

Aerospace & Aviation Sector Profile¹ - Greece

1. Sector Overview

The aviation sector in Greece consists of three distinct types of activity:

- Airlines, which are divided into passenger air transport and freight air transport.
- Ground based infrastructure, which includes airport facilities, ground handling services, catering services, etc.
- Aerospace manufacturing, which comprises firms that design, manufacture and maintain aircraft systems, airframes, engine subassemblies, etc.

1.1 Airlines

Main Companies - Number of Employees - Relative Maturity of the Sector

The civil aviation sector in Greece is one of its most vital industries, as tourism is one of the most significant income generators for the country. The entry of private companies in the Greek market was actually a result of the partial liberalization of air transport in accordance with the EU Regulation 2407/92, which was completed on 01/04/1997 (Third Liberalization Package of 1992). Before the liberalization, for many years (since the 1950s) Olympic Aviation SA was the only "national" airline, being a state monopoly. In 2003, flight operations were acquired by the state-owned firm Olympic Airlines S.A.

Today, as regards domestic and international air transport, there is complete liberalization of fares, routes and capacity. Currently 22 Greek air carriers operate in the aviation industry (passenger and cargo air transport), which have been licensed by the Hellenic Civil Aviation Authority (HCAA) (table 3). Several of these are small enterprises and they only perform non-scheduled air transport (charter flights). Total sales of Greek companies amounted to approximately €1 billion in 2012 (0.53% of the GDP), while the total number of employees exceeds 2,860. Some of the aforementioned companies (Air Lift S.A., I Fly S.A., Superior Air S.A., Air Intersalonika S.A.) perform helicopter charter flights.

The major local air carriers in Greece are the private companies Aegean Airlines S.A. and Olympic Air S.A. The latter undertook the flying sector of the state-owned Olympic Airlines S.A. in 2009 and was controlled by the Marfin Investment Group (MIG) until 2013. Aegean and Olympic Air together accounted for approximately 80% of total sales of local air carriers in 2012.

Aegean and MIG concluded a preliminary agreement in October of 2012, concerning the sale of 100% of Olympic Air to Aegean. The completion of the transaction was subject to the necessary approval by the European Commission, which was granted on October 9, 2013. The signing of the final agreement and the transfer of the shares took place on October 23, 2013, and the acquisition price was determined at €72 million. Upon the completion of the transaction, Olympic Air constitutes a subsidiary of the listed company Aegean. The European Commission concluded that due to the on-going economic crisis in Greece and Olympic's difficult financial situation, Olympic would be forced, in any event, to exit the market. Consequently, it approved of the concentration, given that would have no additional negative effect on competition.

Apart from local air carriers, there are over 90 international airlines operating in Greece. Several of them have a presence in Greece through companies that operate as local offices (e.g. Air China, Air France, Alitalia, British Airways, Cyprus Airways, Egypt Air, El-Al Israel Airlines, Emirates, Lufthansa, Qatar Airways, Turkish Airlines, US Airways, etc.). Others are represented in Greece by General Sales Agents (GSA). GSA companies are responsible for selling the products of the airline in their region which includes flight tickets, cargo space, etc. and they typically represent more than one airlines.

Domestic and International Air Traffic

Amid the challenging economic and political conditions in the country during 2012, a total of 36.7 million passengers passed through the 39 Greek commercial airports, experiencing a shortfall of 5.6%. The overall result was formulated by the 8% drop of the domestic passenger traffic versus the shorter decline by 4.6% of international travelers (tables

1-2). Athens International Airport (AIA) represents approximately the 35% of Greece's total passenger traffic and 38% of the movements. Heraklion (Crete) and Thessaloniki consistently hold the 2nd and 3rd positions respectively.

According to provisional data for the period from January to September 2013, the overall International Passenger Air Traffic amounted to 24.75 million passengers, registering a rise of 7.4% compared to the respective period in 2012, mainly due to tourism recovery.

The Athens International Airport "Eleftherios Venizelos" and Thessaloniki Airport "Macedonia" have their own proper infrastructure for international freight transport. The other airports are mainly involved in national freight transport. The overall International Cargo Air Traffic registered a fall in 2009-2012 due to the economic recession. Cargo arrivals were affected to a greater extent than other services due to the decrease in the total domestic demand. Particularly, the overall international cargo air traffic (arrivals and departures) dropped to 62.2 thousand tonnes in 2012, compared to 96.3 thousand tonnes in 2008. The domestic cargo traffic reached 16.2 thousand tonnes in 2012 (28.1% drop compared to 2011). Athens International Airport "Eleftherios Venizelos" accounted for 95.5% of the total international cargo air traffic in 2012.

In 2012, the top 10 airlines carried approximately 72% of the total international freight and mail traffic of Athens International Airport. For the third consecutive year the list is headed by DHL

Table 1. International Air Traffic in Greece (2003-2012)

| Years | Flights | Passengers | | Freight (tonnes) | |
|-------|-------------|------------|------------|------------------|------------|
| | Arr. + Dep. | Arrivals | Departures | Arrivals | Departures |
| 2003 | 199,825 | 12,002,828 | 11,992,021 | 55,938 | 30,252 |
| 2004 | 207,635 | 11,974,593 | 12,029,964 | 60,785 | 33,016 |
| 2005 | 202,491 | 12,477,752 | 12,583,177 | 57,370 | 31,843 |
| 2006 | 217,565 | 13,255,595 | 13,377,831 | 58,339 | 34,147 |
| 2007 | 232,351 | 13,960,621 | 14,141,574 | 56,744 | 35,648 |
| 2008 | 226,550 | 13,871,614 | 13,969,457 | 59,163 | 37,126 |
| 2009 | 217,580 | 12,943,487 | 13,054,090 | 48,782 | 35,947 |
| 2010 | 212,660 | 12,882,480 | 12,953,632 | 43,755 | 31,171 |
| 2011 | 220,853 | 13,758,094 | 13,875,659 | 37,819 | 30,450 |
| 2012 | 205,989 | 13,156,585 | 13,205,279 | 32,977 | 29,213 |

Source: Hellenic Civil Aviation Authority

European Air Transport followed by UPS, Aegean Airlines, Emirates, British Airways, Lufthansa, TNT, Olympic Air, Swiss Airlines and Delta. Six 6 airlines shared the domestic traffic, two of them operating cargo flights only: Epsilon Aviation and Swiftair Hellas. Aegean Airlines remains the leading domestic carrier followed by Olympic Air, Swiftair Hellas, Epsilon Aviation,

Table 2. Domestic Air Traffic in Greece (2003-2012)

| Years | Flights | Passengers | | Freight (tonnes) | |
|-------|-------------|------------|------------|------------------|------------|
| | Arr. + Dep. | Arrivals | Departures | Arrivals | Departures |
| 2003 | 195,948 | 4,968,967 | 5,061,410 | 5,061,410 | 20,480 |

| | | | | | |
|--|---------|-----------|-----------|--------|--------|
| 2004 | 212,216 | 5,615,088 | 5,620,146 | 15,462 | 21,968 |
| 2005 | 200,672 | 5,652,345 | 5,733,562 | 16,017 | 20,144 |
| 2006 | 211,854 | 6,004,154 | 6,075,932 | 17,073 | 20,516 |
| 2007 | 222,848 | 6,569,217 | 6,642,967 | 17,797 | 19,841 |
| 2008 | 214,364 | 6,473,941 | 6,521,907 | 17,008 | 19,720 |
| 2009 | 240,126 | 6,802,618 | 6,845,291 | 14,357 | 16,141 |
| 2010 | 216,203 | 6,200,867 | 6,266,594 | 13,857 | 15,847 |
| 2011 | 189,373 | 5,564,753 | 5,632,815 | 10,579 | 11,923 |
| 2012 | 176,792 | 5,103,727 | 5,192,540 | 7,631 | 8,537 |
| <i>Source: Hellenic Civil Aviation Authority</i> | | | | | |

Cyprus Airways, and Aeroland.

Athens International Airport

The Athens International Airport (AIA) is a 30-year concession company (expiring June 2026) responsible for the construction, financing, operation and maintenance of the Athens International Airport "Eleftherios Venizelos" through a concession agreement. The Athens Airport Community is composed of various entities, including AIA S.A., the airline companies that use the airport, other users and handlers, the airport commercial park and agencies offering aeronautical, commercial and other support services. Overall, approximately 300 companies and state-owned entities operate in the airport with more than 13,000 employees (2,600 of whom are employed by airline companies and 2,450 by users and ground handling companies). AIA produced an annual economic added value of €5.1 billion in 2012, which corresponds to 2.6% of the Greek GDP (direct, indirect and induced impacts).

With respect to AIA's main airline partners, the two Greek carriers, Aegean Airlines and Olympic Air continue to hold the top 2 places and represent more than half of the airport's passengers. The top-10 includes European carriers (Lufthansa, low-cost carrier EasyJet, Swiss, Air France, Cyprus Airways, British Airways, Alitalia and Turkish Airlines). In total, 12 low-cost carriers operating at the airport and connecting Athens to 22 international destinations during 2012, accounted for almost 12% of AIA's international scheduled passenger traffic. Overall, in 2012, Athens was directly connected by scheduled flights with 109 destinations (76 international) in 47 countries, operated by a total of 64 carriers.

Airbus A320 is the aircraft type most commonly used in airline operations to/from Athens International Airport, accounting for 36.8% of the total in 2012, followed by Dash8-400 (16.4%) and Airbus A319 (8.9%). Airbus aircraft are used for almost 56% of the flights, followed by De-Havilland (23%), while Boeing aircraft account for approximately 7% of the total.

Regional Airports - Heliports

In total, 39 commercial airports in Greece are under the jurisdiction of the HCAA receiving regular scheduled or charter flights. Of these airports, 15 are international, 20 national, and four municipal. Moreover, there are five national airports that remain closed.

Regional airports in Greece include 38 airports, such as those of Thessaloniki (the 2nd largest Greek city and a commercial entrance point to the Balkans/Central Europe), Rhodes, Corfu, Chania, Kos, Zakynthos, Santorini, Mytilini, Samos and Mykonos, which attract the majority of international tourism.

Currently, all regional airports are state-owned without any corporate structure and supervised by the Hellenic Civil Aviation Authority (HCAA). They have significant hidden value stemming from possible better utilization of airport

infrastructure, real estate and other commercial opportunities/activities that are now under-developed or under-utilized. Their upgrading would enhance Greece's tourist destination profile.

Furthermore, 67 heliports, licensed by the HCAA, operate in Greece. Of these heliports, 49 are of public interest/use (44 municipal and 5 hospital heliports) and are designed to meet the needs of remote areas of the country (e.g. transportation of patients), retain the local population and enhance the wealth and tourism in these areas. The remaining 18 heliports are privately owned. As for their geographical distribution, 41 of them are located on islands of the Aegean Sea, four on Ionian islands and 22 on the mainland, especially along the northern border of the country.

1.2 Ground Handling

Main Companies-Relative Maturity of the sector

Under the current legislation, ground administration and supervision services are distinguished in eleven main categories: 1. Ground administration and supervision; 2. Passenger handling; 3. Baggage handling; 4. Freight and mail handling; 5. Ramp handling; 6. Aircraft services; 7. Fuel and oil handling; 8. Aircraft maintenance; 9. flight operations and crew administration; 10. Surface transport; and 11. Catering services.

As regards ground handling services, a remarkable number of companies are active in the Greek market. According to the HCAA, about 60 companies (local and foreign) operate in this sector in Greece, providing some of the aforementioned services, either to third parties (third-party handling) and/or as self-handling, in the case they operate as air carriers. In recent years, the full liberalization of ground handling services has been expanded to regional airports. Until 2000, ground handling in all airports was exclusively provided by the former Olympic Aviation. During the period 2000-2009 the ground handling at the airports of Athens, Thessaloniki, Heraklion, Rhodes and Corfu was opened up to competition.

The main companies which are exclusively involved in ground handling services, are Skyserv S.A. (former Olympic Handling S.A.), Goldair Handling S.A. and the three companies of Swissport Hellas Group (Table 4). Apart from the companies presented in the table 4, some ground handling services are also provided by local and foreign airlines (e.g. Aegean Airlines, Olympic Air, British Airways, Alitalia, etc.).

Skyserv SA, which belongs to the Marfin Investment Group (MIG), has a presence at all airports in the country. Goldair Handling S.A., operates in 26 domestic airports. It also has presence at three airports in Bulgaria and two in Cyprus and is planning further expansion in other countries. During the period 2012-2013 the investments made on ground-handling equipment, computers and software, amounted to €5 million. Furthermore, for the next two years the planned investment projects on ground handling equipment, are estimated at more than € 2.5 million. Finally, the companies of Swissport Hellas Group provide ground handling services to 22 airports in Greece.

1.3 Aircraft Manufacturing

Industry Structure - Main Companies

The Aircraft Manufacturing sector in Greece is less developed, and lags significantly compared to other European countries (e.g. the United Kingdom, Germany, France, Italy, etc.). In Greece, there is no manufacturing of airplanes or helicopters. Structural parts of military and civilian aircrafts are manufactured on a limited scale. Most companies in the specific industry are involved in the maintenance and repair of aircrafts, assembling parts, and the supply of aircraft equipment (spare parts, etc.). Several of them are export-oriented companies, since a significant part of their total sales comes from foreign countries (military or civil aviation).

One reason for the relatively low demand for manufactured products and services is the limited number of private aircrafts in Greece. Furthermore, maintenance of civil aircrafts of major airlines (e.g. Aegean Airlines, Olympic Air) is carried out by the companies' qualified technical staff. In January 2009, Aegean unveiled the new Technical Base after a year of construction work. It covers an area of more than 4,800 sq. meters that can fit up to two Airbus A-321s, the largest type of aircraft in Aegean's fleet. In general, airlines usually acquire their aircrafts either via leasing or by purchasing them.

The largest Aerospace manufacturing company is the state-owned Hellenic Aerospace Industry S.A. (table 5). A large share of its sales come from foreign countries (U.S.A., Germany, France, England, UAE, Morocco, etc.). It should be

noted that, approximately 3% of its annual turnover is spent on R&D.

In general, a relatively small number of companies operate in the sector of aircraft manufacturing in Greece — among other activities in many cases. Several of the companies in the wider industry mainly operate in the defence sector (manufacturing, maintenance and supply of defence equipment, etc.). For example, except for the companies presented in table 5, it is worth mentioning Intracom Defense Electronics S.A. (IDE), a large defence electronic systems provider that develops electronics, communications systems and advanced military software applications. The company participates in joint multinational development and production programs, in co-operation with major international defence systems manufacturers. On a smaller scale it also operates in the sector of Aerospace (e.g. modules manufacturing for military aircraft radars, etc.). Approximately 6% of the IDE annual turnover is invested in R&D. It is one of the highest rates in the Greek Defence sector. It is worth noting that, according to the European Defence Agency (EDA), Defence R&D Expenditure in Greece amounted to €7.85 million in 2011, accounting for 0.14% of the overall Defense expenditure (€5,477 million). The annual Defence R&D Expenditure in Europe amounted to an average rate of 4.5% during the period 2006-2011.

Value of Imports and Exports

According to the Hellenic Statistical Authority, which follows the Combined Nomenclature specified by the European Union, total imports of Greece in the category of «Aircraft, Spacecraft and Parts Thereof» amounted to €136.4 million in 2012 (a decline of 15.5% compared to 2011). The respective figure for 2010 was nearly five times higher (€665 million). This fact is mainly due to the significant reduction in the number of imported airplanes and helicopters (2012: 18 units, 2010: 36 units). Specifically, in 2012 the total value of imported airplanes, other powered aircraft and helicopters dropped to €92 million (from €626 million in 2010), covering almost 2/3 of the total imports of the above mentioned category. The main exporters of aircraft and parts thereof for 2012 were the U.S.A. (covering 50% of total imports) and France (28.9%). Imports from Canada amounted to approximately €660 thousand in 2012 and were related to parts of airplanes and helicopters.

Total Greek exports of Aircraft, spacecraft and parts thereof amounted to approximately €158.3 million in 2012 (a decline of 20.8% over 2011 and 25.6% over 2010). The main export partner country in 2012 was the U.S., which accounted for approximately 30% of total Greek exports in this category. Exports to Canada amounted to €275 thousand in 2012 (from €5.2 million in 2010) and were almost exclusively airplane and helicopter parts.

1.4 Foreign Direct Investment

The good investment climate has a positive effect on economic growth. Based on the annual reports of the Organisation for Economic Co-operation and Development (OECD) on the Ease of Doing Business and according to the World Economic Forum (WEF) of the World Bank about competitiveness, there are many factors that affect the creation of an attractive investment climate, such as the stability of the political system, the stable legal status and effectiveness of the justice system, the degree of bureaucracy, corruption, labor market flexibility, the tax system, ease of financing, etc. Based on the Ease of Doing Index of OECD, Greece ranked 78th out of 185 states in 2013, while it ranked 80th out of 155 states in 2006.

In the last decade Inward Foreign Direct Investment in Greece ranged from \$330 million in 2010 to \$5.4 billion in 2006 (table 6). In general, Greece seems to lag behind in attracting FDI compared to other developed European countries. It is worth mentioning that, the FDI from Canada to Greece has been negative² in recent years. Moreover, according to the OECD, FDI inflows for the sector of Air Transports was estimated at \$23 million in 2011 and was marginally negative in 2012 (- \$0.4 million).

Table 3. Local Air Carriers

| Company Name | Activity | Number of Employees | Total Turnover 2012 (in €) | Website |
|-----------------------|--------------------------------------|---------------------|----------------------------|--|
| Aegean Airlines S. A | Scheduled and charter air transports | 1,469 | 562,857,610 | www.aegeanair.com |
| Olympic Air S. A. Air | Scheduled and charter air | 733 | 216,315,000 | www.olympicair.com |

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|--|---|-----|-------------------------|--|
| Transports | transports | | | |
| Hermes Airlines S. A | Air transports | 160 | 38,441,136 ₁ | www.hermesairlines.gr |
| Gain Jet Aviation S. A. | Charter air transports | 96 | 29,500,146 | www.gainjet.com |
| Astra Airlines S. A | Air transports | 80 | 28,837,416 | www.astra-airlines.gr |
| Amjet Executive Aviations S. A. | Charter air transports | 20 | 18,008,576 | www.amjetexecutive.com |
| Blue Bird Airways S. A. | Air transports | 60 | 15,829,449 | www.bluebirdiar.gr |
| Sky Express S.A. | Passenger air transports | 75 | 14,948,001* | www.skyexpress.gr |
| K2 Smartjets S. A. | Charter air transports | 19 | 4,830,626 | www.k2smartjets.com |
| Swiftair Hellas S. A. | Freight air transports | 25 | 4,277,083 | www.swiftair.com |
| Air Lift S. A. | Charter air transports (with helicopters) | 13 | 2,277,473 | www.airlift.gr |
| I Fly S.A. | Charter air transports (with helicopters) | 24 | 1,388,430 | www.ifly.gr |
| Aeroprikes Epicheirisseis Sofianos S.A. (Superior Air) | Repairs and maintenance of aircrafts. Air photographers. Air transports. Pilot school | 25 | 1,352,347 | www.superior-air.gr |
| Epsilon Aviation S. A. | Scheduled and charter air freight transports | 8 | 734,947 | www.epsilonaviation.com |
| Air Intersalonika S. A. | Air - taxi services | 10 | 705,685 | www.intersalonica.gr |
| Premier Aviation Services S. A. | Rental of aircrafts. Charter air transports | 6 | 579,375 | www.premieraviation.eu |
| Aerospace One S.A. | Freight air transports | 15 | 91,032 ₂ | www.aerosc1.com |
| Aeolian Airlines S.A. | Charter air transports | 30 | N/A | www.aeolianairlines.com |
| Minoan Airlines S.A. | Scheduled and charter air transports | 30 | N/A | www.minoanair.com |
| Fanourakis Air Services S.A. | Air transports. Maintenance of aircrafts. Pilot school | N/A | N/A | www.fas.gr |
| Ellinair S.A. | Air transports | N/A | - | www.ellinair.com |
| Lifeline Aviation S.A. | Air transports | N/A | N/A | www.airlife.gr |

* Turnover 2011

1 07/06/2011-31/12/2012

2 11/09/2012-31/12/2012

Table 4. Main Ground Handling Companies

| Company Name | Activity | Number of Employees | Total Turnover 2012 (in €) | Website |
|--------------------------------------|---|----------------------------|-----------------------------------|--|
| Tui Hellas S.A. | Travel agency (incoming tourism). Conference organizers. Operation of tourist buses. Airport assistance | 315 | 73,313,639 | www.tui.gr |
| Skyserv S.A. | Aircraft handling services | 900 | 44,707,000 | www.skyserv.aero |
| Goldair Handling S.A. | Aircraft handling services | 1,500 | 37,742,568 | www.goldair-handling.gr |
| Swissport - Hellas Sud S.A. | Aircraft handling services | 788 | 30,914,596 | www.swissport.gr |
| Olympic Catering S.A. | Operation of canteens and restaurants. Catering services. Air catering and ramp catering handling. Production of frozen meals | 422 | 31,627,000 | www.olympic-catering.gr |
| Swissport Hellas S.A. | Aircraft handling services | 390 | 16,020,648* | www.swissport.com |
| Gissco S.A. | Aircraft fuelling services. Storage of liquid fuel | 24 | 6,293,763 | www.gissco.gr |
| Signature Flight Support Athens S.A. | Aircraft handling services. Airline general sales agents | 28 | 4,235,916 | www.signatureflight.com |
| Swissport Hellas Cargo S.A. | Cargo management for airline companies | 82 | 4,068,016* | www.swissport.com |
| Safco S.A. | Aircraft fuelling services | 20 | 3,655,090 | www.safco.gr |
| Pandair S.A. | Aircraft handling supervision | 46 | 1,329,274 | www.pandair.gr |
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|----------------------------------|---|----|-----------|---|
| Aerocandia Aviation Services Ltd | Travel agency. Airline general sales agents. Aircraft handling agents | 17 | 1,322,758 | www.aerocandia.gr |
| Universal Aviation Greece A.E | Aircraft handling supervision. Airline general sales agents | 10 | 982,581 | http://greece.universalaviation.aero |
| Alcyone Air Services S.A. | Aircraft handling service supervision | 7 | 515,232 | www.alcyone.gr |



Turnover 2011

N/A: Not Available

Source: ICAP Group S.A., HCAA

Table 5. Main Aerospace Manufacturers and Suppliers

| Company Name | Activity | Number of Employees | Total Turnover 2012 (in €) | Website |
|----------------------------------|--|----------------------------|-----------------------------------|--|
| Hellenic Aerospace Industry S.A. | Military aircraft and engine maintenance repair and overhaul (MRO), modification, retrofit and alternation upgrades and logistics support. Design, mfg and assembly of aircraft and engine subassemblies. Design, mfg, assembly and after sales support of electronic, optronic and telecommunication products, co-development, co-production of radar and missile weapon systems. Satellite systems and applications including development of a satellite system network and the related telecommunications, observation and navigation applications. Technical training in a wide spectrum of aerospace and defence-industry-related disciplines. Precision measuring and calibration of production equipment. Certification for electromagnetic compatibility through its EMC Hellas subsidiary | 1,300 | 91,256,645 | www.haicorp.com |
| Onex S.A. | Assembling of aircraft parts. Aircraft repairs. Representations, imports, trade and installation of electronic detecting systems. Guarding services. IT applications | 122 | 7,128,271 | www.onexcompany.com |

| | | | | |
|---|--|----|------------------------|--|
| Sielman S.A. | Mfg of high technology spare parts and components (for tanks, aircraft and vehicles) and wooden containers | 73 | 6,036,635 | www.sielman.com |
| Aeroservices S.A. | Agents, representations, imports and trade of aircraft, helicopters and spare parts. Aerial photographers. Service. Pilot training | 35 | 5,414,207 | www.aeroservices.gr |
| Apella S.A. | Representations, imports and trade of aircraft tyres and spare parts. Repairs of aircraft wheels, brakes, generators, starters and batteries | 30 | 4,251,562 | www.apella.gr |
| 1source Aero Services S.A. | Mfg and repairs of aircraft engine parts | 21 | 3,188,059* | www.1source-aero.com |
| Ak Aviation Support Services Sole Shareholder Co. Ltd | Representations, imports and trade of aircrafts and helicopters | 2 | 2,190,413 ₁ | - |
| Olympic Engineering S.A. | Aircraft repairs and maintenance | 44 | 1,577,000 | www.olympicair.gr |
| Greek Air Aviation Services Sole Shareholder Co. Ltd | Repairs and maintenance service of aircrafts and helicopters. Imports and trade of aircraft spare parts. Aircraft and helicopter rentals | 16 | 1,525,471 | www.greekair.gr |
| Bosa S.A. | Mfg of aircraft and helicopter spare parts | 55 | 871,831 | www.bosa.gr |
| Global Aviation S.A. | Flying school. Aircraft maintenance service. Agents for aircrafts and spare parts. Aircraft rentals | 14 | 739,036 | www.globalaviationsa.com |
| Darex S.A. | Agents for aircraft parts and electronics | 10 | 682,069 | - |
| Intelligent Communication Systems & Services S.A. | Repairs, rentals and chartering of helicopters. Helicopter parking and management | 9 | 283,516 | www.icss.gr |
| Gerco Geroulakos Bros Ltd | Agents for helicopters and aircraft. Representations, imports and wholesale trade of aircraft and helicopter spare parts and airport electronic equipment. Repairs and maintenance service | 5 | N/A | www.gerco.g |

* Turnover 2011

1 23/2/2010 - 31/12/2011

N/A: Not Available

Source: ICAP Group S.A., HCAA

Table 6. Greece Inward Foreign Direct Investment Flows by Partner Region, in \$ million (2003-2012)

| Year/Partner Region | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------------------------|--------------|----------------|--------------|----------------|----------------|----------------|----------------|--------------|----------------|----------------|
| Europe | 993.5 | 1,795.0 | 370.6 | 5,301.5 | 2,050.6 | 4,359.4 | 2,256.8 | 398.6 | 634.8 | 2,207.9 |
| Africa | 3.6 | 2.8 | 8.0 | 10.1 | -4.0 | -27.8 | -45.8 | -24.0 | -29.4 | -42.4 |
| America | -57.4 | 332.6 | 236.9 | -468.8 | 74.0 | 115.8 | 41.7 | -60.4 | 543.4 | -185.4 |
| --Canada | -0.9 | 2.4 | 2.4 | 4.2 | 0.3 | -1.8 | -4.9 | -1.5 | -2.2 | -6.7 |
| Asia | 7.4 | 8.5 | 1.8 | 503.3 | -6.7 | 43.0 | 173.0 | 17.1 | -5.9 | -243.3 |
| Oceania & Polar Regions | -1.0 | 0.8 | -1.6 | 6.2 | 0.5 | -5.0 | -2.6 | -0.4 | 2.4 | 3.6 |
| Total World Unallocated | -284.5 | -32.9 | 3.1 | 6.0 | 3.7 | 2.2 | 13.6 | -0.6 | -0.2 | 0.3 |
| Total World | 661.6 | 2,106.9 | 618.8 | 5,358.2 | 2,118.0 | 4,487.6 | 2,436.7 | 330.3 | 1,145.2 | 1,740.6 |

Source: OECD

2. Market and Sector Challenges (Strengths and Weakness)

2.1 Market Entry - Foreign Competition - Sector Challenges - Expected Sector Growth

The **passenger air transport market** in Greece is relatively limited in size, with a very high degree of concentration. The entry of private companies has created new standards and expectations for improvement of air transport services, particularly in routes of high demand. However, apart from the two major players (Aegean Airlines and Olympic Air), which now belong to the same group, the successful entry of new competitors in the Greek market of air transports is considered difficult. This is due to issues related to the operating environment and cost, as well as the low profit margin of the industry.

The airline sector in Europe is characterized by intense consolidation, especially since 2006. More specifically, the mergers and acquisitions in Europe have led to the creation of 3 big groups, generating annual revenue of €20 to €30 bn. More particularly, Lufthansa acquired Swiss Air, Austrian and Brussels Airlines. Air France, after the merger with KLM, acquired 25% of Alitalia, whereas the latter has merged with its local competitor, Air One. British Airways merged with Iberia and created the IAG group (International Airlines Group), which later on acquired bmi. At the same time, low-cost carriers have been rapidly growing since the late 1990s by establishing bases throughout Europe and increasing their market share. Both Aegean and Olympic Air are sub-scale when compared to their international competitors and dynamically growing companies in the region, who are typically much larger and also show a significant and growing activity in flights to and from Greek airports. It is worth highlighting that the market share of the two Greek companies in the total international traffic from Greece amounts to just 16% (2012).

In recent years, competition in Greece is further intensified due to the increasing penetration of low-cost carriers (Ryanair, EasyJet, etc.). In January 2014 Ryanair announced that as part of a \$280 million investment in Greece, it would open its 2nd and 3rd Greek bases (64 in total) in Athens and Thessaloniki in April 2014, with a total of 3 based aircraft and 9 new routes.

The development of tourism in Greece is a determining factor for the demand of air services. In 2013 there was a 15% increase in total foreign tourist arrivals in Greece, while the first forecasts for 2014 indicate a further increase of 3%-4%. This fact is also reflected in the improved financial results of Aegean Airlines in 2013. More specifically, Aegean's 2013 revenue increased by 21% to €682.7 million. Revenue growth was driven largely by the performance of the international network. Aegean increased its international passenger numbers by 14%, boosted by the maturing of routes entered in previous years and also by favorable demand conditions for incoming leisure traffic.

Likewise, in the field of **ground handling services**, tourism is the main source of revenues for the sector and its development creates significant opportunities. Furthermore, business extroversion is considered a strength for the sector. Transactions with foreign airlines create a wide range of activities, while also eliminating some of the malfunctions that are mainly due to the political and economic situation in Greece. The various Open Tender Procedures carried out on behalf of HCAA also constitute remarkable opportunities. For example, in January 2014, an Open Tender Process was announced for selecting providers of assistance to people with disabilities and reduced mobility (PWD) in all state and municipal airports in the country. On the other hand, the main problems of the aforementioned field concern seasonality and high requirements imposed by law for the existence of minimum (high cost) equipment at airports where the traffic is low in winter. The problem has intensified in recent years due to the prolonged economic recession that, in certain cases, has led to negative net income results and reduced liquidity. A major threat for the sector is the fact that, due to the large number of employees (the industry is labor intensive), the rationalization of costs may affect the quality of services or even safety.

In the field of **aerospace equipment**, the entry of a Canadian business is generally considered easier. However, this market is limited in Greece, due to the small size of the domestic economy. Moreover, in recent years there has been a reduction in the expenditure on military equipment and aircraft purchases, as well as a reduction in the volume of aircraft maintenance. On the other hand, the rapid growth in the number of civil aircrafts internationally is estimated to continue over the coming years, thereby creating opportunities for aerospace manufacturers and suppliers. This fact is estimated to create positive prospects for related industries (e.g. increased demand for technical professions in aeronautics). The proposed market entry strategy for a Canadian company involves collaboration with a local agent or representative, with experience in the industry or even the establishment of joint ventures. For example, 1Source Aero Services S.A. was established in 2004 as a joint venture between Pratt & Whitney and Hellenic Aerospace Aviation. It is noted that in a specific market segment (e.g. public services like National Emergency Aid Centre, the Fire Brigade, etc.) there are many suppliers relative to the small market size.

2.2 Policies

The contribution of the aviation sector to the national economy and regional development can be promoted by regional reorganization - decentralization of the aviation system and improvement of the operational efficiency of regional airports in the country. The government promotes the regional airports' operational independence through their grouping in clusters which will then be subsequently privatised on a concession basis, or otherwise monetized through one or a series of transactions. Following such privatisation, HCAA will retain its role as regulator of aeronautical services and provider of air-traffic control services. In September of 2013, the Hellenic Republic Asset Development Fund (HRADF) announced that seven (7) investment entities qualified to participate in the second phase of the tender process for the concession of the management, operation and maintenance of the regional airports, tendered in two clusters. During the second phase of the tender, the pre-qualified investors will gain access to detailed data and information regarding the regional airports, as well as the terms and conditions of the second phase of the tender process.

In addition, lately there has been strong interest about the acquisition of Athens International Airport. AIA SA is a privately managed company, with the Greek State (HRADF) holding 55% of shares, while the private shareholders jointly hold 45% (Hochtief 40%, Copelouzou Group 5%). Hochtief AirPort was sold by the Hochtief Group in September of 2013 and is now operating under the new name of AviAlliance. The new owner of AviAlliance GmbH is a subsidiary of the Canadian Public Sector Pension Investment Board (PSP Investments). Although the HRADF has not yet announced the initialization of procedures for further privatization of Athens International Airport, it seems to have already been targeted by the consortium of the Chinese companies Shenzhen Airport and Friedmann Pacific Asset

Management Limited, as well as the Canadian PSP Investments. All these developments constitute opportunities for Canadian companies involved in airport projects.

2.3 Legislation – Tax and Financial Issues

Operating licenses are granted to the local air carriers by the Hellenic Civil Aviation Authority, under the provisions of the Regulation (EC) No 1008/2008 of the European Parliament and of the Council on common rules for the operation of air services in the Community (Official Journal of the European Union - L 293/3 - 31.10.08). The above Regulation aims to ensure a more efficient and homogeneous application of the Community legislation for the internal aviation market, enhance the safety of the air services and improve passenger protection. In particular, an undertaking will be granted an operating license by a competent licensing authority provided that it meets the requirements specified in the Article 4 of the Regulation (financial conditions, solvency of post-holders, insurance requirements, valid AOC, ownership or dry lease of one or more aircrafts etc.). Moreover, the competent licensing authority should carry out regular and exceptional assessments of the air carriers' financial situation in order to safeguard their financial well-being. In addition to the rules of this Regulation, the air carriers must also respect the requirements of the HCAA Regulation that are compatible with Community law. (D1/D/30817/2180/9-9-91, Gov. Gaz. No: B/727/9-9-91).

Moreover, the existing bilateral air-services agreement between Greece and Canada is set out by Law 1692/87 (Gov. Gaz. No: 33A/13-03-87). A Memorandum of Understanding (MoU) was signed on 20/10/2005. An EU-Canada Comprehensive Agreement is pending for ratification. As regards the Ground Handling sector, the purpose of the Basic Regulation on Ground Handling Services (Ministerial Decision D3/B/12686/2929/2007 - Gov. Gaz. No: 469/B/04-04-2007) is to establish the minimum requirements and conditions for providing ground handling services at Greek airports (by ground handlers), under the provisions of Presidential Decree 285/98 (Gov. Gaz. No: A207/7-9-98) and Articles 23 and 24 of Law 3913/2011 (Gov. Gaz. No: A18/17-2-2011) on "Reorganization of Hellenic Civil Aviation Authority and other provisions".

There are no restrictions on the imports of Canadian aerospace products or airport equipment and systems, or any non-tariff barriers affecting their entry into the Greek market. As a full member of the EU, Greece applies the Common Customs Tariff (CCT) to the import of goods across the external borders of the EU. The tariff is common to all EU members, but the rates of duty differ from one kind of import to another depending on what they are and where they come from. The rates depend on the economic sensitivity of products.

All products, regardless of origin, are subject to the Value Added Tax (VAT). As regards aerospace products and services, VAT in Greece amounts to 23%. The VAT on non-EU products is applied to the total Cost, Insurance and Freight (CIF) value plus import duty. All imported products must conform to EU specifications and meet EU environmental and safety requirements. In the field of passenger air transports, VAT is reduced for the provided services to 13%. The Value Added Tax Code was ratified by law 2859/2000 (Gov. Gaz. No: 248/A/07-11-2000). Since then, it has been partially amended by subsequent laws (last amendment: Law 4152/2013). Also, it is noted, the income tax rate for all legal entities in Greece increased in 2013 from 20% to 26%.

One of the consequences of the prolonged economic recession in the country is the dramatic reduction of funding provided to Greek companies by the banking sector. This fact, combined with the general decline in demand has created liquidity problems in many sectors. According to executives of major commercial banks in Greece, there is no difference in the Banks' funding policy towards companies which operate in the field of Aerospace-Aviation, compared with those of other sectors. The possibility of financing investment projects is individually examined, while there is no distinction between Greek and foreign companies as regards the terms of financing. However, the financed company must operate in Greece. Surely, the borrower's creditworthiness, economic situation, etc. play an important role. Twenty banks based in Greece operate in the country, as well as 15 branches of credit institutions based in the EU and four branches located in countries outside the EU (December 2013). Currently no Canadian credit institution operates in Greece.

Generally, aviation is marked by the high complexity of its products and components, subject to very long R&D cycles (up to 20 years), and is therefore technology and capital intensive. As such, research efforts need to be based on a long-term programming approach that provides continuity across R&D efforts over many years. The public sector provides effective and reliable backing for innovation in the aviation sector, via national research programmes for EU Member States, and through aviation research in EU Framework Programmes, such as the Horizon 2020. Horizon 2020 is the biggest EU Research and Innovation programme ever with nearly €80 billion of funding available over 7 years (2014 to 2020) – in addition to the private investment that this money will attract. As regards the programmes of

Horizon 2020, those closest to the sector of Aerospace-Aviation are the "Smart, Green and Integrated Transport" (which includes the field of Aviation) and "Space".

2.4 Water Airports

Passenger transport via seaplanes is considered an emerging market in Greece with significant potential. The need for an integrated institutional framework for the establishment, operation and exploitation of water airports in Greece led to the integration of Articles 32-57 in the general Law 4146/2013 (Gov. Gaz. No: A90/18-04-2013) on "Setting a Friendly Growth Environment for Strategic and Private Investments and Other Provisions" as passed in April 2013. The relevant legislation for water airports opens the way for the implementation of investment projects by domestic and foreign investors, bypassing any previous bureaucratic rigidity, and providing one-stop shop service for licensing the operation of water airports for indefinite time. The Division of Political Planning and Development of Airports of the Greek Ministry of Infrastructure, Transport and Networks (MoITN) is responsible for receiving applications and granting authorization to Maritime water airports, through a Common Ministerial Decision of the Greek MoITN and the Ministry of Mercantile Marine.

The legislative framework sets out 65 working days as the maximum time required for the authorization of water airports. A prerequisite for acquiring a license is to have implemented the infrastructure, i.e. the water airport which consists of a floating dock and a detachable passenger waiting area. In other words, it is an easy construction with an estimated cost between €50 - €100 thousand. The cost is covered by port authority funds or port authorities, in case the entity responsible for the development of the project is public. Otherwise, this cost may be undertaken by individuals who will have the ownership of the water airport.

According to the latest information from the MoITN, 13 contracts have been signed by now between individuals and port funds, while three applications have been officially submitted to the MoITN by the companies Hellenic Seaplanes S.A. and Water Airports C.A. (for the regions of Volos, Corfu and Lavrio). Furthermore, these companies are also interested in other regions of the country (e.g. Zakynthos, Paxi, Othonoi, Rethymnon, Heraklion, Sitia, Lesvos, Skopelos, etc.). It is noted that the majority of the shares of Water Airports C.A. was acquired in 2013 by charter air transports company K2 Smartjets S.A. Until now, no construction of water airport has been completed anywhere in Greece. However, representatives of the aforementioned companies are optimistic that in the summer of 2014, the operation of seaplanes will commence in Greece (even as a pilot project).

3. Sub-Sector Identification

Canadian firms may also find promising sales opportunities in the following sub-sectors:

- Ticketing & Distribution (e.g. Travel Agents, CRS, etc.);
- Aviation and Technical Consulting Services;
- Aircraft Guarding and Security Systems, Avionics;
- High Tech Manufacturing;
- Basic Metals.

Also, collaborations and synergies could be implemented between Greek and Canadian companies on R&D in the field of aerospace (e.g. in advanced materials, etc.).

Useful Internet Sites

Hellenic Civil Aviation Authority: www.hcaa.gr

Greek Ministry of Infrastructure, Transport and Networks: www.yme.gr

Greek Ministry of Finance: www.minfin.gr

Greek Ministry of Mercantile Marine: www.yen.gr

Greek Ministry of National Defence: www.mod.mil.gr

Hellenic Republic Asset Development Fund: www.hradf.com

Hellenic Aviation Society: www.aviationsociety.gr

Hellenic Aerospace & Defense Industries Group: www.hasdig.com.gr

Aircraft Owners and Pilots Association Hellas: www.aopa.gr

Athens International Airport: www.aia.gr

Bank of Greece: www.bankofgreece.gr

Invest In Greece Agency: www.investingreece.gov.gr

Hellenic Statistical Authority: www.statistics.gr

Aerospace and Defense Industries Associations of Europe: www.asd-europe.org

European Aviation Safety Agency: <http://easa.europa.eu>

European Defence Agency: www.eda.europa.eu

The Organisation for Economic Co-operation and Development: www.oecd.org

Horizon 2020-The EU Framework Programme for Research and

Innovation: <http://ec.europa.eu/programmes/horizon2020/en>

- 1** The Government of Canada has prepared this report based on primary and secondary sources of information. Readers should take note that the Government of Canada does not guarantee the accuracy of any of the information contained in this report, nor does it necessarily endorse the organizations listed herein. Readers should independently verify the accuracy and reliability of the information.

 - 2** Negative values in transactions may indicate disinvestment in assets or discharges of liabilities. In the case of equity, the direct investor may sell all or part of the equity held in the direct investment enterprise to a third party; or the direct investment enterprise may buy back its shares from the direct investor thereby reducing or eliminating its associated liability.
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