

# Doing Business in Greece

2008



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# 1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 66 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Greece has been provided by the office of UHY representatives:

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Inevitably, the information contained in the following pages is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions.

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We look forward to helping you to do business in Greece.

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## 2. Business environment

### Recent history

The invention of democracy is credited to ancient Greeks, although democracy proved unable to cope with the pressures of war between Athens and other cities. Modern Greek politics has inherited both these traditions, the history of democracy and a heritage of fractious regional and ideological violence.



The Greek State was originally formed when Greece was liberated after 400 years of Ottoman rule in 1830. After the Second World War a devastating civil war broke out following the retreat of German occupying forces in 1944. The Marshall Plan and the launch of New Deal provisions helped to rebuild the shattered economy.

In recent history, between 1967 and 1974, a military junta ruled the country. However, since 1974 a westernised type of democracy has been in place and has been functioning effectively. Greece joined the European Community in 1981, and became a member of the Economic and Monetary Union (EMU) at the beginning of 2001.

### Language

The official language is Greek, but English is also widely spoken.

### Political structure

Greece is a parliamentary republic. The prime minister and the government hold executive powers. The president is elected by the 300-member parliament to serve a five-year term. Five political parties are

currently represented in parliament with the Conservative Party (Nea Dimokratia) and the socialists of PASOK representing the majority of the voting body. The government must have the support of parliament to hold office.

## **Political issues**

The Greek Government proposes amendments to the constitution to be effected by the next Parliament. Following is a list of the main political issues for Parliamentary discussion during the next Parliamentary session.

- Establishment of non-state universities
- Institution of a constitutional court
- Lifting of parliamentary immunity from prosecution
- Ending jobs-for-life status in the public sector
- Review of large state contracts
- Election of top courts' presidents by vice-presidents
- Enforcement of limits to party campaign air-time
- Abolition of incompatibility of any profession with the job of Parliament
- Protecting the budget from retroactive expenses
- Declassification of forest lands located within town planning areas
- Amendment to 'main shareholder' provision barring media owners from state contracts
- Equation of restrictions to ownership with expropriation
- Increase of party lists of deputies from 12 to 30
- An absolute majority of 151 Parliament Member to ratify EU laws

## **Culture & value systems**

The Greeks are open to discussion on most topics but they process information more from an associative perspective than an abstract one. Interpersonal relationships are of major importance in the overall scheme of things. Friendships are deep and carry obligations. It is one's role in the social structure, the extended family and in deep friendships that gives structure and security to the individual.

To do business one must be patient, yet use quick judgement, because Greeks are excellent bargainers. Business is usually done over a cup of coffee or in a restaurant (taverna). Accepting more food is a compliment to your host. The greeting can take many forms: a hand shake, an embrace or

a kiss can all be encountered at first meetings or among friends and acquaintances.

## **Infrastructure**

The city of Athens went through substantial infrastructure developments when preparing for the 2004 Olympic and Paralympic Games, including work on new freeways, extensions to the Metro system, a new suburban rail line and a rail link from the international airport to the city. Major refurbishments to the main Olympic complex and many other standalone sports venues, the construction of an athletes' village, a number of media villages and the media and press centre, have left the city with a legacy that will last for many years.

Greece's strong economic growth over recent years continues to be mainly sustained by activity in the construction and infrastructure sectors, which was funded primarily by Olympic Games-related investment and EU-funded infrastructure projects. GDP growth reached 4.1% (Q1 2004), compared to 4.3% in 2003 and 3.9% in 2002. The estimated growth is expected to level to about 3.5% in the two to three years following the 2004 Olympics.

As of 1st January 2002, Greece implemented the euro in the whole of economic functions, withdrawing the drachma successfully by 1st March 2002. The monetary unit of Greece is the euro. Public sector debt and trade deficit remain the major problems faced by the current government. Greece's main economic sectors are agriculture, construction, tourism and shipping, with most of such activities being centralised around Athens, as there is most of the country's population.

Greece is relatively rich in lignite, bauxite and magnesium.

Privatisation in Greece is proceeding successfully. Large public corporations have been sold (some of them totally) or privatised through the Athens Stock Exchange, as well as four or five state owned banks, among which two major ones.

## **Privatisations in 2006**

The Greek government is aiming to raise approximately EUR 1.6 billion in revenue from privatisations in 2006 as part of its efforts to reduce Greece's budget deficit to 2.6% of GDP from a target of 4.3% of GDP in 2005. Among its goals is the flotation of the state-run Tourist Development Co. in casino Mont Parnes through an initial public offering on the Athens Exchange. The Hellenic Tourist Properties SA manages state-owned

tourism property, including hotels, marinas, casinos, beaches and golf courses on the islands and Crete.

## **Macroeconomic environment**

The new environment of macroeconomic stability combined with the gradual deregulation of the telecommunications and energy sectors, the construction of roads and other infrastructures (some projects partly funded by the EU), and the opportunities afforded after the 2004 Olympic Games has created a number of business opportunities in many areas of economic and entrepreneurial activity.

Within this context, conditions are being created for the development and financing of new ventures focusing on technology. These types of investments are given more favourable tax treatment if they are related to research/technology, venture capital or any other form of innovative entrepreneurial initiative. They are also supported financially by new mechanisms for timely development and implementation.

The basic contributing factors are the investments in connection with the 2004 Olympic Games, the European Social Fund programmes focusing on the quality of intervention mechanisms and the upgrading of manpower, the opening up of energy and telecommunications markets, the implementation of the new law on incentives, business activities in south-eastern Europe and the prospects created by the Plan for the Economic Reconstruction of the Balkans, as well as the restructuring of the country's productive sector as a result of takeovers, mergers and international co-operation.

The main priorities of Greek economic policy are the safeguarding of competition, the creation of the necessary institutional framework for ensuring the smooth functioning of product and capital markets, as well as the effective liberalisation of product and capital markets. At the same time, low interest rates and strong domestic demand all contribute in the same direction.

The driving forces behind the economy are the maintenance of a stable macroeconomic environment; the adoption of the Euro; the implementation of development programmes associated with the 'Information Society' programmes; competitiveness and the development of infrastructures (transport, telecommunications, energy) within the framework of the 3rd European Fund; major projects in the field of transport and energy; and the development of trans-European networks.

The Greek government has also completed an extensive programme of tax reforms which significantly simplify the tax system. Law 3016/2002 strengthens transparency and better safeguards investors' interests by establishing rules of corporate governance and internal audit of public limited companies. In 2002, important reforms were introduced relating to public utility services. The liberalisation of telecommunications was accompanied by a sharp reduction of rates. In the energy sector, the state monopoly ended on 19 February 2001. Greek households pay the lowest electricity rates in the EU and Greek industry the fifth lowest.

In order to spur on the growth of the new economy and the Information Society in Greece in the coming years, €2.8 billion has been allocated from the 3rd European Fund and, specifically, from the Operational Programme 'Information Society'.

Activities in the field of informatics and telecommunications now play an important role in the economy. Due to the rapid growth of mobile telephony, this sector now accounts for more than 7% of GDP.

## **Fiscal policy issues**

Greece has a mixed capitalist economy with the public sector accounting for about half of GDP. The primary focus of the government today is to restore Greek economic competitiveness and at the same time tackle unemployment, which is currently a major social problem. Since joining the Eurozone, the country has struggled to boost private and foreign investment, to update infrastructure with the help of EU grants and to stabilise public economics through a series of reforms that are currently in progress. However, there is strong opposition to economic reforms because the economic establishment is not willing to recede from its privileges, mainly due to the entry barriers in a number of Industries-Natural Monopolies in which state monopolies prevail.

The government deficit has already been reduced by 10.7 % of GDP since 1993, from 14.4 % to 3.7 % in 2002 and then increased to 4.6 % of GDP at the end of 2003. The upward course of the general deficit continued until 2004 when it reached 5.5% of GDP but the government anticipates a progressive decline to 3% of GDP for the end of year 2006.

The public debt to GDP ratio has been falling since 1996. In 2000 the debt contained 114.0% of GDP, in 2003 the debt fell to 109.9% of GDP, in 2004 rose to 112.1% and in 2005 is expected to reach 109.5% of GDP. The GDP growth is well over the average growth of the Eurozone. The annual growth rate for 2000 was 4.4%, for 2001 was 3.7% for 2002 was 3.8%, for 2003 was 4.5% and for 2004 was 3.8%.

In 2005 the GDP growth was 3.4% but it is expected to pick up again in 2006. Moreover, inflation dropped to 4.1% at the end of 1997, to 3.9% at the end of 2002, to 3.4% in 2003 and to 3.0% at the end of 2004.

Interest rates have been declining since 1995, and have been stabilised after totally converging EU standards in 2001. Furthermore, interest rates on Government bonds, arranged by the European Central Bank, have also dropped to 4.26% for the year 2004 (from approximately 20% in 1994 and as high as 23% in 1993). Bank lending rates have also dropped and are presently fluctuating between 4.96%.

## **Market issues**

### **Market entry strategy**

The Greek market has its peculiarities, particularly when it comes to procurement and government tenders. Lack of familiarity with regulations and government agencies can lead to frustration and delays in contract negotiations. Thus, a competent local representative is invaluable.

Similarly, firms considering investing in Greece should review the relevant regulations with legal, tax and other business experts in order to avoid potential problems. The Hellenic Center for Investment (ELKE), the Greek national investment agency, is able to provide initial assistance in dealing with government institutions.

### **Market access**

Greece is Europe's strategic link to the sizeable, emerging markets of the Balkans, the Black Sea, eastern Europe and the eastern Mediterranean.

Major factors are:

- It is an EU member state with a population of 10.6 million, over half of whom live in Athens and Thessaloniki. Stable political environment since mid 1970s. Suitable base for investment into the Balkans;
- Thessaloniki, at the doorstep of the Balkans, is the country's second largest city. It has become the financial and trading centre for the emerging markets of the entire Balkan peninsula and is the seat for the Black Sea Trade and Development Bank (comprising 11 countries of the wider Balkan and Black Sea regions), the Balkan Trade Centre and the Thessaloniki Stock Exchange Centre, which has online connection with the Athens Stock Exchange

(ASE) and is expected to develop into a source of capital for the wider region;

- Within a 500km radius there is a market of 35 million inhabitants spread over a major part of Greece, Bulgaria, the Former Yugoslav Republic of Macedonia (FYROM), Albania and New Yugoslavia;
- Within a 1,000km radius there are an additional 146 million people. This market includes Turkey, Romania and southern Italy; and
- In a 1,500km radius there is direct access to the markets of Hungary, Croatia, Slovenia, Libya, Egypt and Cyprus.

## **Main market opportunities**

Sectors: Defence; Telecommunication Services; Energy; Electronic Commerce, Information Services and Information Technology; Medical Equipment; Drugs/Pharmaceuticals; Environmental Engineering Services; Franchising; Tourism Infrastructure; and, Safety and Security.

Services represent the largest and fastest growing sector of the Greek economy. Trade, banking, insurance, transportation and shipping, communications, healthcare, education, and tourism are the largest service sub-sectors. Greece's food industry is expanding rapidly to support new markets in neighbouring countries. Greece is a net exporter of vegetables and fruits. Its largest export items include fresh and processed fruits and vegetables, olive oil, wheat, and tobacco.

Energy is a leading investment opportunity for foreign companies. Because of the deregulation of Greece's energy sector, for example, some foreign firms participate in energy projects with Greek partners, most notably, in the renewable energy field. There are many opportunities for businesses in the electricity, gas and renewable energy sectors.

Greek firms enjoy good commercial ties to central and eastern European markets as well, including the Black Sea region. Foreign firms may wish to target these markets from a base in Greece or to explore three-way arrangements with Greek companies or partners.

## **Economic activity by sector**

Construction boomed during the preparation period for the Olympic Games, and the past four years has been the major driving force behind

high rates of growth. The mining sector remains small. The main engine of the Greek economy is tourism, followed by shipping and agriculture. Greece has no major manufacturing industries, apart from a declining shipbuilding industry.

The country has, for historical reasons, developed the largest registered merchant marine fleet in the world (around 17.8% of the world's transportation capacity) and is a major factor in supporting the Greek economy. Unlike tourism, shipping was developing in 2003 and early 2004, with current account receipts growing by 12.3% in 2003 and reaching €9.6 billion.



Agriculture is also of major socio-economic importance, employing approximately 1.5 million. The main agricultural products are wheat, cotton, tobacco, olives and olive oil. Under the EU Common Agricultural Policy (CAP), Greek producers of cotton, tobacco and olives and many other products receive subsidy assistance. The Government has pledged to reform the agricultural industry to facilitate CAP reforms. Recent CAP reforms aimed at decoupling farm subsidy levels from production levels are expected to have a considerable effect on the agricultural industry, especially on cotton and tobacco growers.

## **Energy – electrical power systems and equipment, renewable energy**

There has been a great amount of activity during the past year in almost every area of the Greek energy sector. The changed energy environment will provide many opportunities for foreign companies. The deregulation of the multi-billion dollar Greek electricity market was furthered by the passage in December 2005, Law 3426/05, which completes Greece's coordination with EU law and directive, mandating the gradual deregulation of Greece's electricity market by 2007. The Natural Gas Market Liberalization Law (Law 3428/05) provided for the gradual deregulation of the gas market by 2008. The Greek Parliament has a draft bill about renewable energy ready to be tabled. The draft renewable energy bill promotes the production of electricity from renewable energy

sources to accomplish national and EU goals and attract prospective domestic and foreign investors.

A dramatic increase in sales is expected to take place between 2006 and 2009 when new power plants, privately owned, with an estimated capacity of 1,500 MW will be under construction and three or four old ones with a capacity of around 1,600MW will be modernized.

## **Franchising**

Franchising began in Greece mid-1970, but the sector did not achieve rapid growth until the early 1990's. To attract capital, many companies declared themselves to be franchise chains. Later they discovered that they lacked many of the essentials to be a franchise operation and ceased promoting themselves as such.

Today, more than 75 percent of the Greek franchise chains are based in the greater Athens area. A survey released in 2005 showed that the food and restaurant businesses have the strongest franchising presence in Greece.

## **Telecommunication services**

The Greek Government through the Ministry of Transport and Communications is committed to transforming Greece into one of the premier telecommunications hubs in southeast Europe.

According to EU regulations, actions will be taken to incorporate an electronic communications liberalization law that will improve the quality and the pricing of fixed voice telephony and will further the access to broadband services which is relatively low at present.

## **Fixed telephony**

There are almost 6 ½ million fixed-access lines in use, or about 55 per 100 inhabitants in Greece. The telecommunication network has been upgraded and is now fully digital.

National coverage for ISDN is available, but ISDN penetration is low. Recent laws aimed at increasing high-speed Internet access in Greece mandate the unbundling of public telecommunications assets, which will

open the market for firms in this industry. As a result, the development of DSL and ADSL will be a business opportunity for firms.

OTE, the Hellenic Telecommunications Organization, serves more than 60 million subscribers and is the most important telecommunications company in the Balkans, Middle East and Black Sea countries.

## **Mobile telephony**

Mobile telephony in Greece has seen dramatic growth over the past several years and has a 75% penetration rate in Greece. As a result, profits from mobile telephony now account for almost 25% of total industry profits in Greece.

## **Electronic commerce - information services & information technology**

Imports make up over 70 percent of the computer hardware and peripherals market in Greece. Over 65% of that market is dominated by U.S. suppliers who ship directly from the U.S. or their European subsidiaries. Greece's Information Technology (IT) market is growing at an annual rate of between 10-15 percent. As Greece is a services-oriented market, IT applications in the areas of tourism, transportation and telecommunications are in heavy demand.

## **Drugs / pharmaceuticals**

In 2004, the total Greek market for drugs and pharmaceuticals was a little over \$2.4 billion, nearly all of which was imported. As production of raw materials for drugs/pharmaceuticals is non-existent in Greece, imports are 80% of the market

According to studies by IMS Health, a leading provider of information on the world pharmaceutical and healthcare markets, the drugs and pharmaceutical market in Greece will increase at an annual rate of 4% a year for the next five years with the import market increasing 16%.

## **Medical equipment**

The Greek market for medical equipment is dominated by imports which supply 90% of the demand. Approximately 60% of Greece's imported medical equipment and supplies come from EU countries i.e.: Germany, France, UK and Italy.

Local production in Greece in this sector is small with minor exports to third countries. The Greek medical equipment market continues to experience growth of 8% annually.

Medical equipment consumption is concentrated primarily in the public sector, which accounts for 60-70 percent of the total purchases in this field.

Private health care, taking advantage of the gaps and inflexibility in the public system, is experiencing steady growth. Many private clinics are extending their services to include those formerly available only in large, public hospitals. Consequently, the demand in the private sector for modern medical equipment has increased substantially during the last decade. This trend is expected to continue through 2010.

## **Tourism infrastructure and development**

The large number of planned tourism infrastructure projects and the ongoing privatization in the sector represent unprecedented opportunities for foreign firms. In addition, major U.S. hotel chains, such as Hilton, Intercontinental, Marriott, Hyatt, Best Western and Starwood Hotels are present in the Greek market.

Greece has enjoyed a reputation as one of the prime tourism destinations in the world during the last decade. Greece continues to be a preferred tourism destination because of its safe, low-crime, tourist-friendly environment. In addition, the successful Olympic Summer Games that Greece hosted in 2004 brought increased optimism regarding the future of the Greek tourism sector. According to market sources, tourist arrivals reached more than 14 million at the end of 2005, marking a 13% increase over 2004. Receipts from tourists increased 5% over 2004's 9.6 billion euros and represents 5.85% of GDP. The sector employs 10% of Greece's workforce. Indeed, since the travel and tourism market affects, directly and indirectly, all sectors of the Greek national economy, the World Travel & Tourism Council (WTTC) estimates that the real impact of the industry

accounts for 14.5% of Greece's GDP and represents over 16.5% of total employment.

Greece is making a major effort to become a year round destination and attract high income tourists. This will be achieved through new investments and diversification. The areas of tourism infrastructure development where U.S. architectural and design firms may find best prospects are:

- Hotel Resorts and Casinos
- Golf Courses
- Marinas and Ports
- Theme Parks
- Convention, Conference and Exhibition Centres
- Eco-tourism Development
- Spa and Sea-Therapy

## **Tourism: a major engine for growth**

Tourism is a major engine of growth. The foreign exchange generated is vital to sustaining the balance of payments. In 2001, the last year for which comparative figures are available, earnings from tourism covered nearly 48% of the merchandise trade deficit. The figures are couched in qualified terms because there are many sources of statistical data about the sector, all with their own particular definitions and interpretations. The multiplicity of data is a reflection of a major problem for the sector, namely that there are numerous representative bodies – state and private – all of which have their own agenda to promote. The result is that the government has received conflicting evidence on how best to proceed.



The formation of the Ministry of Tourism is expected to provide consistent statistics and coherent strategic policy guidance. Nonetheless, the sector is a major success story with between 12-14 million visitors, depending on whose interpretation of the data is used, generating income of €10-20 billion a year (again, dependent on how the sector is defined). But it is fair to say that tourism contributes more to the Greek economy than

manufacturing, which generates a little over 12% of GDP. Tourism probably contributes, directly and indirectly, close to 20% of Greek GDP and accounts for about one in six of all jobs in the country.

## **Unemployment**

Unemployment in the third quarter of 2003 fell to 8.8%, producing an average annual rate of 9.3%. This is considered high and was a key 2004 election issue and still is on the political agenda. It is expected that unemployment levels will rise in the future following job losses after the 2004 Olympic and Paralympic Games.

## **Foreign trade**

The removal of barriers to free trade within the EU has made a significant contribution to the prosperity of Greece and this has reinforced its commitment to global liberalisation. As the EU member states removed tariffs on trade between them, they also unified their tariffs on goods imported from outside.

Greece has a population of 10.6 million and a GDP per capita of USD 20,521 (approx). Principal export destinations are Germany, Italy and the UK, while main import sources are Germany, Italy and France. As substantial discrepancies exist between settlements and customs-based data, considerable uncertainty surrounds the balance-of-payments figures.

## **Pricing**

Greece has no price controls, except for pharmaceutical and agricultural products. When pricing a product, firms should consider payment and credit terms. Greek importers generally expect a C.I.F. quotation, except when the purchasing company does a large amount of direct buying and provides its own insurance. VAT is 19%.

## **The banking system**

There are both state and private banks in operation and a number of foreign banks, offering a full range of services for corporate business and consumers, including venture capital, finance and advice for newly formed

companies. The Greek banking sector has expanded rapidly in recent years as a result of deregulation, modernisation and a series of mergers and acquisitions. 'Transformation' is often used when discussing the Greek banking system. Private banks may offer greater flexibility than the state sector. Greek banks currently represent one of the most sophisticated and modern sectors of the Greek economy.

The country's entry into the Eurozone, leading to deregulation in banking and finance, essentially paved the way for a 'new deregulated' sector. A change in consumer attitude and behaviour, motivated by dramatically falling interest rates over the last four to five years, helped to transform the banking sector. The trend followed a surge in all types of consumer credit and mortgage lending that has fuelled banks' growth.

Lending to small and medium-size enterprises is another area of activity on which banks have focused and this is expected to continue.

The government has indicated its desire to further privatise state-controlled banks, and both domestic and foreign investors are seen as potential players in this market. A number of new private small banks have opened in recent years, primarily focusing on retail banking, and they are taking advantage of new products and services that were not available in the Greek market only a decade before.

Today, many Greek banks have alliances with non-Greek institutions and this trend is expected to continue. In this respect, shares in banks are good long term performers. Low interest rates spur demand for loans, while investors anticipate more mergers and acquisitions in the banking industry as the government trims holdings in state-run lenders, opening the door to further top consolidation.

In addition, Greek banks have led the way to establishing a presence throughout south-east Europe, providing foreign banks with a spearhead into new markets. According to a recent statement by the Bank of Greece, on the investment climate for banks in the region, Greece's competitive advantage is considerable: 'the positive effects of the presence of foreign banks are supported by the experience of Greek banks in the countries of south-eastern Europe. Greek banks are already well-established in Bulgaria, Romania, Serbia-Montenegro, Albania and FYROM, representing at least 20% of the banking system according to asset holdings'.

The Greek Banking System operates in a deregulated environment, although limited control is still exercised by the government through the Bank of Greece. The Bank of Greece is the central Bank and the monetary authority in Greece. It is responsible for the authorisation and supervision of credit institutions, including subsidiaries of EU and non-EU banks and financial institutions, in Greece in accordance with the criteria set down by relevant EU directives. Bank of Greece issues regulations and guidelines

relating to the establishment of credit institutions in Greece, capital requirement, risk exposure and investment activities. The Bank of Greece is participating in the European Central Banks System, along with the European Central Bank and the Central Banks of the other 24 countries. The European System of Central Banks for the whole of the EU plans monetary policy and the Bank of Greece is in charge of its implementation in Greece. The most important task of the Bank of Greece is the reassurance of price stability.

The principal objective of regulation is the protection of depositors. All the main directives of the EU Council concerning prudential regulation of credit institutions have been implemented into Greek law. As a result of the implementation of the main directives of the EU Council, a degree of deregulation has become possible for the banking industry in Greece, which has also adopted EU directives with regard to money- laundering.

In the past, the lack of a developed capital market has led industry to rely largely on bank loans for a high proportion of its funding. Although the capital market's activities have increased in the recent years, the commercial banks still remain the primary source of finance for Greek industry and commerce. The low interest rates should lead to even more competition in the banking sector.

## **Capital markets - Athens Stock Exchange (ASE)**

Many companies in Greece tend to be closely held by a small number of shareholders, usually members of the same family, and there is a relative ease of securing bank financing in comparison to the administrative burden of obtaining a listing. Nevertheless, various factors have contributed to the development of the stock exchange in recent years, especially in the late 80's, in line with the worldwide trend for small developing exchanges.

Greece now has a more favourable atmosphere for investors to trade in the stock exchange as a means of maximising their total income at the lowest cost. Some of the factors for this are:

- The bonds and bond loans listed on the stock exchange;
- The good performance of certain listed companies; and
- The quick capital appreciation that new listings offer the possibility of shipping companies to be listed and tax-free income of profits distributed by Portfolio Investment Holding Companies.

The Athens Stock Exchange (ASE) was established in 1876 and is the main securities market of Greece. Companies with registered offices and business activity outside of Greece may list their shares on the ASE. More specifically, the Presidential Decree 350/1985 sets the listing requirements for shares to be listed on the ASE, as well as the obligations of the listed companies towards the ASE, and provides the listing on the ASE of shares issued by companies, either Greek or foreign.

Foreign companies may request deviation from the existing listing requirements applying in shares of Greek companies as well as from the relevant obligations towards the stock exchange authorities after they have been listed on one of the ASE markets.

### **Athens Derivatives Exchange (ADEX)**

Law 2533/97 provided the necessary legal framework for the establishment of the formal and organized derivatives market in Greece.

The Athens Derivatives Exchange SA and the Athens Derivatives Exchange Clearing House SA have been established for the organisation, operation, and development of the market. The main purpose of ADEX was the organization and support of trading in the derivatives market, the organization of the trading system as well as any similar activity. At the same time, the clearing house is to organize the clearing and settlement of transactions concluded on derivative products, and supports such procedures in general.

### **The Corporate Governance Code (LAW 3016)**

Law 3016/2002 is relevant to issues of company management and other relevant issues. This law is applicable on corporations whose shares are quoted or listed on a recognized stock market.

The law dictates the duties and responsibilities of the company's Board of Directors are intended to enhance the long term financial value of the company and to promote the company's interests. The members of the Board of Directors are prohibited from pursuing any self-interest, which may produce a conflict of interest with the company.

## **In summary**

The Greek economy is experiencing fast growth due to business confidence in the country's economic progress over the last decade. This trend has led to considerable foreign investment. Greece joined the EMU on 1 January 2001.

At the same time, many infrastructure projects funded by the EU (€26 billion for 2000-2006), including highways, tunnels, bridges, railways, airports and harbours, as well as environmental projects in energy, water, sewage, health and welfare were completed or are in progress. In addition, Athens hosted the Olympic Games in 2004.

The new Greek government is planning a series of privatisations and structural reforms in the large state owned sector. The government is generally supportive of foreign investment, but dealing with local bureaucracy can be very time-consuming, although a series of measures to reduce this problem have been announced.

### 3. Foreign investment

The successful hosting of the Olympic Games has displayed a new framework which is of service to investors given that a modern infrastructure and flexible institutional frameworks have been created.

New laws have been recently voted on investments, taxation, the cooperation of the private and public sector, and the capital market.

The year 2005 was pronounced the “year of competitiveness”. The new structural frameworks started the provision of incentives for competitiveness in investments, taxation, and tourism industry. The government also started the procedure for liberalizing new sectors such as coastal navigation and energy.

Growth rates in the country remain above the EU average while new technologies have been widely introduced into the society and the market. The primary intention of all government officials is to ensure fiscal stability in the long term.

Trade, shipping and tourism constitute a cultural tradition associated for many years with considerable and successful investments. Traditional products as well as new categories of services and products have also created new opportunities.

A large number of industries across the business spectrum operate in fields of rapid growth applying new ideas and methods: Information Technology (Greece has recently been ranked by the EU as the most innovative country with respect to IT); the service sector (about 13 million tourists visit Greece every year, contributing to 10% of the GDP, and the banking sector has shown striking growth); Raw Food Material (Greece is the leading producer of top quality agricultural products, and it is the 3rd largest olive oil producer internationally); Mining Industry (leading international producer of several minerals); Construction; Natural Cosmetics Industry; Renewable Energy and many others.

The tourism industry has been displaying a new trend regarding the provision of special services to thematic tourism (conferences, sports, ecological and agricultural tourism etc.), ensuring at the same time the institutional protection of investors.

Finally, Greece has always been an attractive location for vacation with its favourable climate, sea, food and entertainment.

## **Import and export restrictions**

Duty rates on imports vary according to the type of goods imported. There is no requirement for an import license for non – EU transactions. Agents or customs brokers, who are hired for this reason, upon transfer of goods through customs, usually pay duties and VAT. Terms of payment are usually arranged through a commercial bank. A non-resident importer must under certain circumstances, appoint a VAT fiscal representative in Greece.

## **Custom's duties**

Following Greece's entry into the EU, cross border trading is no longer subject to strict controls. Transactions between residents of EU member states are not considered imports or exports and therefore they are not charged any duty. Sales to purchasers registered for VAT in EU member states are not subject to VAT in Greece provided that there are the VAT registration numbers of the supplier and purchaser on the invoice.

## **Restrictions on international investment**

### **Corporate governance provisions**

In 1994 the Greek state abolished almost completely whichever foreign exchange control restriction had been left in the recent years. Importation and exportation of foreign currency is no longer subject to restrictions. However, foreign exchange exportations are still effected through commercial banks and need supporting documentation subject to inspection, which will ensure the authenticity of the transactions.

Payments to EU residents and non-EU residents for goods and services such as construction, engineering, information, remittance of profits and dividends are freely permitted and effected through commercial banks without being monitored by the Bank of Greece.

### **Restrictions on international trade**

Business transactions in sectors such as banking, insurance, defence and oil exploration require a licence or authorisation. Company names must be approved by the Local Chamber of Commerce.

Authorities must give their permission before real estate in border areas (or shares in companies owning such real estate) is purchased by EU or non-EU residents. Generally, there are no other restrictions on foreign ownership, although conditions for securing licences in the certain sectors may require a minimum by EU residents.

### **New investment incentives law (3299/2004)**

In December 2004 the new government decided to reform the country's development law in an effort to promote business development and attract foreign and domestic investments. The new law is different from its precedent, 2601/98 in that investment projects are eligible for subsidies and not individual firms.

Determined to make the most of the EU regional policy's Directives, the government introduced higher incentives both in cash and tax relief compared to the previous law. At the same time, instead of subsidizing the interest rates on loans, the new law provides a new kind of incentive namely the subsidy on the new personnel's salary costs.

Another important change is the one that refers to the minimum equity required. Indeed, the new law reduces the percentage of owned equity from 40% to 25% in any investment project.

Finally, the cutback of the initial evaluation time period to maximum two (2) months as well as the specification of certain time frame regarding the procedures of subsidy payment (maximum five (5) months) are considered vital elements for establishing a stable entrepreneurial environment. What follows is a presentation of the most important parameters of the new law and the ones that are mostly required by foreign investors.

The incentive provisions under the new Investment Incentives Law highlight the three main categories of investment incentives: cash grants, subsidies or tax allowances. The objectives of the new law, according to government officials are:

- To challenge and reinforce new entrepreneurial activities, e.g. theme parks, broadband networks, renewable energy sources, environmental protection, desalination plants, warehouses, logistics and distribution centres; and
- To give special emphasis to capital intensive investments.

Cash grants amount up to 55%.

A new committee has been formed to facilitate and simplify administrative investment procedures and to check whether the following requirements are met:

- Minimum own equity contribution required is 25%;
- Evaluation time for business plans within two months;
- Upon approval of the investment incentives application, the incentives payment plan is predetermined and scheduled;
- Investments located in industrial and business areas, investments for the development of four and five star hotels etc., receive an additional 5% subsidy; and
- Small and medium size companies are eligible for up to 15% cash grants.

The Incentives Law is applicable to enterprises having business activities in the following sectors:

- Primary (e.g. greenhouses, animal farms, fisheries etc);
- Secondary (e.g. manufacturing, energy etc); and
- Tertiary: Tourism (hotel units, conference centres, marinas, theme parks, golf courses, development of mineral springs, thalassotherapy centres, health tourism centres, centres for training-sports tourism etc); -or other services (e.g. applied industrial research laboratories, commercial centres, software development, supply chain services, logistic centres etc.).

Enterprises operating in every sector of the economy are eligible to receive a grant if they fulfil the criteria for the submission to the incentives system, as laid out in the Law.

Business activities which fall under the provisions of the Law are divided in five categories.

Small or medium-size enterprises, as defined in EU legislation, are granted an additional percentage of subsidies up to 15%.

In any event, the offered percentages of cash grants and leasing subsidies, as well as of subsidies for the wage expenses, cannot exceed 55% of the total investment plan. The offered subsidies to any person cannot exceed, cumulatively, for a five-year period, the maximum amount of €20 million for investments involved in the same productive activities.

## Types of incentives

- Investment grant consisting of free capital assistance (cash) from the State to cover part of the investment cost;

- Subsidy on leasing for the new equipment and machinery (not buildings); and
- Tax exemption up to a given percentage level or that of the total value of the materialized investment or/and the leasing value of the new and modern machinery and other equipment acquired.

The above refers to tax exemption of non-distributive profits in the first decade from completing the investment with the formation of an equal tax-free reserve.

- Subsidy on the salary cost of the generated employment created by the investment plan. The State covers part of the salary costs of the generated occupation for two years, and within the first three years after the completion of the investment plan.

The types of incentives for the realization of the amenable investment projects in the new investment law are administered in the following turn:

- Grant and/or subsidy of the leasing or
- Tax exemption or
- Subsidy on the salary cost of the generated occupation created by the investment plan

### **Subsidised expenses**

The subsidised expenses should involve consolidated assets. The subsidisation of intangible investments or consultants' fees is possible, but only up to 8% of the investment plan cost. Operational expenses are not subsidised.

The determination of the expenses which are subsidised per investment category is made by a ministerial decision. The Law contains one list of expenses which are covered and another list of expenses which do not fall under its provisions.

### **Approval procedure**

The procedure of evaluation of each petition of investment proposal is completed by the competent authority and the competent consultative committee within two months, at the latest, as of the date of submission of the petition. The decision approving the petition is issued within one month, at the latest, as of the issue of the opinion by the consultative committee. Within the same month the summary of the decision is also published in the Government Gazette. For the review of the petitions by the competent consultative committee a strict order of priority is kept, according to the time of submission of each petition.

### **Payment of subsidies**

The Law provides for the conditions, terms and limitations which relate to the possibility of using a bank loan.

### **Payment of cash grant**

The payment of the subsidised amount is made in instalments as follows:

- There exists the possibility of a lump sum advance (as part of the total subsidy), which will not exceed 30% of the approved cash grant, if a bank guarantee is submitted in an amount equal to the advance plus 10%, issued by a bank which is established and operates legally in Greece.
- Payment of 50% of the cash grant amount is made after the completion of 50% of the investment and after verification by the competent monitoring authority of this fact and of the compliance of the investor to the terms of the decision approving the investment.
- Payment of the remaining 50% of the cash grant amount is made after verification by the competent monitoring authority of the completion and commencement of the productive operation of the investment. Drawing of the funds is made within five months.

The subsidy is paid direct to the investor or direct to the financing bank which granted a short term loan to the company which carries out the investment plan.

### **Payment of leasing subsidy**

Payment is made after the mechanical equipment etc, has been put in place and after this has been verified. An initial payment of 50% is made until the end of the completion period provided for in the decision approving the investment. The remaining amount is paid after the lapse of the completion period, provided that both the completion of the investment and the commencement of operation are verified.

### **Payment of cash grants for wage expenses**

Payment is effected every six months, after a relevant application by the investor.

## **Terms and conditions for obtaining the incentives**

### **Investor's own participation**

The percentage of the investor's own participation in investments which are included in the cash grants and/or leasing subsidies system cannot be less than 25% of the subsidised expenses, whereas in the investments which are included in the tax exemption or the cash grant for wage expenses for the created employment, at least 25% of the cost should be covered by the financial participation of the investor, either by his own funds or by a loan, provided that no state subsidy accompanies this part.

### **Realisation of investment**

The commencement of the realisation of the investment plans may take place after the submission to the competent authority of the petition requesting submission of the investment in the provisions of the Law. Budget revision of the investment cannot exceed 15% of the initial cost. In the decision for eligibility under the provisions of the Law a time limit for completion is set, which may be increased to a maximum of two years, under certain conditions.

## **Division of the country into zones**

For the application of the provisions of the Law, Greece is divided into four zones.

Zone D is divided into sub-zones D1, D2 and D3 as follows:

- D1: Includes the borderline zone of the continental part of central and western Macedonia up to 20km from the borders;
- D2: Includes the borderline zone of the continental part of eastern Macedonia and Epirus up to 20km from the borders; and
- D3: Includes the prefectures of Xanthi, Rodopi and Evros.

Zone C includes the Lavrion Zone of Attica prefecture.

Zone B includes the Industrial Business Estate (IBE), the Langada region and the area west of the river Axios in Thessalonica Prefecture.

Zone A includes the Attica and Thessalonica prefectures, except their parts which fall into the other zones.

## Monitoring and control

Monitoring of approved investments is made by the competent authorities and various types of controls are made by the teams which are created by a decision of the relevant competent authority which is responsible for each investment. Categories of business activities which fall under the provisions of incentives law:

### Category 1

- Investment plans for mining;
- Investment plans for agricultural products by agricultural or agricultural/industrial co-operatives or groups of producers;
- Investment plans for livestock products or fishery and fish-farming products;
- Investment plans for enterprises of greenhouse type and bio farming, enterprises of livestock breeding and fishery enterprises
- Investment plans for mining, treating and utilising industrial minerals in general;
- Investment plans for minerals;
- Investment plans for the production of energy;
- Investment plans for the production of bio-fuels or solid fuels out of biomass;
- Investment plans for the desalination of the sea;
- Establishment, expansion, modernisation of theme parks which consist of organised forms of tourism and which differentiate or expand the tourist product and offer complete infrastructures and services, including (at least) services related to housing, eating, recreation and social care;
- Establishment, expansion, modernisation of highways necessary for the tourist development of the country; and
- Investment plans for enterprises of liquid fuels and liquid gases, for the production of storage installations or the supply of equipment for the transport of liquid fuels and liquid gases to an island.

### Category 2

Establishment or expansion of hotel units of at least three stars, formerly 'B' class.

### Category 3

Investment plans for the establishment of closed parks for public use.

#### Category 4

- Investment plans for the production of electricity from mild types of energy, especially solar energy, aeolic energy, hydroelectric energy, geothermal energy and biomass, and investment plans for co-production of electricity and heat;
- Investment plans for the relocation of tanneries from the Attica, Thessalonica and Chania prefectures, in Industrial Business Estates (IBE);
- Modernisation of already functioning hotel units (complete type) of at least two stars category, formerly 'C' class or hotel units;
- Modernisation of already functioning hotel units (complete type) of a category lower than two stars, formerly 'C' class, which are located in traditional or listed buildings, provided that by such modernisation they are upgraded at least to the two stars, formerly 'C' class, category;
- Modernisation of hotel units involving the creation of additional installations by adding new common areas, new uses of common area, pools and athletic installations to hotel units belonging to two stars category, formerly 'C' class, at least, with the objective of providing additional services;
- Modification of traditional or listed buildings into hotel units belonging to two stars category, formerly 'C' class, at least;
- Modernisation of already functioning organised camping units;
- Establishment, expansion, modernisation of conference centres;
- Establishment, expansion, modernisation of ski resorts;
- Establishment, expansion, modernisation of development of mineral springs;
- Establishment, expansion, modernisation of tourist marinas for pleasure yachts and for investment plans run by any physical or legal person of private law;
- Establishment, expansion, modernisation of golf courses;
- Establishment, expansion, modernisation of thalassotherapy centres;
- Establishment, expansion, modernisation of health tourism centres;
- Establishment, expansion, modernisation of training-athletic tourism centres;
- Investment plans for co-operating commercial and transport enterprises under a common venture;
- Investment plans by transport enterprises for the creation of infrastructures relating to storage, packing and standardising as well as closed parking areas for trucks;
- Investment plans for the provision of supply chain services;

- Investment plans for the provision of innovative wide range telecommunication services;
- Investment plans for software development;
- Investment plans for the creation of laboratories of applied industrial, energy, mineral, agricultural, livestock, and forestry and fishery research;
- Investment plans for the provision of highly advanced technology services;
- Investment plans for the creation of laboratories for the provision of services relating to quality and/or high technology, certification, control testing and verification;
- Investment plans for the protection of the environment, reduction of pollution relating to ground surfaces, underground surfaces, water and the atmosphere, restoration of the natural environment and recycling of water and desalination of the sea;
- Investment plans for the development of renewable sources of energy;
- Investment plans for energy saving;
- Investment plans for the production of new products and/or services or products of highly developed technology;
- Investment plans for the establishment, expansion, modernisation of laboratories of applied industrial or mineral or energy research;
- Investment plans for importing and adapting environmentally friendly technology to the production process;
- Investment plans for creation of innovative products or services for importing innovations to the production process and commercialisation of prototype products and services;
- Investment plans which aim to upgrade the quality of the manufactured products or services; and
- Investment plans for acquiring and installing new modern automation systems of processes and computerisation of storage places including the necessary software.

### Category 5

Investment plans for the realisation of a complete long term (two to five years) investment plan by enterprises (which have been incorporated for at least five years) relating to processing and mining projects of a minimum total cost of €3 million and projects for software development of a minimum total cost of €1.5 million, including the technological, administrative, organisational and business modernisation and development as well as the necessary deeds for the training of the employees, having one or more of the following objectives:

- Reinforcement of their competitive position in the global market;
- Production and promotion of renowned products and/or services;

- Verticalization of production/development of complete product systems/services or supplemental products and services;
- Production of products and/or services significantly or totally differentiated from the existing basic products or services of the enterprise;
- Relocation of production/research activities to Greece from abroad; and
- Production of products/services by the cooperation of non-similar enterprises (preferably from different sectors) having as objectives the production of significantly or totally differentiated products and/or services from the existing products or services of the said enterprises.

In the above listing, major investment categories and relevant short investment descriptions are included. Source of this information: New Investment Incentives Law and the Hellenic Investment Centre (ELKE)

## **Venture capital companies**

Greek venture capital companies (VCC) qualify for special fiscal incentives provided they have the following characteristics:

- The VCC has a minimum paid-up capital.
- The VCC is a PLC whose shares are freely transferable and quoted on the Greek stock exchange.
- The VCC invests in private companies which are not quoted on the stock exchange, and the VCC carries out its investment through the holding of shares in the target company or alternatively through the holding of bonds which can be converted into shares in the target company.

VCC pay the following corporate income tax rates:

- A 20% rate of corporate income tax on profits distributed to shareholders and
- No corporate income tax on corporate profits which are not distributed to shareholders but are retained within the company for reinvestment.

## **Other fiscal incentives**

The fiscal incentive consists of the right to deduct a sum representing a percentage of the cost of the investment from taxable profits. This sum

must be transferred into a non-distributable tax-exempt reserve which has the following characteristics:

- **Limit:** The sum deducted from taxable profits and transferred into the tax-exempt reserve cannot exceed 60%-100% of annual profits in the year in which the transfer is made. The percentage figure depends on the region in which the investment is to be made with a higher percentage being allowed where the investment is to be made in a remote area with high unemployment;
- **Value of the reserve:** Amounts equivalent to between 40%-100% of the cost of the investment can be transferred. This sum is deductible from taxable profits and the allowable percentage that can be transferred depends on the region in which the investment was made and the value which the investment has in terms of economic development;
- **Depreciation:** The right to transfer the cost of the investment into a tax-exempt reserve is additional to the legal right of a business to depreciate capital assets over their useful life and set off the same against taxable profits. Thus, a company with annual corporate profits of £12m which invests £1m in manufacturing machinery which is to be depreciated over 10 years using the straight-line method, and which has been granted the right to create a 40% investment tax reserve will be able to set off against its first year's taxable profits the sum of £100,000 representing depreciation and an investment allowance of £400,000;
- **Distribution of tax-exempt reserve:** Funds transferred into the reserve must not be distributed as dividends, i.e. they must be used to strengthen the liquidity and asset base of the company; and
- **Aspects of the Greek regional investment incentive regime** were included on the list of 'Harmful Tax Practices' issued by the EU Code of Conduct Committee. As of 2004 the outcome is unclear.

## **Who are the beneficiaries?**

For the purposes of implementing this law the subsidies are aimed to subsidize individual investment projects in the three sectors of the economy namely, primary (only certain investment projects), secondary and tourism & services (only transport and logistics). As it was mentioned in the introduction the eligible companies are not distinguished into "new" and "old" as the precedent 2601/98 Development Law prescribed.

## **Payment of subsidy**

Subsidy is paid in two instalments. Fifty per cent (50%) of the subsidy is paid upon completion of half the investment (fully paid) and the rest is paid at the end, following inspection and verification by the authorities of the well being of the investment.

## 4. Setting up a business

### Establishment of a 'limited by shares' company

A 'limited by shares' company, known as 'Anonymous Etairia' (AE) under Greek law, is formed according to the provisions of Law 2190/20 as amended and currently in force, by various Presidential Decrees. The formation of an AE may be effected by at least two or more natural persons or legal entities, and involves four stages:

- Adoption of the Articles
- Subscription of the share capital.
- Administrative authorisation
- Publication

#### Adoption of the Articles

The law provides the minimum content of the statutes: the name and the object of the company, the registered office, the duration, the amount and the way of paying in the subscribed capital, the kind, number, nominal value and the issue of the shares, the appointed auditors, the rights of the shareholders, etc.

When forming an AE, the founders of the company must adopt the statutes of the company and sign the articles of incorporation before a public notary.

#### Administrative authorisation

The statutes must be approved by the responsible prefecture-department of commerce in Athens or, depending on where the corporation is to be established, elsewhere in Greece.

#### Publication and registration

After the signing of the notary deed containing the statutes, the company is registered in the Companies' Registry of the local court (where the company's registered office is located).

Upon establishment, the company is required to register with the Tax Office and procure accounting and company books stamped by the Tax Authorities and also to register with the Local Chamber of Commerce.

The company acquires legal personality only after completion of this procedure, and the publication date of the Government Gazette is deemed as the date of incorporation of the company.

A summary of the deed containing the names of the founders, the company name, the registered office, the object of the company and the capital, the way of representation of the company etc. must be published, under the supervision of the board of directors, in the Government Gazette, 'Bulletin of Limited By Shares and Limited Liability Companies'.

### **Organisational structure**

The general meeting of shareholders is the supreme governing body of an AE, and has the right to decide on all matters concerning the company. The board of directors holds the executive powers of the company.

### **Shareholders' general meeting**

The general meeting of shareholders has the sole authority to decide on:

- Amendments to the statutes, including capital increases or reductions.
- Election of directors and statutory auditors.
- Approval of the company's balance sheet.
- Appropriation of annual profits and directors' fees.
- Issuance of bonds.
- Amalgamation, extension of duration, or dissolution of the company.
- Appointment of liquidators.

An annual (ordinary) general meeting of the shareholders must be held within six months of the end of each fiscal year. Extraordinary general meetings may be held at any time. General meetings are held at the registered office of the company.

### **Board of directors**

The management of an AE is the responsibility of the board of directors. The directors are elected by the general meeting of the shareholders. A director does not need to be a shareholder. The statutes may delegate certain authority to one or more directors or executive directors of the company.

### **Cost of establishing an AE**

Currently, the cost is determined by the following factors:

- Capital concentration fee: 1% of the share capital;
- Attorney's fees: 1% of capital up to €15,000, plus 0.5% of capital in excess of €15,000;
- Competition Committee fee: 1%; and

- Other minor expenses (Government Gazette fees, Tax Office dues for the registration of the company, registration with the Chamber of Commerce, notary's fees, dues, stamp duties).

## **Establishment of a limited liability company**

A limited liability company, known under Greek Law as 'etairia periorismenis efthinis' (EPE), has the features of a partnership and a corporation. It constitutes a convenient form of organisation for both small and medium-size enterprises. The liability of the participants is limited to the amount of their contribution (Law 3190/55).

An EPE may be formed by one or more natural persons or legal entities; however, a natural person or legal entity may not be a single-partner of more than one EPE. The structure and operation of the EPE is regulated by the Articles of Association (Statute) which must be executed before a public notary. The Statute constitutes a registered public document and must state the following:

- Founders/shareholders: full name, profession, domicile and nationality;
- The company name: the company name of the EPE must either be formed by the name of one or more of its shareholders or by the business object, and in all cases must include the additional designation 'Limited Liability Company';
- The objective of the company, i.e. the kind of business that it will conduct. An EPE may not carry on a business that, according to the law, is conducted only by another type of company. For example, the banking and insurance business is provided by companies in the form of AE only;
- The registered office: must be established within the area of a Greek municipality or community;
- The equity capital: the minimum required equity capital amounts today to €18,000 paid in full, either in cash or other assets, However, at least 50% of the capital must be paid in cash. If assets are contributed, their value must be officially appraised by a special committee according to the provision of article 9 of Law No. 2190/1920. The company's capital is represented by company shares of a nominal value of €30 or multiples thereof. The shares of an EPE are not negotiable instruments; in principle they are freely transferable and inheritable. The company's capital should be fully paid upon the signing of the Articles of Association. If the partners are not Greek nationals, natural persons or legal entities

then, it must be certified with a 'pink slip' issued by a bank, that the amount corresponding to the contribution of the partners has been officially imported into Greece, prior to the deed of formation of the company; and

- The duration of the company: the company is formed for a fixed period, as stipulated in the statute.

### **Cost of the establishment of an EPE**

Currently, the cost is determined by the following factors:

- Capital concentration fee: 1% of the equity capital
- Notary's fees, dues, stamp duties
- Contributions to the Lawyer's Fund: 1.5% of the total equity capital
- Attorney's fees: 1% of capital up to €15,000, plus 0.5% of capital in excess of €15,000
- Other minor expenses (Government Gazette fees, Tax Office dues for the registration of the company, registration with the Chamber of Commerce, notary's fees, dues, stamp duties)

### **Establishment of a branch (or foreign company's agency)**

A branch agency of a foreign company limited by shares (AE) according to article 50 of codified law 2190/20 has the following main characteristics:

- It does not have its own legal personality, but its activity is performed in the name of the foreign corporation (AE) which, as a legal entity, is governed by the laws of the country where it has its registered office;
- The incorporation of the company requires:
  - approval from the Minister of Commerce;
  - registration in the Registrar of companies limited by shares; and
  - publication formalities;
- It is a branch of a foreign AE with permanent representation in Greece; and
- The branch can carry out any act envisaged at the Articles of Incorporation of the foreign AE, except in the case where there is a respective limitation of the Power of Attorney for the appointment of the legal representative in Greece.

### **Auditors of an SA**

An SA's financial statements must be audited by at least two auditors. The companies exceeding two of the criteria below must appoint an auditor who is a member of the Greek Institute of Chartered Accountants.

- Total assets €1,500,000
- Turnover €3,000,000

## **Other Entities Useful to Foreign Investors**

### **Offshore Companies**

According to law 89/1967 foreign commercial or industrial entities of any legal form which exclusively engage in commercial activities outside of Greece may establish offshore branches in Greece. Law 378/1968 granted the same right to foreign shipping companies.

To establish an offshore office the following prerequisites apply:

- The business must be exclusively engaged in activities outside of Greece;
- Bank letter of guarantee for USD 50,000 must be deposited to the Ministry of Economy and Finance (article 22 Law 1262/1982);
- With reference to branches of foreign shipping companies it is required that they cover with foreign currency their annual expenses for operating in Greece with an amount at least equal to USD 50,000 and all payments in Greece for themselves or on behalf of third parties; and
- An offshore branch must keep a receipts and expenses book but it has no obligation to publish any financial statements.

### **Taxation**

Commercial and industrial companies establishing offshore offices in Greece are exempt from all taxes imposed by Greek laws if they were established until 31/12/2001. This preferential treatment was abolished by article 12 of law 2992/2002 for companies which are established as from 01/01/2002 and is only applicable to offshore offices of foreign shipping companies. The tax exemption ends also on 31/12/2005 for the existing companies.

## 5. Labour

### Labour-related issues and investment incentives

#### Competitive labour

According to latest data from the National Statistical Service, the number of people in the Greek labour force is 4,369,000. Although Greece has a relatively small labour force, there are certain quality factors which make the country competitive and more attractive in this field than most of its European counterparts.

Employment positions relative to the investment are considered new employment positions which are created for the assistance of the investment within the first three years of its completion and start of productive operation.

The cash grant is payable on the expenses for wages for the total employment positions relative to the investment for the first two years as of the creation of each employment position. The phrase 'expenses for wages' incorporates the salary 'before taxes' and the compulsory contributions to social security.

#### Education

The educational structure of the Greek labour force has improved impressively over the last few years. In the past decade, the number of students that enrolled in Greek and foreign universities doubled. 42,000 students apply every year for Greek universities and more than 40,000 to universities abroad (mainly in the UK). Most Greeks with university degrees have studied abroad - either in North America or Europe - and represent approximately 11% of the Greek population.

Other factors are:

- Most small and medium-sized enterprises doing business in Greece will not need to hire staff as this will be taken care of by the representative.
- In general terms, however, staff recruitment is not a problem. Unemployment is 9.5%. The labour force is highly educated and most Greek businessmen speak at least some English. Greece has the second lowest labour costs in the EU.
- Local agencies offer office support services to companies setting up in Greece.

## **Local regulations**

Greece adheres to all EU standards and specifications. There are no import restrictions and no other tariff or non-tariff barriers. Capital and earnings can be freely repatriated. There is a bilateral agreement to avoid double taxation. There is no bilateral Investment Promotion and Protection Agreement. Greece is a member of the World Trade Organisation. Greece has investment and tax treaties with a wide range of countries. There are no local industries that are closed to private enterprise.

According to EUROSTAT, Greek students represent the highest proportion of foreign students in the EU. Recent OECD data shows that almost 25% of the Greek labour force has a university degree, from which 16% has participated and has successfully completed advanced research university programmes. In addition, the same data shows that 36% has completed upper and post secondary school, 10% lower secondary education and 32% pre-primary and primary education.

A recent study conducted by the Greek association of CEOs (EASE) in association with INSEAD (the French Institute for Economic Research and Development) shows that 94% of Greek managers are graduates, with 54% postgraduates. Some 45% of Greek managers speak a foreign language - mainly English - and half this number have competency in other languages (mostly French, German or Italian). The study also indicates that university education of management executives is approximately 55% in business, 25% in engineering and 15% in applied sciences.

## **Labour cost**

Greece combines a reasonable pool of skilled workers and a good supply of unskilled labour and has one of the lowest labour costs in the EU.

## **Productivity**

Labour productivity has increased significantly over recent years with growth rates above the EU average. In 2001, the labour productivity growth rate reached high levels (4.2%) putting Greece in first place in the EU. Ireland is second with 3.7%, while the UK comes in at third place with 1.4%.

## **Working hours**

Greek employees work more hours than most of their European counterparts. The country's working hours are above the EU average and put Greece in second position with 1,810 hours annually, following Portugal with 1,823 hours.

## **Social security system**

Companies must insure all workers through the Social Security Fund (IKA), which provides sickness and pension benefits. Reforms of the pension system, enacted on 1 January 1993, made the pension age 65 for both sexes, with contributions of 27.96% for the employer and 15.9% for the salaried employee.

Special additional contributions apply to workers in hazardous employment (e.g. miners, linemen and deep-sea divers). Workers in these industries are entitled to early retirement, generally between the ages of 50 and 55.

Greece does not, at present, have a uniform Social Security System. There are many different social security funds covering various sectors of the population. For example, there are separate funds for the legal profession, teachers, engineers, commercial traders, and employed people in general. All funds are under the direction of the Ministry of Labour & Social Services.

## **Wage regulations**

Minimum wages are set according to a national collective labour agreement negotiated between the Greek General Confederation of Labour (GSEE) and the private sector associations; the Federation of Greek Industries (SEB), the National Confederation of Greek Traders' Associations (EASE), and the General Confederation of Professionals, Craftsmen and Tradesmen (GSEBEE).

However, federations of workers that are organised by trade (such as electricians) or by their sector of economic activity (banking, retail trade and branches of manufacturing, such as textiles) can negotiate collective agreements that provide pay increments based on seniority, educational skills and family status (e.g. marital status, number of dependants and any special responsibilities). Labour law in Greece complies with the EU Employer Directive 75/117 on equal pay.

Fringe benefits are extensive, and mandatory benefits add 50% or more to labour costs. Mandatory bonuses include one month's salary or 25 days' wages at year-end, plus half a month's salary or 13 days' wages, both at Easter and during the summer vacation period. At the managerial level the value of benefits and bonuses can almost equal pay, with packages including insurance, cars and cash.

## **Vacation**

The legal vacation requirement is 20 days at the onset of employment for those employees who work a five-day week. This rises to 22 days for three

years or more. For those employees who work a six-day week, the annual legal vacation for the first year of employment is 24 working days. In addition there are seven customary and five legal holidays. In practice, however, vacation leave is usually longer.

### **Wage levels**

Minimum wage is established in collective agreements. Some occupations have set up their own agreements, which prevail over the general one and usually include terms that are more favourable to the employee.

Legal relations between the employer and the employee starts upon enforcement of an employment contract (which is temporary or permanent) and is mandatory. The national collective labour agreement is negotiated between the General Confederation of Workers of Greece, on behalf of the employees and the employers' organizations, headed by the Association of Greek Industrialists.

It is stipulated that men and women are paid the same pay for the same work.

### **Working hours**

Legal working hours stipulated by current legislation are usually set at 48 a week for businesses which employ their staff 8 hours a day for 6 days a week and at 40 hours for businesses which apply a five-day a week schedule.

Normal working hours stipulated in collective agreements or arbitrary decisions and in private agreements between the employer and the employee are set at 40 hours a week except in specific cases.

The employer reserves the right to employ the employee upon his judgment for three more hours beyond the conventional 40 hours a week.

The additional three hours are considered a particular type of extra work and they are paid the hourly rate increased by 50%.

### **Social security**

Social security funds that are currently in existence amount to a few dozens and fall into the following categories:

- According to services rendered, there is a distinction between insurance funds for main or auxiliary insurance.
- With reference to groups of employees insured, there is a distinction between insurance funds for persons with a dependent working relation - such as IKA - and funds for other groups of

professionals-such as TEBE (the insurance fund for owners of trading and manufacturing business).

The social security system in Greece is complicated. Several groups of employees dispose of their own fund for main and auxiliary insurance. People in a dependent working relation who do not contribute to a particular insurance fund for main insurance are insured in IKA.

### **Contributions**

Contributions paid to main and auxiliary insurance funds are usually a percentage calculated according to gross income. However for some occupations it may be a fixed amount.

For all persons in employment, the amount of total contribution rises from the percentages of both employee and employer's contribution, the latter is usually higher. Percentages increase depending on occupational hazards and working conditions (heavy and harmful).

Social security contributions are calculated based on rates which are applied on the gross salary of the employee. For employees who were insured in any insurance fund before 01/01/93 there is a maximum limit for salary which equals 25 wages calculated based on the higher insurance bracket, above which no contributions are payable.

Contributions are paid to social security funds at the end of the month, subsequent to the month they correspond to. In case of a late payment there is a surcharge. The total amount of contributions is made up of contributions paid for a range of benefits. For instance contributions to IKA provide for retirement pensions and benefits for sickness, occupational hazards, unemployment, maternity and housing.

### **Fringe benefits**

According to the range of benefits provided by a social security fund, there are respective allowances such as unemployment and sickness benefits, retirement pension, maternity allowance etc.

### **Holiday pay**

Holidays can be granted after 10 months of continuous employment in the same business. The employee can take a holiday upon completion of one year of service. He should take his holidays until 31/12 of the year following the period of ten months subsequent to the first day of employment. To calculate days off only working days count.

## **Employment levels**

Employment levels in Greece are relatively low, compared to the EU. Although there has been sufficient improvement over the last years, the unemployment rate continues to be the second highest in the EU. During the year 2004, 8.6% of the economically active population was unemployed, while in 2003 the rate was 9.7%, and in 2005 the rate is expected to reach 7.7%.

Most unemployed in Greece seem to be women and young people under 29, consisting almost 60% and 50% of unemployed people respectively.

## **Summary**

The regulation of labour and the rights and obligations arising there from is provided in Greece by a considerable body of legislation ranging from constitutional guarantees to provisions embodied in the civil code and particular labour laws. Collective bargaining agreements have also legal power that binds not only the contracting parties, i.e. representative trade unions, employers' associations etc., but also non participating third parties.

## 6. Taxation

### Taxation issues and the latest reforms

The most common way to establish a business in Greece is to either register a corporation (AE), a limited liability company (EPE) or a branch. Foreign shipping companies can also establish an offshore office under Law 89/67. Under the provisions of this Law, income from activities outside Greece is tax free. Nevertheless, even if it is not formally registered in Greece, a foreign enterprise can acquire a 'permanent establishment' (normally the maintenance of a branch, factory, or other fixed place of business) in Greece giving rise to corporate tax on income arising in Greece as well as other tax and accounting obligations. The double taxation treaties between Greece and other countries that have signed mutual agreements clearly define the situation when a permanent establishment arises, as well as the provisions for double taxation avoidance.

Very recently the government announced a new tax reform, which is based on the following general principles:

- To place extra weight on securing the tax policy system, thereby reducing the variability of the tax regime.
- Consideration of issues of competitiveness and the promotion of business development.

Basic reforms introduced with the new legislation passed through the parliament are:

- The new tax policy ensures stability through consistency and transparency.
- The rate is 25%
- Tax benefits are available for Human Resources training and R&D.
- For the creation of new companies there are tax reductions available and options available for depreciation of capital equipment.
- Tax incentives will be available to promote M & A's (increases market competitiveness) through the establishment of large(r) companies.

### Corporate taxation

As a general rule, Greek corporations are taxed on their profits before distribution. Dividends are distributed from after tax profits and are not subject to further taxation in the hands of the recipient. Branches and

permanent establishments of foreign entities are taxed on their aggregate profits irrespective of any profit remittances.

## **Indirect and other taxes**

The most important indirect tax is value added tax (VAT). The normal rate is 19%. Under certain conditions the appointment of a VAT representative is required where the supplier is not registered in Greece or in the EU. Other taxes include capital concentration tax (1%).

## **Special tax on real estate**

A special annual tax at the rate of 3% on the value of real estate is imposed on companies that have ownership on real estate located in Greece.

## **Personal income tax – definition of net taxable income**

In order to determine net taxable income, certain deductions are made from gross income, so that the taxable income is less than that which was actually declared. The amount remaining after the deduction of allowances and expenses from the taxpayer's total income is then taxed on the basis of a predetermined scale.

Income from interest earned on all forms of deposits is taxed at a rate of 15%. The tax is withheld by the banks, irrespective of whether the depositor is a natural or legal person, or an association of persons, and regardless of the depositor's nationality, place of residence etc.

Exemptions include interest-bearing treasury bills, foreign currency deposits, and housing-loan deposit schemes, provided the deposits are used exclusively for securing housing loans.

## **Income tax - general principles**

Legal entities subject to income tax are separated into two categories:

Legal entities which are profit organizations and include the following:

- Greek societies anonyme
- Greek limited liability companies
- Public, municipal and community enterprises and undertakings intended to make profit

- Co-operatives which have been legally established and their unions
  - Foreign companies operating in Greece under any company form and foreign organizations intended to acquire financial benefits
- Legal entities of Public or Private Law, either Greek or foreign of non-profit nature.

Tax is imposed every financial year on total net income deriving from any source and acquired by Greek legal entities which are profit organizations (with the exception of unlimited and limited partnerships) and by foreign companies and organizations during the precedent year. It is also imposed on income of Greek and foreign legal entities of non-profit nature.

### **Subject of tax**

Legal entities with registered offices in Greece which have been established and operate in compliance with Greek laws are considered Greek entities while legal entities with registered offices abroad are considered foreign entities.

Greek legal entities have an unlimited tax liability; in other words income tax is imposed on income generated in Greece as well as on income generated abroad.

On the contrary, foreign legal entities have a limited tax liability; in other words income tax is imposed only on income generated from the permanent establishment they maintain in Greece.

### **Period during which income is generated**

With regard to legal entities which are profit organizations and compelled by the law to keep accounting books of the higher category (3rd), such as societies anonyme and limited liability companies, Greek or foreign, the period during which income is generated is considered to be the accounting year which coincides with the calendar year only when the balance sheet is compiled every year on December 31st. For other legal entities the period during which income is generated is the calendar year. The duration of the accounting year is mostly twelve months.

### **Categories of taxable income**

For the reasons explained below, the law classifies the sources of income into six categories and distinguishes income from: (a-b) buildings, land leasing, (c) securities, loans, (d) commercial enterprises, that is business activities - regardless of legal form - in commerce and industry or any other operation for profit, excluding professional activities, (e) agricultural enterprises, (f) employment or retirement, (g) professions and all other

sources. Nevertheless, income tax is computed on the aggregate income from all sources and loss from one source is in principle offset against profit from another.

In general, to arrive at net income (actual or presumed) expenses reduce gross income. This way, the annual gross income of enterprises and professionals [income from sources (d), (e) and (g)] is reduced by the depreciation of fixed assets and by the expenses incurred related to their activity.

### **Income taxes for legal entities - tax rates**

Basic principles laid down by Law 2238/1994 are the following:

- Tax is imposed on a unified basis on total net income from all sources which is acquired by Greek legal entities which are profit organizations with the exception of unlimited and limited partnerships and other entities subject to tax as per par. 4, article 2, Law 2238/1994, and foreign companies and organizations.
- Tax is imposed every financial year on total net income acquired by Greek and foreign legal entities of profit nature during the precedent accounting year while with regard to Greek and foreign legal entities of non - profit nature it is imposed on income acquired during the precedent calendar year.
- Tax is imposed at the rate of 25% on all Greek and foreign legal entities of profit nature on total net income.
- Upon payment of the tax the legal entity as well as the persons receiving distributed profits (shareholders, consultants, employees, partners, members of cooperatives) have no further tax liability.
- With regard to distributed profits under any form (dividend, fees to members of the B.o.D., salaries etc.) tax is not withheld by the company paying these amounts.

### **Taxable income**

The above tax rate is applicable on total net profits before any distribution of profits including payment of administrative fees and profits paid in cash to the personnel. Income which is finally taxed derives after subtracting from net profits the following: losses carried forward (up to five years), tax-free reserves, tax-free income (i.e. dividends from participating interest in other companies).

## **Revaluation tax**

Based on the stipulations of special laws, companies must revalue in their accounting books their real estate (buildings and land). The value adjustments of a company's buildings and land are made every four years in accordance with Law 2065/1992. The last revaluation was made on 31 December 2004. Companies are exempted from this obligation according to the Greek Law 3296/2004 article 19, if their real estate is revalued according to the International Accounting Standards.

The revalued cost is calculated by multiplying the book values with specific revaluation factors set by the Ministry of Economy and Finance. The balance of revaluation surplus is subjected to tax at a rate 2% for land and 8% for buildings. Hotel enterprises are treated more favourably, as half of their relevant surplus from land is exempt from tax.

## **Taxation of shipping companies**

The shipping tax that is levied on profits from shipping applies only to ships operating under Greek flag. These ships are classified in two categories (L. 27/1975).

### Taxation of ships

#### Category A:

Income from ships of category A which includes freighters, tankers and refrigerated ships of gross tonnage of 3.000 koros or more, and passenger vessels plying routes from Greece to foreign ports or between foreign ports is taxed at a rate payable in US dollars.

To calculate the amount of tax due we multiply koros by coefficients of the scale based on a scale progression and we multiply the product with the coefficient in dollars corresponding to the age of the ship.

#### Category B:

Ships of category B that includes power driven and sailing vessels and other small craft are taxed according to their gross tonnage as follows:

Ships of category A as well as ships of category B are offered tax exemptions or reductions intended to improve the competitiveness of Greek ships and give incentives for the acquisition of new ships.

Shipping Companies Branches or offices of foreign companies dealing exclusively on one hand with the management, exploitation, chartering, insurance, average adjustments, brokerage of sale, shipbuilding, chartering or insurance of ships under Greek or foreign flag, with a tonnage of over 500 register tons, except for passenger coastal ships and traders sailing in

the interior of the country, and on the other hand with the representation of ship-owning companies as well as of companies with one of the above mentioned trading object may settle in Greece, after obtaining a special permission given to them by the Ministries of Economy and Finance and Navigation.

These branches or offices may be exempted from any kind of tax, fees, and contributions to the public for the income deriving from occupations or from the above-described activities. This exemption is granted despite their having a permanent establishment in Greece, in exchange for their obligation to import foreign currency to finance their local operation (minimum \$50,000 per year).

### **Tax on real estate**

Tax has been imposed on the total value of real estate of a natural or legal entity on an annual basis since 1996 (financial year 1997).

This tax is payable by all entities who have ownership or titles (with the exception of mortgage) on real estate located in Greece at 1<sup>st</sup> January every year.

The value of the real estate is estimated based on objective criteria for the buildings and comparable criteria for the land to which the objective criteria do not apply.

Legal entities' property is taxed on the basis of a 0.826% fixed rate and the tax is not deductible from their gross income. However, certain exemptions from the tax are introduced (i.e. property utilised by the enterprise for production or commercial activities, 50% of the value of the immovable property of hotels which serve their operational activities).

### **Taxation of investment income interest**

There is a flat 15% withholding tax on interest on euro bank deposits. According to Law 3296/2004, this rate is decreased to 10% from taxation year 2005 onwards. Non-Greek residents are exempted from this taxation if their deposits are in foreign currency.

Government Bonds, Corporate Bonds and State Treasury Bills a flat tax rate of 10% is withheld either in advance or upon maturity (for bonds). No further taxation is imposed for the natural persons, banks and insurance companies.

#### **Derivatives**

Effective from the beginning of 1997 income arising from derivatives (options, swaps, futures etc.) of Greek residents is regarded as investment (interest) income. Therefore, the withholding tax of 15% is applied,

provided that the beneficiary does not keep books of the third category. In the latter case the income from derivatives is considered to be business income.

### Repos

Returns from repos on Treasury bills or bonds of the Greek State listed on the Athens Stock Exchange, accruing to individuals or legal entities shall be deemed to constitute interest from deposits and shall be subject to a withholding tax of 7 per cent. According to Law 3296/2004, this rate is increased to 10% for the taxation year 2005 onwards.

### Earnings of Mutual Funds and Investment Portfolio Companies (IPCs)

When the beneficiary is a portfolio investment company or Mutual Funds, they are subject to a particular taxation. Tax levied on national amount is at the rate of 3‰. Since 1st January 2005 the rate has been set to 1.5‰ according to the Law 3296/2004.

These are taxed at the rate of 0.3% on the average of the total half yearly net assets of mutual funds and on the total of the average investments plus their floating assets in current values, as reflected in their quarterly investment tables. The taxation is exhaustive.

### Capital gains tax

There is no general capital gains tax in Greece. Capital gains resulting from the sale of securities (T-bills, bonds) are tax-exempt.

In the context of the income taxation of source (d) (enterprises), there are provisions which treat as income (from commercial activity) the capital gain derived from the following activities: (a) the sale of any right pertaining to the operation of an enterprise or to a profession and (b) the sale of a commercial or other enterprise in its entity or of the firm's name, trademark, goodwill, etc.

### Value added tax (VAT)

#### Legal framework

Since January 1, 1987 the Greek indirect taxation has undergone a major change. The value added tax (VAT) system was introduced by L. 1643/1986 under the EEC Treaty to replace totally or partially many other indirect taxes and more particularly, the turnover tax and stamp taxes. The Council Directive (91/680/EC) and amending Directive (92/111/EC) were implemented by means of the Law 2093/1992. The Council Directive 94/5 was implemented by means of Law 2275/95.

Effective January 1, 1993 in the context of the EU single market, movements of goods between Greece and the other Member States are

called “intra-Community acquisitions/supplies” and are not treated as imports or exports (L. 2093/1992, L 2275/1995). Law 2859/2000 codifies in a single text all laws pertaining to VAT.

VAT is payable when any person engaged in independent economic activity supplies goods or services in Greece or imports goods into Greece.

Certain categories of transactions are exempted (such as medical services, post-office services, building leases, education services etc.), while special treatment is provided for small enterprises, farmers and travel agents.

### **Rates**

The transactions are divided into categories according to the rates to be applied: standard rate (19%) reduced rate (9%) and low rate (4.5%). The standard rate of 19% applies in principle.

The reduced rate 9% applies to certain goods and services such as food products, pharmaceutical products, medical equipment and ancillary goods, transportation of persons, catering in coffee shops, cafeterias, restaurants and similar enterprises, products and services relating to agricultural production etc. The low rate (4.5%) applies on books, printed material as well as entrance to theatres etc.

A special regime is applied regarding tobacco products, spirits and lubricating oil products.

A reduction of 30% on the 19% and 9% rates applies in certain Greek Isles.

### **Summary**

The Greek Tax System consists of taxes imposed on Income, Property and Expenditure. Taxes are the most important measures of fiscal policy of every country and are intended not only to collect revenues but also to establish a prosperous environment for economic growth, the increase of competition and the formation of a fair tax imposition on all native and foreign natural or legal entities.

The application of a proper tax system contributes also to the minimization of tax evasion, eliminating the subsequent negative effects to the country's economy. Below we present the general principles about income tax and we analyze all the imposed taxes in Greece, specifically the new tax Law 3296/2004 that aims at the decrease of income tax rates and the provision of incentives for new investments in conjunction with the tax law 3299/2004.

## 7. Accounting & reporting

Regulatory professional body for Accounting and Auditing principles in Greece: SOEL-Soma Orkoton Elegton Logiston.

Website: [www.soel.gr](http://www.soel.gr)

### Structure of SOEL

The Institute of Certified Public Accountants (CPA) of Greece (SOEL) operates under the provisions of the Presidential Decree #226/1992 which was issued in compliance with Law #1969/1991.



The General Assembly (GA) of all Certified Public Accountants expresses the strategic intent of SOEL. SOEL is administered and supervised by a Supervisory Council (SC). The Scientific Board (SB) of SOEL carries out quality control over the performance of all CPA's and firms, while disciplinary action is taken by the Disciplinary Board (DB) of SOEL. The Ordinary General Assembly of the CPA's elect the members of the SC and of the SB and their official representative to the three-member DB.

### Audit performance

In Greece, only auditing firms that are officially registered in the corresponding registry of SOEL are eligible to perform financial audits. According to article 17 of PD#225/1992 as it was amended by PD#341/97, every CPA must be employed by an auditing firm. There is no limitation regarding the range of professional services offered by member firms unless there is a conflict in the scope of work, as explicitly is dictated by the Law. The necessary capital stock for an auditing firm is similar to that provided for all enterprises (société anonyme, limited liability co., etc). According to article 7 of #623/18.4.1997 of the Professional Ethics Regulation of SOEL members, an auditor or audit firm should not advertise or promote professional services offered or name and title in a way which degrades the audit profession, as established and practised in

Greece, or raises doubts about the professional efficiency of other auditors or audit firms.

## **Auditing and financial reporting**

The Greek government recently passed legislation that adopted International Accounting Standards for financial reporting in Greece. This legislation applies for financial statements that are corresponding to the reporting periods of 2004-2005 (that is, adoption from 2005 onwards), and is compulsory for all listed on the Athens Stock Exchange companies.

The new legislation applies to both firm level and consolidated financial statements and is optionally applicable by any other entity which is audited by the Institute of Certified Accountants Auditors of Greece.

A committee has been set up to supervise the detailed implementation of this legislation. Currently Greek companies are in the process of conversion of their financials to reporting under the International Accounting Standards provisions and principles. This will provide uniformity of financial reporting within the Eurozone, conformity with European legislation and comparative figures for any interested party willing to consider investment opportunities in Greece.

## **Accounting standards**

The International Financial Reporting Standards (IFRS) are introduced in Greece, according to the Law 2992/2002, in relation to companies listed on the Athens Stock Exchange. These companies are obliged to present their annual or periodical financial statements (including consolidated statements) prepared for periods ending after 1 January 2005 according to the new accounting standards imposed by the new Law.

Non listed companies can optionally apply IFRS after that date, on the condition that there is a relevant decision by the General Assembly of the Shareholders and a five-year application at least.

Taking into account that the accounting results will differ from the taxable results, reconciliation will be presented in the notes to the financial statements.

## **Audit requirements**

Currently accounting audits of banks, insurance companies, government organizations, companies on the Athens Stock Exchange, and companies which for two successive years fulfil two of the three criteria (assets at least €1.5 million, turnover at least €3 million and personnel at least 50 employees) may only be performed by a recognised auditing firm of certified auditors (i.e. member of the Institute of Certified Auditors “SOE”).

All major international accounting firms are certified auditors.

## 8. UHY firms in Greece



### **Athens**

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## 9. UHY offices worldwide

### **UHY offices**

For details of UHY offices worldwide, or details of how to contact the UHY office, please visit [www.uhy.com](http://www.uhy.com)

## Appendix I – The Greek Economy

### Recent developments and prospects of the Greek Economy

**Table 1**

SELECTED ECONOMIC INDICATORS	2001	2002	2003	2004	2005	2006
Gdp growth at constant prices	4.0%	3.8%	4.0%	4.2%	4.0%	3.8%
Gdp level at current market prices (bn euro)	131.0	141.32	152.2	163.9	175.9	188.1
Gdp deflator change	3.5%	4.0%	3.5%	3.4%	3.2%	3.0%
Private consumption deflator change	3.3%	3.6%	3.5%	3.0%	2.8%	2.6%
Employment growth	-0.3%	0.1%	1.5%	1.7%	1.3%	1.1%
Labour productivity growth	4.4%	3.7%	2.5%	2.5%	2.7%	2.7%
Unit labour costs	1.1%	4.6%	3.5%	3.9%	2.3%	2.0%
General government balance, % of GDP	-1.5%	-1.2%	-1.4%	-1.2%	-0.5%	0.0%
General government debt, % of GDP	106.9 %	104.7 %	101.7 %	98.5 %	94.6 %	90.5 %
SOURCES OF GROWTH: PERCENTAGE CHANGES AT CONSTANT PRICES						
Private consumption expenditure	2.9%	2.8%	3.1%	3.2%	3.3%	3.2%
Government consumption expenditure	-1.0%	5.1%	0.5%	1.0%	0.5%	0.5%
Gross fixed capital formation	6.5%	5.7%	9.7%	7.0%	5.7%	5.5%
Changes in inventories (% GDP)	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Exports of goods and services	-1.1%	-7.7%	1.9%	6.7%	5.6%	5.3%
Imports of goods and services	-3.4%	-4.7%	3.0%	4.7%	3.8%	3.7%

CONTRIBUTION TO GDP GROWTH						
Domestic demand (excluding inventories)	3.5%	4.0%	4.6%	4.2%	3.8%	3.7%
Changes in inventories	-0.4%	0.1%	-0.2%	0.0%	0.0%	0.0%
External balance of goods and services	0.9%	-0.4%	-0.5%	0.1%	0.1%	0.1%
BASIC ASSUMPTIONS ON THE EXTERNAL ECONOMIC ENVIRONMENT						
	2001	2002	2003	2004	2005	2006
Short-term interest rate	4.3%	3.3%	2.3%	2.3%	3.2%	3.3%
Long-term interest term	5.0%	4.9%	4.1%	4.4%	4.8%	5.0%
Euro/Usd exchange rate	0.90	0.95	1.13	1.16	1.15	1.15
WORLD GDP growth, excl. EU	2.4%	3.2%	4.0%	4.6%	4.6%	4.5%
EU-15 GDP growth	1.7%	1.1%	0.8%	2.0%	2.4%	2.3%
World import volumes, excl. EU	0.0%	3.2%	6.3%	8.3%	8.6%	8.5%

## Appendix II – Outlook

Greece: Growth Outlook											
	2003	2004	2005f	2004				2005			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 f
GDP (% y-o-y)	4.6	4.7	3.5	4.8	4.6	4.5	4.8	3.5	3.7	3.7	3.3
GDP (% q-o-q)	...	...	...	3.7	-0.6	1.8	-0.1	2.4	-0.3	1.7	-0.5
Domestic demand (y-o-y)	5.5	4.7	2.3	5.9	4.2	4.3	4.2	2.5	1.2	2.5	2.8
Final consumption (y-o-y)	3.1	4.3	3.6	4.1	4.0	4.9	3.8	2.9	2.7	2.8	3.3
Private consumption (y-o-y)	4.5	4.4	3.8	4.4	4.0	5.0	4.3	4.0	3.7	3.9	3.4
Public consumption (y-o-y)	-2.1	3.9	3.0	3.5	4.0	4.0	4.0	4.0	2.8	2.7	2.3
Investment (y-o-y)	13.7	5.7	-1.3	6.3	6.0	3.7	6.7	-1.0	-4.5	-1.0	1.3
-construction-	10.9	5.0	-3.0	...	...	...	...	...	...	...	...
-equipment-	18.3	6.5	1.5	...	...	...	...	...	...	...	...
Inventories (contribution to GDP)	0.0	0.0	-0.2	1.3	-0.3	-0.4	-0.6	-0.2	-0.5	0.0	0.0
Net exports (contribution to GDP)	-1.4	-0.5	1.0	-1.8	0.0	-0.2	0.0	0.6	2.4	0.9	0.2
Exports (y-o-y)	1.0	11.6	4.5	2.9	13.8	15.8	13.8	6.6	3.9	3.5	4.0
Imports (y-o-y)	5.2	9.3	-0.3	7.7	9.3	11.3	8.9	2.3	-5.8	-0.1	2.2

Sources: Historical data from the National Statistical Service of Greece (NSSG), with the exception of the components of fixed investment, which are based on MOF data and NBG (National Bank of Greece SA) estimates. f = NBG forecasts.

## Appendix III – In Brief

Population	10.95 million ●●Population: 11.1 million (2005 estimate) ●●Demographics: 0-14 years – 14.6% 15-24 years – 13.3% 25-49 years – 37.1% 50-64 years – 17.4% 65-79 years – 14.3% 80 and over – 3.2%
Official number of immigrants in Greece	797,093 (2001)
Capital	Athens
Major language	Greek
Major religion	Greek Orthodox: 98% of Greece's population, according to official figures;
Non-Greek residents in Greece	A survey by the Immigration Policy Institute published in February 2005 showed that the largest concentration of non-Greek nationals was in the Municipality of Athens, representing about 17% of the city's population, followed by Thessaloniki with 7.0% of the population of Greece's second-largest city.
Monetary unit	Euro; EUR 1 = 100 euro cents
Internet domains	.gr [.GR] [.GR Registry / GR- Hostmaster] [external link]
Growth Rates	Real Growth Rate: 3.6% Per Capita: approximately \$20,521 per year ●Unemployment Rate: 10% (2005 estimate) ●Greece is an import-dependent economy GDP: USD 201.6 billion, (2005 estimate)
Average inflation rate	3.2% (June 2005), 3.1% (June 2004), 3.6% (June 2003), 3.5% (June 2002); estimated average CPI for 2005: 3.5%.
Public debt (as a % of GDP)	Ever since Greece entered the European Union in 1981, the country has experienced a substantial increase in living standards through a combination of Community aid and the social policies of the Panhellenic Socialist Movement that were based heavily on borrowing. Public debt rose from 39% of GDP in 1980 to stand at 112% in 2004.
Net inflows of EU funds (2003)	Greece's net inflows from European Union (EU) funds amounted to EUR 3.37 billion (2.22% of GDP) in 2003, according to a report by the European Commission

Import/Export	<p>2003 imports: EUR 31.16 billion (+19.8% y-o-y); 2003 exports: EUR 10.95 billion (+9.3% y-o-y). According to Eurostat, Greece's first-half 2005 exports grew by EUR 500 million to EUR 6.4 billion, while imports during the same period of this year remained unchanged at EUR 21.1 billion, despite higher oil prices. However, Greece's textile, clothing and footwear industries, for example, recorded declining export numbers; exports fell 25% y-o-y in the first quarter of 2005, with the rate of decline slowing to 15% y-o-y in the six-month period of 2005. In its annual World Economic Outlook report, the Paris-based Organisation for Economic Co-operation and Development (OECD) said on November 29, 2005 that Greek exports are forecast to grow strongly, from 7.8% in 2005 to 8.2% in 2006 and 8.8% in 2007, while imports are forecast to grow by 1.3%, 7.2% and 7.1% respectively over the same years. Greek exports in the first 10 months of 2005 increased 12.8% year-on-year.</p>
Foreign direct investment (FDI)	<p>Average inflows (1993-1998): USD 1,010 million per annum; 1999: USD 567 million; 2000: USD 1,083 million; 2001: USD 1,585 million; 2002: USD 53 million; 2003: USD 585 million; 2004: USD 1,088 million.</p>