

Cyprus

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The new legislative environment

Elias Neocleous
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Limassol

Cyprus is a well-established international business and financial centre, strategically located at the crossroads of Europe, Africa and Asia. A British colony for much of the twentieth century, Cyprus achieved independence in 1960. It joined the EU in 2004 and the Eurozone on 1 January 2008. It has a transparent, robust and independent legal system based on common law and a modern, business-friendly legal and taxation system. Tax rates are among the lowest in the EU and there is a wide network of double taxation treaties offering attractive planning opportunities.

Since joining the EU Cyprus has consolidated its position as the natural portal for investment into the dynamic economies of Eastern Europe, especially Russia, and established itself as a prime bridgehead for investors from outside the EU wishing to set up a base in Europe. While Russia and Eastern Europe remain the most important markets, in recent years there has also been a significant increase in business with China, India and other Asian countries.

Cyprus is also a major shipping and ship management centre. The Cyprus fleet is in the world's top ten in tonnage terms and Cyprus is home to the largest number of third party ship management companies in the world.

Current economic conditions

Cyprus has enjoyed almost 50 years of uninterrupted growth since independence. It was initially unaffected by the global economic downturn, largely because its banks are generally conservative and had not invested in toxic financial products. Until as late as the first quarter of 2009 the received wisdom was that

the economic crisis had passed the island by. However, tourist arrivals from overseas fell sharply during the second quarter of 2009. This coincided with a steep fall in demand from overseas buyers for property in Cyprus, causing both the tourism and the property sectors to feel the pinch. The underlying problem for both industries is that the foreign customers on which they are so heavily reliant have seen their disposable income and resources affected by the downturn, and are cutting back on discretionary purchases such as holidays and second homes. Furthermore, the depreciation of sterling has reduced the purchasing power of the British, one of the traditional mainstays of the tourism and property markets. As a result of the problems, unemployment has risen to almost 5%, an unprecedented rate for Cyprus.

There is also good news, however. Notwithstanding the problems in tourism and construction, the economy seems to be holding up well overall and the financial and professional services sector continues to enjoy high levels of activity. A number of international companies have chosen Cyprus as the base from which to enter the European market and have established new offices in Cyprus, taking advantage of the favourable business and tax system.

Legislative developments

Recognising the need to maintain its competitiveness, Cyprus has continued to introduce new laws in order to reduce the tax and administrative burden on businesses. It has also reached agreement on a number of new and modified double tax treaties resulting in its removal from blacklists that had previously denied benefits to Cyprus-resident companies.

Tax reforms

In October 2009 Cyprus made a number of important changes in its tax laws relating to the taxation of mutual funds and the taxation

of interest. While the main aim of the changes was to increase the attractiveness of the environment for mutual funds and collective investment schemes, the authorities also took the opportunity to simplify the taxation of interest and reduce the tax burden.

Another of the changes introduced in the tax reforms is the abolition of the 1% minimum shareholding qualification for the participation exemption from SDC (Special contribution for defence) tax on overseas dividends, allowing portfolio investors as well as strategic investors to benefit from the exemption.

Double tax treaties

During 2009 Cyprus agreed new double tax arrangements with Russia, the Czech Republic and Italy. The May 2009 Protocol to the Cyprus - Russia treaty settled a number of outstanding issues on information exchange, removing Cyprus from a so-called Russian blacklist and giving Cyprus most favoured nation status on a number of tax issues. Fears that Russia would use the negotiations to exact draconian powers to obtain information have proved unfounded, and the Protocol provides robust safeguards for taxpayers. Furthermore, Cyprus's favourable withholding tax treaty rates have been preserved.

New double tax treaties have also been negotiated with the Czech Republic and Italy, and the Spanish authorities have reversed an earlier denial of participation benefits and exemptions to Cyprus resident companies.

These developments have consolidated Cyprus's position as a reputable international financial centre. Cyprus is included in the OECD's white list of countries which have substantially implemented internationally agreed tax standards, and in a recent survey of tax professionals the island emerged as the most attractive tax regime in Europe on account of its combination of consistency in interpreting tax legislation, stability in resist-

ing frequent changes to tax laws and low tax rates.

Future developments

Shipping tax reform

In March 2010 the European Commission approved the Cyprus government's proposal to reduce the tax burden on companies engaged in international maritime transport by introducing a special tax regime for them.

The new scheme gives such companies the option of paying tax based on the net tonnage of the fleet that they operate (tonnage tax) instead of being taxed on the actual profits of their maritime transport activities. The option will also be available to operators of tugboats, dredgers and cable-layers. Details have yet to be announced but it is clear that the new scheme will further add to Cyprus's attractiveness as a shipping centre.

Looking forward

When Demetris Christofias was elected President of Cyprus early in 2008, eyebrows were raised in various countries at the apparent paradox of a Russian-educated communist heading the government of a leading financial centre. Over the ensuing two years the Cyprus government has demonstrated its determination not only to maintain, but also enhance Cyprus's business-friendly credentials, and it is clear that this pragmatic approach will continue.

Financial and corporate

Recommended firms

Tier 1

Andreas Neocleous & Co
Antis Triantafyllides & Sons

Tier 2

Chrysses Demetriades & Co

Tier 3

Chryssafinis & Polyviou
Dr K Chrysostomides & Co
Georgiades & Pelides
L Papaphilippou & Co
Montanios & Montanios

Tier 4

Aristodemou Loizides Yiolitis
George L Savvides & Co
Ioannides Demetriou
Tassos Papadopoulos & Associates

When compared with the general atmosphere of unrest and financial meltdown in neighbouring Greece, Cyprus is a picture of serenity.

The market has recovered well from the downturn and although certain sectors are still slow compared with the pre-Lehman days there is still more than enough work to keep practitioners busy.

One sector that is still depressed is real estate. The wave of mainly British ex-pats purchasing second homes in the Mediterranean sun has well and truly stopped and real-estate companies and the banks have felt the effect. How damaging this will be is yet to be seen. "We have definitely seen a slump in terms of ex-pats buying houses," says one partner. "But these are very small properties."

The country's double tax agreement with Russia is still proving to be a boon and provides a steady stream of work for firms particularly in the areas of company establishment and M&A. "Russia has been in the doldrums for about a year, but that work has started to roll again," says one partner. Also on the increase is work arising from the subcontinent and the market is hopeful that this will continue to grow. "It's not Russia but India where we see more and more work, that is growing," says one partner. Although activity levels may not equal that coming from Russia, mainly due to India's separate double tax treaty with Mauritius, it is a potential new seam for firms to mine.

The banking market, like the economy as a whole, is showing signs of a steady pick up. Cypriot institutions were fortunate in that they were not exposed to the most dangerous instruments of the financial crisis, however this has been somewhat tempered by their exposure to the volatile Greek market. "A lot of our banks are linked to Greece so they're feeling the effect, but I don't think they are feeling it as much as some other banks [in the EU]," says one partner. Much of this is down to the relevant size of Cypriot banks, which limits their investment in the market.

Quite how much of an issue this could turn out to be is unclear, although some lawyers were keen to point out that the banks had more to fear in the domestic market. "Cyprus banks have not been exposed to risky products but they were over exposed in areas like construction and semi-tourist industries," says one, and another agrees: "The Cypriot banks have been more affected by property prices in Cyprus rather than Greece."

Andreas Neocleous & Co

Andreas Neocleous remains one of the largest firms in Cyprus and as a result can offer clients a wide range of services from its specialised departments.

The breadth of the firm's offering is recognised by peers and clients alike. "Andreas Neocleous is a big firm, a full service firm and

manages to get a lot of big transactions," says one partner from a rival firm. "This comes from the excellent marketing assets, at the end of the day they are doing a good job."

Clients were particularly taken with the head of the Nicosia office Maria Kyriacou: "She was always very responsive to our requests to start with, again she was very quick with our requests," says one client. "She went into a lot of detail to find, in the law, information to support our case, she impressed more with the detail she went into, she went quite far."

With Russian work gradually returning to the market Neocleous was involved in one of the biggest deals last year advising the European Bank for Reconstruction and Development on the project financing for the St Petersburg Pulkovo Airport PPP (public-private partnership). The tender was offered to the Northern Capital Gateway consortium, which is incorporated as a Cyprus company.

The team further demonstrated its international capabilities as it advised Citic Ka Wah Bank and the Oversea-Chinese Banking Corporation on term and revolving loan facilities for China Fisheries International.

Another highlight saw the team advising RREEF on the refinancing of Lanitis Development Public in Cyprus's first leveraged buyout transaction.

In the capital markets area a team led by Kyriacos Georgiades advised Marfin Popular Bank on the issue of €500 million three year senior debt under its EMTN programme.

In the M&A area a notable deal saw Elias Neocleous lead a team advising Magnitogorsk Iron and Steel Works on its €310 million acquisition of a controlling stake in Belon, a Russian coal concentrate producer.

The firm has also advised both Staples and Central European Media Enterprises in their corporate restructurings.

Leading lawyers

Kyriacos Georgiades
Elias Neocleous

Antis Triantafyllides & Sons

Antis Triantafyllides & Sons is recognised by the market as a boutique firm with great experience and prowess.

"This is an old established firm," says one competitor. "They manage to do a lot of big transactions. They have established a lot of international links over time."

The market noted that in terms of quality the firm was one of the market leaders, but it was slightly limited by its size. "Antis Triantafyllides is a very good firm but it relies heavily on two or three individuals, they don't have a great capacity," says one rival.

Clients though were impressed by the firm's offering: "They are good, able lawyers with plenty of experience, they are very reachable and able," says one.

Leading lawyers

Stelios Triantafyllides

Chrysses Demetriades

Chrysses Demetriades is one of the most respected firms in the market and all its competitors agree that in terms of the quality of individual lawyers it is right up there.

Clients have particular praise for the head of the corporate team Christos Mavrellis. "Mr Mavrellis is one of the best lawyers in Cyprus," says one. "He has enormous experience especially dealing with foreign firms and investment in Cyprus."

However, a criticism levelled at the firm by peers was a perceived lack of communication between partners and departments. "They stick with an old system where you have isolated spots within the same firm and they really market on the independence of the partners," says one competitor.

Clients raised the same point but highlighted the depth of the firm's knowledge: "What I find with Chrysses Demetriades is that they are more of a scholarly type, so when I ask for legal advice from them they give very academic answers based on case law; very long, very detailed answers," says one.

Leading lawyers

Chris Georghiades

Christos Mavrellis

Other ranked firms

"They are really professional really delivering the kind of experience that you'd get in the City of London," is one client's view of **Dr K Chrysostomides & Co.** "They are really available and willing to work to short deadlines, which is not usual in Cyprus."

Partner Georgia Chrysostomides-Mountis is also a popular figure: "She also organises her team very well, she is able to oversee the corporate aspects," says one client.

Chrysostomides worked alongside Pavlos Symeonides last year acting for a Russian investment company on the restructuring of its Cypriot subsidiaries and the sale of its stakes in a number of Cypriot companies. The team was also involved in the sale and restructuring of two groups of companies valued at \$225 million and \$70 million respectively.

The team also acted on the sale of Russian real-estate assets worth \$20.5 million through shares in a Cypriot SPV, and acted for funds related to an international bank over the pur-

chase of certain entities in the CEE (central and eastern Europe).

There were big changes at **Aristodemou Loizides Yiolitis** last year as the firm merged with offshore firm Harneys. The firm will hope that the merger will increase its links with other offshore jurisdictions, in particular the Cayman Islands and the British Virgin Islands, where Harneys has a notable presence. "They will get a lot of refinancing deals," says one competitor. "Offshore firms are getting more work from CEE and Russia and these things have elements of Cyprus law."

A capital markets highlight for the firm last year saw it advise Songa Offshore in an equity financing consisting of a private placement of shares, a cancellation of the company's total return swap with Nordea Bank Norge and the capital raising of NKR496 million (€61.2 million).

Another highlight saw the team advise private-equity house IK Investment Partners on the \$37 million acquisition of the Vistra group.

Clients appreciated the firm's swiftness: "The speed of response and the answers they give were very commercial and focused on reorganisation," says one.

Name partner Pavlos Aristodemou advised the European Bank for Reconstruction and Development on the financing for CentraVis Production Ukraine. The deal included a €43 million syndicated loan, a €5 million bullet loan and an investment of €10 million.

Aristodemou was also involved advising the Archean Group on a \$75 million acquisition finance deal involving Axis Bank and Bank of India. The financing was part of the refinancing of a bridge loan to finance the acquisition by Senfer Africa of 66% of the share capital issuance of Industries Chimiques du Senegal.

Entering the rankings for the first time this year is **Ioannides Demetriou** after several strong recommendations by rivals and clients.

"It has been very good over the years," says one client. "This firm is a fairly new one but we had co-operated with the partners in their previous partnership for many years, it's an excellent firm and the partners are very able and caring with the clients."

There was particular praise for name partner Pambos Ioannides. "Mr Ioannides is very able, clearly works very hard and he's able to give you an opinion on which you can rely," says a client. "He has enormous experience in many fields and he has been tested many times."

The firm has a strong presence in the projects area and last year it acted for the Kinyras consortium as the declared preferred bidder for a highway project under a build-operate-

transfer (BOT), the first of its kind in Cyprus. In the energy sector the team advised Orites Wind Farm on the €170 million project financing of the first wind farm in Cyprus.