

A N N U A L R E P O R T

2010



Auditors' Report & Financial Statements

Independent Auditors' Report To Cyprus Telecommunications Authority (Cyta)

Report on the Financial Statements

We have audited the financial statements of Cyprus Telecommunications Authority (Cyta) on pages 65 to 103, which comprise the statement of financial position as at 31 December 2010 the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board's Responsibility for the Financial Statements

Cyta's Board 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 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 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Cyprus Telecommunications Authority as of 31 December 2010 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 Services Law, Cap. 302.

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 the Cyta's Board, as a body, the Minister of Finance, the House of Representatives and the Auditor General 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.

Christos V. Vasiliou
Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

Nicosia, 15 June, 2011

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 65 to 103 for the year ended 31 December 2010 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 Giorgatzi
Auditor General of the Republic

Nicosia, 15 June, 2011

Statement of Comprehensive Income

For the year ended 31 December 2010

| | Note | 2010 € '000 | 2009 € '000 |
|--|------|----------------------|----------------------|
| Operating revenue | 4 | 466.470 | 463.036 |
| Operating expenses | 5 | (390.569) | (388.616) |
| Gross profit | | <u>75.901</u> | <u>74.420</u> |
| Other operating expenses | 6 | (2.609) | - |
| Other income | 7 | 2.735 | 2.569 |
| Profit from operating activities | 9 | <u>76.027</u> | <u>76.989</u> |
| Penalty (imposed)/ cancelled | 27 | <u>(3.329)</u> | <u>174</u> |
| Finance income | | 49.207 | 58.420 |
| Finance expenses | | (39.171) | (41.187) |
| Net finance income | 10 | <u>10.036</u> | <u>17.233</u> |
| Net loss from investing activities | 11 | <u>(3.289)</u> | <u>-</u> |
| Profit before tax | | 79.445 | 94.396 |
| Tax | 12 | <u>(10.270)</u> | <u>(27.744)</u> |
| Profit for the year | | <u>69.175</u> | <u>66.652</u> |
| Other comprehensive income | | | |
| Available-for-sale financial assets - Fair value gains | | <u>432</u> | <u>412</u> |
| Other comprehensive income for the year | | <u>432</u> | <u>412</u> |
| Total comprehensive income for the year | | <u><u>69.607</u></u> | <u><u>67.064</u></u> |

The notes on pages 69 to 103 form an integral part of these financial statements

Statement of Financial Position

As at 31 December 2010

| | Note | 2010 € '000 | 2009 € '000 |
|--|------|----------------|----------------|
| Assets | | | |
| Property, plant and equipment | 13 | 389.747 | 379.104 |
| Intangible assets | 14 | 39.581 | 40.358 |
| Investments in subsidiaries | 15 | 91.760 | 85.049 |
| Investments in associated undertakings | 16 | 1.480 | 1.480 |
| Available-for-sale financial assets | 17 | 2.248 | 1.816 |
| Held-to-maturity investments | 18 | 25.615 | 47.835 |
| Trade and other receivables | 19 | 2.399 | 2.506 |
| Other assets | 20 | 31.860 | 36.415 |
| Total non-current assets | | <u>584.690</u> | <u>594.563</u> |
| Inventories | | 5.530 | 4.988 |
| Trade and other receivables | 19 | 104.443 | 88.052 |
| Held-to-maturity investments | 18 | 19.051 | 21.096 |
| Other assets | 20 | 10.229 | 9.945 |
| Refundable tax | 25 | - | 478 |
| Cash and cash equivalents | | <u>242.047</u> | <u>256.198</u> |
| Total current assets | | <u>381.300</u> | <u>380.757</u> |
| Total assets | | <u>965.990</u> | <u>975.320</u> |
| Equity | | | |
| Other reserves | 21 | 2.097 | 1.665 |
| Retained earnings | | 859.008 | 869.833 |
| Total equity | | <u>861.105</u> | <u>871.498</u> |
| Liabilities | | | |
| Long-term loans | 22 | 1.061 | 1.399 |
| Deferred tax liabilities | 23 | 6.749 | 5.649 |
| Total non-current liabilities | | <u>7.810</u> | <u>7.048</u> |
| Short-term portion of long-term loans | 22 | 345 | 346 |
| Trade and other payables | 24 | 95.292 | 96.428 |
| Tax liability | 25 | 1.438 | - |
| Total current liabilities | | <u>97.075</u> | <u>96.774</u> |
| Total liabilities | | <u>104.885</u> | <u>103.822</u> |
| Total equity and liabilities | | <u>965.990</u> | <u>975.320</u> |

The financial statements were approved by the Board on 15 June, 2011.



Stathis Kittis
Chairman



Photis Savvides
Chief Executive Officer



Maria Damalou-Hadjigeorgiou
Chief Financial Officer

The notes on pages 69 to 103 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2010

| | Other reserves | Retained earnings | Total |
|---|---------------------|-----------------------|-----------------------|
| | € '000 | € '000 | € '000 |
| Balance at 1 January 2009 | <u>1.253</u> | <u>883.181</u> | <u>884.434</u> |
| Profit for the year | - | 66.652 | 66.652 |
| Other comprehensive income for the year | <u>412</u> | <u>-</u> | <u>412</u> |
| Total comprehensive income for the year | 412 | 66.652 | 67.064 |
| Dividend paid to the Republic of Cyprus | <u>-</u> | <u>(80.000)</u> | <u>(80.000)</u> |
| | <u>412</u> | <u>(13.348)</u> | <u>(12.936)</u> |
| Balance at 1 January 2010 | <u>1.665</u> | <u>869.833</u> | <u>871.498</u> |
| Profit for the year | - | 69.175 | 69.175 |
| Other comprehensive income for the year | <u>432</u> | <u>-</u> | <u>432</u> |
| Total comprehensive income for the year | 432 | 69.175 | 69.607 |
| Dividend paid to the Republic of Cyprus | <u>-</u> | <u>(80.000)</u> | <u>(80.000)</u> |
| | <u>432</u> | <u>(10.825)</u> | <u>(10.393)</u> |
| Balance at 31 December 2010 | <u><u>2.097</u></u> | <u><u>859.008</u></u> | <u><u>861.105</u></u> |

Statement of Cash Flows

For the year ended 31 December 2010

| | Note | 2010 € '000 | 2009 € '000 |
|--|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 69,175 | 66,652 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 13 | 54,423 | 56,115 |
| Unrealised exchange profit | | (38) | - |
| Amortisation of mobile telephony license | 14 | 1,090 | 1,089 |
| Amortisation of computer software | 14 | 17,460 | 15,477 |
| Amortisation of goodwill | 14 | 18 | - |
| Loss/(profit) from the sale of property, plant and equipment | | 89 | (365) |
| Loss from the revaluation of bonds | | 494 | 45 |
| Impairment charge - investments in subsidiaries | 15 | 3,289 | - |
| Income from investments | 7 | (47) | (44) |
| Interest income | 10 | (11,680) | (17,592) |
| Interest expense | 10 | 769 | 426 |
| Total Pension Scheme expense | 8 | 28,231 | 29,535 |
| Employer's contributions to Pension Scheme | 8 | (18,286) | (23,237) |
| Covering for Pension Scheme deficit | 8 | (5,674) | (4,239) |
| Income tax expense | 12 | 10,270 | 27,744 |
| | | <u>149,583</u> | <u>151,606</u> |
| <i>Cash flows from operations before working capital changes</i> | | | |
| Increase in inventories | | (542) | (39) |
| Increase in trade and other receivables | | (16,284) | (472) |
| Decrease in trade and other payables | | (1,136) | (37,425) |
| | | <u>131,621</u> | <u>113,670</u> |
| Cash flows from operations | | | |
| Tax paid | | (7,254) | (12,498) |
| | | <u>124,367</u> | <u>101,172</u> |
| Net cash flows from operating activities | | | |
| Cash flows from investing activities | | | |
| Payment for purchase of intangible assets | 14 | (15,806) | (17,816) |
| Payment for purchase of property, plant and equipment | 13 | (78,895) | (66,338) |
| Payment for purchase of investments in subsidiaries | 15 | (10,000) | (30,000) |
| Proceeds from disposal of intangible assets | | - | 85 |
| Proceeds from disposal of property, plant and equipment | | 11,755 | 8,988 |
| Proceeds from sale of investments held-to-maturity | | 23,771 | - |
| Interest received | | 11,680 | 17,592 |
| Income from investments | | 47 | 44 |
| | | <u>(57,448)</u> | <u>(87,445)</u> |
| Net cash flows used in investing activities | | | |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (339) | (339) |
| Unrealised exchange profit | | 38 | - |
| Interest paid | | (769) | (426) |
| Dividend paid to the Republic of Cyprus | | (80,000) | (80,000) |
| | | <u>(81,070)</u> | <u>(80,765)</u> |
| Net cash flows used in financing activities | | | |
| Net decrease in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of the year | | 256,198 | 323,236 |
| Cash and cash equivalents at end of the year | | <u>242,047</u> | <u>256,198</u> |

The notes on pages 69 to 103 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Cyprus Telecommunications Authority (Cyta) is a Public Corporate Body established by Law 67 of 1954 (Cap. 302), 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 and 117(I)/2006. 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 are at Telecommunications Street, Strovolos, P.O.Box 24929, CY-1396 Nicosia, Cyprus.

Since 1st January 2009 the tax law for taxation of Public Corporate Bodies has changed. The tax rate has been reduced to 10% from 25% stated at 31 December 2008. Special defence contribution law for payable dividends is also applied.

The principal activity of Cyta, which is unchanged from last year, is the provision of electronic communication services.

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).

(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 2010, 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 the Organisation.

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2010:

(i) Standards and Interpretations adopted by the EU

- Improvements to IFRSs issued in May 2010 (Effective for annual periods beginning on or after 1 July 2010 and 1 January 2010 as applicable).
- IFRS1 (amendment): Limited exemption from comparative IFRS7 disclosures for first time adopters (effective for annual periods beginning on or after 1 July 2010)
- IAS 24 "Related Party Disclosures" (revised)(effective for annual periods beginning on or after 1 January 2011).
- IAS 32 "Classification of rights issues" (amendments) (effective for annual periods beginning on or after 1 February 2010).
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendments) (effective for annual periods beginning on or after 1 January 2011).''
- IFRIC 19: "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

Notes to the Financial Statements

For the year ended 31 December 2010

2. BASIS OF PREPARATION (continued)

(ii) Standards and Interpretations not adopted by the EU

- IFRS 1 (amendment): Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7 Financial Instruments (amendment): Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).
- IAS 12 "Deferred tax" (amendment): Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

The Board 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 IFRS9 which could change the classification and measurement of financial assets. The extent of the impact has not been determined.

(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 profit or loss. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

• 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 profit or loss. 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.

Notes to the Financial Statements

For the year ended 31 December 2010

- **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 judgement. In making this judgement, 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.

- **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 balance sheet 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.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these financial statements unless otherwise stated.

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.

Revenue recognition

Revenue comprises the invoiced amount for the sale of goods and services net of Value Added Tax, rebates and discounts. Revenues earned by Cyta are recognised on the following bases:

- Operating revenue

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

Revenue generated from calls is recognised in the Statement of Comprehensive Income in the period in which the calls are made from and to Cyta's network.

Annual rental income is recognised according to the time period that it covers.

Receipts from sales are recognised according to the time of sale.

- Commission income

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

- 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.

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 19 years.

Notes to the Financial Statements

For the year ended 31 December 2010

The latest actuarial valuation was conducted on 31 December 2010, assuming annual average salary and pension increases of 3,00% and return on investment of 4,80%.

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 par 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 is charged in the profit and loss of 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 income statement 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 income statement.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro using the rate of exchange ruling at the balance sheet date. The exchange differences that arise are transferred to the income statement, 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 income statement. 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 taxation 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.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax (continued)

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 annual instalments over the period of the lease with a maximum of 33 years.

(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 |

Notes to the Financial Statements

For the year ended 31 December 2010

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 to the income statement of 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 income statement.

A full year's depreciation is charged in the year of acquisition and no depreciation is charged in the year of disposal.

Deferred income

Deferred income represents income receipts which relate to future periods.

Deferred income from government grants

Government grants for capital expenditure are presented in the balance sheet and are recognised when they are received. They are amortised on a systematic basis using the straight-line method over the expected useful life of the respective assets. Government grants that relate to expenses are recognised in the income statement as revenue when they are received.

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.

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

Goodwill

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

Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by the Company 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 the Company 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.

Notes to the Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income statement 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 balance sheet 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) 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 balance sheet date.

• Financial assets at fair value through profit or loss

Securities at fair value through profit and loss account consist of two categories:

- Securities held for trading: These are securities acquired either with the intention of generating profit from short-term fluctuations or included in a portfolio in which a pattern of short-term profit generating exists. Fair value is considered to be the closing bid price at the balance sheet date. Any unrealised gains and losses arising are recognised in the income statement.
- Securities that Cyta designated at fair value through the income statement: This category includes financial assets and financial liabilities managed together and their performance is evaluated on a fair value basis.

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

Securities held to maturity are securities with fixed maturity dates for which Cyta has both the intention and the ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective yield method, less any provisions for impairment.

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 income statement together with any remaining related balance in the revaluation reserves.

• Available-for-sale financial assets

Securities available for sale are securities intended to be held for an undetermined period of time but may be sold in response to needs for liquidity or fluctuations in interest rates, exchange rates or security prices.

Notes to the Financial Statements

For the year ended 31 December 2010

These investments are initially recognised at cost and subsequently re-measured at fair value. The fair value of the quoted securities is considered the closing bid price at the balance sheet date. The fair value of unquoted securities is estimated using specialised methods adjusted to reflect the individual characteristics of the specific issuer. In cases where cost approximates the fair value then the cost is considered to be the fair value. Unrealised gains or losses arising from changes in the fair value of securities classified as available for sale are recognised in the revaluation reserves.

(iii) Cash and cash equivalents

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

(iv) 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 income statement over the period of the borrowings using the effective interest method.

(v) Trade payables

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

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).

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.

Notes to the Financial Statements

For the year ended 31 December 2010

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 balance sheet date.

Comparatives

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

4. OPERATING REVENUE

| | 2010 | 2009 |
|------------------|----------------|----------------|
| | € '000 | € '000 |
| Fixed telephony | 108.608 | 114.463 |
| Mobile telephony | 205.884 | 207.644 |
| Other services | <u>151.978</u> | <u>140.929</u> |
| | <u>466.470</u> | <u>463.036</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

5. OPERATING EXPENSES

| | 2010 | 2009 |
|--|----------------|----------------|
| | € '000 | € '000 |
| Bad debts written off | 815 | - |
| Maintenance costs | 28.093 | 28.971 |
| Leased circuits rentals | 5.108 | 3.400 |
| Outpayments to telecommunication organisations | 43.080 | 48.918 |
| Staff costs | 127.163 | 127.322 |
| Gratuities | 3.523 | 3.252 |
| Advertising expenses | 12.246 | 10.056 |
| Cytavision licences | 20.383 | 16.278 |
| Other expenses | 57.820 | 56.776 |
| Provision for doubtful debts | 763 | 1.218 |
| Provision for obsolete materials | 1.407 | 340 |
| Superannuation fund deficiency (Note 8) | 18 | 151 |
| Pension fund cost (Note 8) | 28.231 | 29.674 |
| Amortization of intangible fixed assets | 18.568 | 16.567 |
| Depreciation | 54.424 | 56.115 |
| | <u>401.642</u> | <u>399.038</u> |
| Less: Wages and other costs that are capitalised or repayable by third parties | (11.073) | (10.422) |
| | <u>390.569</u> | <u>388.616</u> |

6. OTHER OPERATING EXPENSES

| | 2010 | 2009 |
|---|----------------|----------|
| | € '000 | € '000 |
| Loss from sale of property, plant and equipment | (89) | - |
| Write-off of obsolete fixed assets | (1.548) | - |
| Stolen goods (Note 1) | (972) | - |
| | <u>(2.609)</u> | <u>-</u> |

1. In March 2011 after an investigation, the Finance department revealed that during the year ended 31 December 2010 there were excessive returns of scrap cables in Cyta's warehouse. The investigation revealed that such cable quantities were not returned as scrap cables and that the signatures on the relevant documents were not authentic. Cyta has filed a complaint to the relevant authorities which in turn have made their own investigations. Cyta has started all the necessary procedures for the reimbursement of this amount from the insurance company.

Notes to the Financial Statements

For the year ended 31 December 2010

7. OTHER INCOME

| | 2010 | 2009 |
|---|--------------|--------------|
| | € '000 | € '000 |
| Bad debts recovered previously provided for | 125 | - |
| Sundry operating income | 2,553 | 2,113 |
| Gain from sale of property, plant and equipment | - | 365 |
| Income from investments | 47 | 44 |
| Government grants | 10 | 47 |
| | <u>2,735</u> | <u>2,569</u> |

8. PENSION SCHEMES

(a) Superannuation Fund

| | 2010 | 2009 |
|--------------------------------|-----------|------------|
| | € '000 | € '000 |
| Superannuation Fund deficiency | <u>18</u> | <u>151</u> |
| Charge for the year | <u>18</u> | <u>151</u> |

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 2010 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. The last actuarial valuation which took place on 31 December 2001 by a professional actuary, showed an additional deficit of €738,502, and was written off in the income statement equally in the years 2001 and 2002.

Cyta is also liable to pay annual amounts, according to actuarial valuations, in order to finance the increases in pensions, after retirement. During 2010, the amount of €17,848 was paid.

(b) Defined Benefit Plan:

The latest actuarial valuation was carried out as at 31 December 2010. The assets used for the purposes of the actuarial valuation were as extracted from the audited accounts of the Pension Fund for the year 2010.

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 19 years.

Cyta's total liability for retirement benefits in the pension Scheme is as follows:

| | 2010 | 2009 |
|------------|--------------|--------------|
| | € '000 | € '000 |
| Short-term | <u>9,914</u> | <u>4,239</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

The Scheme offers retirement benefits to monthly employees and their dependants. The Scheme 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 Scheme for any deficits which may be indicated by the actuarial valuation. During 2010 no payments were made towards covering the actuarial deficit.

The amounts which appears in the Statement of Financial Position regarding retirement benefits that arise from the Pension Scheme are in accordance with the actuarial valuation as at 31 December 2010 for the defined benefit plan and is as follows:

| | 2010 | 2009 |
|--|-----------------|-----------------|
| | € '000 | € '000 |
| Fair value of Scheme's assets before coverage of this years deficit | (762.840) | (748.964) |
| Present value of funded obligations | <u>768.514</u> | <u>753.203</u> |
| Net deficit | 5.674 | 4.239 |
| Covering for deficit | (5.674) | (4.239) |
| Unrecognised actuarial losses | (13.567) | (8.330) |
| Unrecognised transitional liability | <u>(28.522)</u> | <u>(38.030)</u> |
| Pension Scheme assets recognised on the statement of financial position (Note 20) | (42.089) | (46.360) |
| Obligation towards Pension Scheme assets recognised on the statement of financial position | <u>9.914</u> | <u>4.239</u> |
| Net Pension Scheme assets recognised on the statement of financial position | <u>(32.175)</u> | <u>(42.121)</u> |

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 2010 for the defined benefit plan and is as follows:

| | 2010 | 2009 |
|---|-----------------|-----------------|
| | € '000 | € '000 |
| Current service cost | 18.285 | 20.167 |
| Amortisation of actuarial loss recognised in the year | 439 | - |
| Scheme transitional liability | <u>9.507</u> | <u>9.507</u> |
| Cost recognised in operating expenses (Note 5) | 28.231 | 29.674 |
| Interest cost (Note 10) | 37.489 | 40.688 |
| Expected return on assets (Note 10) | <u>(37.489)</u> | <u>(40.827)</u> |
| Expense recognised in statement of comprehensive income | <u>28.231</u> | <u>29.535</u> |

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

| | 2010 | 2009 |
|--|-----------------|----------------|
| | € '000 | € '000 |
| Current retirement obligation at the beginning of the year | 753.203 | 710.853 |
| Current service cost | 18.285 | 20.167 |
| Interest cost (Note 10) | 37.489 | 40.688 |
| Contributions by participants | 666 | 639 |
| Net benefits paid out | (25.813) | (27.260) |
| Actuarial (gains) / losses on liabilities | <u>(15.316)</u> | <u>8.116</u> |
| Retirement benefit obligation at the end of the year | <u>768.514</u> | <u>753.203</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

8. PENSION SCHEMES (continued)

Changes to the fair value of plan assets during the year

| | 2010 | 2009 |
|--|-----------------|----------------|
| | € '000 | € '000 |
| Fair value of the scheme's assets at the beginning of the year | 753.203 | 711.735 |
| Expected return on Pension Scheme assets (Note 10) | 37.489 | 40.827 |
| Contributions by the employer | 18.286 | 23.237 |
| Contributions by participants | 666 | 639 |
| Net benefits paid out by the scheme | (25.813) | (27.260) |
| Actuarial losses | <u>(20.991)</u> | <u>(214)</u> |
| Fair value of the scheme's assets | 762.840 | 748.964 |
| Scheme deficit at the end of the year to be paid by Cyta | <u>5.674</u> | <u>4.239</u> |
| Fair value of the scheme's assets at the end of the year | <u>768.514</u> | <u>753.203</u> |

The principal actuarial assumptions used for the actuarial valuation were:

| | 2010 | 2009 |
|--|----------------|----------------|
| | % p.a. | % p.a. |
| Discount Rate | 4,80% | 5,00% |
| Price Inflation | 2,50% | 2,00% |
| General Salary Increases | 0,50% | 1,00% |
| Total salary increases | 3,00% | 3,00% |
| Pension increases | 3,00% | 3,00% |
| Increases in basic insurable remuneration packages | 3,50% | 3,50% |
| Expected return on investments | 4,80% | 5,00% |
| Mortality | 80% of PA (90) | 85% of PA (90) |

(c) 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 2010 amounted to €182.638 (2009: €231.320).

Notes to the Financial Statements

For the year ended 31 December 2010

9. OPERATING PROFIT

| | 2010 | 2009 |
|--|---------------|---------------|
| | € '000 | € '000 |
| Operating profit from operating activities is stated after charging the following items: | | |
| Amortisation of intangible fixed assets (Note 14) | 18.568 | 16.566 |
| Depreciation of property, plant and equipment (Note 13) | <u>54.423</u> | <u>56.115</u> |

10. FINANCE INCOME AND EXPENSES

| | 2010 | 2009 |
|--|---------------|---------------|
| | € '000 | € '000 |
| Interest income | 11.680 | 17.593 |
| Expected return on Pension Scheme assets | 37.489 | 40.827 |
| Exchange profit | <u>38</u> | <u>-</u> |
| Finance income | <u>49.207</u> | <u>58.420</u> |
| Net foreign exchange transaction losses | 419 | 29 |
| Bank charges and other interest | 769 | 426 |
| Interest expense on pension fund liabilities | 37.489 | 40.688 |
| Loss on revaluation of bonds | <u>494</u> | <u>44</u> |
| Finance expenses | <u>39.171</u> | <u>41.187</u> |
| Net finance income | <u>10.036</u> | <u>17.233</u> |

Interest revenue is analysed as follows:

| | 2010 | 2009 |
|------------------------------|---------------|---------------|
| | € '000 | € '000 |
| Bank deposits | 9.623 | 14.444 |
| Held-to-maturity investments | <u>2.057</u> | <u>3.149</u> |
| | <u>11.680</u> | <u>17.593</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

11. NET LOSS FROM INVESTING ACTIVITIES

| | 2010 | 2009 |
|---|----------------|----------|
| | € '000 | € '000 |
| Impairment charge - investments in subsidiaries | <u>(3.289)</u> | <u>-</u> |
| | <u>(3.289)</u> | <u>-</u> |

During the year ended 31 December 2010, Cyta has impaired its investment in Digimed Communications Limited by €3.289.000. 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.

Notes to the Financial Statements

For the year ended 31 December 2010

12. TAXATION

| | 2010 | 2009 |
|--|---------------|-----------------|
| | € '000 | € '000 |
| Corporation tax - current for the year | 8,142 | 8,244 |
| Corporation tax - prior years | - | 27,131 |
| Defence contribution - current for the year | 1,028 | 1,752 |
| Defence contribution - prior years | - | 560 |
| Property tax | - | 457 |
| Deferred tax - charge/(credit) (Note 23) | <u>1,100</u> | <u>(10,400)</u> |
| Charge for the year | <u>10,270</u> | <u>27,744</u> |
| Reconciliation of taxation based on the taxable income and taxation based on accounting profits: | | |
| | 2010 | 2009 |
| | € '000 | € '000 |
| Accounting profit before tax | <u>79,445</u> | <u>94,396</u> |
| Tax calculated at the applicable tax rates | 7,945 | 9,440 |
| Tax effect of expenses not deductible for tax purposes | 7,915 | 7,915 |
| Tax effect of allowances and income not subject to tax | (7,718) | (8,654) |
| Defence contribution - current year | 1,028 | 1,752 |
| Deferred tax | 1,100 | (10,400) |
| Prior year taxes | - | 27,691 |
| Property tax | <u>-</u> | <u>457</u> |
| Tax charge | <u>10,270</u> | <u>27,744</u> |

In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 15%.

Notes to the Financial Statements

For the year ended 31 December 2010

13. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Assets under construction | Buildings on leasehold land |
|-----------------------------|-----------------------|---------------------------------|-----------------------------------|
| | € '000 | € '000 | € '000 |
| Cost | | | |
| Balance at 1 January 2009 | 71,129 | 64,546 | 2,424 |
| Additions | 12,911 | (10,770) | - |
| Disposals | (249) | - | - |
| Transfers | - | - | - |
| Balance at 31 December 2009 | <u>83,791</u> | <u>53,776</u> | <u>2,424</u> |
| Balance at 1 January 2010 | 83,791 | 53,776 | 2,424 |
| Additions | 16 | 9,874 | 261 |
| Disposals | (513) | - | - |
| Transfers | - | (12,800) | - |
| Balance at 31 December 2010 | <u>83,294</u> | <u>50,850</u> | <u>2,685</u> |
| Depreciation | | | |
| Balance at 1 January 2009 | 25,102 | - | 1,432 |
| Depreciation for the year | 2,137 | - | 71 |
| On disposals | (179) | - | - |
| Transfers | - | - | - |
| Balance at 31 December 2009 | <u>27,060</u> | <u>-</u> | <u>1,503</u> |
| Balance at 1 January 2010 | 27,060 | - | 1,503 |
| Depreciation for the year | 2,110 | - | 93 |
| On disposals | (117) | - | - |
| Transfers | - | - | - |
| Balance at 31 December 2010 | <u>29,053</u> | <u>-</u> | <u>1,596</u> |
| Carrying amounts | | | |
| Balance at 31 December 2010 | <u>54,241</u> | <u>50,850</u> | <u>1,089</u> |
| Balance at 31 December 2009 | <u>56,731</u> | <u>53,776</u> | <u>921</u> |

(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 (2009: €261.315) included in the financial statements, were in the course of being registered in the name of Cyta at the year end.

Notes to the Financial Statements

For the year ended 31 December 2010

| Telecommunication plant and equipment | Motor vehicles and tools | Furniture, fixtures and office equipment | Computer hardware and systems | Total |
|---|--------------------------------|--|-------------------------------------|------------------|
| € '000 | € '000 | € '000 | € '000 | € '000 |
| 914.052 | 14.274 | 5.531 | 28.376 | 1.100.332 |
| 60.634 | 160 | 479 | 2.924 | 66.338 |
| (17.890) | (181) | - | (1.237) | (19.557) |
| (115) | - | - | (35) | (150) |
| <u>956.681</u> | <u>14.253</u> | <u>6.010</u> | <u>30.028</u> | <u>1.146.963</u> |
| 956.681 | 14.253 | 6.010 | 30.028 | 1.146.963 |
| 64.001 | 2.340 | 392 | 2.011 | 78.895 |
| (30.306) | (726) | - | (1.341) | (32.886) |
| 10.87 | - | - | 330 | (1.595) |
| <u>1.001.251</u> | <u>15.867</u> | <u>6.402</u> | <u>31.028</u> | <u>1.191.377</u> |
| 653.416 | 12.551 | 4.816 | 25.434 | 722.751 |
| 50.679 | 559 | 231 | 2.438 | 56.115 |
| (9.366) | (181) | - | (1.208) | (10.934) |
| (38) | - | - | (35) | (73) |
| <u>694.691</u> | <u>12.929</u> | <u>5.047</u> | <u>26.629</u> | <u>767.859</u> |
| 694.691 | 12.929 | 5.047 | 26.629 | 767.859 |
| 49.170 | 872 | 257 | 1.921 | 54.423 |
| (18.862) | (725) | - | (1.338) | (21.042) |
| 60 | - | - | 330 | 390 |
| <u>725.059</u> | <u>13.076</u> | <u>5.304</u> | <u>27.542</u> | <u>801.630</u> |
| <u>276.192</u> | <u>2.791</u> | <u>1.098</u> | <u>3.486</u> | <u>389.747</u> |
| <u>261.990</u> | <u>1.324</u> | <u>963</u> | <u>3.399</u> | <u>379.104</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

14. INTANGIBLE ASSETS

| | Mobile Telephony Licence | Computer software | Goodwill | Total |
|------------------------------------|--------------------------------|----------------------|------------|----------------|
| | € '000 | € '000 | € '000 | € '000 |
| Cost | | | | |
| Balance at 1 January 2009 | 22.388 | 185.262 | - | 207.650 |
| Addition | - | 17.816 | - | 17.816 |
| Disposals | - | (286) | - | (286) |
| Transfers | - | 150 | - | 150 |
| Balance at 31 December 2009 | <u>22.388</u> | <u>202.942</u> | <u>-</u> | <u>225.330</u> |
| Balance at 1 January 2010 | 22.388 | 202.942 | - | 225.330 |
| Additions | - | 15.642 | 164 | 15.806 |
| Transfers | - | 1.595 | - | 1.595 |
| Disposals | - | (292) | - | (292) |
| Balance at 31 December 2010 | <u>22.388</u> | <u>219.887</u> | <u>164</u> | <u>242.439</u> |
| Amortization | | | | |
| Balance at 1 January 2009 | 6.049 | 162.484 | - | 168.533 |
| On disposals | - | (200) | - | (200) |
| Amortization for the year (Note 9) | 1.089 | 15.477 | - | 16.566 |
| Transfers | - | 73 | - | 73 |
| Balance at 31 December 2009 | <u>7.138</u> | <u>177.834</u> | <u>-</u> | <u>184.972</u> |
| Balance at 1 January 2010 | 7.138 | 177.834 | - | 184.972 |
| On disposals | - | (292) | - | (292) |
| Amortization for the year (Note 9) | 1.090 | 17.460 | 18 | 18.568 |
| Transfers | - | (390) | - | (390) |
| Balance at 31 December 2010 | <u>8.228</u> | <u>194.612</u> | <u>18</u> | <u>202.858</u> |
| Carrying amounts | | | | |
| Balance at 31 December 2010 | <u>14.160</u> | <u>25.275</u> | <u>146</u> | <u>39.581</u> |
| Balance at 31 December 2009 | <u>15.250</u> | <u>25.108</u> | <u>-</u> | <u>40.358</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

15. INVESTMENTS IN SUBSIDIARIES

| | 2010 | 2009 |
|------------------------|---------------|---------------|
| | € '000 | € '000 |
| Balance at 1 January | 85.049 | 55.049 |
| Additions | 10.000 | 30.000 |
| Impairment charge | (3.289) | - |
| Balance at 31 December | <u>91.760</u> | <u>85.049</u> |

The details of the subsidiaries are as follows:

| Name | Country of incorporation | Holding % | 2010 | 2009 |
|--------------------------------|--------------------------|-----------|---------------|---------------|
| | | | € '000 | € '000 |
| Digimed Communications Limited | Cyprus | 100 | <u>91.760</u> | <u>85.049</u> |
| | | | <u>91.760</u> | <u>85.049</u> |

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 2010, Cyta has impaired its investment in Digimed Communications Limited by €3.289.000. 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

| | 2010 | 2009 |
|------------------------|--------------|--------------|
| | € '000 | € '000 |
| Balance at 1 January | <u>1.480</u> | <u>1.480</u> |
| Balance at 31 December | <u>1.480</u> | <u>1.480</u> |

The details of the investments are as follows:

| Name | Country of incorporation | Principal activities | Holding % | 2010 | 2009 |
|------------------|--------------------------|----------------------|-----------|--------------|--------------|
| | | | | € '000 | € '000 |
| Cyta Hellas S.A. | Greece | Broadband Services | 5 | <u>1.480</u> | <u>1.480</u> |
| | | | | <u>1.480</u> | <u>1.480</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2010 | 2009 |
|------------------------------------|--------------|--------------|
| | € '000 | € '000 |
| Balance at 1 January | 1,816 | 1,404 |
| Fair value change through reserves | <u>432</u> | <u>412</u> |
| Balance at 31 December | <u>2,248</u> | <u>1,816</u> |

Cyta holds 75.815 shares of nominal value 1 Euro each in Eutelsat Communications. The company Eutelsat Communications is listed in the Paris Stock Exchange Euronext. The total value of Cyta's investment at 31 December 2010 was €2,076,573 (2009: €1,702,805).

The Company ICO Global Communications (Holdings) Limited is listed in the NASDAQ stock exchange. Cyta holds 150,909 shares of nominal value 0,01 US dollars each. The total value of Cyta's investment at 31 December 2010 was 226,364 US dollars (€170,995) (2009: €113,135).

Available-for-sale financial assets, comprising principally marketable equity securities, are fair valued annually at the close of business on 31 December.

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.

18. HELD-TO-MATURITY INVESTMENTS

| | 2010 | 2009 |
|------------------------|---------------|---------------|
| | € '000 | € '000 |
| Balance at 1 January | 68,931 | 68,975 |
| Matured bonds | (23,771) | - |
| Impairment charge | <u>(494)</u> | <u>(44)</u> |
| Balance at 31 December | <u>44,666</u> | <u>68,931</u> |

| | Fair values | Cost | Fair values | Cost |
|--|---------------|---------------|---------------|---------------|
| | 2010 | 2010 | 2009 | 2009 |
| | € '000 | € '000 | € '000 | € '000 |
| Government bonds | 41,231 | 41,645 | 63,054 | 62,742 |
| Cyprus Sport Organisation bonds | - | - | 2,567 | 2,441 |
| Hellenic Bank Public Company Ltd bonds | <u>3,435</u> | <u>3,417</u> | <u>3,310</u> | <u>3,417</u> |
| | <u>44,666</u> | <u>45,062</u> | <u>68,931</u> | <u>68,600</u> |

| Bonds maturing: | 2010 | 2009 |
|----------------------------|---------------|---------------|
| | € '000 | € '000 |
| Within one year | 19,051 | 21,096 |
| Between two and five years | <u>25,615</u> | <u>47,835</u> |
| Total | <u>44,666</u> | <u>68,931</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

Purchase and sales of held-to-maturity investments are recognised on the trade date, which is the date that Cyta is committed to purchase or sell the asset. The cost of the purchase 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. TRADE AND OTHER RECEIVABLES

| | 2010 | 2009 |
|---|-----------------|-----------------|
| | € '000 | € '000 |
| Trade receivables | 63.954 | 60.283 |
| Overseas telecommunication organisations | 1.423 | 1.426 |
| Less: Provision for impairment of receivables | <u>(18.081)</u> | <u>(17.341)</u> |
| Trade receivables - net | 47.296 | 44.368 |
| Receivables from related companies | 6.902 | 4.686 |
| Deposits and prepayments | 13.116 | 11.899 |
| Carrier services | 5.723 | 4.195 |
| Other receivables | 35.933 | 27.514 |
| Less: Provision for impairment of other receivables | <u>(2.128)</u> | <u>(2.104)</u> |
| | 106.842 | 90.558 |
| Less non-current receivables | <u>(2.399)</u> | <u>(2.506)</u> |
| Current receivables | <u>104.443</u> | <u>88.052</u> |

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:

| | 2010 | 2009 |
|---|-----------------|-----------------|
| | € '000 | € '000 |
| Balance at 1 January | (19.446) | (19.073) |
| Impairment losses recognised on receivables | <u>(763)</u> | <u>(373)</u> |
| Balance at 31 December | <u>(20.209)</u> | <u>(19.446)</u> |

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

Notes to the Financial Statements

For the year ended 31 December 2010

20. OTHER ASSETS

| | 2010 | 2009 |
|--------------------------------------|---------------|---------------|
| | € '000 | € '000 |
| Pension scheme - Non-current portion | 31,860 | 36,415 |
| Pension scheme - Current portion | <u>10,229</u> | <u>9,945</u> |
| Pension scheme asset (Note 8) | <u>42,089</u> | <u>46,360</u> |

21. OTHER RESERVES

| | Fair value reserve - available-for-sale financial assets | |
|-----------------------------|---|--------------|
| | € '000 | |
| Balance at 1 January 2009 | | 1,253 |
| Revaluation (Note 17) | | <u>412</u> |
| Balance at 31 December 2009 | | <u>1,665</u> |
| Balance at 1 January 2010 | | 1,665 |
| Revaluation (Note 17) | | <u>432</u> |
| Balance at 31 December 2010 | | <u>2,097</u> |

22. LOANS AND BORROWINGS

| | 2010 | 2009 |
|--|--------------|--------------|
| | € '000 | € '000 |
| Short-term portion of long-term loans | | |
| Loans from foreign financial institutions | 345 | 346 |
| Non-current borrowings | | |
| Loans from foreign financial institutions | <u>1,061</u> | <u>1,399</u> |
| Total | <u>1,406</u> | <u>1,745</u> |
| Maturity of non-current borrowings: | | |
| Between one to two years | 338 | 338 |
| Between two and five years | 723 | 1,013 |
| After five years | <u>-</u> | <u>48</u> |
| | <u>1,061</u> | <u>1,399</u> |

The loans from foreign financial institutions are repayable between the years 2010 and 2015 and bear interest ranging from 2% to 11.62% per annum. The loans are secured with guarantees provided by the Cyprus Government.

Notes to the Financial Statements

For the year ended 31 December 2010

23. DEFERRED TAX

The movement on the deferred taxation account is as follows:

| Deferred tax liability | Accelerated tax depreciation |
|---|------------------------------|
| | € '000 |
| Balance at 1 January 2009 | 16.049 |
| Charged /(credited) to: | |
| Statement of comprehensive income (Note 12) | <u>(10.400)</u> |
| Balance at 31 December 2009 | <u>5.649</u> |
| Balance at 1 January 2010 | 5.649 |
| Charged /(credited) to: | |
| Statement of comprehensive income (Note 12) | <u>1.100</u> |
| Balance at 31 December 2010 | <u><u>6.749</u></u> |

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

24. TRADE AND OTHER PAYABLES

| | 2010 | 2009 |
|---|----------------------|----------------------|
| | € '000 | € '000 |
| Trade payables | 8.258 | 9.749 |
| Overseas telecommunication organisations | 7.238 | 9.500 |
| Foreign suppliers | 16.577 | 21.012 |
| Prepayments from clients | 1.531 | 1.152 |
| Pension scheme and superannuation fund | 9.914 | 4.239 |
| Social insurance and other taxes | 4.336 | 3.829 |
| V.A.T. | 8.526 | 7.386 |
| Accruals | 8.976 | 12.224 |
| Other creditors | 15.317 | 13.278 |
| Deferred Income | 12.588 | 12.146 |
| Amounts payable to subsidiaries and other group companies (Note 26) | <u>2.031</u> | <u>1.913</u> |
| | <u><u>95.292</u></u> | <u><u>96.428</u></u> |

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

Notes to the Financial Statements

For the year ended 31 December 2010

25. TAX LIABILITY

| | 2010 | 2009 |
|---|--------------|--------------|
| | € '000 | € '000 |
| Corporation tax - receivable | - | (156) |
| Corporation tax - payable | 1,438 | - |
| Special contribution for defence - refundable | - | (869) |
| Property tax | - | 547 |
| | <u>1,438</u> | <u>(478)</u> |

26. RELATED PARTY TRANSACTIONS

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

(i) Key management personnel compensation

The compensation of key management personnel is as follows:

| | 2010 | 2009 |
|-----------------------------|------------|------------|
| | € '000 | € '000 |
| Salaries and other benefits | <u>713</u> | <u>727</u> |
| | <u>713</u> | <u>727</u> |

(ii) Directors' remuneration

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

| | 2010 | 2009 |
|--|-----------|-----------|
| | € '000 | € '000 |
| Emoluments in their executive capacity | <u>30</u> | <u>30</u> |
| | <u>30</u> | <u>30</u> |

(iii) Sales of goods and services

| | 2010 | 2009 |
|--------------------------------|--------------|--------------|
| | € '000 | € '000 |
| Name | | |
| Cyta (UK) Limited | 131 | 107 |
| Cyta Hellas S.A. | 2,562 | 1,464 |
| Cytacom Solutions Limited | 15 | 3 |
| Digimed Communications Limited | 269 | 355 |
| Bestel Communications Limited | 2 | 1 |
| Cytaglobal Hellas S.A. | 118 | 13 |
| Emporion Plaza Limited | <u>14</u> | <u>26</u> |
| | <u>3,111</u> | <u>1,969</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

(iv) Purchases of goods and services

| | 2010 | 2009 |
|--------------------------------|--------------|--------------|
| | € '000 | € '000 |
| Name | | |
| Cyta (UK) Limited | 169 | 360 |
| Cyta Hellas S.A. | 391 | 1.462 |
| Cyacom Solutions Limited | 921 | 329 |
| Digimed Communications Limited | 265 | 270 |
| Cytaglobal Hellas S.A. | 475 | 240 |
| Emporion Plaza Limited | 179 | 136 |
| | <u>2.400</u> | <u>2.797</u> |

(v) Receivables from related companies (Note 19)

| | 2010 | 2009 |
|---|--------------|--------------|
| | € '000 | € '000 |
| Name | | |
| Cyacom Solutions Limited | 3.242 | 3.217 |
| Iris Gateway Satellite Services Limited | 44 | 60 |
| Bestel Communications Limited | 3 | - |
| Cyta (UK) Limited | 137 | 118 |
| Cyta Hellas S.A. | 3.476 | 1.291 |
| | <u>6.902</u> | <u>4.686</u> |

(vi) Payables to related companies (Note 24)

| | 2010 | 2009 |
|---|--------------|--------------|
| | € '000 | € '000 |
| Name | | |
| Digimed Communications Limited | 1.606 | 1.515 |
| Cyacom Solutions Limited | 181 | 159 |
| Emporion Plaza Limited | 92 | 87 |
| Iris Gateway Satellite Services Limited | 8 | - |
| Cytaglobal Hellas S.A. | 85 | 46 |
| Cyta (UK) Limited | 59 | 106 |
| | <u>2.031</u> | <u>1.913</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

27. PENALTIES CANCELLED / (IMPOSED)

| | Note | 2010 € '000 | 2009 € '000 |
|--|------|----------------|----------------|
| Commission for the protection of competition (C.P.C) | 1 | (1.360) | 174 |
| Commission for the protection of competition (C.P.C) | 2 | <u>(1.969)</u> | <u>-</u> |
| | | <u>(3.329)</u> | <u>174</u> |

On November 2, 2010, the Commission for the Protection of Competition (C.P.C) imposed the following fines for violation of the provisions of Article 6 (1) (b) and (c) of the Law:

1. An amount of €1.360.707 in relation to the complaint lodged by Netsmart (Cyprus) Ltd for not providing to it the necessary infrastructure and services to operate in the retail market of messages with inflated prices (premium sms mt). CYTA filed an appeal No. 1 / 2011 on January 3, 2011.
2. 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 of messages with inflated prices (premium sms mt). The Cyta filed an appeal No. 2 / 2011 on 3 January 2011.

28. DIVIDEND PAID TO THE CYPRUS GOVERNMENT

| | 2010 € '000 | 2009 € '000 |
|---------------|----------------|----------------|
| Dividend paid | <u>80.000</u> | <u>80.000</u> |
| | <u>80.000</u> | <u>80.000</u> |

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

During the year 2010 an amount of €80.000.000 was paid to the Cyprus Government Treasury, following the Council of Ministers ('the Cabinet') decision on 27 April 2010, according to the Telecommunication Services Law Amendment, Cap. 302, as amended with the Telecommunication Services Law of 2006 (section 117 (I)/2006).

The amount was set after taking into account the surplus for the financial year, the reserves at the end of the 2009 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.

Notes to the Financial Statements

For the year ended 31 December 2010

29. CONTRACTUAL COMMITMENTS

Contractual Commitments in respect of capital expenditure as at 31 December 2010 not provided for in the financial statements, amounted to €31.329.339 (2009: €37.442.847) of which €2.088.649 (2009: €6.663.617) 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 2010 will be repaid on completion of the relevant projects within 2011 except for the amount of €3.154.720 which will be repaid in later periods.

30. 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):

| | 2010 € '000 | 2009 € '000 |
|--------------------------|----------------|----------------|
| Cash and cash equivalent | | |
| Baa2 | 45.118 | 74.960 |
| Baa3 | 89.526 | 65.922 |
| Ba1 | 18.628 | 29.734 |
| Non assessed | <u>88.775</u> | <u>85.582</u> |
| | <u>242.047</u> | <u>256.198</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

31. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

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

The Board 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.

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:

| | 2010 | 2009 |
|-------------------------------------|----------------|----------------|
| | € '000 | € '000 |
| Available-for-sale financial assets | 2.248 | 1.816 |
| Held-to-maturity investments | 44.666 | 68.931 |
| Trade and other receivables | 99.940 | 85.872 |
| Receivables from related companies | <u>6.902</u> | <u>4.686</u> |
| | <u>153.756</u> | <u>161.305</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

(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 2010

| | Carrying amounts | Contractual cash flows | 3-12 months | 1-5 years |
|---|---------------------|------------------------------|----------------|--------------|
| | € '000 | € '000 | € '000 | € '000 |
| Loans from foreign financial institutions | 1.406 | 1.466 | 370 | 1.096 |
| Trade and other payables | 84.285 | 84.285 | 84.285 | - |
| Payables from related companies | <u>2.031</u> | <u>2.031</u> | <u>531</u> | <u>1.500</u> |
| | <u>87.722</u> | <u>87.782</u> | <u>85.186</u> | <u>2.596</u> |

31 December 2009

| | Carrying amounts | Contractual cash flows | 3-12 months | 1-5 years |
|---|---------------------|------------------------------|----------------|--------------|
| | € '000 | € '000 | € '000 | € '000 |
| Loans from foreign financial institutions | 1.745 | 1.745 | 346 | 1.399 |
| Trade and other payables | 82.369 | 82.369 | 82.369 | - |
| Payables from related companies | <u>1.913</u> | <u>1.913</u> | <u>413</u> | <u>1.500</u> |
| | <u>86.027</u> | <u>86.027</u> | <u>83.128</u> | <u>2.899</u> |

(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 profit and loss.

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For the year ended 31 December 2010

31. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk (continued)

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

| | 2010 € '000 | 2009 € '000 |
|--|----------------|----------------|
| <i>Variable rate financial instruments</i> | | |
| Financial liabilities | <u>1.406</u> | <u>1.745</u> |
| | <u>1.406</u> | <u>1.745</u> |

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 2010

| | United States Dollars € '000 | Other currencies € '000 |
|-----------------------------|------------------------------------|-------------------------------|
| <i>Assets</i> | | |
| Trade and other receivables | 132 | 671 |
| Bank deposits | 1.996 | - |
| Investments | <u>171</u> | <u>-</u> |
| | <u>2.299</u> | <u>671</u> |
| <i>Liabilities</i> | | |
| Net exposure | <u>2.299</u> | <u>671</u> |

31 December 2009

| | United States Dollars € '000 | Other currencies € '000 |
|-----------------------------|------------------------------------|-------------------------------|
| <i>Assets</i> | | |
| Trade and other receivables | 1.963 | 229 |
| Bank deposits | 126 | - |
| Investments | <u>113</u> | <u>-</u> |
| | <u>2.202</u> | <u>229</u> |
| <i>Liabilities</i> | | |
| Trade and other payables | <u>(861)</u> | <u>(2.010)</u> |
| | <u>(861)</u> | <u>(2.010)</u> |
| Net exposure | <u>1.341</u> | <u>(1.781)</u> |

Notes to the Financial Statements

For the year ended 31 December 2010

Sensitivity analysis

A 10% strengthening of the Euro against the following currencies at 31 December 2010 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.

| | Profit or loss | |
|-----------------------|----------------|--------------|
| | 2010 | 2009 |
| | € '000 | € '000 |
| United States dollars | 230 | 134 |
| Other currencies | <u>134</u> | <u>(178)</u> |
| | <u>364</u> | <u>(44)</u> |

(iv) Operational risk

Operational risk is the risk that derives from the deficiencies relating to Cyta's information technology and control systems as well as the risk of human error and natural disasters. Cyta's systems are evaluated, maintained and upgraded continuously.

(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.

Notes to the Financial Statements

For the year ended 31 December 2010

32. FAIR VALUES

The fair values of Cyta's financial assets and liabilities approximate their carrying amounts at the balance sheet date.

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 December 2010 | Level 1 € '000 | Level 2 € '000 | Level 3 € '000 | Total € '000 |
|-------------------------------------|-------------------|-------------------|-------------------|-----------------|
| Financial assets | | | | |
| Available-for-sale financial assets | <u>2,248</u> | <u>-</u> | <u>-</u> | <u>2,248</u> |
| Total | <u>2,248</u> | <u>-</u> | <u>-</u> | <u>2,248</u> |
| 31 December 2009 | Level 1 € '000 | Level 2 € '000 | Level 3 € '000 | Total € '000 |
| Financial assets | | | | |
| Available-for-sale financial assets | <u>1,816</u> | <u>-</u> | <u>-</u> | <u>1,816</u> |
| Total | <u>1,816</u> | <u>-</u> | <u>-</u> | <u>1,816</u> |

Notes to the Financial Statements

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33. POST BALANCE SHEET EVENTS

In March 2011 after an investigation, the Finance department revealed that during the year ended 31 December 2010 there were excessive returns of scrap cables in Cyta's warehouse. The investigation revealed that such cable quantities were not returned as scrap cables and that the signatures on the relevant documents were not authentic. Cyta has filed a complaint to the relevant authorities which in turn have made their own investigations. Cyta has started all the necessary procedures for the reimbursement of this amount from the insurance company.

