

Tax Services

Holding Companies in Cyprus





Foreword



Cyprus is a long established reputable International Financial Centre. It has gained this enviable position through its attractive taxation system and its excellent infrastructure facilities and services, be it banking, professional, telecommunications and human capital.

Cyprus accession to the EU on 1 May 2004 has come to add to the country's impressive advantages. Cyprus is now firmly established as the ideal gateway for EU inbound and outbound investment. This compliments the traditional links Cyprus had with Central and Eastern Europe, Russia, India and China.

At PricewaterhouseCoopers Cyprus we have a specialised team of people who can help our clients in determining their strategy and organisation of their businesses. Our local teams' expertise covers a wide spectrum of professional services e.g. assurance, tax, advisory and Global Compliance Services. Our local efforts are supported by our global network. We are connected to a chain of knowledge and experience.

The financial services sector in Cyprus has risen to the challenges ahead and investors are in a position to take full benefit of the opportunities that open up in the new environment.

Phidias Pilides
Chief Executive Officer

March 2010

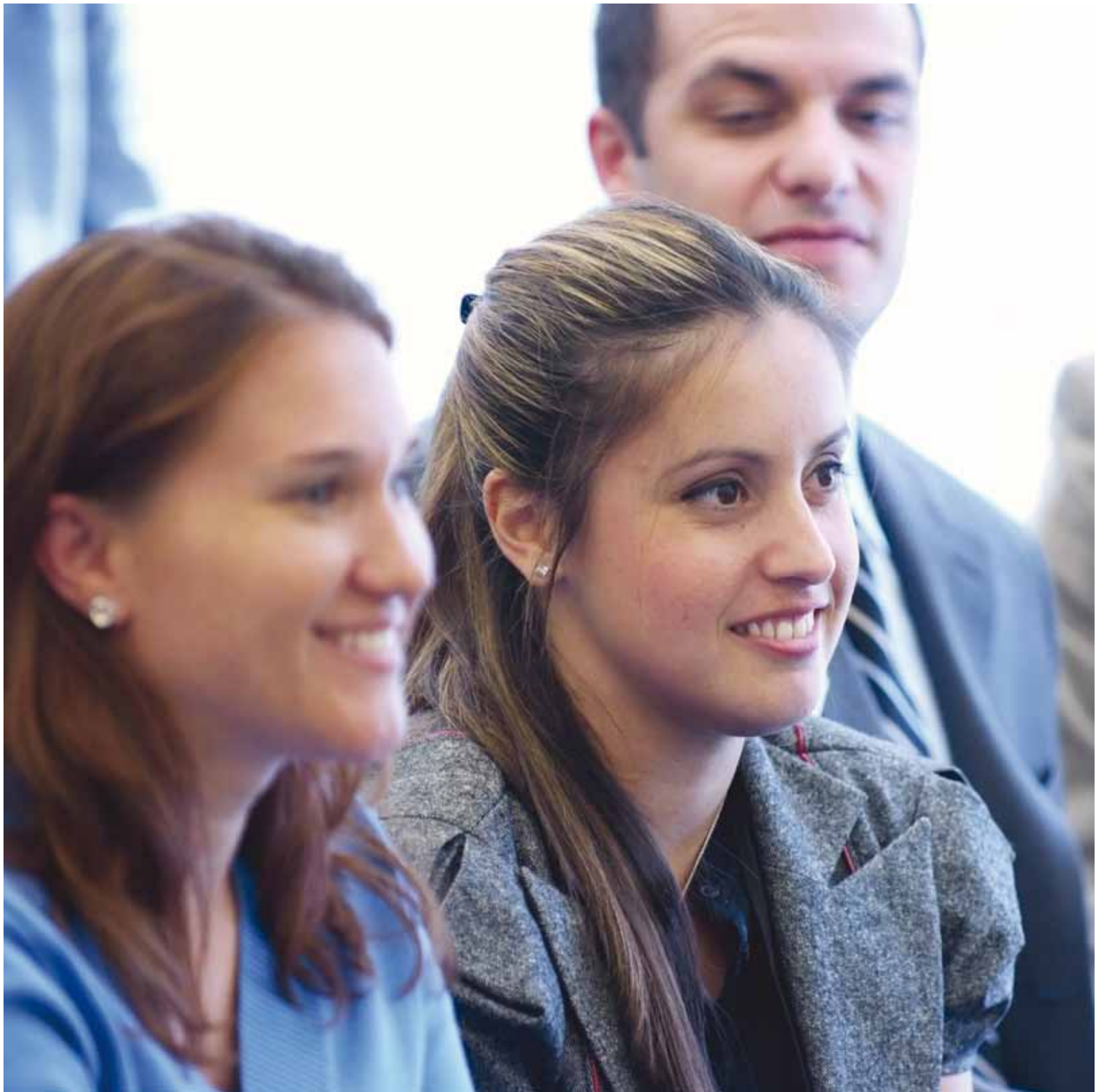


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Cyprus as an International Financial Centre (IFC)



Throughout the world, capital is becoming ever more mobile and responsive to changes in economic and social conditions. Barriers to capital movements are fast disappearing and this has led to a worldwide trend towards lower tax rates.

Tax differences have become a very significant factor in commercial decisions and hence the development of numerous financial centres in the world. Cyprus has succeeded in differentiating itself from other financial centres. It has a favourable tax system with a wide network of double tax treaties. It also applies fully all the EU Directives. As a result, Cyprus today is firmly established as a reputable international business, financial and commercial centre.

Cyprus is situated in the north-eastern basin of the Mediterranean Sea at the crossroads of Europe, Asia and Africa. It is 65 km south of Turkey, 96 km west of Syria, 385 km north of Egypt, 980 km southeast of Athens and 328 km west of Israel. The strategic location of the island has played an important role in its continuing development into a financial centre.

With an area of 9.251 sq km, Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia.

Cyprus enjoys perhaps the best type of Mediterranean climate with about 340 warm and sunny days a year. The light rainy season is confined to the period between November and March.

Cypriots are highly educated. In fact, Cyprus has the highest percentage of university graduates per capita in the EU. Although the native language is Greek, English is commonly used as the business language.

An EU member state since May 2004, Cyprus offers a unique experience to investors and trading partners. The strong pro-business attitude, the multi-lingual and highly skilled human capital, the state-of-the-art telecommunications infrastructure and the favourable tax system have made the island one of the most progressive and efficient business locations in Europe.

Inbound Investments

Cyprus' economy is services based. The strategic location of the island, its excellent climate, the well developed infrastructure and the plentiful supply of high quality, well trained human capital are some of the advantages Cyprus has to offer. In addition to these, the favourable tax regime makes Cyprus an ideal location for service industry activities.

The official government policy is welcoming to foreign investment provided that this does not have adverse environmental effects.

Holding International Investments

Tax costs play a significant role in investment decisions. Investors aim in maximising after tax return on investment. Therefore investment structures, which have the least tax leakage, are preferred by investors and are recommended by the advisors. As such, a Cypriot investment vehicle can have a number of business activities earning income, which is a charge against high tax income in other jurisdictions. Foreign withholding tax is eliminated or reduced under double tax treaties or under EU directives. Rate of tax in Cyprus is low. The income can then be repatriated in any form the investor wishes without any Cyprus withholding tax.

There are no investment activities that are inappropriate for the Cypriot tax environment. However there are investment activities which are indeed ideally suited to Cypriot tax environment such as:

- Holding Companies
- Finance Companies
- Royalty companies
- Investment funds
- South Europe, Middle East, Russia and Central and Eastern Europe Head office operations

Cyprus is not just the traditionally strong link of investments in and out of Central and Eastern Europe and Russia, but as an EU member it is also a strong connecting link of investments in or out of the EU.





Cyprus: An ideal Holding Company location



Over the years, Cyprus has worked its way into the league of the prominent, reputable financial centres, Cyprus is widely used by global companies to maximise after tax returns, increase their effectiveness and optimise use of capital and financial resources.

Cyprus is most commonly used as an intermediate holding company jurisdiction and is of particular interest in the following circumstances:

- For groups international or domestic investing outside Cyprus, aiming at dividend income streams. Such dividend in most cases will be tax exempt in Cyprus;
- To hold subsidiaries that have scope for significant capital appreciation that may be spun off or sold in the future. Such disposals are not taxable in Cyprus;
- To benefit from the favourable withholding tax provisions of the Cypriot double tax treaties network, the EU Parent-subsidiary directive and the other directives;
- Where a jurisdiction is required that does not have controlled foreign company legislation;

- To avail of the favourable repatriation provisions under Cypriot tax law which allows payment of dividend, interest and royalties (in most cases) without payment of withholding tax;
- Appropriate for any fund or investment vehicle, as there is no tax on transactions in securities as defined, even if this is the trading activity of the entity.
- Where it may be important to achieve a tax free unwind of the holding company at some stage in the future;

Cyprus can be used as the location for the ultimate holding company, for instance in a group that is relocating to a new jurisdiction or on formation of a new publicly traded corporation with international operations.

The location of a holding company is decided considering both the tax and non tax considerations. This document focuses only on the tax aspects by considering the significant Cypriot tax issues of relevance to a holding company together with available exemptions, which have resulted in Cyprus becoming increasingly attractive as a location for holding companies.

Main features of the Tax system



The tax system provides to the investors:

- only 10% corporation tax - the lowest standard rate in the EU
- exemption from tax in most cases of dividend income
- exemption from tax in most cases of profits from foreign permanent establishments (PE)
- exemption from tax on profit generated from transactions in titles
- exemption from withholding tax on the repatriation of income either in the form of dividends, interest and on almost all royalties
- extensive double tax treaties network
- access to EU directives

Tax System

Cyprus' tax system is in full compliance with EU requirements and also within the OECD requirements against harmful tax practices.

The main features of the tax system of Cyprus are as follows:

Scope of Tax

Tax is imposed on all Cypriot resident persons (individuals and corporations) on their worldwide income.

A corporation is tax resident in Cyprus when its management and control is exercised in Cyprus.

An individual is tax resident in Cyprus when he/she spends more than 183 days in Cyprus, in a calendar year.

Corporation Tax

The Corporation Tax rate is 10% and is the lowest standard rate in the EU.

Dividend Income

Corporations do not pay any tax on dividends received from other Cypriot tax resident companies.

Dividends received by Cypriot tax resident corporations from foreign corporations are exempt from tax.

The exemption from tax also applies to profits of a PE the Cypriot Company has in another jurisdiction.

The exemption will not be granted only if:

- Directly or indirectly more than 50% of the activities of the paying company/PE result in investment income, and
- The paying company/PE is subject to tax at a rate substantially lower than the Cypriot rate.

When dividend income is not exempt there is a 15% defence tax contribution. Tax credits for taxes paid abroad are available.

If the profits of the PE are not exempt, there is a 10% corporation tax. Tax credits for taxes paid abroad are available.

Interest Income

When interest income is the result of the ordinary activities of the company or is closely connected to the ordinary activities of the company, it is subject to tax like any other “active” trading income. If the interest income fails the test of “active” trading income then it is subject to defence tax contribution at 10% and exempt from corporation tax.

Group finance interest income is considered as trading income.

Capital Gains

Capital Gains Tax (CGT) is only imposed on the sale of land and buildings situated in Cyprus, or of shares in non listed companies that own such property. There is no CGT on the sale of any other asset including real estate outside Cyprus and shares.

As far as shares are concerned, gains as well as trading profits from the disposal of titles are exempt from all taxes. Titles are described as shares, bonds, debentures and similar titles as well as rights thereon (options, futures etc).

Other Significant Provisions

Losses can be carried forward indefinitely.

Group tax loss relief is available for companies forming part of a group as defined under the law, thus allowing losses of one company to be set off against profit of another company.

Mergers, acquisitions and spin offs, as per the same rules as the relevant EU directive, can be effected without tax cost.

There are no thin capitalisation rules (companies can be funded almost exclusively by debt) and no Controlled Foreign Corporation rules (CFC rules).

Withholding Taxes

Cyprus does not impose any withholding tax on dividend, interest and royalty payments made to non-Cypriot resident recipients.

In the case of royalties the exemption applies for royalty payments when the right/asset is used outside of Cyprus.

When the royalties are connected with the use of the right/asset within Cyprus there is a 10% withholding tax, subject to treaty provisions and where applicable to the EU Interest and Royalties Directive.

Expense Deductibility

Under Cypriot law all expenses incurred for the production of the income are deducted before arriving at the taxable income.

Double Tax Treaty network and EU Directives

Cyprus has an extensive network of Double Taxation Treaties. Several others are under negotiation. Where there is no DTT, a Cyprus company can benefit from the EU Directives to eliminate withholding taxes when collecting income from the EU. Unilateral tax credit on foreign taxes withheld at source is also available.

Tax treaties withholding tax tables

The following tables give a summary of the withholding taxes provided by the double tax treaties entered into by Cyprus.

Paid from Cyprus			
	Dividends (1) %	Interest (1) %	Royalties (1) %
Non-treaty countries	nil	nil	nil (2)
Armenia (20)	nil	nil	nil
Austria	10	nil	nil
Belarus	5 (18)	5	5
Belgium	10 (8)	10 (6,19)	nil
Bulgaria	5 (23)	7 (6)	10
Canada	15	15 (4)	10 (5)
China	10	10	10
Czech Republic	nil (28)	nil	nil (29)
Denmark	10 (8)	10 (6)	nil
Egypt	15	15	10
France	10 (9)	10 (10)	nil (3)
Germany	10 (8)	10 (6)	nil (3)
Greece	25	10	nil (12)
Hungary	nil	10 (6)	nil
India	10 (9)	10 (10)	10 (16)
Ireland	nil	nil	nil (12)
Italy	nil	10	nil
Kuwait	10	10(6)	5 (7)
Kyrgyzstan (20)	nil	nil	nil
Lebanon	5	5	nil
Malta	15	10	10
Mauritius	nil	nil	nil

Paid from Cyprus			
	Dividends (1) %	Interest (1) %	Royalties (1) %
Moldova	5 (27)	5	5
Montenegro (26)	10	10	10
Norway	nil	nil	nil
Poland	10	10 (6)	5
Qatar	nil	nil	5
Romania	10	10 (6)	5 (7)
Russia	5 (17)	nil	nil
San Marino	nil	nil	nil
Serbia (26)	10	10	10
Seychelles	nil	nil	5
Singapore	nil	10 (6,25)	10
Slovakia	10	10 (6)	5 (7)
Slovenia (26)	10	10	10
South Africa	nil	nil	nil
Sweden	5 (8)	10 (6)	nil
Syria	nil (8)	10	10
Tadzhikistan (20)	nil	nil	nil
Thailand	10	15 (21)	5 (22)
Ukraine (20)	nil	nil	nil
United Kingdom	nil	10	nil (3)
United States	nil	10 (10)	nil

Received in Cyprus			
	Dividends %	Interest %	Royalties %
Non-treaty countries	nil	nil	nil
Armenia (20)	nil	nil	nil
Austria	10	nil	nil
Belarus	5 (18)	5	5
Belgium	10 (8)	10 (6,19)	nil
Bulgaria	5 (23)	7 (6,24)	10 (24)
Canada	15	15 (4)	10 (5)
China	10	10	10
Czech Republic	nil (28)	nil	nil (29)
Denmark	10 (8)	10 (6)	nil
Egypt	15	15	10
France	10 (9)	10 (10)	nil (3)
Germany	10 (8)	10 (6)	nil (3)
Greece	25 (11)	10	nil (12)
Hungary	5 (8)	10 (6)	nil
India	10 (9)	10 (10)	15 (15)
Ireland	nil	nil	nil (12)
Italy	15	10	nil
Kuwait	10	10 (6)	5 (7)
Kyrgyzstan (20)	nil	nil	nil
Lebanon	5	5	nil
Malta	nil	10	10
Mauritius	nil	nil	nil

Received in Cyprus			
	Dividends %	Interest %	Royalties %
Moldova	5 (27)	5	5
Montenegro (26)	10	10	10
Norway	nil (13)	nil	nil
Poland	10	10 (6)	5
Qatar	nil	nil	5
Romania	10	10 (6)	5 (7)
Russia	5 (17)	nil	nil
San Marino	nil	nil	nil
Serbia (26)	10	10	10
Seychelles	nil	nil	5
Singapore	nil	10 (6,25)	10
Slovakia	10	10 (6)	5 (7)
Slovenia (26)	10	10	10
South Africa	nil	nil	nil
Sweden	5 (8)	10 (6)	nil
Syria	nil (8)	10 (4)	10
Tadzhikistan (20)	nil	nil	nil
Thailand	10	15 (21)	5 (22)
Ukraine (20)	nil	nil	nil
United Kingdom	15 (14)	10	nil (3)
United States	5 (9)	10 (10)	nil

Notes

- (1) **Under Cyprus legislation there is no withholding tax on dividends, interests and royalties paid to non-residents of Cyprus.**
- (2) In case where royalties are earned on rights used within Cyprus there is withholding tax of 10%.
- (3) 5% on film and TV royalties.
- (4) Nil if paid to a Government or for export guarantee.
- (5) Nil on literary, dramatic, musical or artistic work.
- (6) Nil if paid to the Government of the other state.
- (7) This rate applies for patents, trademarks, designs or models, plans, secret formulas or processes, or any industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- (8) 15% if received by a company controlling less than 25% of the voting power or by an individual.
- (9) 15% if received by a person controlling less than 10% of the voting power.
- (10) Nil if paid to a Government bank or financial institution.
- (11) The treaty provides for withholding taxes on dividends but Greece does not impose any withholding tax in accordance with its own legislation.
- (12) 5% on film royalties (apart from films broadcasted on television).
- (13) 5% if received by a person controlling less than 50% of the voting power.
- (14) This rate applies to individual shareholders regardless of their percentage of shareholding. Companies controlling less than 10% of the voting shares are also entitled to this rate.
- (15) 10% for payments of a technical, managerial or consulting nature.
- (16) Treaty rate 15%, therefore restricted to Cyprus legislation rate.
- (17) 10% if dividend paid by a company in which the beneficial owner has invested less than US\$100.000.
- (18) If investment is less than 200.000 euro, dividends are subject to 15% withholding tax which is reduced to 10% if the recipient company controls 25% or more of the paying company.
- (19) No withholding tax for interest on deposits with banking institutions.
- (20) Armenia, Kyrgyzstan, Moldova, Tadjikistan and Ukraine apply the USSR/Cyprus treaty.
- (21) 10% on interest received by a financial institution or when it relates to sale on credit of any industrial, commercial or scientific equipment or of merchantise.
- (22) This rate applies for any copyright of literary, dramatic, musical, artistic or scientific work. A 10% rate applies for industrial, commercial or scientific equipment. A 15% rate applies for patents, trade marks, designs or models, plans, secret formulae or processes.
- (23) This rate applies to companies holding directly at least 25% of the share capital of the company paying the dividend. In all other cases the withholding tax is 10%.
- (24) This rate does not apply if the payment is made to a Cyprus international business entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity.
- (25) 7% if paid to bank or financial institution.
- (26) Montenegro, Serbia and Slovenia apply the Yugoslavia/Cyprus treaty.
- (27) This rate applies if received by a company (excluding partnership) which holds directly 25% of the shares. 10% applies in all other cases.
- (28) This rate applies if received by a company (excluding partnership) which holds directly at least 10% of the shares for an uninterrupted period of no less than one year. 5% applies in all other cases.
- (29) 10% for patent, trade mark, design or model, plan, secret formula or process, computer software or industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

Capital & Stamp duties and VAT



Capital Duty

Capital contribution is subject to Capital Duty under the Cypriot legislation on the authorised share capital and any further increases, as follows:

- Upon Incorporation of the company: €102,52 plus 0.6% on the authorised share capital
- Upon subsequent increases: 0.6% on the additional share capital

This Capital Duty can be substantially reduced by having small-authorized share capital and issuing the shares at high share premium. There is no capital duty payable on share premium. The capital duty is payable to the Registrar of Companies.

Stamp Duty

Under the Stamp Duty legislation of Cyprus, stamp duty is imposed on documents referring to assets in Cyprus, or matters or things that will be done in Cyprus irrespective of where the documents are signed. Therefore, if there is no document, no stamp duty arises. Stamp duty rates are as follows:

- Stamp duty on agreements that do not include values on which stamp duty can be calculated - €34,17 (in cases where the Commissioner of Stamp Duty can determine the underlying value, Stamp Duty, may still be applied)
- Stamp duty on agreements (Contracts/ Loan agreements) - between 0.15% - 0.20% with a maximum duty of €17.086

The duty is payable within 30 days after signing the agreement. A penalty charge of 10% applies for a delay in payment of up to 6 months. The penalty rises to 20% for a delay in payment of more than 6 months.

VAT

If the holding company's activity is limited to the holding of shares, it will not be a taxable person under the VAT legislation. As such it will fall outside the scope of the VAT legislation and will not be entitled or obliged to register for VAT purposes.

However, if the holding company is involved in activities in addition to the holding of shares, such as the provision of management services or granting of loans, then it may have an obligation for registration or a right for a voluntary registration. In such a case it may be entitled to deduct VAT that it suffers on expenses incurred in Cyprus or self-charged under the reverse charge provisions.





Setting up and maintaining a Cypriot Holding Company



Although there are no restrictions on the legal form of the holding company in Cyprus, the most commonly used form is the private limited liability company.

There are no legal requirements as to the minimum or maximum share capital of the company. However, it is recommended that the authorised share capital should be at least €10.000 that may conveniently be divided into 10.000 shares of €1 each. Not all of these shares have to be subscribed for, but it is recommended that at least 2.000 shares are issued and fully paid upon incorporation.

Accounting requirements & filing
Under Cypriot Companies Law Cap.113, financial statements of Cypriot companies are prepared in accordance with the International Financial Reporting Standards (IFRS's). These standards require the Cypriot holding companies to prepare consolidated audited financial statements on an annual basis. Consolidation is not required when the Cypriot holding company is an intermediary holding company and a holding company further up the ownership chain prepares consolidated financial statements under approved accounting standards.

Audited entity accounts must be prepared for company and tax law purposes. Accounts translated in Greek are submitted to the Registrar of Companies with the annual return.

A tax return is submitted to the Income Tax Office for each tax year. The tax year is the calendar year.

Shareholders

Under Cypriot law, every company, limited by shares, must have at least one shareholder.

Appointment of Directors

Companies are managed and controlled by the board of directors. Under Cypriot Company Law, a Cypriot private company must have at least one director. In all other cases at least two directors are required.

Management and control of a company determines under Cypriot tax legislation the tax status of the company. Therefore, the venue of its meetings is significant for tax purposes.

The role of the company secretary

The company secretary's role is to keep the company in good order with the Registrar of Companies, prepare and file annual returns, effect changes in the directors, shareholders, memorandum and articles share capital etc, prepare and keep minutes of all directors meetings and communicate with the Registrar of Companies on behalf of the company.

Period needed for Registering a Company
The formation and registration procedures, including various administrative needs such as printing of the company's letterheads, opening of statutory books and the opening of the required bank accounts, up to the time the certificate of incorporation is issued, can normally be completed within a period of two weeks.

Ceasing Operations in Cyprus



A Cypriot holding company held by non-resident shareholders can cease operations in Cyprus and distribute assets to its shareholders in any form (dividends, proceeds on liquidation, etc.) without any tax cost to the shareholders.

If the Cypriot holding company owns immovable property in Cyprus, then its disposal at the time of ceasing operations can result in Capital Gains tax.



Conclusion

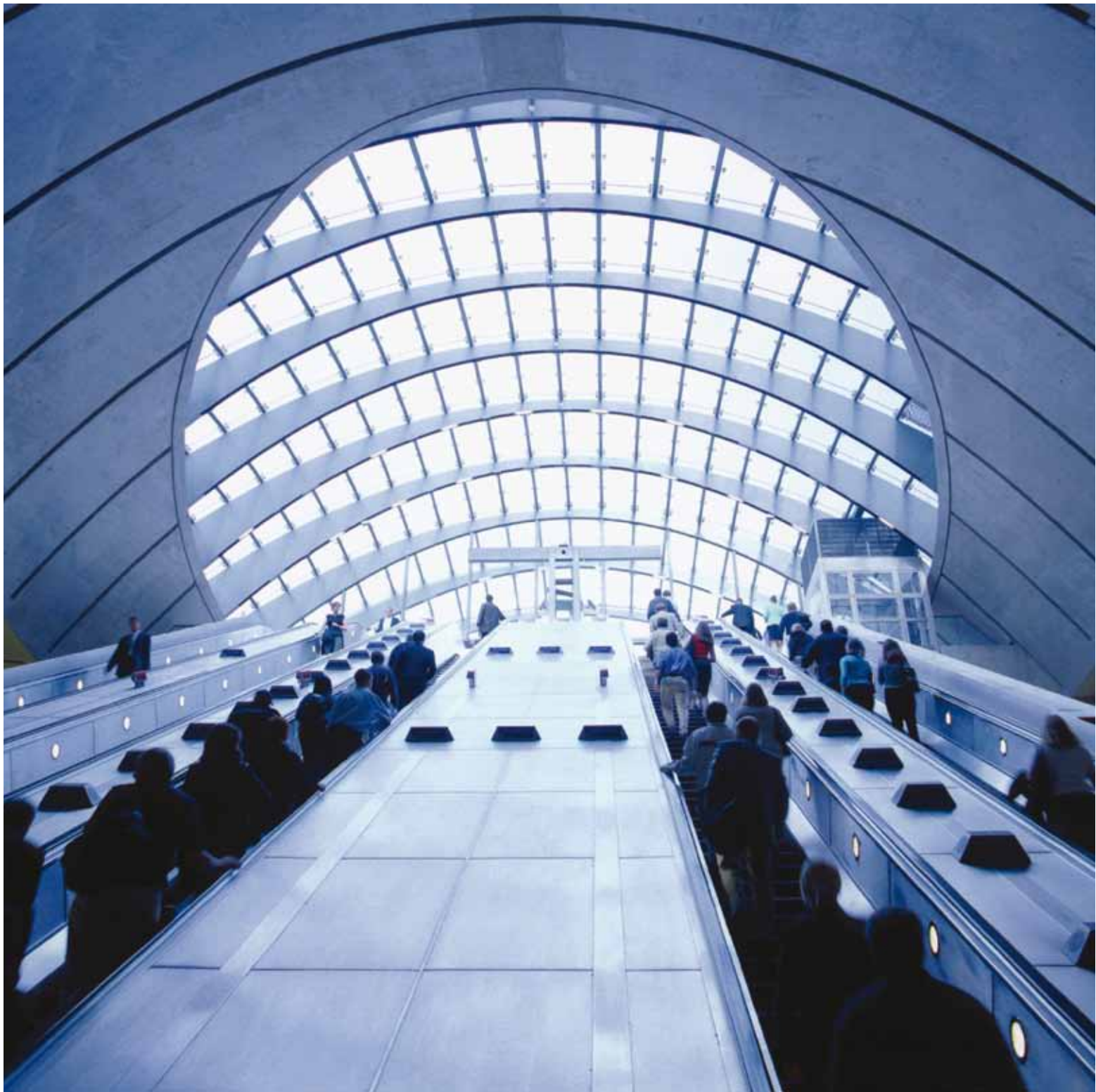


Why Cyprus?

- Lowest standard tax rate in EU
- Tax free dividends income
- Tax free profit on sale of titles
- Simple tax free repatriation route
- Tax free liquidation of investments

This publication has dealt with the tax implications of setting up a holding company in Cyprus.

While tax considerations may not be the decisive factor in choosing the location of a holding company, they are extremely important in the decision making process.



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PricewaterhouseCoopers in Cyprus

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for our clients and their stakeholders. More than 163.000 people in 151 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

PricewaterhouseCoopers Cyprus (www.pwc.com/cy) tap the knowledge and experience of their international network helping their clients to solve complicated business problems, improve their performance and manage risk in a hard competitive environment.

Our position is strengthened with more than 1.000 people and offices throughout Cyprus. Our team effort makes us efficient in preparing our clients for the needs of tomorrow.

Organised under specialised service lines in Cyprus, we provide a wide range of financial services to both local and international clients, which operate in all sectors of business activity and range from the private individual to the large multinational organisation.

Some of the services provided by the firm are:

Assurance Services

Statutory and regulatory audit services, which include evaluation of information systems and advisory services for accounting and regulatory issues for all types of businesses through specialist industry divisions: Financial Services (FS), Consumer and Industrial Products and Services (CIPS) and Technology, Information, Communications, Entertainment and Media (TICE). Expertise on corporate reporting, performance measurement as well as compliance and review of security and information technology systems by our Systems and Process Assurance (SPA) team which is fully integrated into the overall audit.

Advisory Services

Governance, Risk Management and Compliance, Strategy and Operational Effectiveness, Security and Technology, Process Improvement, Corporate Finance, Transactions Support, Crisis Management, People and Change, as well as general advisory services.

Tax Services

Corporate: Tax planning on structuring, mergers and buyouts and other business

issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings.

VAT: Advisory services for tax planning, VAT recovery and VAT minimisation and tax compliance (administration of tax returns, communication with VAT authorities, agreement of disputed assessments etc). **Personal:** Tax planning, completion submission and agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

Global Compliance Services

Accounting, company administration and corporate statutory compliance services including advice on establishment and administration of local and international business companies, collective investment schemes, UCITS investment firms and trusts.

Corporate Support Services

Our Corporate Support Services, which employs among others, accountants, lawyers and other qualified staff and engages selected lawyers with extensive and specialized knowledge in corporate law and other business related matters, aims at delivering full support and solutions that combine the required expertise with commercial insight thus adding value to the clients' business.

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