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CYPRUS - UKRAINE, KYRGYZSTAN AND TADZHIKISTAN:

A long lasting inheritance

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CONTENT

INTRODUCTION

- Our long lasting experience enables us to fully understand the needs of your business and contribute towards its success.
- This publication will concentrate on the business development between Cyprus and the three countries (Ukraine, Kyrgyzstan and Tadzhikistan) which apply the former USSR treaty, as well as the purpose served by the Cypriot companies as holding, financing and licensing investment companies.
- We will close our publication with the suggested application and the use of the international collective investment schemes set up in Cyprus as well as the benefits obtained by an International Cyprus Trust.

CYPRUS: TAX BENEFITS

- Cyprus provides for numerous tax benefits and is classed as a low tax jurisdiction. Its tax and legal systems are in full compliance with the EU and the OECD's requirements, thus resulting in Cyprus being included in the white list of international cooperative jurisdictions.
- Cyprus actually provides one of the lowest corporation tax in the EU with a tax rate of 12,5% (10% up to year 2012).
- Under the Cypriot Corporation Tax, inbound dividends are not taxable and there are provisions in place which may even exempt such inbound dividends from being subject to the Special Contribution for Defense Fund (SCDF).
- Outbound dividends are not subject to any withholding taxes. They are though subject to SCDF if paid to Cyprus tax resident individuals.
- Cyprus does not impose capital gains tax on the disposal of shares unless it relates to immovable property situated in Cyprus. If the immovable property is located outside of Cyprus, such gains are exempt.
- Since 2004, Cyprus has become an official member of the EU and has implemented all EU Directives, thus obtaining all the tax benefits granted to intra-community transactions. Cyprus has expanded the applicability of the tax benefits obtained by the EU Directives to all third countries by incorporating the provisions of the EU Directives in its national legislation.
- EU Directives that have been implemented are the Parent Subsidiary Directive, the Merger Directive, the Tax Savings Directive and the Interest and Royalties Directive.
- Cyprus provides for no inheritance tax;
- Cyprus has concluded an extensive network of Double Tax Treaties (DTTs) for the avoidance of double taxation. Income deriving from countries which signed a relevant treaty with Cyprus will only be taxable once.

CYPRUS: FURTHER BENEFITS

- Irrespective of the tax benefits, it is important to mention that Cyprus is a common law jurisdiction and its Companies' Law is based on the UK Companies Act of 1948.
- During the last few decades it has become known as an international financial center, located at the crossroads of three continents: Europe, Asia and Africa.
- Overall, Cyprus offers a unique European base for international business companies.

CYPRUS - INHERITORS OF THE FORMER USSR RELATIONS

- The Double Tax Treaty with the former USSR remains effective since 1982 with Ukraine, Kyrgyzstan and Tadzhikistan.
- Cyprus and Ukraine are two long lasting business partners maintaining excellent economic relations. Cyprus ranks in the first place of foreign direct investors in Ukraine and similarly, Ukraine maintains one of the highest volumes of Ukrainian investments in Cyprus.
- Ukraine has unsuccessfully attempted a number of times, in the recent past, to terminate the Treaty with Cyprus and in the meantime to conclude a new replacement Agreement. Currently, it appears that the Treaty dated from 1982 will not cease application and both sides hope to sign a new agreement soon.

CYPRUS-FORMER USSR: DOUBLE TAX TREATY

Under the Double Tax Treaty concluded between Cyprus and the former USSR it is worthy to mention the advantageous treatment of dividends, interest and royalties.

Dividends: 0% withholding tax
taxed in the state of residence of the recipient

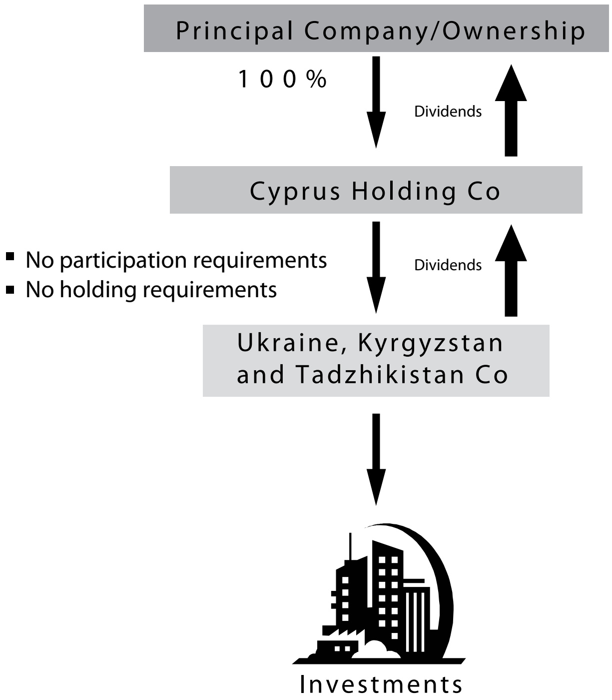
Interest: 0% withholding tax
taxed in the state of residence of the recipient

Royalties: 0% withholding tax
taxed in the state of residence of the recipient

CYPRUS - UKRAINE: NEW DTT NEGOTIATIONS

- It is no secret that Ukraine has been constantly trying to terminate the agreement in place with Cyprus. An obstacle to this desire stands since there is a lack of unanimity voting in the Ukrainian Parliament. The termination of the application of the treaty will constitute no surprise to either side though.
- Currently, Cyprus on the other hand, is satisfied with the Treaty in place but is adamant at maintaining its good relations with Ukraine in the case of a termination.
- In the meantime both countries have been negotiating a new treaty but it appears that Cyprus was not satisfied with the outcome and suggested further amendments.

CYPRUS HOLDING COMPANY



CYPRUS treatment:

- Corporate Income Tax on worldwide income: 12,5%;
- Dividends received:
  Dividends are not subject to corporation tax and is likely to be exempt from SCDF
- Dividends paid:
  0% withholding tax

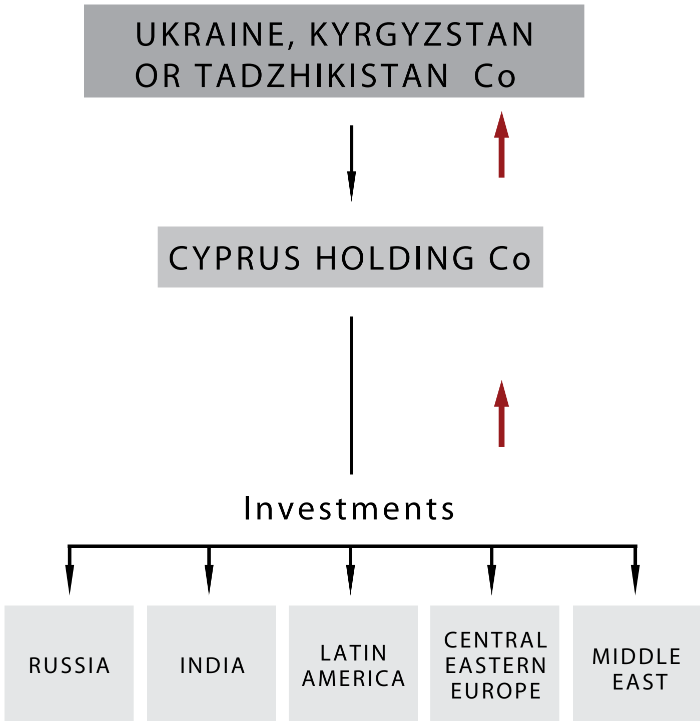
Ukraine, Kyrgyzstan and Tadzhikistan treatment:

- Dividends paid:

0% withholding tax as indicated under the Treaty.

Special Contribution to Defence Fund= SCDF

- Cyprus companies can effectively be used as holding companies with former USSR treaty inheritors i.e. Ukraine, Kyrgyzstan, Tadzhikistan and/or international cross border transactions involving them.
- In the diagram above, Cyprus company holds 100% participation in an Ukraine, Kyrgyzstan or Tadzhikistan company conducting various investments. From a Cyprus perspective, no participation or holding requirements exist in order to obtain tax benefits.
- Incoming dividends from Ukraine, Kyrgyzstan or Tadzhikistan, are exempt from Cyprus corporation tax and may also be exempt from SCDF provided that:
  > no more than 50% of the Ukrainian, Kyrgyzstan or Tadzhikistan Company's activities lead to investment income; or
  > the foreign tax rate must not be significantly lower than the tax payable in Cyprus(In practice lower than 5%).
- 0% withholding tax is imposed on dividends distributed at the Ukraine, Kyrgyzstan or Tadzhikistan level according to the Treaty in place.
- Moreover, the Cyprus company shall be liable to 12,5% corporation tax on its worldwide income.



CYPRUS treatment:
Dividends paid:
- 0% withholding tax at the level of Cyprus

CYPRUS treatment:
Dividends received:
- 0% withholding tax (taxed with low or no withholding taxes at the level of the subsidiaries) Dividends not subject to corporation tax.

REGION	DIVIDENDS	INTEREST	Royalties
Russia	5/10%	0%	0%
India	10-15%	0/10%	15%
Latin America	0-30%	0-30%	0-30%
Ukraine	0%	0%	0%
Middle East	0-15%	0-15%	0-15%
Central Eastern Europe / Balkans	0-15%	0-15%	0-15%

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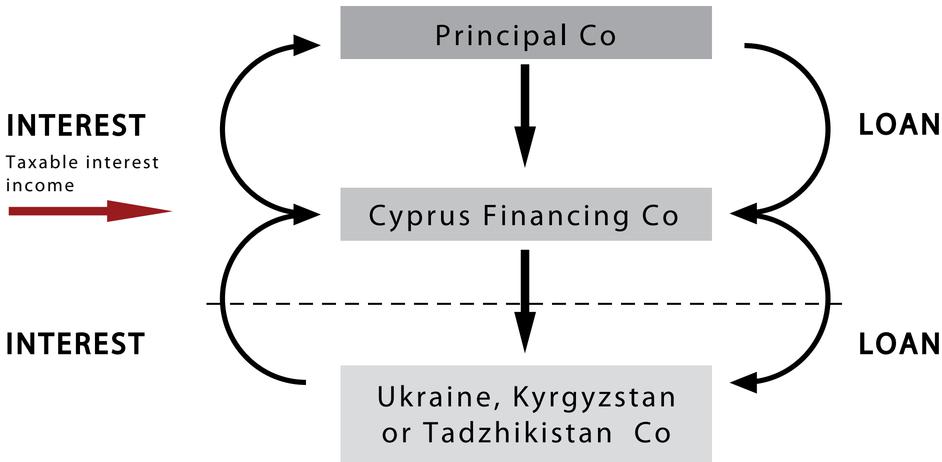
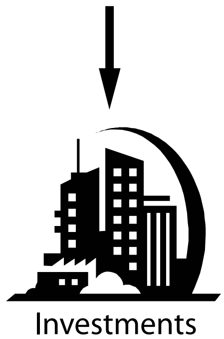
CYPRUS BACK-TO-BACK FINANCING COMPANY



CYPRUS FINANCING COMPANY

-Financing the group companies in two ways:
(a) by way of debt or
(b) capital (equity);



CYPRUS LEGISLATION

- Interest income received from intra-group lending bears 12,5% corporation tax;
- No thin cap rules / no debt-to-equity restrictions;
- No Transfer Pricing legislation in place, however, the arm's length principle applies;
- Interest paid to non-resident creditors is not subject to any withholding taxes.

BACK-TO-BACK FINANCING

- Minimum interest margin accepted by the Cyprus tax authorities as follows:

Less than Eur 50mln	0.35%
Eur 50mln - Eur 200mln	0.25%
Over than Eur 200mln	0.125%

CYPRUS BACK-TO-BACK FINANCING COMPANY

- Cyprus companies are beneficially used as finance investment vehicles suitable for financing group of companies and resulting in an efficient accumulation of interest income.

- In the figure above, a Cyprus company is the subsidiary of a foreign company, and the parent company of an Ukraine, Kyrgyzstan or Tadzhikistan Co.
  A loan from the Parent company can be passed down to the Ukraine, Kyrgyzstan or Tadzhikistan company with respective interest received.

- In Cyprus, interest income received from intra-group lending is liable to 12,5% corporation tax and has no thin capitalisation rules or debt-to-equity restrictions in place. There is also no transfer pricing legislation in place, however, the arm's length principle must be applied - the interest needs to be determined at a market value as if these parties were unrelated. Additionally, interest paid to non-resident creditors is not subject to any withholding taxes.

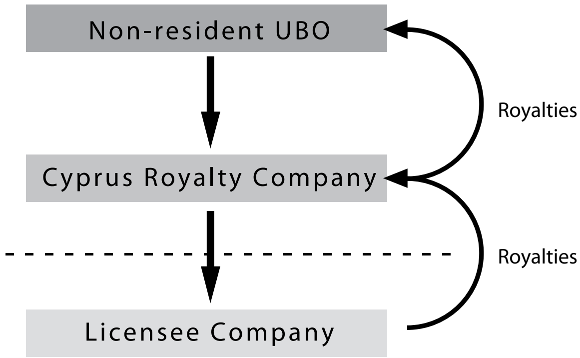
CYPRUS ROYALTIES COMPANY

Cyprus Royalties Company

- Sublicensing of intellectual property rights

Cyprus Law

- Net royalty profits are subject to 12,5% corporation tax. From 01 January 2012, 80% of any income generated from Intellectual Property owned by Cypriot resident companies will be exempt from Corporation tax;
- Gains on the sale of shares of the Royalty Company is exempt from corporation tax;
- Royalty payments are exempt from any withholding taxes provided that these rights are exercised outside Cyprus.



- A Cypriot sublicensing company may be interposed between the non-resident beneficial owner company and the licensee company which will exercise the rights on the intellectual property obtained. Royalty payments are received with respect to the licenses on the intellectual property rights which are granted.

- In Cyprus, the net royalty profits are subject to 12,5% (10% up to the year 2012) corporation tax while any gains deriving from the sale of shares of the Royalty Co are exempt from such corporation tax. Though, new tax incentives were approved by the House of Representatives and are effective from 01 January 2012. According to the new tax incentives:

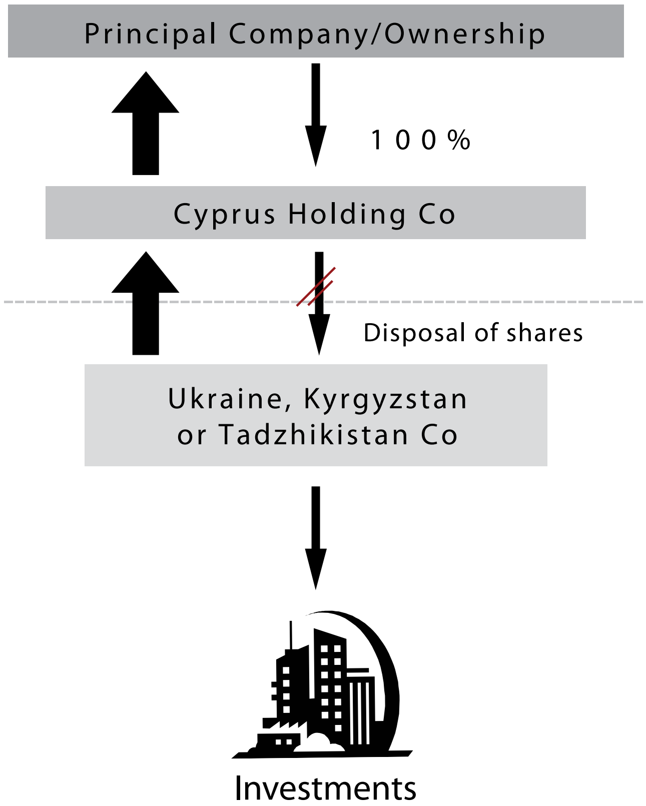
  a) 80% of any income (net of any direct expenses) generated from Intel lectual Property (IP) rights will be exempt from corporation tax

  b) 80% of profit (net of any direct expenses) generated from the disposal of IP by Cypriot resident companies will be exempt from corporation tax

- Furthermore, royalty payments are exempt from withholding taxes in Cyprus provided that the rights are exercised abroad and not in Cyprus.

- As per the illustration above, the licensee company can be a Ukraine, Kyrgyzstan and Tadzhikistan company exercising rights outside Cyprus. The Double Tax Treaty provides for no withholding taxes on royalty payments between the Contracting States.

CAPITAL GAINS TREATMENT



CYPRUS treatment:

Disposal of shares are not in any way taxable under the capital gains tax or corporation tax provisions in Cyprus (provided that immovable property in Cyprus is not directly or indirectly involved).

- Cyprus companies investing in Ukraine, Kyrgyzstan or Tadzhikistan are also in a position of obtaining further business benefits from the capital gains treatment in the case of disposing the shares held in the Ukraine, Kyrgyzstan or Tadzhikistan Company.

- No capital gains are taxable in Cyprus which are deriving from the disposal of shares provided that they do not relate to immovable property situated in Cyprus.

CYPRUS SHIPPING: NEW TONNAGE TAX SCHEME

- Cyprus has obtained a new tonnage tax scheme since March 2010 and it has been decided to be enforced for the year 2010 (inclusive) and onwards.
- The new tonnage tax scheme has been approved by the European Commission, for the first time for an EU member state with an Open Registry.
- This new Cyprus tonnage tax combines all the favourable provisions of all European and non-European shipping taxation systems.
- Under the new scheme an option for taxation is granted to the companies concerned. They can choose to be taxed on the net tonnage of the vessel or on the actual profits of their maritime transport activities.
- Under the new scheme the benefits applicable to ship owners and ship managers of Cyprus flag ships are also extended to the owners and charterers of ships with foreign flags, provided they are tax residents of Cyprus.
- Qualification requirements need to be fulfilled in order to obtain all the tax benefits granted by the new tonnage tax scheme.

Tax benefits under new tonnage tax scheme

> No income tax and taxation of profits for the qualified ship owner and charterer

> No income tax for the qualified ship manager

> Tax free dividends from profits at all levels

> Gains deriving from the disposal of or transfer of such vessels or the shares of the ship owning company will be tax exempt

> The emoluments of officers or of the crew on board of such qualified vessels are exempt from income tax

> No tax imposed on interest earned (excluding investment capital)

> Income tax exemption may be granted regarding dividends from qualifying activities

Qualification requirements:

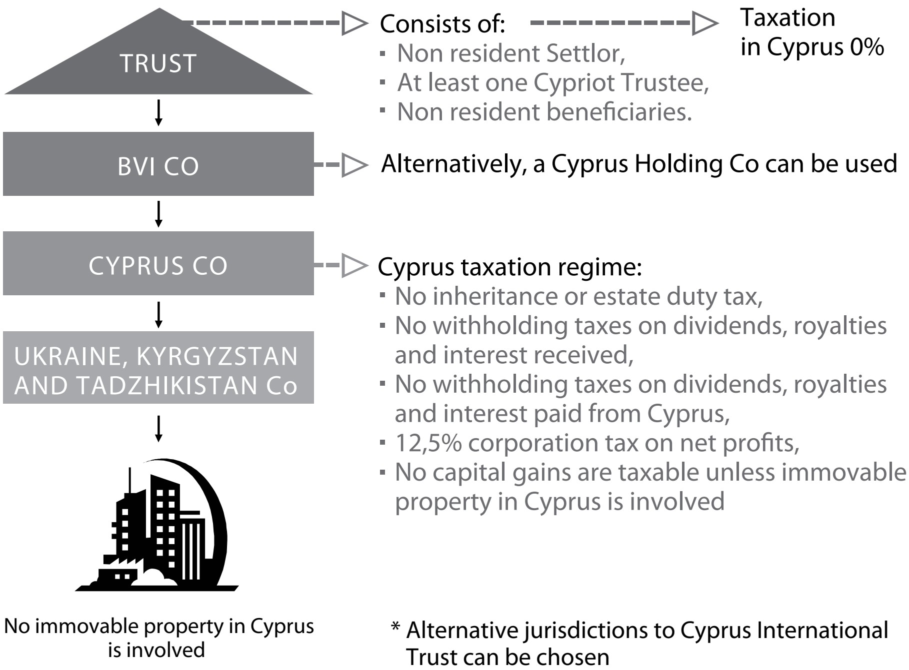
(a) The vessel must fall under the relevant definition of “qualified ship”

(b) The person (individual / company) must fall under the relevant definition of “qualified person”

(c) The activities of the vessel concerned need to comply according to the definition of “qualifying shipping activity”.

CYPRUS INTERNATIONAL TRUST

- Cyprus International Trusts are considered as efficient wealth management instruments and most significantly instruments for the protection of assets.
- The assets and interests of the beneficiaries of the Cyprus International Trust are safeguarded from the various challenges of every day life i.e. divorces etc.
- Cyprus International Trust also serves successfully the purposes for the securing of the inheritance.
- Its duration is not subject to any limitation period.



THE BENEFITS OF THE CYPRUS INTERNATIONAL TRUSTS:

- Exemption from income tax, capital gains tax, special contribution or any other taxes in Cyprus (provided that no immovable property situated in Cyprus is involved),
- No estate duty or inheritance tax in Cyprus,
- There are no reporting requirements in Cyprus,
- Dividends, interest or royalties received by an International Trust from a Cyprus company are not taxable and not subject to any withholding tax,
- There are no exchange control restrictions,
- Trust capital received in Cyprus by a foreigner resident or retired in Cyprus is not taxable on the trustee.

COLLECTIVE INVESTMENT VEHICLE

UKRAINE, KYRGYZSTAN OR TADZHIKISTAN /INTERNATIONAL INVESTORS

ICIS forms:
- International Variable Capital Co
- International Fixed Capital Co
- International Unit Trust Scheme
- International Investment Limited Partnership

- No withholding tax on dividends, interest and royalties distributed from Cyprus

INTERNATIONAL FUND

Cyprus level:
- Dividends received or paid from Cyprus are not taxed
- Wide Double Tax Treaty network
- Favourable investment conditions

- Cyprus Securities and Exchange Commission regulates ICIS;
- Marketed to the general public;
- Addressing solely experienced investors
- It can be a private fund consisting up to 100 investors;
- Or public fund exceeding 100 investors and a Manager with an EU license required.

- No or very low withholding tax on dividends, interest and royalties received

Global Investments [in bonds, shares, debentures, titles, securities etc]

RUS | IND | Latin America | CHI | Middle East | Central Eastern Europe | Balkans

REGION	Dividends	Interest	Royalties
Russia	5/10%	0%	0%
India	10-15%	0/10%	15%
Latin America	0-30%	0-30%	0-30%
Ukraine	0%	0%	0%
Middle East	0-15%	0-15%	0-15%
Central Eastern Europe / Balkans	0-15%	0-15%	0-15%

- Cyprus is an ideal jurisdiction for structuring also international investments in bonds, securities, shares, debentures and other investment instruments.

- A good way of structuring investments through Cyprus is the establishment of an international investment fund in Cyprus. Collective Investment Funds can proceed into investing not only in investment instruments in Ukraine, Kyrgyzstan or Tadzhikistan but almost in every part of the world i.e. India, Latin America, Middle East, Central and Eastern Europe, with significant benefits.

- Tax benefits available under the Cypriot jurisdiction and the advantage of the DTTs are also available to the International Funds.

CYPRUS – FORMER USSR COUNTRIES APPLYING THE TREATY - CONCLUSION

- Cyprus is a contemporary country offering a unique European base for international business companies. It also constitutes a 'key' to the Middle East, Asian and African markets.
- Countries like Ukraine are one of the most significant business partners of Cyprus playing a leading role in direct foreign investments, both in and out of the country.
- Cyprus is located in a key geographical position suitable for investments in the Middle East, Europe, Asia, Africa and due to strong affiliations, to India and Ukraine as well.
- Cyprus is increasingly becoming an attractive destination for structuring international investments with unique benefits.
- Foreign investments in developing areas like Kyrgyzstan and Tadzhikistan can be benefited with the same favourable conditions equally under the current Treaty with Cyprus.

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