

THE BIG PICTURE

The Republic of Cyprus, alongside the rest of the EU, has been working hard to shake off the negative effects of recession, and move back towards its heady days of positive growth.

The EU forecasts Cyprus will return to positive Gross Domestic Product (GDP) growth in the year to end-2013, with an expected rise of 0.3%. This follows an expected contraction of 0.8% in 2012.

The island, with its population of just under 900,000, had turned in a comparatively strong economic performance in terms of GDP growth rate in the lead up to the recession. Nor was it by any means among the worst affected by the downturn.

EU data shows Cyprus performed better than the average for the 27-country bloc in terms of its rate of growth and contraction. Cyprus' performance was markedly healthier than that of Portugal, Ireland, Italy, Greece and Spain.

Like many EU nations, Cyprus sees FDI as an essential element of its future economic health, lowering unemployment and stimulating fiscal growth.

'We believe that the policies, which emphasise the development and the needs of the people will gradually become the dominant policy throughout the European Union', said president Demetris Christofias at the 37th Cyprus

International State Fair at Nicosia in May.

Against this backcloth Cyprus remains at a crossroads 'of fundamental change as the effects of the global financial crisis have also created a number of challenges,' says CIPA's Angastiniotis.

'Many countries like Cyprus are proactively introducing significant reforms to retain the stable financial environment with sustainable growth,' he adds.

These changes, designed to lift Cyprus' attractiveness to investors and accelerate its economic rebound include, law reforms, infrastructure improvements and an ongoing campaign to promote the island's investment virtues to foreign companies and organisations.

'Cyprus' economy is mainly based on the services sector which is about 80% of GDP, and is expected to remain the main driver of growth in

the country,' Angastiniotis explains.

'International business activities will continue to contribute significantly to the GDP, while at the same time key priority sectors are among the prime movers of the economy,' he says.

AT A GLANCE

The most recent data from the Cyprus Central Bank shows FDI stocks in the country totalled €13.1 billion in 2010. The vast majority of that sum, or €9.7 billion, had come from within Europe.

FDI stocks refer to the total accumulated amount of FDI transactions observed at the end of a given period, in this case 2010, over and above an initial investment position.

The central bank's figures show financial and insurance activities accounted for €6.5 billion of that

SUCCESS STORY IN CYPRUS ALPARI FINANCIAL SERVICES LTD



Alpari Financial Services Ltd (Alpari FS) is part of the Alpari family of companies. Alpari Financial Services opened its office in Cyprus in 2010. It has its headquarters in Limassol, the biggest municipality on the island. Shortly after it opened, Alpari Financial Services received its licence for the provision of investment services from the Cyprus Securities and Exchange Commission. It set up in Cyprus because of the island's friendly business environment, well-developed infrastructure and tax incentives. In addition, Cyprus' strategic geographic location is ideal for service-type activities such as foreign exchange (forex).

CYPRUS' MODERN TIMELINE

1914

Cyprus is annexed by Britain, after more than 300 years of Ottoman rule.

1923

Under the Treaty of Lausanne Turkey relinquishes all rights to Cyprus.

1925

Cyprus is declared a British crown colony.

1955

Greek Cypriots begin an armed anti-colonial struggle against British rule.



FDI stock, followed by real estate at €2.6 billion and wholesale and retail trade at €1.4 billion.

Not surprisingly, FDI stock took a hit as cautious investors around the world took an austere view and tightened their belts in the face of the global economic meltdown.

But the net change in FDI coming from Europe in 2010 was still a mere €139 million. This relatively modest sum was handily offset by increases in FDI of €351 million and €345 million from Africa and America respectively.

DEVELOPMENT PLAN

Cyprus' intention is to stimulate FDI is part of broader government development strategy for the island, which is designed to continue reforming and modernising its economy.

More specifically, the *Strategic Development Plan, 2007-2013* aims to facilitate viable financial growth and reinforce the republic's economic competitiveness.

'Its target is to establish Cyprus as

the bridge of economic cooperation between the EU, the countries of the Middle East and of North Africa and as an international and regional centre for the provision of high-added-value services,' the plan states.

Among the programme's objectives beyond enlarging the economy are the reorganisation and modernisation of the public sector, promoting innovation and new technology, and growing human capital. It is within these objectives that CIPA finds its core brief.

'Its thriving market-oriented economy operates within a transparent regulatory and legal system predicated on the Common Law of the United Kingdom, and fully harmonised with the collective framework of laws and regulations of the EU,' says Angastiniotis.

'Foreign investors are able to utilise an advanced transport and telecommunications infrastructure, a highly educated, skilled and multilingual human capital base as well as a high standard of specialist professional services,' he adds.

'Cyprus offers relatively lower

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1960

Cyprus is granted independence under agreements negotiated in Zurich and London by Greece, Turkey and the United Kingdom.

16 Aug 1960

Proclamation of the Republic of Cyprus.

RCB **RUSSIAN**
COMMERCIAL BANK

Member of the VTB Group

The Russian Commercial Bank (Cyprus) Limited (RCB Cyprus) is a boutique bank that offers comprehensive wealth management services to successful private clients managing their family wealth outside Russia and the CIS. It also provides a wide range of investment and corporate banking services for the companies they own by offering customized financial solutions.

RCB Cyprus was founded in 1995 in Cyprus and operates as a member of the VTB Group, a leading international financial services group of Russian origin. As of today RCB Cyprus is one of the largest and most dynamic banks in Cyprus.

RCB's network includes two branches in Cyprus and representative offices in London and in Moscow.

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+357 25 355722 www.rcbcy.com

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Registration number: 72376.

Registered office: Arch.Makariou III, 284, Fortuna Court, block B, 2nd floor, P.C. 3105, Limassol, Cyprus.

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SUCCESS STORY IN CYPRUS AMDOCS



Amdocs Development Ltd is one of the largest multinational companies and one of the pioneer enterprises in the field of research and development in Cyprus. The company has been operating a development centre in Cyprus since 1997. Amdox is a provider of customer management software and services.

SUCCESS STORY IN CYPRUS ASBISC ENTERPRISES

ASBISc is a leading distributor of IT products on the fast growing markets of Central and Eastern Europe, the former Soviet Union, and the Middle East and North Africa. The company moved its headquarters to Cyprus in 1995 due to the friendly business environment.



SUCCESS STORY IN CYPRUS COLUMBIA SHIP MANAGEMENT



Colombia Ship Management has been in Cyprus since the 1970s. Based in Limassol, the company cites Cyprus' geographic locations, along with its legal and tax frameworks, communication and banking systems as key influences in its choice of location.

Columbia's fleet of managed vessels includes container ships, reefer vessels, bulk carriers, chemical tankers, product tankers, crude tankers, heavy lift vessels, general cargo vessels and luxury liners.

SUCCESS STORY IN CYPRUS FBME BANK

FBME is a commercial bank that specialises in cross border transactions and commercial trading activities. Its client base consists of international companies and individuals from more than fifty countries. The bank based itself in Cyprus because of the republic's membership in the EU and European Monetary Union. The island's geographic location, legal and tax frameworks, deposit protection scheme and professional services sector were also attractions.



operating costs with high quality services, including banking, tax, accounting, auditing, business administration, legal, investment and funds management.'

These, he notes, are the benefits of Cyprus' ten-year drive towards reform. They have also produced a number of attractions for foreign investors. These include: EU membership, a skilled and multi-lingual workforce, the lowest corporate tax rate in the EU, macroeconomic stability, an efficient professional services sector, and an advanced ICT network to support global business.

'All these, [when] paired with the island's enviable quality of life, are the key ingredients that have made Cyprus stand out in the global investment map,' Angastiniotis says.

The evidence suggests this development strategy is already producing positive dividends.

The World Economic Forum (WEF) identified Cyprus as one of 35 innovation-driven economies in 2011-2012, and gave it a top-50 ranking in its global competitiveness index.

Importantly, the WEF index also scored Cyprus highly in terms of infrastructure, government institutions, innovation, financial market development and business sophistication.

The World Bank ranked Cyprus in the top 20 countries for ease of cross-border trading and noted it consistently outperformed its Eastern Europe and Central Asia peer group.

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1963

Cyprus' President, Archbishop Makarios, submits constitutional amendments to remove obstacles to the smooth functioning and development of the state, which are rejected by Turkey and the Turkish Cypriot leadership. Intercommunal clashes erupt.

1964

Arrival of UN peacekeeping force (UNFICYP) in Cyprus. Turkey launches air attacks on Cyprus. US President warns Ankara against invading the island.

15 July 1974

Coup against the government of Cyprus organised by the military junta of Greece.

NEW TRADE HORIZONS

In common with many smaller, emerging countries, Cyprus is steadily diversifying its base of trade partners, which means it will be less exposed to the bleak Greek situation.

Cyprus is not alone in being saddled with toxic Greek debt through its banks – many of the EU’s major economies and banks have been caught up in the wrangle.

Collectively, Cyprus’ big three banks are exposed to Greek household and businesses debt to the tune of about €24 billion, with the rump linked to pre-recession lending.

In June, Cyprus became the fifth EU member to formally request aid from its European partners and the IMF, to help support its banks and balance the budget. President Christofias is also in talks with Russia, which provided a €2.5bn loan in 2011, while Finance Minister Vassos Shiarly is discussing austerity measures with the unions.

Were Greece – already bearing the brunt of severe EU austerity measures, and struggling to contain a grim and worsening economic situation – to leave the eurozone in a disorderly fashion, it could have implications for Cyprus, alongside several senior EU countries.

Much, then, will depend on Greece’s prime minister, Antonis Samaras. He has to juggle the needs

of his people against the austerity demanded by the EU, IMF and ECB, as well as the nation’s parlous financial state.

With an eye to its long-term economic health Cyprus’ strategy to add to its range of trading partners is eminently sensible. The nation intends to widen its business, banking and trade base so it encompasses more stable economies both in Europe and further afield.

It will become less reliant on traditional trading partners and sources of FDI, such as Greece.

TRADE FLOWS

Cyprus is not the first small country to do this, and it certainly will not be the last, a source in the Cypriot government says, noting the republic’s most recent trade data.

Cyprus’ total exports hit €1.1 billion in 2010, up about 18% from €970 million in 2009. These figures include domestic exports, which

totalled €569 million in 2010, up 19% from €479 million a year earlier. Total imports reached €6.5 billion in 2010, up about 14% from €5.7 billion in 2009.

Of the domestic exports, 22.8% were pharmaceutical products. Other products included photosensitive semiconductor devices (14.8%), waste and scrap (9%), cheese (8.3%), fruit and veg produce and juice (13.6%), and fish and meat (3.8%).

The EU received 58.7% of these domestic exports, with the Middle East taking 12.8%, other Asian countries 11% and other European countries 6.8%.

Germany received 17.6% of domestic exports, followed by Greece at 11.4%, and the UK at 8.4%.

‘There is room to boost our exports away from some of our familiar trading partners to more mature economies, and that would mean to countries like the UK, elsewhere in the EU, and possibly

SUCCESS STORY IN CYPRUS KARDEX SYSTEMS



Kardex is a provider of bespoke solutions for automated storage, materials handling and retrieval. The company has based its Kardex Overseas Division head office – responsible for group sales, marketing, and support services across the Middle East, Africa, Balkans, and Asia – in Limassol since 1980. Cyprus’ location and efficient business environment were factors that contributed to Kardex locating its Overseas Division in Limassol.

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20 July 1974

Turkey launches first phase of invasion of Cyprus. UN Security Council “demands immediate end to foreign military intervention in the Republic of Cyprus”.

23 July 1974

Coup regime collapses and constitutional order is restored in Cyprus.

14 Aug 1974

Turkey launches second phase of military invasion of Cyprus and occupies 36,2% of its territory.

1977

Death of President Makarios, who is succeeded by Spyros Kyprianou.

15 Nov 1983

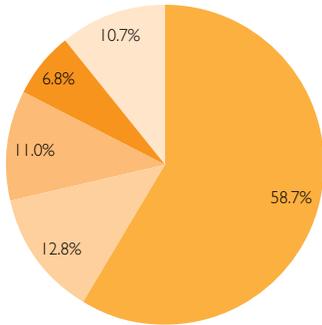
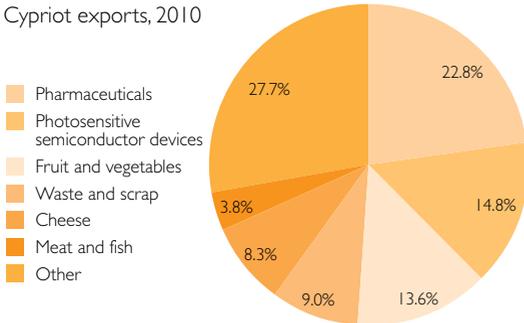
“Unilateral Declaration of Independence” (UDI) by the Turkish Cypriot leadership.

North America,' the Cypriot government source explains.

Cyprus – with its proximity to three continents – is in one of the best geographic locations to diversify its trade base, which in turn will encourage further foreign investors to use it as a springboard into new markets.

'Cyprus can be easily utilised as a platform for investors focusing on warehouse, logistics, distribution and headquartering activities with the aim to reach either the European, Asian or African markets,' says Angastiniotis.

Cypriot exports, 2010



Cypriot export destinations, 2010

Source: Government data



RESEARCH AND DEVELOPMENT IN CYPRUS

PROFESSOR MARIOS POLYCARPOU, Director of the KIOS Research Center of the University of Cyprus, believes the country is a good option when it comes to research and development investment (RDI).

'In terms of innovation Cyprus has excellent and attractive research systems and has an international reputation for scientific expertise and research excellence,' he says.

'There is a strong track record of research collaborations involving the transfer of research findings, skills, and competence to industry so they are able to transform them into economic outcomes and/or improve public services. Cyprus participates actively in several important research and technology projects funded from the European Union. RDI opportunities are also afforded to Cyprus and its partners from the various programmes administered by the European Union and at national level by the Cyprus Research Promotion Foundation (CRPF). Several significant research and technology development projects have taken place as result of this funding. This success is testament to the long-term commitment by the Cyprus research base to seek, with their partners, to contribute to future technological advancement.'

The KIOS Research Center for Intelligent Systems and Networks is a leading research centre in Cyprus, with strong international standing in the area of Information and Communication Technologies (ICT). KIOS delivers cutting-edge, interdisciplinary research in intelligent monitoring, optimisation and management of complex, safety critical systems.



SUCCESS STORY IN CYPRUS NCR MIDDLE EAST/AFRICA (MEA)



NCR's MEA regional headquarters has been based in Nicosia since the 1980s, although the company has had a presence there dating back to the 1950s. It is a subsidiary of New York Stock Exchange-listed NCR Corporation and provides specific solutions and consulting services, to Government and Semi-Government organisations, banking institutions, businesses in the retail, communications and other industries. Cyprus' business climate, telecommunications infrastructure, skilled workforce, favourable tax rates and proximity to the Middle East and Africa markets were draw cards.

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18 Nov 1983

UN Security Council condemns the UDI declaration, calls it "legally invalid" and calls for its withdrawal. It also calls upon all states not to recognise it and to respect the sovereignty and territorial integrity of the Republic of Cyprus.

1988

George Vassiliou is elected President of the Republic of Cyprus.

1993

Glafcos Clerides replaces Vassiliou as president.

1998

Clerides is re-elected. Commencement of accession negotiations between Cyprus and the European Union.

FUELLING FOREIGN DIRECT INVESTMENT IN CYPRUS

One of Cyprus' best prospects for new foreign direct investment (FDI) is its energy sector, and specifically the indication that there are large reserves of untapped hydrocarbons in its exclusive economic zone (EEZ).

The managing partner of PriceWaterhouseCoopers Cyprus, Evgenios Evgeniou, says such reserves could prove a tremendous and lucrative opportunity for the island.

'With the EU having its own ambitious energy objectives we believe that Cyprus, if successful with its hydrocarbon exploration, can play a regional role in the achievement of Europe's energy goal,' he notes in a PwC Cyprus report.

There has already been a great deal of interest in developing these assets from companies based in countries such as China, Russia, France, Israel, Norway, Canada, US, UK, Malaysia, Italy, Australia, Korea, Netherlands, Lebanon, Cyprus and Indonesia.

Angastiniotis has said that income from the exploitation of Cyprus' hydrocarbon reserves should be used on a long-term basis, perhaps following a similar strategy to Norway, which used money

from its energy assets to create a heavyweight sovereign wealth fund.

'It is the [energy] sector that will be in the epicentre during the next years in Cyprus and we should deal with that very carefully,' he told Cyprus News Agency (CNA).

Surveys put the level of undiscovered oil and gas resources in the Eastern Mediterranean at about 3.4 billion barrels of oil, and about 345 trillion cubic feet of natural gas.

'In all probability some of the abovementioned potential reserves lie in the island's EEZ,' says Evgeniou in the PwC Cyprus report.

The field has been divided into 13 exploration blocks. In the first licensing round in 2007 one licence was awarded to Noble Energy for the so-called block 12. It started offshore exploratory drilling there in late 2011.

'If we say that, in the worst-case scenario, the reserves from the block 12 cover the needs of Cyprus for the next 80 years and that there are reserves in the other blocks...then the field of energy constitutes the most promising sector for foreign investment and it could save our economy,' Angastiniotis told the CNA.

The government proceeded with a second licensing round in February this year, with a decision expected in 2013. Fifteen bids were submitted from a total of 29 companies. In addition to the long-term economic benefits from hydrocarbon exploration, Cyprus stands to draw a significant amount of upstream and downstream FDI as a result.

The 13-block exploration field sits in waters to which Cyprus has asserted a legal claim under international maritime law.

SUCCESS STORY IN CYPRUS NEST INVESTMENTS



Nest Investments operates in 22 countries spread over Middle East, North Africa, Asia, Europe. It specialises in reinsurance, direct insurance, insurance broking, selected real estate development, and licensed activities such as its World Trade Centre operations. Its subsidiary Nest Investments Holdings Cyprus Ltd has been based on the island since 1990. Cyprus' geographic location, infrastructure, professional services sector, and comprehensive legal framework were factors for Nest Investments Group basing a subsidiary there.

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1999

The Helsinki European Council Presidency Conclusions state that the prior solution to the Cyprus problem is not a precondition for Cyprus' accession to the EU.

11 Nov 2002

UN Secretary General Kofi Annan submits a plan (known as the "Annan plan") for a comprehensive settlement of the Cyprus problem.

13 Dec 2002

The European Council decides in Copenhagen to admit Cyprus as a member of the EU on 1 May 2004.

Feb 2003

Tassos Papadopoulos is elected President of the Republic of Cyprus.

GOOD FOR BUSINESS

There is much to be positive about when it comes to foreign direct investment in Cyprus, and there are plenty of opportunities to be had for the intelligent investor.

Perhaps the most encouraging factors that could influence FDI in Cyprus are the small island nation's drive to provide a robust and competitive business environment.

It is in the midst of a multi-year drive to overhaul and stabilise its economy, become a competitive regional and global player.

In practical terms that means Cyprus is diversifying its economic base and trade partners (whether export or import), such as Greece. Success here will be a crucial component of sustainable growth going forward.

There are plenty of opportunities for starting business in Cyprus, or expanding your existing operation to those sun-drenched shores to take advantage of its promising location in the Mediterranean.

In particular the state-run CIPA is tasked with encouraging and facilitating foreign direct investment. Its web portal, www.cipa.org.cy is an excellent place to begin detailed enquiries.

Nurturing the sectors of research, development and innovation, information and communication technologies, energy, shipping,

banking & financial services, health and wellness tourism, professional services, and education are high on the republic's agenda.

It could be that your business bases itself in Cyprus to make the most of opportunities on the island itself, or uses it as a stepping stone to access the highly lucrative markets of the Middle East and emerging economies of North Africa.

In both cases the country's transparent financial system, reformed and EU-compliant regulatory framework can be perceived as strong incentives.



Nicosia city hall



AN INFLUENTIAL PLAYER

ON 1 JULY, Cyprus took a high-profile place on the international stage when it assumed the Presidency of the Council of the European Union (PCEU) for the second half of 2012.

The PCEU rotates among member states every six months. This is Cyprus' first ever presidency and its tenure will run to 31 December 2012.

The PCEU is responsible for the functioning of the Council of the European Union, which is the upper house of the EU's legislature.

The PCEU will be held by Demetris Christofias' government. Its responsibility will be to chair council meetings, determine agendas, set a work programme, and facilitate dialogue at council meetings and with other EU units.

'One of our main aims as presiding country is to contribute our utmost to the European Union's efforts to act, through its various policies, as a force generating progress, peace, stability and prosperity on the international stage,' said Christofias, the President of Cyprus.

'The recent global financial crisis has taught us all that continuous awareness, regulatory monitoring and protection of susceptible economies are required,' Christofias added.

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16 April 2003

Cyprus signs the EU Treaty of Accession.

23 April 2003

The Turkish occupation regime announces the partial lifting of restrictions it imposed since 1974 on the movement of persons across the UN ceasefire line.

24 April 2004

Greek and Turkish Cypriot communities vote on the Annan plan. 76% of Greek Cypriots reject the plan while 65% of Turkish Cypriots vote in favour. The plan is rendered null and void.

1 May 2004

The Republic of Cyprus is one of ten new states to formally accede to the EU.

KEY INVESTMENT SECTORS

In common with other growing countries Cyprus places a great deal of importance in supporting research, development and innovation (RDI). So far, the government-founded Research Promotion Foundation (RPF) has invested more than €25 million in RDI, primarily to encourage more of this activity in Cyprus and also to build networks between Cypriot and other scientists. To this end, RPF plays a central role in monitoring and coordinating, as well as identifying demand-driven opportunities, providing funding, evaluating potential researchers (whether organisations or individuals), and giving general support.

Cyprus' innovation performance has improved steadily over the past

five years. It is now ranked third within the European Union for innovation and entrepreneurship, suggesting a great deal of potential. Importantly, the RDI activity is taking place both in Cyprus' universities and in the business community. The Cyprus Institute, for instance, has research centres focusing on energy, the environment, technology, ICT, human health, and economic development. The Agricultural Research Institute, as another example, is investigating methods for improving crop yield and production via environmentally and socially acceptable processes. These are all in addition to a number of business incubators designed to improve Cyprus' productive base, encourage and support local and regional development, and nurture the growth of young companies.

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

ICT has been marked as a priority growth sector by the Government of Cyprus for more than five years, and in that time the sector has flourished. In a 2012 *Global Information Technology* report, Cyprus was ranked in the top 25% of countries. In

practical terms this translates into a number of benefits for companies located in Cyprus, or considering a move there. The country boasts a broad range of companies offering software development, internet service provision, telecommunications and web design. Moreover, there are other outfits that specialise in audio, visual and film production.

For those companies thinking about relocating or starting up in Cyprus, there is no shortage of skilled workers on which to draw. About one-third of the country's workforce aged between 25 and 64 has completed tertiary education. Its higher education providers produce more than 1,000 graduates in the fields of mathematics and computing each year. This all suggests Cyprus' drive to encourage foreign and domestic investors in the areas of e-Government, e-Business, e-Learning, e-Inclusion, e-Health and overall ICT services is thriving and well supported.

ENERGY

Energy generation and infrastructure investment in its many forms are strategic areas that Cyprus is keen to promote further. The island is already home to a slew of companies specialising in wind power, hydropower, solar energy, biofuel and other energy solutions.



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Jan 2008

Cyprus adopts the euro.

Feb 2008

Demetris Christofias wins presidential elections. He promises to work towards reunification.

Sept 2011

Cyprus begins exploratory drilling for oil and gas within its Exclusive Economic Zone.

July 2012

The Republic of Cyprus assumes the Presidency of the Council of the EU.