‘Greece 10 Years Ahead’ Defining Greece’s new growth model and strategy:

Tourism and Growth Conference

Athens, November 2011

McKinsey&Company

Contents

Overview of McKinsey & Company

McKinsey globally

- Founded in 1926
- ~8.000 consultants and 99 offices in 56 countries around the world
- Cooperation with 90 of the top 100 companies of Forbes Global 2000
- Specialization in 11 sectors and 7 functions with an annual investment on knowledge development over $300 million
- ~1,100 studies in the last five years for national and local governments, charities and non-profit organizations. ~400 studies for economic growth for more than 70 national and local governments

McKinsey Global Institute

- Economics and Research Institute - think tank of McKinsey, which conducts completely independent research studies that combine academic economic thinking with the specialization in business aspects and sectors of the economic activity

McKinsey in Greece

- Active in Greece since 1997
- Working with 12 of the 15 and 23 of the 40 leading companies in Greece based on market capitalisation

‘*Greece 10 Years Ahead*’ has been a Pan-Hellenic effort to develop Greece’s new economic growth strategy for the next 5 and 10 years

‘*Greece 10 Years Ahead’* scope

- Develop an objective analytical perspective on productivity and competitiveness challenges at a macro/cross-sector level
- Select the sectors that will form the ‘nucleus of growth’ (both current ‘giants’ and ‘rising stars’)
- Analyze in detail the competitiveness and productivity challenges for the selected sectors
- Identify action options for enhancing productivity and boosting growth both at macro/cross-sector and sectoral levels

Parties involved

Greek Government

- Prime Minister
- Ministry of Economy
- Ministry of Development
- Ministry of State
- Other Ministries (e.g., Tourism, HC, Energy, Agriculture)

Business, Regulatory and Social Partners

- ΣΕΒ
- ΕΕΤ
- ΤτΕ
- ΟΚΕ
- ΓΣΕΕ
- ΓΣΕΒΕ
- ΕΣΕΕ
- ΣΕΤΕ
- ΚΕΕ

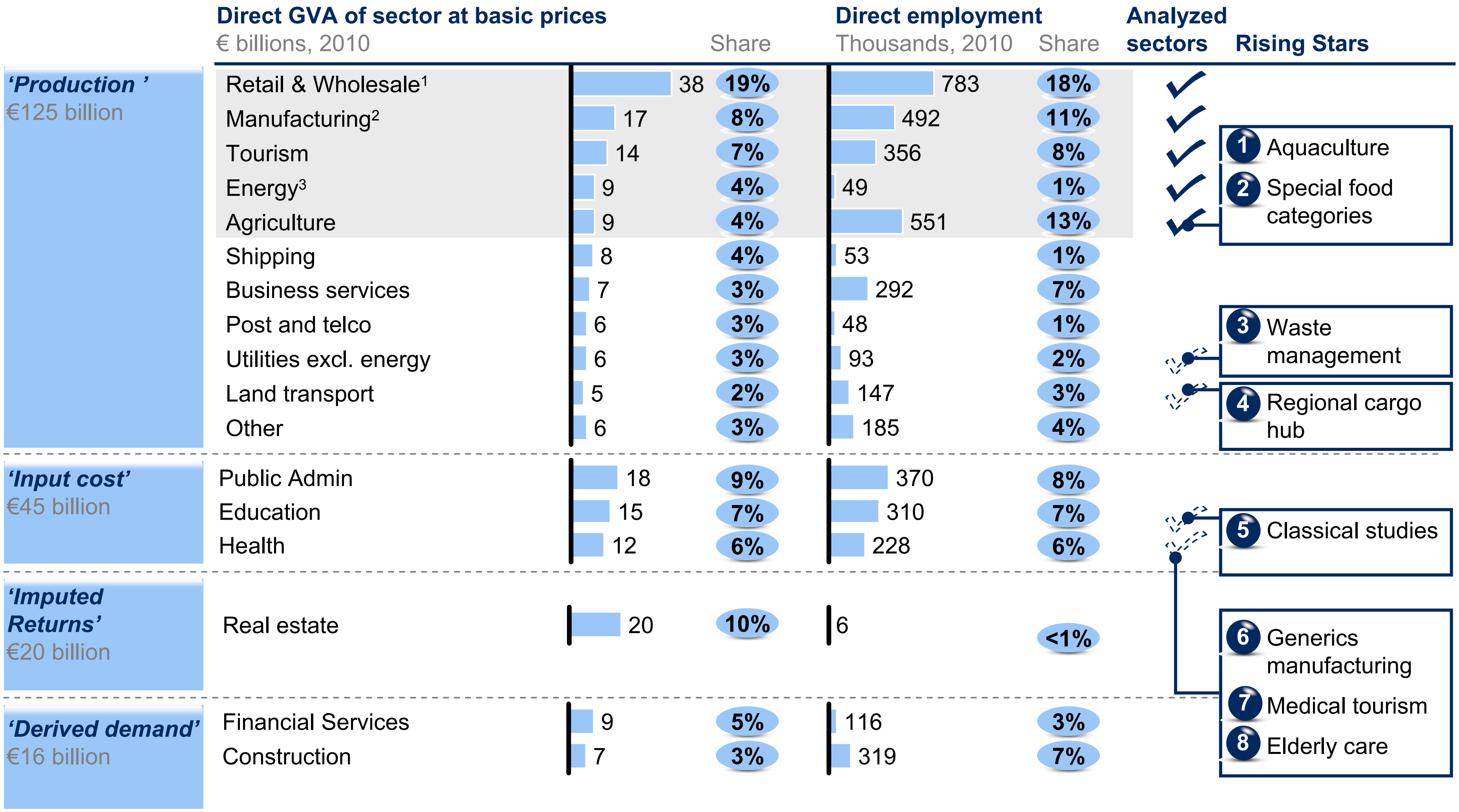
McKinsey & Company

- McKinsey Athens Office
- McKinsey Global Sector Practices
- McKinsey Global Institute (as advisor)

International and local Senior Experts and Academics

Mapping the economic sectors of Greece in terms of GVA and employment

ESTIMATES



		Direct GVA of sector at basic prices € billions, 2010	Share	Direct employment Thousands, 2010	Share	Analyzed sectors	Rising Stars
'Production ' €125 billion	Retail & Wholesale[1]	38	19%	783	18%	✓	
	Manufacturing[2]	17	8%	492	11%	✓	
	Tourism	14	7%	356	8%	✓	
	Energy[3]	9	4%	49	1%	✓	
	Agriculture	9	4%	551	13%	✓	① Aquaculture ② Special food categories
	Shipping	8	4%	53	1%		
	Business services	7	3%	292	7%		
	Post and telco	6	3%	48	1%		
	Utilities excl. energy	6	3%	93	2%	✓	③ Waste management
	Land transport	5	2%	147	3%	✓	④ Regional cargo hub
	Other	6	3%	185	4%		
'Input cost' €45 billion	Public Admin	18	9%	370	8%		
	Education	15	7%	310	7%	✓	⑤ Classical studies
	Health	12	6%	228	6%	✓	⑥ Generics manufacturing ⑦ Medical tourism ⑧ Elderly care
'Imputed Returns' €20 billion	Real estate	20	10%	6	<1%		
'Derived demand' €16 billion	Financial Services	9	5%	116	3%		
	Construction	7	3%	319	7%		

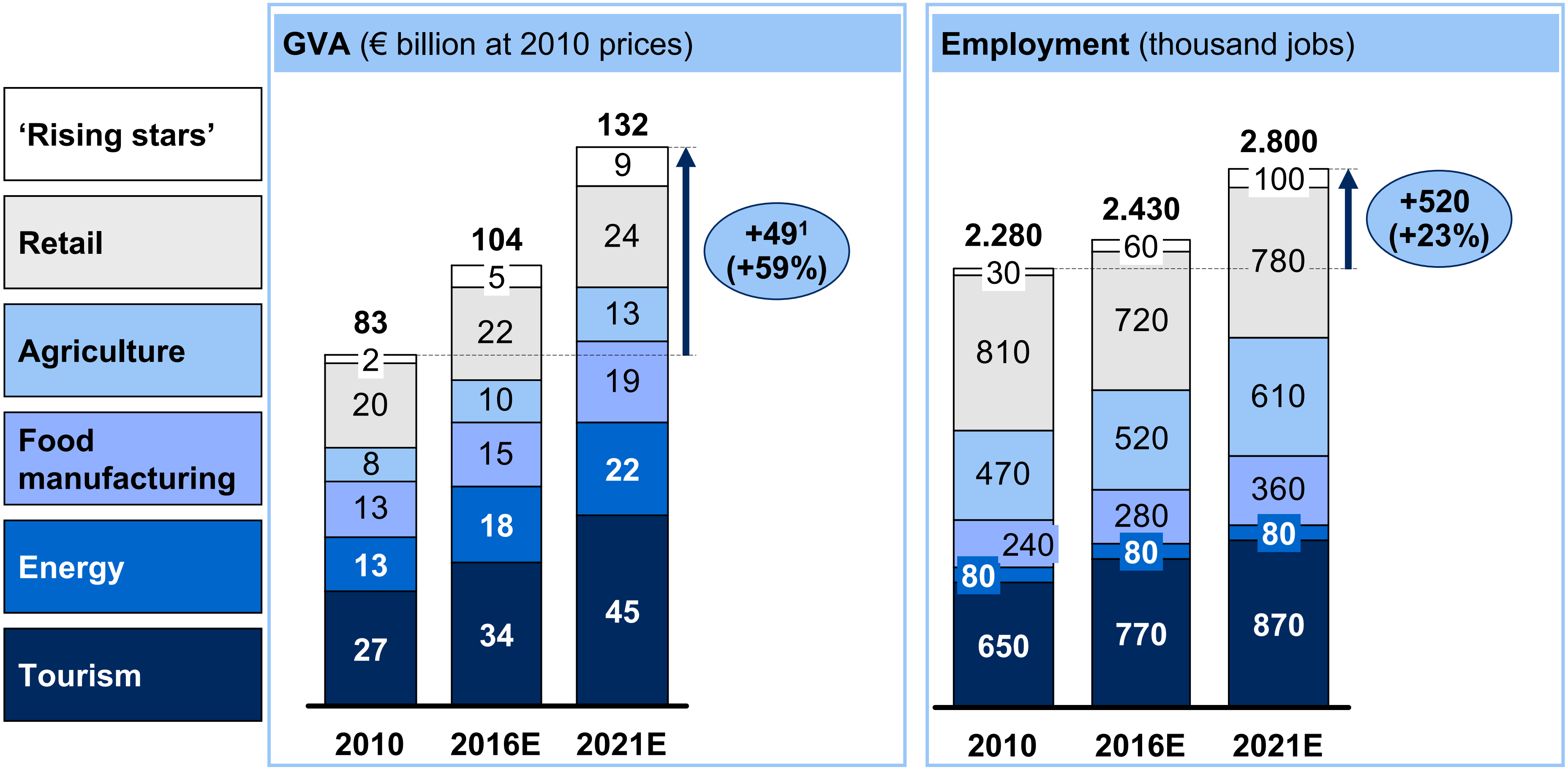
1 Excluding fuel retail; 2 Excluding pharma manufacturing and ship building; 3 Extraction, processing and retail of fuels; electricity

Note: Figures include only direct GVA and employment of each sector and are therefore not comparable with figures that include indirect effects

SOURCE: WIS Global Insight; EU KLEMS 2009; Eurostat

Potential for €49 billion new economic output and 520 thousand new jobs in the next decade

ESTIMATES



Note: Tourism and Retail are depicted in 2009 figures instead of 2010

[1] ~€ 55 billion in GDP terms

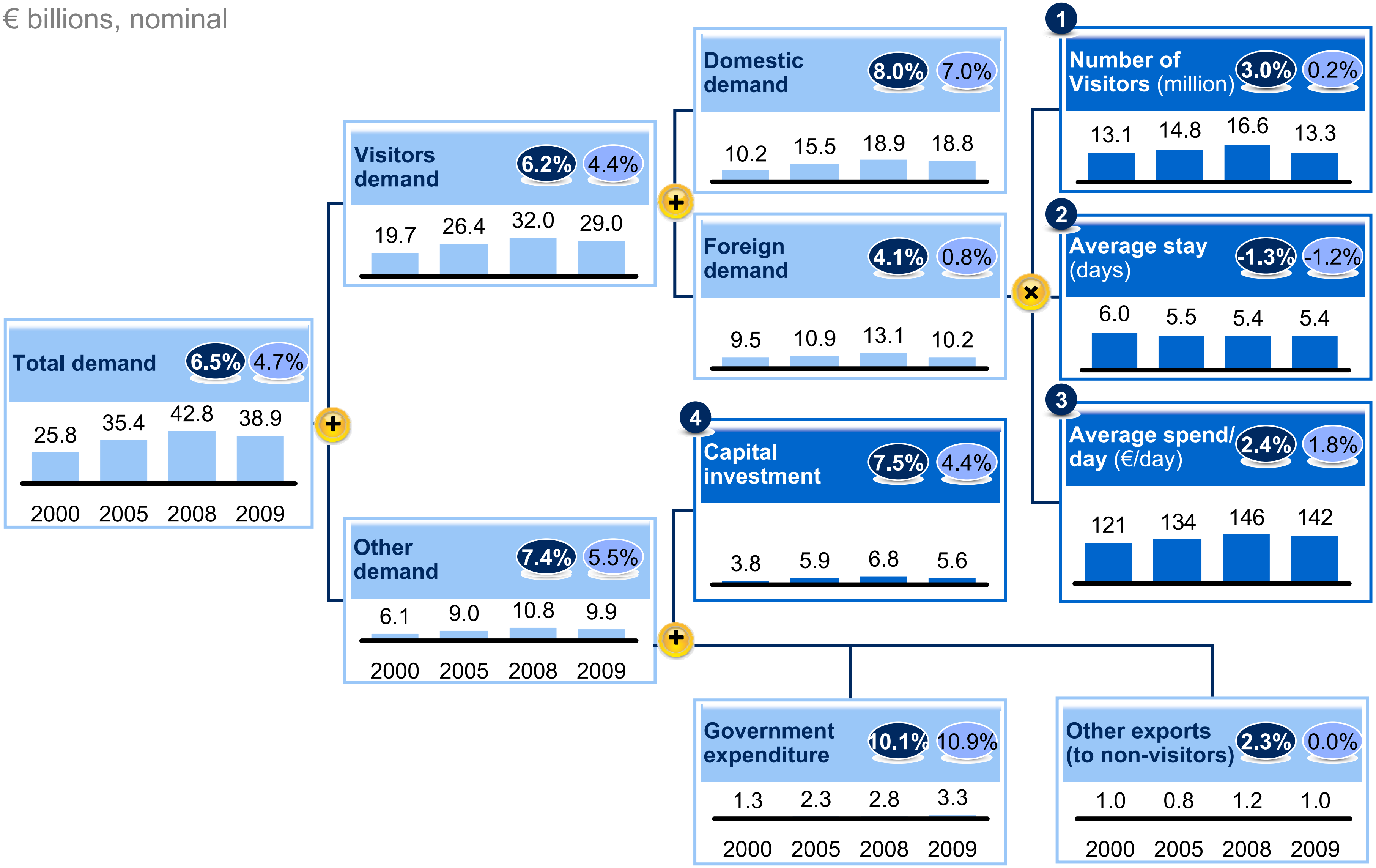
Contents

Decomposing the Tourism sector demand reveals four critical growth levers to act upon

€ billions, nominal

XX CAGR 2000–2009

XX CAGR 2000–2008

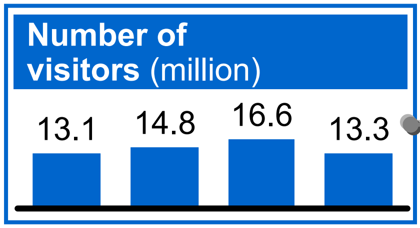


	CAGR 2000–2008	CAGR 2000–2009	2000	2005	2008	2009
Total demand	6.5%	4.7%	25.8	35.4	42.8	38.9
Visitors demand	6.2%	4.4%	19.7	26.4	32.0	29.0
Domestic demand	8.0%	7.0%	10.2	15.5	18.9	18.8
Foreign demand	4.1%	0.8%	9.5	10.9	13.1	10.2
1 **Number of Visitors** (million)	3.0%	0.2%	13.1	14.8	16.6	13.3
2 **Average stay** (days)	-1.3%	-1.2%	6.0	5.5	5.4	5.4
3 **Average spend/ day** (€/day)	2.4%	1.8%	121	134	146	142
Other demand	7.4%	5.5%	6.1	9.0	10.8	9.9
4 **Capital investment**	7.5%	4.4%	3.8	5.9	6.8	5.6
Government expenditure	10.1%	10.9%	1.3	2.3	2.8	3.3
Other exports (to non-visitors)	2.3%	0.0%	1.0	0.8	1.2	1.0

Source: World Travel and Tourism Council; World Tourism Organization

A number of important observations could explain Greece's performance across four main growth levers

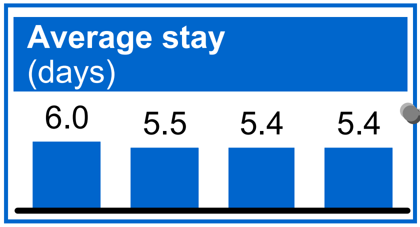
NOT EXHAUSTIVE



Number of visitors (million)

1

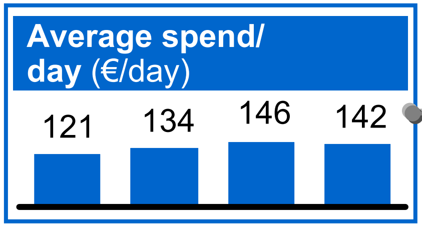
- **1.1** Minimal or negative market share growth in traditional markets
- **1.2** Weak penetration in emerging source markets
- **1.3** Condensed tourist season
- **1.4** Low awareness-to-purchase conversion rate in sun and beach segment
- **1.5** Weak loyalty in the culture segment



Average stay (days)

2

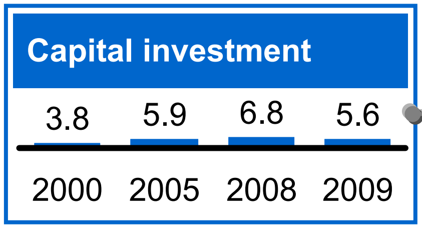
- **2.1** Minimal contribution of distant (long-haul) visits
- **2.2** Low penetration in 2nd home market



Average spend/ day (€/day)

3

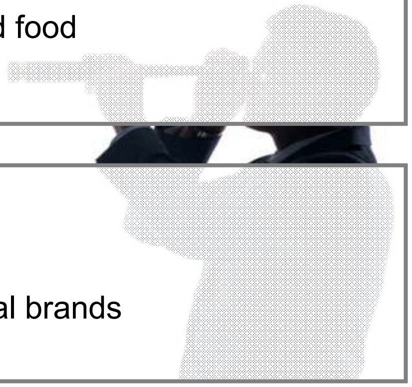
- **3.1** Spend focused heavily on accommodation and food



Capital investment

4

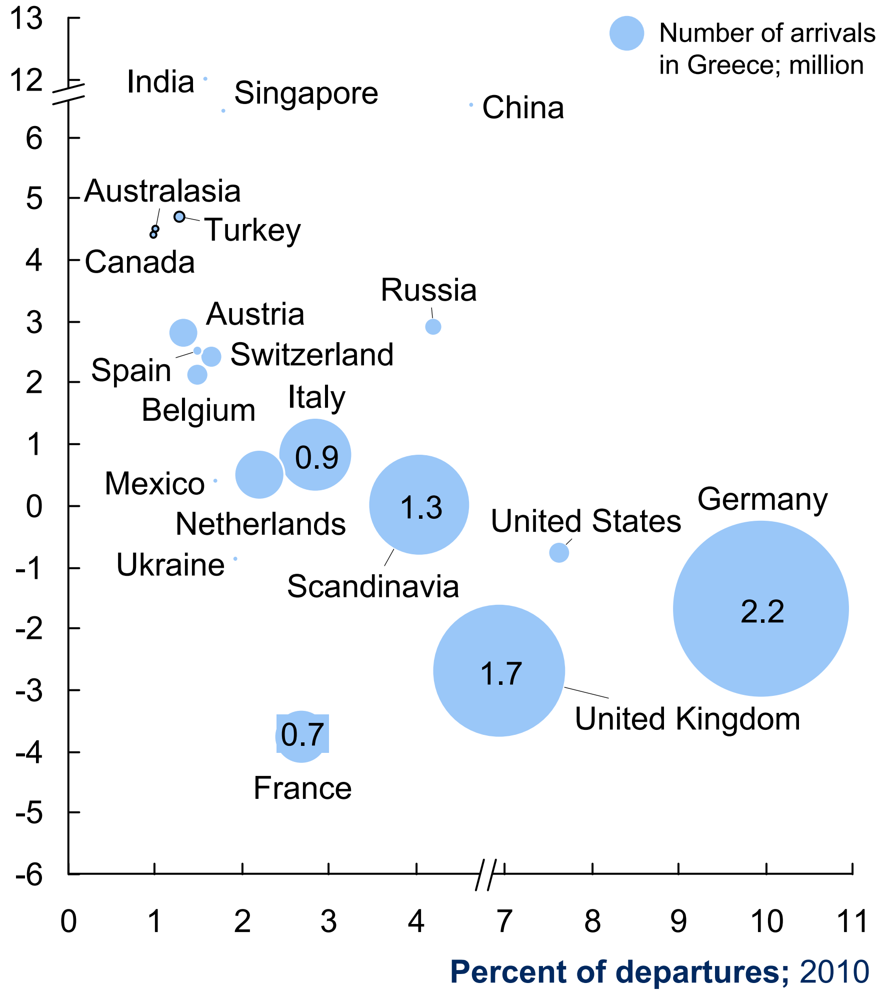
- **4.1** Low demand generated per tourism employee
- **4.2** Weak presence of hotel chains and international brands



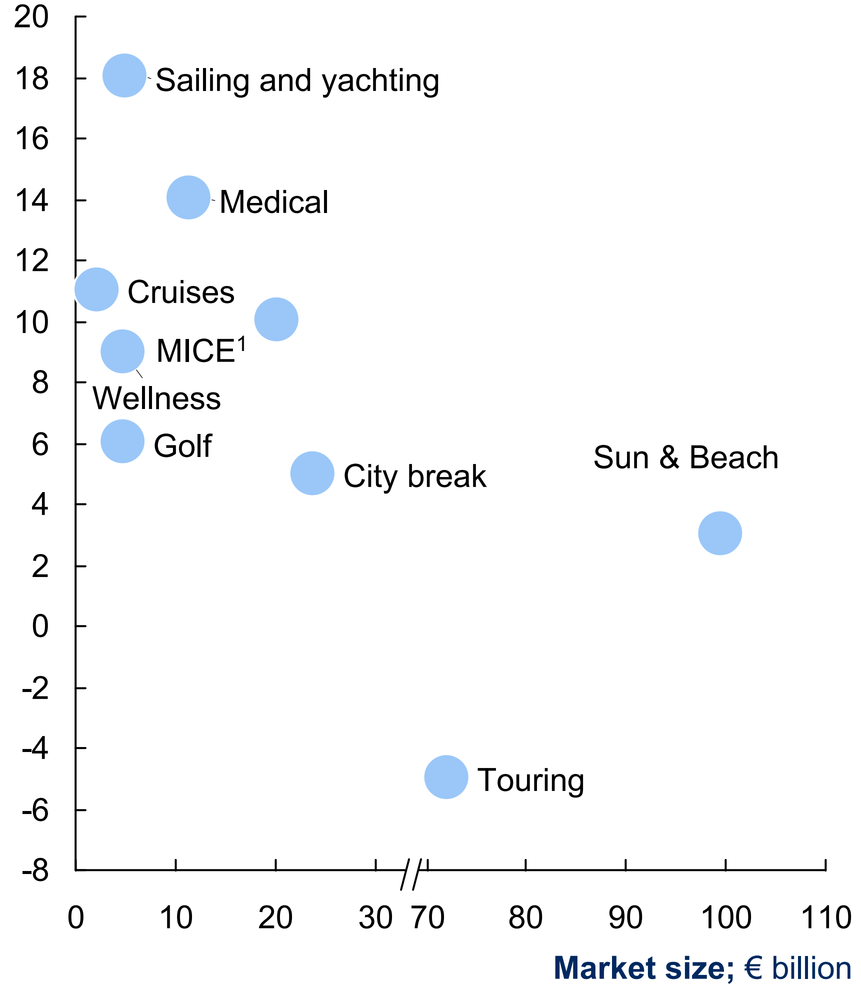
Source: World Travel and Tourism Council; World Tourism Organization

Greece's source market and product focus driven by fundamentals

Departures growth; % CAGR 2005-2010



European market growth; % CAGR 2004–09

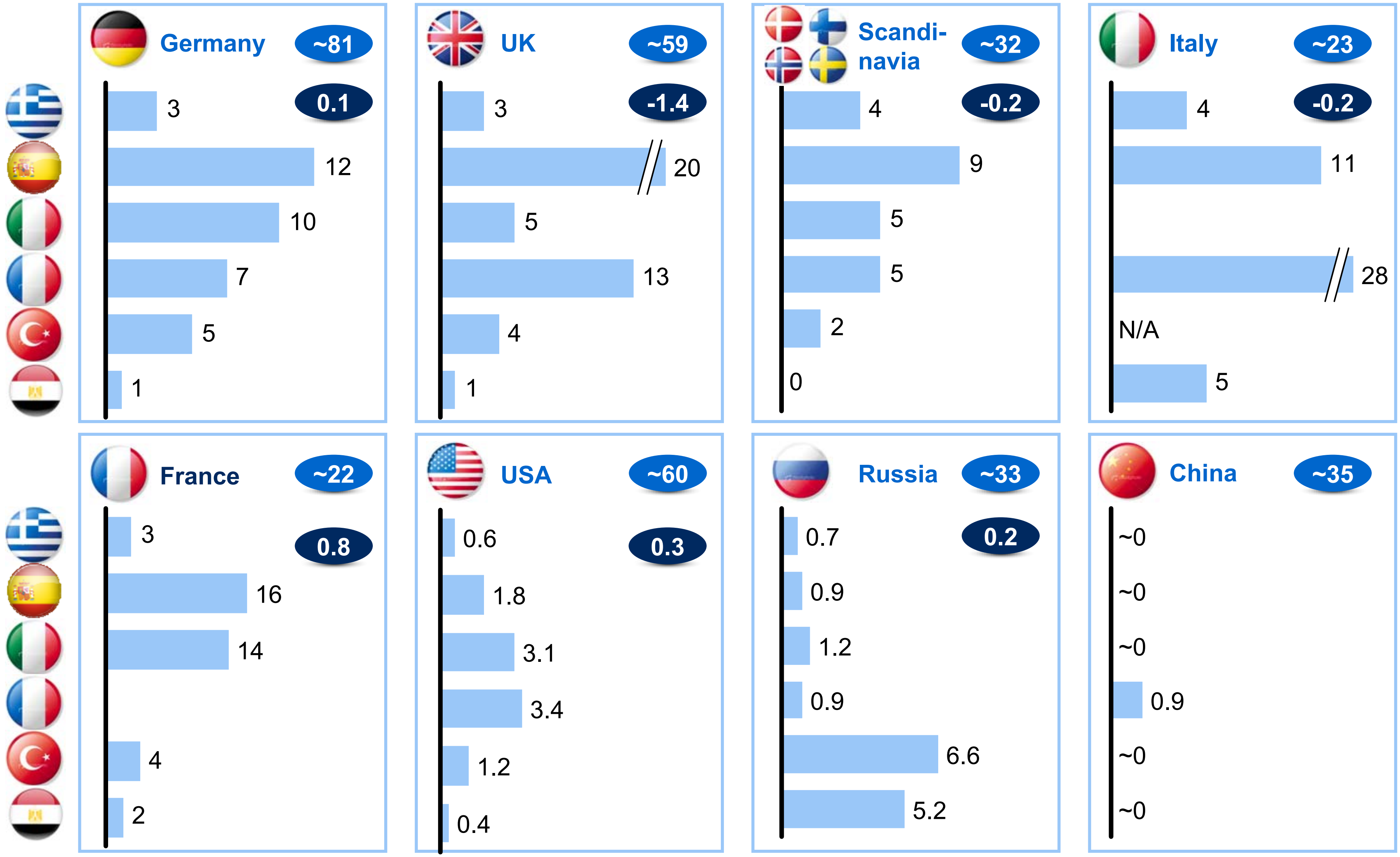


1 Meetings, Incentives, Conferences, Exhibition

SOURCE: Euromonitor; WTCC

A challenging competitive position for Greek tourism

Market share, %, 2009

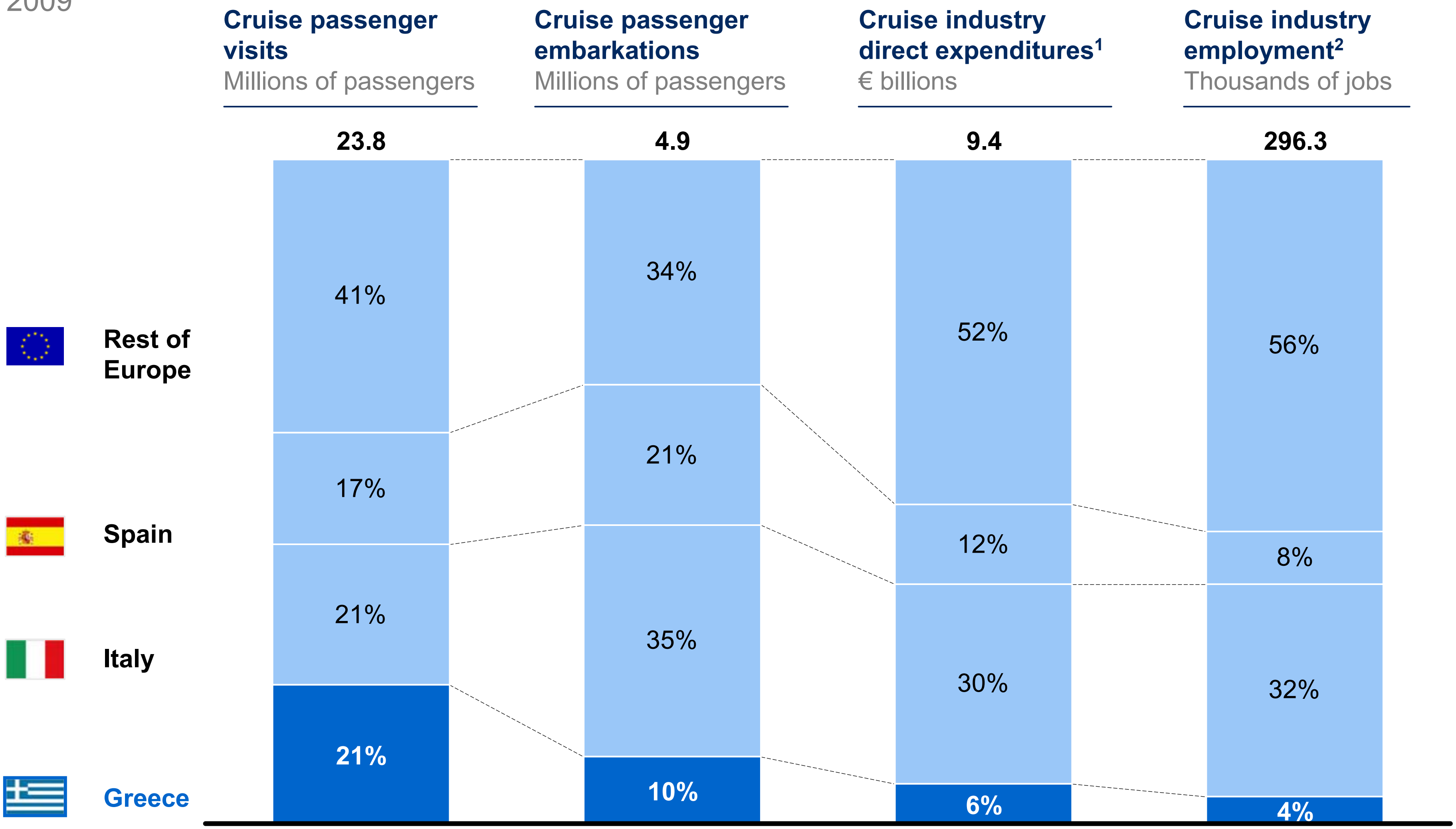


SOURCE: Euromonitor

Opportunity for boosting revenues and employment in the cruise industry by capturing a 'fair leadership share' in embarkations

ESTIMATES

2009

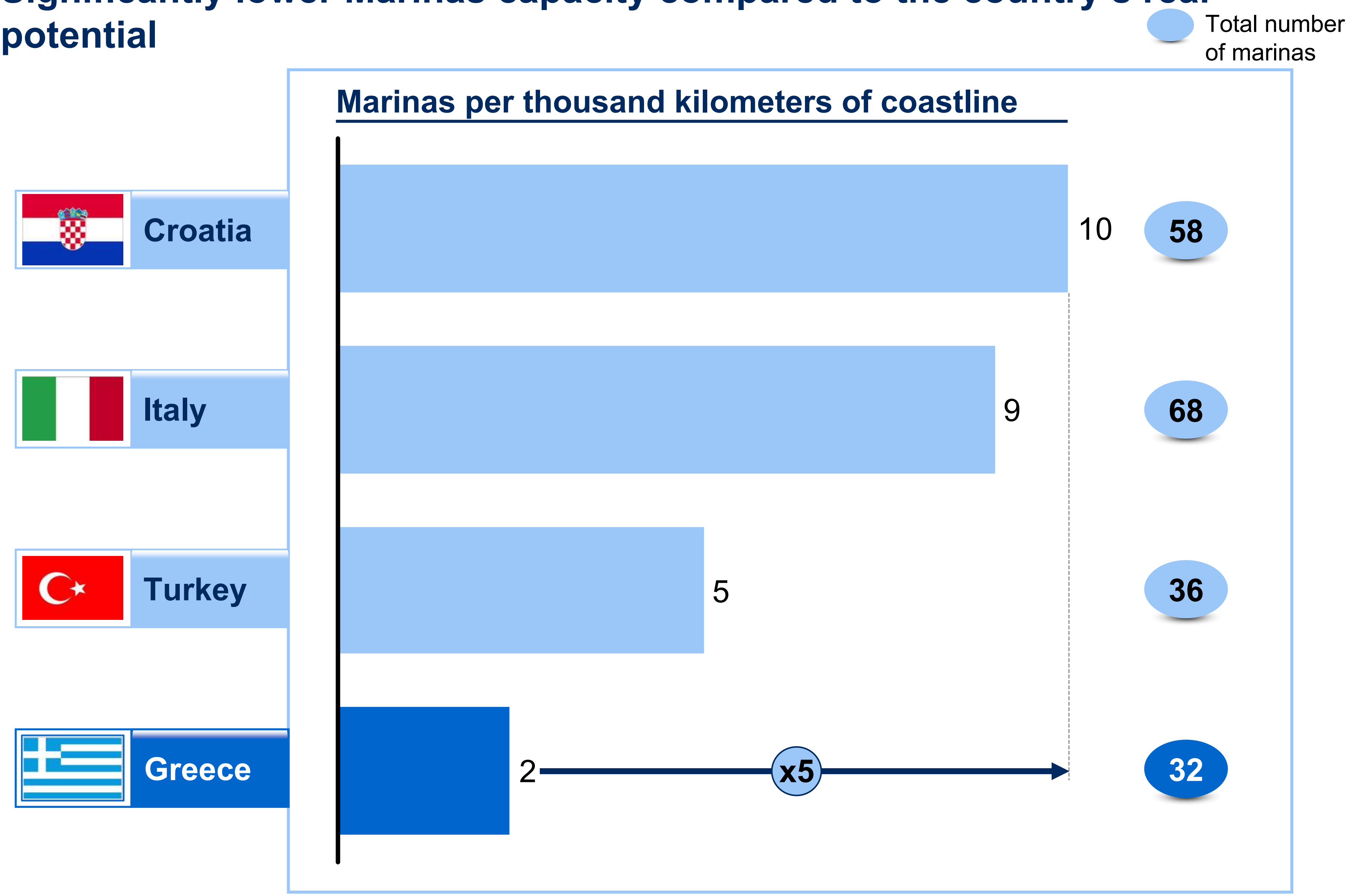


	Cruise passenger visits (Millions of passengers)	Cruise passenger embarkations (Millions of passengers)	Cruise industry direct expenditures[1] (€ billions)	Cruise industry employment[2] (Thousands of jobs)
	23.8	4.9	9.4	296.3
Rest of Europe	41%	34%	52%	56%
Spain	17%	21%	12%	8%
Italy	21%	35%	30%	32%
Greece	21%	10%	6%	4%

1 Excluding shipbuilding
2 Including shipbuilding

SOURCE: G. P. Wild

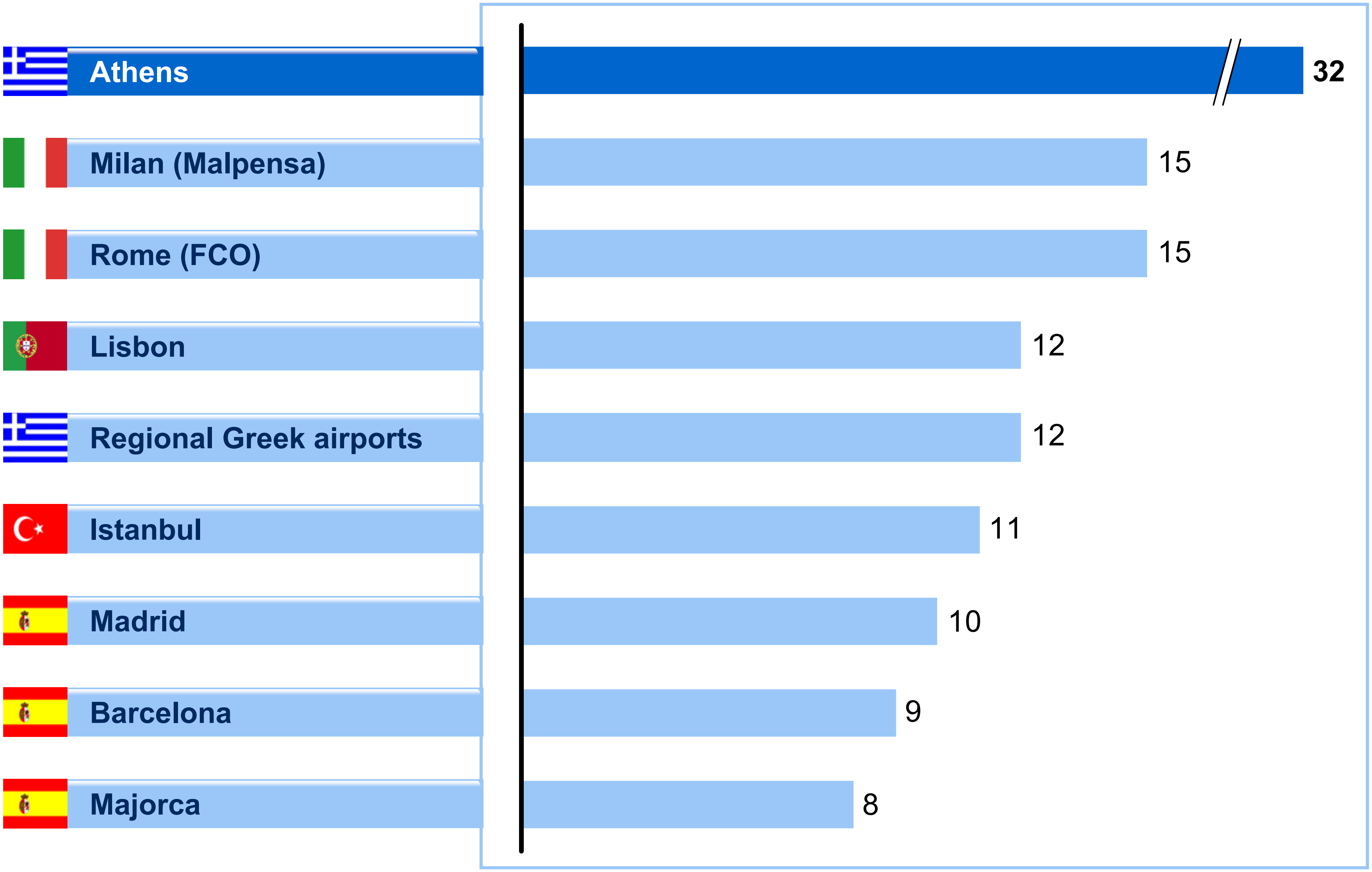
Significantly lower Marinas capacity compared to the country's real potential



Source: National tourism offices; local maritime authorities; CIA World Factbook; press

Comparison of charges at local and international airports

€ per pax[1]



Athens	32
Milan (Malpensa)	15
Rome (FCO)	15
Lisbon	12
Regional Greek airports	12
Istanbul	11
Madrid	10
Barcelona	9
Majorca	8

[1] Charges for an Airbus A320 with 100 pax – International EU flights

Source: IATA

Possible priorities and measures to further develop Tourism

🟥 High priority

Possible priorities and measures

A ***Re-defining and re-focusing the commercial strategy***

① **Systematically target core mature and emerging markets** while improving the **mass-affluent mix**
- – Defend and reinforce share (>3.5-4%) in mature markets: Top Tier - UK, Germany, Scandinavia, Tier 1 - France, Italy, Netherlands
- – Aggressively penetrate and gain share in North America (>1%), Russia (>1%), and China (>0.5%)

② **Upgrade** and selectively **expand the product portfolio**
- – Upgrade 'Sun & Beach' to increase value for money and establish a 'healthier' mass/affluent mix (~55/45)
- – Develop 'City Break' themes in Athens/Thessaloniki with global events, MICE[1], culture and leisure offers
- – Aggressively build 'Cruises' and 'Sailing/Yachting' themes for European leadership (25% embarkation and visits share compared to 10% and 21% share today)
- – Develop a systematically planned network of LIRs[2] and vacation homes (15-20 LIRs, ~50K homes)

③ Deepen **destination marketing sophistication**, while bringing Greece's **brand** 'back-to-basics'

④ Introduce **multi-channel platforms** for a distinctive **pre-visit experience** (e.g., 'Visit Greece' portal)

B ***Developing quality infrastructure while accelerating investments***

⑤ Revamp Tourism **zoning and planning legislation** and lift excessive restrictions
- – Facilitate the development of quality accommodation, including LIRs and vacation homes
- – Enable the productive utilization of existing dormant tourism assets

⑥ Pursue **growth-relevant public infrastructure investments**: upgrading 3-4 ports (for cruise embarkations), building 30-35 new marinas (to reach 60-65); investigate regional airport expansions

⑦ **Upgrade cultural sites' infrastructure** (prioritized by cultural importance and traffic) while developing 2-3 new major **conference facilities** to reinforce 'City-Break' and MICE value proposition

⑧ Leverage the **'fast-track' framework** (including the introduction of leaner licensing processes and the introduction of a legal pre-clearance team) to accelerate tourism investments

C ***Facilitating access and transportation***

⑨ Increase **flight connectivity** with US, Russia and China; **facilitate Schengen procedures**

⑩ **Re-plan and re-schedule** capacity, connectivity and quality/cost offering for **island transportation**; consider the development of 2-3 local hubs (e.g., in Cyclades, Dodecanese, Ionian islands)

⑪ Review **pricing at access points** (ports and airports) against demand elasticity

D ***Developing capabilities and know how***

⑫ Build Greece's **University Department for Tourism Studies** (undergraduate and graduate); upgrade existing curriculum for technical education; introduce extensive international exchange programs

⑬ **Step-improve central sector planning** and **management capabilities;** establish **eight critical functions** (e.g., strategic planning, product/customer management, marketing execution, channel/sales support); **inject talent** into the Ministry and GNTO; **create a market driven PPP** for selected critical functions

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1 Meetings, Incentives, Conferences, Exhibitions; 2 Large Integrated Resorts

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1 Meetings, Incentives, Conferences, Exhibitions; 2 Large Integrated Resorts

Possible components of Greece's Tourism commercial strategy

Source markets

1 Sharpen targeting, focusing on core mature and emerging markets and higher spend visitors

Product Development

2a Upgrade 'sun & beach' and complement with 'City Break'

2b Actively develop cruises and sailing/yachting to claim European leadership

2c Develop a properly planned network of large integrated resorts and vacation homes

Marketing strategy

3 Refresh positioning and brand while boosting destination marketing sophistication

Pre-visit experience

4 Introduce multi channel platforms to step-improve pre-visit experience

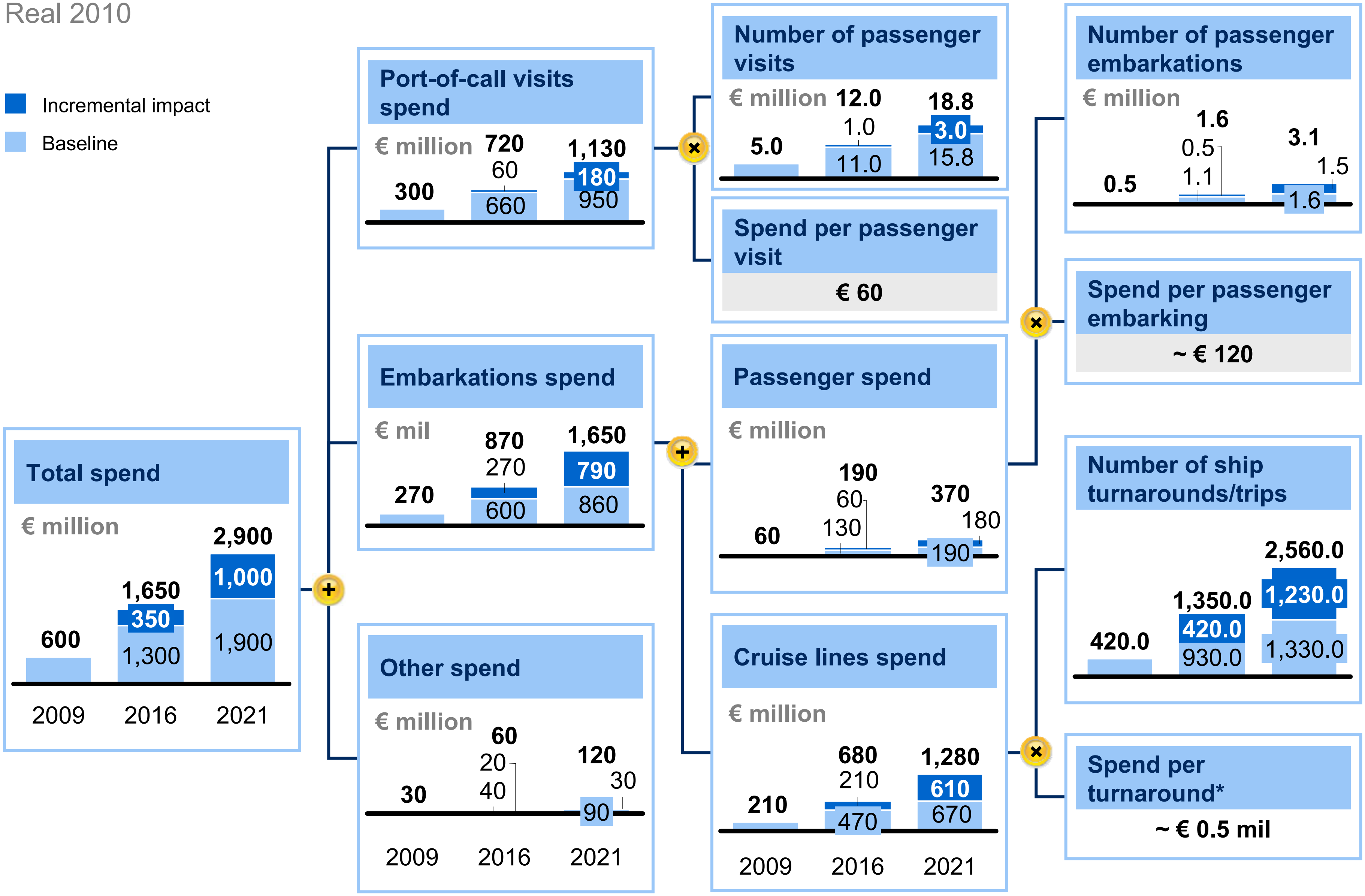
PRELIMINARY ESTIMATES

Cruises represent an important growth opportunity for Greece

Real 2010

🟦 Incremental impact

▭ Baseline



Total spend

€ million

	2009	2016	2021
Total	600	1,650	2,900
Incremental impact		350	1,000
Baseline		1,300	1,900

+

Port-of-call visits spend

€ million

	2009	2016	2021
Total	300	720	1,130
Incremental impact		60	180
Baseline		660	950

×

Number of passenger visits

€ million

	2009	2016	2021
Total	5.0	12.0	18.8
Incremental impact		1.0	3.0
Baseline		11.0	15.8

Spend per passenger visit

€ 60

Embarkations spend

€ mil

	2009	2016	2021
Total	270	870	1,650
Incremental impact		270	790
Baseline		600	860

+

Passenger spend

€ million

	2009	2016	2021
Total	60	190	370
Incremental impact		60	180
Baseline		130	190

×

Number of passenger embarkations

€ million

	2009	2016	2021
Total	0.5	1.6	3.1
Incremental impact		0.5	1.5
Baseline		1.1	1.6

Spend per passenger embarking

~ € 120

Cruise lines spend

€ million

	2009	2016	2021
Total	210	680	1,280
Incremental impact		210	610
Baseline		470	670

×

Number of ship turnarounds/trips

	2009	2016	2021
Total	420.0	1,350.0	2,560.0
Incremental impact		420.0	1,230.0
Baseline		930.0	1,330.0

Spend per turnaround*

~ € 0.5 mil

Other spend

€ million

	2009	2016	2021
Total	30	60	120
Incremental impact		20	30
Baseline		40	90

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* Including spend, e.g., on fuel and other procurement of goods and services

Source: European Cruise Council; G.P. Wild

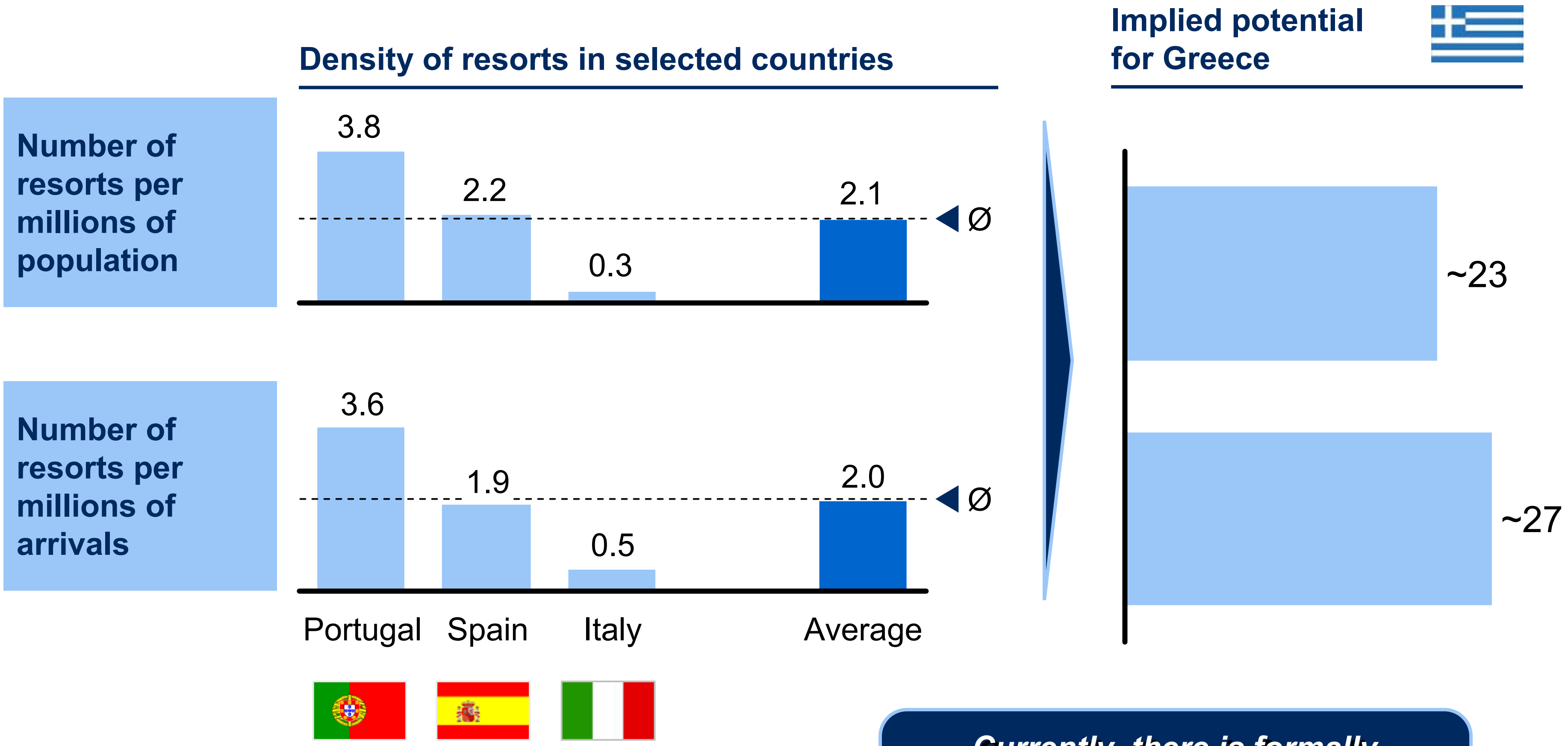
Croatia's strategy in nautical tourism

	Description
Capacity of infrastructure	▪ One of the most dense marinas network (almost 10 marinas per 1,000 km of coastline, 58 marinas in total) in Southeast Europe ▪ 2.6 mooring places per km of coastline (2005), with a plan to increase total number of harboring spots by 160% until 2015
Quality of services	▪ Modernization of repair centers as well as construction of new ones ▪ Implementation of surveillance and maritime navigation systems ▪ Development of a naval construction cluster (21 companies, 13 shipbuilders, 7 equipment manufacturers, 1 design company)
Regulatory framework	▪ Procedures simplification and harmonization of regulations regarding customs, business organization, and public-private partnerships ▪ Establishment of a special coordinating entity composed of representatives of entities and participants in nautical tourism
Marketing and sales	▪ Harmonization of all business elements of operators (product, market, price, marketing, and public relations) ▪ Focused strategy on promoting Croatia as a permanent-mooring option and not simply as a nautical destination

Source: Press and Web research

ESTIMATES

Benchmarking indicates that Greece might be able to host more than 20 ‘mixed use’ integrated resorts



Currently, there is formally expressed demand for 9 new large integrated resorts

Athens needs to establish a multi-dimensional value proposition to develop the brand/image of a top-notch City Break destination

🟦 Strong
▨ Moderate
☐ Weak

Athens

☐ Trend/style	🟦 Culture, heritage, art	▨ Gastronomy
▨ Leveraging environment	☐ Openness tolerance	🟦 Nightlife

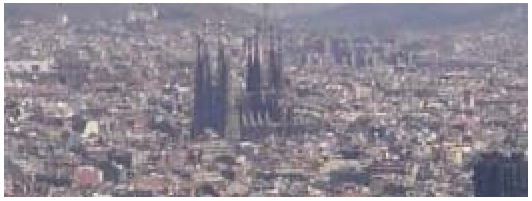
Istanbul

▨ Trend/style	🟦 Culture, heritage, art	▨ Gastronomy
▨ Leveraging environment	☐ Openness tolerance	🟦 Nightlife

Rome

🟦 Trend/style	🟦 Culture, heritage, art	🟦 Gastronomy
☐ Leveraging environment	☐ Openness tolerance	▨ Nightlife

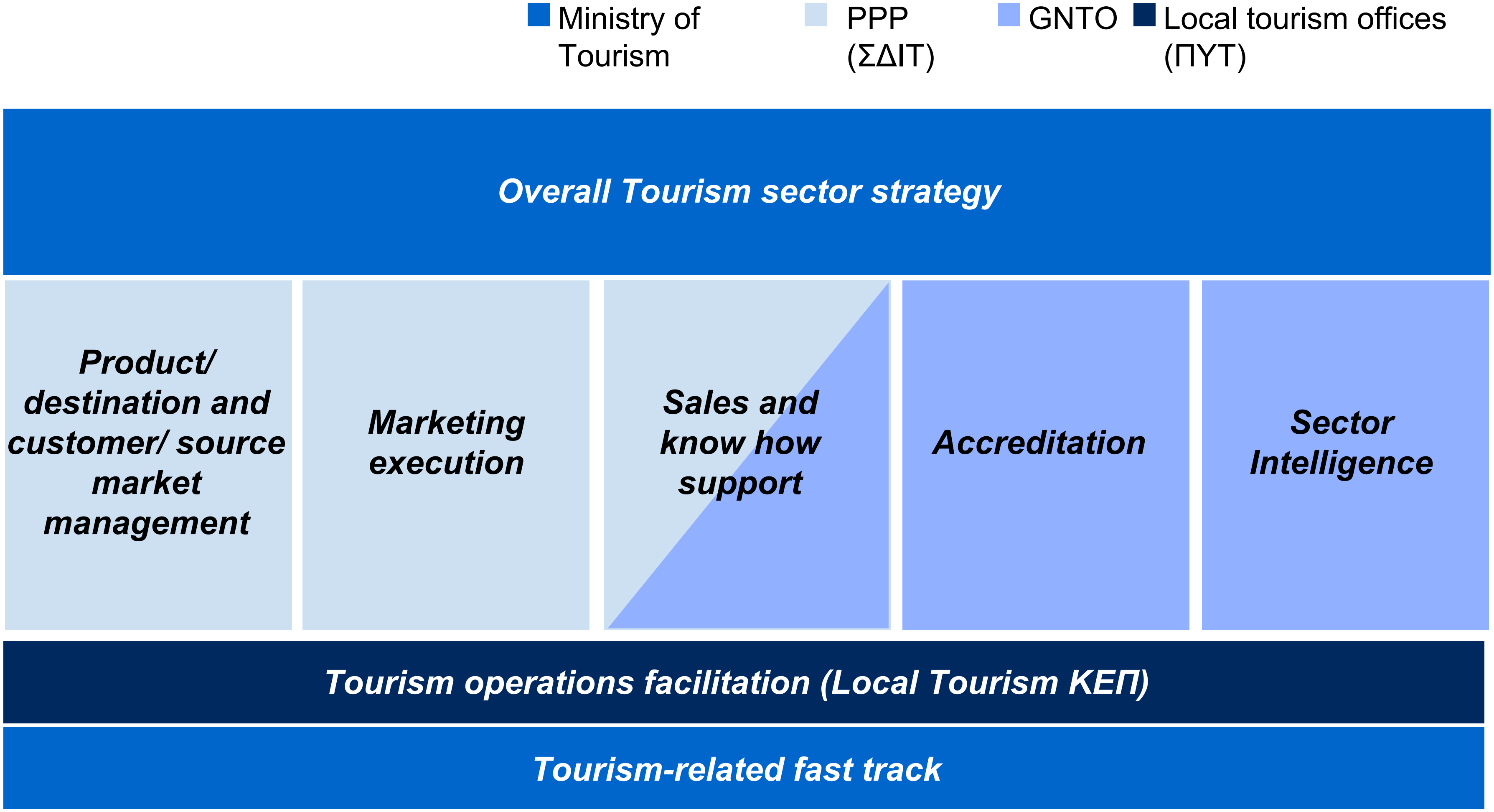
Barcelona



🟦 Trend/style	🟦 Culture, heritage, art	🟦 Gastronomy
🟦 Leveraging environment	🟦 Openness tolerance	🟦 Nightlife

SOURCE: McKinsey analysis, Euromonitor

Eight tourism critical functions to drive the new tourism growth strategy



🟦 Ministry of Tourism
⬜ PPP (ΣΔΙΤ)
🟦 GNTO
⬛ Local tourism offices (ΠΥΤ)

Overall Tourism sector strategy

Product/ destination and customer/ source market management

Marketing execution

Sales and know how support

Accreditation

Sector Intelligence

Tourism operations facilitation (Local Tourism ΚΕΠ)

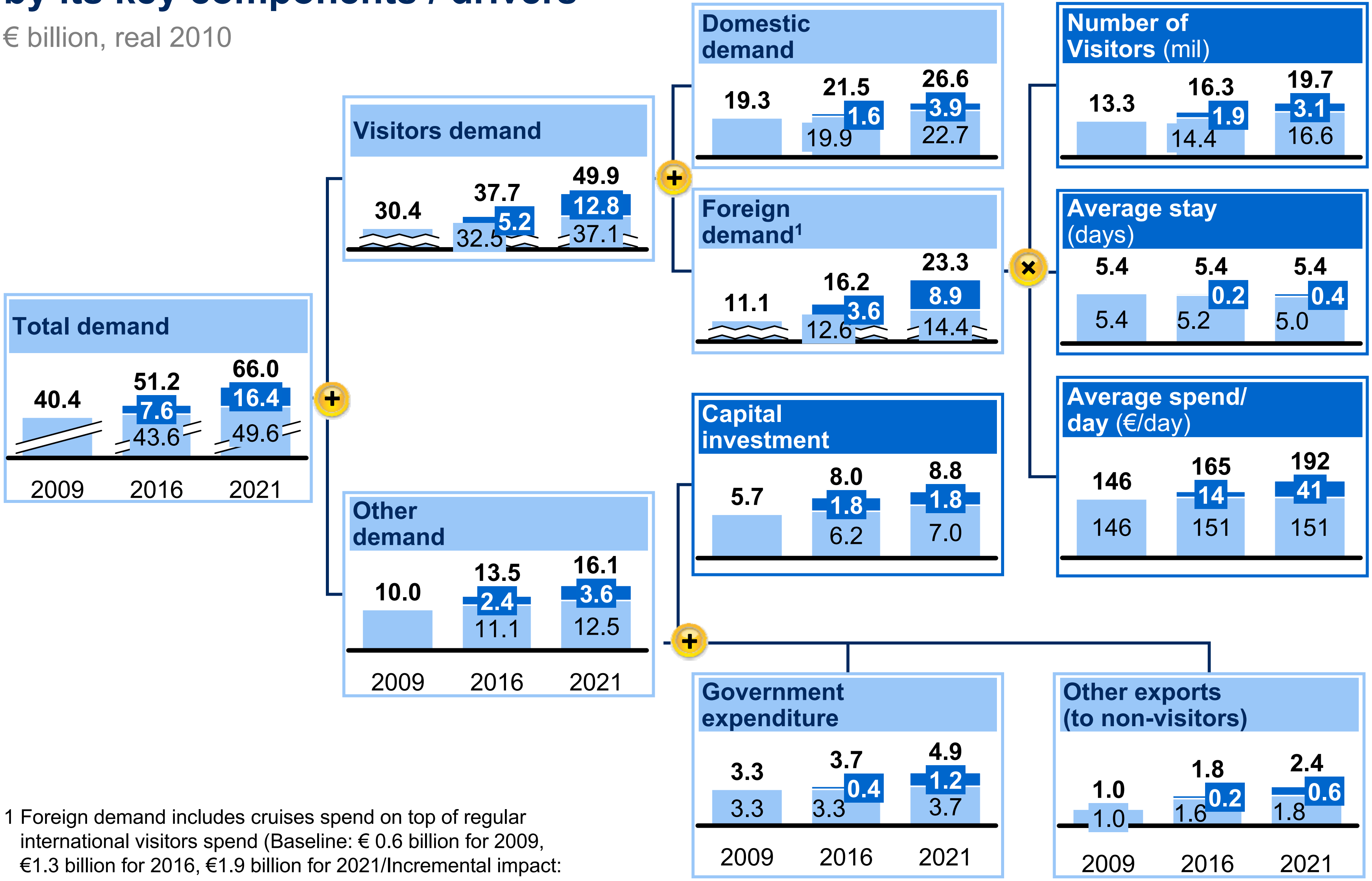
Tourism-related fast track

Possible upside in tourism demand driven by its key components / drivers

€ billion, real 2010

ESTIMATES

🟦 Incremental impact



[1] Foreign demand includes cruises spend on top of regular international visitors spend (Baseline: € 0.6 billion for 2009, €1.3 billion for 2016, €1.9 billion for 2021/Incremental impact: € 0.4 billion for 2016 and €1 billion for 2021)