, we repaid all amounts borrowed under our revolving credit facility and thus had no amount outstanding at March 31, 2015. Intra-period borrowings and repayments under this facility are presented on a gross basis in our consolidated statement of cash flows.

Subsidiary Guarantors
In March 2015, we filed a post-effective amendment to our shelf registration statement on file with the U.S. Securities and Exchange Commission to, among other items, remove as co-registrants our subsidiaries that had previously registered the issuance of guarantees of debt securities and deregister all guarantees of debt securities covered by the

registration statement.

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Note 6—Equity

Common Units Offering

On February 23, 2015, we completed the public offering of an aggregate of 5,250,000 common units representing limited partner interests at a price of $75.50 per common limited partner unit. The Partnership received proceeds (net of underwriting discounts) of $384.5 million from the Units Offering. The Partnership utilized a portion of the net proceeds from the Units Offering to partially fund the acquisition of the Sand Hills, Southern Hills and Explorer equity investments and to repay amounts outstanding under our revolving credit facility. We plan to use the remaining proceeds to fund expansion capital expenditures and for general partnership purposes.

Note 7—Net Income Per Limited Partner Unit

Net income per unit applicable to common and subordinated units is computed by dividing these limited partners' respective interests in net income attributable to the Partnership by the weighted average number of common units and subordinated units, respectively, outstanding for the period. Because we have more than one class of participating securities, we use the two-class method to calculate the net income per unit applicable to limited partners. The classes of participating securities include common units, subordinated units, general partner units and incentive distribution rights (IDRs). Basic and diluted net income per unit are the same because we do not have potentially dilutive instruments outstanding for the periods presented.

	Millions of Dollars Three Months Ended March 31 2015	2014
Net income attributable to the Partnership	$35.4	18.3
Less: General partner's distribution declared (including IDRs)*	6.4	0.8
Limited partners' distribution declared on common units*	17.3	10.6
Limited partner's distribution declared on subordinated units*	13.0	9.7
Distribution in excess of net income attributable to the Partnership	$(1.3)	(2.8)

*Distribution declared attributable to the indicated periods.

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	General Partner (including IDRs)	Limited Partners' Common Units	Limited Partner's Subordinated Units	Total
Three Months Ended March 31, 2015				
Net income attributable to the Partnership (millions):				
Distribution declared	$6.4	17.3	13.0	36.7
Distribution in excess of net income attributable to the Partnership	—	(0.7)	(0.6)	(1.3)
Net income attributable to the Partnership	$6.4	16.6	12.4	35.4
Weighted average units outstanding:				
Basic	1,578,031	42,514,707	35,217,112	79,309,850
Diluted	1,578,031	42,514,707	35,217,112	79,309,850
Net income per limited partner unit (dollars):				
Basic		$0.39	0.35	
Diluted		0.39	0.35	
Three Months Ended March 31, 2014				
Net income attributable to the Partnership (millions):				
Distribution declared	$0.8	10.6	9.7	21.1
Distribution in excess of net income attributable to the Partnership	—	(1.4)	(1.4)	(2.8)
Net income attributable to the Partnership	$0.8	9.2	8.3	18.3
Weighted average units outstanding:				
Basic	1,462,251	36,433,206	35,217,112	73,112,569
Diluted	1,462,251	36,433,206	35,217,112	73,112,569
Net income per limited partner unit (dollars):				
Basic		$0.25	0.24	
Diluted		0.25	0.24	

On April 22, 2015, the Board of Directors of our General Partner declared a quarterly cash distribution of $0.37 per limited partner unit which, combined with distributions to our General Partner, will result in total distributions of $36.7 million attributable to the first quarter of 2015. This distribution is payable May 12, 2015, to unitholders of record as of May 4, 2015.

Subordinated Unit Conversion

Following the May 12, 2015, payment of the cash distribution attributable to the first quarter of 2015, the requirements for the conversion of all subordinated units into common units will be satisfied under the partnership agreement. As a result, in the second quarter of 2015, we expect the 35,217,112 subordinated units held by Phillips 66 will convert into common units on a one-for-one basis and thereafter participate on terms equal with all other common units in distributions of available cash. The conversion of the subordinated units will not impact the amount of cash distributions paid by us or the total number of outstanding units.

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Note 8—Contingencies

From time to time, lawsuits involving a variety of claims that arise in the ordinary course of business may be filed against us. We also may be required to remove or mitigate the effects on the environment of the placement, storage, disposal or release of certain chemical, mineral and petroleum substances at various sites. We regularly assess the need for accounting recognition or disclosure of these contingencies. In the case of all known contingencies (other than those related to income taxes), we accrue a liability when the loss is probable and the amount is reasonably estimable. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. We do not reduce these liabilities for potential insurance or third-party recoveries. If applicable, we accrue receivables for probable insurance or other third-party recoveries. In the case of income-tax-related contingencies, we use a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain.

Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. As we learn new facts concerning contingencies, we reassess our position both with respect to accrued liabilities and other potential exposures. Estimates particularly sensitive to future changes include any contingent liabilities recorded for environmental remediation, tax and legal matters. Estimated future environmental remediation costs are subject to change due to such factors as the uncertain magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be required, and the determination of our liability in proportion to that of other potentially responsible parties. Estimated future costs related to tax and legal matters are subject to change as events evolve and as additional information becomes available during the administrative and litigation processes.

Environmental
We are subject to federal, state and local environmental laws and regulations. We record accruals for environmental liabilities based on management's best estimates, using all information that is available at the time. We measure estimates and base liabilities on currently available facts, existing technology, and presently enacted laws and regulations, taking into account stakeholder and business considerations. When measuring environmental liabilities, we also consider our prior experience in remediation of contaminated sites, other companies' cleanup experience, and data released by the U.S. Environmental Protection Agency or other organizations. We consider unasserted claims in our determination of environmental liabilities, and we accrue them in the period they are both probable and reasonably estimable. At March 31, 2015, and December 31, 2014, we did not have any material environmental accruals. In the future, we may be involved in environmental assessments, cleanups and proceedings. See Note 13—Subsequent Events for information on a pipeline release in April 2015.

Legal Proceedings
Under our amended omnibus agreement, Phillips 66 provides certain services for our benefit, including legal support services, and we pay an operational and administrative support fee for these services. Phillips 66's legal organization applies its knowledge, experience and professional judgment to the specific characteristics of our cases, employing a litigation management process to manage and monitor the legal proceedings against us. The process facilitates the early evaluation and quantification of potential exposures in individual cases and enables tracking of those cases that have been scheduled for trial and/or mediation. Based on professional judgment and experience in using these litigation management tools and available information about current developments in all our cases, Phillips 66's legal organization regularly assesses the adequacy of current accruals and determines if adjustment of existing accruals, or establishment of new accruals, is required. As of March 31, 2015, and December 31, 2014, we did not have any material accrued contingent liabilities associated with litigation matters.

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Indemnification
Under our amended omnibus agreement, Phillips 66 will indemnify us for certain environmental liabilities, tax liabilities, and litigation and other matters attributable to the ownership or operation of the assets contributed to us in connection with our Initial Public Offering (the Offering) (the Initial Assets) and which arose prior to the closing of the Offering. Indemnification for any unknown environmental liabilities provided therein is limited to liabilities due to occurrences prior to the closing of the Offering and that are identified before the fifth anniversary of the closing of the Offering, subject to an aggregate deductible of $0.1 million before we are entitled to indemnification. Indemnification for litigation matters provided therein (other than legal actions pending at the closing of the Offering) is subject to an aggregate deductible of $0.2 million before we are entitled to indemnification. Phillips 66 will also indemnify us under our amended omnibus agreement for failure to obtain certain consents, licenses and permits necessary to conduct our business, including the cost of curing any such condition, in each case that is identified prior to the fifth anniversary of the closing of the Offering, subject to an aggregate deductible of $0.2 million before we are entitled to indemnification. We have agreed to indemnify Phillips 66 for events and conditions associated with the ownership or operation of the Initial Assets that occur on or after the closing of the Offering and for certain environmental liabilities related to the Initial Assets to the extent Phillips 66 is not required to indemnify us.

Excluded Liabilities of Acquired Assets
Pursuant to the terms of the various agreements under which we acquired assets from Phillips 66 since the Offering, Phillips 66 assumed the responsibility for any liabilities arising out of or attributable to the ownership or operation of the assets, or other activities occurring in connection with and attributable to the ownership or operation of the assets, prior to the effective date of each acquisition. We have assumed, and have agreed to pay, discharge and perform as and when due, all liabilities arising out of or attributable to the ownership or operation of the assets, or other activities occurring in connection with and attributable to the ownership or operation of the assets, from and after the effective date of each acquisition.

Note 9—Cash Flow Information

Acquisition
The transaction that resulted in our acquisition of equity investments in Sand Hills, Southern Hills and Explorer had both cash and noncash elements. We attributed $734.3 million of the total $880.0 million cash consideration paid to the investment balance of the Sand Hills, Southern Hills and Explorer pipeline joint ventures acquired (an investing cash outflow). The remaining $145.7 million of excess cash consideration was deemed a distribution to our General Partner (a financing cash outflow). The common and general partner units issued to Phillips 66 in the transaction were assigned no value, because the cash consideration exceeded the historical net book value of the acquired assets in the transaction. Accordingly, the units issued for these acquisitions had no impact on partner capital balances, other than changing ownership percentages.

Capital Expenditures
Our capital expenditures and investments consisted of:

	Millions of Dollars Three Months Ended March 31	
	2015	2014*
Capital Expenditures and Investments		
Capital expenditures attributable to predecessors	$—	34.9
Capital expenditures and investments attributable to the Partnership	32.9	4.6

Total capital expenditures and investments	$32.9	39.5

*Prior-period financial information has been retrospectively adjusted for acquisitions under common control.

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	Millions of Dollars Three Months Ended March 31	
	2015	2014
Noncash Investing and Financing Activities		
Contributions of net assets into joint ventures	$45.5	—
Note payable—related parties associated with acquisition	—	160.0
Cash Payments		
Interest	$1.9	0.1
Income taxes	—	—

Note 10—Related Party Transactions

Commercial Agreements
In connection with the Offering and subsequent acquisitions from Phillips 66, we entered into multiple commercial agreements with Phillips 66, including transportation services agreements, terminal services agreements, storage services agreements, stevedoring services agreements and rail terminal services agreements. Under these long-term, fee-based agreements, we provide transportation, terminaling, storage, stevedoring and rail terminal services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly throughput volumes of crude oil and refined petroleum products or minimum monthly service fees. Under our transportation and terminaling services agreements, if Phillips 66 fails to transport, throughput or store its minimum throughput volume during any quarter, then Phillips 66 will pay us a deficiency payment based on the calculation described in the agreement.

Amended Operational Services Agreement
Under our amended operational services agreement, we reimburse Phillips 66 for providing certain operational services to us in support of our pipelines, terminaling and storage facilities. These services include routine and emergency maintenance and repair services, routine operational activities, routine administrative services, construction and related services and such other services as we and Phillips 66 may mutually agree upon from time to time.

Amended Omnibus Agreement
The amended omnibus agreement addresses our payment of an annual operating and administrative support fee and our obligation to reimburse Phillips 66 for all other direct or allocated costs and expenses incurred by Phillips 66 in providing general and administrative services. Additionally, the omnibus agreement addresses Phillips 66’s indemnification to us and our indemnification to Phillips 66 for certain environmental and other liabilities related to our assets, and the prefunding of certain projects by Phillips 66. Further, it addresses the granting of a license from Phillips 66 to us with respect to the use of certain Phillips 66 trademarks.

Tax Sharing Agreement
In connection with the Offering, we entered into a tax sharing agreement with Phillips 66 pursuant to which we will reimburse Phillips 66 for our share of state and local income and other taxes incurred by Phillips 66 as a result of our results of operations being included in a combined or consolidated tax return filed by Phillips 66 with respect to taxable periods including or beginning on the closing date of the Offering. The amount of any such reimbursement will be limited to the tax that we (and our subsidiaries) would have paid had we not been included in a combined group with Phillips 66. Phillips 66 may use its tax attributes to cause its combined or consolidated group, of which we may be a member for this purpose, to owe no tax. However, we would nevertheless reimburse Phillips 66 for the tax we would have owed had the attributes not been available or used for our benefit, even though Phillips 66 had no cash

expense for that period.

For additional information on our commercial and other agreements with Phillips 66, see our 2014 Annual Report on Form 10-K.

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Related Party Transactions

Significant related party transactions included in operating and maintenance expenses, general and administrative expenses, and interest and debt expense were:

	Millions of Dollars Three Months Ended March 31 2015	2014*
Operating and maintenance expenses	$7.8	7.5
General and administrative expenses	5.5	5.5
Interest and debt expense	1.9	0.4
Total	$15.2	13.4

*Prior-period financial information has been retrospectively adjusted for acquisitions under common control.

We pay Phillips 66 a monthly operational and administrative support fee under the terms of our amended omnibus agreement in the amount of $2.5 million beginning March 2, 2015. In prior periods, the monthly fee paid to Phillips 66 was $1.1 million from July 26, 2013, through February 28, 2014, $2.3 million from March 1, 2014, through November 30, 2014, and $2.4 million from December 1, 2014, through March 1, 2015.

The operational and administrative support fee is for the provision of certain services, including: executive services; financial and administrative services (including treasury and accounting); information technology; legal services; corporate health, safety and environmental services; facility services; human resources services; procurement services; corporate engineering services, including asset integrity and regulatory services; logistical services; asset oversight, such as operational management and supervision; business development services; investor relations; tax matters; and public company reporting services. We also reimburse Phillips 66 for all other direct or allocated costs incurred on behalf of us, pursuant to the terms of our amended omnibus agreement. Under our amended operational services agreement, we reimburse Phillips 66 for the provision of certain operational services to us in support of our pipelines, rail racks and terminaling and storage facilities. Additionally, we pay Phillips 66 for insurance services provided to us. Operating and maintenance expenses also include volumetric gain/loss associated with volumes transported by Phillips 66. The classification of these charges between operating and maintenance expenses and general and administrative expenses is based on the functional nature of the services being performed for our operations.

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Note 11—Income Taxes

We are not a taxable entity for U.S. federal income tax purposes or for the majority of states that impose an income tax. Taxes on our net income generally are borne by our partners through the allocation of taxable income. Our income tax provision results from state laws that apply to entities organized as partnerships, primarily Texas.

Our provision for income taxes was $0.2 million for the three months ended March 31, 2015, compared with $0.3 million for the three months ended March 31, 2014. Our effective tax rate was 0.6 percent and 1.1 percent for the three months ended March 31, 2015, and 2014, respectively. The decrease in the effective tax rate for the first quarter of 2015 was primarily attributable to the recognition of deferred tax liabilities during the first quarter of 2014 associated with the Offering.

Note 12—New Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs.” This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for annual and quarterly reporting periods of public entities beginning after December 15, 2015, applied on a retrospective basis. Early adoption is permitted for financial statements that have not been previously issued. We currently have debt issuance costs included as deferred charges in our balance sheet which will be reclassified as a reduction of debt when we adopt ASU 2015-03.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The new standard converged guidance on recognizing revenues in contracts with customers under accounting principles generally accepted in the United States and International Financial Reporting Standards. This ASU is intended to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. ASU 2014-09 is effective for annual and quarterly reporting periods of public entities beginning after December 15, 2016. Early application for public entities is not permitted. In April 2015, the FASB issued for comment an exposure draft, “Revenue Recognition - Deferral of the Effective Date of ASU 2014-09,” which will delay implementation for one year. We are currently evaluating the provisions of ASU 2014-09 and assessing the impact, if any, it may have on our financial position and results of operations.

Note 13—Subsequent Events

On April 17, 2015, our pipeline that transports products from the Hartford Terminal to a dock on the Mississippi River experienced a diesel fuel release. The release was halted on the same day. We are working with the appropriate authorities and remediation efforts are underway. We currently expect costs associated with cleanup and remediation of the release to be in the range of $3 million to $5 million, most of which is expected to be recognized in the second quarter of 2015. Total estimated costs are subject to change to the extent additional information on the environmental impact of the release becomes known. We carry property and third-party liability insurance, each in excess of $5 million self-insured retentions.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise stated or the context otherwise indicates, all references to "Phillips 66 Partners," "the Partnership," "us," "our," "we" or similar expressions refer to Phillips 66 Partners LP, including its consolidated subsidiaries. References to Phillips 66 may refer to Phillips 66 and/or its subsidiaries, depending on the context.

Management's Discussion and Analysis is the Partnership's analysis of its financial performance and of significant trends that may affect future performance. It should be read in conjunction with the consolidated financial statements and notes appearing elsewhere in this report. It contains forward-looking statements including, without limitation, statements relating to the Partnership's plans, strategies, objectives, expectations and intentions. The words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "should," "will," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions identify forward statements. The Partnership does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the Partnership's disclosures under the heading: "CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS," beginning on page 31.

BUSINESS ENVIRONMENT AND EXECUTIVE OVERVIEW

Partnership Overview

We are a Delaware limited partnership formed in 2013 by Phillips 66 Company and Phillips 66 Partners GP LLC (our General Partner), both wholly owned subsidiaries of Phillips 66. We are a growth-oriented master limited partnership formed by Phillips 66 to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum products and natural gas liquids (NGL) pipelines and other transportation and midstream assets. Our common units trade on the New York Stock Exchange under the symbol "PSXP."

Developments during the first quarter of 2015 included:

- Sand Hills/Southern Hills/Explorer Equity Investment Acquisition. On March 2, 2015, we acquired Phillips 66's one-third equity interests in DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills), as well as Phillips 66's 19.46 percent equity interest in Explorer Pipeline Company (Explorer).
- Issuance of Senior Notes. On February 23, 2015, we closed on a public offering of unsecured senior notes in an aggregate principal amount of $1.1 billion (Notes Offering).
- Issuance of Common Units. On February 23, 2015, we closed on a public offering of 5,250,000 common units for total proceeds (net of underwriting discounts) of $384.5 million (Units Offering).
- Formation of Bakken Joint Ventures. On January 16, 2015, we closed on the formation of two joint ventures with Paradigm Energy Partners LLC (Paradigm), in which we contributed a crude oil rail terminal growth project previously acquired from Phillips 66, to develop midstream logistics infrastructure in North Dakota.

As of March 31, 2015, our assets consist of one crude oil pipeline, terminal and storage system; three refined petroleum products pipelines, terminal and storage systems; two crude oil rail racks; two refinery-grade propylene storage spheres; two under-construction organic growth projects and five equity investments. Our assets are connected to, and integral to the operation of, seven of Phillips 66's wholly owned or jointly owned refineries.

We generate revenue primarily by charging tariffs and fees for transporting crude oil and refined petroleum products through our pipelines, and terminaling and storing crude oil and refined petroleum products at our terminals, rail racks and storage facilities. In addition, our equity-method affiliates generate revenue primarily from transporting NGL and refined petroleum products. Since we do not own any of the crude oil and refined petroleum products that we handle and do not engage in the trading of crude oil and refined petroleum products, we have limited direct exposure to risks

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associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term.

We have multiple commercial agreements with Phillips 66, including transportation services agreements, terminal services agreements, storage services agreements, stevedoring services agreements and rail terminal services agreements. Under these long-term, fee-based agreements, we provide transportation, terminaling, storage, stevedoring and rail terminal services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly throughput volumes of crude oil and refined petroleum products or minimum monthly service fees. We also have several other agreements with Phillips 66, including an amended omnibus agreement and an operational services agreement. See Note 10—Related Party Transactions, in the Notes to Consolidated Financial Statements, for a summary of these agreements.

Basis of Presentation
See the "Basis of Presentation" section of Note 1—Business and Basis of Presentation, in the Notes to Consolidated Financial Statements, for important information on the content and comparability of our historical financial statements.

How We Evaluate Our Operations
Our management uses a variety of financial and operating metrics to analyze our performance, including: (1) volumes handled (including pipeline throughput, terminaling throughput and storage volumes); (2) operating and maintenance expenses; (3) net income (loss) before net interest expense, income taxes, depreciation and amortization (EBITDA); (4) adjusted EBITDA; and (5) distributable cash flow.

Volumes Handled
The amount of revenue we generate primarily depends on the volumes of crude oil and refined petroleum products that we handle in our pipeline, terminal, rail rack and storage systems. In addition, our equity affiliates generate revenue from transporting NGL and refined petroleum products. These volumes are primarily affected by the supply of, and demand for, crude oil and refined petroleum products in the markets served directly or indirectly by our assets, as well as the operational status of the refineries served by our assets. Phillips 66 has committed to minimum throughput volumes under many of our commercial agreements.

Operating and Maintenance Expenses
Our management seeks to maximize the profitability of our operations by effectively managing operating and maintenance expenses. These expenses primarily consist of labor expenses (including contractor services), utility costs, and repairs and maintenance expenses. These expenses generally remain relatively stable across broad ranges of throughput volumes, but can fluctuate from period to period depending on the mix of activities, particularly maintenance activities, performed during that period. Although we seek to manage our maintenance expenditures on our pipelines, terminals, rail racks and storage facilities to avoid significant variability in our quarterly cash flows, we balance this approach with our high standards of safety and environmental stewardship, such that critical maintenance is performed regularly.

Our operating and maintenance expenses are also affected by volumetric gain/loss resulting from variances in meter readings and other measurement methods, as well as volume fluctuations due to pressure and temperature changes. Under certain commercial agreements with Phillips 66, the value of any crude oil or refined petroleum product volumetric gain/loss is determined by reference to the monthly average reference price for the applicable commodity. Any gains or losses under these provisions decrease or increase, respectively, our operating and maintenance expenses in the period in which they are realized. These contractual volumetric gain/loss provisions could increase variability in our operating and maintenance expenses.

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(a)This column combines the results of operations of Navios as predecessor for the period January 1, 2005 through August 25, 2005 with the results of operations of Navios as successor for the period August 26, 2005 through December 31, 2005. See the section labeled, ‘‘For the combined year ended December 31, 2005 compared to the year ended December 31, 2004’’ under ‘‘Operating and Financial Review and Prospects’’ included in Navios' 2005 annual report filed on Form 20-F with the Securities Exchange Commission.

(b)For the period from January 1, 2005 through August 25, 2005 (acquisition date).

(c)To record increase in base salaries to certain key employees of Navios under employment agreements entered into in connection with the acquisition and to retain the services of such employees.

(d)To record additional depreciation and amortization of fixed assets and intangibles based on the step up to fair value as detailed below:

Calculation of Allocable Purchase Price:	
Initial cash consideration	$ 594,370
Final price adjustment	(606)
Allocable transaction costs	14,203
Total allocable purchase price	$ 607,967
Allocation of purchase price:	
Navios net assets acquired (at book value)	$ 226,128
Write off of Navios pre-merger goodwill	(226)
Fair value adjustments to assets acquired:	
Write up of vessels to fair value	81,789
Write down of port terminal assets	(15)
Allocation of purchase price to intangibles:	
Port terminal operation rights	31,000
Trade name	88,053
Favorable lease terms	139,680
Backlog asset	14,830
Backlog liability	(12,700)
Restructuring reserve	(1,361)
Fair value of assets acquired	567,178
Goodwill	40,789
Total allocable purchase price	$ 607,967

Vessels were written up to their fair market value. The port fixed assets were valued based on replacement cost less accumulated depreciation. Fair value of the intangible assets identified (Port operating rights, Tradename, Leases and Backlog assets and liabilities) were determined using generally accepted valuation methodologies. The Port operating rights were valued using a form of the income approach known as the Build-Out method. The Tradename was valued using a form of the Income Approach known as the Relief from Royalties method. The Favorable Leases were valued using a method of the Market Approach wherein the Company's actual lease costs are compared to market-based lease costs. The Purchase Options were valued though a comparison of their exercise prices to expected vessel values. Backlog Assets and liabilities were valued using a method of the Income Approach known as excess earnings method. The assembled workforce was valued at $360 using the Cost Approach known as replacement cost method and is included in Goodwill.

Asset	Estimated Useful Life
Vessels	20-23 years
Port (included in other fixed assets)	4-40 years
Port operating rights	40 years
Tradename	32 years
Favorable lease terms	0.2-9.7 years
Backlog assets	2.8-3.6 years
Backlog liability	2.1 years

Pro forma depreciation and amortization has been provided on a straight line basis over the remaining lives of the assets as set forth in the following table (expressed in thousands of US dollars):

Asset Class	August 25, 2005 Fair Value	Pro Forma depreciation and amortization January 1, 2005 to August 25, 2005
Vessels	$ 195,118	$ 5,568
Port terminal assets	26,699	546
Port operating rights	31,000	503
Trade name	90,000	1,826
Favorable lease terms*	139,680	9,663
Backlog assets	14,830	3,180
Backlog liabilities	(12,700)	(3,991)
Other assets	1,798	150
		$ 17,445
Less historical Navios predecessor depreciation and amortization for the period 1/1/2005 to 8/25/2005		(3,872)
Pro forma adjustment for depreciation and amortization for the period 1/1/05 to 8/25/05		$ 13,573

*The intangible asset associated with the favorable lease terms includes an amount of $20,670 related to purchase options for the vessels at the end of the lease term. This amount is not amortized and should the purchase options be exercised, any unamortized portion of this asset will be capitalized as part of the cost of the vessel and will be depreciated over the remaining useful life of the vessel.

(e) To reverse interest income earned on ISE's available cash on the basis that if the acquisition had occurred on January 1, 2005 such cash would have been utilized to fund the acquisition and, therefore, no interest would have been earned.

(f) To reverse interest expense and amortization of deferred financing costs on bank loans of Navios that were repaid on August 18, 2005 (the Predecessor Company) and record pro forma interest expense for the period January 1, 2005 to August 25, 2005. Based on Navios' cash forecast, the combination of operating cash flow and Navios' then existing cash balances would have been sufficient to fund Navios' capital expenditure and working capital requirements for the twelve months beginning September 1, 2005. As a result, interest expense for the pro forma period from January 1, 2005 until August 25, 2005 is based on the $412 million borrowed by ISE for the purpose of affecting the acquisition. The $412 million of acquisition debt was assumed to be outstanding throughout the period. Interest expense for the pro forma period was calculated using the 5.70% Libor based floating interest rate in effect at the August 25, 2005 acquisition date plus amortization of deferred debt service costs for the period. A change in the LIBOR rate of 1/8 percent would change interest expense for 2005 by $0.5 million.

The components of this adjustment to interest expense are as follows:

Issuance of $412 million principal amount of credit facility	
Interest expense	$ 15,258
Amortization of deferred financing costs	1,045
	16,303
Repayment of $49.8 million principal amount of historical credit facility	
Interest expense	(1,252)
Amortization of deferred financing costs	(425)
	(1,677)
	$ 14,626

(g)Navios as predecessor and successor is incorporated under the laws of the Marshall Islands. Accordingly, it will be taxed as a foreign corporation by the United States. Navios does not expect to be liable for income taxes for any of the historical periods presented in this prospectus. Based on Navios' present plans, it does not expect to be liable for income taxes in the future. Since Navios successor does not expect to be liable for income taxes, the pro forma adjustments to the unaudited pro forma consolidated statements of operations have not been tax affected. See Navios' 2005 annual report filed on Form 20-F with the Securities Exchange Commission.

(h)Pro forma net income per share was calculated by dividing pro forma net income by the weighted average number of shares outstanding as follows:

	Year Ended December 31, 2005
Pro forma weighted average number of shares assumed to be outstanding during 2005*	$ 40,001,473
Incremental shares on exercise of warrants **	1,851,226
Pro forma weighted average shares – diluted	$ 41,852,699

*Pro forma weighted average number of shares has been computed on the following information:

Pro forma outstanding shares for the period from 1/1/2005 until 8/25/2005	39,900,000
Actual shares outstanding	
8/26/2005 – 12/21/2005	39,900,000
12/22/2005 – 12/26/2005	42,968,205
12/27/2005 – 12/31/2005	44,239,319

**Assuming exercise price of $5.00 per share, 65,550,000 warrants outstanding and average price for 2005 of $5.15.

DESCRIPTION OF SECURITIES

Authorized and Outstanding Capital Stock.

Under our articles of incorporation, our authorized capital stock consists of 120,000,000 shares of common stock, par value $0.0001 per share, of which 62,088,127 were issued and outstanding, and 1,000,000 shares of preferred stock, par value $0.0001 per share, of which no shares were issued and outstanding.

Common Stock.

Navios currently has 62,088,127 shares outstanding and 49,571,720 warrants outstanding. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of shares of common stock are entitled to receive ratably all dividends, if any, declared by the board of directors out of funds legally available for dividends. Holders of stock do not have conversion, redemption or preemptive rights to subscribe to any or our securities. All outstanding shares of common stock are fully paid and non-assessable. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of any shares of preferred stock which we may issue in the future.

Our common stock is listed on the NASDAQ Global Market under the symbol ‘‘BULK’’.

Units

Each unit is publicly traded and consists of one share of common stock and two warrants, which warrants started trading separately as of the opening of trading on January 5, 2005. Each warrant entitles the holder to purchase one share of common stock at an exercise price of $5.00 per share.

Preferred Stock

Navios' certificate of incorporation authorizes the issuance of 1,000,000 shares of blank check preferred stock with such designation, rights and preferences as may be determined from time to time by Navios' board of directors. Accordingly, Navios' board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of common stock, although the underwriting agreement prohibits Navios, prior to a business combination, from issuing preferred stock which participates in any manner in the proceeds of the trust fund, or which votes as a class with the common stock on a business combination. Navios may issue some or all of the preferred stock to effect a business combination. In addition, the preferred stock could be utilized as a method of discouraging, delaying or preventing a change in control of Navios. Although Navios does not currently intend to issue any shares of preferred stock, Navios cannot assure you that it will not do so in the future.

Warrants

On June 7, 2006, Navios announced the exercise of 15,978,280 of its 65,550,000 outstanding warrants resulting in the issuance of 15,978,280 shares of unregistered common stock. Under the agreement with certain qualifying shareholders the exercise price of the previously outstanding warrants was reduced from $5.00 to $4.10 per share. The gross proceeds from the exercise of warrants were approximately $65.5 million.

Navios currently has warrants outstanding to purchase 49,571,720 shares of Navios common stock. Each warrant entitles the registered holder to purchase one share of Navios' common stock at a price of $5.00 per share, subject to adjustment, at any time commencing on December 10, 2005.

The warrants will expire on December 9, 2008, at 5:00 p.m., New York City time. Navios may call the warrants for redemption, with Sunrise Securities Corp.'s prior consent, in whole and not in part, at a price of $.01 per warrant at any time after the warrants become exercisable, upon not less than 30 days' prior written notice of redemption to each warrant holder, if, and only if, the last reported sale price of the

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common stock equals or exceeds $8.50 per share, for any 20 trading days within a 30 trading day period ending on the third business day prior to the notice of redemption to warrant holders and the weekly trading volume of Navios' common stock has been at least 800,000 shares for each of the two calendar weeks prior to the notice of redemption.

The warrants are issued in registered form under a warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and Navios.

The exercise price and number of shares of common stock issuable on exercise of the warrants may be adjusted in certain circumstances including in the event of a stock dividend, or Navios' recapitalization, reorganization, merger or consolidation or Navios may undertake a transaction as described above concerning a reduction in the exercise price. However, the warrants will not be adjusted for issuances of common stock at a price below their respective exercise prices.

The warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price, by certified check payable to Navios, for the number of warrants being exercised. The warrant holders do not have the rights or privileges of holders of common stock or any voting rights until they exercise their warrants and receive shares of common stock. After the issuance of shares of common stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

No fractional shares will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, Navios will, upon exercise, round up to the nearest whole number the number of shares of common stock to be issued to the warrant holder.

Transfer Agent and Warrant Agent

The transfer agent for Navios' securities and warrant agent for Navios' warrants is Continental Stock Transfer & Trust Company, 17 Battery Place, New York, New York 10004.

PLAN OF DISTRIBUTION

The shares of Common Stock underlying the publicly traded warrants are being offered directly by the Company, without an underwriter, and the holders of such publicly traded warrants may purchase the shares of Common Stock directly from the Company, by exercising the publicly traded warrants as described in ‘‘Description of Securities.’’

TAXATION

Marshall Islands Tax Considerations

Navios is incorporated in the Marshall Islands. Under current Marshall Islands law, Navios will not be subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments.

Federal Income Tax Consequences

General

The following discussion addresses certain United States federal income tax aspects of our business and to the holders of our warrants and common stock. It does not address other tax aspects (including issues arising under state, local and foreign tax laws other than the Marshall Islands), nor does it attempt to address the specific circumstances of any particular stockholder of Navios.

United States Federal Income Tax Considerations

United States Taxation of Navios' Operating Income: In General

Navios is incorporated under the laws of the Marshall Islands. Accordingly, it will be taxed as a foreign corporation by the United States. If Navios were taxed as a domestic corporation, it could be subject to substantially greater United States income tax than contemplated below.

In general, a foreign corporation is subject to United States tax on income that is treated as derived from US source income or that is effectively connected income. Based on its current plans, however, Navios expects that its income from sources within the United States will be international shipping income that qualifies for exemption from United States federal income taxation under Section 883 of the Code, and that it will have no effectively connected income. Accordingly, Navios does not expect to be subject to federal income tax on any of its income.

If Navios is taxed as a foreign corporation and the benefits of Code Section 883 are unavailable, Navios' United States source shipping income that is not effectively connected income would be subject to a four percent (4%) tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. Navios believes that no more than fifty percent (50%) of Navios' shipping income would be treated as United States source shipping income because, under Navios' current business plan, its shipping income will be attributable to transportation which does not both begin and end in the United States. Thus, the maximum effective rate of United States federal income tax on Navios' shipping income would never exceed two percent (2%) under the four percent (4%) gross basis tax regime.

To the extent the benefits of Code Section 883 exemption are unavailable and Navios' international shipping income is considered to be effectively connected income, such income, net of applicable deductions, would be subject to the United States federal corporate income tax. United States corporate income tax would also apply to any other effectively connected income of Navios, and to Navios' worldwide income if it were taxed as a domestic corporation. This could result in the imposition of a tax of up to 35% on Navios' income, except to the extent that Navios were able to take advantage of more favorable rates that may be imposed on shipping income of domestic corporations or foreign corporations. In addition, as a foreign corporation, Navios could potentially be subject to the thirty percent (30%) branch profits on effectively connected income, as determined after allowance for certain adjustments,

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and on certain interest paid or deemed paid attributable to the conduct of its United States trade or business. Since Navios does not intend to have any vessel sailing to or from the United States on a regularly scheduled basis, Navios believes that none of its international shipping income will be effectively connected income.

United States Taxation of Gain on Sale of Vessels

Regardless of whether Navios qualifies for exemption under Code Section 883, it will not be subject to United States federal income taxation with respect to gain realized on a sale of a vessel, provided that the sale is considered to occur outside of the United States as defined under United States federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is expected than any sale of a vessel by Navios will be considered to occur outside of the United States.

United States Federal Income Taxation of US Holders

As used herein, the term ‘‘US Holder’’ means a beneficial owner of warrants and/or common stock that

- is an individual United States citizen or resident, a United States corporation or other United States entity taxable as a corporation, an estate of which the income is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust;
- owns Navios common stock as a capital asset; and
- owns less than ten percent (10%) of Navios' common stock for United States federal income tax purposes.

If a partnership holds Navios common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding Navios common stock, you should consult your tax advisor.

Tax Treatment of the Warrants

A US Holder generally will not recognize gain or loss upon exercise of a warrant, except with respect to any cash received in lieu of a fractional share. The US Holder will have a tax basis in the shares of Navios common stock received on exercise of the warrant equal to the sum of the US Holder's tax basis in the warrant and the exercise price paid in respect of the exercise. The holding period of common stock received upon the exercise of a warrant will begin on the day the warrant is exercised. If a warrant expires without being exercised, a US Holder will recognize a capital loss in an amount equal to the US Holder's tax basis in the warrant.

Generally, a US Holder's tax basis in a warrant will equal the amount paid by the US Holder to acquire the warrant. The warrants were originally issued as part of a unit comprised of one share of Navios common stock and two warrants. If a US Holder acquired a warrant as part of such a unit, the amount paid for the warrant is the portion of the amount paid for the unit allocable to the warrant, based on the relative fair market values of the warrant and the Navios common stock comprising the unit on the date of acquisition. By analogy to other provisions of the Code, Navios' allocation of the value of the warrant may be binding on US Holders who acquired their warrants at original issue, but not on the Internal Revenue Service, unless the US Holder explicitly discloses a contrary position in a statement attached to the US Holder's timely filed United States federal income tax return for the taxable year in which the US Holder acquired the unit.

Adjustments to the exercise price of the warrants, or the failure to make adjustment, may in certain circumstances result in the receipt of taxable constructive dividends by the US Holders, in which event the US Holder's tax basis in the warrants would be increased by an amount equal to the constructive dividend.

See also discussion under ‘‘United States Federal Income Taxation of US Holders — Sale, Exchange or other Disposition of Common Stock or Warrants’’.

Tax Treatment of Common Stock

Distributions

Subject to the discussion of passive federal foreign investment companies below, distributions made by Navios with respect to Navios common stock to a US Holder will generally constitute dividends to the extent of Navios' current or accumulated earnings and profits, as determined under United States federal income tax principles, and will be included in the US Holder's gross income. Distributions in excess of such earnings and profits will first be treated as a nontaxable return of capital to the extent of the US Holder's tax basis in his common stock on a dollar-for-dollar basis and thereafter as capital gain. Because Navios is not a United States corporation, US Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions it receives from Navios. Dividends paid with respect to Navios' common stock will generally be treated as ‘‘passive income’’ for purposes of computing allowable foreign tax credits for United States foreign tax credit purposes.

Dividends paid on Navios common stock to a US Holder who is an individual, trust or estate, a US Non-Corporate Holder, will, under current law, generally be treated as ‘‘qualified dividend income’’ that is taxable to such US Non-Corporate Holder at preferential tax rates (through 2008), provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the NASDAQ National Market); (2) Navios is not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which Navios does not believe it is or will be); (3) the US Non-Corporate Holder has owned the common stock for more than sixty (60) days in the 121-day period beginning sixty (60) days before the date on which the common stock becomes ex-dividend; and (4) the US Non-Corporate Holder is under no obligation to make related payments with respect to positions in substantially similar or related property. Special rules may apply to any ‘‘extraordinary dividend’’ generally, a dividend in an amount equal to or in excess of ten percent of a stockholder's adjusted basis in a share of common stock paid by Navios. If Navios pays an ‘‘extraordinary dividend’’ on its common stock that is treated as ‘‘qualified dividend income’’, then any loss derived by a US Non-Corporate Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend.

There is no assurance that any dividends paid on Navios common stock will be eligible for these preferential rates in the hands of a US Non-Corporate Holder, although Navios believes that they will be so eligible. Any dividends out of earnings and profits Navios pays which are not eligible for these preferential rates will be taxed as ordinary income to a US Non-Corporate Holder.

Sale, Exchange or Other Disposition of Common Stock or Warrants

Assuming Navios does not constitute a passive foreign investment company for any taxable year, a US Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of Navios common stock or warrants in an amount equal to the difference between the amount realized by the US Holder from such sale, exchange or other disposition and the US Holder's tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the US Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as United States source income or loss, as applicable, for United States foreign tax credit purposes. Long-term capital gains of US Non-Corporate Holders are eligible for reduced rates of taxation. A US Holder's ability to deduct capital losses is subject to certain limitations. See, ‘‘United States Federal Income Tax Considerations United States Tax Consequences’’ above, for a discussion of certain tax basis and holding period issues related to Navios common stock.

Passive Foreign Investment Company Status and Significant Tax Consequences

Special United States federal income tax rules apply to a US Holder that holds stock or warrants in a foreign corporation classified as a ‘‘passive foreign investment company’’ for United States federal

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income tax purposes. A foreign corporation will be a foreign passive investment company if 75% or more of its gross income for a taxable year is treated as passive income, or if the average percentage of assets held by such corporation during a taxable year which produce or are held to produce passive income is at least 50%. A US Holder of stock or warrants in a passive foreign investment company can be subject to current taxation on undistributed income of such company or to other adverse tax results if it does not elect to be subject to such current taxation.

Navios believes that it will not be a passive foreign investment company because it believes that its shipping income will be active services income and most of its assets will be held for the production of active services income.

Since there is no legal authority directly on point, however, the IRS or a court could disagree with Navios' position and treat its shipping income and/or shipping assets as passive income or as producing or held to produce passive income. In addition, although Navios intends to conduct its affairs in a manner that would avoid Navios being classified as a passive foreign investment company with respect to any taxable year, it cannot ensure that the nature of its operations will not change in the future.

United States Federal Income Taxation of Non-US Holders

A beneficial owner of warrants or common stock (other than a partnership) that is not a US Holder is referred to herein as a Non-US Holder.

Tax Treatments of Warrants

The U.S. federal income tax consequences of the exercise of a warrant by a Non-US Holder generally are the same as described above for a US Holder.

Tax Treatment of Common Stock

Dividends on Common Stock

Non-US Holders generally will not be subject to United States federal income tax or withholding tax on dividends received with respect to Navios common stock, unless that income is effectively connected with the Non- US Holder's conduct of a trade or business in the United States. If the Non-US Holder is entitled to the benefits of a United States income tax treaty with respect to those dividends, that income is taxable only if it is attributable to a permanent establishment maintained by the Non-US Holder in the United States. In the event that Navios were to be taxed as a United States corporation received by Non-US Holders could be subject to United States withholding tax. See discussion above under ‘‘United States Tax Consequences Taxation of Operating Income: In General’’.

Sale, Exchange or other Disposition of Common Stock

Non-US Holders generally will not be subject to United States federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of Navios' common stock or warrants, unless:

- the gain is effectively connected with the Non-US Holder's conduct of a trade or business in the United States (and, if the Non-US Holder is entitled to the benefits of an income tax treaty with respect to that gain, that gain is attributable to a permanent establishment maintained by the Non-US Holder in the United States); or
- the Non-US Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

If the Non-US Holder is engaged in a United States trade or business for United States federal income tax purposes, the income from the common stock, including dividends and the gain from the sale, exchange or other disposition of the stock or warrants, that is effectively connected with the conduct of that trade or business, will generally be subject to regular United States federal income tax in the same

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manner as discussed in the previous section relating to the taxation of US Holders. In addition, if the shareholder or warrant holder is a corporate Non-US Holder, the shareholder's earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional branch profits tax at a rate of thirty percent (30%), or at a lower rate as may be specified by an applicable income tax treaty.

Backup Withholding and Information Reporting

In general, dividend payments or other taxable distributions, made within the United States to the shareholder, will be subject to information reporting requirements if the shareholder is a non-corporate US Holder. Such payments or distributions may also be subject to backup withholding tax if the shareholder is a non-corporate US Holder and:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that the shareholder failed to report all interest or dividends required to be shown on the shareholder's federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Non-US Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8ECI or W-81MY, as applicable.

If the shareholder or warrant holder is a Non-US Holder and sells the Non-U.S. Holder's common stock or warrants to or through a United States office of a broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless the Non-U.S. Holder certifies that the Non-U.S. Holder is a non-United States person, under penalties of perjury, or otherwise establishes an exemption. If the Non-U.S. Holder sells common stock or warrants through a non-United States office of a non-United States broker and the sales proceeds are paid to the Non-U.S. Holder outside the United States, then information reporting and backup withholding generally will not apply to that payment. United States information reporting requirements, but not backup withholding, however, will apply to a payment of sales proceeds, even if that payment is made to the Non-U.S. Holder outside the United States, if the Non-U.S. Holder sells common stock or warrants through a non-United States office of a broker that is a United States person or has some other contacts with the United States. Such information reporting requirements will not apply, however, if the broker has documentary evidence in its records that the shareholder or warrant holder is a non-United States person and certain other conditions are met, or otherwise establishes an exemption.

The conclusions expressed above are based on current United States tax law. Future legislative, administrative or judicial changes or interpretations, which can apply retroactively, could affect the accuracy of those conclusions.

The discussion does not address all of the tax consequences that may be relevant to particular taxpayers in light of their personal circumstances or to taxpayers subject to special treatment under the Code. Such taxpayers include non-US persons, insurance companies, tax-exempt entities, dealers in securities, banks and persons who acquired their shares of capital stock pursuant to the exercise of employee options or otherwise as compensation.

BECAUSE OF THE COMPLEXITY OF THE TAX LAWS, AND BECAUSE THE TAX CONSEQUENCES TO ANY PARTICULAR STOCKHOLDER MAY BE AFFECTED BY MATTERS NOT DISCUSSED ABOVE, EACH NAVIOS WARRANT HOLDER AND STOCKHOLDER IS URGED TO CONSULT A TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE OFFERING AND THE EXERCISE OF THE PUBLICLY TRADED WARRANTS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-US TAX LAWS, AS WELL AS FEDERAL TAX LAWS.

ENFORCEABILITY OF CIVIL LIABILITIES AND
INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

We are incorporated under the laws of the Republic of the Marshall Islands. A majority of the directors, officers and the experts named in the prospectus reside outside the United States. In addition, a substantial portion of the assets and the assets of the directors, officers and experts are located outside the United States. As a result, you may have difficulty serving legal process within the United States upon Navios or any of these persons. You may also have difficulty enforcing, both in and outside the United States, judgments you may obtain in United States courts against Navios or these persons in any action, including actions based upon the civil liability provisions of United States federal or state securities laws. Furthermore, there is substantial doubt that the courts of the Marshall Islands would enter judgments in original actions brought in those courts predicated on United States federal or state securities laws.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

We have obtained directors' and officers' liability insurance against any liability asserted against such person incurred in the capacity of director or officer or arising out of such status, whether or not we would have the power to indemnify such person.

LEGAL MATTERS

The validity of the common stock underlying the publicly traded warrants offered in this offering, including the valid issuance of the shares of common stock upon exercise of the warrants in connection with this offering relating to Marshall Islands law will be passed upon for us by Reeder & Simpson P.C.

EXPERTS

The consolidated financial statements of Navios Maritime Holdings Inc. incorporated in this prospectus by reference from our Annual Report on Form 20-F for the fiscal year ended December 31, 2005, have been so incorporated in reliance on the reports of PricewaterhouseCoopers S.A., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of International Shipping Enterprises, Inc. (a corporation in the development stage) as of December 31, 2004 and for the period from September 17, 2004 to December 31, 2004 included in this prospectus have been so included in reliance on the report of Goldstein Golub Kessler LLP, an independent registered public accounting firm, given on the authority of said firms as experts in accounting and auditing.

INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to ‘‘incorporate by reference’’ the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus and information we file later with the SEC will automatically update and supersede this information. The documents we are incorporating by reference as of their respective dates of filing are:

- Annual Report on Form 20-F for the fiscal year ended December 31, 2005, filed on June 22, 2006;
- Current Report on Form 6-K furnished on August 21, 2006;
- Current Report on Form 6-K furnished on September 26, 2006;
- Current Report on Form 6-K furnished on September 29, 2006; and
- The description of our common stock contained in our Form 8-A filed on November 24, 2004.
- All subsequent reports on Form 20-F shall be deemed to be incorporated by reference into this prospectus and deemed to be a part hereof after the date of this prospectus but before the

termination of the offering by this prospectus.

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- Our reports on Form 6-K furnished to the SEC after the date of this prospectus only to the extent that the forms expressly state that we incorporate them by reference in this prospectus.

Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for all purposes to the extent that a statement contained in this prospectus, or in any other subsequently filed document which is also incorporated or deemed to be incorporated by reference, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may request, orally or in writing, a copy of these documents, which will be provided to you at no cost, by contacting:

Vasiliki (Villy) Papaefthymiou
Secretary
Navios Maritime Holdings Inc.
85 Akti Miaouli Street
Piraeus, Greece 185 38
Telephone: (011) +30-210-4595000

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Government Filings

As required by the securities Act of 1933, we filed a registration statement on Form F-3 relating to the securities offered by this prospectus with the Commission. This prospectus is a part of that registration statement, which includes additional information. You should refer to the registration statement and its exhibits for additional information. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreements or other document.

We are subject to the informational requirements of the Securities Exchange Act, applicable to foreign private issuers. We, as a ‘‘foreign private issuer’’, are exempt from the rules under the Securities Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations, and our officers, directors and principal shareholders are exempt from the reporting and ‘‘short-swing’’ profit recovery provisions contained in Section 16 of the Securities Exchange Act, with respect to their purchases and sales of shares. In addition, we are not required to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Securities Exchange Act. However, we anticipate filing with the SEC, within 180 days after the end of each fiscal year, an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also anticipate furnishing quarterly reports on Form 6-K containing unaudited interim financial information for the first three quarters of each fiscal year, within 60 days after the end of such quarter.

You may read and copy any document we file or furnish with the SEC at reference facilities at 100 F Street, N.E., Washington, DC 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You can review our SEC filings and the registration statement by accessing the SEC's internet site at http://www.sec.gov.

Documents may also be inspected at the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington D.C. 20006.

Information provided by the Company

We will furnish holders of our common shares with annual reports containing audited financial statements and corresponding reports by our independent registered public accounting firm, and intend

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to furnish quarterly reports containing selected unaudited financial data for the three first quarter of each fiscal year. The audited financial statements will be prepared in accordance with United States generally accepted accounting principles and those reports will include a ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’’ section for the relevant periods. As a ‘‘foreign private issuer’’, we ware exempt from the rules under the Securities Exchange Act of 1934 prescribing the furnishing and content of proxy statements to shareholders. While we intend to furnish proxy statements to any shareholder in accordance with the rule of Nasdaq Global Market, those proxy statements are not expected to conform to Schedule 14A of the proxy rules promulgated under the Exchange Act. In addition as a ‘‘foreign issuer’’, we are exempt from the rules under the Exchange Act relating to short swing profit reporting and liability.

Financial Statement Explanatory Note

The historical financial statements of International Shipping Enterprises, Inc. are being included in this filing solely as a result of having included the Acquisition and Merger Pro Forma Financial Information on p. 17.

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INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
BALANCE SHEET

	June 30, 2005 (unaudited)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 172,064	$ 2,032,478
Investment held in Trust Fund	182,798,858	180,691,163
Deferred Tax Asset	145,000	—
Prepaid expenses	63,850	12,988
Total current assets	183,179,772	182,736,629
Advances held in escrow for Acquisitions	3,016,178	—
Property & Equipment (net)	9,205	7,195
Deferred Acquisitions costs	1,894,859	81,000
Deferred Finance costs	3,448,500	—
Total Assets	$ 191,548,514	$ 182,824,824
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade payable & Accrued Expenses	$ 1,855,003	$ 139,177
Notes payable, stockholder	5,022,037	805
Deferred Interest at Trust account	444,349	23,021

Income taxes payable	712,000	6,700
Total Current Liabilities	8,033,389	169,703
Common Stock, Subject to possible conversion	36,097,142	36,097,142
Stockholders' Equity:		
Preferred Stock $.0001 par value, authorized 1,000,000 shares, none issued	—	—
Common Stock $.0001 par value, authorized 120,000,000 shares, issued and outstanding 39,900,000 (which includes 6,551,723 shares subject to possible conversion)	3,990	3,990
Additional paid-in capital	146,551,057	146,545,159
Earnings accumulated during the development stage	862,936	8,830
Total stockholders' equity	147,417,983	146,557,979
Total Liabilities and Stockholders' Equity	$ 191,548,514	$ 182,824,824

See Notes to Unaudited Financial Statements

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INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)

STATEMENT OF OPERATIONS
(unaudited)

	Six months ended June 30, 2005	Three months ended June 30, 2005	For the period from September 17, 2004 (inception) to June 30, 2005
Net revenue from operations			
Capital based Taxes	$ (130,000)	$ (16,500)	$ (184,759)
Other Operating expenses	(157,430)	(80,159)	(179,856)
Formation & Operating Cost	(287,430)	(96,659)	(364,615)
Operating Loss	(287,430)	(96,659)	(364,615)
Income from Financing Activities			
Bank Interest Income, net	1,708,536	967,401	1,801,251
Income before provision for income taxes	1,421,106	870,742	1,436,636
Provision for Income Taxes	567,000	310,000	573,700
Net Income	$ 854,106	$ 560,742	$ 862,936
Weighted average number of common shares outstanding	39,900,000	39,900,000	
Net income per share:	$ 0.02	$ 0.01	

See Notes to Unaudited Financial Statements

INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)

STATEMENT OF THE STOCKHOLDER'S EQUITY
For the period from September 17th, 2004 (inception) to June 30, 2005

	Common Stock and		Additional Paid-In Capital	Earnings Accumulated During the Development Stage	Stockholders' Equity
	Shares	Amount			
Sale of 7,125,000 shares of common stock to initial stockholders	7,125,000	$ 713	$ 24,287	—	$ 25,000
Sale of 32,775,000 units, net of underwriters' discount and offering expenses (includes 6,551,723 shares subject to possible convertion)	32,775,000	3,277	182,618,014	—	182,621,291
Proceeds subject to possible conversion of 6,551,723 shares	—	—	(36,097,142)	—	(36,097,142)
Net Income	—	—	—	$8,830	8,830
Balance at December 31, 2004	39,900,000	3,990	146,545,159	8,830	146,557,979
Unaudited:					
Finalization of estimated costs of the offering	—	—	5,898	—	5,898
Net Income	—	—	—	854,106	854,106
Balance at June 30, 2005	39,900,000	$ 3,990	$ 146,551,057	$ 862,936	$ 147,417,983

See Notes to Unaudited Financial Statements

INTERNATIONAL SHIPPING ENTERPRISE, INC.
(a corporation in the development stage)

STATEMENT OF CASH FLOWS
(Unaudited)

	Six months ended June 30, 2005	For the period from September 17, 2004 (inception) to June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 854,106	$ 862,936
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,749	1,749
Interest income on treasury bills	(2,123,873)	(2,239,036)
Changes in operating assets & liabilities:		
Increase in prepaid expenses	(50,862)	(63,850)
Increase in accounts payable and accrued expenses	15,711	154,888
Increase in deferred interest	421,328	444,349
Increase in income taxes payable	705,300	712,000
Increase in deferred tax assets	(145,000)	(145,000)
Net cash used in operating activities	(321,541)	(271,964)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Treasury Bills held in trust	—	(180,575,746)
Increase in cash held in trust	—	(254)
Purchase of property & equipment	(3,760)	(10,955)
Advance for the acquisition of a target	(3,000,000)	(3,000,000)
Payment of deferred acquisition costs	(1,062,244)	(1,143,244)
Net cash used in investing activities	(4,066,004)	(184,730,199)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from initial public offering	—	196,650,000
Payment of costs of initial public offering	5,899	(14,022,810)
Proceeds from stockholders loans & advances	5,021,232	5,371,353
Payment to stockholders loans & advances	—	(349,316)
Proceeds from sale of common stock	—	25,000
Payment of deferred finance costs	(2,500,000)	(2,500,000)
Net cash provided by financing activities	2,527,131	185,174,227
Increase/decrease in cash at end of period	(1,860,414)	172,064
Cash and cash equivalents at beginning of period	2,032,478	—
Cash and cash equivalents at end of period	$ 172,064	$ 172,064
Supplemental schedule of non-cash investing activity:		
Accrual of deferred acquisition costs	$ 751,615	$ 751,615
Supplemental schedule of non-cash financing activity:		
Accrual of deferred finance costs	$ 948,500	$ 948,500

See Notes to ISE Unaudited Financial Statements

INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
Notes to ISE Unaudited Financial Statements

1. Organization and Business Operations

International Shipping Enterprises, Inc. (‘‘ISE’’) was incorporated in Delaware on September 17, 2004, as a blank check company, the objective of which is to acquire one or more vessels or an operating business in the dry bulk sector of the shipping industry.

All activity from January 1, 2005, through June 30, 2005, relates to ISE's search for a business combination and the negotiation of the acquisition of Navios Maritime Holdings Inc. described below. The Company has selected December 31 as its fiscal year-end.

The registration statement for ISE's initial public offering (‘‘Offering’’) was declared effective December 10, 2004. ISE consummated the Offering on December 16, 2004, and received net proceeds of approximately $182,621,000 (Note 2). ISE's management has broad discretion with respect to the specific application of the net proceeds of this Offering, although substantially all of the net proceeds of this Offering are intended to be generally applied toward consummating a business combination with (or acquisition of) one or more vessels or an operating business in the dry bulk sector of the shipping industry (‘‘Business Combination’’). Furthermore, there is no assurance that ISE will be able to successfully effect a Business Combination. An amount of $180,576,000 of the net proceeds were placed in an interest-bearing trust account (‘‘Trust Account’’) until the earlier of (i) the consummation of a Business Combination or (ii) the liquidation of ISE. Under the agreement governing the Trust Account, funds will only be invested in United States government securities (Treasury Bills) with a maturity of 180 days or less. (Note 3) The remaining net proceeds (not held in the Trust Account) may be used to pay for business, legal, and accounting due diligence on prospective acquisitions and continuing general and administrative expenses.

ISE, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that stockholders owning 20% or more of the shares sold in the Offering vote against the Business Combination and exercise their redemption rights described below, the Business Combination will not be consummated. All of ISE's stockholders prior to the Offering, including all of the officers and directors of the Company (‘‘Initial Stockholders’’), have agreed to vote their 7,125,000 founding shares of common stock in accordance with the vote of the majority in interest of all other stockholders of the Company (‘‘Public Stockholders’’) with respect to any Business Combination. After consummation of a Business Combination, these voting safeguards will no longer be applicable.

With respect to a Business Combination which is approved and consummated, any Public Stockholder who votes against the Business Combination may demand that ISE convert his shares. The per share conversion price will equal to the amount in the Trust Account calculated as of two business days prior to the proposed consummation of the Business Combination divided by the number of shares of common stock held by Public Stockholders at the consummation of the Offering. Accordingly, Public Stockholders holding 19.99% of the aggregate number of shares owned by all Public Stockholders may seek conversion of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Account computed without regard to the shares held by Initial Stockholders. Accordingly, a portion of the net proceeds from the offering (19.99% of the amount held in the Trust Account) has been classified as common stock subject to possible conversion and 19.99% of the interest earned on the amount held in the Trust Account has been recorded as deferred interest in the accompanying June 30, 2005 balance sheet.

ISE's Certificate of Incorporation provides for mandatory liquidation of ISE in the event that the Company does not consummate a Business Combination within 12 months from the date of the consummation of the Offering, or 18 months from the consummation of the Offering if certain extension criteria have been satisfied. In the event of liquidation, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will be less than the initial public offering price per share in the Offering due to costs related to the Offering and since no value would be attributed to the Warrants contained in the Units sold (Note 2).

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INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
Notes to ISE Unaudited Financial Statements

In connection with a proposed acquisition (Note 4), ISE has deferred $3,448,500 relating to bank commitment fees and $1,246,983 of costs relating to professional fees for legal, due diligence and accounting services.

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

2. Initial Public Offering

On December 16, 2004, ISE sold 32,775,000 units (‘‘Units’’) in the Offering, which included all of the 4,275,000 Units subject to the underwriters' over-allotment option. Each Unit consists of one share of ISE's common stock, $.0001 par value, and two Redeemable Common Stock Purchase Warrants (‘‘Warrants’’). Each Warrant entitles the holder to purchase from ISE one share of common stock at an exercise price of $5.00 commencing the later of the completion of a Business Combination with a target business or one year from the effective date of the Offering and expiring four years from the date of the prospectus. The Warrants will be redeemable, upon prior written consent of ISE's underwriter in the Offering, Sunrise Securities Corp., at a price of $.01 per Warrant upon 30 days' notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least $8.50 per share for any 20 trading days within a 30 trading day period ending on the third day prior to date on which notice of redemption is given and only if the weekly trading volume of ISE's common stock has been at least 800,000 shares for each of the two calendar weeks prior to the date on which notice of redemption is given.

At June 30, 2005, 65,550,000 shares of common stock were reserved for issuance upon exercise of Warrants.

3. Investments Held in Trust Account

At June 30, 2005, the investments held in the Trust Account consist principally of short-term Treasury Bills which are treated as trading securities and recorded at their market value. The excess of market value over cost, exclusive of 19.99% of the interest which has been recorded as deferred interest as described above, is included in interest income on the accompanying income statement.

4. Acquisition of Navios Maritime Holdings Inc.

On February 28, 2005, ISE entered into a Stock Purchase Agreement (the ‘‘Purchase Agreement’’) with Navios Maritime Holdings Inc., a Marshall Islands corporation (‘‘Navios’’), and all of the shareholders of Navios in connection with ISE's acquisition of all of the outstanding capital of Navios. At the closing, the Navios shareholders will be paid an aggregate of $607.5 million in cash for all the outstanding capital stock of Navios, subject to adjustments and certain holdbacks. The purchase price will be partially funded through a secured credit facility with HSH Nordbank AG.

Simultaneously with the signing of the Purchase Agreement, ISE deposited $3,000,000 with an escrow agent as a deposit to be applied against the purchase price at closing. On July 15, 2005, ISE deposited an additional $3,000,000 in conjunction with the extension of closing date to August 31, 2005, in accordance with the terms and conditions of the Purchase Agreement. In the event that the closing does not occur, any and all deposits will be returned to ISE, except in those cases where the closing has not occurred due to ISE's breach of one of its representation, warranty, covenant or agreement in the Purchase Agreement. In connection with the deposit and other costs and expenses associated with the transaction, an Initial Stockholder has agreed to loan the necessary funds to ISE (Note 5).

At June 30, 2005, trade payables and accrued expenses include $647,876 due to Navios.

The transaction is expected to be consummated upon receipt of the required approval by ISE's stockholders. The special meeting of ISE's stockholders is currently scheduled for August 23, 2005.

INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
Notes to ISE Unaudited Financial Statements

5. Note Payable, Stockholder

ISE issued a $4,022,037 unsecured promissory note to an Initial Stockholder, who is also an officer, on April 18, 2005. The amount of $5,022,037, including additional advances of $1,000,000, is due to the Initial Stockholder as of June 30, 2005. The amount due to the Initial Stockholder is non interest-bearing and is payable on demand at any time on or after the closing date of the acquisition of Navios.

6. Commitment

ISE presently has certain office and secretarial services made available to it by unaffiliated third parties, as may be required by ISE from time to time. Under its agreement with its underwriters, ISE is permitted to pay up to an aggregate of $5,500 per month for office space and all such services on an ongoing basis. The statement of operations for the period ended June 30, 2005 includes approximately $9,672 related to this agreement.

7. Subsequent events

On August 25th, 2005, pursuant to a stock purchase agreement dated February 28, 2005, as amended, by and between ISE and Navios Maritime Holdings, Inc. (‘‘Navios’’), ISE acquired all of the outstanding shares of common stock of Navios for a cash payment of $594.4 million. Approximately $182.4 million of the cash payment was obtained from funds from ISE's initial public offering and the balance of approximately $412 million was obtained from a $514.4 million senior secured credit facility, entered into on July 12, 2005 and funded on August 25, 2005, with HSH Nordbank AG.

As a result of such acquisition, Navios became a wholly owned subsidiary of ISE. In addition, on August 25, 2005, simultaneously with the acquisition of Navios, ISE effected a reincorporation from the State of Delaware to the Republic of the Marshall Islands through a downstream merger with and into its newly acquired wholly-owned subsidiary Navios.

INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
Notes to ISE Unaudited Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors
International Shipping Enterprises, Inc.

We have audited the accompanying balance sheet of International Shipping Enterprises, Inc. (a corporation in the development stage) as of December 31, 2004, and the related statements of income, stockholders' equity and cash flows for the period from September 17, 2004 (inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Shipping Enterprises, Inc. as of December 31, 2004, and the results of its operations and its cash flows for the period from September 17, 2004 (inception) to December 31, 2004 in conformity with United States generally accepted accounting principles.

/s/Goldstein Golub Kessler LLP
New York, New York
January 17, 2005

INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
BALANCE SHEET
DECEMBER 31, 2004

ASSETS

Current assets:

Cash	$ 2,032,478
Investments held in trust	180,691,163
Prepaid expenses and other current assets	12,988
Total Current Assets	182,736,629
Property and Equipment	7,195
Deferred acquisition costs	81,000
Total Assets	$ 182,824,824
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	$ 139,177
Deferred interest	23,021
Due to stockholder	805
Income taxes payable	6,700
Total liabilities	169,703
Commitment	
Common stock subject to possible conversion	36,097,142
Stockholder's Equity:	
Preferred stock $.0001 par value, authorized 1,000,000 shares, none issued	
Common stock $.0001 par value; authorized 120,000,000 shares, issued and outstanding 39,900,000 (which includes 6,551,723 subject to possible conversion)	3,990
Additional paid-in-capital	146,545,159
Earnings accumulated during the development stage	8,830
Total stockholders' equity	146,557,979
Total Liabilities and Stockholders' Equity	$ 182,824,824

See Notes to Financial Statements

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INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
INCOME STATEMENT
FOR THE PERIOD FROM SEPTEMBER 17, 2004 (INCEPTION) TO DECEMBER 31, 2004

Operating expenses:

Capital based taxes	$ (54,759)
Other operating expenses	(22,426)
Total operating expenses	(77,185)
Net operating loss	(77,185)
Interest income	92,715
Income before provision for income taxes	15,530
Provision for income taxes	6,700
Net income	$ 8,830
Weighted average number of common shares outstanding	12,743,571
Net income per shares basic and diluted	$ 0.00

See Notes to Financial Statements

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INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
STATEMENT OF STOCKHOLDERS' EQUITY
For the period from September 17, 2004 (inception) to December 31, 2004

	Common Stock and				
	Shares	Amount	Additional Paid-In Capital	Earnings Accumulated During the Development Stage	Stockholders' Equity
Sale of 7,125,000 shares of common stock to initial stockholders for $.0035 per share, as adjusted (Note 7)	7,125,000	$ 713	$ 24,287	$ —	$ 25,000
Sale of 32,775,000 units, net of underwriters' discount and offering expenses (includes 6,551,723 shares subject to possible conversion)	32,775,000	3,277	182,618,014	—	182,621,291
Proceeds subject to possible conversion of 6,551,723 shares	—	—	(36,097,142)	—	(36,097,142)
Net income for the period	—	—	—	8,830	8,830
Balance at December 31, 2004	39,900,000	$ 3,990	$ 146,545,159	$ 8,830	$ 146,557,979

See Notes to Financial Statements

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INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
STATEMENT OF CASH FLOWS
For the period from September 17, 2004 (inception) to December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	$ 8,830
Adjustements to reconcile net income to net cash provided by operating activities:	
Interest income on treasury bills	(115,163)
Changes in operating assets and liabilities:	
Increase in prepaid expenses	(12,988)
Increase in accounts payable and accrued expenses	79,235
Increase in deferred interest	23,021
Increase in income taxes payable	6,700
Net cash provided by operating activities	(10,365)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Treasury Bills held in trust	(180,575,746)
Increase in cash held in trust	(254)
Purchase of property and equipment	(7,195)
Payment of deferred acquisition costs	(81,000)
Net cash used in investing activities	(180,664,195)
CASH FLOWS FROM FINANCING ACTIVITIES	
Gross proceeds from initial public offering	196,650,000
Payment of costs of initial public offering	(13,968,767)
Proceeds from stockholder loans and advances	350,121
Payment of stockholder loans and advances	(349,316)
Proceeds from sale of shares of common stock	25,000
Net cash provided by financing activities	182,707,038
Increase in cash and cash at end of period	$ 2,032,478
Supplemental schedule of non-cash financing activity:	
Accrual of costs of initial public offering	$ 59,942

See Notes to Financial Statements

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INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
Notes to Financial Statements

1. Organization and Business Operations

International Shipping Enterprises, Inc. (''ISE'' or the ''Company'') was incorporated in Delaware on September 17, 2004 as a blank check company, the objective of which is to acquire one or more vessels or an operating business in the shipping industry.

All activity from September 17, 2004 (inception) through December 31, 2004 relates to the Company's formation, initial public offering and search for a business combination described below. The Company has selected December 31 as its fiscal year-end.

The registration statement for the Company's initial public offering (''Offering'') was declared effective December 10, 2004. The Company consummated the Offering on December 16, 2004 and received net proceeds of approximately $182,621,000 (Note 2). The Company's management has broad discretion with respect to the specific application of the net proceeds of this Offering, although substantially all of the net proceeds of this Offering are intended to be generally applied toward consummating a business combination with (or acquisition of) one or more vessels or an operating business in the shipping industry (''Business Combination''). Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. An amount of $180,576,000 of the net proceeds is being held in an interest-bearing trust account (''Trust Account'') until the earlier of (i) the consummation of a Business Combination or (ii) the liquidation of the Company. Under the agreement governing the Trust Account, funds will only be invested in United States government securities (Treasury Bills) with a maturity of 180 days or less. (Note 3) The remaining net proceeds (not held in the Trust Account) may be used to pay for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses.

The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that stockholders owning 20% or more of the shares sold in the Offering vote against the Business Combination and exercise their redemption rights described below, the Business Combination will not be consummated. All of the Company's stockholders prior to the Offering, including all of the officers and directors of the Company (''Initial Stockholders''), have agreed to vote their 7,125,000 founding shares of common stock in accordance with the vote of the majority in interest of all other stockholders of the Company (''Public Stockholders'') with respect to any Business Combination. After consummation of a Business Combination, these voting safeguards will no longer be applicable.

With respect to a Business Combination which is approved and consummated, any Public Stockholder who voted against the Business Combination may demand that the Company convert his shares. The per share conversion price will equal the amount in the Trust Account calculated as of two business days prior to the proposed consummation of the Business Combination divided by the number of shares of common stock held by Public Stockholders at the consummation of the Offering. Accordingly, Public Stockholders holding 19.99% of the aggregate number of shares owned by all Public Stockholders may seek conversion of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Account computed without regard to the shares held by Initial Stockholders. Accordingly, a portion of the net proceeds from the offering (19.99% of the amount held in the Trust Account) has been classified as common stock subject to possible conversion and 19.99% of the interest earned on the amount held in the Trust Account has been recorded as deferred interest in the accompanying December 31, 2004 balance sheet.

The Company's Certificate of Incorporation provides for mandatory liquidation of the Company in the event that the Company does not consummate a Business Combination within 12 months from the date of the consummation of the Offering, or 18 months from the consummation of the Offering if certain extension criteria have been satisfied. In the event of liquidation, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will

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be less than the initial public offering price per share in the Offering due to costs related to the Offering and since no value would be attributed to the Warrants contained in the Units sold (Note 2).

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Depreciation of property, plant and equipment will be provided for by the straight-line method over the estimated useful lives of the related assets.

In connection with a proposed acquisition, the Company has deferred $81,000 of related costs, principally relating to a retainer paid in December 2004 for legal services.

Deferred income taxes are provided for the differences between the bases of assets and liabilities for financial reporting and income tax purposes. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

Basic net income per common share is computed using the weighted average number of shares outstanding. Diluted net income per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock. There are no incremental shares included in the diluted calculations since the common stock was not trading separately during the period and the warrants were therefore not exercisable.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

2. Initial Public Offering

On December 31, 2004, the Company sold 32,775,000 units (‘‘Units’’) in the Offering, which included all of the 4,275,000 Units subject to the underwriters' overallotment option. Each Unit consists of one share of the Company's common stock, $.0001 par value, and two Redeemable Common Stock Purchase Warrants (‘‘Warrants’’). Each Warrant will entitle the holder to purchase from the Company one share of common stock at an exercise price of $5.00 commencing the later of the completion of a Business Combination with a target business or one year from the effective date of the Offering and expiring four years from the date of the prospectus. The Warrants will be redeemable, upon prior written consent of the Company's underwriter in the Offering, Sunrise Securities Corp., at a price of $.01 per Warrant upon 30 days notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least $8.50 per share for any 20 trading days within a 30 trading day period ending on the third day prior to date on which notice of redemption is given and only if the weekly trading volume of our common stock has been at least 800,000 shares for each of the two calendar weeks prior to the date on which notice of redemption is given.

At December 31, 2004, 65,550,000 shares of common stock were reserved for issuance upon exercise of Warrants.

3. Investments Held in Trust Account

At December 31, 2004, the investments held in the Trust Account consist principally of short-term Treasury Bills which are treated as trading securities and recorded at their market value. The excess of market value over cost, exclusive of 19.99% of the interest which has been recorded as deferred interest as described above, is included in interest income on the accompanying income statement.

INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
Notes to Financial Statements

4. Property and equipment

Property and equipment, at cost, consists of computer equipment with an estimated useful life of three years. No depreciation has been charged against the Company's property and equipment as they were not in service during the period.

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

Delaware franchise tax payable	$ 12,859
New York capital taxes	41,900
Printing costs due on initial public offering	59,942
Accrued professional fees	13,629
Other accounts payable and accrued expenses	10,847
	$ 139,177

6. Note Payable, Stockholder

The Company issued a $225,000 unsecured promissory note to an Initial Stockholder, who is also an officer, on September 23, 2004. The Initial Stockholder also advanced approximately $125,000 of additional funds to the

Company. The amount due to the Initial Stockholder was non interest-bearing and substantially all the amount due was paid from the net proceeds of the Offering. At December 31, 2004, there is a remaining due amount to the Initial Stockholder of $805.

7. Commitment

The Company presently occupies office space from, and has certain office and secretarial services made available to it by, unaffiliated third parties, as may be required by the Company from time to time. The Company has agreed to pay approximately $1,500 per month for office space through March 15, 2005 and, under its agreement with its underwriters, is permitted to pay up to an aggregate of $5,500 per month for office space and all such services on an ongoing basis. The statement of operations for the period ended December 31, 2004 includes approximately $5,700 related to this agreement.

8. Preferred Stock

The Company is authorized to issue 1,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors.

9. Common Stock

On November 29, 2004, the Company's Board of Directors authorized a stock dividend of approximately 0.676 shares of common stock for each outstanding share of common stock and increased the number of authorized shares of common stock to 120,000,000. The accompanying financial statements have been retroactively restated to reflect these transactions.

INTERNATIONAL SHIPPING ENTERPRISES, INC.
(a corporation in the development stage)
Notes to Financial Statements

10. Income Taxes

The provision for income taxes consists of:

Period from September 17, 2004 (inception) to December 31, 2004

Current:

Federal	$ 1,600
State and local	5,100
Total current	$ 6,700

The provision for income taxes differs from the amount computed using the federal statutory rate of 34% as a result of the following:

	Period from September 17, 2004 (inception) to December 31, 2004
Federal statutory rate	34.0%
State income taxes, net of federal income tax effect	7.5
Effect of reduced federal rates based on income levels	(19.0)
Nondeductible expenses for state tax purposes	20.6
	43.1%

49,571,720 Shares of Common Stock

[NAVIOS LOGO]

NAVIOS MARITIME HOLDINGS INC.

PROSPECTUS

October 25, 2006

All dealers that buy, sell or trade our shares of common stock, whether or not participating in this offering, may be required to deliver a prospectus.