

# *A beginner's guide to privatisations*

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# Foreword

Privatisations have become a much debated subject in Cyprus recently, largely driven by the relevant provisions of the Memorandum of Understanding between the Government and the Troika of potential lenders.

Despite the fact that most of Europe has been through big waves of privatisations of state-owned assets in the 1980s and 1990s, Cyprus is fairly new to the concept.

In this publication, we aim to provide technocratic guidance as to what privatisations are, and the methods and processes followed. Information as regards the European experience is also given, where it is shown that privatisations have been prevalent in almost all EU countries in a number of sectors of economic activity. We also provide brief data on case studies of such privatisations.

In another section of our publication, we also outline what are the key advantages, issues and concerns around privatisations. An important lesson from the international experience is that careful and detailed planning and preparation is crucial, in order to avoid common pitfalls and maximise benefits for the companies involved, their employees, the consumers and the economy as a whole.

In addition to privatisations, we also provide an outline of Public-Private Partnerships (“PPPs”), which is another form of the private sector’s involvement in areas of economic activity which was traditionally managed by the public sector, such as large infrastructure projects. The use of PPPs may assist in the implementation of such projects which could not be funded by the State, especially under the current challenges of public finances. The success of such PPP ventures in Cyprus, such as the construction and operation of the Larnaca and Paphos Airports, means that such ventures may need to be considered as well.

Lastly, our publication outlines how PwC can assist in order to maximise value out of a potential privatisation process. Privatisations are complex processes, involving many issues and multiple workstreams. Leveraging on our global network of specialists who have practical experience in privatisations abroad and our deep knowledge of the Cypriot economic and business environment and of the organisations which might undergo a privatisation process, we are ideally positioned to provide guidance, advice and support on such very challenging projects, with the overriding objective of maximising value for all stakeholders.



Evgenios C Evgeniou  
CEO





# Privatisations- Overview

Privatisation, simplistically defined as the conversion of state-owned and managed enterprises into privately-owned and managed ones, has become one of the major economic phenomena in recent economic history, which varied significantly from country to country. Privatisations were promoted in an effort to achieve a variety of goals. Most of the privatisations' supporters lay particular emphasis on increasing efficiency by reducing distortions and improving incentives.

It is important to note that privatisations do not mean necessarily the outright disposal of 100% of the shares of a state-owned company to the private sector; indeed, in many cases, Governments only sold a portion of their shareholding, sometimes even less than 50%, to the private sector whilst still achieving the efficiency and other benefits of the private sector's involvement. It is also important to distinguish between privatisations, as defined above, and liberalisation, which effectively means the opening up of a sector to private participation and competition.

In many countries, the two processes happened together. In Cyprus, this was not the case. In May 2004, Cyprus joined the European Union and one of the pre-requisites was to liberalise sectors such as telecoms and electricity. At the same time, regulatory bodies such as the Cyprus Energy Regulatory Authority and the Office of the Commissioner of Electronic Communications and Postal Regulation were set up to regulate the electricity and telecoms industries respectively.

However, there have not yet been any privatisations, even in a partial form, of any important state-owned utilities; this publication therefore focuses on privatisations- what they are, how they are done in terms of methods and processes, what has the EU experience been, advantages, issues and lessons learnt.

Beginning with the privatisations in the United Kingdom and the USA, many countries followed on the course of privatisations which has changed the economic landscape around the world. Since the late 1970s, privatisations have spread to more than 100 countries that collectively have privatised tens of thousands of firms, and have raised almost \$1.5 trillion for Governments.

Privatisations have produced substantial fiscal benefits; in many countries, privatisation revenues accounted for 10% or more of Government budgets in some years, and saved almost as much via eliminating the need for further subsidies to state-owned enterprises.

In the EU, privatisations were observed in almost all Western countries, including Scandinavian ones where a more socialist model of economic development prevails. Moreover, the EU accession of many former Communist nations contributed further to the privatisation trend of the past 30 years; privatisations transformed command-and-control economies in such countries and have been witnessed in many industries.

The experiences of privatisations in many countries indicate that there are significant benefits but also important areas of concern which need to be addressed at the outset of any such initiative. The impact of privatisations on the companies themselves and on the economy and the society as a whole depends on many variables, including the status and attitude of political and economic institutions. There are significant complementarities between privatisations and other Government-lead initiatives such as overall macroeconomic policy framework, regulatory policies etc.

A simple transfer of ownership rights to the private sector alone may not bring about the desired improvements in prices and service quality. It is the complementary character between the sale of a monopoly firm and wisely-chosen rules of market conduct and entry that is essential to a successful privatisation. A sale alone, without allowing competition for example, will most likely only marginally affect the incentives of privatised firms to lower prices and improve service quality and in such cases the role of regulatory bodies is key. In Cyprus, although key industries have been opened up to competition, to a varying degree depending on industry-specific features, and regulatory bodies have been set up, the role of such bodies to remain vigilant and to ensure that any monopoly power is not abused is of paramount importance.



# Privatisation methods

*The main methods of privatisation are:*

**Public Offer**– selling of government shares to investors through a public share offering on the stock market.

**Trade (third party) sale**– selling of a block of shares, usually to a strategic investor, normally by auction or negotiated sale.

**Mixed sale** – combining a trade sale with a public share offering

## **Public Offer – Initial and Secondary Public offering**

An initial public offering (“IPO”) requires the enterprise being privatised to be of sufficient size and quality to justify a public sale of shares. In addition to transferring ownership and raising funds for the selling shareholder (i.e. the Government), public offers often raise additional capital for an enterprise through the issue of new shares, and this capital can be used to grow the business, repay external debt etc.

Depending on the size of the offering and the depth of the domestic capital markets, investors targeted for such IPOs could originate from the domestic market and/or the international markets. In the case of Cyprus for example, due to the relatively limited amount of capital available locally, it is expected that the managers of the share issue will also aim to attract funds from investors abroad. Significant transactions such as IPOs of large utility companies attracting capital from abroad can be an opportunity to enlarge and deepen the domestic stock exchange. In the course of the IPO, shares are usually being offered to retail and institutional investors, although this process is decided by the Government, the company and the managers of the share issue on a case by case basis. Shares are usually offered at a fixed price and the whole process is very transparent, driven by stringent regulatory requirements.

Secondary offering is the public offering of shares of an already listed company. It is used for example when companies are of such a substantial size that a sale of the targeted percentage to investors could not be sold in a single transaction, or, more often, when Governments want to further reduce their stake in a company following an IPO. The sales process may be less complex than that of the IPO; for example, setting a price for shares may be less difficult because the shares are already traded and have a market price.

In addition to the generic benefits of privatisations which will be outlined later, a specific advantage of privatisations via a public offer is the fact that listed companies are under significant scrutiny by investors and capital markets regulators and they need to adhere to stringent requirements. For example, listed companies may need to comply with Codes of Corporate Governance as regards their organisational structure, role of independent Directors in decision-making and other such features which provide confidence and protection to investors and ultimately lead to a more transparent and efficient management. Another benefit, as already mentioned, is the opportunity given to retail and institutional investors to invest in such large state-owned enterprises, thus helping to deepen local capital markets.

A relative disadvantage of this method is that it does not necessarily help bring in expertise and experience from a specific strategic investor, who may for example introduce more efficient management methods, introduce new technology and know-how, enhance profitability etc.

### ***Trade (third party) sale – Auctions or Negotiated sales***

As mentioned above, a trade sale involves the sale of shares of a state-owned enterprise from the Government usually to a strategic investor. In most cases, the strategic investor is a company which has the same operations and its acquisition of that stake is in line with their overall expansion strategy. The percentage acquired varies from case to case, and it is quite common for the strategic investor to acquire, at least as a first step, a minority stake in a privatised entity but would still require a substantial role in management.

A key specific benefit of a trade sale is the experience and know-how which a strategic investor might bring. In many cases, such strategic investors are companies of larger size and with more resources and with operations in more developed markets in relation to the said industry. In the case of Cyprus for example, whilst the quality of management in some state-owned enterprises is not to be underestimated, foreign investors may be able to come up with innovative ideas as regards more efficient management methods and may also be able to introduce more effectively performance-related staff evaluation schemes. On the other hand, a sale of a stake to a strategic investor may not bring in the strict governance regime that a listed company needs to comply with, although it has to be noted that many such investors do impose such standards and discipline either because they are listed themselves in their home market or because in some cases by virtue of their global/ international profile.

There are two main types of trade sales used in privatisations: auctions (open bidding) and negotiated sales. The process under each method is outlined in the next section. Auctions have been more common and may be considered more transparent than negotiated sales. It is upto the Government, the company and their advisors to choose the method most suited to the case at hand. Irrespective of the method chosen, it is vital for the process to be conducted in an organised and transparent manner, so that the highest possible price at the best possible terms is achieved, therefore maximising sales proceeds and value to the Government and the company.

### ***Mixed sale – Trade sales combined with public offers***

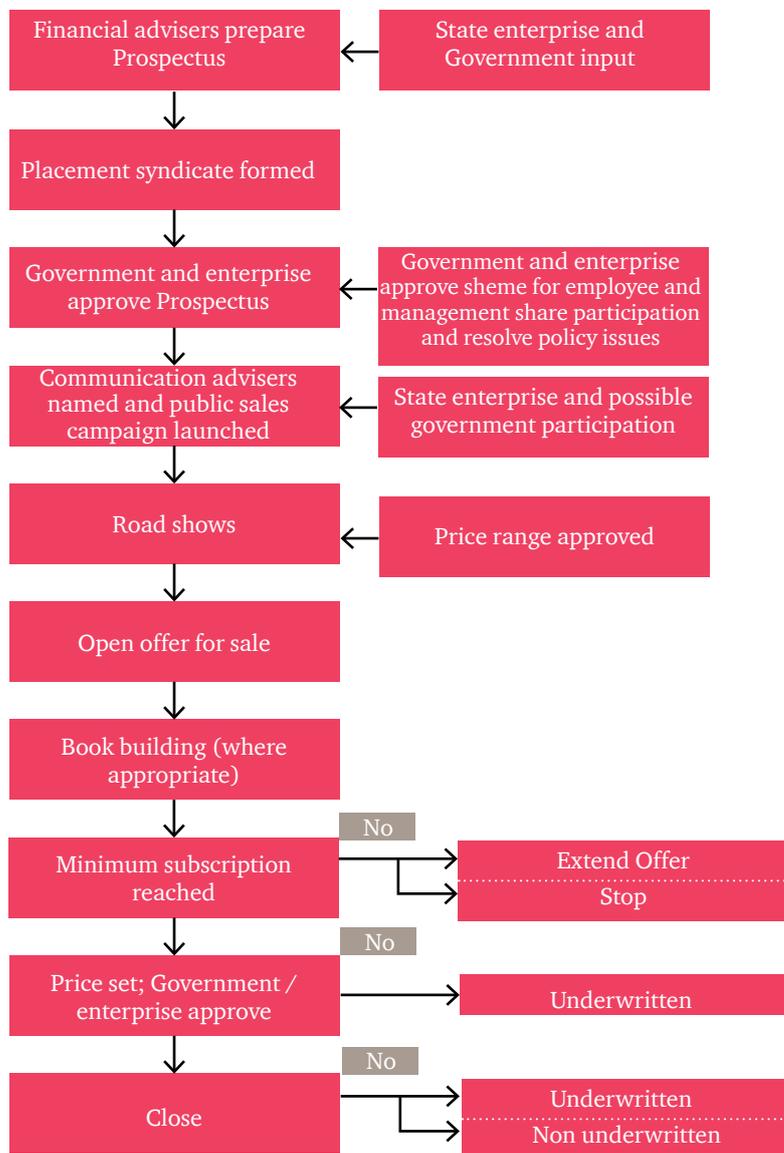
Trade sales and public offers can be combined in several ways. In many cases, entrance of a strategic investor comes first; the strategic investor helps the privatised company become more efficient and profitable and therefore more attractive to retail and institutional investors for an IPO. In this way, the Government sells an additional stake of its shares, thereby raising more funds, whilst the company benefits from the advantages of privatisation via a public offer outlined earlier. It is also noted that in some cases, the strategic investor may use the IPO as an opportunity for an exit route for their initial investment.

It has to be mentioned that in all such methods, participation of employees in the shareholding of privatised companies is feasible, as a tranche of shares can be reserved for them.

# Privatisation Process

The charts below show an indicative process of privatisation achieved via a public offer or a trade sale. It is stressed that these charts only depict some key principles of the process, which may vary according to the specifics of each case and tends to be much more complex in practice.

## Initial Public Offerings

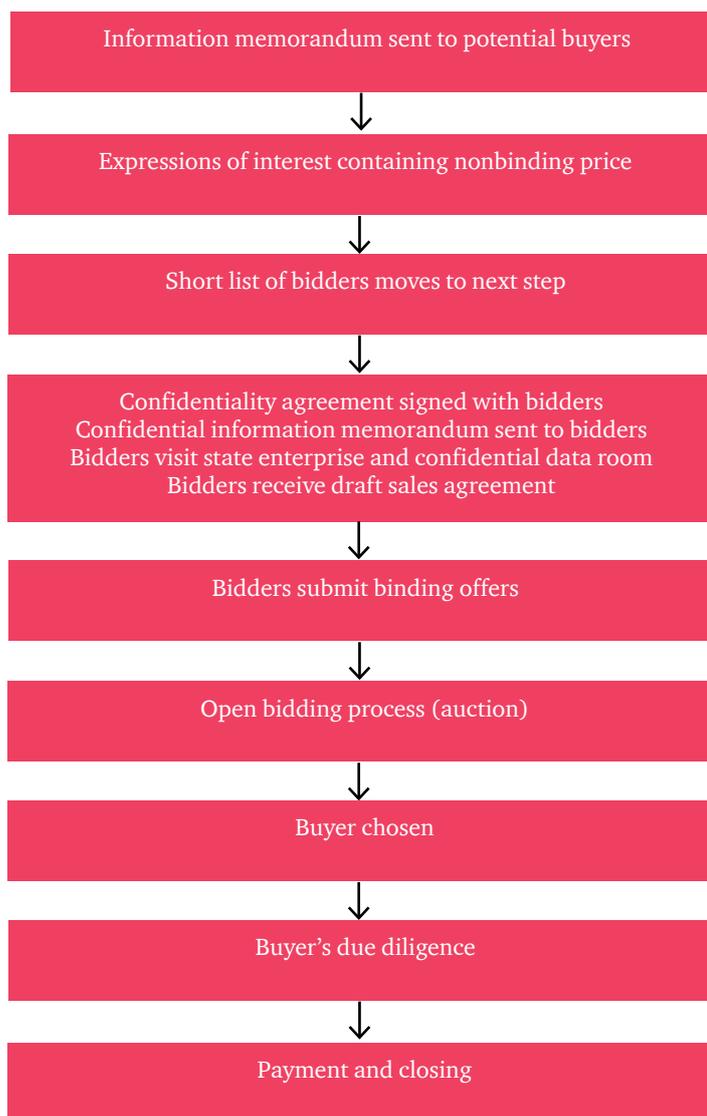


## Secondary Offerings



## Trade sales: auctions and negotiated sales

### Auctions



### Negotiated Sales

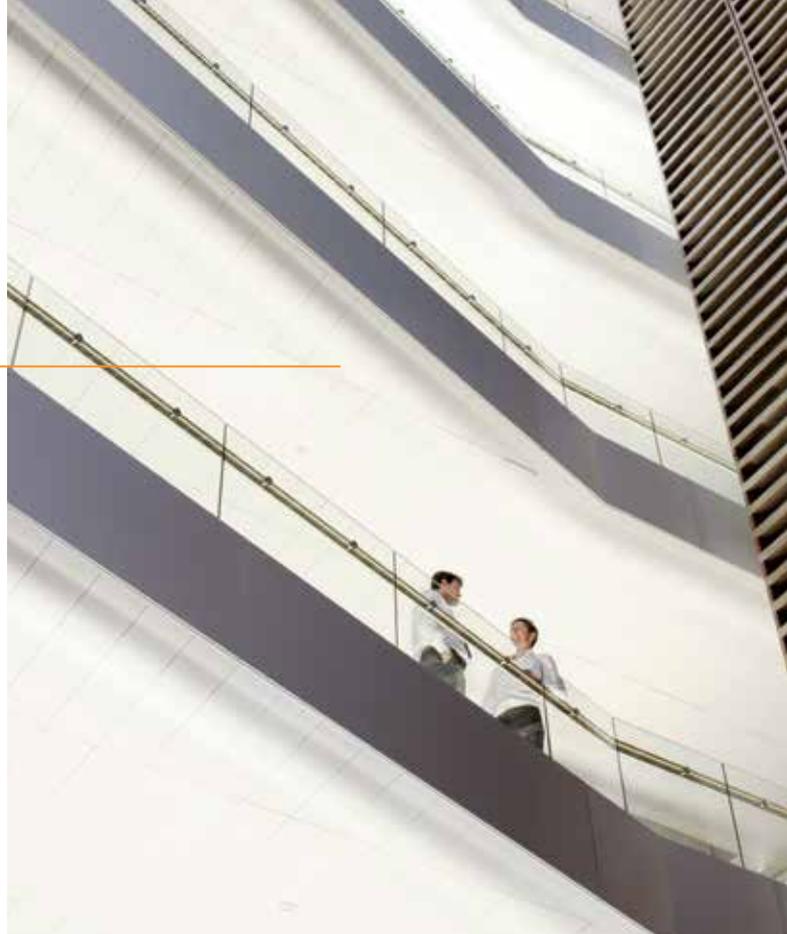


# Public Private Partnerships (PPPs)

An alternative way of the private sector's involvement in areas of economic activity which were traditionally managed by the public sector, such as large infrastructure projects, is PPPs. The PPP method has been used since the 1990s in several European countries in various projects such as highways, schools, hospitals and also in the provision of various services such as waste disposal. Projects carried out under the PPP approach are a form of cooperation between the public and private sectors in the financing, construction, management and maintenance of a project.

Under the traditional procurement method, the contractor is paid by the Government upon the completion of construction of a project and the State then undertakes entirely the management / maintenance of the asset.

Under the PPP method, the private sector service provider (contractor) will be responsible not just for asset delivery, but also for the financing of the project and the ongoing management/ maintenance of the asset. With PPPs therefore, the private sector's returns are linked to service outcomes and performance of the asset over its life cycle. Upon the successful construction of the asset, the State will be paying to the contractor a fixed annual amount, which may even be reduced if the asset (e.g. a motorway) is not well-maintained. In cases where projects generate income during their operation (e.g. airports), the State does not make payments to the contractor but the contractor receives revenue from the management of these projects as part of a concession agreement. In either case, the contractor has strong incentives for early completion of projects with high standards and of high quality.



As it can be deduced from the above, an important benefit of PPPs is the risk sharing between the public and private sectors during the design, construction and maintenance of an asset. Such a risk allocation ensures better construction and maintenance quality, compared to the traditional procurement methods. Moreover, as the contractor does not receive any income before the commencement of operations of a project, there is a strong incentive to successfully complete the project within the required deadlines. Moreover, and this is particularly relevant for Cyprus at this time of great difficulty for public finances, the use of the PPP method allows for the implementation of major infrastructure projects which could not otherwise be funded by the State; large infrastructure projects could be useful in providing a much needed stimulus for the Cypriot economy.

Despite the significant benefits of adopting the PPP method, this does not mean that it is appropriate for all projects and services. A case by case approach should be followed, in order to determine which procurement method would be the most beneficial to implement in terms of delivering "value for money". Moreover, the complex features of PPP projects necessitate the use of the appropriate legal and regulatory framework, which provides confidence and transparency to potential investors and enhances the efficiency of the tender, negotiations and award process of such contracts. Lastly, the use of experienced advisors is also of vital importance so that the value to the Government is maximised.

# The European Experience

In Europe, privatisations began in the United Kingdom in the 1980s and this was a trend followed by many EU countries. The tables below show in summarised form some data as regards the European privatisations track record. Several high-level messages emerge. Firstly, privatisations, either via the sale of a portion or 100% of the Governments' shares in state-owned enterprises, took place in almost all EU countries; this includes countries which have been following a more socialist model of economic development such as Scandinavian countries. Secondly, privatisations took place in many sectors of economic activity, including telecoms, electricity, energy, manufacturing, transport and others.

Looking at the second table, it can be seen that both methods of a public offer and a private sale have been adopted in EU privatisations; the reasoning for the use of the chosen method in each privatisation depends of course on the specifics of each case. Another interesting finding is that in many cases there was a combination of privatisation methods for the same companies; as discussed earlier, it is not unusual for example for a strategic investor to acquire a stake in a State-owned company, to be followed by an IPO in the capital markets.



Table 1: The European Experience (Countries and sectors)

Country	Telecoms	Utilities	Petroleum Industry	Manufacturing	Transport
UK	✓	✓	✓	✓	✓
Lithuania	✓	✓	✓	✓	✓
Austria	✓	✓	✓	✓	✓
Belgium	✓	✓	✗	✓	✓
Cyprus	✗	✗	✗	✗	✓*1
Czech Republic	✓	✓	✓	✓	✓
Denmark	✓	✓	✗	✓	✓
Estonia	✓	✓	✓	✓	✓
Finland	✓	✓	✓	✓	✓
France	✓	✗	✓	✓	✓
Germany	✓	✓	✗	✓	✓
Greece	✓	✓	✓	✓	✓
Hungary	✓	✓	✓	✓	✓
Ireland	✓	✓	✗	✓	✓
Italy	✓	✓	✓	✓	✓
Latvia	✓	✓	✗	✓	✓
Luxembourg	✗	✓	✗	✗	✗
Malta	✓	✗	✗	✗	✓
Netherlands	✓	✓	✓	✓	✓
Poland	✓	✓	✓	✓	✓
Portugal	✓	✓	✗	✓	✗
Slovakia	✓	✓	✓	✓	✓
Slovenia	✓	✗	✗	✓	✓
Spain	✓	✓	✓	✓	✓
Sweden	✓	✓	✗	✓	✓

\*Note 1: PPP contract for the new Larnaca and Paphos Airports

Source: PwC Research

**Table 2 – The European Experience: Methods of privatisations**

Country	Telecoms	Utilities	Petroleum Industry	Manufacturing	Transport
UK	PS,PO	PS,PO	PO	PS,PO	PS,PO
Lithuania	PS,PO	PS	-	PS,PO	PS
Austria	PS,PO	PS,PO	PO	PS,PO	PS,PO
Belgium	PS,PO	PS,PO	-	PS,PO	PS
Cyprus	-	-	-	-	-
Czech Republic	PS	PS	PS	PS	PS
Denmark	PS,PO	PS	-	PS	PS,PO
Estonia	PS,PO	PS	PS	PS	PS
Finland	PS,PO	PS	PO	PS,PO	PS,PO
France	PS,PO	-	PO	PS,PO	PS,PO
Germany	PS,PO	PS,PO	-	PS,PO	PS,PO
Greece	PS,PO	PS,PO	PS/PO	PS,PO	PS,PO
Hungary	PS,PO	PS,PO	PS/PO	PS,PO	PS
Ireland	PS,PO	PS	-	PS,PO	PS,PO
Italy	PS,PO	PS,PO	PO	PS,PO	PS,PO
Latvia	PS	PS,PO	-	PS,PO	PS,PO
Luxembourg	-	PS	-	-	-
Malta	PS,PO	-	-	-	PS,PO
Netherlands	PS,PO	PS/PO	PS	PS,PO	PS,PO
Poland	PS,PO	PS,PO	PS,PO	PS,PO	PS,PO
Portugal	PS,PO	PS,PO		PS,PO	PS,PO
Slovakia	PS	PS	PS	PS	PS
Slovenia	PS	-	-	PS	PS
Spain	PS,PO	PS,PO	PO	PS,PO	PS,PO
Sweden	PS,PO	PS	-	PS,PO	PS

PS: Private Sale

PO: Public Offer

Source: PwC Research



## *The European Experience- Some Examples*

### *UK – British Telecom*

Britain, regarded by many as the pioneer in European privatisations, began this process in 1984 with the privatisation of British Telecom (BT).

It was the first large divestiture of a public utility in the UK and is considered to be a landmark in the UK's privatisation programme under the Thatcher Government. It is considered a very successful project, maximising sales proceeds and achieving widespread share ownership. Employee participation was also substantial.

The project started in 1979, when the British government announced plans to deregulate the telecommunications industry, and in 1981 passed an Act creating BT and separating it from the General Post Office. A well-prepared campaign led to the successful privatisation of BT through an Initial Public Offering for a 50,2% stake in 1984 and two further tranches in 1993. The Government used a mechanism of "golden shares" in order to have a say in key strategic decisions.

The Office of Telecommunications (OFTEL), a regulatory body, was also set up to regulate the telecoms industry.



### *GREECE – Public Power Corporation, PPC (ΔΕΗ)*

PPC (ΔΕΗ) is the electricity monopoly in Greece. Its privatisation process started with an IPO in December 2002. Subsequent equity offerings took place and the Greek Government currently has a 51.1% while employees have another 3.8%.

Evidence suggests that post privatisation, PPC has become a more efficient and financially stronger organisation, as measured by various numerical indicators. In order to make the company more attractive for the IPO, the Company had to take several initiatives such as reduction of its debt levels and rationalisation of its staff levels where needed, without creating disruptions among its workforce.

## *SPAIN–Utilities (Endesa, Repsol, Telefonica, Enagas)*

These privatised utilities together roughly accounted for 60% of total gross proceeds raised from privatisations in Spain. According to various studies, these four companies substantially improved their labour productivity and operating efficiency (value added per employee and sales per employee) after privatisation and liberalisation. However, their labour productivity and operating efficiency, according to some studies, is still considered lower compared to their counterparts which were always under private ownership.

The post privatisation period witnessed substantial price reductions together with an increase in the range of services and bill paying options. Cumulative reduction of average prices of telecommunications services in Spain has been substantial since market liberalisation. As regards the power sector, between 1997 and 2002, which was the period just after the privatisations in the Spanish power sector, household tariffs decreased by 13%. Although price reductions were among the highest in Europe, as in the case of telecommunications, the international comparisons of average prices show that Spanish domestic and industrial tariffs are still higher compared to other European countries.



# Advantages of privatisations and key issues/lessons learnt

Supporters of privatisations claim that they contribute, among others, to cost savings and administrative efficiency. It is argued that, as a minimum, privatisations should be explored when a Government service provider does not have the necessary expertise or knowhow to complete projects quickly and efficiently. In general, these justifications refer to the belief that private sector organisations are less bureaucratic than Government agencies and can make decisions more rapidly to assign the necessary resources where the greatest need occurs.

Opponents of privatisations suggest that cost savings, the primary reason for some for pursuing a privatisation policy, is never a guarantee. Critics of privatisations also claim that service quality suffers because private providers focus their attention on profit margins rather than on providing a valuable service. They suggest that if cost savings is the goal, existing institutional structures should be strengthened to allow Governments to restructure into a more efficient and effective service delivery agents.

The next pages provide some of the most common arguments in favour of privatisations as well as the key issues and lessons learnt.

## Arguments in favour of privatisations

- Private companies have a greater incentive and capability to be more productive, more efficient and hence increase their performance; According to the findings of a study on a sample of more than 110 organisations, over 80% recorded increased efficiency and around 70% of them increased their profitability after privatisations (Study by Bortolotti and Valentina Milella, University of Turin).
- Technocratic and objective goals are set whereas political intervention in decision making is reduced; this benefit is difficult to quantify, but it could be argued that decisions taken based on strictly technocratic and transparent criteria are to the benefit of the organisation, the employees and the economy in general
- Raises more easily investment capital in the financial markets. While interest rates for private companies are often higher than for Government debt, this can serve as a useful constraint to promote efficient investments by private companies, instead of cross-subsidising them with the overall credit-risk of the country.

- Enhances market discipline; poorly managed state-companies are insulated from the same discipline compared to private companies, which could go bankrupt
- Allows for quick decision making and speedy implementation of key decisions.
- Privatisations can generate substantial income for the State coffers. This is of particular importance given the current state of public finances in Cyprus. According to data released by the World Bank, during the period 1989-2009, revenues from privatisations in EU countries (excluding the former Socialist States) fluctuated between 3% and 30% of GDP, with an average of 12%.
- Improved profitability increases tax revenues for the State, as well as dividends which correspond to the shareholding which the State might keep in such organisations.

## Issues/ Lessons learnt:

- Importance of Regulation: Effective State regulation is important to be in place prior to privatisation and to be further enhanced if needed after a privatisation; privatisations must always be carried out in the context of a strict supervisory and regulatory framework so as to prevent the abuse of a position of monopoly and fully safeguard the interests of consumers
- Strategic sectors: Loss of State control over businesses operating in sectors of vital and strategic importance. In those cases, the State can maintain control of over 50% of the shares or, if its holding is smaller, there are mechanisms that allow it to maintain a right of veto in strategic decisions (“golden shares”). In a study on a sample of more than 110 businesses privatised, approximately 60% had included such provisions and mechanisms in their Articles of Association.
- Employee Matters: Terms of employment in the event of a privatisation scheme must be thoroughly analysed to match employee contribution to remuneration, while building the right motivational elements into the system. Increased profitability is likely to facilitate the improvement of employment terms over time. Attention must be paid to the way in which employees will be incentivised post-privatisation through their potential involvement in (i) management of the company/ participation in Board, (ii) ownership of a tranche of shares and (iii) changes in their rights and status.

- Requirements for success: Governments must educate the public on matters of privatisation. Transparency is critical for economic and political success. Privatisation programs should have clearly defined objectives; Governments should set these out in policy statements, laws, or decrees before the privatisation process commences. Timing is crucial; success in completing a deal depends on the appetite shown by strategic investors to embark in acquisitions as regards trade sales, or the market sentiment of investors as regards public offerings. On the other hand, as the process is complex and requires careful planning, such transactions should not be “rushed” just for the sake of completing the deal.

An important feature is that the benefits of privatisations depend to some extent, on market institutions being in place. The countries that manage to ensure property rights protection and the rule-of-law, impose hard budget constraints, increase competition, and improve corporate governance, take the largest benefits. If appropriate institutions are not in place, privatisation often fails to improve performance at the firm level and for the economy as a whole.

Moreover, it is fair to say that here is no “right” approach. Privatisations must be tailored to the circumstances of the country and the specific enterprise. It could be noted that, if carried out correctly, privatisations can bring about significant benefits for businesses, consumers, the State and the economy in general. Challenges and concerns must be identified and dealt with at an early stage through appropriate measures. Experience shows that success depends largely on the level and depth of the preparatory work carried out ahead of any privatisation.



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# *Privatisations and PPPs in the Cyprus context*

Privatisations of state-owned enterprises have been discussed extensively in Cyprus recently, being also linked to the ongoing negotiations with the Troika and the related Memorandum of Understanding. We believe that these issues need to be considered and evaluated in an objective and technocratic manner, always taking into consideration what is best for the companies and their employees, but also the consumers, all other stakeholders and the Cypriot economy as a whole. There are benefits in privatisations and there are also areas of concern which need to be addressed, taking into account the specific features of the Cyprus economy as well as its geopolitical issues.

It is widely acceptable that while some state-owned companies or organisations played a useful role in the early years after independence or after the 1974 Turkish invasion, they have now run their course and it might be considered to discontinue their operations; companies under this category are more related to the agricultural sector such as a few of the various Government Boards for the promotion and sale of agricultural products.

The more heated debate relates to the larger and profitable organisations such as the Cyprus Telecommunications Authority, the Electricity Authority of Cyprus and the Cyprus Ports Authority. The arguments for and against a potential privatisation of these organisations have to be carefully evaluated based on objective and transparent criteria as well and on case-by-case basis, as each company and each sector has different dynamics and considerations. If a decision is reached for the Government to dispose a portion of its stake, consideration must be given to other important questions; should the Government consider all of the organisation's operations or should we only focus on the more value-added elements so as to maximise value? When is the best time to proceed with a transaction? What percentage should the State sell? Should we go for an IPO or a trade sale, and why? What role should employees have in management and ownership? What would happen to the rights and status of employees?

What process should we follow to convert these organisations into limited liability companies, being one of the first steps of a possible privatisation process? These are only a few of the questions that need to be considered from the very beginning of such a process and this is why detailed and timely preparation, with the help of experienced advisors, is key.

Another area of interest as regards privatisations in Cyprus is also the maximisation of value from real estate property owned by the Government or state-owned enterprises which is now idle. Many such companies have significant property in very attractive locations which may not necessarily be needed for their day-to-day operations. There should be a careful evaluation of these properties and consideration of possible options for their optimum use.

Finally, another area of the private sector's involvement is via PPP projects, as mentioned earlier. Whilst not being a panacea for all large infrastructure projects, PPPs can yield significant benefits in terms of more efficient risk sharing between the public and private sectors, timely asset delivery of higher quality etc. There have been success stories in Cyprus, such as the completed and now operational Larnaca and Paphos Airports, desalination plants, as well as the Limassol Marina. The complex features of such projects necessitate the set-up of the appropriate legal and regulatory framework in Cyprus, as is the case in other more mature PPP European markets.

# How can PwC Help?

- Privatisations can be complex, involving a lot of preparation and requiring a variety of skills and expertise.
- Through our world-wide network of specialists, we have an unrivalled global reach of expertise and we can advise the Cyprus Government and companies involved shape their policy, develop frameworks and help them to implement privatisations. At the same time, our strong presence in the Cypriot market and deep knowledge of almost all large State-owned enterprises complements our international credentials. We have successfully advised on many privatisations abroad, and we are ready to replicate the same successful recipe in Cyprus.
- In case of a private sale, we can help the Cyprus Government and companies involved in full sell-side advisory role, which can include inter alia:
  - determine the right approach, method and timing for the privatisation
  - advice on restructuring if needed, in order to maximise value out of the deal
  - valuation
  - assistance in drafting an information memorandum to be given to strategic investors
  - vendor due diligence and data room preparation support
  - negotiations support
  - advice on human capital issues
- In case of a transaction via an IPO, we can help the Government and companies involved select other advisors needed such as underwriters, and we will work closely with them. Some of the tasks we can help with include
  - IPO readiness assessment (equity story, financial reporting procedures, corporate governance)
  - Pre-IPO restructuring
  - Seamless execution as reporting accountants where relevant
  - advice on human capital issues

## PwC Cyprus contacts

### **Nicos A Theodoulou**

Partner

In charge of Capital Markets Group

Tel: +357-22555000

[nicos.theodoulou@cy.pwc.com](mailto:nicos.theodoulou@cy.pwc.com)

### **Constantinos Constantinou**

Partner

In charge of Deals and Corporate Finance

Tel: +357-22 555 000

[constantinos.constantinou@cy.pwc.com](mailto:constantinos.constantinou@cy.pwc.com)

### **Socrates C Paschalis**

Director

Capital Markets Group

Tel: +357-22 555 000

[socrates.paschalis@cy.pwc.com](mailto:socrates.paschalis@cy.pwc.com)

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# *PwC in Cyprus*

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 180.000 experts in 158 countries and based on experience adapted to local needs. PwC Cyprus focuses on two main areas: Assurance & Advisory Services and Tax & Legal Services. We work closely with our clients. We ask questions. We listen. We learn what they want to do, where they want to go. Based on our international knowledge, we share the part that most suitable for you and thus we support you on how to achieve your goals.

As part of operation in 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.

## ***Assurance & Advisory Services***

Our Financial Assurance services comprise of statutory and regulatory audit services, which include evaluation of information systems, advisory services for capital market transactions, accounting and regulatory issues for all types of businesses through specialist industry divisions:

Financial Services (FS), Consumer and Industrial Products and Services (CIPS) and Technology, Information, Communications, Entertainment and Media (TICE).

Our Risk Assurance Consulting (RAC) offers expertise on internal audit services, internal controls optimisation, corporate governance and reporting, as well as assurance and advisory services related to security and controls of information technology systems including Enterprise Resource Planning (ERP) systems (e.g. SAP, Oracle, Navision), Project Implementation Assurance (PIA), Computer Assisted Audit Techniques (CAATs), Spreadsheet Integrity and IT Risk Diagnostic and Benchmarking. 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 (PIC) is offering specialist advisory services on strategy and operational effectiveness, process improvement, cost reduction, people and change and sustainability issues.

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



## Tax & Legal Services

Our PwC network's tax and legal services include Global Compliance Services, Direct and Indirect Tax Services, Local Compliance Services 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 (administration of VAT returns, communication with VAT authorities, agreement of disputed assessments, etc).

### Local Compliance Services (LCS)

Our Local Compliance Services are addressed to all type of businesses that carry out local operations. These enterprises cover a wide range of activities and include private and public companies, government and semi-government organisations, foundations, as well as individuals and family enterprises. Our services cover the whole spectrum of accounting, tax, VAT, financial structuring and statutory compliance services.

### 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.

## PwC offices in Cyprus

### Nicosia

Mailing address: P O Box 21612, CY-1591 Nicosia, Cyprus  
 Street address: Julia House, 3 Themistocles Dervis Street, CY-1066 Nicosia, Cyprus  
 Tel. +357 - 22555000 , Fax +357 - 22555001

### Limassol

Mailing address: P O Box 53034, CY-3300 Limassol, Cyprus  
 Street address: City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus  
 Tel. +357 - 25555000, Fax +357 - 25555001

### Larnaca

Mailing address: P O Box 40450, CY-6304 Larnaca, Cyprus  
 Street address: Artemidos Tower, 7<sup>th</sup> & 8<sup>th</sup> Floors, 3 Artemidos Avenue, CY-6020 Larnaca Cyprus  
 Tel. +357 - 24555000, Fax +357 - 24555001

### Paphos

Mailing address: P O Box 60479, CY-8103 Paphos, Cyprus  
 Street address: City House, 58 Grivas Dighenis Avenue , CY-8047 Paphos, Cyprus  
 Tel. +357 - 26555000, Fax +357 - 26555001

Designed by: PwC Cyprus (Marketing & Communications Department)

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