

Cyprus Annual Review & Transparency Report 2012

How we responded
to the FY12 challenges,
focussing on our clients
and our people.

September 2012



Key performance indicators

Our Clients

65%
of professional services buyers say that PwC has the most contemporary brand image among the leading firms of the industry¹

63%
say that PwC provides leading-edge advice¹

60%
State that PwC brings in the right experts¹

7,89
Client experience²
out of a possible score of 10

Financials

€74,8m
Net Revenues

1,6%
Increase of net revenues

€15,1m
Our total tax contribution
excluding VAT payments



Our People

6 New Partners & Directors
112 New recruits

77%
People engagement score³

47
People worked on international secondments

63 ACA and 16 ACCA
Newly qualified accountants

Awards & Accreditations

Investors in People (IIP)
Silver accreditation



Corporate Social Responsibility

€32.000
donated to non-profit organisations

€63.500
worth of pro-bono and discounted services donated to community organisations and charitable institutions

160
people volunteered spending 220 hours for our CSR activities



1. Figures based on the Brand Health Index survey. An independent, blind survey carried out in November. Total sample size: 50 telephone and 10 open ended interviews.
2. Figure based on the client experience survey carried out in August 2012.
3. Employee feedback obtained through our Global People Survey



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Evgenios C Evgeniou
CEO
PwC Cyprus

CEO message

I am pleased to present our annual review and transparency report for the financial year which ended on 30 June 2012 (FY12). Our aim is to give you an understanding of our strategy, our priorities, the main challenges we face and our achievements. Our report also incorporates the information required to comply with the European Union's 8th Company Law Directive which has been enacted by Cyprus in the form of "Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009". Although the legislation came in effect in April 2011, we, at PwC Cyprus, being at the leading edge of what is happening in our profession, have introduced this reporting four years ago, aiming to provide the reader with an overview of our legal and organisational structure, governance and quality control system. Our transparency enables the firm to sustain its status as the most trusted professional services firm and is a demonstration of our continuous commitment to quality.

Economic conditions

For Cyprus, FY12 was a difficult year that ended with the request for European Union (EU) and International Monetary Fund (IMF) financial support, against the backdrop of the continuing euro zone crisis. On the positive side we had confirmation of the natural gas finding in the exclusive economic zone of Cyprus, that opens new opportunities for our country. The Cyprus economy is in recession and this is likely to continue in 2013. Until the conditions for the EU and IMF financial support are finalized we will need to deal with the uncertainty and once these are agreed the important task of implementation will start. Cyprus is committed to improve its financial and business centre status and as a firm we actively support this effort.

Our performance

We have generated revenues of €74,8 million compared to €73,6 million in FY11, achieving growth of 1,6%, which given the prevailing economic conditions is a satisfactory result. We also measure our business success in terms of client feedback, our people engagement and our contribution to the community. The Management Board reviews these results regularly and I am pleased that we are making good progress year on year on all these key performance indicators.

Our clients

We have reorganized to become more integrated and streamlined, placing greater emphasis on our clients' needs, and our client and industry initiatives have been reinvigorated. We have been able to quickly mobilize people creating teams with diverse skills and expertise to service clients. We increasingly go to the market with cross competency teams leveraging the broad expertise we have locally and globally. We have won important assignments in the banking and construction industries, where we have been traditionally strong, and in new industries like energy and funds where we are investing. On the international front we have invested in new markets like China, the UK and India and in traditional markets like Russia, Ukraine and Eastern Europe. With our support new legislation that strengthens Cyprus position as a financial centre has been enacted. Recognizing the importance of value for money services we have invested in technology and processes driving client service efficiencies and better managed our firm wide costs.

Our people

We acknowledge that our ability to service clients with the professionalism and quality they expect of us depends on our people, their knowledge, experience and expertise. We make significant investments in attracting, retaining

and developing quality people and this has been recognized with the Silver Investors in People accreditation. Our priority is to engage and develop our people to fulfill their true potential. In FY12 five colleagues were promoted to Director Grade and there were 155 promotions to all other grades. In addition, effective from 1 July 2012 (FY13), two colleagues were promoted to Partners, four colleagues were promoted to Director Grade and there were 88 promotions to all other grades. Moreover we recruited 71 university graduates and 40 experienced hires. These numbers demonstrate the importance of the services sector to our economy and our commitment to continue investing in our people. Given the prevailing uncertain economic conditions we acted responsibly and whilst we continued investing in career advancement and people development and rewarded our people with a bonus for their FY12 performance, we did not give salary increases on 1 July 2012.

Quality

We acknowledge that our continuing success and ability to meet the demands of our clients in an increasingly complex business environment depends critically on the quality of our services. Quality is therefore the foundation of our work and my role, together with all my partners is to set the right tone from the top so as to continuously improve quality in everything

we do. In the quality, risk management and integrated network review assessments that were carried out during the year we achieved excellent results demonstrating our continuous commitment to quality. As the largest audit firm in Cyprus we recognize our role in helping build trust, especially in the context of the financial crisis, and we actively participate in the debate on the EU Commissions proposals on the future of our profession.

Our global network

At PwC Cyprus, we utilise the knowledge and experience of our global network to help our local and international clients solve complicated business problems and manage risk in an extremely competitive environment. In a global network like PwC, people from different countries and cultures have the opportunity to exchange knowledge, ideas and experience that result in new ways to support our clients. PwC Cyprus is not only a recipient of, but also a contributor to the global network's expertise as some of our own people hold positions in the network. Additionally our people benefit from the international opportunities they can get and in FY12, 47 of our people worked in international secondments in other PwC firms.

The year ahead

The year ahead, promises to be very challenging and the short-term economic outlook remains uncertain. We continue to work on our strategic priorities with quality being the foundation of our work. We focus on growth by maximizing market opportunities, improvement in our competitiveness by transforming our business model and making investments for the future by building capabilities and developing our people. We will continue to play an active role in our society. We focus on servicing existing clients, winning new work in the local and international market and expanding our service offering. We will continue to improve on efficiency and adding value, providing a distinctive client and people experience. We work in a volatile economic environment under difficult market conditions. Clients are focused on quality, dependability and value. They look to us to provide sound advice, help them achieve their goals and in a globalised economy they expect quality services across territories. I believe that we are well positioned to do all these.

We focus on growth by maximizing market opportunities, improvement in our competitiveness by transforming our business model and making investments for the future by building capabilities and developing our people.

The achievements of this year were the result of tremendous effort by everyone in our firm. I would like to thank all my partners and all my colleagues for their hard work, commitment and positive outlook in a difficult environment. Ultimately our success depends on the trust and continuous support of our clients whom I would like to sincerely thank.



Evgenios C Evgeniou
CEO

September 2012



Clients and markets

We are striving to offer our clients the value they are looking for, value that is based on the knowledge that our teams draw from 169.000 experts in 158 countries and based on experience adapted to local needs. We aim to build long term relationships with our clients working closely with them to help them create value for their business whilst we fulfil our responsibility of building trust.

We are organised in two lines of service: Assurance and Advisory (A&A) and Tax and Legal Services (TLS). This integrated business structure allows us to bring together multi competency teams according to the needs of our clients.

We look at the market by country of origin, by industry and by key client with partners responsible for each dimension ensuring that we go to market and service clients as one firm.



In FY12 economic conditions were very challenging for many clients, local and international. The continuing euro zone debt crisis, the anaemic recovery of the global economy, the resulting economic uncertainty and the difficulty of raising financing and capital from banks and the markets were the prevailing conditions.

We stood by our clients and have supported them through these difficult times with sound advice and constructive solutions capitalising on the knowledge and expertise of our professionals in Cyprus and of our global network. The result was that we have maintained our client base, expanded the service offering to existing clients and had several new wins.

At the same time, significant efforts and investment have been made to enhance efficiency through the investment in technology and in new processes recognising the need for value for money services.

In the operation of the world's capital markets we play an important role and as business advisors we help our clients solve complex business problems. We aim to improve their ability to manage risk and improve performance. At the same time we



take pride in our quality services which help to improve transparency, trust and consistency of business processes.

Our position is strengthened with our almost 1.000 professionals and our offices throughout Cyprus.

Message from the Head of the Assurance & Advisory Service Line

The integrated Assurance and Advisory practise with 28 partners and directors and 373 staff services local and international clients, public and private companies, bringing together a diverse team of experts that work together to meet the increasingly complex needs of clients.

Our Financial Assurance services, organised in specialist industry groups, comprise of statutory and regulatory audit services, including evaluation of information systems and advice on capital market transactions, and accounting and regulatory issues.

Our Risk Assurance Consulting offers expertise on internal audit services, internal controls optimisation, corporate governance and reporting, as well as assurance and advisory services related to security, implementation and controls of information technology systems. A particular focus of the team is in supporting the

financial services industry on matters related to regulatory compliance, licensing and risk management.

Our Performance Improvement Consulting is offering specialist advisory services on strategy and operational effectiveness, process improvement, cost reduction, people and change and sustainability issues.

Our Deals & Corporate Finance provides consulting on M&A's, valuations, feasibility studies, transactions support and crisis Management.



Liakos M Theodorou
Head of Assurance & Advisory

Business performance

Competition among the big four firms but also by smaller practices continued to increase significantly. We maintained our leading position by focusing on the quality of services, demonstrating the value we add and staying close to our clients.

The A&A results in FY12 reached €29,4 million compared to €28,1 million in FY11 achieving a 4,6% growth.

This was the result of winning significant special assignments in the banking industry, leveraging the strength of our financial services expertise, winning major audits in the construction and energy industries, winning consulting work in the public sector and expanding the services we offer to most of our key clients.

In FY12 we implemented our new audit methodology and new audit tool that help us enhance quality whilst improving on efficiency. We have also expanded our service offering in Risk Assurance and Performance Improvement Consulting.

Current affairs

The debate about the future role and scope of audit continues. We actively participate in this debate and the PwC Network is creating a series of position papers on specific issues such as mandatory audit rotation and the broader topic of independence to support these discussions. Our guiding principles are summarised below:

In considering all proposals and in developing our own positions, we have found the following guiding principles to be useful in identifying constructive changes and avoiding any that will inadvertently do harm.

- Changes should:
 - maintain or improve quality
 - enhance the value of the audit to users
 - increase the reliability of information the
- Changes should maintain or enhance the effectiveness of the relationships and interactions of auditors with those charged with governance (e.g. audit committees) and management.
- Auditor reporting should be sufficiently similar to facilitate users' understanding of the issues facing a company and its financial standing and allow comparison of the underlying economic reality/state of affairs of different entities.

- Auditor reporting can provide greater insight based on the audit but the auditor should not be an original source of factual data or information about the entity. In the shorter term, the adoption of different approaches that achieve the objectives of additional reporting may be necessary.

We actively participate in various debates that take place on public policy and regulation which will have a positive impact on the economy and the image of the profession. These are expected to intensify in view of the EU Council Presidency of Cyprus as from 1 July 2012.

Message from the Head of the Tax & Legal Service Line

During the difficult times of an escalating global financial crisis, an unstable euro zone and the difficulty of raising capital from banks and investors, our 31 partners and directors and 374 staff have stood by our clients and supported them through providing sound advice and constructive solutions.

Our PwC network's tax and legal services include Global Compliance Services, Direct and Indirect Tax Services, Services to Small and Medium Enterprises and Legal Services.

Global Compliance Services

Comprising the whole spectrum of company administration and corporate statutory compliance services, bookkeeping, accounting and payroll services as well as specialised services such as private client services, advice on establishment and administration of local and international business companies, collective investment schemes, UCITS, investment firms and trusts.

Direct tax services

Corporate: Advisory Services for tax planning, international tax structuring, mergers and buyouts and other business issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings.

Personal: Tax planning, completion submission and agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

Indirect Tax Services

VAT: Advisory services for VAT, VAT recovery and VAT minimisation and tax compliance such as administration of VAT returns, communication with VAT authorities and agreement of disputed assessments.

Services to Small and Medium Enterprises (SME)

The Services to Small and Medium Enterprises are addressed to individuals, small and medium - sized enterprises with local activity and cover the whole spectrum of accounting, tax, VAT, family business and financial structuring and statutory compliance services.



Costas L Mavrocordatos
Head of Tax & Legal

Legal Services

The legal firm, full member of the PwC international network, offers legal services that cover the whole spectrum of corporate and business law, including advising and representing clients in M&A transactions, re-organisations, European Union law and Competition law, setting up and regulating private companies, setting up joint ventures and other forms of businesses and carrying out legal due diligence.

Business performance

Notwithstanding the challenges faced over the past year, in FY12 the Tax & Legal Service Line managed to generate net revenues of €45,4m remaining at the same levels as in the previous financial year.

Our international client base continues to be a great contributor to our revenues with territories such as Russia, Central and Eastern Europe and Western Europe remaining a very important source of work.

Significant wins include the relocation and the set up of fully fledged offices in Cyprus of Groups from the UK including a major metals trading Group, major cross border restructuring of a US multinational in the pharmaceutical industry that uses Cyprus as its European holding company location, the registration of multimillion euro worth of yachts in Cyprus and the establishment of a major industrial group from China involved in renewable energy for investments in Cyprus and internationally.

Current affairs

In an effort to create a more flexible, competitive and beneficial tax environment, the firm has contributed significantly to many legislative changes, reinforcing the position of Cyprus as a financial centre on a global scale. Some of these changes include:

- Intellectual Property - generous exemptions from tax on income relating to Intellectual Property.
- Yacht scheme - The new guidelines issued by the Cypriot VAT authorities establish Cyprus as one of the most attractive jurisdictions for yacht registration in the EU.
- Trust law amendments - The new Law builds on the existing and already attractive Cyprus International Trusts Law.
- Tax law amendments including interest expense deductibility.

We have intensified our efforts through our global network for providing investment opportunities for our clients. We have continued to invest in enhancing our presence in various territories which we believe will play an increasingly important role in the future such as China and India. We have also arranged a number of staff secondments to the US, UK, Russian and Greek firms.





The term Public Interest Entity (PIE) is defined in the 8th EU Company Law Directive and the “Auditors and statutory audits of annual and consolidated accounts law of 2009”. In short, the definition includes companies which are traded on a stock exchange, credit institutions, insurance companies and government organisations.

The PIEs for which PwC Cyprus has performed statutory audit in the current reporting year are as follows:

PIEs which are traded on a stock exchange:

- Amathus Public Ltd
- Apollo Investment Fund Plc
- Astarti Developments Plc
- C.C.C Holdings & Investments Public Co. Ltd
- Camposol Holdings Plc
- Claridge Public Ltd
- CLR Investment Fund Public Ltd
- Constantinou Bros Hotels Public Co. Ltd
- Cyprus Limni Resorts and Golfcourses Public Ltd
- Cyprus Popular Bank Public Co. Ltd
- Cytrustees Investment Public Co. Ltd
- Deep Sea Supply Plc
- D.H. Cyprotels Plc

- Egidaco Investments Ltd
- Ermes Department Stores Plc
- Europrofit Capital Investors Public Ltd
- GAP Vassilopoulos Public Ltd
- Global Ports Investments Plc
- Globaltrans Investment Plc
- H.M.S Hydraulic Machines and Systems. Group Public Co. Ltd
- Interfund Investments Plc
- ITTL Trade Tourist and Leisure Park Plc
- K + G Complex Public Co. Ltd
- Leptos Calypso Hotels Public Ltd
- Libra Group Plc
- Mallouppas & Papacostas Public Co Ltd
- Marfin CLR Public Co. Ltd
- Mitsides Public Company Ltd
- Mosvold Supply Plc
- Pandora Investments Public Ltd
- Philoktimatiki Public Ltd
- Reconstruction Capital II Limited
- Rosagro Plc
- S.D. Standard Drilling PLC
- SONGA Offshore SE

- Sun Interbrew Ltd
 - The Cyprus Cement Public Co. Ltd
 - Unifast Finance & Investments Public Co. Ltd
 - Unigrowth Investments Public Ltd
 - Urals Energy Public Co. Ltd
 - Woolworth (Cyprus) Properties Plc
 - Insurance Company The (Central) Ltd
- PIEs not traded on a stock exchange:***
- American Home Assurance Company – Cyprus branch
 - Bank of Piraeus (Cyprus) Ltd
 - Barclays Bank Plc
 - BNP Paribas Cyprus Ltd
 - Central Bank of Cyprus
 - Commercial Bank Privatbank
 - Commercial General Insurance Ltd
 - Cooperative Central Bank
 - Emporiki Bank (Cyprus) Ltd
 - Eurobank EFG Cyprus Ltd
 - Hellenic-Alico Life Insurance Co. Ltd
 - Insurance Company The (Central) Ltd
 - Laiki Cyprialife Ltd
 - Laiki Insurance Co. Ltd
 - Russian Commercial Bank (Cyprus) Ltd



The depth of our industry knowledge

PwC has developed multi-disciplined teams to work with clients with extensive industry knowledge and experience. The depth of our industry knowledge, like our international perspective, is an attribute that our clients value highly. We invest significant resources in building and sharing such knowledge. We organise around industries to share the latest research and points of view on emerging industry trends, develop industry-specific performance benchmarks based upon global standard industry practices, and share methodologies and approaches. In addition, our network is available to collaborate on the latest developments unique to a particular industry, especially when the pricing and structuring of potential acquisitions or disposals is at stake.

We list the partners responsible for each of our industries.

- **Banking & Capital Markets**
Stelios C Constantinou
- **Construction & Engineering**
Stephos D Stephanides
- **Energy, Utilities & Mining**
Constantinos Taliotis
- **Entertainment, Media, Communications & Technology**
Nicos A Theodoulou
- **Funds**
Chris Odysseos
- **Hospitality & Leisure**
Angelos M Loizou, Petros C Petrakis
- **Insurance**
Androulla Pittas
- **Investment Management**
George Lambrou
- **Government & Public Sector**
Tassos Procopiou
- **Real Estate**
George Foradaris, Tasos N Nolas
- **Retail, Consumer & Manufacturing**
Andreas T Constantinides
- **Shipping & Ports**
Yiangos A Kaponides

Cyprus offshore blocks



Source: Cyprus Ministry of Commerce, Industry and Tourism

Energy

The year that just passed has been a very exciting one for Cyprus in relation to its ambitions to position itself in the regional map of energy producers.

A decade of meticulous work by successive governments of putting together the legal and regulatory framework as well as relevant bilateral agreements with neighboring countries for hydrocarbons exploration created the necessary framework for Houston based Noble Energy to participate in and win the first licensing round for deep sea drilling offshore Cyprus. In December 2011 Noble Energy announced a 5-8 tcf natural gas discovery (7tcf gross mean) in block 12 some 180km offshore Cyprus at a total depth of 5,860 meters. US Geological Survey (USGS) studies indicate the potential existence of up to 345 tcf (trillion cubic feet) of natural gas and 3,4 bbl (billion barrels of oil) in the Eastern Mediterranean, with substantial quantities of gas and possibly oil lying in the Exclusive Economic Zone (EEZ) of the island.

The potential financial and geopolitical benefits from the future discovery and optimal commercialisation of such large reserves offshore the island could be very substantial for Cyprus and could also contribute towards the current European Union (EU) natural gas deficiencies.

The second licensing round that was launched by the Government of Cyprus in February 2012 attracted significant interest from reputable International Oil Companies (IOCs), from 14 countries including TOTAL of France, Marathon Oil from the US, Novatek from Russia and Malaysia's Petronas.

Cyprus a developing energy hub?

The plans of Cyprus to turn itself into an energy hub for the region were further enhanced with the commencement of the construction during the year, of a private oil product terminal able to provide around 340k cubic meters of storage for gasoline, diesel, jet fuel and fuel oil. The project was awarded to Vitol Tank Terminals International ("VTTI"). A second project for the tendering of a terminal and storage

facility for the strategic and operational oil stocks of the country is underway. In addition the Government of Cyprus is continuing its discussions with all interested parties for the commercialisation of the natural gas already discovered in the Cyprus EEZ.

Due to its competitive tax regime, Cyprus has been used for a number of years now by oil & gas Multinational Corporations (MNCs) that structured their Exploration and Production (E&P) as well as other operations through the island. A number of these companies have been served by the Cyprus firm. With the developments in the local oil & gas scene the firm's energy team was significantly enhanced at the beginning of the year with an aim to acquire and share further specialised knowledge in the industry, so as to position the firm in the local and international business community as a leading player in relation to energy matters.

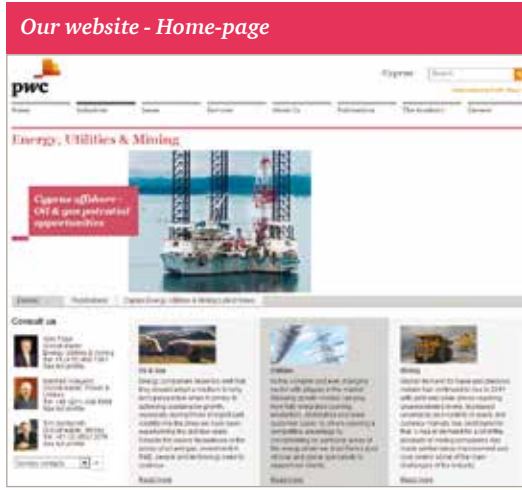
The PwC network's deep expertise in the industry spread across 13 regional centres of excellence was leveraged to a large extent to allow us to achieve our objectives.

Publications and website

The firm's first energy publication "Cyprus hydrocarbon opportunities" was released in November 2011 at the same time when we sponsored the first ever energy conference held in Cyprus by the Economist magazine. During that conference colleagues from the Stavanger centre of excellence of PwC Norway shared an insight into the Norwegian hydrocarbon industry. The end of the year also saw the release of "Shaping the future", the capability statement of how PwC Cyprus can support companies interested to get involved in the developing Cyprus oil & gas industry.

Our website now contains a section dedicated to the Cyprus developments and highlights the expertise of the firm at local and global level. Being continuously updated it has acted as a useful tool for interested parties that wish to keep in touch with developments in the industry and seek the services of the firm.

Substantial time investment has also been dedicated to the development of an internal knowledge and information depository for the industry. This is now close to completion and is expected to go live very soon.





PwC Cyprus energy team

Lambros Kilaniotis Director, Legal Practices S.A. Evangelou & Co LLC *, ***Nicos P Chimarides*** Partner, In charge of Direct Tax Services, ***Helga Csenki*** Manager, Direct Tax Services, ***Constantinos Taliotis*** Partner, Assurance, In charge of Energy Team, ***Michalis Stephanou*** Senior Manager, Assurance Services, ***Charalambos Kassapis*** Senior Manager, Assurance Services

Business development

In the area of business development the firm's energy team has held numerous meetings with various stakeholders in Cyprus as well as local and international companies interested in the field.

We have started seeing the first results of these efforts with a project awarded to our advisory colleagues to assess the impact of the hydrocarbon discoveries on the Cyprus economy, the engagement of the firm by a major European oil & gas company to act as their advisor on tax and legal matters and the win of the audit of a US based oil & gas Group.

FY12 has been a milestone year for Cyprus and the firm's energy team. The potential for more hydrocarbon discoveries in the region and in the EEZ of Cyprus has created tremendous opportunities for the whole region, our country and the firm and may change substantially the way we do business.

At PwC Cyprus we are ready to seize the opportunity!

* S.A. Evangelou & Co LLC is a member firm of PricewaterhouseCoopers International Limited (PwCIL) and part of the PwC's Tax and Legal Services Network providing Legal Services in Cyprus. It is a private company with limited liability by shares having its registered office at the above address and it was registered in Cyprus as a Lawyers' Limited Company under reg. no. 233481. A list of all the practising advocates is available at its registered office and at its website.

Investment Funds

Cyprus is an established financial centre attracting a significant number of international business over the last decades, however its focus on attracting international Funds was limited. This is changing with a significant increase in the number of licenses granted to private Funds under the International Collective Investment Schemes (“ICIS”) Law over the last couple of years. A new piece of legislation was enacted, the Undertakings in Collective Investments in Transferable Securities (“UCITS”) Law, which harmonises Cyprus with the 4th EU Directive. Other important pieces of legislation are expected to be released.

This new legislative framework has been welcomed by Fund managers who demonstrate an increased appetite for transparent, well regulated and tax efficient Fund structures.

Moreover, the refreshed interest from the authorities such as the Cyprus Securities Exchange Commission (CySec) and the Cyprus Investment Promotion Agency (CIPA), as well as influential local market players such as PwC Cyprus, to promote Cyprus as a destination for Funds and Fund managers, have paved the way

to penetrate further into the Funds industry. As expected, we grabbed the opportunity and increased our share in the local market, we invested in the future and even more, we are committed to be an integral part in developing the Funds industry.

Our initiatives

Having identified the opportunity early on, the Funds industry team was established in FY12 comprising of colleagues across all competencies and headed by the GCS partner, Chris Odysseos. A database was launched in March 2012 acting as a tool to share knowledge across the firm and provide guidance to partners and staff to market ICIS to prospective clients and provide consistent and streamlined servicing to ICIS across all PwC competencies. The database summarises available market intelligence, offers standardised templates including marketing materials and proposals, and provides useful information and comprehensive guidance on how to service an ICIS from start to finish.

Throughout FY12 we actively worked towards promoting Cyprus as a Funds destination and guiding efforts of local players in creating the



necessary infrastructure to attract and service international Funds. As part of these efforts, we published an article in an international magazine in the Funds industry, illustrating the benefits of using Fund structures through Cyprus and how PwC can provide services to interested managers and their Funds. We are working closely with the CIPA and are planning to organise events where experts from more established jurisdictions will share their experiences, interact and provide useful tips to the audience. We have been and will continue to express our views to the regulators as to how the forthcoming pieces of legislation could be more competitive.

At the same time we managed to establish presence within the PwC network, by participating at its Central Cluster Hedge Funds Steering Committee, where the Central Cluster's strategic decisions in Hedge Funds sphere are taken. We also attended two international conferences in which many important global industry players participated.

In the challenging times lying ahead, the Funds industry looks a very promising one and we are committed to invest further in it.

Partners and Directors of the Funds industry team

Chris Odysseos Partner, Global Compliance Services, **Anna G Loizou** Partner, Assurance Services, **Chrysilios Pelekanos** Partner, In charge of Indirect Tax Services, **Spyros E Evangelou** Partner, In charge of Legal Practice S.A. Evangelou & Co LLC, **George Lambrou** Partner, Risk Assurance Consulting, **Panicos Kaouris** Partner, Direct Tax Services, **Stelios Demetriou** Director, Global Compliance Services



PwC Cyprus country desks

Certain PwC Cyprus Partners, Directors and Senior Managers have been assigned the responsibility of business development into specific territories, in cooperation with the PwC firm located in the given territory:

<i>Russia</i>	Theo C Parperis, Vasilis Hadjivassiliou, Antonis C Christodoulides
<i>Ukraine</i>	George E Georgiou
<i>Poland</i>	Nicos P Chimarides
<i>Slovakia /Czech Republic</i>	Efstathios E Efstathiou
<i>Romania</i>	Panicos Kaouris
<i>Greece</i>	Chrysilios K Pelekanos
<i>Switzerland</i>	Chris Odysseos, Antonis C Christodoulides
<i>UK</i>	Tony Hadjiloucas, Marios S Andreou
<i>USA</i>	Stelios Violaris, Constantinos Leontiou
<i>India</i>	Marios S Andreou, Aram A Tavitian
<i>China</i>	Panicos Kaouris, Stelios Demetriou
<i>Middle East</i>	Petros C Petrakis
<i>Scandinavia</i>	Cleo A Papadopoulou
<i>Canada</i>	Stelios A Violaris, Constantinos Leontiou

People and talent

Being a step ahead

At PwC we acknowledge that our continuing success and ability to meet the demands of our clients in an increasingly complex business environment depends critically on the strength and quality of our people. Therefore, in FY12, despite the continued difficult market and economic conditions, we invested in the professional development of our people and offered exceptional opportunities for career advancement by taking a long-term view of our business. This section gives an outline of how our talent, development, performance and transformation activities have sparked personal and professional growth.

Talent

Attracting the best People

Every year, we attract and recruit graduates with potential, as well as qualified and experienced professionals with technical expertise, management skills, leadership attributes and personal integrity.

In FY12, we continued to perform strongly against this objective and saw a high level of demand for graduate and professional places. We received a total of 1500 applications for employment, out of which we recruited 111 people (40 experienced hires and 71 university graduates). Out of the university graduates recruited, 65 embarked in our September 2011 professional accounting training schemes.

1500 applications for employment
65 new trainee accountants



To achieve these numbers, our Human Capital professionals carried out a series of activities, specifically aimed at recruiting high calibre graduates and professionals, such as:

- Dinner in London for Cypriot professionals working in the UK.
- On-campus presentations at top UK universities.
- On-campus presentations to University of Cyprus (UCY) students and teaching UCY accounting classes.
- Recruitment of top Russian, Ukrainian and Georgian graduates in close cooperation with the respective PwC firms.
- Sponsorship of “Welcome Parties” for top UK universities.
- Participation in career fairs at local universities and colleges.
- Participation in local high school career fairs.

Additionally, during the summer of 2011, 25 high-calibre university students secured a place in our competitive “Summer Internship Programme” and took part in a range of opportunities, including attending interesting workshops and shadowing PwC professionals. Upon graduation, all 25 students have secured a position in our 2012 trainee intake.

Mobility

While many people think of mobility as moving across geographies, this is only one aspect of it. There is a wide range of opportunities and business needs, which require our people to be mobile. During FY12, 47 of our people worked on international secondments in other PwC firms around the world, such as Russia, UK, USA, Hong Kong and Greece, while 10 people from PwC Russia, USA, UK, Canada, Romania and Greece came to PwC Cyprus on secondment.

Moreover, 19 of our people were transferred to a different Service Line department or office within the organisation, in order to meet our client needs and provide a diverse work experience.

57 international secondments

Talent Management

In FY12, PwC Cyprus implemented a series of Talent Management activities for managers, senior managers and directors, using certain criteria that have been developed based on the PwC network’s guidelines and other PwC firms’ best practices, which have been tailored according to local needs. These criteria of potential have been transparently communicated to our managers, senior managers and directors.

Additionally, a series of career management conversations were carried out with our senior managers, to touch base on their career prospects. In preparation for these meetings, people were asked to self-assess based on the criteria of potential and this input was used as a starting point for the career management conversation and setting of an action plan. The action plan decided for each individual will be linked to various developmental options.

Our strategic priorities are focused around talent management, engaging and developing our people, making sure that all of our people fulfil their potential.

Diversity

Being a diverse and inclusive employer helps us build better relationships with our clients and gives us a competitive edge. In PwC Cyprus talent has no age, race or gender and we are committed to creating an environment where a multiplicity of ideas and experiences are encouraged and appreciated. In our experience, the most diverse teams are the highest performing teams, hence we work hard to attract, train and develop a diverse gender, ethnic and social group of people. In FY12, our people were from 21 different nationalities.



Our people come from 21 different nationalities

Development

Learning and Education

Our ongoing goal is to enhance the value of our people, by investing in their personal and professional development. Therefore, learning and development remained at the top of our agenda in FY12.

Recognition of our comprehensive technical training and development curriculum has been our accreditation as a Continuous Professional Development (CPD) Employer by both the Institute of Chartered Accountants in England and Wales (ICAEW) and the Association of Chartered Certified Accountants (ACCA). Our people's technical learning took place through a number of ways: on-the-job, through formal training programs, locally and internationally, and through the use of e-learning trainings.

Nevertheless, our focus is not only on technical skills. In order to enable all our people achieve their full potential, and develop further their client and people management skills, we have continued to successfully run our Management Development Program "About U". Over 200 of our people have attended at least one of the "About U" management courses during FY12.

In addition, 4 senior managers participated in international PwC Key Talent Programs. These included "My Way" and "Apollo", which aim to develop senior managers into our future leaders, through high-impact developmental interventions, personal coaching and connecting with colleagues from a number of other PwC firms.

Partner and Director Development

Our partners and directors continued to participate in PwC Networks' International Programs, with a clear focus on enhancing client relationship skills and dealing with leadership challenges. More specifically, 2 of our partners and directors attended courses in FY12 on the topics of "Understanding the Client Strategic Agenda" and "Leading the Business Unit".

The Academy

During FY12, The Academy continued to provide tuition and support to our trainee accountants under both the ICAEW and ACCA schemes. Our trainees' professional examination results were once again outstanding. Their FY12 pass rates were well above the international averages. In addition, one of our ACA trainees received



Pass rates well above the international averages.

1st worldwide place in ICAEW examinations

an award for achieving first worldwide place in the paper of Audit & Assurance for the ICAEW Professional stage examinations. The prize was presented in London during a special award ceremony organised by the ICAEW. Moreover, during FY12, tutors of The Academy delivered ACCA courses for clients in Athens, Salonica, St. Petersburg and Budapest, achieving exceptional pass rates and receiving excellent feedback.

The Academy also continued to fulfil its objective to deliver CPD courses to professionals and their businesses. These courses were approved by the ICAEW and ACCA for CPD credits, and catered for the needs of professionals. During FY12, 14 such open seminars were delivered, with a total of 291 participants. In addition, The Academy designed 10 in-house seminars, which were delivered to local businesses and organisations with 321 participants.

Finally, in FY12, The Academy successfully designed and hosted a 3-day seminar to an important overseas client. More specifically, a group of 28 executives and professionals travelled to Cyprus to specifically attend this technical and soft-skills seminar.

Performance

Engaging our People

In FY12, we continued to listen to our people's feedback through our Global People Survey (GPS), so as to improve our performance in a number of key areas. We demonstrated commitment to take all necessary actions to increase our people's engagement, in line with PwC Network's targets, and rolled out people workshops to communicate our strategic goals and discuss our GPS results with all colleagues, in an effort to further improve the quality of our people management practices. As a result of this effort, there was a significant improvement in our people engagement score which rose to 77%.

Giving our colleagues the opportunity to engage with leadership has helped everyone feel more informed and involved with the direction that the firm is taking. Our goal is to continuously engage our people to further improve the way they work, continue our drive for the highest quality in people and in our services so as to ultimately deliver greater value for our clients.

77% people engagement score

Performance Management

Objectivity is the pillar of our performance management system, and our aim is to continue building a culture, where people are rewarded and progress based on their job performance.

In FY12, we had 7 senior managers and 155 promotions to the other grades. This has been a clear demonstration that in PwC Cyprus we offer tremendous career opportunities and, even in difficult market conditions, we continue to enhance the value of our people and invest in the future.

In FY12, we launched a confidential, anonymous upward feedback programme for all partners, in order to help them in their personal development journey. Additionally, all our assistant managers, managers, senior managers and directors received similar confidential and anonymous feedback from their colleagues, to help them develop their managerial and leadership style.

**7 new Senior Managers and
155 promotions to other
grades**

Transformation

Awards and Accreditations

Investing in people has been a key driver of our business success. Being the first and only organisation in Cyprus to have received the Investors in People (IIP) Silver accreditation was a confirmation of the progress we have been making in our Human Capital management practices and our commitment towards continuous improvement.



An exceptional place to work

One of the most exceptional things PwC Cyprus offers is the chance to work with many of the world's leading companies and organisations. This gives our people a great opportunity to develop their business skills through on-the-job learning. Additionally, the firm is continuously investing in new ways of improving our workplace, providing our people with flexibility and recognising their contribution at all levels. These are long-term commitments, reflecting awareness that our people make their greatest contribution, when their quality of life is well-

balanced with their professional obligations. In FY12, we have maintained the following benefits for our people:

- Flexible hours for all
- Reduced hours for working mothers
- Bonus entitlement for assistant managers, managers, senior managers and directors
- Compassionate leave
- Unpaid leave
- Additional annual leave for long-serving staff members
- Life insurance scheme
- Medical insurance scheme
- Provident fund
- Free parking
- Subsidised lunch at our canteen restaurants
- Friday afternoon off
- Casual Fridays

Additionally, we introduced a series of additional benefits, such as:

- Provision of complimentary workshops to stop smoking
- Provision of ergonomic trolley briefcases to all departments
- Payment of overtime worked each month

New Partners & directors



Seated from left: Antonis Christodoulides, Vassilios Vrachimis and Anna Loizou
Standing from left: Socrates Paschalis, Stelios Demetriou and Varnavas Nicolaou

We focus on recruiting and retaining top talented people and developing them to be the next generation leaders. On 1 July 2012, two directors were admitted to partnership and will join the Board of Directors of PricewaterhouseCoopers Ltd: *Antonis Christodoulides and Anna Loizou.*

Three senior managers were promoted to the grade of director: *Socrates Paschalis, Stelios Demetriou and Varnavas Nicolaou.* *Vassilios Vrachimis* who is a director in PwC UK will continue his career as a director with PwC Cyprus.



Firm

Transparency report

Legal and organisational structure

PricewaterhouseCoopers Limited is a limited liability company. All the shareholders of the company are professional practitioners working with the firm and are all members of the board of directors of the company. In professional firms the shareholders of the company are commonly referred to as 'partners'.

Partners' remuneration

The partners' remuneration is based on three interrelated components:

- Responsibility income – reflecting the partners' sustained contribution and responsibilities.
- Performance income – reflecting how a partner has performed.
- Equity unit income – reflecting the overall profitability of the firm.

Governance

Management Board

The firm's Chief Executive Officer (CEO) is elected by the partners of the firm and he has the ultimate responsibility for the management of the business and affairs of the firm including the formulation and implementation of strategic priorities and business plans, compliance with all PwC Network obligations and the design, maintenance and operation of an effective quality control system.

The CEO has appointed six partners to form together with him the firm's Management Board and to assist him in the management of the business, formulate the firm's policy, deal with important matters that arise and make recommendations to the other shareholders (i.e PwC Cyprus partners). The agenda of the Management Board's meetings which are presided by the CEO may include matters for consideration, raised through the CEO, by any Management Board member or PwC Cyprus partner.



The members of the Management Board who served throughout the year ended 30 June 2012 are seated from left: *Liakos M Theodorou, Evgenios C Evgeniou – CEO, Costas L Mavrocordatos* and standing from left: *Theo C Parperis, Christos M Themistocleous, Philippos C Soseilos, Angelos M Loizou*

Oversight Board

The Oversight Board (OB), which is independent of the Management Board, is made up of five members who are elected by the partners every three years, with the first OB taking up office on 1 July 2011. The OB elects its own Chairman and generally meets monthly but may occasionally hold additional meetings as necessary.

The OB is responsible for overseeing the activities of the Management Board to hold management accountable to partners. This is achieved by giving guidance on matters which it considers to be of concern regarding the well being of the firm and the interests of

its partners taken as a whole. These matters include business issues, local, legal, regulatory and fiscal requirements, implementation of global policies and the arrangements for effective communication between partners and the firm's management. In addition the OB is responsible for checking that policies on partners' remuneration are being properly and fairly applied.

The OB met twenty times in the year and has issued a report on its activities to the partners.

The members of the first Oversight Board, who served throughout the year ended 30 June 2012, are starting from the left: *Constantinos H Constantinou, George C Lambrou, Chris K Santis – Chairman, Andreas T Constantinides, Chrysilios K Pelekanos*



Business units

The firm is divided into two Service Lines which are sub-divided into specialist competency and industry groups. Each Service Line is headed by the Head of the Service Line who is responsible to:

- formulate the business strategy addressing fast changing and diverse clients' needs.
- implement relevant regulations and processes in the field of quality, risk management and Code of Conduct
- pursue objectives in terms of revenue, productivity and profitability optimisation
- develop an effective infrastructure (required staffing and resources, industry knowledge)
- manage staffing with a focus on client service and also monitor the development, experience and behaviour of our people.

Each Head of Service Line is assisted in this respect by the Service Line's Human Capital partner, Operations and Technology partner and Risk Management partner.

The unit of organisation most critical to our success is also the smallest and most fluid: the client engagement team. Much of the decision-making authority relating to how client needs are met rests with engagement teams. The team also has primary responsibility for building and expanding client relationships and the team is where much of our people's professional development takes place and the PwC Networks' culture is passed to younger professionals. As a consequence, each piece of the PwC network shares a single, overriding aim: to help engagement teams connect with clients, win work, and mentor the next generation of leaders.

External auditors

The policy of the firm is that only experienced professionals at partner and director level can be designated as external auditors in the meaning of the 8th EU Directive. All other employees operate under the responsibility of, and report to, the external auditor in charge of the engagement and have no authority to sign opinions.

Organisational structure of the international network

PwC is the brand under which the member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide professional services. Together, these firms form the PwC network. 'PwC' is often used to refer either to individual firms within the PwC network or to several or all of them collectively. The PwC network is not a global partnership, a single firm, or a multinational corporation.

The PwC network consists of firms which are separate legal entities. The firms that make up the network are committed to working together to provide quality service offerings for clients throughout the world. Firms in the PwC network are members in, or have other connections to, PricewaterhouseCoopers International Limited (PwCIL), an English registered private company limited by guarantee. PwCIL does not practise accountancy, provide services to clients or conduct business with third parties. Rather its purpose is to act as a coordinating entity for member firms in the PwC network. Focusing on key areas such as strategy, brand, and risk and quality, the Network Leadership Team and Board of PwCIL develop and implement policies

and initiatives to achieve a common and coordinated approach among individual firms where appropriate. Member firms of PwCIL can use the PwC name and draw on the resources and methodologies of the PwC network. In addition, member firms may draw upon the resources of other member firms and/or secure the provision of professional services by other member firms and/or other entities. In return, member firms are bound to abide by certain common policies and to maintain the standards of the PwC network as put forward by PwCIL.

The PwC network is not one international partnership and PwC member firms are not otherwise legal partners with each other. Many of the member firms have legally registered names which contain "PricewaterhouseCoopers", however there is no ownership by PwCIL. A member firm cannot act as agent of PwCIL or any other member firm, cannot obligate PwCIL or any other member firm, and is liable only for its own acts or omissions and not those of PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm, cannot obligate any member firm, and is liable only for its own acts or omissions.

For the list of Public Interest Entity (PIE) audit clients of the firm, please refer to section Clients & Markets.

Quality

Quality is not manifested merely in the adherence to standards and regulations; it is the cornerstone of our service delivery and deeply embedded in the culture of the organisation. Quality is achieved through recruiting, training and motivating high calibre professionals with technical expertise, management skills, leadership attributes and personal integrity, who take personal responsibility to deliver high quality work, equipped and supported by an appropriate internal infrastructure. Quality enhances the value of our deliverable and offers a distinct experience to our clients and people.





Petros C Petrakis

Assurance Risk & Quality Partner

Maintaining high quality standards is a constant concern at PwC Cyprus. We very much appreciate the confidence our clients and the market continue to show in us and are aware of the fact that our unrestricted commitment when it comes to quality greatly contributes to our success. We are committed to maintaining consistently the highest standards of quality at all stages of the service offering process, from the client and engagement acceptance stage right through to the execution phase and provision of our work's deliverables. As part of this effort, we have invested in an internal infrastructure of dedicated resources with specialist knowledge to provide guidance and support to engagement teams.

Quality is everybody's business. Our people embrace and are fully aligned with this philosophy. The achievement of the quality standards is assessed and monitored by the firm on the basis of measurable objectives set at the beginning of each year.

Internal quality control systems

All member firms of the PwC global network are required to abide by certain common risk and quality policies approved by PwCIL supplemented to address local professional standards and regulatory requirements. Our system of quality control is based on the International Standard on Quality Control 1 (ISQC1) 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements' issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC).

ISQC 1 applies to all firms that perform audits and reviews of financial statements and other assurance and related services and outlines their responsibilities for their system of quality control.

The objective of ISQC 1 is for the firm to establish and maintain a system of quality control to provide it with reasonable assurance that:

- the firm and its personnel comply with professional standards and regulatory and legal requirements; and
- reports issued by the firm or engagement partners are appropriate in the circumstances.

Our system of quality control comprises of policies and procedures in place in relation to the elements described below, that contribute in achieving a quality assurance deliverable.

Leadership responsibilities for quality within the firm

The tone set by the leadership of the firm on quality is one of the most crucial factors in achieving a quality audit. Therefore, our firm's Management Board headed by the Chief Executive Officer who has the overall responsibility for quality control within the firm, is committed in continuously passing on the message of the importance of delivering high quality service and upholding the values of integrity, independence, professional ethics and professional confidence embedded within the audit process itself. The implementation of a system of quality control and the monitoring of its effectiveness is also a responsibility of the Head of the Assurance Service Line.

Audit engagement leaders take primary responsibility for the delivery of the firm's audit opinion. Audit quality is a major component of the partner planning, assessment and execution process. Partners are held accountable for their performance. In this respect, the firm has adopted an audit quality accountability framework which applies to all partners/ engagement leaders, the Head of the Assurance Service Line right up to the CEO.

Ethical requirements

The reputation of PwC Cyprus is anchored in the professionalism, ethics and excellence of service our people have striven to demonstrate and embrace every day. As times change, today we find ourselves functioning in a very different and challenging business climate-one that requires us to visibly reinforce our commitment to high standards and our passion for quality and integrity in all we do.

While we conduct our business within the framework of applicable professional standards, laws, regulations and internal policies, we also acknowledge that these standards, laws, regulations and policies do not cover all types of behaviour. As a result, the PwC Network has developed a Code of Conduct which our firm has adopted. The Code is a set of principles intended to guide us in the conduct of our business and aid us in ensuring that the culture of ethics and integrity of the PwC Network is sustained

around the world. By combining our own good judgement and experience with the practical guidelines in the Code, we aim to continue earning the trust of all our stakeholders.

The firm's Ethics & Business Conduct Leader oversees the compliance of the firm and its people, with ethical requirements as well as the participation in mandatory training courses on ethical requirements and reports to leadership. The firm has a Complaints & Allegations policy that confirms our commitment to protecting employees against malpractice and outlines the procedure through which partners and staff can report unethical behaviour.

Independence

Auditors must be objective and must not have an interest in the results published in an entity's financial statements. Independence is the foundation of this objectivity which is implemented through providing consultation to engagement teams, ongoing training and monitoring of compliance.

Our firm's Partner Responsible for Independence (PRI), together with a team of full time resources dedicated to Independence, provide support to the firm's partners and staff in complying with independence policies and procedures.



PwC Cyprus follows the independence policy of the PwC Network which incorporates the independence requirements of the International Ethics Standard Board for Accountants (IESBA) Code of Ethics for Professional Accountants in relation to personal financial interests, scope of services and business relationships. The independence policy of the PwC Network also outlines the independence rules of the US Securities and Exchange Commission (SEC) which in general are more restrictive and should be complied with where they apply. In some instances, the Cyprus firm has also developed supplementary policy based on local business and regulatory environment.

The firm utilises a number of sophisticated and interrelated electronic tools developed by the PwC Network that assist in complying with independence policies and procedures. These tools enable the firm to determine the financial interest and scope of service restrictions that may apply to a client and facilitate communication with the relevant group audit engagement leader to obtain pre-approval, prior to the firm entering into a new non-audit engagement or business relationship with the given client.

The Central Entity Service (CES) is a system used by all PwC Network firms to record information about entities subject to independence rules - due to being audit clients of a PwC Network firm or affiliates - known as 'restricted entities'.

As financial interest and/or scope of service independence restrictions apply to such entities, prior to accepting or continuing with an existing audit or non-audit engagement, engagement teams are required to search in the CES system for their new or existing client entity and abide by applicable independence standards. The CES system is linked to the Authorisation for Services (AFS) system, through which the pre-approval of the client Group's lead audit partner may be requested and obtained prior to engaging to provide non-audit services to a member firm's audit client or an affiliated entity. The CES system also includes publicly traded securities issued by 'restricted' entities for which investment restrictions by any PwC Network firm's partner or practice staff members apply.

Partners, directors, senior managers and managers are required to obtain pre-clearance via the electronic Global Portfolio System (GPS) prior to acquiring a publicly traded security and record it in their electronic personal portfolio. As the GPS is linked to the CES system, partners of all PwC Network firms will not obtain approval for acquiring securities issued by 'restricted entities'. Directors and managers working on an audit or non-audit engagement of a 'restricted entity' will also be prevented from acquiring the 'restricted security'. Should a PwC Network firm be appointed auditors of an entity, the system will automatically inform the holders of securities in this entity of the requirement to immediately dispose the security if required.

Upon joining the firm and annually thereafter, all partners and staff are requested to confirm in writing their compliance with applicable risk management and independence policies and procedures, a process through which any threats to independence which have arisen may be identified. Personal independence confirmations are also obtained from all audit engagement team members prior to the commencement of a new or existing audit engagement.

Compliance with the firm's independence policies and procedures has been monitored through the conduct of various compliance monitoring reviews carried out locally (e.g. Personal Independence Compliance Testing (PICT) and Authorisation for Services compliance review) and by the PwC Network. The results of these reviews have been communicated to the Management Board along with an action plan to address any matters identify.

Acceptance & Continuance of client relationships and specific engagements

Prior to accepting a client, rigorous vetting procedures are performed in accordance with the 'The Prevention and Suppression of Money Laundering Activities Laws of 2007 and 2010' of Cyprus, be they large multinationals, SMEs (Small and Medium sized Enterprises) or family businesses. This process involves obtaining an understanding of the business and identification

of beneficial ownership to ensure that we only work with reputable companies and comply with anti-money laundering legislation. The firm also has procedures in place to determine whether any risks associated with a new or existing engagement can be mitigated to an acceptable level.

Human Resources

The firm's policies and procedures in relation to Human Resources aim at recruiting, training and retaining the best people committed to delivering high quality service through having the appropriate skills, technical competence and motivation. For further details on our people policies please refer to section on 'People and talent' of this report.

Engagement performance

- ***Methodology and tools***
Member firms of PwC IL use a common audit methodology and process (PwC Audit), supplemented by local regulatory requirements, for their audit engagements. This common methodology allows us to respond quickly to the changing environment in which member firms and their clients operate. The PwC Cyprus audit methodology follows the above approach and adheres to International Standards on Auditing and laws and regulations in Cyprus.

Our latest electronic audit tool, 'Aura', which was rolled-out in July 2011, supports teams in applying our methodology more effectively by creating greater transparency of the linkage between risks and the work done to address those risks, as well as providing enhanced project management capabilities. The effect is that the quality of our audits improves as teams are able to focus their efforts on areas of risk, thus bringing greater value to our clients and people. The globally developed tools are supplemented by locally developed tools and templates to support further the audit teams, contributing to the audit quality and efficiency.

- ***Consultation and support***
Consultation is one of the most important elements that contribute to quality control. For this reason our firm has mandatory consultation policies to ensure that in addition to the informal consultations with each other, our engagement teams make use of our internal technical experts who continuously monitor new developments.

– *Audit methodology team*

PwC Cyprus has adopted all the updated and enhanced guidance issued by the PwC Network, which is communicated on a timely basis to the Assurance members via trainings, workshops and communication alerts. PwC Audit Guide is a very useful tool that supports teams throughout the audits. This is supplemented by an electronic repository (database) which includes the latest guidance, templates, alerts, best practices and common queries. Furthermore, the Methodology Team provides advice and consultations to audit teams, tailored to the specific circumstances.

– *Risk & Quality team*

The team assists engagement teams to comply with the PwC Network Risk Management Policy and independence policy, by providing consultation on the consistent application of the policies. The team also develops additional local policies and procedures to comply with local legislative and regulatory requirements, provides guidance and templates for further clarity and conducts compliance monitoring reviews.



– *Accounting consulting services*

The Accounting Consulting Services (ACS) team specialises in the application of International Financial Reporting Standards (IFRSs). The ACS provides support and guidance to the engagements teams and clients about the application of IFRSs on transactions and/on the quality of financial statements. It aims to provide quality and timely IFRS accounting advice. The ACS team tracks developments and provides updates to engagement teams through circulation of technical updates and training courses.

– *Technical learning and education*

The Assurance Learning & Education team maintains and develops an ongoing curriculum following the guidance and policies of the PwC Network and the local training need analysis performed. It is a blend of online and classroom solutions with the aim of educating our staff on audit, accounting, risk management and independence subjects. The aim of the technical training provided is to equip our people with the knowledge and skills required in order to carry out quality work and be up-to-date with recent developments and changes. There is a constant effort towards delivering the learning objectives to the targeted audience in a timely flexible manner with focus on industry specific knowledge and remediation needs.

- **Engagement quality control review**

A Quality Review Partner (QRP) is appointed on the audits of High Profile Clients, listed entities and certain other high risk engagements. This ensures that an experienced partner who is independent of the core engagement team conducts an engagement quality control review of the audit. When a difference of opinion between the audit engagement leader and the QRP arises, the matter is taken to the Assurance Risk & Quality Partner. If the matter is not resolved the advice of the firm's Risk & Quality Partner is requested and if necessary, the matter is escalated to the PwC Network.

- **Engagement documentation**

Engagement teams are required to assemble the audit documentation in the electronic and hard copy paper files and then archive both within the set period specified by professional standards and/or law. In the case of the electronic audit file, automated processes exist to make sure that the file is archived on time and the act of archiving prevents any further amendments being made to the file. Backups are made

of all audit and non-audit electronic engagement files. The hard copy paper file is archived using an electronic system that logs the files. The hard copy file is then retained in a secure locked filing system to which engagement teams have no direct access. Both the electronic and hard copy paper files are accessible only by members of the engagement team and are retained for a period of generally seven years following the issuance of our deliverable, after which they are destructed.

- **Monitoring of the effectiveness of the firm's system of quality control**

The work of PwC Cyprus itself is subject to regular reviews. In our case these come from several sources: the PwC Network, our own internal review procedures and the local professional regulatory reviews carried out by the Institute of Certified Public Accountants of Cyprus (ICPAC).

In accordance with the quality review programme of the PwC Network, the firm is subject annually to an assessment of the effectiveness of its controls over quality, which in turn drives the nature, timing and extent of detailed review of individual assurance engagements. In order to ensure the independence and objectivity of the process, these reviews are carried

out by a team of experienced personnel headed by a senior partner from another PwC firm. With regards to the individual assurance engagement compliance reviews, engagements to be subjected to a review are selected based on their nature and risk profile. Each Assurance engagement leader is subjected to an engagement compliance review at least once every three years.

Our Audit Methodology team performs hot reviews on selected engagements prior to the issuance of our deliverable to ensure that the work has been carried out in full compliance with the firm's methodology and quality standards.

In the second half of 2009, the effectiveness of the firm's quality control system as well as a number of audit engagements have been subjected to a review by ICPAC. As a result, the firm was awarded the 'ICPAC Quality Checked Certificate'.

The policies, procedures and controls embodied in the firm's quality control system outlined above, are fully documented. Ongoing testing is carried out as part of our monitoring processes so as to report to the CEO and the Management Board, the level of the effectiveness of the firm's system of quality control and take remedial action as necessary. Despite the fact that ISQC 1 applies to Assurance services, most of our policies and procedures have a wider application covering all other services offered by the firm.

Statement on the effectiveness of the firm's internal quality control system

On the basis of the reviews performed as outlined in the section 'Monitoring of the effectiveness of the firm's system of quality control' above, the Management Board is satisfied that the internal quality control system of PwC Cyprus is operating effectively.

Any matters identified through the various monitoring and review processes are addressed and actioned accordingly.



PwC Cyprus events and activities

PwC Cyprus events

Foreign Account Tax Compliance Act (FACTA)- What does it mean for financial institutions in Cyprus, 7 November 2011

The open seminar was organised aiming to raise awareness of the main provisions of the Foreign Account Tax Compliance Act and its potential impact on organisations in Cyprus. The seminar was presented by Kenneth Shives, Tax partner in US and PwC leading FATCA specialist.

15th Annual Global CEO Survey - Presentation of the local results, 21 February 2012

In the context of the annual global survey, PwC Cyprus carried out for the first time a local study which includes the views of 31 Cypriot Chief Executive Officers (CEO) on issues they face today such as economic outlook, growth, risk, talent and innovation. The results of the survey were presented during an event, attended by a number of high calibre individuals

from the business community. The event included a presentation of the survey results by Philippos Soseilos, partner at PwC Cyprus and a panel discussion with Messrs Stavros Zenios - Professor at the Department of Public and Business Administration at the University of Cyprus, Constantinos Loizides - Chairman & Managing Director of Bank of Piraeus (Cyprus) Ltd, Pavlos Photiades - Managing Director of Photos Photiades Group and Evgenios C Evgeniou – CEO at PwC Cyprus.

Women in the Boardroom, 14 March 2012

The women in PwC committee organised an event entitled “Women in the Boardroom”. The event aimed at recording and understanding the perceptions of Cypriots as regards to the professional development of women in businesses. The event was attended by high profile women from all the sectors of business and economic activity and was addressed by

Mrs Androulla Kaminara, Former Head of the European Commission Representation in Cyprus. Mrs Jacey Graham, Director of Brook Graham Ltd who was the main speaker at the event analysed the global and European context for women’s careers, the typical barriers women face in ‘male gendered’ organisations as well as the measures taken by organisations to overcome this issue.



New Russian transfer pricing rules and other recent tax developments, 20 March 2012

During this seminar which focused on new Russian transfer pricing rules, PwC Cyprus and PwC Russia experts analysed the important developments of the new transfer pricing rules, which became effective from 1 January 2012 and bring significant changes to the Russian tax system.

The seminar was attended by representatives from companies engaged in business operations with Russia.

Russian and Cypriot opportunities in an ever evolving tax environment, 18 May 2012

PwC Cyprus has organised with great success a seminar entitled “Russian and Cypriot opportunities in an ever evolving tax environment”, which was sponsored by the Bank of Cyprus. The seminar which took place in Moscow, focused on the recent trends

in the Russian tax legislation and how these impact investments structured through Cypriot companies.

Costas L Mavrocordatos, Head of Tax & Legal Services at PwC Cyprus and David John, Tax and Legal Practice Leader at PwC Russia addressed the seminar which attracted more than 250 people from the Russian business world. Representing the Cypriot authorities, Mr George Poufos, Director of the Inland Revenue Department analysed the tax authorities’ perspective and Mrs Demetra Kalogirou, Chairman of Cyprus Securities and Exchange Commission (CySec) delivered a presentation on the CySec developments.

Activities

Economic Crimes in Businesses, 7 March 2012

The book “Economic Crimes in Businesses: Detection, investigation, prevention” by Christos Tsolakis, partner at PwC Cyprus and Dr Maria Krambia-Kapardis, Associate Professor in the Cyprus University of Technology was presented during an event held in Limassol. The book examines economic crime emphasising on detection and suggesting the necessary policies and procedures for the prevention of business fraud.

In addition, Petros Petrakis, partner at PwC Cyprus presented the PwC 2011 Global Economic Crime Survey results which demonstrate the increasing trends of economic crime globally.



PwC Cyprus participated at the conference organised by the Cyprus – US Chamber of Commerce in New York, 4 May 2012

PwC Cyprus participated for the first time at a conference organised in New York by the Cyprus-US Chamber of Commerce, which focused on the geopolitical and economic developments in Cyprus and on how US multinational companies (MNCs) can benefit from these.

The conference included a panel discussion with the participation of Terry Gerhart, Vice President of Noble Energy (responsible for Noble's activities in the Eastern Mediterranean), Nicos Chimarides, partner at PwC Cyprus, in charge of Direct Tax Services, Constantinos Leontiou, Director on the PwC Cyprus tax desk in New York, Constantinos Chiotis, senior manager at Abacus Ltd and Mrs Anastasia Xenias, Senior International Trade Specialist at the US Department of Commerce.

Real Estate Investments in the EU - Opportunities for Diversification, 5&6 June 2012

The “Real Estate Investments in the EU” conference was organised at the St Petersburg and Moscow offices of PwC Russia. During this event leading partners from PwC's real estate practices in major European countries presented the opportunities and highlighted key issues in the tax and legal regulation. George Foradaris, partner at PwC Cyprus, provided a snap shot of the Cyprus Real Estate Market which covered the locations, sectors, trends as well as the major tax and legal issues and together with Constantinos Constantinou, partner at PwC Cyprus, participated in the closing panel discussion.



Sponsored Events

4th CSR Conference, 1 July 2011

The conference organised by IMH Conferences, Media, Exhibitions, aims at promoting Corporate Social Responsibility (CSR) as an important element of strategic planning in organisations. George Ioannou, Director at PwC Cyprus presented the PwC case study of “How we moved from theory to action”.

4th Energy Summit in Cyprus, 14 November 2011

The summit organised by “The Economist” entitled “Sustainable, competitive and secure energy in Europe” addressed key topics concerning the geopolitical, economic, business and environmental dilemmas that the globe is facing. Energy security in Europe, one of the most crucial topics was discussed, while distinguished speakers with valuable knowledge presented the current prospects for the Middle East, Central Asia and the Caspian Sea for oil and gas. Eirik Rasmussen, Director, PwC Norway was one of the keynote speakers of the conference presenting: “How to accelerate start up of new E&P companies in new regions”.

Debating on Europe's future: What lies ahead for the euro zone? - 16 February 2012

The event organised by "The Economist" entitled "Debating on Europe's future: What lies ahead for the euro zone?" engaged speakers from all over Europe in a stimulating dialogue focusing on what lies ahead for the euro zone. Evgenios C Evgeniou, CEO at PwC Cyprus was one of the keynote speakers presenting "Cyprus : An international business and financial hub as a response to the economic crisis".

Limassol Marathon GSO, 18 March 2012

The Limassol Marathon GSO, accredited by the international federations of Association of International Marathons and Distance Races (AIMS) and the International Association of Athletic Federations (IAAF), was organised for the 6th consecutive year at the Limassol Molos area.

PwC Cyprus sponsored the 5Km corporate race which gathered participation of 50 companies with more than 1.200 runners. PwC Cyprus took part in the 5Km PwC corporate race, with more than 100 members of the organisation together with family members and clients.

2012 STEP Cyprus International Conference, 10&11 May 2012

PwC Cyprus sponsored a conference entitled "Cyprus: A trusted stepping stone to doing business in Europe and the rest of the world" which was jointly organised by the Society of Trust and Estate Practitioners (STEP) and the Cyprus branch of STEP. Costas Mavrocordatos, Head of Tax & Legal Services, addressed the conference while Panikos Tsiallis partner, Direct Tax Services delivered a presentation on Cyprus holding companies and provided an in-depth explanation of their uses, benefits and competitive advantages.



Employment Practices Competitiveness – Development Learning from the German experience, 30 May 2012

The Cyprus Chamber of Commerce and Industry together with the German Friedrich-Ebert-Stiftung Foundation (FES) organised a conference with the title “Employment Practices - Competitiveness – Development. Learning from the German experience”, which was sponsored by PwC Cyprus.

The German employment model was the focus of discussion during the conference which included an opening speech by Evgenios C Evgeniou, CEO at PwC Cyprus and a presentation by Dr Nicole Elert, partner at PwC Germany, who analysed the issue from an employer’s perspective.

Panel discussion organised by the Bank of Cyprus, 21 June 2012

A panel discussion with title “Two Nobel Prize Winners and a European Central Banker discuss the International economy” was organised by The Bank of Cyprus and PwC Cyprus and focused on the international economy, potential for growth as well as on the future challenges and opportunities.

This event was organised on the occasion of PwC Cyprus’s sponsorship towards the annual meeting of the Society for Economic Dynamics, an academic conference that attracted more than 200 professors and was held from 22 to 24 June 2012 .

Speakers at the event included Prof. Christoforos Pissarides, Nobel Prize in Economics in 2010, Prof. Edward Prescott, Nobel Prize in Economics

in 2004 and Dr. Frank Smets, Director General of the Directorate General Research of the European Central Bank.

WISTA Med Conference Cyprus 2012, 23 June 2012

The Women’s International Shipping & Trading Association (WISTA) organised the 4th WISTA Med Conference in Limassol. The conference which was sponsored by PwC Cyprus covered topics such as ship registration and related legal affairs, Cyprus from the ship owners’ point of view, Cyprus shipping forecast as well as Oil & gas developments in the Eastern Mediterranean.

During the conference, Evgenios C Evgeniou, CEO at PwC Cyprus delivered a presentation with the subject “Cyprus as an Optimal Business Base”.



A photograph of two women in an office setting. The woman on the left is smiling broadly, wearing a white jacket with a black zipper. The woman on the right is also smiling, wearing a green blazer and a necklace. The background is a bright, out-of-focus office interior.

Corporate Social Responsibility

We plan for the future: Experience for life

Since the crisis raised the difficulty of finding and managing finance, businesses shaped their actions in accordance with the goal of overcoming the financial difficulties they experience.

However, under the difficult economic conditions it is even more imperative for the companies to be responsible towards the community. The commitment of each company to be socially responsible is important but it must be in line with the values of the company, clients and staff, showing the genuine concern for people and the community.

We in PwC Cyprus aspire to be a great corporate citizen by playing a leading role in the community. The Corporate Social Responsibility (CSR) activity in our organisation is all about abiding with our Code of Conduct and our main values in our relationships with all our stakeholders, clients and staff. Our program has 5 pillars:

Volunteering, Environment, Professional Services, Giving and Corporate Community Leadership.

Our mission is reflected in our CSR Motto: We plan for the future: Experience for life

Our Strategy

At PwC Cyprus, we are committed to making a positive contribution to community and the environment by developing and implementing responsible business practices. We believe that this will support our financial success and bring benefits to our stakeholders. Our strategy is to integrate CSR, in a systematic way, into all parts of our operation, ensuring that our growth happens in a socially responsible way.

PwC Cyprus supports and promotes the ideal of volunteering and supports the community through donations and sponsorships. Moreover, we focus on Corporate Community Leadership, sharing knowledge, experiences and skills through surveys. We are concerned about the environment's well being and we motivate our people to adopt an eco-friendly behaviour. Last but not least we are involved in the provision of pro bono services where is needed.

Our people are enthusiastically getting involved not only in local projects but also in initiatives driven globally by the Global Communities of the PwC Network, understanding how they can positively make a difference. It is encouraging to see that 86% (Source: Global People Survey 2012) of our people in Cyprus are satisfied with

the actions we take to be socially responsible and that 84% (2012) are satisfied that PwC Cyprus is responding appropriately to address the impact of our business activities on the environment.

Volunteering

Employee volunteering is widely acknowledged as an integral component of a company's CSR activity.

A total of 160 people from our organisation volunteered spending 220 hours for some of our activities such as the Limassol Marathon, Blood Donation, Child On Line Safety and TELETHON.

Giving

The magnitude of our giving touches the lives of many children and underserved people every year. This year PwC Cyprus donated around €32.000 to non-profit organisations, contributing significantly in their mission. It is worth mentioning that PwC Cyprus supports the Cyprus Anti - Cancer Society for the renovation of the building of the Palliative Care Centre Arodaphnousa as well as the Cyprus Radiomathon. Moreover, we support the Centre for Preventive Paediatrics, and the "Association for the Welfare of people with Mental Handicap". Other charitable organisations we have supported this year were the "Make a wish", "Unicef", Cyprus Children Fund Committee and many others.

Corporate community leadership

Corporate community leadership is about sharing knowledge, experiences and skills with our stakeholders. During FY12 our main focus under this pillar was on the following activities:

- The issue and distribution of publications and other material in an effort to share our knowledge and experiences with society.
- The participation of our people in community and/or business organisations.
- The introduction of surveys in an effort to bring to the surface topical issues and new perspectives, which we can share with our society.
- The granting of awards to top university and college students focusing on supporting talented people, the future business leaders.

Some of our projects

We have carried out a research for the tourism industry, in cooperation with the Business Research department at the University of Nicosia, aiming to record and understand the perceptions of Cypriots working in the industry of tourism.

Moreover, PwC Cyprus has signed along with 18 another Cypriot organisations the European Road Safety Charter and committed to improve road user behavior of our members and their

dependents on road safety issues like speed, alcohol use and driving, seat belts and vehicles safety. We continued this year our support to this initiative by promoting the campaign for the safe use of the highway 3rd lane.

In addition to the above projects it is worth mentioning that we have supported with many different ways the “Association for the welfare of people with mental handicap”. We launched a Facebook campaign during December 2011 so as to help raise money for the association. The campaign was a great success raising the amount of 2.000 euros.

We continued for a 4th consecutive year the sponsoring of our Olympic Sailing athlete Andreas Cariolou who has won the 6th place this year, in the European Sailing Championship in Bulgaria and has represented Cyprus at the 2012 Olympic Games in London.

During the Christmas season, our colleagues in Limassol set up a team of volunteers and raised money to buy presents for the children at the Limassol General Hospital. Net proceeds from the fund raising, amounted to €355, were donated to “Make a wish” foundation. In addition our colleagues offered presents to the children in the Limassol General Hospital.

On the International Women’s day, on 8 March, we offered charity pins from Europa Donna

Cyprus, to all women in the firm. This activity was realised as a token of appreciation and respect towards our female colleagues.

Environment

We in PwC Cyprus protect the environment in which we work and live, setting high standards for our operating units in the area of environmental responsibility striving for performance that does not merely comply with regulations but reduces our environmental impact. Due to the nature of our organisation we have a relatively low impact on the environment. However, our aim is to achieve minimum environmental impact.

Moreover, we very much believe that we can make a difference on the preservation of the environment and for that reason we have elaborated a number of activities. First of all

we have implemented an environmental policy, according to which we minimise the use of electricity, water and paper and introduced paper recycling. Moreover, we have implemented a Recycling Collection Scheme in all of our buildings and we have reduced CO₂ emissions by replacing some travelling for meetings with electronic video conferences. Our building management system uses environmental friendly cleaning products. The environmental plan of our organisation is communicated to our people through our CSR policy.

Providing professional services - Pro-bono

During FY12, 59 partners and staff were involved in the provision of pro-bono and discounted services to a number of community organisations and charitable institutions worth about €63.500.

In total, more than 1.170 hours were charged by partners and staff under this pillar.





Financials

€74,8m
FY12

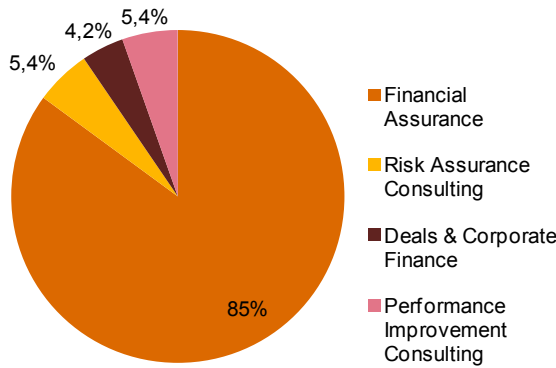
€73,6m
FY11

Revenue

The firm has achieved net revenues of **€74,8m**, being an increase of **1,6%** compared to FY11.

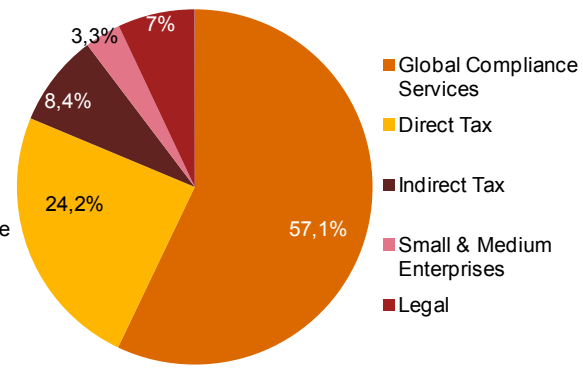
Assurance & Advisory

The Assurance & Advisory practice revenue increased by **4,6%** to **€29,4m** from **€28,1m** in FY11.



Tax & Legal Services

Our TLS practice generated net revenues of **€45,4m**, remaining at the same level as as FY11.



Operating costs

Operating costs excluding staff costs decreased by **1,2%** and staff costs increased by **2,6%** over the prior year.

Staff Provident Fund Costs

The firm maintains a staff provident fund with 911 members (FY11: 888). The fund, which is a defined contribution scheme had €5,643.000 in contributions during FY12 (FY11: €5,526.000) and at 30 June 2012 its net assets stood at €38m (30 June 2011: €40m).

Capital Expenditure

As part of the continuous effort of maintaining the best working facilities and keeping abreast with the latest state of technology an amount of €0,5m (FY11: €1,0m) was expended mostly on furniture, equipment and infrastructure.

Total tax contribution

State revenues from the firm emanate from payments of direct and indirect taxes as well as Social Insurance and Special contributions. The firm, its partners and staff have contributed €11,9m (FY11: €9,3m). The firm has made a further contribution of €7,7m in VAT (FY11: €8,5m) and some €3,2m in Social Insurance and Special Contributions (FY11: €3,1m).

Working capital policy

Debtors and work in progress.

The average number of credit days outstanding for the year was 67 (FY11: 76). We also try to reduce the number of days between the time work is carried out and the time of billing it. The average number of days of work in progress for the year was 12 days (FY11: 19 days).

Creditors

Creditors are paid promptly with the average number of days between receiving and settling and invoice standing for FY12 at 31 days (FY11: 31 days).

Financing

The firm's financing emanates from partners' capital, retained profits coupled with long term and short term external financing.

The firm's bank lending at year end stood at €14,1m (FY11: €19,8m).



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