

CYPRUS KEY MESSAGING

This document has been prepared in cooperation with CIPA's International communication consultants and is intended to capture, through key data points and messages in relation to Cyprus' current economic, fiscal and commercial situation, a more true and objective image of the country. It is a dynamic document (for internal stakeholders' use), which is updated regularly and can act as an aide-memoire for various Cypriot stakeholders involved in media interactions.

OVERVIEW

Cyprus is a diversified, open-market economy with a highly-educated workforce and a commitment to facilitating business in an easy and cost-effective manner:

- ✓ Cyprus is positioned in a **strategic location** between Europe and the rest of EMEA. It is the closest Eurozone country to the important and growing economic regions of the Middle East, Asia and Africa.
- ✓ Cyprus retains unique **clusters of expertise** and service capability to support key growth sectors of the economy – for example traditional strength in shipping and funds and newfound strength in foreign exchange and energy.
- ✓ Cyprus maintains one of the most business-friendly corporate **tax regimes** in the European Union.
- ✓ Cyprus is committed to strengthening its banking sector and implementing the necessary legislative decisions to capture an early **economic rebound** following financial assistance.
- ✓ Cyprus is actively developing the potential of **significant natural gas** deposits discovered in its Exclusive Economic Zone and working with neighbouring countries to plan for their most efficient exploitation.
- ✓ Cyprus tourism has been a growth sector of the economy and continues to have **untapped potential** from investment in specialist sectors such as luxury, health and lifestyle.

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Detailed Messaging by Topic

1. Cyprus strengths

- ✓ A business hub in a strategic commercial location between Europe and the rest of the EMEA region.
- ✓ Cyprus has been an EU member state since 2004 and a member of the Eurozone since 2008. It is the closest Eurozone country to the key economic region of the Middle East.
- ✓ Cyprus has one of the most competitive corporate tax regimes in the EU and double taxation treaties with 47 countries. The OECD includes Cyprus on its “white list” as one of 45 countries that have implemented internationally agreed standards relating to taxation.
- ✓ All double tax treaties that Cyprus has entered into after the introduction of the new Article 26 of the OECD Model Tax Treaty regarding the exchange of information between treaty partners have fully adopted the revised Article 26. In all treaty negotiations that are currently under way, Cyprus insists on adopting the new Article 26.
- ✓ It has advanced transport and telecommunications infrastructure with state-of-the-art high-speed internet and mobile telecommunications, two international airports (Larnaka and Pafos) and sea ports (Limassol and Larnaka) with close proximity to the Suez Canal.
- ✓ Robust common law based legal system (based on English law) in compliance with EU law – easily understood by international businesses.
- ✓ Cyprus has highly qualified and multilingual talent - 33.6% of Cypriots between the ages of 15-64 are tertiary educated, which is higher than that of the EU27 (23.6%).
- ✓ The country ranked 36th in the world for ease of doing business for 2013 according to the World Bank, one place up on 2012.
- ✓ In May 2012, the Economist Intelligence Unit ranked Cyprus 33rd out of 82 countries based on the quality of its business environment.
- ✓ Transparency International ranks Cyprus 29th out of 176 countries for perceived levels of corruption in the public sector.
- ✓ Cyprus ranks 28th in the Global Innovation Index out of 141 countries.
- ✓ Full compliance with EU Code of Conduct for Business Taxation.
- ✓ Full compliance with EU tax directives.

2. Cyprus as an international business hub

- ✓ Cyprus’ Investment Promotion Agency (CIPA) was ranked 5th among 189 Organizations Worldwide for the provision of excellent information to investors by the World Bank’s “Global Investment Promotion Best Practices 2012 Report”
- ✓ Cyprus has more than 30 years’ experience as an international business hub, distinguished by the development of a wide range of sophisticated legal, professional and financial services.
- ✓ International financial services employed 12,800 people in 2011.

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- ✓ Over 2,500 licenced lawyers who are members of the Cyprus Bar association are actively practicing in Cyprus while there are also over 4,000 certified accountants and auditors. A large number were educated internationally.
- ✓ A number of recent London-listed IPOs are domiciled in Cyprus. Cyprus top-companies accounted for about 30% of CIS IPOs to London for the period from 2008 to 2012.
- ✓ Cyprus has a broad global fund distribution network, benefitting from an efficient and reliable fund infrastructure and offering highly competitive cost and flexibility features. Compared with other EU based destinations, a company can save up to 70% of fund registration and maintenance fees.
- ✓ Cyprus offers a strong regional platform for a variety of banking products and financial services including the set-up, management, administration and distribution for all types of public and private funds including UCITS, non-UCITS and Alternatives.
- ✓ Cyprus' investment fund industry offers a world class regulatory environment that makes it possible for different types of fund managers and investment firms to comply with the new European Alternative Investment Fund Managers Initiative (AIFMD) with operational, legal and financial efficiency.
- ✓ It is the most accessible bridge for Middle Eastern based fund managers to access the European Undertakings for Collective Investments in Transferable Securities (UCITS IV), as well as an attractive platform for the re-domiciliation of funds.
- ✓ Cyprus hosts experienced and recognised service providers including central administration companies capable of serving a wide range of funds and providing operational support and reporting solutions for Middle Eastern investors.
- ✓ A new fiduciary law was passed in December 2012 which will organise and raise the standard of the fiduciary industry and services and will regulate the fiduciaries and administration businesses and company directors.

3. Troika- Fiscal consolidation and structural reforms

- ✓ The economic adjustment programme will address short- and medium-term financial, fiscal and structural challenges facing Cyprus. The key programme objectives are:
 - to restore the soundness of the Cypriot banking sector and rebuild depositors' and market confidence;
 - to continue the on-going process of fiscal consolidation in order to correct the excessive general government deficit, in particular through measures to reduce current primary expenditure, and maintain fiscal consolidation in the medium-term, through measures to increase the efficiency of public spending within a medium-term budgetary framework, enhance revenue collection and improve the functioning of the public sector; and
 - to implement structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances, in particular by removing obstacles to the smooth functioning of services markets.
- ✓ In March 2013 the Cypriot Parliament voted to back the Memorandum of Understanding with the Troika. The amendments, to be immediately implemented, are supported across Cyprus and are centred around the following areas:
 - Benefit cuts (healthcare, welfare, pension)
 - Special tax on credit institutions
 - Amendment of the companies law to make it easier to open and close businesses
 - Tougher rules on compliance with income tax requirements
 - Public sector reform including both productivity related measures as well as cost reduction measures i.e. transferability of public servants, increased and amended working hours spending cuts, reduced pension benefits (via taxation) etc.
 - Streamlining/efficiency in the application of benefits
 - Introducing competition by opening up the energy sector

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- ✓ The deal is likely to require a fiscal adjustment of about 7.3% of GDP between 2012 and 2016. (Source: Finance Ministry)

4. **Tax**

- ✓ The tax system of Cyprus remains competitive and attractive.
- ✓ According to the final MoU, on the basis that the Cypriot government will undertake all necessary actions, the planned tax measures to apply in the period up to 2016 are the following:
 - Increase in the statutory corporate income tax rate from 10% to 12.5%
 - Increase in the Special Defence Contribution rate on interest income from deposits from 15% to 30% (essentially to achieve an after-tax return on bank deposits more comparable to EU average)
 - Increase in Property Tax on land and buildings situated in Cyprus
 - Increase of the special levy payable by banks from 0.11% to 0.15%
 - Increase taxes on motor vehicles (road tax, registration fee, excise duties) Increases in excise duties
- ✓ Cyprus continues to offer one of the most attractive Intellectual Property tax regimes in Europe.

5. **Banking sector impacts**

- ✓ The consequences of the global financial crisis have been harsh for the country's two largest local banks: A big one-off hit was the outcome of the Troika deal and the winding down of Laiki Bank. Since March 2013 Bank of Cyprus has been undergoing a restructuring process and has assumed the sound assets of Laiki Bank.
- ✓ The Bank of Cyprus is now moving into a stability phase having put in place a new, yet temporary Board of Directors
- ✓ The banking levy to recapitalise the banks after they made significant losses through their exposure to Greece and the related PSI haircuts is a one-off event.
- ✓ Apart from the two major banks, the remaining 41 banks on the island are not being restructured and continue to operate as usual, in line with the decrees on the Temporary Restrictive Measures on Transactions, issued periodically by the Central Bank of Cyprus. Some banks have been excluded from the decree.
- ✓ A minimum core capital ratio of 9% to be achieved by all banks the end of 2013, in excess of Basel 3 requirements and ahead of Basel 3 deadlines.
- ✓ Central Bank of Cyprus (CBC) has announced the creation of the Independent Commission on the Future of the Cyprus Banking Sector. The commission is composed of independent experts and will explore the challenges facing the Cypriot banking sector. It will make recommendations to the CBC about ways of strengthening growth, competitiveness and the stability of the sector in order to benefit the Cypriot economy in the long term.
- ✓ The CBC strongly supports plans for an EU banking union and supervision regime.
- ✓ The Co-op sector will be streamlined and subject to CBC supervision.

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6. Natural gas

- ✓ Cyprus has significant reserves of natural gas. Initial reserves have been estimated by RBS as conservatively worth 300% of GDP or almost 3000% of GDP at the upper end of forecasts.
- ✓ The US Geological Survey believes that there could be 120 trillion cubic feet of gas in the Levant basin, which borders Israel, Lebanon, Syria and Cyprus.
- ✓ The Cypriot government has said it expects Cyprus to have infrastructure in place (pipelines and a liquefaction terminal) by 2018 so it can start exporting natural gas by 2019. It has completed the sale of oil and gas licenses for five blocks in its exclusive economic zone and has received about €180 million in signature bonuses from bids to explore.
- ✓ Block 12 is off Cyprus' southern coast and Noble Energy, a Texan firm, began exploratory drilling in September 2011. According to Noble Energy, this one field could contain more than 7 trillion cubic feet of gas.
- ✓ At current market values the gas would be worth at least €60bn and Cyprus' share of revenues from extraction has been reported by the media as being around 60%, which would equal over 200% of GDP. A second round of drilling in Block 12 is due in the summer this year and Noble recently noted that its initial estimates of gas reserves in Block 12 may have been too conservative.
- ✓ Negotiations recently concluded for the additional blocks, with Eni and Kogas being assigned 3 blocks and Total another 2. 16 international companies had shown interest in bidding for the gas fields including Total (France), Petronas (Malaysia), Eni (Italy), Marathon Oil (US) and Cairn Energy (UK).
- ✓ Exploratory drilling in some of these blocks is expected as early as 2014. If similar gas finds are made in the remaining offshore blocks, the Cypriot Commerce Ministry has said that as much as 60 trillion cubic feet of reserves could be within Cyprus' Exclusive Economic Zone. At current market prices the total value would be around \$825bn or €620bn; almost 30x Cyprus' annual economic output.
- ✓ There is uncertainty in terms of net profit but at a 20% profit margin, the value to Cyprus would be in the region of €106bn, in excess of 580% of GDP. There is also the strong prospect that below the gas reserves there could be oil, a more lucrative hydrocarbon. Noble estimates a 25% chance of a successful oil find.
- ✓ This offers a long-term, game-changing boost to Cypriot GDP and the Government's financial position through inward investment in exploration, associated support services, the boost to shipping and the increase in tax receipts from economic activity and greater employment.
- ✓ As Cyprus stands on the cusp of a negotiated recapitalisation of its banking sector from the Troika, which estimates have placed as high as equivalent to one-year of economic output, doubts have been expressed about how sustainable such a debt would be for a small nation. The prospect of hydrocarbon receipts not only makes the potential debt seem manageable but also has the potential to put public finances (generally very healthy until the banking sector collapse) on a long-term sustainable footing. Domestic Cypriot businesses will of course benefit from cheaper gas prices and the general move to a gas-based economy.
- ✓ Cyprus is already considering an energy revenues fund, similar to Norway's, with a view to deploying hydrocarbon revenues for the long-term economic benefit of the nation and its citizens.
- ✓ Europe is increasingly concerned about its energy security and there is significant appetite to reduce reliance on Russian gas imports given erratic supply at times - e.g. the 2006 decision to cut off gas flow across Ukraine due to a price dispute. The Middle East has seen much turmoil in the last couple of years and northern and western Africa are increasingly unstable as gas and oil suppliers, due to Islamic militants.

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- ✓ Cyprus' gas reserves promise an indigenous source of natural gas for the EU, via the mooted liquefaction plant. Cyprus is potentially in a position to supply 50% of EU's additional gas needs by 2025. Israel has also made large gas finds in the Eastern Mediterranean in the Tamar and Leviathan fields and there is the potential for Lebanon and Syria to follow suit to supply European customers.
- ✓ The creation of a new, independent and secure, gas import route to Europe, through the South-East Corridor, tapping the resources of the Levantine Basin should be attractive to EU's energy security plans.
- ✓ Over time the transformational potential of the hydrocarbon discoveries may point a path towards resolving Cyprus' divisions. The regional cooperation required and the many benefits that would accrue to the broader area, mean that the discovery is likely to lead to deeper and more advantageous relationships amongst the countries in the region.

7. Tourism

- ✓ Cyprus' beaches are ranked top within the EU 27 – 100% compliancy
- ✓ Cyprus ranks 17th in most visitors per capita per year globally. Unlike Greece and Spain, the tourism sector has thus far proved resilient to the economic challenges Cyprus faces.
- ✓ 17,900 people were employed in tourism and related transport in 2011.

8. Shipping

- ✓ Cyprus has the 10th largest merchant fleet globally and the 3rd largest in the EU, with approximately 1,022 vessels totalling 21m GT under the Cyprus flag.
- ✓ Shipping contributes around 7% of GDP, employing 4,500 people onshore and 55,000 on Cypriot ships. The industry continues to grow, with more than 140 ship owning and ship management related companies with offices in Cyprus, conducting their international activities.
- ✓ Cyprus Tonnage Tax System, is in effect, the only "EU approved Open Registry TTS" – offering numerous advantages to ship operators, owners and charterers.
- ✓ This TTS is unique as it facilitates ship owning, ship management and ship chartering at the same time.

9. Anti-money laundering

- ✓ Post EU accession (May 2004) Cyprus ceased being an Offshore jurisdiction.
- ✓ Cyprus has an on-going commitment to adhere to all international and EU AML rules and procedures and is fully harmonised with EU legislation.
- ✓ Transparency and exchange of information – on the OECD White List.
- ✓ Domestic provisions for transparency and exchange of information in line with OECD requirements.
- ✓ The Basel Institute of Governance AML Index 2012 found Cyprus scored better on AML procedures and compliance than Germany and the Netherlands.
- ✓ Cyprus has an extremely stringent and well-monitored anti money laundering system (AML). It has been favourably rated by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) in December 2011 and by the Financial Action Task Force. In 2011

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the IMF noted that Cyprus had amended its AML procedures and regulations to comply with current best practice, following on from reviews in 2001, 2006 and 2009 where it assessed Cyprus' international financial sector and concluded that Cyprus' anti-money laundering system is of a high standard and in line with internationally accepted principles.

- ✓ IMF recommendations have already been unanimously voted through by the parliament (December 2012).
- ✓ Cyprus' AML system has not received any "non-compliant" rating, in the IMF Evaluation Report.
- ✓ The Financial Intelligence Unit (FIU) – MOKAS which functions within the Law Office of the Republic works effectively both for domestic as well as for assisting foreign counterparts in relevant cases.
- ✓ "Banking Secrecy" is protected in Cyprus subject to clearly defined and safeguarded exceptions envisaged by the Cypriot legal framework. With its high quality banking and other professional services, and statutory protection of banking secrecy, Cyprus has managed to treat the fine line between being an attractive business and financial jurisdiction, while complying with European and International rules such as the OECD Model Agreement and the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.
- ✓ Foreign companies registered in Cyprus must divulge the names of 10% beneficial shareholders - in other European countries the threshold is 25%
- ✓ Three bills were passed in December to further strengthen the AML regime.
- ✓ Measures for the identification of the beneficial owners of legal entities are beyond international standards. There is an obligation to identify the natural persons who control 10% of the legal owner which is stricter than the 25% threshold provided for in the 3rd EU AML Directive. Only Cyprus, among the EU Member States, applies stricter threshold.
- ✓ The practical application of the system has produced considerable results with regards to convictions and Court Orders for the freezing and confiscation of criminal proceeds. Since 2005, there have been final convictions for money laundering successfully obtained in 108 cases against 45 persons.
- ✓ Further changes to the anti-money laundering framework in Cyprus following the financial assistance from the Eurozone:
 - Legal framework being further revised
 - April 2013 Audit
 - Action plan on transparency
 - Establishment of Trust Registers
 - Central Bank of Cyprus to review supervisory procedures
- ✓ Recent (2013) reports by Deloitte and Moneyval do not indicate systemic deficiencies. On the contrary, they indicate that banks have a high level of compliance with the statutory and regulatory requirements especially as regards the identification of beneficial owners, the construction of customers' profiles and on-going due diligence activity.

10. Case Studies

China Glory National Investment

- ✓ On the 17th of May it was announced that a Hong Kong based conglomerate 'China Glory National Investment' was investing €1.5bn in the Venus Rock Golf Resort project in Ha Potami, Cyprus.
- ✓ Earlier in the month, Aristo Developers and Venus Rock Estates Ltd, subsidiaries of real estate investment firm Dolphin Capital Investors, sold their interest in the golf resort to the Hong Kong investors for €290 million.

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- ✓ Businessman Theodoros Aristodemou (Aristo Developers) stated the Chinese investors have confidence in Cyprus and want to invest in other projects as well: "The whole investment will reach about one-and-a-half billion euros and instantly have multiple benefits, both with regard to employment on completion of the project and in direct revenue in terms of taxes, direct and indirect."
- ✓ Chinese investor Charles Zhang said the company sees great potential in Cyprus: "After we studied Cyprus, we realised that there are very good prospects for investment."

Caffè Nero

- ✓ In May 2013, Caffè Nero, the largest independent coffee house group in Europe with over 500 stores in the UK and approximately 70 stores internationally, announced a new partnership with PHC, the leading food and beverage operator in Cyprus.
- ✓ The first of the Caffè Nero stores in Cyprus opened on Makenzy beach in Larnaca on the 18th May. The partnership has a planned rollout of between 15-20 stores over the next 5 years.
- ✓ Speaking about the partnership between Caffè Nero and PHC, Gerry Ford, Caffè Nero Founder and CEO, stated "Cyprus presents a fantastic opportunity for Caffè Nero to work with an established company in an exciting territory and enables us to grow our brand further internationally."