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 65 to 104, which comprise the statement of financial position as at 31 December 2011, 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 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 2011 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 of Directors, 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.

We have reported separately on the consolidated financial statements of Cyta and its subsidiaries for the year ended 31 December 2011.

Christos V. Vasiliou
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountant and Registered Auditors

Nicosia, 28 May 2012

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 104 for the year ended 31 December 2011, 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, 28 May 2012

Statement Of Comprehensive Income
For the year ended 31 December 2011

	Note	2011 €´000	2010 €´000
Operating Revenue	4	473.982	466.470
Operating expenses	5	(401.840)	(390.569)
Gross profit		72.142	75.901
Other operating expenses	6	(7.643)	(2.609)
Other income	7	2.695	2.735
Profit from operating activities	9	67.194	76.027
Penalty cancelled / (imposed)	27	3.712	(3.329)
Finance income		49.840	49.208
Finance expenses		(38.341)	(39.172)
Net finance income	10	11.499	10.036
Net loss from investing activities	11	(688)	(3.289)
Profit before tax		81.717	79.445
Tax	12	(8.435)	(10.270)
Profit for the year		73.282	69.175
Other comprehensive income			
Available-for-sale financial assets - Fair value gains		339	432
Other comprehensive income for the year		339	432
Total comprehensive income for the year		73.621	69.607

The notes on pages 65 to 104 form an integral part of these financial statements.

Statement Of Financial Position
As at 31 December 2011

	Note	2011 €´000	2010 €´000
Assets			
Non-current assets			
Property, plant and equipment	13	382.478	389.748
Intangible assets	14	32.493	39.581
Investments in subsidiaries	15	101.072	91.760
Investments in associated undertakings	16	1.480	1.480
Available-for-sale financial assets	17	2.587	2.248
Held-to-maturity investments	18	17.156	25.615
Trade and other receivables	19	2.282	2.399
Other assets	20	24.398	31.860
Total non-current assets		563.946	584.691
Current assets			
Inventories		6.882	5.530
Trade and other receivables	19	124.646	104.443
Held-to-maturity investments	18	22.276	19.051
Other assets	20	7.342	10.229
Cash and cash equivalents		242.309	242.047
Total current assets		403.455	381.300
Total assets		967.401	965.991
Equity			
Other reserves	21	2.436	2.097
Retained earnings		872.290	859.008
Total equity		874.726	861.105
Liabilities			
Long-term loans	22	723	1.061
Deferred tax liabilities	23	5.749	6.749
Total non-current liabilities		6.472	7.810
Short term portion of long-term loans	22	343	345
Trade and other payables	24	85.747	95.293
Tax liability	25	113	1.438
Total current liabilities		86.203	97.076
Total liabilities		92.675	104.886
Total equity and liabilities		967.401	965.991

The financial statements were approved by the Board of Directors on 28 May 2012.

S. Kittis President	P. Savvides Chief Executive Officer	M. Damalou Hadjigeorgiou Chief Financial Officer

The notes on pages 65 to 104 form an integral part of these financial statements.

Statement Of Changes In Equity
For the year ended 31 December 2011

	Other reserves € ´000	Retained earnings € ´000	Total € ´000
Balance at 1 January 2010	1.665	869.833	871.498
Profit for the year	-	69.175	69.175
Other comprehensive income for the year	432	-	432
Total comprehensive income for the year	432	69.175	69.607
Dividend paid to the Republic of Cyprus	-	(80.000)	(80.000)
	432	(10.825)	(10.393)
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 31 December 2011	2.436	872.290	874.726

The notes on pages 65 to 104 form an integral part of these financial statements.

Statement Of Cash Flows
For the year ended 31 December 2011

	Note	2011 €´000	2010 €´000
Cash flows from operating activities			
Profit for the year		73.282	69.175
Adjustments for:			
Depreciation of property, plant and equipment	13	52.432	54.422
Unrealised exchange profit		(149)	(38)
Amortisation of mobile telephony license	14	1.089	1.090
Amortisation of computer software	14	15.130	17.460
Amortisation of goodwill	14	18	18
Profit/loss from the sale of property, plant and equipment		(297)	89
(Profit)/ Loss from the revaluation of bonds		(14)	494
Impairment charge - investments in subsidiaries	15	688	3.289
Income from investments	7	(51)	(47)
Interest income	10	(11.454)	(11.680)
Interest expense	10	517	769
Total pension scheme expense	8	29.113	28.231
Employer’s contributions to pension scheme	8	(18.764)	(18.285)
Covering for pension scheme deficit	8	(4.240)	(5.674)
Income tax expense	12	8.435	10.270
Cash flows from operations before working capital changes		145.735	149.583
Increase in inventories		(1.352)	(542)
Increase in trade and other receivables		(20.086)	(16.284)
Decrease in trade and other payables		(5.306)	(1.136)
Cash flows from operations		118.991	131.621
Tax paid		(10.760)	(7.254)
Net cash flows from operating activities		108.231	124.367
Cash flows from investing activities			
Payment for purchase of intangible assets	14	(8.215)	(15.806)
Payment for purchase of property, plant and equipment	13	(63.766)	(78.895)
Payment for purchase of investments in subsidiaries	15	(10.000)	(10.000)
Payment for purchase of investments held-to-maturity	18	(13.803)	-
Proceeds from disposal of property, plant and equipment		17.967	11.755
Proceeds from expiry of investments held-to-maturity		19.051	23.771
Interest received		11.454	11.680
Income from investments		51	47
Net cash flows used in investing activities		(47.261)	(57.448)
Cash flows from financing activities			
Repayment of borrowings		(340)	(339)
Unrealised exchange profit		149	38
Interest paid		(517)	(769)
Dividend paid to the Republic of Cyprus		(60.000)	(80.000)
Net cash flows used in financing activities		(60.708)	(81.070)
Net increase/(decrease) in cash and cash equivalents		262	(14.151)
Cash and cash equivalents at beginning of the year		242.047	256.198
Cash and cash equivalents at end of the year		242.309	242.047

The notes on pages 65 to 104 form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 31 December 2011

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, 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 of telecommunication 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).

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 2011 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 2011, 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 2011:

(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 July 2011).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 1 (Amendments) ''Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters'' (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7 (Amendments) ''Financial Instruments'' Disclosures ''Offsetting Financial Assets and Financial Liabilities'' (effective for annual periods beginning on or after 1 January 2013).

2. BASIS OF PREPARATION (continued)

(ii) Standards and Interpretations not adopted by the EU (continued)

- IFRS 7 (Amendments) ''Financial Instruments'' Disclosures - ''Disclosures on transition to IFRS 9'' (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 ''Financial Instruments'' (effective for annual periods beginning on or after 1 January 2015).
- 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 12 (Amendments) ''Deferred tax'' Recovery of Underlying Assets: (effective for annual periods beginning on or after 1 January 2012).
- IAS 19 (Amendments) ''Employee Benefits'' (effective for annual periods beginning on or after 1 January 2013).
- 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).

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.

(d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRSs requires from Management the exercise of judgement, 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:

Notes to the Financial Statements
For the year ended 31 December 2011

2. BASIS OF PREPARATION (continued)

- **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.

- **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**
  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 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.

2. BASIS OF PREPARATION (continued)

- **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 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 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 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.

Notes to the Financial Statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 16,59 years. The latest actuarial valuation was conducted on 31 December 2011.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, at 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.

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.

Notes to the Financial Statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
Tax (continued)

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
Computer software	3 - 7

No depreciation is provided on land and works of art.

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Property, plant and equipment (continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
Property, plant and equipment (continued)

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.

No depreciation is charged in the year of disposal of property, plant and equipment.

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 statement of financial position 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 statement of comprehensive income 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 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.

Notes to the Financial Statements
For the year ended 31 December 2011

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 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) 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**
  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 reporting date. Any unrealised gains and losses arising are recognised in the statement of comprehensive income.

  Securities that Cyta designated at fair value through profit or loss: 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
Financial instruments (continued)
(ii) Investments (continued)

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**

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.

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 reporting 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 statement of comprehensive income 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).

Notes to the Financial Statements
For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

	2011	2010
	€ ´000	€ ´000
Fixed Telephony	103.444	108.608
Mobile Telephony	201.977	205.884
Other Services	168.561	151.978
	473.982	466.470

5. OPERATING EXPENSES

	2011 €´000	2010 €´000
Bad debts written off	160	815
Maintenance costs	34.556	28.093
Leased circuits rentals	6.454	5.108
Outpayments to telecommunication organisations	32.796	43.080
Staff costs	131.359	127.163
Gratuities	3.600	3.523
Advertising expenses	14.944	12.246
Cytavision licences	23.839	20.383
Other expenses	64.871	57.820
Provision for doubtful debts	2.567	763
Provision for obsolete materials	-	1.407
Superannuation fund deficiency (Note 8)	56	18
Pension fund cost (Note 8)	29.443	28.231
Amortisation of intangible fixed assets	16.238	18.568
Depreciation	52.431	54.424
	413.314	401.642
Less: Wages and other costs that are capitalised or repayable by third parties	(11.474)	(11.073)
	401.840	390.569

6. OTHER OPERATING EXPENSES

	2011 €´000	2010 €´000
Loss from sale of property, plant and equipment	(10)	(89)
Write-off of obsolete fixed assets (Note 1)	(7.633)	(1.548)
Stolen goods	-	(972)
	(7.643)	(2.609)

1. The amount of write off of obsolete fixed assets includes the removal of materials and equipment from the wired network access amounting to €6.123.156 and the removal of obsolete materials amounting to €1.509.567.

Notes to the Financial Statements
For the year ended 31 December 2011

7. OTHER INCOME

	2011	2010
	€ ´000	€ ´000
Bad debts recovered previously provided for	138	125
Sundry operating income	2.198	2.553
Gain from sale of property, plant and equipment	308	-
Income from investments	51	47
Government grants	-	10
	2.695	2.735

8. PENSION SCHEMES

(i) Superannuation fund

	2011	2010
	€ ´000	€ ´000
Superannuation fund deficiency	56	18
Charge for the year	56	18

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 2011 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 statement of comprehensive income 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 2011, the amount of €56.236 was paid.

(ii) Defined Benefit Plan:

The latest actuarial valuation was carried out as at 31 December 2011. The assets used for the purposes of the actuarial valuation were as extracted from the audited accounts of the Pension Fund for the year 2011.

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 16,59 years.

8. PENSION SCHEMES (continued)

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

	2011 €´000	2010 €´000
Short - term payable obligation to Pension Scheme (Note 24)	(5.674)	(9.914)
Short - term Pension Scheme asset (Note 20)	7.342	10.229
Long - term Pension Scheme asset (Note 20)	24.398	31.860
	26.066	32.175

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.

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

The amounts which appear 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 2011 for the defined benefit plan and are as follows:

	2011 €´000	2010 €´000
Fair value of scheme's assets before coverage of this years deficit	(772.553)	(768.513)
Present value of funded obligations	729.582	768.513
	(42.971)	-
Unrecognised actuarial gains/ (losses)	35.920	(3.653)
Unrecognised transitional liability	(19.015)	(28.522)
Net Asset in Statement of Financial Statements	(26.066)	(32.175)

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 2011 for the defined benefit plan and are as follows:

	2011 €´000	2010 €´000
Current service cost	19.118	18.285
Amortisation of actuarial loss recognised in the year	818	439
Scheme transitional liability	9.507	9.507
Cost recognised in operating expenses (Note 5)	29.443	28.231
Interest cost (Note 10)	36.757	37.490
Expected return on assets (Note 10)	(37.087)	(37.490)
Expense recognised in statement of comprehensive income	29.113	28.231

Notes to the Financial Statements
For the year ended 31 December 2011

8. PENSION SCHEMES (continued)

Movements in Net Asset in Statement of Financial Position

	2011	2010
	€ ´000	€ ´000
Net Asset in Statement of Financial Statements at the beginning of the period	(32.175)	(42.121)
Actual Contributions paid by the Authority	(18.764)	(18.285)
Payment to the Pension Scheme regarding actuarial losses of 2009	(4.240)	-
Total expense recognised in the Statement of Comprehensive Income	29.113	28.231
Net Asset in Statement of Financial Statements	(26.066)	(32.175)

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

	2011	2010
	€ ´000	€ ´000
Current retirement obligation at the beginning of the year	768.513	753.202
Current service cost	19.118	18.285
Interest cost (Note 10)	36.757	37.490
Contributions by participants	1.592	666
Net benefits paid out from Pension Scheme	(28.038)	(25.813)
Actuarial gains	(68.360)	(15.317)
Retirement benefit obligation at the end of the year	729.582	768.513

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

	2011	2010
	€ ´000	€ ´000
Fair value of the scheme's assets at the beginning of the year	768.513	753.202
Expected return on Pension Scheme assets (Note 10)	37.087	37.490
Contributions by the employer	18.764	18.285
Contributions by participants	1.592	666
Net benefits paid out by the scheme	(28.038)	(25.813)
Payment to the Pension Scheme regarding actuarial losses of 2009	4.240	-
Actuarial losses	(29.605)	(15.317)
Fair value of the scheme's assets at the end of the year	772.553	768.513

The principal actuarial assumptions used for the actuarial valuation were:

	2011	2010
	% p.a.	% p.a.
Discount Rate	5,02%	4,80%
Price Inflation	2,00%	2,50%
Expected return on investments	4,54%	4,80%
Total Salary Increases 2012/2013:	2,00%	5,25%
2013+ :	5,25%	
Pension increases 2012/2013 :	0,00%	3,00%
2013+ :	3,00%	
Increase on Maximum Insurable Earnings Limit	3,00%	3,50%
Mortality	EVK 2000	80% of PA (90)

8. PENSION SCHEMES (continued)

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

The estimated regular Statement of Comprehensive Income charge for the financial year 2012 is as follows:

Expected Statement of Comprehensive Income charge for 2012	€ ´000
Current service cost	13.801
Interest cost	36.046
Expected return on investments	(35.536)
Scheme transitional liability	9.507
Amortisation of actuarial gain recognised in the year	(2.165)
Total	21.653

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 2011 amounted to €208.420 (2010: €182.638).

Notes to the Financial Statements
For the year ended 31 December 2011

9. OPERATING PROFIT

	2011	2010
	€ ´000	€ ´000
Operating profit from operating activities is stated after charging the following items:		
Amortisation of intangible assets (Note 14)	16.237	18.568
Depreciation of property, plant and equipment (Note 13)	52.432	54.422

10. FINANCE INCOME AND EXPENSES

	2011	2010
	€ ´000	€ ´000
Interest income	11.454	11.680
Expected return on Pension Scheme assets	37.087	37.490
Exchange profit	1.285	38
Gain on revaluation of bonds	14	-
Finance income	49.840	49.208
Net foreign exchange transaction losses	1.067	419
Bank charges and other interest	517	769
Interest expense on pension fund liabilities	36.757	37.490
Loss on revaluation of bonds	-	494
Finance expenses	38.341	39.172
Net finance income	11.499	10.036

Interest revenue is analysed as follows:

	2011	2010
	€ ´000	€ ´000
Bank deposits	9.815	9.623
Held-to-maturity investments	1.639	2.057
	11.454	11.680

11. NET LOSS FROM INVESTING ACTIVITIES

	2011 €´000	2010 €´000
Impairment charge - investments in subsidiaries	(688)	(3.289)
	(688)	(3.289)

During the year ended 31 December 2011, Cyta has impaired its investment in Digimed Communications Limited by €688.000. 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 2011

12. TAXATION

	2011	2010
	€ ´000	€ ´000
Corporation tax - current for the year	7.796	8.142
Defence contribution - current for the year	1.574	1.028
Property tax - prior years	65	-
Deferred tax - (credit)/charge (Note 23)	(1.000)	1.100
Charge for the year	8.435	10.270

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

	2011	2010
	€ ´000	€ ´000
Accounting profit before tax	81.717	79.445
Tax calculated at the applicable tax rates	8.172	7.945
Tax effect of expenses not deductible for tax purposes	7.638	7.915
Tax effect of allowances and income not subject to tax	(7.974)	(7.718)
Defence contribution - current year	1.574	1.028
Deferred tax	(1.000)	1.100
Prior year taxes	(40)	-
Property tax	65	-
Tax charge	8.435	10.270

Cyta profits are subject to income tax at the rate of 10%.

Under certain conditions interest income may be subject to defence contribution at the rate of 15% (10% to 30 August 2011). 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 2010	83.791	53.776	2.424
Additions	16	9.874	261
Disposals	(513)	-	-
Transfers	-	(12.800)	-
Balance at 31 December 2010	83.294	50.850	2.685
Balance at 1 January 2011	83.294	50.850	2.685
Additions	1.344	7.375	-
Disposals	(181)	-	-
Transfers	-	(5.544)	-
Balance at 31 December 2011	84.457	52.681	2.685
Depreciation			
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	29.053	-	1.596
Balance at 1 January 2011	29.053	-	1.596
Depreciation for the year	2.146	-	97
On disposals	(20)	-	-
Transfers	-	-	-
Balance at 31 December 2011	31.179	-	1.693
Carrying amounts			
Balance at 31 December 2011	53.278	52.681	992
Balance at 31 December 2010	54.241	50.850	1.089

(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 (2010: €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
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Telecommunication plant and equipment	Motor vehicles	Furniture, fixtures and office equipment	Computer hardware and systems	Total
€ ´000	€ ´000	€ ´000	€ ´000	€ ´000
960.445	10.489	6.010	30.028	1.146.963
64.048	2.293	392	2.011	78.895
(30.306)	(726)	-	(1.341)	(32.886)
10.875	-	-	330	(1.595)
1.005.062	12.056	6.402	31.028	1.191.377
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
698.260	9.360	5.047	26.629	767.859
49.256	785	257	1.921	54.422
(18.862)	(725)	-	(1.338)	(21.042)
60	-	-	330	390
728.714	9.420	5.304	27.542	801.629
728.714	9.420	5.304	27.542	801.629
46.994	768	274	2.153	52.432
(30.030)	(23)	-	(2.365)	(32.438)
(56)	-	-	56	-
745.622	10.165	5.578	27.386	821.623
268.310	1.894	1.147	4.176	382.478
276.348	2.636	1.098	3.486	389.748

14. INTANGIBLE ASSETS

	Mobile Telephony Licence	Computer software	Goodwill	Total
	€ ´000	€ ´000	€ ´000	€ ´000
Cost				
Balance at 1 January 2010	22.388	202.942	-	225.330
Additions	-	15.642	164	15.806
Disposals	-	(292)	-	(292)
Transfers	-	1.595	-	1.595
Balance at 31 December 2010	22.388	219.887	164	242.439
Balance at 1 January 2011	22.388	219.887	164	242.439
Additions	-	8.215	-	8.215
Transfers	-	935	-	935
Disposals	-	(644)	-	(644)
Balance at 31 December 2011	22.388	228.393	164	250.945
Amortisation				
Balance at 1 January 2010	7.138	177.834	-	184.972
On disposals	-	(292)	-	(292)
Amortisation for the year (Note 9)	1.090	17.460	18	18.568
Transfers	-	(390)	-	(390)
Balance at 31 December 2010	8.228	194.612	18	202.858
Balance at 1 January 2011	8.228	194.612	18	202.858
On disposals	-	(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
Carrying amounts				
Balance at 31 December 2011	13.071	19.294	128	32.493
Balance at 31 December 2010	14.160	25.275	146	39.581

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For the year ended 31 December 2011

15. INVESTMENTS IN SUBSIDIARIES

	2011 € ´000	2010 € ´000
Balance at 1 January	91.760	85.049
Additions	10.000	10.000
Impairment charge	(688)	(3.289)
Balance at 31 December	101.072	91.760

The details of the subsidiaries are as follows:

Name	**Country of incorporation**	**Holding 2011** %	**Holding 2010** %	2011 € ´000	2010 € ´000
Digimed Communications Limited	Cyprus	100	100	101.072	91.760
				101.072	91.760

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 2011, Cyta has impaired its investment in Digimed Communications Limited by €688.000. 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

	2011 € ´000	2010 € ´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 2011** %	**Holding 2010** %	2011 € ´000	2010 € ´000
Cyta Hellas A.E.	Greece	Broadband Services	4,59	5	1.480	1.480
					1.480	1.480

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 €´000	2010 €´000
Balance at 1 January	2.248	1.816
Fair value change through reserves	339	432
Balance at 31 December	2.587	2.248

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 2011 was €2.285.822 (2010: €2.076.573).

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 2011 was 386.327 US dollars (€300.480) (2010: €170.995).

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

	2011 €´000	2010 €´000
Balance at 1 January	44.666	68.931
Additions	13.803	-
Matured bonds	(19.051)	(23.771)
Impairment charge	-	(494)
Impairment gain	14	-
Balance at 31 December	39.432	44.666

	Fair values 2011 €´000	Cost 2011 €´000	Fair values 2010 €´000	Cost 2010 €´000
Government bonds	36.095	36.077	41.231	41.645
Hellenic Bank Public Company Ltd bonds	3.337	3.417	3.435	3.417
	39.432	39.494	44.666	45.062

Notes to the Financial Statements
For the year ended 31 December 2011

18. HELD-TO-MATURITY INVESTMENTS (continued)

Bonds maturing:	2011	2010
	€ ´000	€ ´000
Within one year	22.276	19.051
Between two and five years	17.156	25.615
Total	39.432	44.666

Acquisition and disposal of held-to-maturity investments are recognised on the trade date, which is the date that Cyta is commited to Acquisition or disposal 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. TRADE AND OTHER RECEIVABLES

	2011	2010
	€ ´000	€ ´000
Trade receivables	60.074	63.954
Overseas telecommunication organisations	1.164	1.423
Less: Provision for impairment of receivables	(9.495)	(18.081)
Trade receivables - net	51.743	47.296
Receivables from related companies	15.309	6.902
Deposits and prepayments	14.076	13.116
Carrier Services	4.787	5.723
Other receivables	44.146	35.933
Less: Provision for impairment of other receivables	(3.133)	(2.128)
	126.928	106.842
Less non-current receivables	(2.282)	(2.399)
Current receivables	124.646	104.443

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.

19. TRADE AND OTHER RECEIVABLES (continued)

Movement in provision for impairment of receivables:

	2011 €´000	2010 €´000
Balance at 1 January	(20.209)	(19.446)
Impairment losses recognised on receivables	(2.567)	(763)
Amount written off as uncollectible	10.148	-
Balance at 31 December	(12.628)	(20.209)

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

20. OTHER ASSETS

	2011 €´000	2010 €´000
Pension Scheme - Non-current portion	24.398	31.860
Pension Scheme - Current portion	7.342	10.229
Pension scheme asset (Note 8)	31.740	42.089

21. OTHER RESERVES

	Fair value reserve - available-for-sale financial assets €´000
Balance at 1 January 2010	1.665
Revaluation (Note 17)	432
Balance at 31 December 2010	2.097
Balance at 1 January 2011	2.097
Revaluation (Note 17)	339
Balance at 31 December 2011	2.436

Notes to the Financial Statements
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22. LONG TERM LOANS AND BORROWINGS

	2011 €´000	2010 €´000
Short term portion of long-term loans	343	345
Loans from foreign financial institutions		
Non current borrowings	723	1.061
Loans from foreign financial institutions	1.066	1.406
Total		
Maturity of non-current borrowings	338	338
Between one to two years	385	723
Between two and five years		
	723	1.061

The loans from foreign financial institutions are repayable between the years 2011 and 2015 and bear interest ranging from 2% to 11.62% per annum. The loans are secured with guarantees provided by the Cyprus Government.

23. DEFERRED TAX

The movement on the deferred taxation account is as follows:

Deferred tax liability

	Accelerated tax depreciation €´000
Balance at 1 January 2010	5.649
Charged /(credited) to:	
Statement of comprehensive income (Note 12)	1.100
Balance at 31 December 2010	6.749
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

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

	2011 €´000	2010 €´000
Trade payables	1.562	8.258
Overseas telecommunication organisations	6.029	7.238
Foreign suppliers	9.931	16.577
Prepayments from clients	1.197	1.531
Pension scheme and superannuation fund (Note 8)	5.674	9.913
Social insurance and other taxes	4.686	4.336
V.A.T.	9.344	8.526
Accruals	11.816	8.978
Other creditors	22.264	15.317
Deferred Income	9.103	12.588
Amounts payable to subsidiaries and other group companies (Note 26)	4.141	2.031
	85.747	95.293

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

25. TAX LIABILITY

	2011 €´000	2010 €´000
Corporation tax	113	1.438
	113	1.438

26. 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:

	2011 €´000	2010 €´000
Salaries and other benefits	758	713
	758	713

Notes to the Financial Statements
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26. RELATED PARTY TRANSACTIONS (continued)
(ii) Directors' remuneration

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

	2011 €´000	2010 €´000
Emoluments in their executive capacity	36	30
	36	30

(iii) Sales of goods and services

	2011 €´000	2010 €´000
Cyta (UK) Limited	20	131
Cyta Hellas A.E.	2.439	2.562
Cytacom Solutions Limited	61	15
Digimed Communications Limited	37	269
Bestel Communications Limited	2	2
Cyta Global Hellas S.A.	343	118
Emporion Plaza Limited	358	14
Iris Gateway Satellite Services Limited	99	-
	3.359	3.111

(iv) Purchases of goods and services

	2011 €´000	2010 €´000
Cyta (UK) Limited	351	169
Cyta Hellas A.E.	17	391
Cytacom Solutions Limited	586	921
Digimed Communications Limited	127	265
Cyta Global Hellas S.A.	58	475
Emporion Plaza Limited	156	179
Iris Gateway Satellite Services Limited	129	-
	1.424	2.400

(v) Receivables from related companies (Note 19)

	2011 €´000	2010 €´000
Name		
Digimed Communications Ltd	5.457	-
Cytacom Solutions Limited	3.166	3.242
Emporion Plaza Ltd	35	-
Iris Gateway Satellite Services Limited	170	44
Bestel Communications Limited	2	3
Cyta (UK) Limited	124	137
Cyta Global Hellas S.A.	64	-
Cyta Hellas A.E.	6.291	3.476
	15.309	6.902

26. RELATED PARTY TRANSACTIONS (continued)

(vi) Payables to related companies (Note 24)

	2011 €´000	2010 €´000
Name		
Digimed Communications Limited	1.640	1.606
Cytacom Solutions Limited	665	181
Emporion Plaza Limited	62	92
Iris Gateway Satellite Services Limited	152	8
Cyta Global Hellas S.A.	120	85
Cyta (UK) Limited	146	59
Bestel Communications Limited	1	-
Cyta Hellas A.E.	1.355	-
	4.141	2.031

27. PENALTIES CANCELLED

During the year ended 31 December 2011 the following penalties which were in the past imposed to CYTA by the Commission for the Protection of Competition have been cancelled by the Supreme Court.

	Note	2011 €´000	2010 €´000
Netsmart (Cyprus) Limited	1	1.361	-
Thunderworx Limited	2	1.969	-
Callsat Telecom Limited	3	222	-
Commission for the protection of competition (C.P.C)	4	85	-
Thunderworx Limited	5	75	-
Commission for the protection of competition (C.P.C)		-	1.360
Commission for the protection of competition (C.P.C)		-	1.969
		3.712	3.329

1. 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).

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 messaging inflated prices (premium sms mt).

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

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

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

Notes to the Financial Statements
For the year ended 31 December 2011

28. DIVIDEND PAID TO THE CYPRUS GOVERNMENT

	2011	2010
	€ ´000	€ ´000
Dividend paid	60.000	80.000
	60.000	80.000

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.

The amount of dividend for 2011 was set after taking into account the surplus for the financial year 2010, 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.

29. CONTRACTUAL COMMITMENTS

Contractual Commitments in respect of capital expenditure as at 31 December 2011 not provided for in the financial statements, amounted to €26.580.069 (2010: €31.329.339) of which €151.218 (2010: €2.088.649) 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 2011 will be repaid on completion of the relevant projects within 2012 except for the amount of €1.139.810 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):

	2011	2010
	€ ´000	€ ´000
Cash and cash equivalent		
B1	91.871	45.119
B2	73.917	89.526
B3	3.646	18.628
Non Assessed	72.875	88.774
	242.309	242.047

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 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.

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:

	2011 €´000	2010 €´000
Available-for-sale financial assets	2.587	2.248
Held-to-maturity investments	39.432	44.666
Trade and other receivables	111.619	99.940
Receivables from related companies	15.309	6.902
	168.947	153.756

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31. FINANCIAL RISK MANAGEMENT (continued)

(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:

	Carrying amounts	Contractual cash flows	3-12 months	1-5 years
31 December 2011	€ ΄000	€ ΄000	€ ΄000	€ ΄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

	Carrying amounts	Contractual cash flows	3-12 months	1-5 years
31 December 2010	€ ΄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	2.031	2.031	531	1.500
	87.722	87.782	85.186	2.596

(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.

31. FINANCIAL RISK MANAGEMENT (continued)

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

	2011 €´000	2010 €´000
Variable rate financial instruments		
Financial liabilities	1.066	1.406
	1.066	1.406

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 2011	United States Dollars €´000	United Kingdom Pounds €´000	Other currencies €´000
Assets			
Trade and other receivables	8.935	158	5
Bank deposits	98	-	-
Investments	300	-	-
	9.333	158	5
Liabilities			
Trade and other payables	1.273	140	4.198
	1.273	140	4.198
Net exposure	10.606	298	4.203

31 December 2010	United States Dollars €´000	Other currencies €´000
Assets		
Trade and other receivables	132	671
Bank deposits	1.996	-
Investments	171	-
	2.299	671
Net exposure	2.299	671

31. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis

A 10% strengthening of the Euro against the following currencies at 31 December 2011 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	
	2011	2010
	€ ´000	€ ´000
United States Dollars	806	230
United Kingdom Pounds	2	-
Other currencies	419	134
	1.227	364

(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.

32. 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).

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

	Level 1 €´000	Level 2 €´000	Level 3 €´000	Total €´000
31/12/2010				
Financial assets				
Available-for-sale financial assets	2.248	-	-	2.248
Total	2.248	-	-	-

33. POST BALANCE SHEET EVENTS

There were no material events after the reporting period, which affect the financial statements as at 31 December 2011

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
Chilonos & M. Paridi 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, "Engomi 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
- Platres - 8D, Olympou Str

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

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

cytashop

- Main - 11, Grivas Dighenis Avenue
- 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

Kyrenia*
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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