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ADVISORY SERVICES

Cyprus Privatisation Plan

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Cyprus Privatisation Plan

As a consequence of the sovereign debt crisis, the Cyprus Government requested for an emergency bailout from the European Council, the European Central Bank and the International Monetary Fund.

In order to fulfill the conditions imposed by such bailout, the Cyprus Government signed a Memorandum of Understanding ("MoU") where the guidelines and main measures of an austerity program were presented, namely an extensive privatisation plan.

According to the MoU, the privatisation plan covers state owned enterprises and semi governmental organisations including inter-alia CYTA, EAC and CPA as well as real estate/ land assets. The privatisation plan targets front-loaded proceeds of at least €1,4 billion by 2018, the latest.

Through our global network of advisors, and combining these with local skills and knowledge, KPMG can assist both the Public Sector and the Private Sector at all stages of the Privatisation process.

Preparation phase (Pre-privatisation)

Definition of a privatisation strategy/ action plan

KPMG can assist the Public Sector in:

- Articulating objectives and trade-offs
- Preparing valuations of the State-Owned Enterprise ("SOE")
- Establishing the process framework and defining a privatisation programme or an ad-hoc approach, by reference to rules and regulations
- Establishing the institutional framework. This would encompass when and how to restructure the SOE, hiring of advisors, timing, who should lead the process, approach to labour issues, size of the stake to be sold, how fast this stake could/ should be sold
- Setting an in-charge team which will manage the entire privatisation process.

Corporatisation of entity to be privatised

KPMG can assist the Public Sector in reviewing the appropriateness of the corporate structure to determine what changes may be needed to facilitate divestiture. Appropriate changes may include dividing the organisation into component businesses which can be more easily privatised, and spinning off non-core parts of its business.

Pre-privatisation restructuring

KPMG can assist the SOE in preparing it for privatisation by carrying out a financial, operational, technical and organisational (HR) restructuring plan, assessments of its products, markets and competition, future prospects, resource requirements, etc. The pre-privatisation restructuring will aim to privatise the value derived from a proposed privatisation.

Privatisation route decision

KPMG can assist the Public Sector in preparing an assessment of the various privatisation methods, being:

- Public share offerings in the stock market (Listing)
- Trade sale to a strategic or financial investor



- Mixed sale
- Management and employee buy-outs
- Asset sales, leases, concessions
Build Operate Transfer ("BOT"),
Public Private Partnerships ("PPP")
- Mass privatisation, through the
setting up of a Management/ Holding
company.

Such an assessment can include the basic characteristics of each method, the related advantages and disadvantages, and whether the transaction by applying each method can fulfill the Government's objectives.

Execution phase (During privatisation)

The basic privatisation routes are the following:

Trade sale to a strategic or a financial investor

Such a transaction may be managed either through a negotiating procedure or through an auction process. KPMG can assist in:

- Providing strategic advice (preparation and positioning the enterprise for sale)
- Identifying potential interested parties (marketing the offer, including targeted advertising and industry and trade searches) and quantifying any synergies
- Establishing the sell-side strategy and monitoring the process
- Preparing the final business plan
- Preparing the data room of information
- Preparing the teaser and information memorandum to be provided to targeted investors
- Monitoring the auction process, where applicable
- Preparing a vendor due diligence report on behalf of the seller, or a due diligence report on behalf of the buyer. The major areas covered by such a report relate to financial, commercial, tax, internal controls and corporate governance, IT systems, management and employees, etc
- Preparing a valuation report on behalf of either the seller or the buyer

- Assessing bids or proposals against pre-determined selection criteria
- Providing negotiation support, by identifying any deal breakers, determining creative ideas to solve issues, etc
- Preparation of appropriate contractual documents.

Listing SOE's shares to a Stock Exchange

KPMG can assist in:

- Advising as to the timing and location of the listing and identify any strategic and structural issues to be resolved pre Initial Public Offering ("IPO") and understand the risks to the transaction itself
- Performing an internal capital market readiness check and provide actionable recommendations to support the IPO process efficiently and cost effectively. The readiness test will identify any gaps and provide recommendations as regards to financial reporting, corporate governance, risk management and internal control, human resources, IT, treasury, and tax
- Optimising the tax structure of the enterprise or group, prior to the IPO, by providing their insight as to the most efficient structuring of the enterprise. During the IPO process, we can also produce the relevant tax consents and comfort letters, as required, by assisting or reviewing the Prospectus to ensure tax efficiency in the transaction
- Providing audit and assurance services acting in the role of the reporting accountant. Such services include, audit of annual financial statements, review of interim financial statements, compilation of pro-forma financial statements, issue of consent letters, and preparation and submission of various comfort letters
- Preparing a Due Diligence/ Long Form report, Financial Reporting Procedures report and Working Capital report to the enterprise and/or the bankers.

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