



**SPEECH BY THE EXECUTIVE CHAIRMAN
AND MANAGING DIRECTOR OF
CYPRUS TRADING CORPORATION PLC**

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AT THE ANNUAL GENERAL MEETING

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Ladies and Gentlemen, I continue with the presentation of the CTC Group's strategy.

I would like to give special emphasis to the issue of strategy in general, because, as confirmed by most business consultants, profitability as well as the survival of companies depends to a degree of 80% on the application of the right strategy and only 20% on the effective management of any operations.

CTC's strategic course is after all something of particular interest, given liquidations of some very significant and profitable investments of the Group during the last three years, MTN's in 2013, CTC ARI in 2014 and the two Shopping Malls recently in 2015. Actions that definitely raise questions both about the past and the future, particularly in relation to the Cypriot economy which during recent years has been impacted by unprecedented developments.

I thank my colleagues for their presentations of the results of 2014. It is, after all, the main purpose of today's Annual General Meetings and it is always very important to give an explanation of the results of a time past.

However, despite their current unchangeable nature, they are part of a continuity, part of a strategy that evolves on a medium-term basis, aiming to maximise shareholder value, that is, increasing returns with a high degree of safety. This is the main continuous goal of CTC, which is particularly difficult and challenging to achieve, devising the right strategy when economic conditions suddenly change from positive to negative, and then to threatening, which is something that we have experienced during recent years both in the international and the Cypriot economy.

At this point, it is important to mention two characteristics of the CTC Group, which are also its main advantages: its large size and broad diversification. Because of them the Group is profitable and strong. However, such a Group, does not like unpleasant surprises, because precisely due to its size and range of activities, it needs considerable time to respond to a necessary and immediate change of course and speed.

It is not a small flexible speed boat, it is rather a large tanker which, as once explained to me by a captain, a tanker loaded with several hundred thousand tonnes of crude oil, in order to be able to turn and enter into a port safely, It needs to have started to reduce speed at a distance of at least 30-40 miles before.

You realise that this fact requires the Group's management to be extremely proactive, and especially to be in a position to anticipate worsening conditions. This implies a clear awareness of

macroeconomic conditions and trends that may affect the overall economy and the markets in which the Group operates.

Precisely this awareness is the result of investment of significant resources and continuous work of a strong strategy team of experienced professionals and consultants inside and outside the Group.

It is an infrastructure on which the management of CTC relies on in order to derive the required information that leads to the implementation of an appropriate strategy, and to protect the property of its shareholders while maximising returns.

Of course, this is the scientific and technocratic approach.

I would like, however, to philosophise for a moment, and to refer alternatively to another inexhaustible source that is available to each of us, from which we can derive inspiration and knowledge, as long as we devote to it enough time and attention.

This source is simply Nature. Observing and studying its balance, the constant changes caused by weather and other natural phenomena, actions and reactions that inspire multiple emotions, one can feel the complete identification of everything human with Nature. This of course also applies to the economic conditions, which change in successive waves just like the weather does, and to companies, which like boats at sea struggle against the waves and the wind in order to reach their destination.

I would like to continue with this parallelism and talk a little bit about sailing, a sport that is directly related to nature and its phenomena, and which I have been personally practising for the last 30 years.

It will help me to convey to you more graphically the things I want to say, but mainly in order to entertain you for a bit, and give you a

pleasant break from all these tiring numbers you've been listening to all this time.

I'll show you a video with highlights from a sailing race, the Volvo Ocean Race, the Formula 1 of the sea, a race which is sponsored by the car company Volvo, which as you know, is represented in Cyprus by CTC Automotive. The race takes place every three years and goes round the world in nine months, with stops at various port cities and covers a distance of over 40,000 miles. We will see highlights of the latest race that began in October 2014 and finished at the end of June this year.

Cue: the Boat

<http://www.volvoceanrace.com/en/boat.html>

Seven crews took part in the race, all with a completely identical boat, 20 meters long, as you see on the screens, which implies that the final result is solely based on the relative ability of each crew.

Cue: the boat of Abu Dhabi

http://www.volvoceanrace.com/en/teams/3_Abu-Dhabi-Ocean-Racing.html

Entries were sponsored by various companies for advertising and promotional purposes, with the interesting exception of the boat of Abu Dhabi which was sponsored by the Emirate itself.

Cue: the SCA boat

http://www.volvoceanrace.com/en/teams/47_Team-SCA.html

Also, it is worth to make special reference to the boat of the Swedish paper company SCA, the products of which are distributed in Cyprus by CTC Argosy. It was the only boat with an all female crew.

Cue: the Route

<http://www.volvooceanrace.com/en/route.html>

As you can see, the route comprises of 9 sections, it started in Alicante, Spain, and with stops in various parts of the world, it finished in Gothenburg, Sweden, where the headquarters of VOLVO are located.

In order for the crews to reach as soon as possible and safely to each destination, they not only have to cope with the challenges of every moment but to predict and study future weather conditions and accordingly alter their course to derive maximum advantage over their competitors...

I'll let you enjoy the video...

Cue: the video 3 minutes

http://www.volvooceanrace.com/en/video/42666_Around-the-world.html

The boat of Abu Dhabi, which you see on the screen, was the big winner of this truly exciting race.

In the video you've seen the boats in various situations, in most of them, sailing very quickly under very strong winds and high waves, but under the full control of the crew, who with a clear understanding of the circumstances, they know exactly what to do, each on their own and all together as a team. They operate and react quickly and efficiently, even without oral commands, since the strong force of the wind prevents anyone from being heard.



Observing the winning boat in this position and if I had to describe this picture with a single word, then I would choose the word 'harmony'. It's a boat and a crew in complete harmony with the weather and nature. The sails are open at a specific size and angle according to the strength and direction of the wind, as well as the position of the crew, everyone gathered at the rear left side of the stern so that their weight keeps the boat as even as possible, so that it can go faster and with greater stability.

At this level of professional competition, speed and extreme conditions, anything beyond this harmonious balance, even in the very least, can be extremely dangerous to both the boat and the crew.

Besides, in the video we saw two such incidents, in the first, the boat was grounded on a reef and *in* the second, another broke its mast.

Like with the boats at sea, which need to face the weather conditions, the same with companies, which need to face the economic conditions, which can often become extreme.

Particularly intense are usually circumstances arising from poor debt management in both the public and private sectors. Excessive lending, and high levels of debt in general, are a double-edged sword ... in good times they create inflationary trends, rapid growth and

huge returns. But when debt reaches excessive levels, it generates bubbles which unavoidably burst, resulting in severe deflation. Suddenly, servicing excessive debt becomes impossible and the virtuous circle turns into vicious, bringing recession, losses and bankruptcies.

When we continuously increase debt, it is like continuously increasing the sails area on a sailing boat, increasing the power of the wind in order to increase boat speed. The captain and the crew, however, must be in full awareness and readiness in order to reduce the sails before the wind and the waves become threatening, otherwise sails are torn, masts break and boats are overturned.

Of course, ourselves, the crews of the companies, who usually sit comfortably in our offices, we often refuse to realise the first clearly negative signs, simply because human nature is what it is, and we choose to obsessively believe in the continuation of good times, even and when they are already in the past.

However, crews on board boats at sea, have no such luxury. Their awareness is much more immediate, because the rattling of the boat is so violent and the icy waves that hit them are so awakening, that whether they like it or not they are forced to a continuous state of alertness, with their awareness fully broadened.

Perhaps we, the managers and our teams of all organisations, both private and public, would have an increased and more immediate awareness and reactions, if our offices were also rattled violently, and especially if our beautiful suits got wet according to adverse economic conditions...

In the backdrop of these adverse economic conditions the management of CTC reacted and implemented a strategy that helped

it cope with the first difficult stages and properly position itself so as to be able to take advantage of opportunities in the future.

More specifically, global economic trends have proved extremely deflationary since 2008, with their roots in the creation of excessive debt and its poor management. Despite repeated interventions of quantitative easing measures of various governments through their central banks, not only these tendencies remain unchanged, but international debt has increased significantly, since the chosen therapy, by definition, causes an increase in debt in the various economies. This fact increases the probability that subsequent financial crises will be more profound and threatening than their predecessors.

The Greek economy has suffered incredibly during the last years, frequently flirting with bankruptcy and exiting the euro zone. And while in 2014 Greece had managed to halt the decline and achieve relative balance and stability, the political upheaval that occurred in early 2015 and the completely failed attempt of disengagement from the recessionary memoranda of its creditors, brought back the country on the verge of bankruptcy.

In Cyprus, we have seen our banking system collapse due to its exposure to the Greek market and the Greek sovereign bonds, with the haircut of deposits and the implementation of the austerity memorandum in 2013.

Certainly, today the economic situation in Cyprus has recovered and is much more stable. The trends, however, unfortunately in Cyprus as well, remain deflationary and chances for significant growth are very limited.

Cyprus' total debt, is at a level of 450% of GDP, which is considered one of the highest worldwide, with 350% concentrated in the private sector. The banking sector, rather than adding, it is still on a cumulative basis, subtracting liquidity from the market in an effort to manage the huge non-performing loans on its balance sheet, which are at a level of 200% of GDP, a fact that keeps the private sector deprived of necessary funds for investment for growth and profitability. Fiscal policy continues to be recessionary, unemployment remains at high levels and consumption very depressed.

Most importantly, the Cyprus economy due to the Eurozone membership, is trapped in a monetary policy that best matches Germany rather than Cyprus, and consequently in a currency that is too expensive and intensifies deflationary pressures. And as is natural in such an environment, foreign investors stay away, except for a few, lurking in the background ready to grab opportunities at distressed levels as a result of forced liquidations.

In addition, the structure of the private sector in Cyprus is characterised by a relatively large number of SMEs (small-medium enterprises), with a superfluous repetition of central infrastructures and overheads, which reduces even more the profitability of the private sector with a significant percentage of firms being marginally profitable or loss making.

Under these circumstances, an inevitable and dynamic trend that is already in force, is the significant reduction of this superfluous number of infrastructures through the process of mergers and acquisitions, so that gradually the turnover generated by the private sector produces the maximum profits from a larger number of operators that remain.

Against this macroeconomic background, the first stage of the strategy implemented by CTC over the past years has been purely defensive. The management proceeded to liquidate the investments I mentioned earlier, which allowed the Group to significantly reduce its bank loans and the costs of financing, and increase its liquidity. It should be noted that all the buyers are foreign investors who used for the acquisitions additional funds from abroad something which certainly benefited the economy of Cyprus and the banking system.

At this point in time, CTC, is on the verge of the implementation of the second stage of its strategy, which has two aspects:

The first maintains the Group in a relatively defensive stance and continues to be receptive to attractive proposals for the liquidation of mature investments, especially regarding the portfolio of commercial property of Woolworth, which will allow it to increase even more its liquidity.

Unlike the first, the second aspect aims at achieving dynamic growth via mergers and acquisitions, which is the only feasible path to significant growth and increased profitability allowed by today's reality,, the nature of which renders organic growth practically impossible.

In conclusion, I can say with great satisfaction that CTC, admittedly after a challenging period, is now in a strong position to play a leading role in capitalising on these opportunities that are developing in the



Cypriot market for higher turnover and profitability.

I would say it presents a similar picture as the one on the screen: A strong boat, in full harmony with the environment, and, despite the challenging conditions, it is sailing forward dynamically but safely, with a crew in full readiness and awareness.

Thank you for listening,
Marios N. Shacolas
Chairman and CEO of CTC

September 10th, 2015