



Country Governance Study

February 9, 2005

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GREECE

Introduction

Executive Summary

Efforts to create a more effective corporate governance framework in the Hellenic Republic (Greece) have made significant progress over the past few years. Recent efforts to update and improve the governance regime began in 1999, with the publication of *Principles of Corporate Governance in Greece*, and continued with the Capital Market Commission's regulation covering listed firms' transparency, market behavior, and takeovers. In 2002, regulation placing particular emphasis on board structure and behavior was introduced.

Although these positive developments are still in the early stages of implementation, an increasing number of Greek publicly traded companies have enhanced their business practices to further increase the confidence of the investment community and comply with the minimum corporate governance criteria set by Greek laws.

The new laws and regulations, which have introduced a number of new concepts--including the requirement for independent board members, internal control departments, the speedier dissemination of information, and new measures to guard against insider trading--are stimulating a trend toward a more efficient corporate governance system in Greece. The new rules of conduct for listed companies have also improved accountability, transparency, and disclosure of information, with strict penalties for violations, although current laws provide a fair degree of flexibility. The expected implementation of proposed new laws will address the topic of market abuse, including both price manipulation and insider trading.

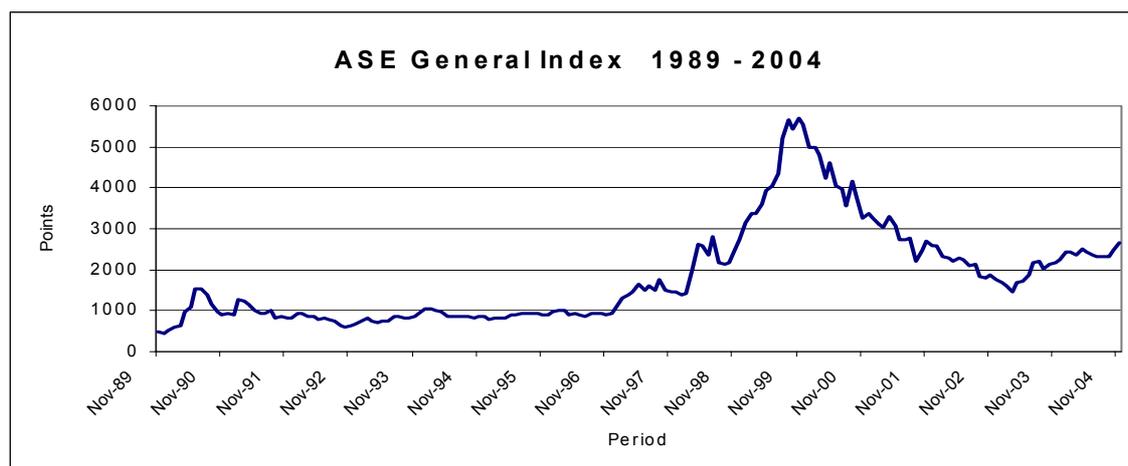
Nevertheless, despite these initiatives, many companies still fall below the levels of those of the best-governed in Europe and the U.S. The implementation of governance practice remains in many cases more a result of mandatory compliance than of a conscious effort by corporate boards to be more accountable.

Overview

The 10-year period from 1992 to 2002 was characterized by a number of inadequacies in the Greek capital markets, the most notable of which was the lack of a proper corporate governance culture.

The need for corporate governance reforms in Greece became yet more apparent after the 1999 stock market high, which had a devastating effect on the market. Rumor-driven prices, combined with market abuses, created a bubble effect and finally contributed to a decline (see chart 1 below). An increased number of IPOs by companies with outdated corporate structures, accompanied by an aging regulatory framework, produced negative outcomes for investors who were frequently unaware of the true condition of their holdings. Investor loss of confidence in the market was probably the most damaging longer term consequence, and from 2000 onwards, there was an exodus of funds away from the ASE. By 2003, total annual transactions had declined to €34.9 billion.

Chart 1: ASE General Index (1989 – 2004)



Note: Prices on monthly basis.

In an initial step from the Greek authorities to restore market confidence, the regulatory and legal framework of the capital markets was revised and updated. Efforts began in 1999 with the publication of *The Principles of Corporate Governance in Greece* and continued with regulations introduced by the HCMC covering the transparency and market behavior of listed firms. This was followed by HCMC regulation 1/192/2000 that regulated takeovers. Law 3016/2002 followed, and dealt with board structure and behavior. These, and other subsequent laws and regulations, were the first major attempts to revise the 85-year-old corporation law. The combined effect of these laws attempted to separate the roles of shareholders, management, and boards of directors and to increase the transparency, quality, and dissemination of information to investors.

A number of important measures included:

- Mandatory independent directors. Although there had always been a distinction between the role of management, shareholders, and directors of a company, in reality the major shareholder(s) appointed the members of the board and ruled the shareholders' meetings in most cases. Decisions were often taken to the advantage of the major shareholder(s) and exploited the assets of the company. This was not surprising, given the highly concentrated ownership structure in Greek-listed companies. The introduction of independent directors was therefore a positive step, although concerns about the independence of the nomination and appointment process were not addressed. (L3016/02).
- Mandatory preannouncement of the buying or selling of company stocks by members of management or by members of the board of directors before an important corporate event. There are, however, cases of violation, as fines imposed by the authorities are low in contrast with potential gains (5/204/00 HCMC regulation).
- Improved dissemination of information to investors. The introduction of investor relations departments was a step toward better communication with investors. Not all companies take investor relations seriously, however, and dissemination of information is still not always efficient (L3016/02).
- The establishment of internal control departments. Reporting to the board of directors, internal control departments were created to assist senior management in its work and investors in their decisions. This reform is especially useful to independent members of the board in terms of being alerted to malpractice (L3016/02).

As these measures were imposed on the business community rather than adopted willingly, many listed companies initially ignored the code. Although practices are gradually improving, the majority of companies still fall below the levels of those of the best-governed in Europe and the U.S.

Component 1: Market Infrastructure

Banking system

The Greek banking system is characterized by the presence of various types of banking entities. These include commercial and investment banks, loans and savings associations, and co-operative banks. After the absorption of ETEVA (an investment banking subsidiary of the National Bank of Greece group) by the National Bank of Greece S.A. (NBG; BBB+/Stable/A-2) a few years ago, the distinctions that historically separated commercial banking from investment banking no longer applied. Currently, the major banking groups in Greece offer both commercial and investment banking services.

In total, 62 banks operate in the Greek market. They are classified as commercial and foreign banks, co-operative banks, and special financial institutions. The total banking network consists of 3,263 branches across the country. Concentration is high, with the top five banks commanding a market share of 67.5% of total assets, 66.0% of loans, and 69.0% of deposits.

Financial markets

The two exchanges for securities in Greece are the ASE and the Athens Derivatives Exchange (ADEX). Hellenic Stock Exchanges S.A., itself listed on the ASE, owns both exchanges. The ASE consists of the Main Market, the Parallel Market, and smaller markets--such as The New Stock Market ("NEHA") and The Greek Market of Emerging Capital Markets ("EAGAK")--that target the listing of innovative, dynamic, and newly established companies. In addition, foreign companies may issue ELPIS (Greek depository receipts). These are negotiable securities representing shares issued by foreign companies. There is also a corporate bond market with a limited number of new issues each year.

In December 2003, total market capitalization amounted to €84.55 billion, compared with €65.76 billion in December 2002 and €197.54 billion in December 1999. Table 1 compares the Greek market with other markets.

Table 1: Peer Comparison: Market Capitalization/GDP

<u>Country</u>	<u>Market Capitalization/ GDP (%)</u>
Finland	127.29
France	90.47
Germany	47.49
Greece	64.56
Italy	61.57
Japan	66.78
Netherlands	137.10
Switzerland	295.25
U.K.	164.86
U.S.	128.79

Note: Market capitalization as of Nov. 30, 2004. GDP as of Dec. 31, 2003

Source: Dow Jones Indexes, OECD

In common with most other global markets, the number of IPOs has declined since 1999 as a result of unfavorable market conditions. In 2003, there were only 16 IPOs, compared with 20 in 2002 and 24 in 2001. However, total funds raised through the IPO process totaled €118.4 million in 2003, compared with €92.5 million and €2.56 billion in 2002 and 1999, respectively.

In 2003, eight fixed-income bond issues and four convertible bond issues raised €275.4 million. Previously, the Greek state issued bonds convertible into the equity of state-owned organizations, including Hellenic Lottery Organization, Hellenic Stock Exchanges, and Public Power Corp. S.A.

According to the Hellenic authorities, the Greek market currently consists of 28 brokerage firms, 49 financial services firms (members of the ASE), and 34 financial services firms (non-ASE members). Due to the sharp drop in commission income over the past few years, however, many of the firms are not currently profitable. There are also nonbrokerage special entities (known as ELDEs), which mediate between brokers and investors. Their only task is to receive and transmit stock exchange orders.

Shareholding structure

Poor market conditions during 2004 and early 2005 have led to a decline in the overall free float of Greek companies, which had risen steeply between 2000 and 2003, primarily as a result of the five-year bear market and the vast number of IPOs in 1999. Large-cap companies typically have free floats in excess of 50%, while smaller companies' have between 20% and 40%.

Mutual funds and closed-end funds are the major institutional investors in Greece. Although these have generally contributed to the liquidity of equity transactions since 1991, legal changes were needed to develop the market. The recently introduced L3823/04 therefore grants mutual funds the right to manage private assets and extends their range of investment into other asset classes.

Metrics for financial 2003.

As of December 2003, there were 29 mutual fund management companies that offered 265 mutual funds and similar investment products in the Greek market. Total assets under management reached €30.40 billion versus €25.38 billion at the end of 2002, a growth rate of 19.75%.

Concentration increased further, with the three largest mutual fund companies accounting for €20.05 billion of assets under management at year-end, or 65.96% of total assets in the sector, versus 60.29% in 2002. Six foreign mutual fund companies contacted the Greek authorities to express their interest in initiating operations in the Greek capital markets during this period.

Twenty-two closed-end funds were listed on the ASE, representing a total market capitalization of €1.3 billion, compared with 24 funds and €1.4 billion total market capitalization at year-end 2002. The net asset value of the funds reached €1.4 billion in 2003, from €1.7 billion in 2002 and €2.3 billion in 2001. There were 10 closed-end funds not listed on the ASE.

Pension funds.

Presently, only public funds exist in Greece and these have little exposure to the equity markets. Changes to the legal framework in 2006 are, however, likely to allow pension funds greater exposure to equities: according to current provisions, pension funds are entitled to invest up to 23% of their capital reserves in assets, including bonds, equities, and real estate. Equity exposure is low, with pension funds investing less than 14% of total assets in Greek stocks.

Although, in terms of aggregate assets under management, pension funds have the potential to be dominant institutional investors, assets are presently invested only in blue-chip stocks (to a small degree), bonds, and money market funds.

Component 2: Legal Infrastructure

Harmonization with EU directives

Throughout the 1990s, the legal framework of the Greek capital markets underwent major changes as it adopted EU directives. Harmonization was focused in three areas:

- L2076/96 introduced the second EU banking directive that provided for the liberalization of rendering banking services on behalf of foreign institutions in Greece and Greek institutions abroad.
- L2396/96 introduced free access to EU investment institutions in Greece and Greek institutions in EU member countries.
- L1969/91 complied with the EU on institutional investment practices.

Capital markets

L1806/86 initially provided the operational framework for the Greek capital markets. It set guidelines for the supervision of transactions by market participants and introduced measures that dealt with the modernization of the ASE. It also set the criteria for the markets' administration and listing procedures, the prerequisites for market makers, and dealt briefly with the issue of insider trading.

This law has been amended several times by decrees of the HCMC and by other related laws.

Law on commercial companies

L2190/20 is the primary law that covers large companies, including those listed on the ASE. It addresses issues on incorporation, shareholder meetings, ownership rights, various classes of shares and bonds, the establishment of foreign firms in Greece, M&A, consolidation, and bankruptcy. It also sets the principles for the formation and operation of boards of directors.

Law on corporate governance

In 2002, law L3016/02 introduced a number of corporate governance reforms for publicly traded companies.

These include the operation of companies' boards of directors, which require both executive and non-executive members under the reforms, but do not provide for the separation of the positions of the CEO and the nonexecutive president or chairman of the board.

Nonexecutive members should comprise at least one-third of the board of directors, and a minimum of two of these should be independent. In this context, independent is defined as a director who does not have a shareholding in excess of 5% or have any professional affiliation with the company (for example, independent directors should not hold a management position in an affiliated company or have any relationship with a member of the board of directors or with the majority shareholder).

A key feature is the right of independent directors to submit their own report to the general shareholders' meeting separately from the report submitted by the other board members. A counter to this, however, is that, although it is the general shareholders' meeting that appoints the independent directors, it is typically the board of directors (often dominated by representatives of the controlling shareholders) that suggests their nomination. Many commentators regard the lack of an independent nomination process as a weakness, particularly as the law on corporate governance does not require an independent nomination committee.

The reforms also expressly prevent directors from pursuing personal interests that are contrary to those of the company. Although it is too early to assess how effective this will be in safeguarding companies against such events, this is nevertheless a positive development.

Internal audit is also covered by the law on corporate governance. Companies are now required to establish internal audit departments that are independent of their operational units. Listed companies must also establish a set of internal regulations that prescribe company structure and its various departments. These should define:

- The responsibilities of the executive and nonexecutive members of the board of directors, as well as the process for appointing and evaluating management.
- The procedure for controlling the management members of the board of directors and stakeholders' share transactions.
- The process by which equity transactions between affiliated companies are announced.

Shareholders' meetings

L2190/20 provides for the procedure by which shareholders' meetings are called and held. Shareholders must be notified, either in writing or by e-mail, at least 20 days prior to any such meeting. The invitation should include all topics that will be addressed at the meeting. Every investor may either participate in person or may use a proxy with an appropriate legal document proving power of participation.

The general assembly is quorate when at least one-fifth of all shareholders are present. For ordinary resolutions, decisions are taken by an absolute majority of attending shareholders. For extraordinary resolutions, including share capital increases and/or decreases, or debt issuance, an increased participation of one-third of shareholders is required. The Articles of Association determine the resolutions that require increased representation.

A minority of 5% of existing shareholders may propose a general meeting, which has to be called by the board of directors within 30 days. Again, with a request from at least 5% of shareholders, the board of directors is obliged to provide details of payments to members of the board and to supply any useful information regarding the issues on the agenda of the annual shareholders' meeting.

Financial statements

All listed companies are required to publish quarterly, semiannual, and annual financial statements. According to Presidential decree 350/1985, quarterly financial statements should be published within two months of the end of the relevant quarter. Annual financial statements should be in print within a four-month period after financial year-end, and the annual report must be available to the public 10 days before the general assembly of shareholders.

Pre-emptive rights

The general assembly approves any amendments to variate current shareholders' pre-emptive rights and the allocation of new shares, after a share capital increase, to other persons. The same applies to stock options for personnel.

Audit regulations

According to law 3016/2005, every listed company is required to establish an internal control unit that employs at least one full-time independent auditor appointed by the board of directors and supervised by three nonexecutive members of the board. All active members of the board and any person affiliated with management are excluded from fulfilling the position.

The purpose of the internal control unit is to ensure the accurate implementation of the companies' internal regulations and to report abuses to the board of directors. The unit is required to report at least once every quarter. Independent nonexecutive members of the board may also report to the general shareholders' meeting.

Insider trading

In 2000, the HCMC's 5/204/00 regulation specified the criteria for the prohibition of insider trading. It also set the framework for the reporting and disclosure of information. The determination of the specific dates by which either an employee or a stakeholder in possession of crucial information on a company is entitled to engage in transactions in the company's shares is rather complex and easily misunderstood. Although breaches of the regulation are subject to penalties, there is currently no precise definition of insider trading. A proposed new law will, however, present the HCMC with more responsibilities, allowing it to access all documents, hold on-site investigations, suspend transactions of company stocks, and to ask for the confiscation of assets. Furthermore, the principle of co-responsibility will be introduced, whereby financial institutions that profit from illegal transactions, such as front running, will be prosecuted.

Companies are obliged to report regularly to market participants in an effort to discourage insider trading. They are further required to prevent any leaks of crucial information before an official announcement and to generally be seen to safeguard the credibility and efficient operation of the equity markets.

Rules of conduct

At the end of 2000, the HCMC published a series of rules of conduct for all Greek companies listed on the ASE. Its 5/204/14/ regulation combined with previous legislation to enforce rules governing publicly traded companies, including the disclosure of information and procedures for share dealing.

The law also defined the obligations of major shareholders, members of the board, corporate executives, and other physical and legal entities that have direct or indirect relationships with listed companies.

Publicly traded companies are obliged to disclose information about their business activities publicly and in a timely manner. All information should be treated as confidential before its public disclosure to the market. In this context, publicly traded companies are required to inform the ASE about any corporate or other relevant developments, and simultaneously utilize any other means of disclosure such as press reports or media announcements. More specifically, listed companies are obliged to report on the initiation or termination of business activities, corporate deals, decisions for acquisitions, mergers, divestitures, equity sales, stock repurchase plans, changes in the structure of the board of directors, dividend policy, and corporate actions (including share capital increases and stock splits). Listed companies are also obliged to disclose information about developments relating to their capital structure, debt policy, financial efficiency, and any other material changes likely to affect publicly available information or information presented in the latest annual report.

Publicly available information on listed companies should encompass all information necessary for a clear and sufficient view of a company's status and for the prevention of any misconception or confusion in the equity markets. The regulation makes special reference to cases of market rumors or breaches of confidentiality prior to an announcement. In the first case, publicly traded companies are obliged to inform the ASE immediately as to whether or not the market rumors are of material substance. The ASE then disseminates this information to all investors. In the second case, listed companies must report any concerns about possible breaches of confidentiality prior to an announcement. The board of directors of the ASE is the sole body able to exempt listed companies from the above obligations.

Furthermore, share dealing is prohibited at certain closed periods--prior to the release of quarterly earnings announcements, for example. This provision covers members of the board, certified auditors, legal counselors, major shareholders (that is, shareholders with an interest greater than 20%), and affiliated legal entities.

All entities must inform the HCMC of their investor and securities accounts (trading codes) in the clearing system. In many cases, shareholders, board members, and/or affiliates are obliged to pre-announce equity transactions when they relate to a significant stake in the listed company (defined as greater than 5%). For example, if a major shareholder decides to reduce its interest in a listed company to 54% from 60%, that shareholder must pre-announce the transaction.

The 5/204/14 decree of November 2000, together with Section A of Presidential decree 348/1985, defines the minimum information, both qualitative and quantitative, that must be contained in the annual report.

Finally, listed companies must establish an internal control department, as well as an investor relations and corporate announcements department.

In all cases of illegal conduct, the HCMC imposes strict penalties according to the provisions of law L2836/2000.

Component 3: Regulatory Framework

Overview

The Greek capital markets have undergone a major transformation over the past 10 years. The adoption of various EU and OECD directives, and of several other laws that aim to monitor the markets, has boosted investor interest. One negative effect of this transformation, however, is the perception of over-regulation. The rigid imposition of certain rules has in some cases produced poor results for market participants. Nevertheless, the trend is generally positive, providing a greater degree of freedom--albeit with severe penalties for violation--with improvements in aspects of transparency, disclosure of information, and corporate governance.

Since 2000, the Greek legal system has a good track record of enforcement with regard to the protection of minority shareholders. Improvements have been brought about by various definitions, alterations, and additions to the once deficient legal framework, and through the reinforcement of the role of the HCMC.

In 2003, the institution of ombudsman was introduced to resolve differences between various market participants, particularly fund managers and investment services firms and their clients.

State authorities

The prevailing state authorities are the Ministry of Commerce, which regulates all *Societe Anonyme* (S.A.) companies, and the HCMC and the Ministry of Finance (MOF), which regulate the ASE.

Regulatory bodies

The HCMC is the main regulatory body for the securities sector. Two other regulatory bodies have separate responsibilities: the ASE monitors securities transactions, reporting to the HCMC, and the Bank of Greece controls the operating issues of banking institutions.

Hellenic Capital Market Committee.

The HCMC is an autonomous administrative body supervised by the Ministry of Finance. Its main objective is to ensure the sound operation of the capital markets and to strengthen investor confidence. According to its founding laws, it sets the terms and conditions that regulate the capital markets and issues directives on compliance procedures.

The HCMC supervises the following entities in a variety of matters:

- Brokerage firms;
- Investment services firms;
- Open-end fund management companies;
- Closed-end fund management companies;
- Special entities that receive and transmit stock exchange orders;
- The Athens Stock Exchange;
- The Athens Derivatives Exchange;
- The Athens Derivatives Transaction Clearing House; and
- The Central Depository of Securities.

Laws 1969/91, 2166/93, 3152/03, and Presidential decree 25/03 require the HCMC to monitor a variety of issues, including:

- Organizational matters covering capital adequacy, the approval of public offers for listed companies, appointments of board of directors members, certification of brokers' representatives, and the establishment of financial intermediaries' subsidiaries;
- The supervision of institutional investors, specifically the compliance of portfolio composition and the transparency of transactions;
- The regulation of market transactions, such as securities trading and clearing, and of the derivatives systems; and
- The regulation of market transparency.

To assist market participants and improve efficiency, the HCMC has introduced three separate rules of conduct covering financial intermediaries, listed companies, and underwriters, in compliance with EU standards. These rules control and regulate the procedures of all entities.

The HCMC is legally entitled to impose sanctions ranging from simple fines to the revocation of licenses, and, in 2003, cooperated with the Bank of Greece to impose fines on two banks. It has also enforced sanctions on 38 stockbroking and other investment services firms and revoked the licences of

one stock broking firm, 13 financial intermediaries, and one investment services firm. Interestingly, the number of violations and fines fell between 2002 and 2003, which may indicate conformity with the transparency rules introduced earlier.

Athens Stock Exchange.

The MOF and the HCMC supervise the ASE, a subsidiary of the Hellenic Stock Exchanges (EHAE), a listed company of which the major shareholders are the Greek state and various Greek banking institutions, which currently hold a stake of about 35%.

The ASE's main responsibilities are:

- The approval of the listing of new shares.
- The supervision of its members and of listed companies.
- The provision of assistance to the HCMC on matters of corporate governance, including the monitoring of acquisitions of significant stakes in listed companies and obligations under the exchange's rules of conduct.
- The coordination of the processes for conducting market transactions.
- The certification and appointment of brokers' representatives.

In 2003, law L3152/03 transferred certain duties from the ASE and the MOF to the HCMC, including the granting and revocation of licenses for the operation of securities markets and the issue of rules concerning the minimum capital required by market participants.

Bank of Greece.

The Bank of Greece is the country's central bank and regulates through the issuance of directives that aim to optimize the performance and operation of banking institutions. The bank is listed on the ASE and the majority of its shares are currently held by the Greek state and various state agencies.

The most recent law affecting corporate governance in Greek banking institutions, L2076/92, legislated for the conduct of general shareholders' meetings, boards of directors, audit, and disclosure of information, among other areas. The law also dealt with issues involving the original shareholder, the establishment of credible electronic systems for the audit process, and the origin of funds.

In 1998, Bank of Greece directive 2438/98 imposed new measures to assist the audit process, including improvements in risk management, transparency of financial data, and IT.

Component 4: Informational Infrastructure

Adoption of International Financial Reporting Standards (IFRS)

From January 2005, listed companies in Greece are obliged to publish annual and interim financial statements to conform with IFRS. The compilation and publication of financial statements under IFRS will be made according to the provisions of L3229/2004 (Government Gazette 38/10, February 2004) and L2190/1920. Article 13 of L3229/2004 states that, in 2005, listed companies should report using IFRS only for fiscal year 2005, or interim periods of the same year, without providing financial accounts from the previous year or period for comparison.

The new financial statements under IFRS will be lengthier and more detailed than the format published under Greek GAAP. Under IFRS, the financial statements of all Greek companies will become directly comparable with those of publicly traded corporate entities in all other euro zone countries.

It is too early to estimate the precise qualitative and quantitative effects on the financial accounts of Greek listed companies following the adoption of IFRS. According to market sources, these are likely to be most apparent in banks, insurance companies, real estate firms, and leasing companies, and are most likely to relate to issues such as the fair valuation of real estate assets, equity holdings, derivatives, the financial treatment of M&A, treatment of leased assets, foreign exchange differences, and retirement benefits.

Table 2 below presents some of the main differences between Greek GAAP and IFRS:

<i>Financial accounts</i>	<i>Greek GAAP</i>	<i>IFRS</i>
Depreciation charges	According to taxation law	According to asset life
Equity portfolio	Valued based on the lowest value between acquisition cost and market value. If market value is greater than acquisition cost, the difference may be depreciated (thus affecting earnings), or subtracted from net worth.	The equity portfolio is categorized as being between the investment portfolio and the trading portfolio. Investment losses are subtracted from net worth, while trading losses affect earnings.
Real estate assets	Valued based on acquisition cost and incorporating any asset revaluation required by Greek law.	Valued based on either acquisition cost or market value. An independent adviser determines the market value of the asset.
Goodwill	Not treated as an asset. Subtracted directly from net worth, it does not affect earnings.	Treated as an asset. Depreciated over the long term, thus affecting earnings.

Notes

Law 1806/1986 on capital markets.
 Law 2190/1920 on *Societe Anonyme* companies.
 Law 3016/2002 on corporate governance.
 Law 2076/1996 on banking activity.
 Law 2396/1996 on institutions offering investment services.
 Law 1969/1991 on institutional investors and the HCMC.
 Law 3823/2004 on mutual funds.
 Law 2166/1993 on the HCMC.
 Law 3152/2003 on the HCMC.
 Presidential decree 258/1997 on monitoring banking institutions.
 Presidential decree 350/1985 on listed companies in the ASE.
 Bank of Greece directive 2438/1998 on internal audit of credit institutions.
 Presidential decree 25/2003 on the HCMC.
 Hellenic Capital Market Commission decree 195/2000 on public offering for listed shares.
 Hellenic Capital Market Commission 5/204/14/2000 decree on rule of conduct for listed companies.
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