Auditors' Report and Financial Statements

INDEPENDENT AUDITORS' REPORT

To Cyprus Telecommunications Authority (Cyta)

Report on the financial statements

We have audited the accompanying financial statements of Cyprus Telecommunications Authority (''Cyta'') on pages 73 to 116, which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

Cyta's Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU), the Public Corporate Bodies (Audit of Accounts) Laws of 1983-2007 and the requirements of the Telecommunications Services Law, Cap. 302 and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

As described in Note 18 of the financial statements, Cyta has purchased convertible bonds of Cyta Hellas. Up until the date of our report, Cyta purchased convertible bonds amounting to €38,4 million out of which €7,7 million were purchased in 2012, without the prior written approval of the Council of Ministers as required by the provisions of section 18 of the Telecommunications Service Law, (Cap.302). This Law provides that any cash held by the Authority, which is not intended to be used to repay Authority's obligations or fulfil its operations, may be invested in bonds with the approval of the Council of Ministers.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the paragraph the basis for qualified opinion, the financial statements give a true and fair view of the financial position of Cyprus Telecommunications Authority as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Telecommunications Service Law (Cap.302).

Emphasis of matter

We draw attention to notes 34 (iv) and 37 to the financial statements which refer to existing key uncertainties for the Cyprus economy and developments in the banking system in Cyprus. These factors and the effects of the results of the decision of the Eurogroup of 25th March 2013 in Cyprus, could adversely affect the future financial results and financial position of Cyta. Our opinion has no reservation in respect of this issue.

Report on other legal and regulatory requirements

Pursuant to the requirements of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by Cyta.
- Cyta's financial statements are in agreement with the books of account.
- In our opinion and to the best of the information available to us, and according to the explanations given to us, the financial statements give the information required by the Telecommunications Services Law Cap. 302, in the manner so required.

Other matter

This report, including the opinion, has been prepared for and only for Cyta's Board of Directors, as a body, the Minister of Finance, the House of Representatives and the Auditor General of the Republic in accordance with the Telecommunications Services Law Cap. 302, the Public Corporate Bodies (Audited Accounts) Law of 1983-2007 and Article 34 of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

We have reported separately on the consolidated financial statements of Cyta and its subsidiaries for the year ended 31 December 2012.

Christos V. Vasiliou (FCA)
Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited
Certified Public Accountant and Registered Auditors

Esperidon 14, 1087 Nicosia, Cyprus
Nicosia, 11 June 2013

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC

To Cyprus Telecommunications Authority

I have examined the foregoing report on the financial statements of the Cyprus Telecommunications Authority on pages 73 to 116 for the year ended 31 December 2012 submitted by the appointed auditor in accordance with section 3(1) of the Public Corporate Bodies (Audited Accounts) Law and I am satisfied that this is appropriate.

Chrystalla Georghadji
Auditor General of the Republic

Nicosia, 11 June 2013

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Note	2012 €´000	2011 €´000
Operating Revenue	4	**451.763**	**473.982**
Operating expenses	5	(393.113)	(401.840)
Gross profit		**58.650**	**72.142**
Other operating expenses	6	(1.857)	(7.643)
Other income	7	6.885	2.695
Profit from operating activities	9	**63.678**	**67.194**
Penalty (imposed) / cancelled	30	(5.584)	3.712
Finance income		48.479	50.368
Finance expenses		(38.000)	(38.869)
Net finance income	10	**10.479**	**11.499**
Net loss from investing activities	11	(20.949)	(688)
Profit before tax		**47.624**	**81.717**
Tax	12	(7.349)	(8.435)
Profit for the year		**40.275**	**73.282**
Other comprehensive income			
Available-for-sale financial assets - Fair value (losses)/ gains	17	(2.167)	339
Other comprehensive income for the year		**(2.167)**	**339**
Total comprehensive income for the year		**38.108**	**73.621**

The notes on pages 77 to 120 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Note	2012 €´000	2011 €´000
Non-current assets			
Property, plant and equipment	13	369.581	382.478
Intangible assets and goodwill	14	36.796	32.493
Investments in subsidiaries	15	110.123	101.072
Investments in associated undertakings	16	1.480	1.480
Available-for-sale financial assets	17	3.757	2.587
Held-to-maturity investments	18	42.020	17.156
Other assets	21	24.961	24.398
Loans receivable	19	1.992	2.282
Total non-current assets		**590.710**	**563.946**
Current assets			
Inventories		7.457	6.882
Trade and other receivables	20	128.152	124.903
Loans receivable	19	777	779
Held-to-maturity investments	18	-	22.276
Treasury bill - 13 weeks	22	100.704	-
Other assets	21	-	7.342
Refundable tax	28	1.376	-
Cash and cash equivalents	23	161.337	242.309
Total current assets		**399.803**	**404.491**
Total assets		**990.513**	**968.437**
Equity			
Other reserves	24	269	2.436
Retained earnings		875.915	872.290
Total equity		**876.184**	**874.726**
Liabilities			
Long-term loans	25	386	723
Deferred tax liabilities	26	6.736	5.749
Total non-current liabilities		**7.122**	**6.472**
Current liabilities			
Short term portion of long-term loans	25	341	343
Trade and other payables	27	106.866	86.783
Tax liability	28	-	113
Total current liabilities		**107.207**	**87.239**
Total liabilities		**114.329**	**93.711**
Total equity and liabilities		**990.513**	**968.437**

The financial statements were approved by the Board of Directors on 11 June 2013.

S. Kittis
President

A. Riris
Chief Executive Officer

G. Koufaris
Chief Officer

The notes on pages 77 to 116 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Other reserves €´000	Retained earnings €´000	Total €´000
Balance at 1 January 2011	2.097	859.008	861.105
Profit for the year	-	73.282	73.282
Other comprehensive income for the year	339	-	339
Total comprehensive income for the year	339	73.282	73.621
Dividend paid to the Republic of Cyprus	-	(60.000)	(60.000)
	339	13.282	13.621
Balance at 1 January 2012	2.436	872.290	874.726
Profit for the year	-	40.275	40.275
Other comprehensive income for the year	(2.167)	-	(2.167)
Total comprehensive income for the year	(2.167)	40.275	38.108
Dividend paid to the Republic of Cyprus	-	(36.650)	(36.650)
	(2.167)	3.625	1.458
Balance at 31 December 2012	269	875.915	876.184

The notes on pages 77 to 116 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Note	2012 €´000	2011 €´000
Cash flows from operating activities			
Profit for the year		**40.275**	**73.282**
Adjustments for:			
Depreciation of property, plant and equipment	13	48.529	52.431
Unrealised exchange loss/(profit)		73	(149)
Amortisation of mobile telephony license	14	1.089	1.089
Amortisation of computer software	14	13.236	15.130
Amortisation of goodwill	14	18	18
Profit from the sale of property, plant and equipment		(161)	(297)
Effective interest rate on held to maturity investments		(170)	(14)
Impairment charge - investments in subsidiaries	15	20.949	688
Income from investments	7	(53)	(51)
Interest income	10	(11.681)	(11.454)
Interest expense	10	386	517
Total pension scheme expense	8	21.653	29.113
Employer's contributions to pension scheme	8	(20.548)	(18.764)
Covering for pension scheme deficit	8	-	(4.240)
Income tax expense	12	7.349	8.435
Cash flows from operations before working capital changes		**120.944**	**145.734**
Increase in inventories		(575)	(1.352)
Increase in trade and other receivables		(3.249)	(20.086)
Increase/(decrease) in trade and other payables		25.757	(5.306)
Cash flows from operations		142.877	118.990
Tax paid		(7.851)	(10.760)
Net cash flows from operating activities		**135.026**	**108.230**
Cash flows from investing activities			
Payment for acquisition of intangible assets	14	(11.838)	(8.215)
Payment for acquisition of property, plant and equipment	13	(52.875)	(63.766)
Payment for acquisition of investments in subsidiaries	15	(30.000)	(10.000)
Payment for acquisition of investments held-to-maturity	18	(28.031)	(13.803)
Loans repayments received		292	-
Payment for purchase of Treasury Bill	22	(100.704)	-
Proceeds from disposal of intangible assets		-	-
Proceeds from disposal of property, plant and equipment		10.596	17.967
Proceeds from expiry of investments held-to-maturity	18	22.276	19.051
Interest received		11.681	11.454
Income from investments		53	51
Net cash flows used in investing activities		**(178.550)**	**(47.261)**
Cash flows from financing activities			
Repayment of borrowings		(339)	(340)
Unrealised exchange (loss)/profit		(73)	149
Interest paid		(386)	(517)
Dividend paid to the Republic of Cyprus	31	(36.650)	(60.000)
Net cash flows used in financing activities		**(37.448)**	**(60.708)**
Καθαρή (μείωση)/αύξηση μετρητών και αντίστοιχων μετρητών		**(80.972)**	**261**
Cash and cash equivalents at beginning of the year	23	242.309	242.048
Cash and cash equivalents at end of the year	**23**	**161.337**	**242.309**

The notes on pages 77 to 116 form an integral part of these financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Cyprus Telecommunications Authority (''Cyta'') is a Public Corporate Body established by Law 67 of 1954 (Cap. 302 of the Basic Law), as amended by Laws 20/1960, 34/1962, 25/1963, 54/1977, 98/1988, 21/1989, 39(I)/1995, 20(I)1998, 159(I)/2000, 149(I)2001, 136(I)2002, 7(I)/2004, 164(I)2004, 51(I)/2006, 117(I)/2006 and 17A/2011. It is managed by a Board of Directors, consisting of a Chairman, Vice-Chairman and seven members, who are appointed by the Council of Ministers.

The address of Cyta's Head Offices is at Telecommunications Street, Strovolos, P.O.Box 24929, CY-1396 Nicosia, Cyprus.

The principal activity of Cyta, which is unchanged from last year, is the provision, maintenance and development of a comprehensive telecommunication services, both nationally and internationally.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Cyta has also prepared consolidated financial statements in accordance with IFRSs for Cyta and its subsidiaries (the ''Group''). The consolidated financial statements can be obtained from the address of the Authority's Head Office which is at Telecommunications Street, Strovolos, P.O.Box 24929, CY-1396 Nicosia, Cyprus.

Users of these parent's separate financial statements should read them together with the Group's consolidated financial statements for the year ended 31 December 2012 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of Cyta and the Group.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention.

(c) Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2012, Cyta adopted all of the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS), which are relevant to its operations. The adoption of these Standards did not have a significant effect on the financial statements of Cyta.

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2012:

(i) Standards and Interpretations adopted by the EU

- IFRS 7 (Amendments) ''Financial Instruments Disclosures'' Transfers of Financial Assets (effective for annual periods beginning on or after 1 January 2013).
- IFRS 10 ''Consolidated Financial Statements'' (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 ''Joint Arrangements'' (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 ''Disclosure of Interests in Other Entities'' (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 ''Fair Value Measurement'' (effective for annual periods beginning on or after 1 January 2013).''
- IAS 1 (Amendments) ''Presentation of items of other Comprehensive Income'' (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 (Amendments) ''Employee Benefits'' (effective for annual periods beginning on or after 1 January 2013).

2. BASIS OF PREPARATION (continued)

(i) Standards and Interpretations adopted by the EU (continued)

- IAS 27 (Revised) ''Separate Financial Statements'' (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 (Revised) ''Investments in Associates and Joint ventures'' (effective for annual periods beginning on or after 1 January 2013).
- IAS 32 (Amendments) ''Offsetting Financial Assets and Financial Liabilities'' (effective for annual periods beginning on or after 1 January 2014).
- Improvements to IFRSs 2009-2011 (effective for annual periods beginning on or after 1 January 2013).
- IFRS 1 (Amendments): ''Government Loans'' (effective for annual periods beginning on or after 1 January 2013).
- IFRS 7 (Amendments) ''Financial Instruments: Disclosures'' – ''Disclosures on transition to IFRS 9'' (effective for annual periods beginning on or after 1 January 2015).
- Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective the latest as from the commencement date of its first annual period beginning on or after 1 January 2014).

(ii) Standards and Interpretations not adopted by the EU

- Improvements to IFRSs 2009-2011 (effective for annual periods beginning on or after 1 January 2013).

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the financial statements of Cyta except from:

- The adoption of IFRS 9 which could change the classification and measurement of financial assets. The extent of the impact has not been determined.
- The adoption of the amended IAS 19 will remove the accounting policy choice for recognition of actuarial gains and losses. Additionally, Cyta may need to assess the impact of the change in measurement principles of expected return on plan assets.

(d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRSs requires from Management the exercise of judgment, to make estimates and assumptions that influence the application of accounting principles and the related amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

The estimates and underlying assumptions are revised on a continuous basis. Revisions in accounting estimates are recognised in the period during which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

- **Provision for bad and doubtful debts**
  Cyta reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of irrecoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through the statement of comprehensive income. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

- **Provision for obsolete and slow-moving inventory**
  Cyta reviews its inventory records for evidence regarding the saleability of inventory and its net realizable value on disposal. The provision for obsolete and slow-moving inventory is based on management's past experience, taking into consideration the value of inventory as well as the movement and the level of stock of each category of inventory.

  The amount of provision is recognized in the statement of comprehensive income. The review of the net realisable value of the inventory is continuous and the methodology and assumptions used for estimating the provision for obsolete and slow-moving inventory are reviewed regularly and adjusted accordingly.

- **Income taxes**
  Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Cyta recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Fair value of financial assets**
  The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Cyta uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. The fair value of the financial assets available for sale has been estimated based on the fair value of these individual assets.

- **Impairment of investments in subsidiaries/associates**
  Cyta periodically evaluates the recoverability of investments in subsidiaries/ associates whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries/ associates may be impaired, the estimated future undiscounted cash flows associated with these subsidiaries/associates would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

- **Retirement benefits**
  The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases where necessary. Cyta sets these assumptions based on market expectations at the reporting date using best-estimates for each parameter covering the period over which obligations are to be settled. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

- **Impairment of available-for-sale financial assets**
  Cyta follows the guidance of IAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, Cyta evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

2. BASIS OF PREPARATION (continued)

- **Impairment of intangible asset**
  Intangible assets are initially recorded at acquisition cost and are amortized on a straight line basis over their useful economic life. Intangible assets that are acquired through a business combination are initially recorded at fair value at the date of acquisition. Intangible assets with indefinite useful life are reviewed for impairment at least once per year. The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, Cyta estimates the recoverable amount of the cash generating unit in which the asset belongs to.

- **Valuation of non-listed investments**
  Cyta uses various valuation methods to value non-listed investments. These methods are based on assumptions made by the Board of Directors which are based on market information at the reporting date.

- **Impairment of Goodwill**
  Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units of Cyta on which the goodwill has been allocated. The value in use calculation requires Cyta to estimate the future cash flows expected to arise from the cash-generating units using a suitable discount rate in order to calculate present value.

(e) Functional and presentation currency
The financial statements are presented in Euro (€´000) which is the functional currency of Cyta.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently for all the years presented in these financial statements and in stating the financial position of Cyta.

Subsidiary companies
Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

Associates
Associates are those entities in which the Company has significant influence, but no control over the financial and operating policies. Investments in associates are initially recognised at cost and are accounted for by the equity method. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of Cyta's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Interests in joint ventures
A joint venture is a contractual arrangement whereby Cyta and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control..

Where a group entity undertakes its activities under joint venture arrangements directly, Cyta's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of Cyta's share of the output of jointly controlled assets, and its share of joint

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in joint ventures (continued)

venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from Cyta and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. Cyta reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Cyta's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of Cyta's interest in a jointly controlled entity is accounted for in accordance with Cyta's accounting policy for goodwill arising on the acquisition of a subsidiary. Where Cyta transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of Cyta's interest in the joint venture.

Revenue recognition
Revenue is recognised to the extent that Cyta has delivered goods or rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to Cyta.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable goods and services provided in the normal course of business, net of discounts and sales related taxes. Revenues earned by Cyta are recognised on the following bases:

- **Operating revenue**
  Operating revenue includes revenue from fixed telephony, mobile telephony and other services.

  Cyta principally obtains revenue from providing the following telecommunication services: access charges, airtime usage, messaging, interconnect fees, data services and information provision and terminal equipment sales.

  Revenue for access charges, airtime usage and messaging by contract customers is recognised as services are performed, with unbilled revenue resulting from services already provided accrued at the end of each period and unearned revenue from services to be provided in future periods deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

  Revenue from interconnect fees is recognised at the time the services are performed.

  Revenue from data services and information provision is recognised when Cyta has performed the related service.

  Revenue for device sales is recognised when the device is delivered to the end customer and the sale is considered complete.

  Revenues from subscriber TV services are recognized in the period the services are provided. Revenue from TV services subscriptions relate to monthly subscriptions provided by Cyta. Such revenue is recognised on a gross basis when Cyta is acting as a principal and on a net basis if Cyta is acting as an agent.

- **Commission income**
  Commission income is recognised when the right to receive payment is established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- **Rental income**
  Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

- **Interest income**
  Interest income is recognised on a time-proportion basis using the effective interest method.

- **Dividend income**
  Dividend income is recognised when the right to receive payment is established.

Permanent employee retirement benefit scheme

Cyta operates a defined benefit scheme for its permanent employees. A lump sum amount is specified and is payable at the termination of employees' services based on such factors as the length of the employees' services, their age and salary.

A provision for the contribution to this scheme is made on an annual basis so that adequate reserves are created during the working life of the employees, so that a lump-sum amount is given to them upon the termination of their services.

The cost of the defined benefit scheme is charged in the statement of comprehensive income over the period of the expected service lives of the employees and is estimated annually by independent actuaries, using the projected unit method, in order to create sufficient reserves.

Any surpluses or deficits that may arise from the difference between the expected and actual performance of actuarial assumptions are written off in the statement of comprehensive income over a period equal to the average remaining working life of Cyta's employees, which is currently 17,68 years. The latest actuarial valuation was conducted on 31 December 2012.

Retirement benefit scheme of hourly paid employees

Cyta contributes to the Retirement benefit scheme of hourly paid employees of Cyta for every hourly paid employee that has completed 18 years of life and has 18 months of consecutive employment as partime and/or permanent hourly paid employee. Employees's contribution is at 5% of their monthly salaries and employer's contribution is at 5%. Employer's contribution is charged in the statement of comprehensive income at the reporting period.

Debtors and provisions for bad debts

Bad debts are written off to profit or loss and a specific provision is made, where it is considered necessary. No general provision for bad debts is made. Trade debtors are stated after deducting the specific provision for bad and doubtful debts, if any.

Finance income

Finance income includes interest income which is recognised based on an accrual basis.

Financing expenses

All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions (continued)

Monetary assets and liabilities denominated in foreign currencies are translated into Euro using the rate of exchange ruling at the reporting date. The exchange differences that arise are transferred to the statement of comprehensive income, and are presented separately when considered material, except for exchange differences that arise from the exchange rate movement between foreign currencies and the Euro related to foreign currency loans made for the purpose of hedging the exchange risk in connection with revenues received in the same currency.

These exchange differences are recognised in accordance with ''International Accounting Standard 39: Financial Instruments: Recognition and Measurement'' with the portion of exchange difference related to the effective hedging of foreign currency exchange risk (effective portion) being transferred to a special reserve, and the portion of exchange difference in relation to the ineffective hedging of foreign currency exchange risk (ineffective portion) being recognised in the statement of comprehensive income. The balance of the special reserve is adjusted in accordance with the foreign currency loan balances and the rates of exchange at the end of each year.

Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date. Current tax includes any adjustments to tax payable in respect of previous periods.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Property, plant and equipment

Property, plant and equipment are measured at historic cost less accumulated depreciation and impairment losses.

(a) The cost comprises of the purchase price and any directly attributable costs incurred in bringing the asset to working condition for its intended use.

Self constructed assets are valued individually and include material cost, direct labour and other appropriate costs.

Borrowing costs relating to the acquisition of property, plant and equipment are capitalised in the year that they are incurred.

Expenditure on repairs and renewals is written off in the year it is incurred.

(b) Depreciation on leased property is calculated by equal monthly instalments over the period of the lease with a maximum of 33 years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

(c) Depreciation on prefabricated buildings, which are set on private or leased land, is calculated based on the period of their usage, which is 5 years.

For the remaining fixed assets, depreciation is charged by Cyta to write off the cost less the estimated residual value of the assets by equal annual instalments over their estimated useful lives as follows:

	Years
Freehold buildings	20 - 50
Buildings on leasehold land	3 - 33
Prefabricated buildings	5
Fixed line telephone service equipment	5 - 15
Transmission equipment	5 - 10
Line network	7 - 30
Mobile telephone service network	3 - 10
Security and fire alarm systems	6 - 10
Satellite earth stations	7 - 15
Submarine cables	15
Motor vehicles	7
Office furniture and equipment	8
Terminal equipment and tools	3 - 10
Computer peripherals	3
Mainframe computer and information systems	5
Electromechanical equipment	10
Bundled electronic communication services equipment	5 - 8

No depreciation is provided on land and works of art.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged in the statement of comprehensive income in the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to Cyta. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in the statement of comprehensive income.

In the year of disposal of property, plant and equipment depreciation is charged up until the last month prior to its disposal.

Deferred income

Deferred income represents income receipts which relate to future periods.

Mobile Telephony Licence

Costs that are directly associated with mobile telephony licences that are controlled by Cyta and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently they are carried at cost less any accumulated amortisation and impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mobile Telephony Licence (continued)

The expected useful economic life of the mobile telephony licence is 20 years.

Goodwill
Goodwill on the acquisition of shops is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful lives.

Computer software
Costs that are directly associated with identifiable and unique computer software products controlled by Cyta and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses.

Costs that are directly associated with identifiable and unique computer software products controlled by Cyta and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programmes are recognised as an expense when incurred. Computer software costs are amortised using the straight-line method over their useful lives, not exceeding a period of five years. Amortisation commences when the computer software is available for use and is included within administrative expenses.

The expected useful economic life of computer software ranges from 3 to 7 years.

Financial instruments
Financial assets and financial liabilities are recognised when Cyta becomes a party to the contractual provisions of the instrument.

(i) Trade receivables
Trade receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Amounts receivable in more than one year from the reporting date are classified as non-current assets. Bad debts are written off and a specific provision is made for receivables considered to be doubtful.

(ii) Prepayments from clients
Payments received in advance on sale contracts for which no revenue has been recognised yet, are recorded as prepayments from clients as at the reporting date and carried under liabilities.

(iii) Loans granted
Loans originated by Cyta by providing money directly to the borrower are categorised as loans and are carried at amortised cost.

This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that Cyta will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Loans granted (continued)

and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

(iv) Investments

Cyta classifies its investments in equity and debt securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and available for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every reporting date.

- **Financial assets at fair value through profit or loss**

  This category has two sub-categories: financial assets held for trading and those designated at fair value at inception. A financial asset is classified in the held for trading category if acquired principally for the purpose of generating a profit from short-term fluctuations in price. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months from the reporting date.

  These securities are initially recognised at cost and subsequently re-measured at fair value. Once a financial instrument is classified at fair value through profit and loss account category, it cannot be reclassified out of this category while it is held.

- **Held-to-maturity investments**

  Investments with fixed or determinable payments and fixed maturity that the management has the positive intent and ability to hold to maturity, other than loans and receivables originated by Cyta, are classified as held-to-maturity investments. Such investments are included in non-current assets, except for maturities within twelve months from the reporting date, which are classified as current assets.

  On disposal of such securities, the remaining balance is reclassified to the 'Available for sale' category during the current year and for the next two following accounting periods are stated at fair value.

  The appropriate classification of investments under the above categories is made at the time of acquisition.

  On disposal of an investment, the difference between the net proceeds and the carrying amount stated in the accounts is transferred to the statement of comprehensive income together with any remaining related balance in the revaluation reserves.

- **Available-for-sale financial assets**

  Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

  Regular way purchases and sales of investments are recognised on trade-date which is the date on which Cyta commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and Cyta has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) Investments (continued)

Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and then in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in profit or loss.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Cyta establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs. Equity investments for which fair values cannot be measured reliably are recognised at cost less impairment.

Cyta assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the profit or loss.

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(v) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand.

(vi) Borrowings

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(vii) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- Cyta retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- Cyta has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Inventories

Inventories are stated at the lower of cost and net realisable value.

The principal methods for determining cost are as follows:

(i) Additions are valued at weighted-average cost, which includes purchase cost and other attributable expenses.

(ii) Recoveries of equipment are valued at original cost less accumulated depreciation.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs to completion and selling expenses.

Items of capital nature are capitalised as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when Cyta has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where Cyta expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Non-current liabilities

Non-current liabilities represent amounts that are due in more than twelve months from the reporting date.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. OPERATING REVENUE

	2012 €´000	2011 €´000
Fixed Telephony	95.806	103.444
Mobile Telephony	186.556	201.977
Other Services	169.401	168.561
	451.763	473.982

5. OPERATING EXPENSES

	2012 €´000	2011 €´000
Calls terminated to other networks	11.268	11.698
Supplementary pensions	2.553	2.269
Rent	2.758	2.714
Bad debts written off	-	160
Management Consultancy fees	3.050	4.596
Cost of terminal equipment sold	15.427	9.232
Stationery and printing	784	937
Electricity	14.860	11.580
Maintenance costs	30.943	35.147
Mobile telephony licence fees	3.537	4.733
Leased circuits rentals	5.182	6.255
Outpayments to telecommunication organisations	26.416	32.796
Staff costs	131.222	131.359
Gratuities	6.359	3.600
Advertising expenses	16.573	14.944
Cytavision licences	27.812	23.839
Other expenses	15.621	16.720
Provision for doubtful debts (Note 20)	4.552	2.567
Superannuation fund deficiency (Note 8)	-	56
Pension fund cost (Note 8)	21.143	29.443
Amortisation of intangible assets and goodwill (Note 14)	14.343	16.238
Depreciation (Note 13)	48.529	52.431
	402.932	413.314
Less: Wages and other costs that are capitalised or repayable by third parties	(9.819)	(11.474)
	393.113	401.840

6. OTHER OPERATING EXPENSES

	2012 €´000	2011 €´000
Loss from sale of property, plant and equipment	-	(10)
Write-off of obsolete fixed assets	(1.857)	(7.633
	(1.857)	(7.643)

The amount of write off of obsolete fixed assets includes mainly the removal of equipment from the wireless access network and mobile broadcast network amounting to €1.587.814, the write off of obsolete fixed assets from property, plant and equipment amounting to €616.723 and the decrease in the provision of obsolesce inventories amounting to €351.667.

7. OTHER INCOME

	2012 €´000	2011 €´000
Bad debts recovered previously provided for (Note 20)	123	138
Sundry operating income	4.613	2.198
Gain from sale of property, plant and equipment	161	308
Dividend from subsidiary company	1.881	-
Income from investments	53	51
Rental income	54	-
	6.885	2.695

8. PENSION SCHEMES

(i) Superannuation fund

	2012 €´000	2011 €´000
Superannuation fund deficiency	-	56
Charge for the year	-	56

The fund was set up in order to provide pensions to monthly employees and for this reason, contributions were made by both Cyta and the employees. The fund, which had no active members as at 31 December 2012 operates independently of the finances of Cyta. According to the regulations of the fund, Cyta is liable to contribute to the fund for any deficits that might arise from periodic actuarial valuations.

Cyta is also liable to pay annual amounts, according to actuarial valuations, in order to finance the increases in pensions, after retirement. During 2012, no payments were made given that increases in pensions have been suspended.

(ii) Defined Benefit Plan:

The latest actuarial valuation was carried out as at 31 December 2012. The assets used for the purposes of the actuarial valuation were as extracted from the unaudited accounts of the Pension Fund for the year 2012.

It has been decided that any actuarial surpluses or actuarial deficits that may arise to be written off in the statment of comprehensive income over the average remaining working life of Cyta's employees, which is currently 17,68 years.

8. PENSION SCHEMES (continued)

(ii) Defined Benefit Plan (continued)

Cyta's net asset for retirement benefits in the pension fund is as follows:

	2012 €´000	2011 €´000
Short - term payable obligation to Pension fund (Note 27)	-	(5.674)
Short - term Pension fund asset (Note 21)	-	7.342
Long - term Pension fund asset (Note 21)	24.961	24.398
	24.961	26.066

The fund offers retirement benefits to monthly employees and their dependants. The fund operates independently of the finances of Cyta. According to the regulations of the scheme, Cyta is liable to make contributions to the scheme which are determined by periodic actuarial valuations. The contributions represent a percentage of the pensionable salary of employees-members of the scheme. Additionally, Cyta is liable to contribute to the fund for any deficits which may be indicated by the actuarial valuation.

From October 2011 under the first package of austerity measures, the members of the Pension fund are making contributions amounting to 5%.

The amounts which appears in the statement of financial position regarding retirement benefits that arise from the pension fund are in accordance with the actuarial valuation as at 31 December 2012 for the defined benefit plan and is as follows:

	2012 €´000	2011 €´000
Fair value of fund's assets before coverage of this years deficit	(745.235)	(772.553)
Present value of funded obligations	639.567	729.582
	(105.668)	(42.971)
Unrecognised actuarial gains/ (losses)	90.214	35.920
Unrecognised transitional liability	(9.507)	(19.015)
Net asset in statement of financial statements	(24.961)	(26.066)

The amounts which appear in the statement of comprehensive income regarding retirement benefits that arise from the pension scheme are in accordance with the actuarial valuation as at 31 December 2012 for the defined benefit plan and are as follows:

	2012 €´000	2011 €´000
Current service cost	13.801	19.118
Amortisation of actuarial loss recognised in the year	(2.165)	818
Scheme transitional liability	9.507	9.507
Cost recognised in operating expenses (Note 5)	21.143	29.443
Interest cost (Note 10)	36.046	36.757
Expected return on assets (Note 10)	(35.536)	(37.087)
Expense recognised in statement of comprehensive income	21.653	29.113

8. PENSION SCHEMES (continued)

Movements in net asset in statement of financial position:

	2012 €´000	2011 €´000
Net asset in statement of financial statements at the beginning of the period	(26.066)	(32.175)
Actual Contributions paid by Cyta	(20.548)	(18.764)
Payment to the Pension fund regarding actuarial losses of 2009	-	(4.240)
Total expense recognised in the statement of comprehensive income	21.653	29.113
Net asset in statement of financial statements	(24.961)	(26.066)

Changes to the present value of the retirement benefit obligation during the year:

	2012 €´000	2011 €´000
Current retirement obligation at the beginning of the year	729.582	768.513
Current service cost	13.801	19.118
Interest cost (Note 10)	36.046	36.757
Contributions by participants	4.252	1.592
Net benefits paid out from Pension fund	(29.313)	(28.038)
Actuarial gains	(114.801)	(68.360)
Retirement benefit obligation at the end of the year	639.567	729.582

Changes to the fair value of plan assets during the year:

	2012 €´000	2011 €´000
Fair value of the fund's assets at the beginning of the year	772.553	768.513
Expected return on Pension fund assets (Note 10)	35.536	37.087
Contributions by the employer	20.548	18.764
Contributions by participants	4.252	1.592
Net benefits paid out by the scheme	(29.313)	(28.038)
Payment to the Pension fund regarding actuarial losses of 2009	-	4.240
Actuarial losses	(58.341)	(29.605)
Fair value of the fund's assets at the end of the year	745.235	772.553

Actual return on Plan assets:

	2012 €´000	2011 €´000
Expected return on plan assets	35.536	37.087
Actuarial losses on assets	(58.341)	(29.605)
	(22.805)	7.482

8. PENSION SCHEMES (continued)

The principal actuarial assumptions used for the actuarial valuation were:

	2012 €´000	2011 €´000
Discount Rate	3,58%	5,02%
Price Inflation	2,00%	2,00%
Expected return on investments	3,58%	4,54%
Total Salary Increases	2013-2016 : 0,00%	2012/2013 : 2,00%
	2017+ : 3,50%	2013+ : 5,25%
Pension increases	2013-2016 : 0,00%	2012/2013 : 0,00%
	2017+ : 1,50%	2013+ : 3,00%
Increase on Maximum Insurable Earnings Limit	3,00%	3,00%
Mortality	EVK 2000	EVK 2000

Assumptions regarding current year's future mortality rates are according to the table EVK 2000, which is based on the mortality rates in Switzerland.

On 16 June 2011, the International Accounting Standards Board (IASB) issued amendments to International Accounting Standard 19 'Employee Benefits' that overhaul employee benefit accounting under International Financial Reporting Standards (IFRS).

These amendments will come into effect for periods starting on or after 1 January 2013.

One major change, which will affect the estimated P&L charge for FY2013, is the fact that the interest cost and expected return on assets will be replaced with a net interest charge. Net interest will be determined by applying the discount rate to the balance sheet asset or liability. This is a significant change of the International Accounting Stanard 19 'Employee Benefits' from the previous version as reference will no longer be made to the expected return on plan assets.

The estimated regular statement of comprehensive income charge for the financial year 2013 as per the amended IAS 19 is as follows:

Expected statement of comprehensive income charge for 2013	€´000
Current service cost	4.207
Net interest charge	(4.123)
Total	84

The actual statement of comprehensive income charge will remain unknown until the end of the year, where any potential additional costs will be determined.

(iii) Provident fund of Hourly paid employees

The provident fund of Hourly paid employees was established on the 14th of October 2008. Participant is every hourly paid employee that has completed 18 years of life and has 18 months of consecutive employment as part time and/or permanent hourly paid employee. Employees's contribution is at 5% of their monthly salaries and employer's contribution is at 5%. Employer's contribution in the year 2012 amounted to €258.884 (2011: €208.420).

9. OPERATING PROFIT

	2012 €´000	2011 €´000
Operating profit from operating activities is stated after charging the following items:		
Profit from sale of property, plant and equipment (Note 7)	(161)	(297)
Amortisation of mobile telephony license (Note 14)	1.089	1.089
Amortisation of computer software (Note 14)	13.236	15.130
Amortisation of goodwill (Note 14)	18	18
Depreciation of property, plant and equipment (Note 13)	48.529	52.431
Independent auditors' remuneration	30	30

10. FINANCE INCOME AND EXPENSES

	2012 €´000	2011 €´000
Interest income	11.681	11.454
Expected return on Pension fund assets	35.536	37.087
Exchange profit	1.092	1.813
Effective interest rate on held to maturity investments	170	14
Finance income	48.479	50.368
Net foreign exchange transaction losses	1.568	1.595
Bank charges and other interest	386	517
Interest expense on pension fund liabilities	36.046	36.757
Finance expenses	38.000	38.869
Net finance income	10.479	11.499

Interest revenue is analysed as follows:

	2012 €´000	2011 €´000
Bank deposits	9.325	9.708
Other loans and receivables	182	107
Held-to-maturity investments	2.174	1.639
	11.681	11.454

11. NET LOSS FROM INVESTING ACTIVITIES

	2012 €´000	2011 €´000
Impairment charge - investments in subsidiaries	(20.949)	(688)
	(20.949)	(688)

During the year ended 31 December 2012, Cyta has impaired its investment in Digimed Communications Limited by €20.948.970. The impairment was due to the continuing negative financial performance of the company that had as a result the reduction of its net assets relative to the initial cost of the investment.

12. TAXATION

	2012 €´000	2011 €´000
Corporation tax - current for the year	4.504	7.796
Defence contribution - current for the year	1.727	1.574
Property tax - prior years	131	65
Deferred tax - charge/(credit) (Note 26)	987	(1.000)
Charge for the year	7.349	8.435

Reconciliation of taxation based on the taxable income and taxation based on accounting profits:

	2012 €´000	2011 €´000
Accounting profit before tax	47.624	81.717
Tax calculated at the applicable tax rates	4.762	8.172
Tax effect of expenses not deductible for tax purposes	11.194	7.638
Tax effect of allowances and income not subject to tax	(11.321)	(7.974)
Defence contribution - current year	1.727	1.574
Deferred tax	987	(1.000)
Prior year taxes	-	(40)
Property tax	131	65
Tax charge	7.349	8.435

Cyta profits are subject to income tax at the rate of 10%. On 18 April 2013 legislation was enacted by the House of Representatives to increase the corporate tax from 10% to 12.5% with effect from 1 January 2013.

In addition, 75% of the gross rents receivable are subject to defence contribution at the rate of 3%.

Under certain conditions interest income may be subject to defence contribution at the rate of 15% (30% from 18 April 2013). In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to 30 August 2011and 17% thereafter).

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Assets under construction	Buildings on leasehold land
	€´000	€´000	€´000
Cost			
Balance at 1 January 2011	83.294	50.850	2.685
Additions	1.344	7.375	-
Disposals/Withdrawals	(181)	-	-
Transfers	-	(5.544)	-
Balance at 31 December 2011	84.457	52.681	2.685
Balance at 1 January 2012	84.457	52.681	2.685
Additions	648	6.358	318
Disposals/Withdrawals	(261)	-	-
Transfers	62	(23.082)	24
Balance at 31 December 2012	84.906	35.957	3.027
Depreciation			
Balance at 1 January 2011	29.053	-	1.596
Depreciation for the year (Note 9)	2.145	-	97
On disposals/ withdrawals	(19)	-	-
Transfers	-	-	-
Balance at 31 December 2011	31.179	-	1.693
Balance at 1 January 2012	31.179	-	1.693
Depreciation for the year (Note 9)	2.146	-	115
On disposals / withdrawals	(180)	-	-
Balance at 31 December 2012	33.145	-	1.808
Carrying amounts			
Balance at 31 December 2012	51.761	35.957	1.219
Balance at 31 December 2011	53.278	52.681	992

(a) Assets in occupied areas
Fixed assets include assets situated in areas currently occupied by the Turkish invasion forces which are not accessible by Cyta. Cyta is not in a position to ascertain the present state of these assets. Full provision has been made for assets and reserves situated in the occupied areas.

(b) Land
Certain plots of land amounting to €261.315 (2011: €261.315) included in the financial statements, were in the course of being registered in the name of Cyta at the year end.

Telecommunication plant and equipment	Motor vehicles	Furniture, fixtures and office equipment	Computer hardware and systems	Total
€´000	**€´000**	**€´000**	**€´000**	**€´000**
1.005.062	12.056	6.402	31.028	1.191.377
51.847	42	323	2.835	63.766
(47.485)	(39)	-	(2.402)	(50.107)
4.508	-	-	101	(935)
1.013.932	12.059	6.725	31.562	1.204.101
1.013.932	12.059	6.725	31.562	1.204.101
43.355	241	204	1.751	52.875
(42.883)	(75)	(14)	(594)	(43.827)
16.022	-	-	136	(6.838)
1.030.426	12.225	6.915	32.855	1.206.311
728.714	9.420	5.304	27.542	801.629
46.994	768	274	2.153	52.431
(30.030)	(23)	-	(2.365)	(32.437)
(56)	-	-	56	-
745.622	10.165	5.578	27.386	821.623
745.622	10.165	5.578	27.386	821.623
43.857	453	243	1.715	48.529
(32.591)	(57)	(2)	(592)	(33.422)
756.888	10.561	5.819	28.509	836.730
273.538	1.664	1.096	4.346	369.581
268.310	1.894	1.147	4.176	382.478

14. INTANGIBLE ASSETS AND GOODWILL

	Mobile Telephony Licence €´000	Computer software €´000	Goodwill €´000	Total €´000
Cost				
Balance at 1 January 2011	22.388	219.887	164	242.439
Additions	-	8.215	-	8.215
Disposals / Withdrawals	-	(644)	-	(644)
Transfers	-	935	-	935
Balance at 31 December 2011	22.388	228.393	164	250.945
Balance at 1 January 2012	22.388	228.393	164	250.945
Additions	-	11.838	-	11.838
Transfers	-	6.838	-	6.838
Disposals / Withdrawalsς	-	(7.511)	-	(7.511)
Balance at 31 December 2012	22.388	239.558	164	262.110
Amortisation				
Balance at 1 January 2011	8.228	194.612	18	202.858
On disposals / withdrawals	-	(643)	-	(643)
Amortisation for the year (Note 9)	1.089	15.130	18	16.237
Balance at 31 December 2011	9.317	209.099	36	218.452
Balance at 1 January 2012	9.317	209.099	36	218.452
On disposals / withdrawals	-	(7.481)	-	(7.481)
Amortisation for the year (Note 9)	1.089	13.236	18	14.343
Balance at 31 December 2012	10.406	214.854	54	225.314
Carrying amounts				
Balance at 31 December 2012	11.982	24.704	110	36.796
Balance at 31 December 2011	13.071	19.294	128	32.493

15. INVESTMENTS IN SUBSIDIARIES

	2012 €´000	2011 €´000
Balance at 1 January	101.072	91.760
Additions	30.000	10.000
Impairment charge	(20.949)	(688)
Balance at 31 December	110.123	101.072

The details of the subsidiaries are as follows:

Name	Country of incorporation	Holding 2012 %	Holding 2011 %	2012 €´000	2011 €´000
Digimed Communications Limited	Cyprus	100	100	110.123	101.072
				110.123	101.072

Digimed Communications Limited, a company registered in Cyprus, is a wholly owned subsidiary of Cyta. The principal activity of the company is the conduct of telecommunication projects.

During the year ended 31 December 2012, Cyta has impaired its investment in Digimed Communications Limited by €20.948.970. The impairment was due to the continuing negative financial performance of the company that had as a result the reduction of its net assets relative to the initial cost of the investment.

16. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	2012 €´000	2011 €´000
Balance at 1 January	1.480	1.480
Balance at 31 December	1.480	1.480

The details of the investments are as follows:

Name	Country of incorporation	Principal activities	Holding 2012 %	Holding 2011 %	2012 €´000	2011 €´000
Cyta Hellas A.E.	Greece	Broadband Services	3,84	4,59	1.480	1.480
					1.480	1.480

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012 €´000	2011 €´000
Balance at 1 January	2.587	2.248
Reclassification from held to maturity investments (Note 18)	3.337	-
Fair value change through reserves	(2.167)	339
Balance at 31 December	3.757	2.587

Financial assets available for sale consist of:

(i) Cyta holds 75.815 shares of nominal value 1 Euro each in Eutelsat Communications. The company is listed in the Paris Stock Exchange Euronext. The total value of Cyta's investment at 31 December 2012 was €1.902.957 (2011: €2.285.822).

(ii) Cyta holds 150.909 shares of nominal value 0,01 US dollars each in Pendrell Corporation (formerly known ICO Global Communications (Holdings) Limited). The company is listed in the NASDAQ stock exchange. The total value of Cyta's investment at 31 December 2012 was 386.327 US dollars (€145.657) (2011: €300.480).

(iii) Cyta holds 3.417.202 non-cumulative convertible capital securities of nominal value 1 Euro each in Hellenic Bank (CSE ISIN: HBCCS). The securities are listed on the Cyprus Stock Exchange. The fair value of the securities using the discounted cash flow method as at December 31 2012 was €1.708.601.

Available-for-sale financial assets, comprising principally marketable equity securities, are fair valued annually at the close of business on 31 December. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices. For other investments, fair value is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying assets.

Available-for-sale financial assets are classified as non-current assets, unless they are expected to be realised within twelve months of the balance sheet date or unless they will need to be sold to raise operating capital.

On 1 January 2012, Cyta reclassified its non-cumulative convertible capital securities in Hellenic Bank with a value of € 3.337.322 from held to maturity category to available for sale financial assets, complying with the provisions of amended IAS 39, and taking into consideration the new terms of the underlying securities which do not provide for expiration date.

	Carrying amounts		Fair values	
	2012 €´000	2011 €´000	2012 €´000	2011 €´000
Held-to-maturity investments which reclassified to available-for-sale financial asset	1.709	3.337	1.709	2.119

For the year ended 31 December 2012, regarding the investments held to maturity reclassified as financial assets available for sale, the statement of other comprehensive income includes fair value losses amounting to €1.628.720.

18. HELD-TO-MATURITY INVESTMENTS

	2012 €´000	2011 €´000
Balance at 1 January	39.432	44.666
Additions	28.031	13.803
Matured bonds	(22.276)	(19.051)
Reclassification to available for sale financial assets (Note 17)	(3.337)	-
Effective interest rate on held to maturity investments	170	14
Balance at 31 December	42.020	39.432

	Fair values 2012 €´000	Cost 2011 €´000	Fair values 2012 €´000	Cost 2011 €´000
Government bonds	34.333	34.142	36.095	36.077
Hellenic Bank Public Company Ltd bonds	-	-	3.337	3.417
Cyta Hellas debentures	7.687	7.687	-	-
	42.020	41.829	39.432	39.494

Bonds maturing:	2012 €´000	2011 €´000
Within one year	-	22.276
Between two and five years	42.020	17.156
Total	42.020	39.432

Held to maturity investments consists of:

(i) Cyta holds Cyprus government bonds of nominal value €20.830.000 maturing on 4 January 2015, with a nominal value of €5.000.000 maturing on 25 February 2016 and with a nominal value of €9.000.000 maturing on 9 June 2016. The total cost to Cyta of the above mentioned bonds amounts to €34.142.358.

(ii) On 4 December 2012, Cyta signed a contract amounting to €55 million between its subsidiary, Cyta Hellas, to finance its partly operations and business needs. In return Cyta Hellas will issue convertible bonds with a repayment period from 30 June 2015 until 31 December 2022. The bonds bear an annual interest of 3-month Euribor plus 4%. On 31 December 2012, Cyta purchased 7 convertible bonds at their nominal value of €1.098.170 each repayable by 30 June 2016.

The above purchase of convertible bonds of Cyta Hellas was made without the prior written approval of the Council of Ministers as required by the provisions of section 18 of the Telecommunications Service Law, (Cap.302). Cyta was acted within the framework agreed with the Ministry of Finance, which included their commitment of obtaining all the necessary approvals from the Council of Ministers, which was repeatedly informed with many letters sent from the President of the Board of Directors for all the actions taken from Cyta.

Acquisition and disposal of held-to-maturity investments are recognised on the trade date, which is the date that Cyta is commited to Acquire or dispose the asset. The cost of the acquisition includes transactions costs. The investments are subsequently carried at amortised cost using the effective yield method.

Investments held-to-maturity are classified as non-current assets, unless they mature within twelve months from the balance sheet date or unless they will need to be sold to raise operating capital.

19. LOANS RECEIVABLE

	2012 €´000	2011 €´000
Loans receivable	2.769	3.061
	2.769	3.061
Current portion	(777)	(779)
Non-current portion	1.992	2.282

The fair values of non-current receivables approximate to their carrying amounts as presented above.

Loans receivable relate to loans to staff that were provided interest free and are repayable monthly over seven years.

20. TRADE AND OTHER RECEIVABLES

	2012 €´000	2011 €´000
Trade receivables	106.195	101.147
Overseas telecommunication organisations	3.023	2.201
Less: Provision for impairment of receivables	(12.793)	(9.499)
Trade receivables - net	96.425	93.849
Receivables from related companies (Note 29)	11.821	15.309
Deposits and prepayments	15.354	11.601
Receivables for repayment work in progress	2.090	2.475
Other receivables	5.379	4.798
Less: Provision for impairment of other receivables	(2.917)	(3.129)
	128.152	124.903

Concentrations of credit risk with respect to trade receivables are limited due to Cyta's large number of customers who have a variety of end markets in which they sell. Cyta's historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collections losses is inherent in Cyta's trade receivables.

Movement in provision for impairment of receivables:

	2012 €´000	2011 €´000
Balance at 1 January	(12.628)	(20.209)
Impairment losses recognised on receivables (Note 5)	(4.552)	(2.567)
Amount written off as uncollectible	1.593	10.286
Bad debts recovered previously provided for (Note 7)	(123)	(138)
Balance at 31 December	(15.710)	(12.628)

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

21. OTHER ASSETS

	2012 €´000	2011 €´000
Pension Scheme - Non-current portion	24.961	24.398
Pension Scheme - Current portion	-	7.342
Pension scheme asset (Note 8)	24.961	31.740

22. TREASURY BILL - 13 WEEKS

	2012 €´000	2011 €´000
Balance at 1 January	-	-
Additions	100.704	-
Balance at 31 December	100.704	-

The 13-week Treasury Bill was issued by the Republic of Cyprus. On 9 July 2012, the Board of Directors of Cyta decided to participate in the issuance of Treasury Bills on 12 July 2012 through a private placement. The Treasury Bill bears annual interest of 5%. On maturity date on 11 October 2012, the Board of Directors of Cyta renewed it with expiring date on 10 January 2013. On 10 January 2013, the Board of Directors of Cyta renewed the Treasury Bill again with expiring date on 11 April 2013. On 11 April 2013, Cyta further renewed the Treasury Bill which now expires on 18 July 2013. The accrued interest from July 2012 up until January 2013 was repaid while the accrued interest for the period from 10 January 2013 up until 11 April 2013 has been capitalized.

Treasury bills amounting to €100.703.747 were put as collateral for the issuance of guarantee from Laiki Bank to Cyta's Pension fund in order to facilitate the purchase of Treasury Bills amounting to €100million from the Pension fund.

23. CASH AND CASH EQUIVALENTS

	2012 €´000	2011 €´000
Cash at bank and in hand	161.337	242.309
	161.337	242.309

Cash at bank and in hand include commitments amounting to €70,7 million. Specifically, these guarantees relate to €42,8 million for loans to Cyta Hellas, €5,1 million for guarantees given to OTE on behalf of Cyta Hellas, €7,1 million for contracts of Cyta with UEFA and €15,7 million for low-interest loans given to Cyta employees from Cyta Employees Cooperative Savings bank.

24. OTHER RESERVES

	Fair value reserve - available-for-sale financial assets
	€´000
Balance at 1 January 2011	2.097
Revaluation	339
Balance at 31 December 2011	2.436
Balance at 1 January 2012	2.436
Revaluation	(2.167)
Balance at 31 December 2012	269

The fair value reserve for investments represents accumulated gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

25. LONG TERM LOANS AND BORROWINGS

	2012	2011
	€´000	€´000
Short term portion of long-term loans		
Loans from foreign financial institutions	341	343
Non current borrowings		
Loans from foreign financial institutions	386	723
Total	727	1.066

Maturity of non-current borrowings :

	2012	2011
	€´000	€´000
Between one to two years	338	338
Between two and five years	48	385
	386	723

The loans from foreign financial institutions are repayable between the years 2012 and 2015 and bear interest ranging from 2% to 11.62% per annum.

26. DEFERRED TAX

The movement on the deferred taxation account is as follows:

Deferred tax liability

	Accelerated tax depreciation €´000
Balance at 1 January 2011	6.749
Charged / (credited) to:	
Statement of comprehensive income (Note 12)	(1.000)
Balance at 31 December 2011	5.749
Balance at 1 January 2012	5.749
Charged / (credited) to:	
Statement of comprehensive income (Note 12)	987
Balance at 31 December 2012	6.736

Deferred tax is calculated in full on all temporary differences under the liability method using the applicable tax rates (Note 12).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

27. TRADE AND OTHER PAYABLES

	2012 €´000	2011 €´000
Trade payables	10.743	10.554
Overseas telecommunication organisations	5.682	7.081
Foreign suppliers	9.270	10.958
Prepayments from clients	5.092	5.634
Pension scheme and superannuation fund (Note 8)	-	5.674
Social insurance and other taxes	6.256	4.686
V.A.T.	17.120	9.344
Guarantees payable	20.254	-
Accruals	16.742	11.816
Other creditors	6.491	7.792
Deferred Income	8.252	9.103
Amounts payable to subsidiaries and other group companies (Note 29)	964	4.141
	106.866	86.783

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above. The exposure of Cyta to liquidity risk in relation to financial instruments is reported in note 34 of the financial statements.

28. (REFUNDABLE) TAX

	2012 €´000	2011 €´000
Corporation tax - receivable	(1.383)	113
Special contribution for defence - payable	7	-
	(1.376)	113

29. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on commercial terms and conditions, and relate to the provision of supporting services.

(i) Key management personnel compensation
The compensation of key management personnel is as follows:

	2012 €´000	2011 €´000
Salaries and other benefits	954	758
	954	758

(ii) Directors' remuneration
The total remuneration of the Directors (included in key management personnel compensation above) was as follows:

	2012 €´000	2011 €´000
Emoluments in their executive capacity	31	36
	31	36

(iii) Sales of goods and services

	2012 €´000	2011 €´000
Cyta (UK) Limited	92	20
Cyta Hellas A.E.	3.460	2.439
Cytacom Solutions Limited	989	61
Digimed Communications Limited	45	37
Bestel Communications Limited	1	2
Cyta Global Hellas S.A.	139	343
Emporion Plaza Limited	450	358
Iris Gateway Satellite Services Limited	223	99
	5.399	3.359

Sales to Bestel Communications Limited were made on commercial terms and conditions. Sales to the other related companies were made at cost.

29. RELATED PARTY TRANSACTIONS (continued)

(iv) Purchases of goods and services

	2012 €´000	2011 €´000
Cyta (UK) Limited	326	351
Cyta Hellas S.A.	26	17
Cytacom Solutions Limited	-	586
Digimed Communications Limited	134	127
Cyta Global Hellas S.A.	497	58
Emporion Plaza Limited	265	156
Iris Gateway Satellite Services Limited	210	129
	1.458	1.424

Purchases from related companies were made on commercial terms and conditions.

(v) Receivables from related companies (Note 20)

Name	2012 €´000	2011 €´000
Digimed Communications Ltd	392	5.457
Cytacom Solutions Limited	2.633	3.166
Emporion Plaza Ltd	-	35
Iris Gateway Satellite Services Limited	401	170
Bestel Communications Limited	-	2
Cyta (UK) Limited	172	124
Cyta Global Hellas S.A.	67	64
Cyta Hellas S.A.	8.156	6.291
	11.821	15.309

(vi) Payables to related companies (Note 27)

Name	2012 €´000	2011 €´000
Digimed Communications Limited	55	1.640
Cytacom Solutions Limited	106	665
Emporion Plaza Limited	52	62
Iris Gateway Satellite Services Limited	448	152
Cyta Global Hellas S.A.	216	120
Cyta (UK) Limited	49	146
Bestel Communications Limited	-	1
Cyta Hellas S.A.	38	1.355
	964	4.141

30. PENALTIES (IMPOSED) / CANCELLED

During the year ended 31 December 2012, the following penalties have been imposed/reassessed to CYTA:

	Note	2012 €´000	2011 €´000
Netsmart (Cyprus) Limited	1	(637)	-
Golden Telemedia Ltd	2	(390)	-
The Performing Right Society Ltd	3	(247)	-
Thunderworx Ltd	4	(960)	-
Thunderworx Ltd	5	(130)	-
Primetel Public Company Ltd	6	(2.151)	-
Cyprus Radiotelevision Authority	7	(34)	-
Cyprus Radiotelevision Authority	8	(740)	-
Primetel Public Company Ltd	9	(295)	-
Netsmart (Cyprus) Limited	10	-	1.361
Thunderworx Limited	11	-	1.969
Callsat Telecom Limited	12	-	222
Commission for the protection of competition (C.P.C)	13	-	85
Thunderworx Limited	14	-	75
		(5.584)	3.712

1. On 11 September 2012, Commission for the Protection of Competition ("CPC") imposed a fine to Cyta amounting to €637.112 after it reviewed the complaint lodged by Netsmart (Cyprus) Ltd regarding Cyta's failure to supply to it of the necessary infrastructure and services to operate in the retail market messaging inflated prices (premium sms mt). The fine which was imposed and paid before CPC review the complaint amounted to €1.360.707.

2. On 3 September 2012, CPC imposed a fine to Cyta amounting to €390.000 after a complaint lodged from Golden Telemedia Ltd regarding Cyta's refusal to provide access to services to So-easy users.

3. On 15 May 2012, Cyta paid a fine of €247.202 to The Performing Right Society Ltd for proceedings involving licensing of musical compositions television content showed by Cytavision. For the underlying amount, Cyta has exchanged a letter of guarantee in case that the appeal is successful.

4. On 8 October 2012, CPC imposed a fine to Cyta amounting to €960.000 after a complaint lodged from Thunderworx Ltd in connection with the termination of the company Thunderworx Ltd for failure to supply to it of the necessary infrastructure and services to operate in the retail market messaging inflated prices (premium sms mt). The fine which was imposed and paid before CPC review the complaint amounted to €1.968.745.

5 On 8 October 2012, CPC reviewed the complaint from Thunderworx Ltd in connection with termination for premium sms and imposed a fine of €130.000. The fine which was imposed and paid before CPC review the complaint amounted to €75.000.

6. On 10 December 2012, CPC imposed a fine to Cyta amounting to €2.150.680, after a complaint lodged from Primetel Co Ltd in connection with the reduction in retail prices for i-choice services and miVision services with effect from 1 June 2005 as well as the periodic offerings of Cyta for the underlying products.

7. On 20 June 2012, Cyprus Radiotelevision Authority ("CRA") imposed an administrative fine to Cyta amounting to €34.000 for infringement of Article 21(1) of the Radio and Television Stations Law 7(I) of 1998.

30. PENALTIES (IMPOSED) / CANCELLED (continued)

8. On 31 October 31 2012, CRA imposed an administrative fine to Cyta amounting to €739.500 for violation of Article 21(1) of the Radio and Television Stations Law 7(I) of 1998. On 4 December 2012, Cyta informed CRA that the amount will be paid once the supplementary budget of Cyta is approved by the House of Representatives.

9. On 25 January 2013, CPC imposed a fine to Cyta amounting to €295.277, after a complaint lodged from Primetel Public Company Ltd in connection with unfair charges for the purchase of capacity on submarine cable system Yeroskipou to London.

10. An amount of €1.360.707 in relation to the complaint lodged by Netsmart (Cyprus) Ltd for failure to supply to it of the necessary infrastructure and services to operate in the retail market messaging inflated prices (premium sms mt).

11. An amount of €1.968.745 in connection with the termination of the company Thunderworx Ltd for failure to supply to it of the necessary infrastructure and services to operate in the retail market messaging inflated prices (premium sms mt).

12. An amount of €222.118 in relation to termination of Callsat Telecom Ltd for lease International Private Leased Lines for 2000-2003.

13. An amount of €85.430 in connection with the wholesale end of narrowband Internet access.

14. An amount of €75.000 in connection with termination of Thunderworx Ltd for premium sms.

31. DIVIDEND PAID TO THE CYPRUS GOVERNMENT

	2012 €´000	2011 €´000
Dividend paid	36.650	60.000
	36.650	60.000

Since 15 November 2011 Telecommunications Services (Amended) Law of 2011 article 17A has been amended and provides that Cyta should not pay a dividend of more than half of prior financial year's profit after tax.

The amount of the dividend, as well as the timing of the payment, are determined by the Board of Ministers, after a relevant decision by the Minister of Finance, which is taken after a discussion with Cyta's Board of Directors.

During the year 2012 an amount of €36.650.000 was paid to the Cyprus Government Treasury, following the Council of Ministers ('the Cabinet') decision on 26 June 2012, according to the Telecommunication Services Law Amendment as amended with the Telecommunication Services Law of 2006 (section 117 (I)/2006).

The amount of dividend for 2012 was set after taking into account the surplus for the financial year 2011, the reserves at the end of the 2011 financial year, as well as the other provisions of the amended Telecommunications Services Law in relation to Cyta's liquidity, its ability to pay the amount set, the safeguard of its future investments, its contractual and other commitments and the repayment of the pension scheme deficit.

32. CONTRACTUAL COMMITMENTS

Contractual Commitments in respect of capital expenditure as at 31 December 2012 not provided for in the financial statements, amounted to €16.243.589 (2011: €26.580.069) of which €21.051 (2011: €151.218) is payable in foreign currencies. Foreign currency amounts have been converted into euros at the rates of exchange prevailing at the end of the year.

The entire amount of contractual commitments at 31 December 2012 will be repaid on completion of the relevant projects within 2013 except for the amount of €363.981 which will be repaid in later periods.

33. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financials assets that are neither past due nor impaired is assessed by reference to the reports of the external credit rating agency Moody's (if applicable):

	2012	**2011**
Cash and cash equivalent	**€´000**	**€´000**
B1	-	91.871
B2	-	73.917
B3	-	3.646
Caa2	89.613	-
Non Assessed	71.724	72.875
	161.337	242.309

34. FINANCIAL RISK MANAGEMENT

Financial risk factors

Cyta is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Compliance risk
- Litigation risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Cyta's risk management policies are established to identify and analyse the risks faced by Cyta, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Cyta's activities.

(i) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. Cyta has no significant concentration of credit risk. Cyta has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and Cyta has policies to limit the amount of credit exposure to any financial institution.

34. FINANCIAL RISK MANAGEMENT (continued)

Financial risk factors (continued)

(i) Credit risk (continued)

Trade and other receivables

Cyta's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Cyta establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2012 €´000	2011 €´000
Available-for-sale financial assets	3.757	2.587
Held-to-maturity investments	42.020	39.432
Trade and other receivables	115.669	110.621
Receivables from related companies	11.821	15.309
Treasury bill - 13 weeks	100.704	-
	273.971	167.949

(ii) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Cyta has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2012	Carrying amounts €´000	Contractual cash flows €´000	3-12 months €´000	1-5 years €´000
Loans from foreign financial institutions	727	779	393	386
Trade and other payables	89.160	90.882	90.882	-
Payables to related companies	964	964	964	-
	90.851	92.625	92.239	386

31 December 2011	Carrying amounts €´000	Contractual cash flows €´000	3-12 months €´000	1-5 years €´000
Loans from foreign financial institutions	1.066	1.126	370	756
Trade and other payables	69.790	69.790	69.790	-
Payables from related companies	4.141	4.141	2.641	1.500
	74.997	75.057	72.801	2.256

34. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity prices will affect Cyta's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose Cyta to cash flow interest rate risk. Borrowings issued at fixed rates expose Cyta to fair value interest rate risk. Cyta's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Any difference in interest rates, will not have a material effect on equity and statement of comprehensive income.

At the reporting date the interest rate profile of interest- bearing financial instruments was:

	2012 €´000	2011 €´000
Variable rate financial instruments	727	1.066
Financial liabilities	727	1.066

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not Cyta's measurement currency. Cyta is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar. Cyta's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Cyta's exposure to foreign currency risk was as follows:

31 December 2012	United States Dollars €´000	United Kingdom Pounds €´000	Other currencies €´000
Assets	4.338	195	2.363
Trade and other receivables	156	-	-
Bank deposits	146	-	-
Investments	4.640	195	2.363
Liabilities	(2.026)	(44)	(1.997)
Trade and other payables	(2.026)	(44)	(1.997)
Net exposure	2.614	151	366

31 December 2011	United States Dollars €´000	United Kingdom Pounds €´000	Other currencies €´000
Assets	8.935	158	5
Trade and other receivables	98	-	-
Bank deposits	300	-	-
Investments	9.333	158	5
Liabilities	(1.273)	(140)	(4.198)
Trade and other payables	(1.273)	(140)	(4.198)
Net exposure	8.060	18	(4.193)

34. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk (continued)

Sensitivity analysis

A 10% strengthening of the Euro against the following currencies at 31 December 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the Euro against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Statement of comprehensive income	
	2012	**2011**
	€´000	**€´000**
United States Dollars	261	806
United Kingdom Pounds	15	2
Other currencies	37	419
	313	1.227

(iv) Operational risk

The Cyprus economy has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets. During 2012 there was a considerable tightening of financing availability from Cypriot financial institutions, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy. In addition, following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets has been significantly affected.

The Cyprus Government entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund (the ''Troika''), in order to obtain financial support. The negotiations resulted in an agreement and decision of the Eurogroup on 25 March 2013 on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to the Republic of Cyprus of up to €10 billion. The programme aims to address the exceptional economic challenges that Cyprus is facing, and to restore the viability of the financial sector, with a view to restoring sustainable economic growth and sound public finances in the coming years.

The Eurogroup decision on Cyprus includes plans for the restructuring of the financial sector and safeguards deposits below 100.000 in accordance with European Union legislation. In addition, the Cypriot authorities have reaffirmed their commitment to step up efforts in the areas of fiscal consolidation, structural reforms and privatizations. The Eurogroup requested the Cypriot authorities and the European Commission, in liaison with the European Central Bank and the International Monetary Fund, to finalize the relevant Memorandum of Understanding in April 2013, which will then be followed by the formal approval of the Board of Directors of the European Stability Mechanism as well as by the ratification by Eurozone member states through national parliamentary (or equivalent) approval.

On 22 March 2013 legislation was enacted by the House of Representatives concerning restrictive measures in respect of transactions executed through the banking institutions operating in Cyprus. The extent and duration of the restrictive measures are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and were enforced on 28 March 2013. Cyta's management is monitoring the developments in relation to these capital controls and is assessing the implications on Cyta's operations.

On 12 April 2013 the Eurogroup welcomed the agreement that has been reached between Cyprus and the Troika institutions regarding the macroeconomic adjustment programme for Cyprus, and stated that the necessary elements were in place to launch the relevant national procedures required for the formal approval of the European Stability Mechanism financial assistance facility agreement.

34. FINANCIAL RISK MANAGEMENT (continued)

(iv) Operational risk (continued)

The uncertain economic situation in Cyprus, the unavailability of financing, the impairment loss incurred on bank deposits and the imposition of the abovementioned restrictive measures together with the current instability of the banking system and the anticipated overall economic recession, could affect:

1. The ability of Cyta's trade and other debtors to repay the amounts due to Cyta and
2. The cash flow forecasts of Cyta's management in relation to the impairment assessment for financial and non-financial assets.

Cyta's management has assessed whether any impairment allowances are deemed necessary for Cyta's financial assets carried at amortized cost by considering the economic situation and outlook at the end of the reporting period. Impairment of trade receivables is determined using the incurred loss model required by International Accounting Standard 39 Financial Instruments: Recognition and Measurement. This standard requires recognition of impairment losses for receivables that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Cyta's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of Cyta.

On the basis of the evaluation performed, Cyta's management has concluded that impairment charges are necessary and has been recognised as disclosed in Note 15.

Cyta's management believes that it is taking all the necessary measures to maintain the viability of Cyta and the development of its business in the current business and economic environment.

(v) Compliance risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by Cyta.

(vi) Litigation risk

Litigation risk is the risk of financial loss, interruption of Cyta's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by Cyta to execute its operations.

Capital management

Cyta manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Cyta's overall strategy remains unchanged from last year.

35. FAIR VALUES

The fair values of Cyta's financial assets and liabilities approximate their carrying amounts as they appear in the statement of financial position.

The fair value of financial instruments traded in active markets, such as publicly traded trading and available-for-sale financial assets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by Cyta is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3** - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31/12/2012	Level 1	Level 2	Level 3	Total
	€´000	€´000	€´000	€´000
Financial assets				
Available-for-sale financial assets	2.048	1.709	-	3.757
Total	2.048	1.709	-	3.757

31/12/2011	Level 1	Level 2	Level 3	Total
	€´000	€´000	€´000	€´000
Financial assets				
Available-for-sale financial assets	2.587	-	-	2.587
Total	2.587	-	-	2.587

36. CONTINGENT LIABILITIES

As at 31 December 2012 there were pending claims against Cyta in relation to its activities. Based on legal advice, the Directors believe that adequate defences exist against any claim sought and do not expect Cyta to suffer any loss. Accordingly no provision has been made in these financial statements in respect of this matter.

37. POST BALANCE SHEET EVENTS

Significant events that occurred after the end of the reporting period which affect the financial statements as at 31 December 2012 are the following:

The negotiations of the Cyprus Government with the European Commission, the European Central Bank and the International Monetary Fund (the “Troika”), in order to obtain financial support, resulted in an agreement and decision of the Eurogroup on 25 March 2013 on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to the Republic of Cyprus of up to 10 billion. The programme aims to address the exceptional economic

37. POST BALANCE SHEET EVENTS (continued)

challenges that Cyprus is facing, and to restore the viability of the financial sector, with a view to restoring sustainable economic growth and sound public finances in the coming years.

The Eurogroup decision on Cyprus includes plans for the restructuring of the financial sector and safeguards deposits below 100.000 in accordance with European Union legislation. In addition, the Cypriot authorities have reaffirmed their commitment to step up efforts in the areas of fiscal consolidation, structural reforms and privatizations. The Eurogroup requested the Cypriot authorities and the European Commission, in liaison with the European Central Bank, and the International Monetary Fund, to finalise the relevant Memorandum of Understanding in April 2013 which will then be followed by the formal approval of the Board of Directors of the European Stability Mechanism as well as by the ratification by Eurozone member states through national parliamentary (or equivalent) approval.

On 22 March 2013 legislation was enacted by the House of Representatives of the Republic of Cyprus concerning restrictive measures in respect of transactions executed through the banking institutions operating in Cyprus. The extent and duration of the restrictive measures are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and they were enforced on 28 March 2013. Cyta's operations will be affected by the extent and duration of these restrictive measures.

On 12 April 2013 the Eurogroup welcomed the agreement that has been reached between Cyprus and the Troika institutions regarding the macroeconomic adjustment programme for Cyprus, and stated that the necessary elements were in place to launch the relevant national procedures required for the formal approval of the European Stability Mechanism financial assistance facility agreement.

On 18 April 2013 legislation was enacted by the House of Representatives to increase the corporate tax from 10% to 12.5% with effect from 1 January 2013. Furthermore, legislation was enacted to increase the rate of special defense contribution from 15% to 30% on interest which does not arise from the ordinary course of business or is closely linked to it.

On 29 March 2013 the Central Bank of Cyprus issued Decrees relating to Laiki Bank and the Bank of Cyprus implementing measures for these two banks under the Resolution of Credit and Other Institutions Law of 2013.

Cyta's cash held with banks affected from the above measures amounted to €75.664.027 as at the relevant date for implementation of the decisions. Specifically, cash held from Cyta in Laiki Bank and Bank of Cyprus on 26 March 2013 amounted to €14.526.889 and €61.137.138 respectively. Based on information available until the date of issue of the financial statements, an impairment loss of €14.526.890 is to be recognized in the year ending 31 December 2013, on the basis of the assumption that Cyta's deposits in Laiki Bank are all uninsured as they do not fall under Deposit Protection and Resolution of Credit and Other Institutions Scheme and uninsured deposits in the Bank of Cyprus will suffer a maximum impairment of €36.682.283.

Cyta did not hold securities or shares in the affected financial institutions on 26 March 2013.

Between 31 January 2013 and 29 March 2013, Cyta purchased additional convertible bonds of Cyta Hellas amounting to €30,7 million, as per the signed contract of 4 December 2012, without the prior written approval of Council of Ministers as required by the provisions of section 18 of the Telecommunications Service Law, (Cap.302). This Law provides that any cash held by the Authority which is not intended to be used to repay Authority's obligations or fulfil its operations may be invested in bonds with the approval of the Council of Ministers.

The financial statements were approved by the Board of Directors on 11 June 2013.

Offices and Cytashops

Head Offices

Telecommunications Street, Strovolos, P.O.Box 24929,
CY-1396 Lefkosia, Cyprus

Telephone: +357 22701000
Fax: +357 22494940
www.cyta.com.cy

Call Centre: 132

Lefkosia

11, M. Paridi & Chilonos Corner, P.O.Box 24755,
CY-1303 Lefkosia, Tel: +357 22702020

cytashop

- **Onasagorou:** 26 & 28 Onasagorou Street
- **Strovolos:** 14, Strovolou Avenue, Myrtiana Court
- **Lykavitos:** 5, Naxou Street
- **Egkomi:** 1, 28th October Avenue, "Egkomi Business Centre"
- **Lakatameia:** 62, Arch. Makarios III Avenue
- **Latsia:** 18, Arch. Makarios III Avenue
- **Kakopetria:** 28, Costa Christodoulou Street

Lemesos

89, Athinon Street, P.O.Box 50147, CY-3601 Lemesos
Tel: +357 25705050

cytashop

- **Main:** 89, Athinon Street
- **Omonoia:** 7, Vasileos Pavlou Street
- **Linopetra:** 28, Kolonakiou Avenue
- **Agias Fylaxeos**: 232, Agias Fylaxeos Street
- **Platres:** 8D, Olympou Street

Larnaka

7, Z. Pierides Street, P.O.Box 40102, CY-6301 Larnaka
Tel: +357 24704040

cytashop

- **Main:** 7, Z. Pierides Street
- **Agioi Anargyroi:** 4, Alex. Panagouli Avenue
- **Faneromenis:** 178, Faneromenis Avenue

Pafos

11, Griva Digheni Avenue, P.O.Box 60043, CY-8100 Pafos
Tel: +357 26706060

cytashop

- **Main:** 11, Griva Digheni Avenue
- **Kings Avenue Mall:** 2, Apostle Paul & Tomb of the Kings Corner
- **Polis Chrysochous:** 16, Archbishop Makarios III Avenue

Ammochostos

Edison Street * Tel: +357 23862500
Temporarily
124, Eleftherias Avenue, Deryneia, P.O.Box 33355, CY-5313 Paralimni
Tel: +357 23703030

cytashop

124, Eleftherias Avenue, Deryneia

Keryneia*

5A, 28th October Avenue
Tel: +357 27452438

Morfou*

18, 25th March Street
Tel: +357 22742055

Lefka*

Lefka
Tel: +357 22817459

** Not in operation due to the Turkish military occupation of the area.*

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