



cutting through complexity

Cyprus Tourism Market Report

A summary of the significant factors and
major drivers of tourism in Cyprus

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Overview

The tourism market is one of the largest economic sectors in Cyprus and has experienced substantial growth over the last five years, with tourists averaging around 2,315 million per year.

Cyprus' tourism industry has been honoured with numerous prestigious awards, spanning the sustainable Destinations Global Top 100, an initiative of TravelMole.com, VISION on Sustainable Tourism, Totem Tourism and Green Destination titles bestowed to Limassol and Paphos in December 2014. Cyprus' famous beaches have been awarded with 53 Blue Flags achieving three records:

- the most Blue Flags per capita in the world
- the most dense concentration of Blue Flag beaches
- the most Blue Flag beaches per coastline.

Overview of the tourism market in Cyprus

Key tourist areas in Cyprus

Cyprus has five main tourist districts, namely, Famagusta, Paphos, Limassol, Larnaca and Nicosia. Each district offers a wide range of tourist products, attracting different types of tourists.

The Famagusta region consists of Ayia Napa, the south east coast of Cyprus and Protaras, the coastal area of Paralimni. It has a wider range of beaches than other cities. Ayia Napa is a reputable party town and prime site for nightlife.

Paphos is a popular coastal town in the southwest of Cyprus. Visitors can enjoy spectacular scenery and some of Cyprus' finest beaches. Paphos offers ancient historical sites, some classified as world heritage sites by Unesco and an attractive harbour. It is expected that Paphos will be subject to intensified cultural activity, as it has been selected by the EU to be a European Capital of Culture for 2017.

Limassol is the second largest city in Cyprus and is situated on the southern coast of the island. It has developed significantly in recent years, emerging as a business hub. Limassol has the largest port in Cyprus while the existence of marinas assists them to attract high wealth tourists.

Larnaca is the third largest city in Cyprus, and is known for its palm-tree seafront. It is home to the country's primary airport, a seaport and a marina.

Nicosia, is the capital of Cyprus and the main commercial and business centre, with a world famous archaeological museum, the Venetian walls, and Laiki Yitonia which is a labyrinth of traditional streets.

Seasonality

Promotion of tourism in Cyprus has focused primarily on the concept of 'sun and sea'. This creates a seasonality to tourism which means there is an uneven spread of tourism inflow over the year. The peak season for tourist arrivals in Cyprus is



the six month period from May to October. Cyprus has been known as a summer destination and attracting tourists during the winter months remains a challenge.

The government, in an attempt to reduce the tourism seasonality effect, aims to extend the tourism season by two months to cover the shoulder months of December and March. Given that golf resorts have different seasonality patterns since they are preferred in winter, the government announced an incentive scheme aiming at accelerating the construction of golf courses and allowed the development/ conversion of 'Condo Hotels'.

In addition, the luxurious integrated casino resort that will be completed in the near future, following the adoption of a law governing the operation of a casino by the House of Representatives in July, will certainly attract quality tourism, as well as reduce the seasonality effect. The legislation provides for the development of an integrated casino resort of international standards that will include a hotel or hotels exceeding the requirements for a five-star establishment with at least 500 luxury rooms, 100 gaming tables and 1.000 gaming machines. Moreover, the legal framework provides for the operation of four "satellite" units in other locations. The next step involves the invitation of tenders by the Government, to initiate the licensing procedure that will select the successful investor.

Finally, Cyprus is moving ahead on multiple fronts regarding "Open Skies" policy, an international policy that aims to liberalize the rules for aviation markets in an effort to extend both the number of originating airports, as well as aircraft operators. Cyprus has recently completed several new agreements with countries such as Bahrain and Oman. Furthermore, negotiations with various countries from Asia, Africa and South America have already begun.

Accommodation

Accommodation in Cyprus consists of the following categories, namely, hotels, hotel apartments, tourist villages, traditional buildings/houses (agrotourism) and other types which include camping sites, guesthouses, organised apartments, and tourist villas.

There were a total of 802 accommodation units in Cyprus as at 30th of June 2015, with an overall bed capacity of 86.110.

Cyprus Economy

Cyprus is back on track with its Economic Adjustment Programme ('the Programme') entered into with the Troika (consisting of the European Commission ('EC'), the European Central Bank ('ECB') and the International Monetary Fund ('IMF')), following the Eurogroup meeting in March 2013. The Programme aims at addressing the financial, fiscal and structural challenges that the Cyprus economy has been facing and will be completed as scheduled in 2016.

The financial assistance provided to Cyprus is subject to quarterly reviews and is based on the implementation of the Memorandum of Understanding on Specific Economic Policy Conditionality ('the MoU'). The long-awaited adoption of the insolvency framework by the House of Representatives and the implementation of the law on foreclosures in April, have led to the successful conclusion of both the fifth and sixth reviews. The seventh review was also successfully completed in July.

Significant progress has been made since 2013, yet there are important commitments that need to be fulfilled. In particular, further actions to support the reduction of non-performing loans (NPLs) and private debt restructuring in Cyprus are necessary, including the legislation to facilitate the sale of bank loans. The draft law has been adopted by the Council of Ministers and is expected to be discussed in the House of Representatives this autumn. Moreover, the authorities need to maintain the momentum in relation to the reform of the public sector administration, the health care sector as well as the implementation of the privatisation plan.

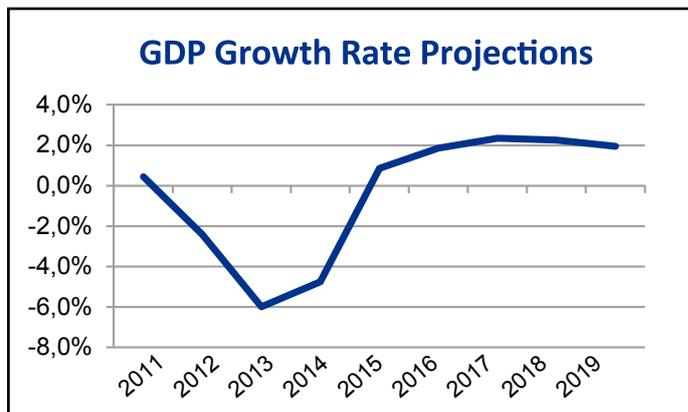
Economic update

Fiscal reforms

Fiscal targets have been met indicating the prudent budget execution and a less severe deterioration of economic activity than originally projected. Also, the prudent budget for 2015 will further contribute to the early adoption of the fiscal consolidation which is required for the years 2015-2018 according to the MoU. The medium-term primary fiscal surplus target is to achieve and maintain a surplus of 3% of GDP in 2018, which will put public debt on a sustained downward path.

Despite forecasts by the European Commission and the IMF that the economy in Cyprus will remain in recession in 2015, during Q1 of 2015 the Cypriot economy recorded growth, for the first time since Q2 of 2011, whereas the economy also continued to grow for a second consecutive quarter. In particular, in Q2 of 2015, the economy grew an annual 1,2% and a seasonally adjusted 0,9%. According to the projections of the IMF, as illustrated below in Graph 1, these include a GDP growth rate of 0,85% in 2015, reaching 1,86% in 2016 and then 2,35% in 2017.

Graph 1



Source: IMF

According to the IMF the fiscal targets in the first half of 2015 were met with substantial margins. The central government generated a fiscal deficit on a cash basis of below 0,1 per cent of gross domestic product in the first semester of the year reaching 31 million (based on the European System of Accounts method). In addition, the government recorded a primary surplus (before interest payments) of 202,5 million.

Reflecting on the progress made, following Moody's last upgrade of Cyprus' credit rating, S&P and Fitch also upgraded Cyprus' credit ratings in March and April 2015.

Non-performing loans and deposits

Significant progress has been made in the financial sector as a result of the recapitalisation and restructuring of credit institutions.

As a consequence of the stabilization in the banking system, all of the capital controls imposed on Cyprus' banking system during the financial crisis of 2013 were lifted as of 6th April 2015.

It is worth noting that there has been a substantial decrease in the rate of deposit outflows during the last year, whereas in July deposits increased by €238 million, compared to a decrease of €398,3 million in June.

A key challenge involves dealing with the high level of NPLs, in order to restore the country's creditworthiness, economic growth and the creation of new jobs. According to data published by the Central Bank of Cyprus ('CBC'), the NPLs of banks in June 2015 reached 46,37% (€27,04 billion) of total loans, compared to 46,02% in May.

In order to further facilitate the reduction of NPLs and offer credit institutions necessary tools to address this challenge, as already mentioned, in autumn the legislature will examine and vote on the draft legislation relating to the sale of bank loans to third parties, without the prior consent



of the borrower. The legislation will regulate the activities of purchasers that will be set up to buy loans from local lenders and also will set out the criteria of eligible purchasers. Moreover, another draft law is expected that will regulate loan securitization, in order to allow credit institutions to sell tranches of loans to businesses.

Economic indicators

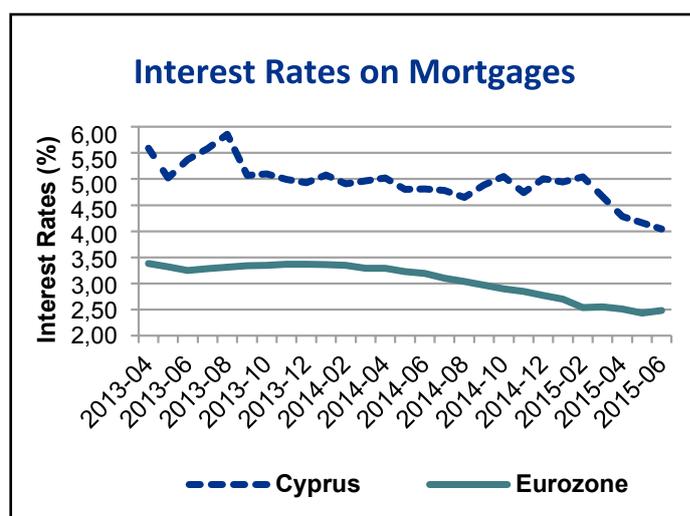
Interest rates

The effect of the decision of the CBC in February 2015 to differentiate the maximum deposit rate by 1% is reflected in the declining trend of interest rates in the last months.

The interest rates have reached the lower levels in the past years with interest rates on mortgages dropping to 4,04% in June 2015, from 5,04% in February 2015 when CBC announced its decision.

However, interest rates in Cyprus are still higher than in the Eurozone. The divergence between the two in relation to mortgages, is seen in Graph 2, which shows approximately 200 basis points higher than average interest rates in 2013, 2014 and 2015, despite recent declines.

Graph 2



Source: CBC and ECB

It is anticipated that in the medium- to long-term, following the successful implementation of the MoU and the effective handling of NPLs, there may be further reduction of interest rates.

Unemployment

Unemployment increased dramatically over the last four years, showing a cumulative increase of 121% from 2009 to 2014. However, during 2014, there was a considerable decline of 6% in the number of unemployed compared to 2013, possibly indicating the start of the economic recovery. This declining trend continued during the first semester of 2015.

In particular, according to data from the European Statistical Service, the unemployment rate in May 2015 was 16%, remaining close to the levels of the year-end 2014 rate of 16,4%.

Tourism Sector Analysis

Industry overview

The Cyprus economy is heavily reliant on the services sector and more specifically on the tourism industry. According to the report issued by the "World Travel & Tourism Council" ('WTTC') on the economic impact of travel and tourism in 2015, the direct contribution of travel and tourism to GDP in 2014 was €1,111.0 million (7,0% of GDP). The direct contribution of travel and tourism to GDP is defined as "the internal spending on travel and tourism, by netting out the purchases made by the different sectors (total spending within a particular country on travel and tourism by residents and non-residents for business and leisure purposes)".

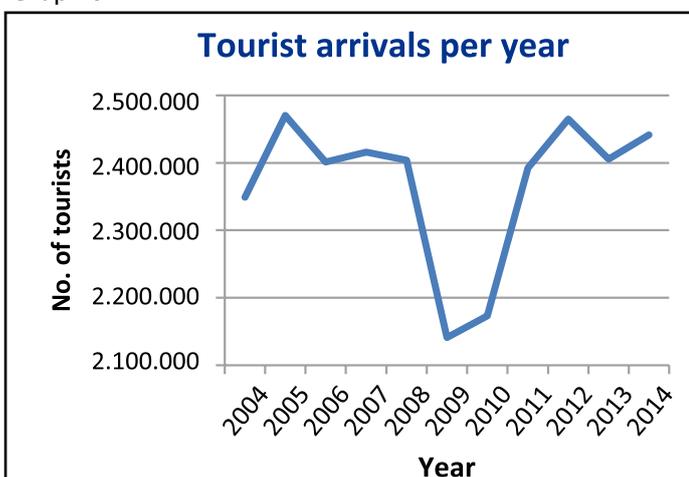
Meanwhile, the total contribution of travel and tourism to GDP was €3.404,9 million in 2014 (21,3% of GDP) and is expected to grow by 5,5% to €3.593,6 million (22,4% of GDP) in 2015, as per the same WTTC report. The total contribution of travel and tourism includes its "wider impacts" (i.e. the indirect and induced impacts) on the economy. In addition, it is forecasted to rise by 4,2% p.a. to €5.419,8 million by 2025 (25,5% of GDP). This rising trend is in line with the growing demand in international tourism.

According to figures released from the Cyprus Ministry of Finance, the contribution of accommodation and food service activities – which largely comprise of tourism revenue – to GDP in the first quarter of 2015 was €251,9 million (representing 6,89% of GDP).

Tourist arrivals by country of origin

The number of tourist arrivals has experienced substantial growth over the last four years, despite a minor decline in 2013 (Graph 3).

Graph 3



Source: CySTAT

According to Table 1, in the period January – July of 2015 tourist arrivals reached 1.450.425, which is a significant increase of 6,51% compared to the same period in 2014. The tourist arrivals during this period were the highest since 2002, whereas they were the third best on record after 2000 and 2001.

It is worth noting that the increase in tourist arrivals of 2015 compared to 2014 was seen in all months with the exception of June. Despite this it should be noted that in June 2015 tourist arrivals were substantially high given that June 2014 recorded the highest arrivals for the past decade. In fact, the tourist arrivals in June 2015 mark the second highest record for the past decade. In addition, arrivals of tourists reached 414.527 in July 2015, recording an increase of 8,5% when compared to 381.955 in July 2014.

Table 1

Country	2015 Jan-July	2014 Jan-July	% change
UK	557.069	478.166	16,50%
Russia	298.568	372.454	-19,84%
Sweden	62.404	59.673	4,58%
Greece	83.618	57.881	44,47%
Germany	56.252	43.748	28,58%
Total (All Countries)	1.450.425	1.361.790	6,51%

Source: CySTAT

Most of the tourist arrivals in the first seven months of 2015 originated from Europe (approx. 91,25%). In particular, 64,31% of tourists (932.799) were from EU-28 countries during the first seven months of 2015, whilst for the equivalent period in 2014 these were 58,3% of total tourists (793.481).

During January-July of 2015, around 38,41% of tourist arrivals were from the UK, reaching 557.069 persons, as shown in Table 1. For comparison purposes, it should be highlighted that up until 2009, over 50% of visitors in Cyprus came from the UK, indicating the fact that their market share of tourists has decreased significantly in recent years. However, based on Table 1 there has been a significant increase in tourist arrivals from the UK of 16,5% compared to the same period in 2014.

As expected, a large fall of 19,84% was recorded in tourist arrivals from Russia during the first seven months of 2015 compared to the corresponding months of 2014, recording 298.568 tourists. This is mainly a result of the economic challenges that Russia is facing such as the European sanctions, low oil prices and especially the weaker Ruble. Despite the large fall, tourists from Russia remain the second largest tourist market for Cyprus, representing 20,58% of the market. At the same time, arrivals from Ukraine recorded an increase of 10,27% (27.795 tourists) in the first seven months of 2015 compared to the same period of 2014, representing, however, a mere 1,92% of the market.

Sweden is the fourth largest source market for tourists to Cyprus, reaching 62.404 tourists during January-July of 2015 and exhibit an increase of 4,48% compared to the same period of 2014. The fifth place is held by Germany with

approximately 56.252 German tourists visiting Cyprus in the first seven months of 2015. This is a significant increase of 28,58% from 2014 considering the declining trend which has been evident in the last years.

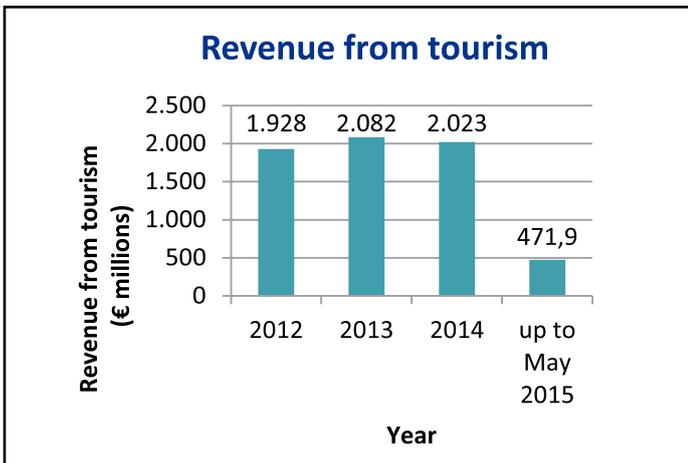
Similarly tourist arrivals from Greece recorded a substantial increase of 44,47% in the first seven months of 2015 compared to the same period of the previous year. This result is surprising taking into account the declining trend over the past years, as well as the fact that the country has not yet recovered from the financial crisis.

Arrivals from Asia have also been increasing and it is evident that the Cyprus is an attractive tourism destination for the Asian market. Such arrivals reached 102.255 persons in the first seven months of 2015, representing an increase of 27,46%, compared to 74.175 persons during the corresponding period of 2014. This is mainly attributable to higher tourist arrivals from Israel and Lebanon (Western Asia). For instance, arrivals from Israel reached 51.378 persons in the first seven months of 2015, an increase of approximately 35% from the equivalent period of the previous year, whereas arrivals from Lebanon reached 17.954 persons, an increase of approximately 22%.

Revenue from tourism

According to CySTAT, revenue from tourism reached €471,9 million during the first five months of 2015 (Graph 4), compared to €475 million for the same period in 2014 (a decrease of 0,75%) despite the increase in arrivals. Similarly, tourism revenue in 2014 was approximately 3% lower than the previous year, reaching €2.023 million.

Graph 4



Source: CySTAT

The highest monthly revenue figure in the first four months of 2015 was recorded in May, at €217,1 million. Also, the highest monthly revenue figure for the equivalent period 2014 was €224,1 million. The slightly lower revenue for the first five months of 2015 compared to the same period of 2014 is explained by the lower per person and per day expenditure by tourists as well as the shorter average length of stay. More specifically, average expenditure per person for the first five months of 2015 was €662,1, whilst this was €734,9 during the same period in 2014 (9,92% fall). Average tourist expenditure per day was €68,1 for the first five months of

2015, compared to €69,8 for the equivalent period in 2014. (2.49% fall). The average length of stay for the first five months of 2015 was 9,8 days compared to 10,6 days for the same period in 2014.

Accommodation and occupancy rates

Accommodation offered in Cyprus mainly consists of hotels, hotel apartments, tourist villages and traditional buildings. There were a total of 802 accommodation units in Cyprus as at 30 June 2015 (Table 2), with an overall bed capacity of 86.110.

Table 2

Accommodation units	Total
Hotels	226
Hotel Apartments	165
Tourist Villages	21
Traditional Buildings	165
Other Categories	225
Total	802

Source: CTO

The greatest number of accommodation units are found in Paphos (275), which is also the city with the greatest number of tourist villages. Famagusta, on the other hand, has the greatest number of hotels (73) and hotel apartments (96). Furthermore, Famagusta has the highest bed capacity of all tourist districts in Cyprus.

Net bed occupancy rates are calculated as the number of occupied beds in a period over the licenced accommodation establishments' capacity (number of available beds per night multiplied by the number of nights the establishments operate in a period). This is an appropriate figure to use for assessing the activity of a market, due to the fact that it takes into consideration the seasonality effect of the tourism market in Cyprus.

The highest net occupancy rates (82,10%) in the period January to December 2014 were exhibited by tourist villages, followed by hotel apartments (69,3%), (see Table 3).

Table 3

Net bed occupancy per accommodation category	Jan-Dec 2014	% change from Jan-Dec 2013
Hotels	60,70%	1,50%
Hotel Apartments	69,30%	-6,10%
Tourist Villages	82,10%	-9,10%
Traditional Buildings	23,30%	8,50%

Source: CTO

The highest net bed occupancy rates across hotels, hotel apartments and tourist villages in Cyprus during the same period were experienced in Famagusta, at the respective rates of 86%, 87,6% and 94,3%. The highest net bed occupancy rates for traditional buildings were in Larnaca, reaching 25,30%.

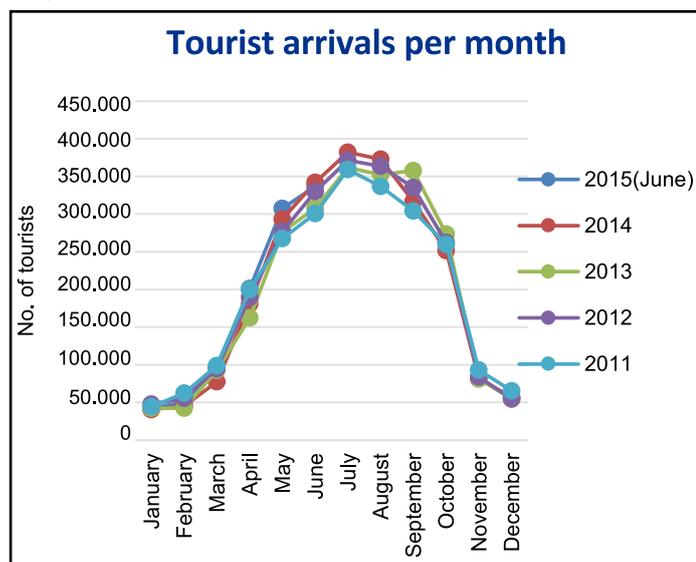
Guest nights and Seasonality

Most accommodation establishments in Cyprus are not open all year round. This usually depends on demand and on the location of the establishment i.e. seaside / city / hill resorts.

The total guest nights of resident, as well as non-resident tourists in licensed establishments in Cyprus for the period from January to December 2014 was 13.715.342. Guest nights in hotels exhibited a small increase of 2% compared to the same period in 2013, whilst traditional buildings posted an increase of 13,50%. Hotel apartments and tourist villages suffered a decrease of 6,50% and 15,5% respectively. The increased guest nights in traditional buildings was evident for both Cyprus resident and non-resident tourists, emphasizing the potential for development/increased demand in traditional tourism. Interestingly, guest nights of Cyprus resident tourists recorded a fall in the categories of hotel apartments and tourist villages and remained unchanged in the category of hotels.

Seasonality of the tourism industry is evident from the varying number of tourist arrivals from month to month (Graph 5). Tourist arrivals during the summer months of May to September are five or even six times more than in the rest of the year. This forces hotels in coastal areas to suspend their operations during winter and this is considered as one of the most significant challenges faced by the tourism industry.

Graph 5



Source: CySTAT

According to recent studies, Cyprus is hailed as a summer holiday destination and the sea and sun are the main factors for choosing Cyprus. The Cyprus Tourism Organisation ("CTO") is dedicated to implementing its strategic plan to increase tourist arrivals during the winter months over the course of the next three years.

As per recent research, countries such as Cyprus, Greece and Portugal need to introduce alternatives to complement sun, sea and sand if they want to remain top tourist destinations and help their economies grow. Studies claim that these countries could increase their tourism revenue by offering holidays focusing on wine and gastronomy, culture, religion, conferences and agro-tourism, such as farm-based holidays. The expansion of the tourism product may reduce seasonality of sun, sea and sand tourism and may attract visitors with higher spending power.

In an effort to combat seasonality and to enhance the quality of the tourist experience, Cyprus needs to maximise other unique selling points. Gastronomy / food tourism is an emerging trend and one that is no longer limited to high end or niche markets.

Factors affecting the tourism industry

Tourist areas in Cyprus

The key tourist areas in Cyprus are Famagusta, Paphos (including Polis Chrysochous) and Limassol. The market is primarily driven by tourist arrivals during the summer months at the seaside resorts in these areas. While the markets of Protaras and Ayia Napa, comprising the Famagusta area, mostly shut down during the winter months, Paphos and Limassol remain open to tourism all year-round and offer cultural events, history and archaeology, as well as specialised sports, such as golf.

Protaras and Ayia Napa are the most popular beach resorts, with a wider and superior range of sandy beaches than the other cities. Ayia Napa is a reputable party town and prime site for nightlife. Famagusta mostly attracts couples, families and young people.

Tourist attractions in Paphos include the Paphos mosaics, the Tombs of the Kings which are a Unesco Heritage sites, the Venetian fortified harbour and the Pillar of St Paul. The Akamas peninsula is one of the island's residual unspoilt wilderness and is home to endemic flora and fauna species. Paphos mostly attracts couples and families.

Limassol, the second largest city in Cyprus, has recently been ranked by the prominent travel directory TripAdvisor as its 3rd 'upcoming' destination, in its listing of the Top 10 Travellers' Choice Destinations on the Rise around the world. "Cyprus' second-largest city appeals to a wide range of tourists, from those interested in sun and sand vacations to those who prefer to delve into the island's culture at its museums and sites of archaeological interest"; TripAdvisor states. The large seaside resort on Akrotiri Bay offers lively nightlife and a slew of energetic festivals, its summary continues, adding that a cornucopia of cafes and bars lines the bustling seafront.

Limassol is situated between archaeological sites, the ancient kingdoms of Amathous, Kourion and Kolossi. Limassol is also home to the newly constructed Marina and the city's geographical location provides easy access to mountainous villages and Troodos mountain. In addition, the city is an upcoming business centre attracting business executives, as well as couples, families and young people.

Larnaca has a picturesque old town, a salt lake, a large marina, and a distinctive palm fringed harbour promenade. There is a wealth of historical interests around the town including the St Lazarus church, the Teke muslim shrine, Kiti church and the monastery of Stavrovouni. The city mostly attracts couples and families.

Nicosia, being the capital of Cyprus, is the main commercial and business centre with an archaeological museum, the Venetian walls and Laiki Yitonia, which is a labyrinth of traditional streets and alleyways filled with shops. Visitors are usually couples, families and business people.

Types of tourism

According to studies, most tourists visit Cyprus for leisure, whilst sunlight and sea are the most important incentives for choosing the island as a destination. Nevertheless, Cyprus aims at expanding its "special interest tourism," which includes cultural tourism, health and wellbeing, conference and events tourism, religious tourism, agrotourism, weddings and honeymoons and sports tourism.

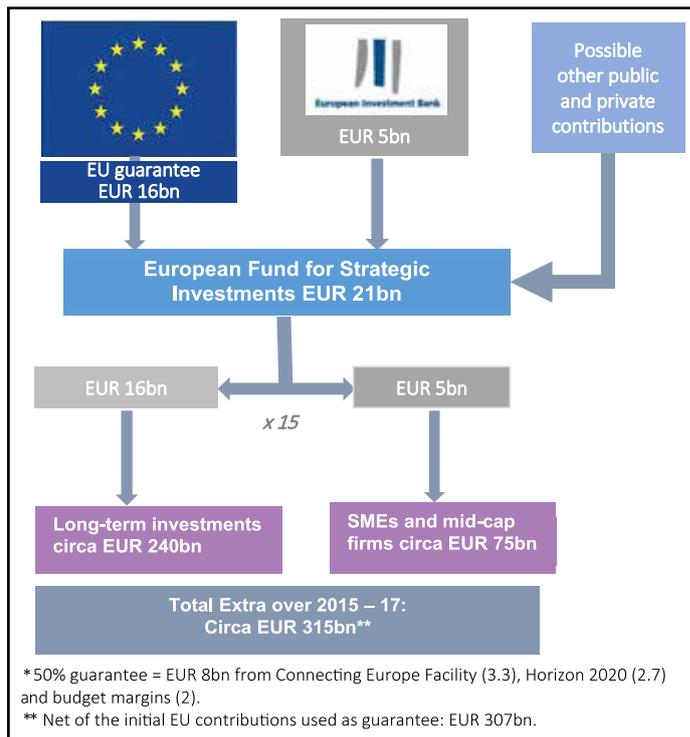
Cyprus' main advantages as a destination for cultural tourism are its culture and heritage, its clean archaeological sites, easy access to these and valued guide services. Health and wellbeing tourism is a quite popular form of tourism for Cyprus, mainly because of the high quality of services and facilities provided. Religious tourism is growing, primarily because of the easy access and civility of churches. The demand for religious tourism is mainly driven by northern European countries such as Russia which have similar religious beliefs to Cyprus.

Promotion of Cyprus

The Cyprus Government is preparing a new national strategy on tourism that will further promote Cyprus and aim to enhance its advantages as a tourist destination, whereas at the same time address the challenges that hinder growth in this sector. In particular, a review and modernisation of laws and regulations governing the tourism industry is currently being prepared.

Moreover, the Government has announced its intention to set up a specialised body, via which the tourist industry will be able to draw funds from the European Commission President's Investment Plan, to enable them to upgrade the island's tourist product. The Investment Plan focuses on removing obstacles to investment, providing visibility and technical assistance to investment projects and making smarter use of new and existing financial resources. To achieve these goals, the Investment Plan is active in three areas (a) mobilizing investments of at least €315 billion in three years, (b) supporting investment in the real economy and (c) creating an investment friendly environment (Graph 6).

Graph 6



Source: European Commission

In addition, the CTO's tourism strategy for 2011-2015, provides a coherent and comprehensive presentation of the development of the tourism sector and the positioning of Cyprus on the international tourism scene.

The strategy's objectives are to:

- Increase total direct and indirect tourism receipts
- Increase tourism arrivals
- Deal with the phenomenon of seasonality and subsequently the alleviation of the negative results it creates
- Improve the viability of tourism enterprises
- Upgrade the overall tourism experience offered by Cyprus, by providing an enhanced tourist product with significant value added, thus improving the competitiveness of the tourist industry in Cyprus in comparison to other destinations.



The strategy incorporates proposals to expand and improve the operating period and occupancy rates of licensed hotels and accommodation establishments, to improve the competitiveness of the tourism industry in Cyprus, upgrade the appearance of the built environment in the tourist areas and promote professionalism among tourist service providers through continuous upgrading of knowledge, skills and abilities of the people working in the industry.

The tourism strategy includes an analytical marketing plan. The plan incorporates substantiated targeting of specific segments of the market (through comparative analysis and evaluation), the development of viable marketing targets and the use of implementable strategies. Advertising and promotion will focus on pillars of creative design, purchase of space/time in the advertising media and the evaluation of advertising actions. Special focus will be placed on the identification and enhancement of awareness of Cyprus as a tourist destination, as well as on improving the accessibility to the island via the development of new air links. In addition, the use of the internet will assist in promoting Cyprus in an electronic environment and in establishing a comprehensive e-Business context.

The government aims at assisting in growing the tourist appeal of Cyprus, through a number of measures, including the extension of the tourist season to cover the months of December to March inclusive, as well as the implementation of an "Open Skies" policy in an effort to extend both the number of originating airports as well as aircraft.

The government's goal is to increase arrivals of tourists from the current 2,4 million to 3,5 million over the next five years.

Cyprus has two international airports, one in Larnaca and one in Paphos. Both airports are managed and controlled by Hermes Airports Ltd, which offers an incentive scheme to all airlines travelling through the airports. Hermes aims to increase the volume of passengers, reward airlines for long-term capacity growth, open and stimulate new tourism markets, encourage winter tourism and enhance the competitive advantage of Cyprus as a tourist destination.

The incentive scheme includes the following initiatives:

- New routes
 - Provision of €14 per arriving passenger to airlines as a cost reduction measure
- Winter Capacity
 - Programme targeted to reward airlines for increased traffic on existing routes, offering up to €10 per incremental arriving passenger
 - Hermes, hoteliers and the CTO are working together to increase winter traffic targeting northern colder climates and market segments disposed to travel outside the summer season.
- Long-term volume
 - Hermes offers a reduction of airlines' operating cost of up to €25 per arriving passenger by requiring long-term commitment of up to five years and the introduction of new routes and frequencies on a year round basis.



Quality of tourist product and challenges

The tourist product in Cyprus is comparatively more expensive than other Mediterranean destinations. This, accompanied by increased competition, has resulted in the rise of all-inclusive packages, especially for arrivals from the UK, Russia and Sweden. However, as mentioned the devaluation of the Russian rouble against the Euro, as well as the political situation has caused lower bookings from Russia for 2015 but the gap was filled by the increase of bookings from other markets, such as the UK.

The quality of the tourist product in Cyprus and the real estate component of the industry need further improvement in order to enhance the value-for-money options for tourists. This means both upgrading and up-scaling of hotels and existing infrastructure (including archaeological and other cultural sites), as well as the addition of new projects such as casinos, marinas, golf courses, theme parks and other facilities.

The Ministry of Energy, Commerce, Industry and Tourism launched an Incentive Scheme for investments in the sustainable enrichment and upgrading of the tourism product, a programme lasting for the period from 2007 to 2013 with an overall budget of €13 million, and being co-funded by the EU's European Regional Development Fund; in 2013 the CTO announced the continuation of this plan. The purpose of this incentive programme is to enrich and diversify the tourism product with the development of special products as well as the comprehensive upgrading and modernisation of existing tourism accommodation. The plan also provides incentives for urban character but no economic incentives in the form of a grant. This involves primarily the increase in the current coefficient and change of use to create either housing units or buildings with offices, retail, etc.

Who we are

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We have more than 162.000 professionals worldwide working together to deliver value in 155 countries.

The KPMG's dedicated practice in Cyprus was set up more than a decade ago with the aim to advise clients on a diversity of issues relating to the real estate, hospitality, leisure and tourism industries. Our global coverage, the network and international experience of our team, combined with the ability to draw upon local know-how within the KPMG international network, give us unparalleled credibility in advising in the real estate, leisure and tourism fields. KPMG clients range from international hotel companies to independent hoteliers; from individual hotel investors to international private equity houses investing in hotels and resorts; from financial institutions to real estate developers.



How can KPMG help?

KPMG operates through fully integrated teams that include professionals across our Audit, Tax and Advisory practices who combine a wide range of skills and experienced tailored to meet the individual needs of our clients. We believe in bringing our clients to the centre of everything we do and positioning ourselves at the heart of their business. This enables us to fulfil our role of providing advice based on a thorough understanding of their objectives.

Particularly our Travel, Leisure and Tourism practice can assist you through a number of projects, including the following:

- **Market and financial feasibility studies** – strategic market assessment and comprehensive financial analysis to assess potential investment returns for different projects in different target markets
- **Project conceptualization and investment planning** – development of realistic and implementable concepts with short, medium and long term investment planning
- **Project Management and Business plans** – strategic direction for the realization and delivery of project concepts, from financing to staffing and marketing and sales

- **Business performance improvement** – assessing existing facilities and providing approaches for cost savings whilst simultaneously enhancing market opportunities
- **Valuation services** – preparation of asset and business valuations for financing assessment
- **Transactions services** – vendor or buyer due diligence, assisting in the sales of hotels and resorts
- **Deal structuring** – advice as to the efficient legal and tax structuring of a transaction
- **Restructuring services** - Assistance in identifying, developing and implementing restructuring actions that can provide improvements to cash flow, profit and loss, and the balance sheet
- **Management, lease and/or franchise contract negotiations** – operator selection and negotiating hotel operating agreements on behalf of clients
- **Investor search** – preparation of the information memorandum for the investment opportunity, as well as approach and selection of interested investors and assistance in the transactions process
- Our **People and Change Services** helps organizations drive business value and enhance business success through the optimization of their people. We do this through the following core service lines:
 - HR Function Optimization
 - Workforce Optimization
 - Organizational Design for Performance
 - Talent Management
 - Executive Search and Selection Services
 - Support for the Acquisition of Professional Certifications (Investors in People, Equality Standard)
 - Behavioural Change Management
 - Outplacement Services
 - Compensation and Benefits Surveys.



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