annual report 2001

ATHK
CYTA

Contents

In 2001 CYTA celebrated its 40th anniversary. This milestone gave us an opportunity not only to look back and note the Organisation's achievements during its long lifetime but, more importantly, to set new, ambitious targets for the future and to reposition our role in the life of the country on a new basis.
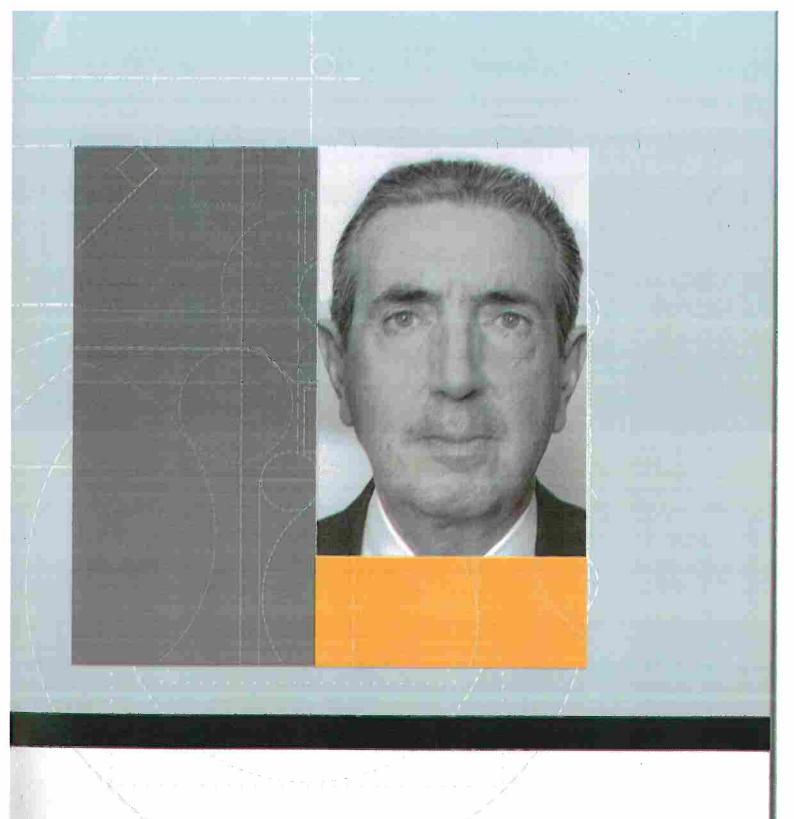
CYTA's name and progress are inextricably linked with Cyprus' development and prosperity. But CYTA does not only stand for telecommunications. During the year under review, the Organisation wished to play a broader role, leaving its mark on society, culture, the environment, sport, education, the younger generation and the business community. Today's consumer remains the focus of all our efforts!

Chairman's

MESSAGE

Rapid developments in technology and telecommunications are shaping our society and creating new relationships. New terms and conditions apply to various areas of our lives and it is not easy for the ordinary consumer to keep up with them, or even be aware of them. But every business enterprise wishing to be a part of these developments must respect the consumer who is central to them and take care of his needs before he is even aware of them. CYTA must be in a position to provide quality services the moment the consumer demands them.

In today's competitive environment, which sees businesses in a never-ending test of stamina, quality is no longer a luxury but an essential element in any successful business operation. This is why CYTA, true to its vision of becoming the most competitive enterprise in Cyprus, has given the necessary importance to this. It declared 2001 a 'Year of Quality' in an effort to involve the entire personnel in promoting the concept of Quality throughout the whole of the Organisation's activities.

On the issue of Cyprus' forthcoming European Union membership, CYTA continues to work and make systematic preparations, in anticipation of developments that will change its legal framework and provide it with the necessary business flexibility that will enable it to operate effectively in the new globalised, competitive environment.

Regarding developments outside the Organisation during 2001, among the most important were the enactment of the new telecommunications legislation and the appointment of the Commissioner for the Regulation of Telecommunications and Posts in 2002.

Once again, developments within the Organisation concerned the issues of greater productivity, the continuous upgrading of the network and of our portfolio of products and services and customer service.

Among our main achievements in 2001 were the following:

- a new, dynamic communications policy was followed for the further reinforcement and promotion of the Organisation's corporate image
- the certification in ISO 9001:2000 of various CYTA Divisions
- the expansion of our sales through selected island-wide retail chains
- the rebalancing of tariffs for fixed telephony and significant reductions to mobile and international telephony tariffs
- the enrichment of our portfolio with new mobile telephony, broadband and Internet services
- the upgrading of the national and international network in order to support existing and new subsidiary services
- the establishment of new subsidiary companies through CYTA's wholly owned company, Digimed Communications Ltd., for the expansion of the Organisation's activities abroad
- the establishment of a new Cytashop.

Looking at our achievements for 2001, it could be said that our Organisation resembles an open workshop undergoing a process of continuous development. Our enthusiastic activity aims only at one target: success! It is clear that we have proved ourselves thus far to be capable of achieving our goals for the Organisation and for Cyprus as a whole.

In 2001 we succeeded in reinforcing even further the image and good name of CYTA and Cypriot telecommunications. It is no coincidence that CYTA continues to attract the best people in the market. We view our

extremely capable personnel as a competitive advantage and we intend to carry on investing in human resources.

It is my conviction that everyone at CYTA – Personnel, Management, Board – is part of a strong team which, with the support of the State, is capable of continuing to achieve the very best in its sector. We are a team capable of serving the demanding Cypriot consumer as well as making CYTA a model European enterprise.

CYTA is every Cypriot's investment. We are fully aware of our responsibility to take this investment into Europe. Once we have the means, we are in a position to establish Cypriot telecommunications in Europe as a successful business and justifiably lay claim to a share of the European market.

Guided by our future prospects as a member of the European Union, I can state with certainty that all of us at CYTA have consciously made a commitment to the consumer, to the whole of Cyprus and, first and foremost, to ourselves. Our successful presence in Europe is not merely a possibility. It is our certain common goal!

Stathis Papadakis, *Chairman*
June 20, 2002.

In spite of the dramatic changes in the
international markets and the recent
negative developments in stock exchanges
around the world, the New Economy and the
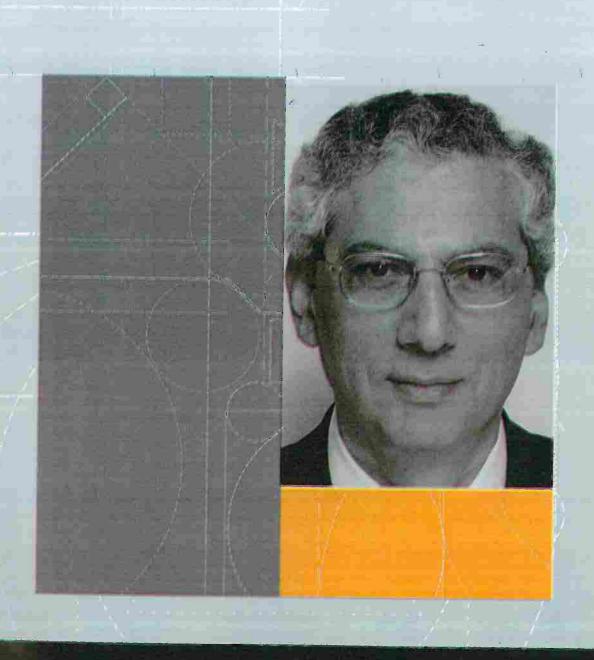Digital Revolution that drives it have become
an undeniable reality,

They are based on the remarkable developments in digital technology and the enormous spread
of the Internet and wireless electronic communications. Over the past six years, the digital
revolution has brought about drastic changes to the economy and to society as a whole. It is
creating new businesses and industries, new development opportunities, radically altering our
business and social environment.

MESSAGE FROM THE

General Manager

Businesses in all sectors are beginning more and more to make their products available electronically, offering new services and applications online and, in general, carrying out transactions both among themselves and with their customers via electronic means. The total value of online commercial and business transactions is expected to show a spectacular increase over the next few years. At the same time, small and large businesses are taking full advantage of the opportunities afforded by information and communications technologies, as they proceed with radical changes to their structure, production and employment methods. They are altering and redesigning their business development models, while creating new partnerships and forging strategic alliances. They are lowering their production and operating costs while increasing productivity and competitiveness.

The success of a modern business enterprise relies to a great extent on its ability to adapt to new realities. The demands of the times are such that the constant technological and quality upgrading of the services offered to consumers is essential, as is increased flexibility and innovation which will enable the business to adapt to the ever-changing competitive environment.

CYTA AND THE CHALLENGES OF THE FUTURE

As an Organisation, we are fully aware of the great challenges that await us and of the need for adaptability. We possess both the will and the plans to proceed. Our aim is one: for CYTA to become a highly competitive business in the new environment. Catering fully to the needs of the Cypriot consumer but also being viewed outside Cyprus as a model business in its sector.

A YEAR OF
GREAT ACHIEVEMENTS

We have made significant progress towards implementing our strategic plans and we are all aware of the gradual but steady transformation of CYTA into a modern, competitive and successful business. Today's Cypriot consumer may take advantage of the lowest telephony rates in the European Union while, at the same time, Cyprus is seen as one of the most highly-developed countries in the world for telecommunications.

CYTA is a financially sound organisation, thanks to the increased productivity that has been achieved through the technological upgrading of its infrastructure, the business reengineering of its activities, the introduction of new services and hard work on the part of the staff.

Looking back over 2001, it is easy to see the significant progress achieved in crucial business sectors regarding the medium and long-term strategic robustness of the Organisation.

The development of individual competencies through intensive training continued at all levels.

Preparations for the introduction of a modern performance management system continued with the setting of performance indicators for core processes and targets for strategic and development projects.

In spite of the difficulties caused by the continuing vagueness over the future of the corporatisation plan for the Organisation, our personnel focused on increasing productivity: in other words on improving its effectiveness and its efficiency and on the quality of whatever we do and produce.

During 2001 we witnessed numerous examples of greater creativity and innovation, especially in improvements in business activities and processes, but also in the provision of new services.

The pilot introduction of a rewards and incentives scheme based on performance and competency was another significant step forward. The scheme will operate according to individual, group, departmental and company performance measures.

CYTA'S DEVELOPMENT PLAN

2001 was the year in which we lay the foundations for an ambitious 4-year development plan (2002-2005).

The implementation of this medium-term plan will not only place CYTA in the category of technologically pioneering organisations but will provide the economy of Cyprus with the

necessary infrastructure to enable it to achieve a high rate of growth during the first decades of the 21st century.

The plan will be self-financed by CYTA.

The basic elements of the development plan are the following:

International telephony

CYTA aims to maintain, upgrade and strengthen its role as a telecommunications hub in the Eastern Mediterranean.

Broadband Services

Broadband technology will enable small-to-medium enterprises and homes to be interconnected and will enable the provision of high speed information services, online transactions, educational and entertainment services.

Mobile Communications

The expansion of the GSM system and the introduction of an ultra-modern, third generation system will enable the provision of content and multimedia services in response to the needs of the demanding Cypriot consumer.

OUR VISION

Our vision is to transform CYTA into the most competitive enterprise in Cyprus. To serve the Cypriot consumer. To continue providing the island with the modern electronic communications infrastructure that will quickly help turn Cyprus into a prosperous Information and Knowledge Society in a fully competitive, globalised environment. To make a substantial contribution to the creation of the new, European Cyprus.

Finally, I should like to extend my appreciation to each and everyone of CYTA staff. Thanks to their team spirit, their sense of honour, their willingness to contribute, their awareness of the challenge of competition and, especially, the exceptional ethos that characterises them. The Organisation's already excellent reputation has become firmly embedded in the mind of the public.

Nicos M. Timotheou, *General Manager*
June 20, 2002.

Chairman
and Members

CHAIRMAN

Stathis Papadakis
Businessman

VICE-CHAIRMAN

Markos Drakos
Chartered Accountant

MEMBERS

Pavlos Theodotou
*Secretary/Manager
Pancyprian Cooperative Confederation*

Doros Ktorides
Manager "Laiki Asset Finance"

Marios Markides
Businessman

Prof. Christos N. Schizas
*Professor of Computer Science,
University of Cyprus*

Artemis Toumazi
*President of the
Cyprus Women's Co-operative Bank
President of the Cyprus Federation of
Business & Professional Women*

Dr Stelios Himonas
*Director of Telecommunications
Ministry of Communications and Works*

Dr Pambos Papageorgiou
*Director of Centre of Applied Research,
Cyprus College*

LEGAL ADVISERS

A.C. Hadjioannou & Sons

AUDITORS

- KPMG Peat Marwick
- Auditor General of the Republic

Management of CYTA

GENERAL MANAGER
Nicos M. Timotheou
Dipl. Eng NTUA, CEng, FIEE, SMIEEE, MIMgt, MCPEA

DEPUTY GENERAL MANAGER
Photios Savvides
BSc, MSc, CEng, MIEE, MIM, AMIPD

ASSISTANT GENERAL MANAGER - OPERATION
Christos C. Chappas
BEng, DIC, PhD

ASSISTANT GENERAL MANAGER - ADMINISTRATION
Michael I. Economides
Dipl-Ing

MANAGER CUSTOMER SERVICES
George Tillirides
BSc, ACGI

MANAGER NETWORK SERVICES
Charalambos Perideous
MSc, MBA, CEng, MIEE, MRAeS, MASQ

MANAGER TELECOMMUNICATIONS INFASTRUCTURE
Sebouh Gorgorian
BSc

MANAGER INTERNATIONAL COMMERCIAL SERVICES
Constantinos A. Michaelides
Dipl-Ing

MANAGER INFORMATICS SERVICES
Panicos Kallenos
Dipl. Eng NTUA

MANAGER SUPPORT INFRASTUCTURE
Cleanthis Soleas
BScEng (Hons), CEng, MIEE

MANAGER FINANCIAL SERVICES
George Koufaris
ACA Chartered Accountant

SECRETARY, MANAGER LEGAL SERVICES & PUBLIC RELATIONS
Nicos Malecos
Diploma in Law (Athens University)

MANAGER INTERNAL AUDIT
Eleftherios Koudounas
BA (Econ) (Hons)

MANAGER BUSINESS SERVICES, AUDIOTEXT AND PAYPHONES
Charis Kirmitsis
BSc (Hons), MSc, CEng, MIEE
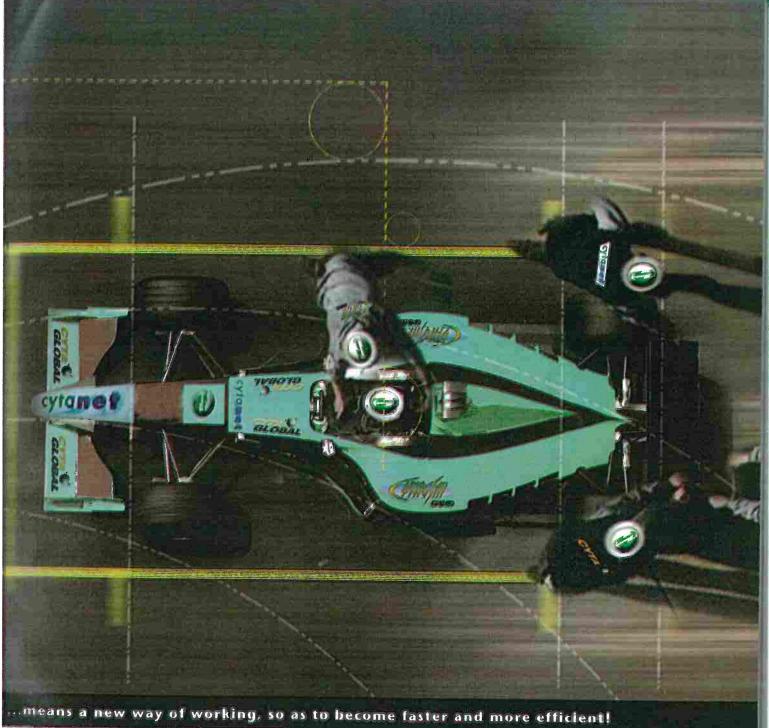
MANAGER BUSINESS MANAGEMENT SUPPORT
Glafkos Houtris
BSc, CEng, MIEE

HEAD MATERIALS MANAGEMENT SERVICES
Ioannis Loizou
Chartered Certified Accountant, FCCA, AIIA

HEAD PERSONNEL SERVICES
Ioannis Souroulas
BScEng (Hons)

Innovation...

...means a new way of working, so as to become faster and more efficient!

With determination and method, daring and striving, with the right tactics and an ambitious development project, we are winning the battles and making impressive progress.

We continue to build a powerful, modern, technically advanced organisation.

With an upgraded network, an ultra-modern infrastructure and the most up-to-date services.

With a dynamic management team and an excellent, fully-trained staff dedicated to high productivity and quality.

We do not rest on our laurels for what we have achieved so far. For us, this is only the beginning of a new, hope-filled era.

To meet every technological challenge dynamically and competitively!

Management

In order to emphasise the need to focus on quality management issues throughout the Organisation, we declared year 2001 as the "Year of Quality". The fundamental goal of this declaration was to promote the concept of "Quality in Everything" with the participation of every member of staff.

2001 was a milestone for the Organisation as CYTA celebrated its first 40 creative years with a number of varied events. Through our celebrations we increased our contribution to society, culture, the environment, young people, the business sector and education. An integral part of the celebrations were the events organised for the benefit of present and past members of staff who have contributed to CYTA's creation and continuing progress.

With the aim of safeguarding the Organisation's competitiveness, we strengthened areas concerning management issues. Specifically, we placed particular emphasis on Human Resource Management in the Research and Development sector and on the further utilisation of information technology. At the same time, the role of the Internal Audit was redesigned and a dynamic communications policy continued to be implemented.

A DYNAMIC COMMUNICATIONS POLICY

For a modern organisation such as CYTA, a primary prerequisite is, undeniably, the implementation of a dynamic communications policy. The application of modern internal and external communications methods enhances not only staff productivity but also the competitiveness of the Organisation. In 2001 we oriented our communications efforts and actions in this direction.

Relations with the Media

In 2001, considerable progress was made in the context of the continuous upgrading of communications and relations between the Organisation and the Media. With the aim of providing timely and accurate information to our customers and the general public, we issued regular Press Releases, senior officials took part in radio and TV interviews and debates, interviews were given to the Press, articles and features were published, press conferences were held and publicity campaigns undertaken on various topics for which all the necessary printed and other material was provided.

Hosting and Attending Fairs/Events

Our participation in the Cyprus International Fair as part of CYTA's 40th anniversary celebrations was very successful. We presented a wide range of selected products and new services, including NetRunner, i-choice and new fixed telephony services. Our pavilion attracted a great number of visitors and contributed to our gaining a considerable number of new customers.

Our participation in specialised exhibitions was also very constructive. In Cybit 2001, an exhibition presenting the latest trends and applications of modern technology in today's business world and society, we participated with our own pavilion, which helped us successfully promote the CYTANET service and present new services such as i-choice, cybee and Cytacom Solutions.

Moreover, in the course of 2001 we took part in a number of exhibitions with our own prefabricated mobile stand, which can be adapted to the special needs of each specific exhibition.

We also organised - or participated in the organisation of - conferences, fairs and seminars in Cyprus and abroad. We continued to place particular emphasis on informing the public about issues related to recent developments and trends in the broader field of electronic communications. These activities are not only an excellent means of promoting our Organisation's positions and views but, more importantly, they provide the public with information on new services and other matters of interest.
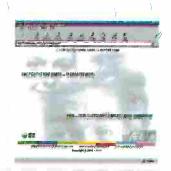
"Telecommunications Street"

During the year under review we also continued to publish our monthly internal newsletter, "Telecommunications Street", which contributes greatly to promoting the expression of views and communication among members of staff. It is distributed all over Cyprus to all current and retired CYTA employees as well as to many other recipients, including members of the Media who frequently utilise its contents, reproducing news items and articles.

Every issue of "Telecommunications Street" since January 2000 is also available on a special web page on the Internet.

Web Pages

Electronic data transmission is not only a useful tool but it provides a competitive

advantage in the modern era. With this in mind, CYTA has continued to enrich its main Internet website. This includes, amongst other things, all kinds of information about our Organisation, our services and products, an alphabetical Telephone Directory, Yellow Pages, country codes and an International Roaming guide for mobile telephone users. It also enables customers to check their account details and access many other facilities and services. In the course of 2002 the website will also feature an e-shop with on-line ordering.

We have continued to enrich the Press Release web page and archive, which includes every Press Release issued by CYTA since January 1999. The 1998, 1999 and 2000 Annual Reports are also available on the Internet in Greek and English.

Last year we also created a special web page to mark CYTA's 40th anniversary, which was constantly updated to report on every event. Here visitors could view a multimedia show entitled "40 Years of CYTA – A Lasting Bond", which was also available on CD-ROM and utilised on

various occasions, as well as a television commercial for the 40th anniversary and the Organisation's corporate video, "CYTA – A Bright Present, a Brighter Future".

We continued to operate our own Intranet, which constitutes a fast and reliable means of internal communication and exchange of information both on a formal as well as on an informal personal level amongst personnel. This Intranet contributes to the timely and direct exchange of information amongst members of staff, particularly on controversial issues and, as a result, leads to increased productivity.

These actions contribute not only to the speedy and effective communication of information but also assist our paper-saving activities in the context of CYTA's broader environmental policy.

upgrading the Organisation and correctly projecting our corporate image. 2001 was a year during which we not only celebrated 40 years of creative presence on the island, but restated our intention to intensify our contribution to society, culture, the environment, youth, business customers and education. This translated into many projects and events.

40 Χρόνια ΑΤΗΚ

The Organisation supported a large number of important cultural events, including concerts by Greek artists, opera, ballet and theatre. Some of these were specifically for the 40th anniversary celebrations whereas others fell within the broader context of CYTA's policy of supporting the island's cultural development while, at the same time, effectively projecting its corporate image. There is no doubt that CYTA made many such events possible through its sponsorship and provided Cypriot audiences with some memorable performances.

Within the framework of our social contribution, CYTA decided to fund the construction of an Elevated Pedestrian Crossing on Limassol Avenue, Nicosia, in front of the Makarios III Lyceum. The Organisation also sponsors a Road Safety project organised by the Ministry of Communications and Works.

On the occasion of its 40th anniversary, CYTA established a Charitable Institute for people with communication problems. It also set up "Charity Direct", a fundraising telephone line, whereby we offer free infrastructure to any establishment, foundation or institution interested in making use of it as part of its fundraising activities.

In the field of entertainment we organised "In the Land of Telis", a special event for children, in Nicosia and in Limassol, featuring CYTA's mascot ("Telis"). These events were a great success with young and old alike.

We also held a one-day Conference on the Environment to coincide with the hosting of an ETNO (European Telecommunications Network Operators' Association) meeting dealing with the Environment.

To mark our 40th anniversary, CYTA also decided to adopt a number of Leisure Parks and Green Areas or to construct relevant projects in all towns. The parks will be equipped with toys produced by CYTA on the theme of telecommunications.

In 2001 we also announced our intention to create a Permanent Telecommunications Exhibition Space at our Headquarters in Nicosia.

During a campaign entitled "Get to Know CYTA Better" in which we placed special stands at specific central locations in every town, we enabled the public to find out more about the Organisation's various services and, in particular, about the special offers available for the duration of the Cyprus International Fair.

On World Telecommunications Day (May 17) we hosted an event entitled "The Internet: Challenges, Opportunities and Prospects", which presented Internet developments based on a theme defined by the International Telecommunications Union (ITU).

spectacular celebratory events in Nicosia and Limassol under the banner "40 Years of CYTA, 40 Years Together". These were attended by current and retired members of staff and their spouses/partners and enjoyed unprecedented success.

Within the context of our 40th anniversary celebrations and the declaration of 2001 as the Year of Quality, CYTA sponsored the Annual Cyprus-Greece Quality Conference held by ECO-Q and OEB (the Cyprus Employers and Industrialists Federation) in Nicosia.

Our 40th anniversary also gave us the opportunity to issue the "Camouflage" Telecard, which is distributed free of charge to all new National Guard conscripts. Moreover, during the summer, CYTA issued a Series of Telecards to mark the 40th anniversary, while the first Collector's Telecard was issued on the same theme.

The anniversary celebrations also encompassed a variety of projects and events that fell within the framework of CYTA's contribution to education. One example was the implementation of an agreement with the Ministry of Education to connect all state schools with the CYTANET service via the ISDN network.

Since a considerable part of the Organisation's successful evolution can be attributed to its staff, we hosted a number of

HUMAN RESOURCES

In an organisation that believes in "Quality in Everything", particularly in one like CYTA which is concerned with significant institutional and telecommunications developments, the workforce is of paramount importance. It is the Organisation's greatest asset and the most important factor in its competitive advantage.

The main focus in dealing with human resources was to link our targets with productivity, evaluating members of staff and utilising them to their best potential. The benefit is mutual, both for the Organisation in its effort to achieve efficient and competitive operations, and for the staff who wish to continuously improve their financial status, gain promotion and enjoy success.

Labour Relations

Relations between CYTA and its staff throughout 2001 were well-balanced and a healthy working environment prevailed. Any problems that arose were discussed in a

spirit of understanding, goodwill and cooperation.

Through the creation of new joint Staff Committees in the Human Resources Department, the infrastructure was established for frank and sincere two-way communication via an open communication channel with staff unions. Our ability to handle and solve problems was thus enhanced.

The process of continuous growth and development within the Organisation has created a new working environment, to which people feel proud to belong, an environment that promotes and encourages personal advancement. The staff's views on policy matters, procedures, management and other important work-related issues will emerge from the islandwide Employees' Opinion Survey, which will henceforth be carried out on a regular basis. The results of the survey are expected to contribute to improving staff communications with management and, in a broader context, to achieve business excellence. The survey will be completed within 2002.

Steps towards the introduction of a Performance Management System, which also includes a Rewards and Incentives scheme, continued throughout 2001, while the planning of the main aspects of the system proceeded well.

The Performance Management System is based on the evaluation of the degree to which predefined personal employee targets are achieved, the staff's contribution to the attainment of group targets and the degree to which personal competencies are exhibited according to the employee's role. At the same time, it provides for action plans that aim at improving staff performance, growth, and the better utilization of individual competencies.

A detailed Communication Plan for the System has been drafted, on the basis of which presentations were held to brief the whole staff, while workshops will be organised to assist in the implementation of the System.

An internal questionnaire was circulated on issues that employees perceive as motivators, including work content, salaries and more. The questionnaire was distributed among parts of the staff and specific projects were launched based on its results.

Personnel

At the end of 2001, CYTA employed 2,426 people, of whom 1,837 (75,7%) were men and 589 (24,3%) women.

The implementation of new forms of employment and our business culture contributed to attract new, competent staff, thus optimising our investment in human resources.

In 2001, a total of 267 new recruits were employed. Specifically, 125 persons were employed on a full-time basis, 98 on six-month part-time contracts for the Directory Enquiries Service (191/192), and 44 on the same basis for the CYTANET Call Centre. Following three examinations, competent persons were chosen, and with the help of training programmes were incorporated into the Organisation's workforce.

In order to optimise the abilities of members of staff, special studies were carried out during 2001 and vacancies were advertised internally to fill specialist positions in various Units. Eight internal vacancies were made available to existing personnel. Furthermore, applications for transfer were accepted from several members of staff.

Candidates were evaluated via structured interviews, which took personal skills and competencies into consideration, as well as academic qualifications and experience. The process aims at selecting the most suitable candidates and placing them in the best possible positions for their individual abilities.

A total of 138 employees were transferred to new posts. This number does not include transfers within the same Unit.

Welfare Policy

In the welfare sector, the Organisation continued to provide low-interest student and housing loans to employees and pensioners (£473.500 and £1.296.800 respectively).

Awards were also made to employees' children who excelled at school. A total of 273 children won awards for excellence during the school year 2000-2001. We also organised Christmas parties for the children of our personnel.

In 2001, CYTA continued to provide assistance to current members of staff and pensioners facing financial difficulties, and to provide a monthly benefit to former employees without any pension benefits. The Organisation also gave material help to soldiers manning the National Guard post on the Organisation's Electra building in Nicosia.

Regarding staff health and welfare, we prepared a statistical analysis on sick leave or absence due to accident and took measures for the best possible use of the right to sick leave. It is worth noting that during 2001, the average sick leave per employee was limited to 5,48 days.

We continued to hold educational seminars on medical issues (First Aid, smoking, stress, healthy eating habits) as well as seminars for pensioners on subjects such as time management and new employment prospects.

In the context of our 40th anniversary celebrations, free tickets were given to members of staff for concerts, theatre performances and football matches.

In the field of safety, we continued to take all necessary measures to reduce accidents during office hours, and during Safety Week meetings were organised to cultivate awareness among personnel. CYTA's "Safety Handbook" was also distributed among employees.

Training and Human Resource Development

In the field of Training and Human Resource Development, CYTA continued to sponsor staff participation in training programmes in Cyprus and abroad. Moreover, in the context of CYTA's collaboration with the Commonwealth Telecommunications Organisation (CTO) a number of bilateral training courses were organised in Cyprus, while members of staff also participated in international workshops.

Training activities in 2001 mainly concerned the development of individual competencies in areas such as customer and people-orientation, productivity and marketing. On average, each employee spent 5,3 working days on training activities. Total expenditure for training and development for 2001 amounted to £1.5 million.

Moreover, within the context of the Organisation's international and social obligations, opportunities for practical experience were offered to students of the Higher Technological Institute, technical schools and to foreign students applying through IAESTE.

Finally, CYTA continued to provide free training courses to customers on Internet use during 2001.

BUSINESS PLANNING

In our efforts to emphasise to employees the need to focus on quality management issues, we declared year 2001 as the "Year of Quality".

The fundamental goal of this declaration was to promote the concept of "Quality in

everything" within the Organisation, and the idea that it is everyone's duty to aim for continuous improvement.

The Business Planning Unit coordinated various projects and processes under the "Year of Quality" umbrella.

Some of the most important projects were:

- The organisation of a "Winners' Conference", during which presentations were made by representatives of successful European companies, winners or finalists of the prestigious European Quality Award which is sponsored annually by the European Foundation for Quality Management (EFQM).

- The organisation of a public seminar on "Modern Business and the Environment" and the implementation of an internal campaign for the rational use of paper under the slogan "Reduce-Reuse-Recycle".

- The coordination of an internal competition on process improvement. More than 20 teams participated and, on

a totally voluntary basis, worked towards the improvement of a specific process within their department, using specific quality improvement tools.

- The first self-assessment project on a corporate level, based on EFQM's excellence model. Earlier self-assessment projects had been carried out on a pilot basis by the Customer Services Unit in Larnaca and the Access Network Unit in Larnaca. For the corporate self-assessment project, a cross-functional team was formed, working under the guidance of external consultants.

- An intensive campaign to train and educate personnel on quality issues through seminars, a special internal fair, a monthly special "Quality Newsletter", etc.

- The launch of a project aiming at the gradual certification of the whole Organisation to ISO 9001. The Organisation's two largest departments - Customer Services and Access Network - were certified in 2001.

- The continued effort aimed at a systematic review of the implementation of all departments' Business Plans. This was realised via the creation of Consultative Management Boards for all departments, in addition to the promotion of total quality principles and tools.

RESEARCH AND DEVELOPMENT

CYTA's R&D activities have grown through ongoing collaborations as well as our participation in new research programmes. More specifically we participate in and support projects of EURESCOM (the European Research Institute), the 5th Framework Programme of the European Union within the framework of IST (Information Society Technologies) and the Cyprus Research Foundation.

We successfully continued our active participation in EURESCOM projects which focus exclusively on the telecommunications sector. In December 2001 CYTA completed three years' participation in the Institute. Since December 2000, after a two-year trial membership period, CYTA has participated as a full member, following the unanimous decision of the General Assembly of EURESCOM.

In 2001, CYTA took part in three new EURESCOM projects and at the same time continued to participate in the "First Steps Towards UMTS: Mobile IP - A European Testbed" project and the "Freehands" (Fibre and Radio Enhanced Integration in Heterogeneous Access Networks for Delivery of Broadband Services) project.

The former project started in January 2000, with the aim of assessing the techno-economic viability of mobile Internet services via IP networks. The "Freehands" project, which also started in January 2000, is examining the incorporation of wireless broadband access technology into the architecture of network access. Its aim is the provision of all kinds of broadband services via a wide variety of access media.

Three new projects are "M-Commerce", which aims at the development of mobile commerce services, "Saltamontes" which refers to multiple network protocols (MPLS), and "Scorpion", which deals with IP transmission networks. These projects are expected to be completed during 2002.

During 2001, CYTA, in collaboration with other European telecommunications organizations, submitted a proposal to EURESCOM for a new project expected to start in 2002. "Broadband Entertainment via DSL" aims at the development of entertainment services such as interactive TV via IP networks by way of the DSL access network.

CYTA is a member of the European research programme COST (European Cooperation in the field of Scientific and Technical Research) and is represented on the technical committee on telecommunications.

It is also a founding and active member of the Cyprus Research Academic Network, which supports the creation and management of a network for the provision of high quality services and aims at the promotion, development and support of research and academic activities in Cyprus.

Our collaboration with the University of Cyprus, has expanded into several sectors with the following results:

- Through the provision of telecommunications infrastructure and services, CYTA has financed the University's DITIS research programme, which aims at the implementation of a telematic system for the needs of cancer patients, in collaboration with the Pancyprian Association of Cancer Patients and Friends.

- Within the framework of the European Union's IST - 5th Framework Programme, in collaboration with the University of Cyprus, CYTA submitted a proposal for participation in the "Orestels" project. This project aims at the development of architectural and operational infrastructures for special intelligent devices

(artefacts). These devices are able to adjust their operation according to the telecommunications environment in which they operate, and can communicate with one another, thus creating new and more complicated operations. Within the same framework, proposals for two other projects were also submitted. The first project "Culbis" aims at the development of a network architecture that will enable visitors and tourists to collect information regarding the places they visit on their mobile phones. The second project "Readiness" refers to telemedicine and teleworking through the use of wireless telecommunication networks.

- Finally, we successfully started work on the "e-Minder" research programme which is financed by the European Union (IST- 5th Framework Program). Participants, in addition to CYTA, are the University of Cyprus, Virtual IT and other organisations from Spain and Poland. This project deals with electronic commerce and aims at easing less developed countries into e-commerce activities.

The incentive scheme that we introduced for the voluntary participation of members of staff in EURESCOM research projects has been expanded and now covers voluntary work in any approved research programmes, especially those of the European Union.

This scheme aims at the encouragement of voluntary participation in research and development projects, which requires extra working hours as well as devoting leisure time to the programmes.

The incentive scheme brought positive results, raising both the interest of staff members in participation and, as a direct consequence, CYTA's contribution to EURESCOM research projects and those of the EU's 5th Framework Programme. Specifically, during 2001 we participated in five new EURESCOM projects with 23 representatives, which clearly indicates the positive outcome of the incentive scheme.

INFORMATION TECHNOLOGY

Information technology, and the appropriate exploitation of its capabilities and opportunities, is one of the most significant factors in the acquisition of the much-sought competitive advantage. It is also a major factor in the qualitative upgrade of any organisation.

CYTA has always been a pioneer in the exploitation of information technology and its broad range of integrated and architecturally structured information systems ensure the Organisation's presence in the competitive arena.

Upgrading the Organisation's information systems enabled the fast and easy provision of new telecommunication products and services, whilst billing flexibility was enhanced through a redesign of supporting information structures, providing new, diverse and flexible billing strategies to support changing customer and market needs. The various mobile and fixed telephony pricing packets made available to our customers in 2001 were just one example of the effective exploitation of IT capability which added significantly to the Organisation's ability to compete effectively.

The upgrading of the billing system included, among other things, billing support through the use of Call Detail Records as opposed to Usage Meters. This enables us to provide a higher degree of billing information detail, thus enhancing significantly the quality of information available to customers.

The timely upgrade of the Organisation's information systems was a fundamental enabling factor in the successful introduction of the new National Numbering Scheme and the implementation of a Tariff Re-balancing Plan – a project vital to the Organisation's entry into the competitive arena.

The upgrade of the central computer cluster and information technology networks enabled a faster and more reliable service provision to customers, enhancing further the quality of service they already enjoy.

A key factor in the provision of quality service is the timely identification of customer needs and the subsequent provision of appropriate, customised solutions. The expansion and enrichment of the business intelligence applications that exploit the data-warehousing infrastructure have significantly enhanced the Organisation's ability to identify and understand trends in customer needs. This knowledge enables CYTA to respond faster and better by offering each customer competitive, customised products and services tailored to his/her own personal and/or business needs.

In the field of e-business, the cornerstones of the infrastructure essential for us to be able to provide customers with self-service capability over the Internet were put in place. This infrastructure, part of which has already gone into production, initially aims at addressing customer needs relating to

order acceptance and follow-up, bill-presentment and settlement, as well as complaint reporting, handling and follow-up.

As security and confidentiality of information are two of the most crucial factors in the provision of quality service over the Internet, it is imperative that the relevant systems are adequately protected. With this in mind, the necessary infrastructure for protection against unauthorised access was developed and implemented. Its effectiveness was rated as excellent by external experts who tested it extensively.

SUPPORT SERVICES

A substantial contribution to the Organisation's smooth operations is made by the efficient management of its support infrastructure to the full satisfaction of the requirements of its internal customers. This sector deals mainly with the Authority's land, buildings, furniture, roads, electrical installations, electrical equipment, air-conditioning systems, vehicles and machinery, as well as with their constant operation. It also deals with security and fire safety matters.

During 2001, land was purchased for the construction of new telephone exchanges while many other buildings were extended, altered, upgraded or completed. Concrete bases to be used as GSM station bases or for

accommodating prefabricated huts and satellite dishes were also constructed. Customer Service Offices were reconfigured to enable the sale of terminal equipment. The gathering of data for studying the anti-seismic quality of CYTA's main buildings was completed in cooperation with ETEK (the Scientific and Technical Chamber of Cyprus) and progressed to the implementation procedure. Preventive maintenance and dealing with emergencies became more effective and was upgraded as regards quality.

The most important projects were the completion of the planning of the extension of CYTA's Head Offices in Nicosia and the creation of an islandwide Tele-Service Centre at our Electra House building which is currently under complete renovation.

Innovations were introduced to the Organisation's electro-mechanical systems and a major upgrading of CYTA's fleet of vehicles continued with the purchase of 211 new vehicles, equipped with the latest safety and climate control systems. New specialised software was developed for more efficient fleet management and fuel consumption control, the latter in combination with a smartcard for each vehicle.

CYTA plans to introduce a centralised Building Management System (BMS) for its electromechanical equipment as well as an islandwide Fire Control System.

During 2001, we promoted smart and flexible building technology in our new buildings and worked to ensure that our new centralised climate control systems were fully compatible with European standards and specifications for the protection of the environment and the ozone layer.

In 2001, CYTA completed the implementation of the first phase of its islandwide Security and Timekeeping Systems, including the development of a Control and Surveillance Centre and the installation of equipment in four buildings. The existing electronic security systems in Customer Service Offices were also upgraded.

Security at the Authority's buildings on a 24-hour basis was entrusted to security services from the private sector. At the same time, the Organisation's cooperation with the police, which provides armed guards for selected buildings, continued. The completion of CYTA's own Civil Defence Plan, codenamed "Zeus" is another significant achievement of the year under review.

FRAUD CONTROL / INFORMATION SECURITY

TYPE APPROVAL OF TELECOMMUNICATIONS TERMINAL EQUIPMENT

In 2001 CYTA continued to deal with issues related to the control of imports and sales of Telecommunications Terminal Equipment (TTE) in the private sector and the adoption of technical specifications for telecommunications networks in new buildings.

The first of these aims at regulating the importation and sale of terminal equipment by the private sector by ensuring that it fulfils all those specifications considered vital to the smooth and high quality provision of services to customers. To this end, CYTA publishes and implements processes and technical requirements for TTE type approval. The Organisation's longstanding policy remains that of adopting European standards.

The second issue aims first and foremost at the adoption of regulations and guidelines by which electricians and others working on new installations must abide so that telecommunications networks in new buildings are characterised by uniformity, security/safety and an acceptable appearance.

In 2001, CYTA, alarmed by the high levels of revenue lost worldwide by many telecommunications organisations through telecommunications fraud and in an effort to better protect its customers from new technology "criminals", established a special unit for the study, prevention, detection and management of telecommunications fraud.

One of the main objectives of the unit is the fight against the various forms of telecommunications fraud, the level of which is expected to increase following the liberalisation of telecommunications in our country. Telecommunications fraud is the illegal and non-authorised access to telecommunications networks for the use of services, or the access to databases with the intention of obtaining financial benefits, or for other unlawful purposes (e.g. industrial espionage).

CYTA also recognises that the Organisation's information assets are of tremendous importance and value and that they must be protected against threats and vulnerabilities, internal or external, accidental or deliberate.

Strategies for achieving the above include the following:

- The development of procedures for security and the prevention of fraud in all CYTA products and networks
- The detection, prevention and bringing to justice of all fraud cases
- The development and application of an Information Security Management System, the main objective of which is the safeguarding of the confidentiality, integrity and availability of all information assets throughout our Organisation.

During 2001 we proceeded with the installation and operation of additional equipment for the detection and management of fraud.

Procedural and technical measures were also taken for the improvement of information security in all of CYTA's mobile and fixed telephony products, as a consequence of the security and fraud management audit which was implemented during 2000 with the assistance of external consultants.

Also during 2001, as a first step towards the implementation of the Information Security Management System throughout the Organisation, work has started on the preparation of a corporate information security policy, as well as on the development of a methodology for risk management of information assets, based on an international standard.

INTERNAL AUDIT ISSUES

The mismanagement that has been observed in the businesses all over the world, in both the private and public sectors, was the reason behind a redesign of the role of the Internal Audit (IA), which now has as its basic goal the safeguarding of the interests of all stakeholders in the business.

The IA has been transformed in such a way as to keep pace with CYTA's reforming efforts, which aim at coping effectively with forthcoming competition.
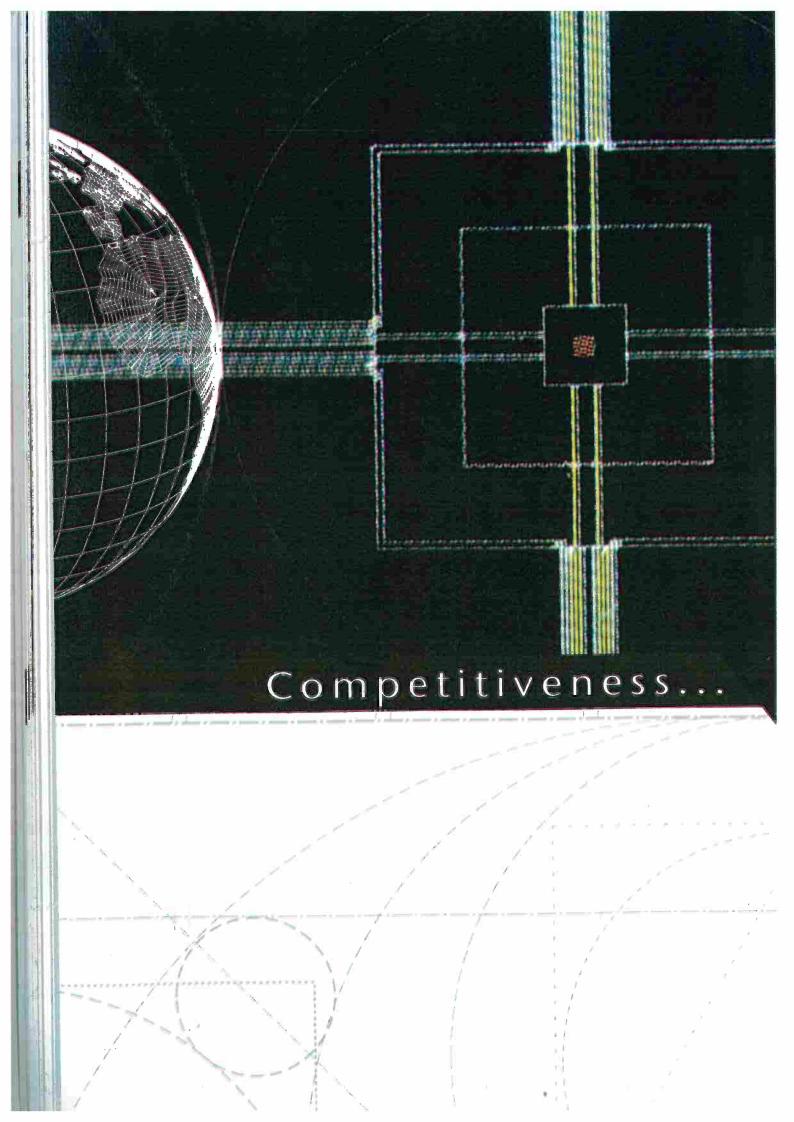
Based on international standards and Internal Audit best practices as well as on the relevant guidelines for Corporate Governance, we have shifted the emphasis of our activities away from the traditional IA, which is characterised by policing and financial audit. Our new, modern role focuses on processes, risk management and consulting, which adds value to the Organisation by contributing to the value chain.
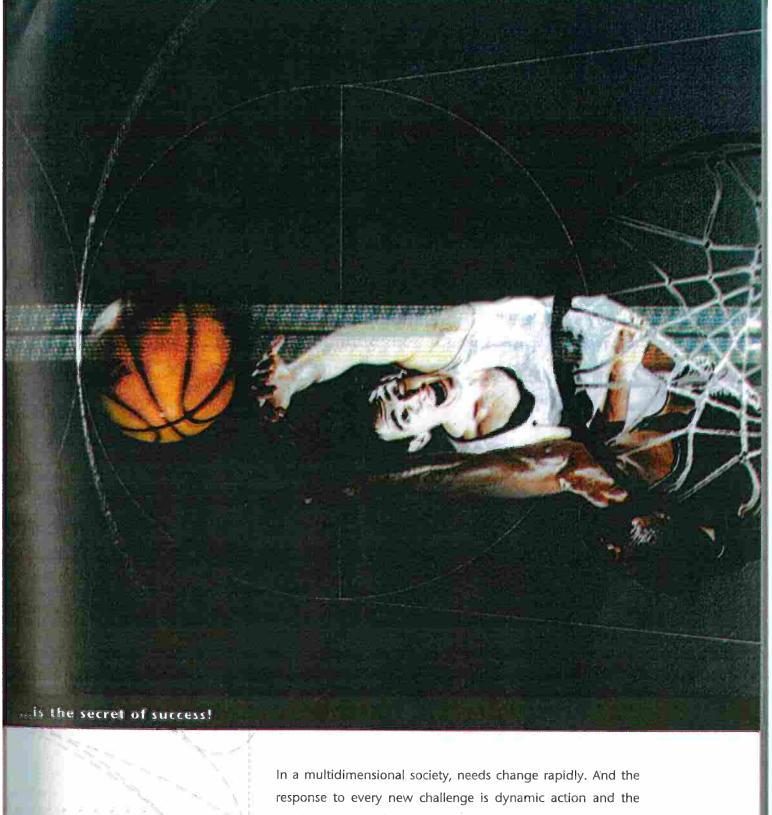
The IA's mission is to ensure the Organisation's smooth operations, through efficient and effective internal Controls. Furthermore, it contributes to the achievement of the aims set by the various business units and by the Organisation as a whole through risk management. Finally, it ensures the security of information,

through specialised Information Technology (IT) audits, which cover the areas of confidentiality, integrity and availability of information.

The Board has supported the efforts of the IA by setting up an Audit Committee, consisting of Members of the Board, whose mission is to safeguard audit principles and the accountability of Corporate Governance.

Among our strategies is the automation of our audit methodology and management of activities, through the use of special software. In addition, we are trying to acquire the necessary skills in the area of Due Diligence, so that we will be in a position to support the Organisation's ambitious investment programmes. At the same time, we plan to expand the scope of our audits to cover CYTA's ever-increasing activities.

Competitiveness...

In a multidimensional society, needs change rapidly. And the response to every new challenge is dynamic action and the continuous upgrading of products.

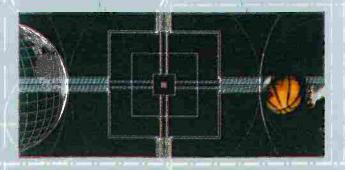We are familiar with the rules of the game.

We handle our technological know-how and amassed experience with great skill.

We offer the cheapest telephony in the European Union and we possess a rich portfolio of services.

Always one step ahead, we respond successfully to the requirements of the latest telecommunications vision before you are even aware of it.

Always aiming at the communications of the future!

Services

2001 saw a number of achievements regarding customer service and the various services that the Organisation provides.

Among these achievements was the ISO9001: 2000 quality certification of our Customer Services. During 2001 we increased the number of Cytashops with new shops in the Paphos district. We also established an islandwide network of Personal Telecommunications Consultants, while 2001 was also the year in which we began reselling CYTA products and services through a network of selected dealers. We also drastically upgraded the Directory Enquiries Service (192).

Another notable achievement in 2001 was the continuation of our rebalancing of tariffs for both fixed and mobile telephony. As a result, the Organisation now offers the lowest rates within the European Union.

Unwavering in our aim of constantly enriching our portfolio or products, we proceeded with the introduction of cybee, the first mobile portal in Cyprus. In 2001 the i-choice service came into operation, the first of CYTA's broadband services offered via the DSL network.

At the same time we significantly upgraded the quality and speed of the CYTANET service and successfully introduced the NetRunner service for fast Internet access.

In the context of the Organisation's strategy for expanding its activities to the provision of services abroad, we proceeded to establish a number of new companies through our subsidiary, Digimed Communications Ltd.

FIXED TELECOMMUNICATIONS SERVICES

The telephony service remained the backbone of all our telecommunications services, which is why, in 2001, we continued to place particular importance on its upgrading.

By the end of 2001, the number of direct exchange lines had decreased by 5.113 or 1,16% compared with 2000. However, a penetration of 63,38 lines per 100 inhabitants was higher than that in most Western European countries. The total number of subscribers at the end of 2001 was 434.978.

Similarly, total telephone traffic in minutes continued to rise, while international outgoing telephone traffic increased by 24%, a much higher percentage than in previous years, due to substantial reductions made to our international call rates.

Within the framework of our preparation for the forthcoming liberalisation of the telecommunications market in Cyprus, two stages of the Organisation's tariff rebalancing were implemented in 2001. This was considered necessary in order to eliminate cross-subsidisation, namely that of national telephony by international telephony, whilst ensuring that CYTA continued to charge lower rates than any European Union member state. The tariff rebalancing plan also included the introduction of an alternative, lower cost option for fixed telephony subscription (Package B) which offers an attractive option to very low usage customers.

Moreover, in response to our customers' needs, in January and October 2001 we drastically reduced international call rates, especially to those countries with the largest volumes of outgoing calls, giving consumers the opportunity to phone their family and friends abroad at very low rates.

During 2001, the Freephone Service continued to facilitate the work of CYTA's growing number of business customers,

enabling their own customers, whether in Cyprus or abroad, to call them at no cost.

Additionally, via the Home Country Direct Service, we continued to serve our customers who wish to make calls to Cyprus when abroad. This service enables them to contact CYTA's operators directly and have their calls charged in Cyprus.

The Universal Access Service has proved to be particularly useful to many business customers. It helps companies with a large number of incoming calls because the numbering of the service is very easy to remember. Specifically, it consists of the code 077 followed by a four-digit number for each subscriber. A special feature of the service is the way it enables calls to be received at a single point in Cyprus or at one per district, according to the customer's request.

VoiceMail continues to be a popular service. The 33,800 subscribers to VoiceMail have direct access to their own "answering machine" on a 24-hour basis,

Utilising the capabilities of our digital telephone exchanges, we continued to offer additional telephone facilities such as Call Waiting, Hot Line, Alarm Call, Conference Calls, etc. All the additional telephone facilities were made available to our customers free of charge (no connection and monthly subscription) from January 2001.

As part of the introduction of new services, we launched the: Code-Controlled Barring service to customers wanting the option of restricting the unwanted use of their telephone.

In May 2001, the Caller ID service was introduced. Caller ID enables customers to identify the caller before they answer their phone or to find out who has telephoned them if they miss a call. During the initial stage of this service, the facility became available to subscribers connected to ALCATEL telephone exchanges. Subsequently, the caller ID service will be available to all subscribers.

As part of our social contribution, all calls made to the four-digit special numbers of Hospitals, Prevention of Child Abuse and Narcotics helplines, etc, are now free of charge.

In 2001, the installation of the Intelligent Network platform was completed and work on the introduction of intelligent network services began. Via the intelligent network, our Organisation expects to be in a position to offer a number of new services during 2002 such as Prepaid Cards, Personal Number, Calling Cards, etc. Moreover, existing services will be upgraded, including the Freephone Service and the Universal Access Service.

ATM/Frame Relay Services were introduced to the Cyprus market in August 2000, providing a new method of high-speed data transmission based on frames/cells and making the best possible use of transmission media.

These services allow the transmission of all kinds of information - voice, video and data - via a single high-speed network connection.

Frame Relay is a data transmission service in the form of frames offered at speeds of nx64 kbps up to 2 Mbps, while ATM is a fast packet switching service, offered at speeds of 2, 34 and 155 Mbps.

ATM/Frame Relay services support a wide range of multimedia applications such as telemedicine, teleconferencing, telemarketing, teleworking, video on demand and interactive television. They also allow file and high quality image transfer at high speeds, LAN interconnection and a multitude of other applications.

Due to the varied nature of applications supported by ATM/Frame Relay services, users come from all walks of business life, including banking, hotel and catering, education, government, offshore companies, shipping and Internet Service Providers.

Although the ATM/Frame Relay service is now at the introductory stage of its life cycle, it is already showing unexpected growth. At the end of 2001, 877 customers were connected via Frame Relay access and 82 customers via ATM access. This increase is due to the high quality and reliability of data transmission offered by the service. An important factor for this growth was the decision of the island's Commercial Banks to replace their leased lines with ATM/Frame Relay network connections. Furthermore, ATM/Frame Relay has become the favoured choice for the government's extensive Data Network.

The Integrated Services Digital Network (ISDN) developed successfully during 2001 as far as revenues and subscriber numbers are concerned. At the end of 2001, 13.262 customers were connected to the network via Basic Rate Access and 820 customers via Primary Rate Access.

This increase in the number of customers was a result of the rebalancing of analogue telephone charges and of the repositioning of the service in the market for voice applications.

Today the main application for the ISDN service is voice and the target market is the private sector with a need for two telephone lines and limited Internet use (less than 2 hours per day).

At the end of 2001, the CYTAPAC Data Transmission Service, despite bandwidth restrictions (up to 14.400bps) had managed to maintain its customer base of 662 customers. The CYTAPAC service serves customers with networks all over Cyprus with low speed data transmission needs. For example, the PROPO football pools network and the Bank of Cyprus automatic teller machine (ATM) network are served by CYTAPAC.

MOBILE TELECOMMUNICATIONS

After 40 years of providing telecommunications services, this year finds us utilising our potential as a technologically advanced, contemporary organisation with a European orientation, and thus enhancing our ability to face the new challenge of competition.

Focusing on the current and future needs of Cypriot consumers, we proceeded in 2001 to improve the quality of our products. New services were introduced, while at the same time we slashed call rates drastically, enabling us to charge the lowest tariffs in the European Union.

We followed a dynamic strategy of continuously expanding our mobile telephony network, with the aim of improving quality. During 2001, we extended our network infrastructure by increasing the number of base stations by 23% and the number of cells by 26%. Geographically, we have now covered 93% of the government-controlled area of Cyprus, while population coverage exceeds 99%. As a result, communication channels increased by 30%, compared to 2000, significantly improving the quality of service offered to customers.

During 2001, work began on the implementation of the infrastructure required for the introduction of GPRS technology, a project that was completed towards the end of the year.
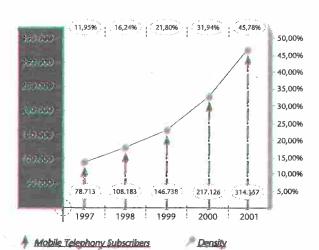
Furthermore, we increased our International Roaming partners to 215, enabling customers travelling abroad to use their mobile phones in 87 countries.

CYTAGSM postpaid mobile telephony continued its upward trend, and the number of subscribers rose from 195.533 at the end of 2000 to 236.735 at the end of 2001, increasing penetration from 28,77% at the end of 2000 to 34,49% at the end of 2001.

Moreover, the soeasy by CYTAGSM prepaid mobile telephony service also followed an upward trend since the launch of its upgraded identity in December 2000. Customers of this service increased to 77.442 at the end of 2001, compared to 21.953 at the end of 2000. Penetration rose by 8,1% to reach 11,28% at the end of 2001, compared to 3,18% at the end of 2000.

Mobile Telephony Subscribers   Density

The agreements made with selected associates to resell soeasy by CYTAGSM products, have contributed to the rapid growth in penetration of the service. By the end of 2001 there were 12 resellers of our products.

Total mobile telephony penetration reached 45,77% by the end of 2001.

The most important and innovative projects of 2001 were undoubtedly the operation of the first mobile portal in Cyprus, cybee, and the launch of two new price packages for CYTAGSM postpaid mobile telephony.

Cybee, which has been operating since September 1, was designed for the 21st century consumer who needs quick and immediate access to information anytime and anywhere. The information and services offered by cybee can easily be accessed via multiple modes, text messages, WAP or the internet.
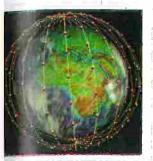
Aiming to satisfy all segments of our CYTAGSM postpaid mobile telephony customers, we introduced two new additional price packages in September 2001. The three packages differ only with respect to the monthly subscription fee and the local call charge. The Light Use package is intended for those who make very few local calls on a weekly basis, whereas the Max Use package is designed for those who make several local calls a day. The Classic Use package is the existing package and is intended for those whose telephone usage falls somewhere in between the other two categories.

In the context of our cost-oriented pricing policy, we proceeded on January 1, 2001, to reduce the connection fee to the CYTAGSM postpaid mobile telephony service from £25 to £20. On August 1, we announced a reduction in the monthly subscription fee from £8 to £6. This fee remains applicable until the introduction of new pricing packages. Furthermore, we abolished the monthly subscription for the Fax & Data services.

The most significant reductions in mobile telephony charges were made in December 2001. For prepaid mobile telephony, the reduction was as high as 44% while for postpaid mobile telephony, both the monthly subscription and local call rates were drastically reduced. For all three price packages, a night charge of 1 cent/minute is applicable between 22:00 and 7:00 daily. We also greatly reduced the cost of text messages by introducing a common fee for both postpaid and prepaid mobile services. The reduction for postpaid telephony was as much as 50% and for the prepaid service up to 67%.

In line with the Organisation's tariff rebalancing policy, we applied additional reductions to international tariffs for both postpaid and prepaid mobile telephony.

As part of our efforts to continue offering high quality services to customers, in accordance with our Organisation's well-established policy, on March 1 we improved the method of forwarding a call to the VoiceMail service or to another phone number (for both the

With the aim of playing a leading role in the further spread of Internet use in Cyprus and the application of electronic communications in the education and instruction of young people, CYTANET has implemented the following:

postpaid and prepaid services) by introducing a recorded message free of charge.

In the context of its social policy, CYTA abolished all charges for calls made from mobile phones to 4-digit helplines from June 2001.

We also implemented the Organisation's policy of contributing significantly to the social, cultural and sporting life of the country by sponsoring concerts by local and foreign artists, sports events and theatre performances.

VALUE ADDED SERVICES

CYTANET, the largest Internet Service Provider in Cyprus, continued to make excellent progress in 2001, accomplishing the following important goals:

- The upgrading of its Internet connection speed to 79 Mbps.
- The provision of a new, groundbreaking service, NetRunner, for fast Internet accesses via CYTA's DSL network.
- The introduction of CYTANET ROAMING, a service that provides our customers with Internet access in almost any country in the world.

- An agreement was signed with the Ministry of Education to connect all elementary schools to CYTANET via the ISDN network. Over 428 elementary and secondary schools are now connected to the CYTANET service.
- It funded the Youth Information Centre of the Cyprus Youth Organisation, providing, among other things, Internet connections and electronic equipment.
- It offered to host, free of charge, web pages belonging to non-professional, charitable and educational organisations.
- It provided free educational seminars about the Internet.

By demonstrating the CYTANET service at various exhibitions across Cyprus, we kept our customers informed on Internet developments and enabled them to take advantage of various special offers.

Within the framework of the Organisation's contribution to the island's social, cultural and sporting life, CYTANET sponsored concerts by Greek artists, the JOTI-JOTA scout jamborée, the 2002 Cyprus Rally and the Youth Information Centre of the Cyprus Youth Organisation.

The Organisation's cardphones are still being used widely by the public. In our efforts to provide customers with the best possible service, we increased their numbers with new installations in both public and private areas. Some 2.610 cardphones were in operation by the end of 2001.
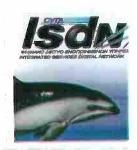
As the number of cardphones has risen, so has the quality of our service, restricting to a minimum the extent of damage to equipment. Around 98,5% of cardphones operate smoothly, setting an excellent record by European standards.

On behalf of the government, CYTA designed, installed and now operates emergency telephone systems on motorways, covering the major roads of Cyprus.

The network consists of 232 telephones along the motorways and two control centres, one in Nicosia and one in Limassol.

In April 2001, we introduced a telecard collectors' service, to offer comprehensive support to collectors in Cyprus and abroad. As part of our efforts to promote card-collecting in Cyprus, we successfully organised the 3rd Telecard Exhibition. We also participated in various exhibitions abroad, thus gaining new members and promoting the Organisation's excellent reputation.

I - CHOICE

The constantly growing demand for communication, entertainment and information, as well as a need for better quality and higher speed, encouraged CYTA to develop the i-choice service.

The name of the i-choice service comes from the fact that it provides an interactive, intelligent and personalised choice of data and information via CYTA's broadband network. Several Internet Service Providers and company intranets are connected to the broadband network and consumers can be connected to these networks, making use of the dynamic choice offered by the broadband data network which has been developed to become the main infrastructure for the provision of fast Internet services, video and programmes on demand and other interactive services through multimedia.

The i-choice connection is like a telephone line which, via additional equipment, provides access to CYTA's broadband network which is up to 10 times faster than the ordinary digital telephone connection (ISDN 64kbps).

DSL (Digital Subscriber Line) technology is behind this connection, giving i-choice subscribers the following capabilities:

- A permanent connection to the broadband network
- A fixed monthly charge, with no per minute charge
- The ability to talk on the phone and at the same time surf the Internet or connect to a company's intranet
- Fast connection with speeds 10 times faster than those currently available.

The i-choice service is available for home as well as business use.

CYTA provides the i-choice, i-choice2 and i-choicebusiness services depending on the needs of the consumer and the type of telephone line being used. The i-choice service consists of the connection to the broadband network via DSL and an analogue (PSTN) line. The i-choice2 service comprises a connection to the broadband network via DSL and a digital (ISDN) line, which allows two simultaneous telephone communications. The i-choicebusiness service consists of a connection to the broadband network via DSL either through a digital or an analogue telephone line.

NATIONAL PRIVATE LEASED CIRCUITS

National private leased circuits remain the primary choice of business customers for data transmission as they are equally suitable for the transmission of text, picture and data.

During 2001, the service continued to serve hundreds of businesses and an increased demand was observed for high capacity circuits. This increase was due to the fact that new business applications required a shift from analogue to digital circuits.

Furthermore, on March 1, 2001, the rebalancing of charges for leased circuits came into effect, within the framework of the Organisation's harmonisation with the European Union's acquis communautaire and in an effort to ensure the competitiveness of the service by charging our business customers lower rates.

The main characteristics of the analogue, digital and broadband circuits offered by the Organisation are their exclusive, 24-hour use by the customer, thus providing security during data transmission, and their ability to adapt to the particular needs of each and every business.

NATIONAL RADIO AND TELEVISION TRANSMISSIONS

The national radio transmission service provides broadcasting companies with the ability to cover various events in Cyprus.

The national TV transmission service provides broadcasting companies with the ability to cover and transmit events 'live', via CYTA premises or those of the customer.

MARITIME SERVICES

In the maritime services sector during 2001, CYTA continued to provide a complete range of telecommunications services for seafarers and ships at sea.

These facilities operate on a 24-hour basis and offer the shipping community communications of a social and commercial nature. In addition, when distress and safety messages are received, the relevant communications facilities are offered to ships within the Cyprus Coastal Service's allocated region, a range of approximately 400 nautical miles. This mission is carried out in collaboration with the National Coordination Centre for Search and Rescue.

FACILITIES TO THIRD PARTIES

In 2001 we continued to provide services of considerable benefit to Civil Aviation, the Meteorological Department and commercial radio stations.

Civil Aviation Services

Since its establishment, CYTA has been responsible for providing telecommunication facilities and electronic communications services to the Department of Civil Aviation.

These facilities and services contribute to the smooth, safe and efficient management of the Nicosia Flight Information Region (FIR), which extends over an area of 175,000 sq.km and affects the movement of aircraft in the areas of Larnaca and Paphos airports.

The services provided are based on international standards and the recommendations of the International Civil Aviation Organisation (ICAO). Furthermore, they are compatible with

the programmes of the European Civil Aviation Organisation EUROCONTROL and their aim is to cater for the growing volume of air traffic and to assist with the harmonisation and integration of national air traffic management systems in Europe.

These services are focused on the smooth operation of the following centres:

- Nicosia Air Traffic Control Centre
- Larnaca International Airport Control Tower
- Paphos International Airport Control Tower

The broad range of services includes high level communications between air traffic control and aircraft in the region, the retransmission and exchange of aeronautical information and meteorological announcements, the use of radar facilities, the processing of radar information and the tracking of air movements via synthetic screens, as well as state-of-the-art navigational aids and Instrument Landing Systems (ILS) at the airports.

In the context of implementing the programmes and directives of EUROCONTROL, during 2001 we upgraded the existing equipment of the Nicosia Air Traffic Control Centre, enabling the Department of Civil Aviation to fulfil its international and conventional obligations, arising from

the implementation of the RVSM (Reduced Vertical Separation Minimum) programme. The RVSM programme has brought about revolutionary changes in the way aircraft move within Europe, since it now permits the vertical separation distance between aircraft to be 1,000 feet. As a result, the capacity of the Nicosia FIR has been increased, without compromising safety.

During the year in review, we re-invited tenders for the LEFCO project which provides for the complete replacement of the Nicosia Air Traffic Control Centre by a new state-of-the-art system.

As part of our efforts to upgrade and extend the existing equipment, we began installing a new Instrument Landing System (ILS) for Larnaca airport, to replace the present one. Factory acceptance tests and staff training have been successfully completed and the system should be fully operational by the middle of 2002. In addition, we successfully carried out the final acceptance tests on Larnaca Airport's Terminal Area Radar.

Furthermore, we extended and upgraded Paphos Airport's communications system. A contract for upgrading the communications systems of the Nicosia Air Traffic Control Centre and Larnaca Airport was signed in 2001 and this project is expected to be completed by April 2002.

Finally, within the framework of extending Larnaca and Paphos airports and constructing new Control Towers, we began work on relocating the existing equipment to the new sites.

Meteorological Service

We continued to provide telecommunications services to the Meteorological Department, in particular to the Meteorological Office at Larnaca Airport. Our most important contribution is the provision of technical support for the operation and maintenance of the Doppler-type meteorological radar system, which enables the study of meteorological phenomena over Cyprus and in the broader Eastern Mediterranean region.

Commercial Radio Broadcasting Services

Our contribution to commercial radio continued through the provision of the technical means for linking the studios of four islandwide commercial stations with CYTA's transmitters on Mount Olympus. Our main goal is the uninterrupted provision of service and to this end we are constantly upgrading our technical infrastructure. The commercial radio broadcasting transmitters operate on a 24-hour basis and during 2001 the availability of service reached 99,98%.

CUSTOMER SERVICE

During 2001, one of our major objectives was to provide high quality customer service that exceeded customers' expectations.
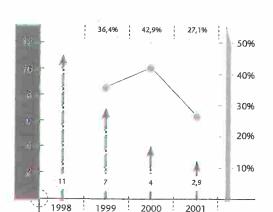
To this end, we designed and implemented a Quality and Continuous Improvement System, based on which our Customer Services Department achieved ISO9001: 2000 quality certification.

Meanwhile, we introduced self-assessment to our District Customer Services, in accordance with the European Foundation of Quality Management (EFQM) excellence model and we plan to bring self-assessment to the whole of the Customer Services Department in 2002.

Our prime methods for evaluating the quality of service offered to our customers are the monitoring of performance indicators and the analysis of data from various market surveys.

Even though the average time for the provision of telephone service showed enormous improvement during 2000, we achieved still further improvements in

2001. The average telephone service provision time fell from seven days in 1999 to four days in 2000 and to less than three days in 2001.

Average Time of Prevision for Telephone Service

Improvement in the Service Provision Time (%)

Specifically, 47% of orders for the provision of telephone service were completed on the day of application while 79% of orders were completed by the next day, in comparison with the corresponding performance indicators of 2000 when only 24% of orders were completed on the same day and 50% by the next day.

CYTA Shops

As part of our continuous efforts to upgrade service, we expanded our retail network with the inauguration of a new shop at Polis Chrysochous in the Paphos district, which began its operations in December 2001. CYTA currently operates a total of 11 shops all over Cyprus - 3 in Nicosia, 3 in Limassol, 1 in Larnaca, 2 in Paphos, 1 at Paralimni and 1 at Kakopetria.

Cytashops offer customers a wide range of services, terminal equipment and integrated communications solutions.

A major goal is to improve the image of our shops and to this end we are currently focusing our efforts on strengthening brand identity. We expect this to result in increased brand recognition, customer loyalty and sales of products and services.

Resale of Products and Services through a Network of Selected Dealers

2001 marked the start of a new CYTA activity: reselling products and services through a network of selected dealers. The aim was to improve customer care and achieve a higher penetration of CYTA products and services in the market.

Our dealer force, consisting of twelve companies with a network of 80 retail shops and of more than 1,000 distribution points (kiosks), succeeded in registering high sales of prepaid mobile service products, telecards and Cytanet connections.

Sales Network for Corporate Customers

As part of our ongoing commitment to improving the service we provide to our business customers, we set up a network of Personal Telecommunications Consultants so

as to offer an integrated service to our valued Corporate Customers. We have already initiated coverage of nearly 1,000 of our most valuable Corporate Clients and our aim is to expand this sales network so as to provide enhanced customer service to medium-size enterprises as well.

Each Personal Telecommunications Consultant will work closely with a number of Corporate Clients, giving advice on their telecommunications requirements and offering solutions to help improve their business capabilities in relation to CYTA's services. Moreover, as main points of contact, they will monitor and facilitate the interaction of Corporate Clients with our Organisation and will offer support for our full range of present services and for innovations as these are introduced.

We believe that this personalised approach, and the exceptional customer service that we aim to provide through this initiative, will enable us to develop mutually beneficial, long-lasting relationships with our Corporate Clients. Our objective is to retain and develop our Corporate Customer Base in the new competitive environment.

Call Centres

The CYTA Call Centre (132) provides information on all services and products of CYTA, but also handles customer orders, complaints and suggestions.

In an effort to further improve the level of service, we are continuously upgrading the CYTA Call Centre (132) with new facilities and tools. As a result, during the year under review, we were able to provide mobile telephony customers (post-paid and pre-paid) with a more complete, personalised support. The Call Centre operates extended working hours (weekdays 8:00-21:00, Saturdays 10:00-17:00) and all our operators have attended a training course designed specifically for them.

Via the 8000 8080 Cytanet Support Centre, customers can apply for internet access and within minutes their account is up and running. In addition, the Centre offers extensive support on Internet-related issues ranging from basic information to extensive technical support or complaints handling.

During 2001 we also introduced major changes in personnel-related issues. In order to handle the rapid increase in incoming traffic without compromising the quality of the service, we employed a large number of part-time operators, mostly students in Internet-related fields, giving them a chance to supplement their income and at the same time obtain experience in an area relevant to their studies. The implementation of this policy improved the quality of service even further, especially regarding response time and the percentage of abandoned calls.

Directory Enquiry Service (191 & 192)

The systematic implementation of the Business Plan for this service enabled us to take measures and actions that resulted in an impressive improvement in the quality of

service provided. Specifically, compared to the previous year, the average waiting time fell from 20 seconds to 6 seconds, the number of abandoned calls fell from 4% to 2,4%, while the percentage of calls answered within 20 seconds increased from 67% to 91%. We also witnessed a substantial (20%) increase in the number of calls served over the previous year's figure, despite the fact that the per call charge was raised at the beginning of the year.

Fault Reporting and Rectification

During 2001 we managed to maintain the same high standard of service that we provided to our customers in the previous year and, in some cases, even improved upon it.

Specifically, Fault Reporting Service (197) response times were of a similar high standard as in 2000, with 81% of calls being answered within 20 seconds.

On the subject of fault rectification, the percentage of faults rectified on the same day as they were reported reached 47% in 2001, compared with 45% in 2000. Furthermore, the percentage of faults rectified within 24 hours was 80%, the same level as in 2000.

Telephone Directories

In line with our objective of making continuous improvements to the Telephone Directories service, a new, upgraded Yellow Pages volume was issued in 2001. The new, colourful Yellow Pages are considered a reliable market guide, offering direct and effective solutions both to users and advertisers.

For the first time, we successfully implemented a home delivery scheme for the distribution of Telephone Directories. In 2002, new directories will be distributed through supermarkets.

In 2001, the Telephone Directories Web Page was also upgraded and now offers the search option of finding the name of a subscriber by entering the corresponding telephone number. As a result, the average page views per month rose to 250.000.

Complaints Handling

Customer complaints handling plays an important role in improving the quality of services offered to our customers. Based on the complaints and suggestions of customers, it has become an important tool in refining the quality of our products and processes. To emphasise the significance of the customer complaints function, more than 30 suggestions arising from customer complaints were implemented during 2001.

Market Research

During 2001 we began to monitor the quality of service offered by all customer service points such as shops and call centres, regarding service provision, fault reporting and rectification. In order to measure the quality, we used a series of market surveys that together form a general Index. By looking at this index, we are able to monitor changes in customer satisfaction so as to ensure that the standard of service we deliver falls within the expectations of our customers.

In addition to these customer-oriented surveys and in order to improve employee satisfaction, we also conducted a survey to identify employee expectations. The results indicated that members of staff are satisfied with their jobs at CYTA. The aim, of course, is to implement all those measures considered necessary to improve job satisfaction even further since it is our belief that satisfied employees will lead the Organisation to more satisfied customers.

DIGIMED COMMUNICATIONS LTD AND SUBSIDIARY COMPANIES

A cornerstone of our strategy is the expansion of our activities abroad, especially in countries with large Cypriot communities, as well as the provision of valued added services and complete solutions in the local and foreign markets.

To this end, via its subsidiary company Digimed Communications Ltd, CYTA proceeded during 2001 to establish companies, either wholly owned by CYTA (Digimed's subsidiary companies) or partly owned by CYTA (about half via Digimed) and to build strategic alliances as follows:

- Since August 1999, IRIS Gateway Satellite Services Limited has offered satellite turnaround services and fibre connectivity facilities, covering Asia, the Middle East and Europe. The basic services rely on DVB technology, allowing for the provision of Audio, Video and Data Services.

IRIS, a joint venture between Digimed and the British company Merlin Communications International Limited, has existed since April 16, 1999 and officially launched its operations on August 1, 1999 at the Makarios Satellite Earth Station. Since then, IRIS has managed to secure contracts with companies such as Asiasat, BBC World Television, Polycom and Saudi Channel while promoting CYTA and Cyprus in general through its participation in exhibitions from the USA to Asia.

During 2001, IRIS enriched its customer base with organisations such as Muslim TV, Christian Vision and Dubai Channel, with contracts allowing for the use of the Makarios Satellite Earth Station for audio and video distribution.

- Cytacom Solutions Ltd, a subsidiary company of Digimed, was established in July 2001 and has already begun its activities in close cooperation with CYTA's Customer Services.

The mission of Cytacom Solutions Ltd is to add the private networks and terminal equipment sector to the Organisation's product and services portfolio. The product spectrum of our company includes:

- Cabling for buildings
- Private telephone exchanges
- Network equipment
- Specialised systems and software
- Project management
- Consultancy Services

All professional services (designing, project management, consultancy) are developed and delivered by highly trained personnel. The supply, installation and maintenance of the equipment takes place in cooperation with ten leading Cypriot companies that are active in the field of cabling for buildings, voice and data communication, and information technology.

- *BesTel Communications Ltd* is a joint venture between CYTA, the Cyprus Telecommunications Services Operator, and ZTE Corporation, one of China's leading telecommunications infrastructure manufacturers.

- BesTelComms provides high technology total solutions in the field of telecommunications by combining Chinese wisdom and technological expertise with the European service tradition, thus offering a highly competitive communications products and services combined with
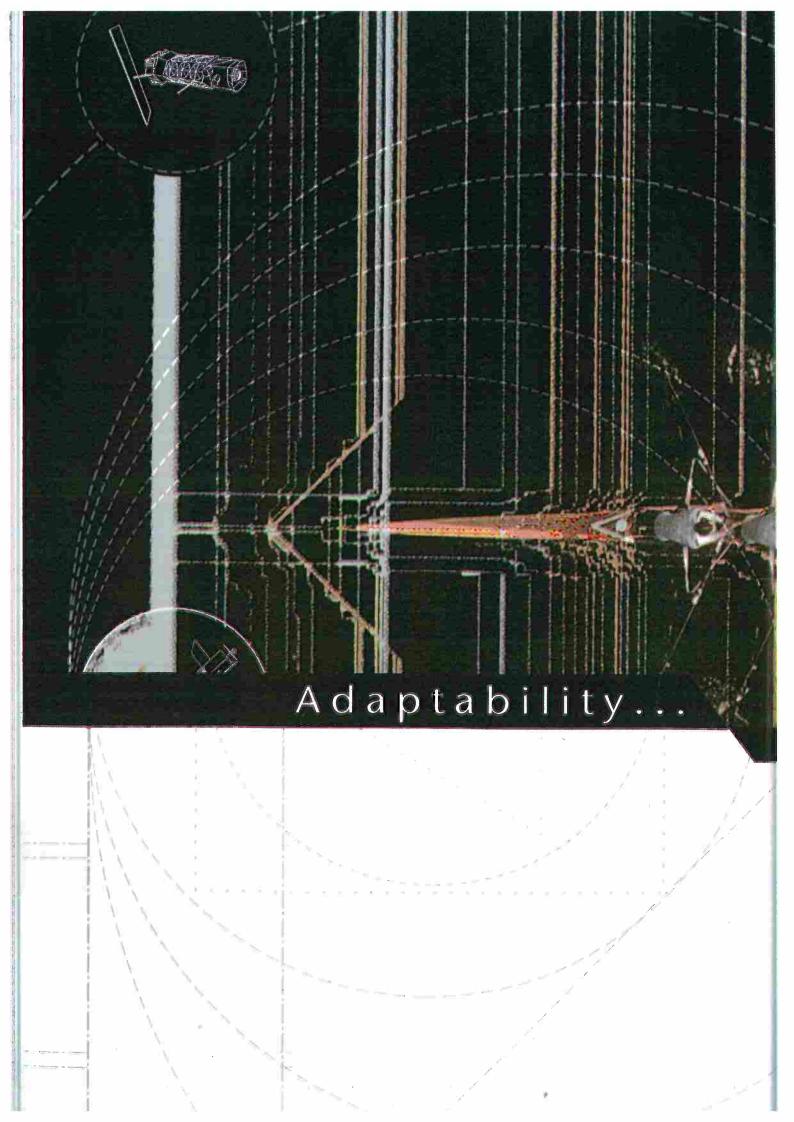
unique customer requirements orientation and after-sales support, which has always been a characteristic of CYTA.
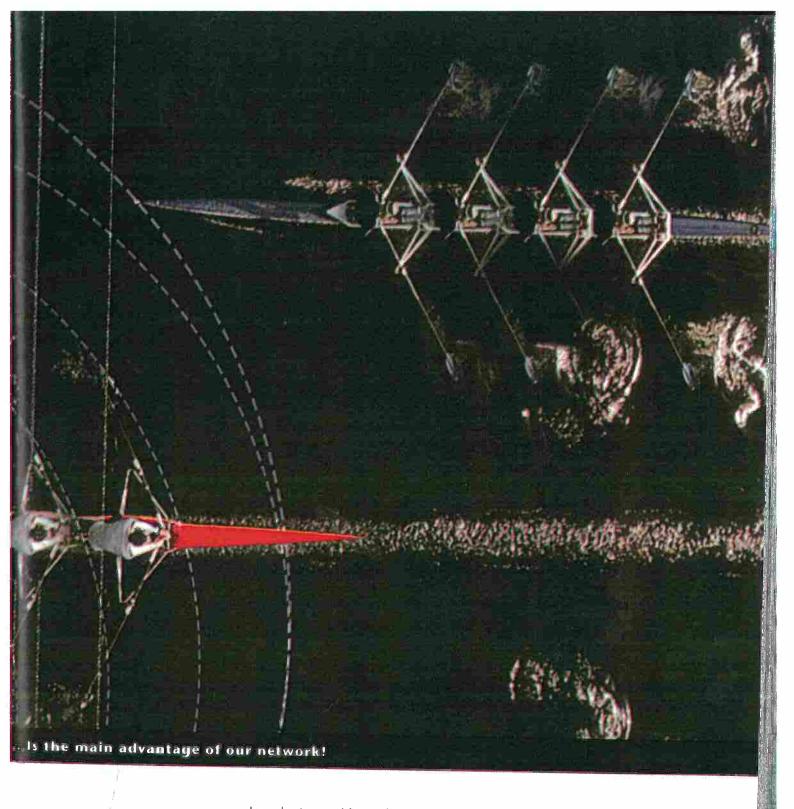
BesTelComms, empowered by CYTA, offers expertise in the design, installation, development, customisation and operation of fixed/mobile/Internet and converged technology telecommunications networks. Total solutions are built upon ZTE's state-of-the-art product series consisting of fixed network switching and mobile cellular products, intelligent and broadband access networks to Internet systems and optical transmission systems, as well as multimedia and teleconferencing equipment and systems.

- In 2001, *Emporion Plaza Ltd* was established to operate in the field of specialised software, electronic transactions and electronic commerce, in cooperation with Commercemind of Israel. Emporion Plaza is a subsidiary company of Digimed.

- In 2001 *Cytasoft Ltd* was established to operate in the Application Service Provision (ASP) sector. It, too, is a subsidiary company of Digimed.

- In 2001, *CYTA (UK) Ltd* and *CYTA (USA) L.L.C.* were established to be active in England and the United States of America respectively, whilst the procedure has begun for the establishment of CYTA (HELLAS) S.A. in Greece.

Adaptability...

...Is the main advantage of our network!
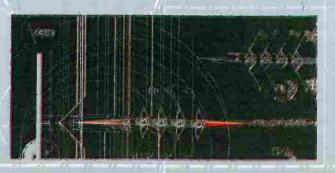
In order to provide quality services, we need a modern and efficient network that is able to adapt systematically and rapidly to the most demanding requirements. And we have just the one. The secret of our network's success is its properly studied adaptability to the challenges of today's telecommunications reality. It is also the Organisation's human resources which, in a spirit of collectiveness and consistency, maintain, support and upgrade it with products employing the most successful modern technology. *For maximum productivity in a world without communications limits!*

Network

During the year under review, we continued to upgrade and enhance our national and international network. In order to support both new and existing CYTA services, we carried out a number of works that guarantee the quality of communications both at home and abroad.

Among other things, we introduced new Intelligent Network services and expanded the Asynchronous Transfer Mode (ATM) network. We also began the large scale introduction of the Asymmetric Digital Subscriber Line (ADSL) system to all urban telephone exchanges.

In the context of providing underground access to the subscriber network, we proceeded to connect a large number of new customer premises via undergound cables. The Access Network's gaining of ISO 9001:2000 Quality Certification in 2001 was also of great significance.

With the aim of promoting its international products and services more effectively during 2001, CYTA's International Commercial Services Division adopted the name CytaGlobal. Also significant was the expansion of our international network through our participation in two new international submarine fibre optic cable systems which came into service in 2001, BSFOCS and TAT-14.

INTERNATIONAL SWITCHING NETWORK

During the year in review, CYTA's international telephone network underwent major upgrades. The network's embedded interoperability and uniformity guarantees the quality of international communications.

Network Management Centre

The Network Management Centre (NMC), which has operated with great success over the last three years, ensures the continuous monitoring and controlling of national and international circuit switched traffic and of the signalling network. Thanks to the NMC's operations, CYTA is able to provide its customers with a high quality international telephone service.

Additionally, during 2001, a number of software and hardware upgrades were carried out with the aim of securing a better and more efficient operation of the centre. As a result of these upgrades, an integrated management platform was created which facilitates the management of both traffic and signalling of the fixed (national and international) networks as well as the mobile telephone networks.

NATIONAL TELEPHONE NETWORK

In 2001, CYTA successfully completed the upgrading of the operational software in its ALCATEL 1000E10 telephone exchanges, which brought significant improvements to the telephone services offered to customers. The most notable benefits were the following:
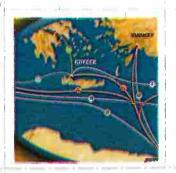
• An intermediate solution was implemented to offload the National Circuit Switched Telephone Network from Internet traffic.

• We began a pilot project for supporting ADSL access via upgraded ALCATEL telephone exchanges (unified solution).

Finally, a study on the evolution of the National Circuit Switched Telephone Network was completed and the implementation of its findings is expected to begin in 2002.

INTELLIGENT NETWORK

The Intelligent Network enables and supports the development of a substantial number of new fixed and mobile telephone services while facilitating the management of existing services.

In 2001, several new intelligent network services were developed. These are expected to become commercially available during 2002.

ATM NETWORK

In 2001, CYTA expanded its ATM network, both in capacity and in coverage by installing switches in urban areas. The improvement to the ATM network aims at establishing a backbone network supporting ATM and Frame Relay services, as well as the i-choice service that was commercially introduced during the year in review.

TRANSMISSION NETWORK

National Transmission Network

In 2001, particular emphasis was given to the successful implementation of our development plan for a Synchronous Digital Hierarchy (SDH) transmission network. As a result, the total capacity of the backbone network has doubled since 2000 and customer capacity demands have been fully satisfied.

The transmission network offers a modern and reliable means of carrying digital signals, with the capability of automatic and immediate restoration of links and circuits in case of faults. We developed new optical transmission rings of 2,5Gbps and

622Mbps for the metro and intercity backbone network, and we upgraded existing rings for improved protection.

In 2001, the SDH network management system was upgraded with the aim of improving efficiency in our operations and maintenance processes, and by extension, the quality of service provided to customers. Also, the first phase for the computerisation of the transmission network was completed with the automation of the circuit provisioning process.

The procurement process for the introduction of a synchronisation network aiming at improving the reliability of the transmission and other networks was completed in 2001. The network is due to come into service the end of 2002. Furthermore, the procedure is underway for the introduction of an optical transmission network based on Wavelength Division Multiplexing (WDM) technology. The WDM network, which is expected to be in operation by the end of 2002, will dramatically increase the capacity of our backbone network and support next generation networks such as IP over WDM.

The implementation of microwave radio links continued during 2001, aiming at providing transmission capacity to areas where there is no alternative telecommunications infrastructure, mainly for the requirements of our mobile telephony network. Also, a feasibility study and the preparation of specifications for the introduction of SDH microwave radio were completed. These links will be used for capacity upgrades to the transmission network in mountainous areas and for providing alternative routes in case of failures at important nodes.

Digital Leased Line Network

Throughout the year under review we continued to develop the leased line network with the aim of fulfilling the requirements of our business customers. The development took place in both urban and rural areas. The same infrastructure is used to provide customer access to our ATM/Frame Relay network, at rates of 64kbps up to 2Mbps.

We also concentrated on developing the leased line network, in conjunction with the powerful network management system at our disposal, and this enabled us to fully satisfy the growing number of requests from business customers for leased circuit and ATM/FR products.

In addition, a new contract for the supply of HDSL (High bit-rate Digital Subscriber Line) equipment was signed. The new equipment

will be used mainly for the provision of primary rate ISDN access, 2Mbps leased circuits and 2Mbps ATM/ FR access. The installation of this equipment began during the second half of 2001 in urban areas where there is a high demand for such circuits.

During the year in review, about 1.300 new digital leased line circuits and accesses were provided to customers. The increase in network capacity was of the order of 30%.

Good design and the timely development of the leased line circuit network, together with improvements made to our internal processes, have resulted in improved delivery times for our products and a better quality of service to customers.

In 2002 we shall continue to expand the leased line circuit network to other rural areas, in parallel with the installation of more resources in urban areas. Also, in 2002 we shall continue with the installation of new HDSL equipment.

We also intend to introduce new processes for the provision of service so as to allow the Customer Services Department to manage leased line network resources directly and therefore reduce delivery times further.

Frequency Management

Within the framework of providing a higher quality of service and safeguarding the interests of both CYTA and Cyprus in general, a number of cases of harmful frequency interference were investigated and essential corrective measures were undertaken in co-operation with the Ministry of Communications and Works.

Satellite Communications

CYTA is a Signatory to - and utilises the services of - the International Satellite Telecommunications Organisation (INTELSAT) and the European Satellite Telecommunications Organisation (EUTELSAT). CYTA is also a signatory to INMARSAT, which provides Global Maritime, Land Mobile and Aeronautical Services via satellite. CYTA also utilises other satellite systems such as SIRIUS II, TELSTAR 10 and the Russian EXPRESS 6A and is also a shareholder in ICO, an organisation that provides mobile services via satellite.

During 2001, we proceeded with the provision of an Internet service via satellite to the GCNC (Global Communication Network Company), utilising the existing infrastructure and facilities of the Makarios Satellite Earth Station.

Furthermore, we signed a contract with EUTELSAT for the provision of a spectrum monitoring service for its Atlantic Bird 2 satellite.

The Makarios Satellite Earth Station also hosts the Teleport of IRIS Gateway Satellite Services Ltd which provides turnaround services for the retransmission of TV, radio and data programmes from the Middle East and Europe to Asia and vice versa.

During 2001, we also proceeded with the provision of consultation services to the Department of Fisheries and Marine Research, by preparing the specifications for an international tender calling for the supply of a Vessel Monitoring System (VMS). VMS is expected to come into service by the end of 2002 and will base its operations on satellite communications.

SUBMARINE
FIBRE OPTIC CABLE SYSTEMS

In 2001, a total of seven international submarine fibre optic cable systems, landing in Cyprus, were in full operation:

- SEA-ME-WE 3 (Far East, Australia, Asia, Middle East, Europe)
- SEA-ME-WE 2 (Europe, Middle East, Asia)
- LEV (Cyprus, Italy, Israel)
- APHRODITE 2 (Cyprus, Greece)
- CIOS (Cyprus, Israel)
- CADMOS (Cyprus, Lebanon)
- UGARIT (Cyprus, Syria)

Through its participation in these cable systems, CYTA already plays a strategic role in the region. At the same time, it has maintained Cyprus' position as a telecommunications hub in the Eastern Mediterranean.

In line with the Organisation's strategy to increase its international capacity with the neighbouring country of Israel, the first half of 2001 saw the successful and speedy completion of the project for upgrading the CIOS (Cyprus – Israel) submarine cable system. CIOS's terminal equipment was replaced by the latest technology and the system's capacity was increased from 2 x 622 Mbps to 2 x 2,5Gbps. In addition, the TEFKROS and KINYRAS cable systems were also upgraded from 622Mbps to 2,5Gbps.

At the same time, our international cable network expanded through our participation in BSFOCS and TAT-14, two new international submarine cable systems that came into commercial operation during 2001.

BSFOCS (Black Sea Fibre Optic Cable System) is a high capacity telecommunications highway that covers the Black Sea region, providing reliable, high quality connectivity at low cost. Apart from being a co-owner, CYTA has also been appointed Commercial Administrator of BSFOCS. This appointment is considered a great success for CYTA and, by extension, for Cyprus. It also confirms our Organisation's positive image on a global scale. Our participation in BSFOCS is in line with our broader strategy that aims to interconnect Cyprus and the Eastern Mediterranean with the Balkans and the Black Sea region.

TAT-14 is a transatlantic fibre optic cable system, directly connecting the UK, France, the Netherlands, Germany, Denmark and the USA in a ring configuration, thereby

safeguarding the system's full restoration. Through its participation in TAT-14, CYTA has acquired a capacity of 5 STM-1 (5 x 155 Mbps) which will be utilised for the further development of the Internet and for the requirements of international telephony. At the same time, part of this capacity will be leased or resold to other international telecommunications operators.

GLOBAL CONNECTIONS

Our Organisation maintains direct telephone circuits with 62 correspondents in 52 countries. It also maintains 54 direct signalling links, interconnecting with 250 Destination Point Codes (DPCs) for serving international telephony and international roaming for GSM mobile telephony.

At the end of 2001, we had 5,134 international telephone circuits and 136 international ISDN circuits. At the same time, we had 150 x 2Mbps direct transit connections, while four new VC3 (45Mbps) direct transit connections were established, bringing their total number to seven. We also had seven new VC4 (155Mbps) direct transit connections.

Finally, during 2001, the total capacity of our international private leased circuits increased from 23Mbps in 2000 to 77 Mbps, while the total bandwidth of our IP CYTANET international network increased from 71 Mbps in 2000 to 87Mbps.

GLOBAL TELECOMMUNICATIONS PRODUCTS

With the aim of promoting its international products and services more effectively during 2001, the International Commercial Services Division of CYTA adopted the name CytaGlobal and successfully participated with its own stand in the ARABCOM 2001 international telecommunications exhibition in Lebanon and in the EXPOCOMM Greece/Balkans exhibition in Athens.

Our international products and services are grouped into the following portfolios:

A. Switched Transit Portfolio

A.1 Circuit Switched Products: Circuit switched connections are provided for international telephony, ISDN, telex and telegraphy.

A.2 Packet Switched Products: Packet switched connections are provided via the PSPDN - known as CYTAPAC - for secure data transfers all over the world.

A.3 Enhanced Transit Products: Many different packages with aggressive pricing schemes are available on request.

A.4 Toll-Free Products: International freephone service and other toll-free products are provided to business customers and other Information Providers for incoming calls.

B. Dedicated Transit Portfolio

B.1 Satellite Connectivity Products

B.1.1. CytaSpace.Way: Provision and resale of space segment capacity on various satellite systems worldwide.

B.2 Cable Connectivity Products and Consultation Services

B.2.1 CytaCable.Way: Transfer of cable capacity on both an IRU and Administration Lease basis to other International Telecommunication Operators.

B.2.2 CytaPassage: To extend capacity from one international submarine cable landing in Cyprus to another and to interconnect satellite facilities with these cables, dedicated direct transit connections are provided on our national coastal systems TEFKROS and KINYRAS.

B.2.3 CytaBridge: International Private Leased Circuits (IPLCs) between any two countries of the world are facilitated via Cyprus,

B.2.4 CytaRestore: Restoration of submarine cable links (140/155

Mbps) is provided via reserve cable capacity owned either exclusively or in part by CytaGlobal.

B.2.5 CytaCable.Consult: Provision of consultation services on the planning and implementation of submarine cable systems on a global scale.

B.3 Internet Connectivity Products

B.3.1 Global CytaNet: Combination of cable or satellite leased connectivity with access to the Internet via our CYTANET node. This product is offered globally to business customers, to ISPs and to CYTA's correspondents.

B.4 Total Solutions and Intergration

B.4.1 CytaConnect: A combination of satellite and cable capacity for the provision of high quality total communication solutions. CytaConnect integrates various CytaGlobal products and converged services, offering innovative global solutions.

C. Access and Signaling Portfolio

C.1 International Private Leased Circuits (IPLCs) designed and developed to meet the needs of specific corporate customer segments

C.1.1 CytaBusiness.Link for business customers
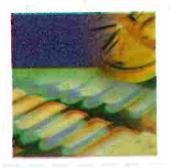
C.1.2 CytaNews.Link for news and press agencies

C.1.3 CytaAcademic.Link for academic and research institutions

C.1.4 CytaInternet.Link for licensed Internet Service Providers

C.1.5 CytaVideo.Link for licensed TV stations

C.2 Packet, Frame Relay and ATM Products

C.2.1 CytaPac.plus: Provision of Λ international private virtual circuits (PVCs), via CYTAPAC, our Public Switched Packet Data Network.

C.2.2 CytaFrame.Relay: Global connectivity employing the Frame Relay protocol is provided, via direct cable links with CytaGlobal's correspondents, to selected destinations and with no application restrictions.

C.2.3 Frame Relay through Alliances: Global private connections employing Frame Relay are made available through alliances of CytaGlobal with International Frame Relay Providers to destinations worldwide. Voice applications are restricted.

C.2.4 CytaTransfer: Global connectivity is provided via our Asynchronous Transfer Mode (ATM) platform. Voice, data and image is transmitted via submarine fibre optic cables at bit rates ranging from 2 Mbps to 34 Mbps.

C.3 Direct Satellite Access & Video Products

C.3.1 CytaVideo.Select: To serve Broadcasters, we offer on demand terminal TV transmission to and from Cyprus, typically via our dedicated fibre optic video links, on a periodic, occasional or event basis. It is mainly offered for transmissions of a short duration.

C.3.2 CytaSpace.Link: In association with our correspondents and selected major satellite organizations, we can provide satellite private leased connections through the supply of very small aperture terminals (VSATs) in a variety of configurations.

C.3.3 CytaSpace.Select: Provision of international telephony services, via fixed and transportable VSATs, utilising EUTELSAT's Demand Assigned Multiple Access (DAMA) platform.

C.4 Signaling Products

C.4.1 CytaSignal & CytaSignal.plus: CytaSignal utilises existing international signalling links with our correspondents, to provide

them with fully redundant Signal
Transfer Point (STP) facilities,
complete with versatile alternative
routings. CytaSignal.plus combines
a direct connection via
international cable or satellite
private leased circuits and access to
the international signalling network
through CytaGlobal's signalling
nodes.

*C.4.2 CytaRoam &
CytaRoam.plus:* Combination of
the provision of local or
international private leased circuits
respectively, with the provision of
signalling facilities to enable
international GSM roaming.

D. Services Portfolio

The provision of specially designed
services, adding value to our global
product portfolios (Product Facilitators,
International Network Management,
Telehousing & Outsourcing and Billing
Services).

ACCESS NETWORK

In 2001, the development of the copper
and optical access networks continued. The
implementation of various strategic projects,
in parallel with the adoption of a number of
innovations, aimed at providing improved
services for customers, broadening the
range and improving the quality of the
products and services on offer, while at the
same time showing due respect for
environmental issues.

Strategic Projects

With quality and the prompt provision of
service our major objectives, we pursued
further the development of the access
network. Emphasis was also placed on the
development of a broadband access infrastruc-
ture for the provision of new products. To this
end, a number of projects were undertaken as
outlined below:

- Asymmetric Digital Subscriber Line
(ADSL)
The introduction of this technology on a
large scale was initiated in urban
telephone exchanges. The system
deployed was able to satisfy up to 7.000
customers by the end of 2001 and we plan
to deploy the system in rural exchanges in
2002-2003. The system is already
providing fast Internet service and, in the
future, it will be possible to offer additional
broadband services such as video on
demand, etc.

- Underground installation of the
subscriber network
The provision of underground access to
customers continued, aiming at improving
the quality of services provided, respect for
the environment and the faster provision of
service to new customers. During 2001,
5.249 subscriber premises were
connected via underground cables.

- Quality management system based on
the ISO 9001:2000 quality certification
The design of a quality management
system was fully completed and
implemented. The Access Network
obtained ISO 9001:2000 Quality

Certification in December 2001. This system promotes continuous process improvement through measurements, inspections and the taking of appropriate corrective action.

Geographic Information System (GIS) for the access network

GIS for the Access Network allows the administration of the copper network and the infrastructure used. The system also enables the computerisation of access network design procedures and the execution of projects, resulting in a faster provision of services. The system will operate fully during 2002, when the entry of digitised network topographical plans and their correlation to network data in existing information systems is completed. The study and development of functions relevant to the optical network were also initiated.

Development of an incentives reward scheme
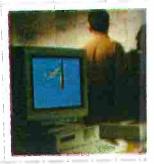
An Incentives Reward Scheme for Access Network personnel aiming at improved productivity was developed. The system is due to be implemented during 2002.

Main Development Projects

During the year under review, the development of the copper and optical networks, which constitute the basic elements of the access network, continued:
- The development of the copper cable network, assuring geographical uniformity in the provision of basic
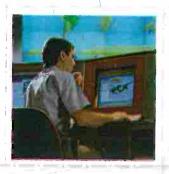
telephone service islandwide continued. The number of available two-wire lines in the primary copper network increased by 28.900 on the urban copper network and by 8.100 on the rural network. The islandwide total number of lines at the end of 2001 was 759.300.

- The extension of the optical cable network, securing high transmission rates and an excellent quality of service, progressed further.

  - 131km of fibre optic cable was installed on the trunk network, enabling the majority of telephone exchanges to be connected through alternative links, thereby achieving uninterrupted provision of service in case of faults.

  - An additional 58km of fibre optic cable was installed on the subscriber optical network for direct connections to customers' premises.

  - The installation of optical rings in the urban network continued further. A total of 29km of fibre optic cable was installed, corresponding to 4 rings with 24km of fibre optic cable in rural areas.

  - In total, 242km of fibre optic cable was installed during 2001, bringing the islandwide total to 2.203km.

Support Projects

A number of access network support systems were introduced and/or upgraded during 2001 aiming at improvements to network quality and to the level of support offered, as follows:
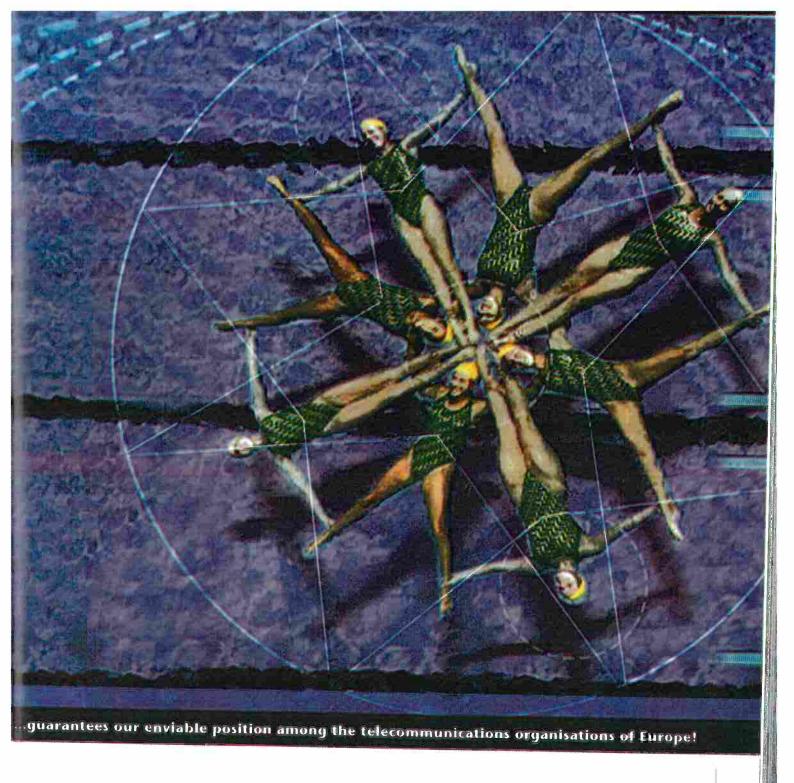
End-to-end connection test system
The system, which became fully operational in 2001, aims to correct the data in the central database of network resources, thus enchancing the utilisation of the installed resources and managing them in the most efficient way possible.

Automatic customer line test system
The functional operations of the system were extended, thus enabling the mass automatic testing of customer lines. Via this system, the electrical characteristics of customer lines are checked.

Replacement of obsolescent network
With the aim of improving network quality, the replacement of obsolescent network elements, such as flexibility equipment, distribution points, cables, etc., continued during 2001.

Cable pressurisation and monitoring system
The development and upgrading of the cable pressurisation and monitoring system continued during 2001. The system enables the early identification and prevention of faults in the primary network. As a result of the implementation of this system, the rate of faults in this part of the network was reduced and maintained at very low levels.

ADSL Network Management Centre
The ADSL Network Management Centre was completed and operated successfully during 2001.

Copper line multiplexing system
All the necessary trials and inspections were completed for customer premises equipment as well as control and operation. We expect the system to be employed on a large scale during 2002.

Flexibility...

...guarantees our enviable position among the telecommunications organisations of Europe!
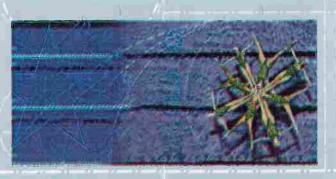
We are proceeding with dynamism and determination with regulatory and statutory changes. Our aim is clear: in the new competitive environment to become established as a modern, flexible European business enterprise.

With careful and consistent steps, we are responding to the requirements of the EU's acquis communautaire, the demands of our postmodern era and the flood of developments in communications.

We continue to broaden our horizons, to expand our alliances and to develop unceasingly our international activities.

Drawing strength from our customers – the recipients of our services and our ultimate judges – we declare that we are ready and strong enough to deal dynamically with any forthcoming competition!

European
and International
Relations

Our aim continues to be that of making CYTA a modern, flexible, European business enterprise. To this end we continued to be active on issues that concern our European and global relations.

Thanks to CYTA's active participation in several international telecommunications organisations, we continued to monitor closely technological and other developments in the telecommunications sector.

We continued to participate in consultations with the relevant government authorities on the establishment of a Regulatory Authority for Telecommunications and Posts and the drafting of new Telecommunications Legislation. In May, 2001, The House of Representatives approved Law 91(1)/2001 on the establishment of a Commissioner for the Regulation of Telecommunications and Posts.

Regarding the question of changes to CYTA's legal and regulatory framework, the Cabinet's approval and submission to the House of Representatives of proposed legislation was of great significance.

HARMONISATION
WITH THE EUROPEAN UNION

During 2001 we continued our efforts towards harmonisation with European Legislation in areas where CYTA is in a position to implement measures by itself. These were mainly in the technical sector and included the adoption of European technical specifications and the elaboration of proposals that aim at gradual harmonisation in other areas.

We also took part in consultations with the Ministry of Communications and Works and with consultants hired by the Government, with the aim of implementing certain Cabinet decisions providing for the establishment of a Regulatory Authority for Telecommunications and Posts and the drafting of new Telecommunications Legislation. On May 4, 2001, The House of Representatives approved Law 91(1)/2001 on the establishment of a Commissioner for the Regulation of Telecommunications and Posts. At the same time, proposed new Telecommunications legislation wãs submitted to the House for parliamentary approval.

During 2001, the Cabinet approved and submitted to the House of Representatives a proposal for changing CYTA's legal and regulatory framework. The aim of this change is to grant the Organisation the necessary flexibility to enable it to operate efficiently in a competitive environment.

In the meantime, we closely monitored European Union telecommunications policy as well as the work of those European bodies and organisations, which deal with policy and regulatory issues in the communications sector.

RELATIONS WITH INTERNATIONAL ORGANISATIONS

CYTA is an active participant in the procedures and activities of all the international telecommunications organisations of which it is a member. It participates in various working groups and conferences organised by these bodies, so as to be in a position to monitor and apply technological and other developments in the telecommunications sector.
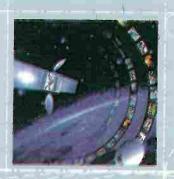
CYTA is a member of the International Telecommunications Union (ITU), which is a United Nations organisation. We follow its operations closely and implement all its recommendations in sectors such as Telecommunications Standards and Specifications (TSS), Radio Communications (RS) and the Telecommunications Development Sector (TDS).

CYTA is a founder member of the Association of European Telecommunications Network Operators (ETNO), which coordinates members' activities for the promotion of services and the best use of networks in Europe. Additionally, it draws up a common policy for its members on telecommunications issues and submits opinions and proposals to various European bodies, mainly within the European Union but also to other international organisations.

In 2001, CYTA attended the 18th & 19th General Assemblies of ETNO in the Netherlands. Additionally, members of the Organisation participated in working groups such as the Review '99 group and the Data Protection Group.
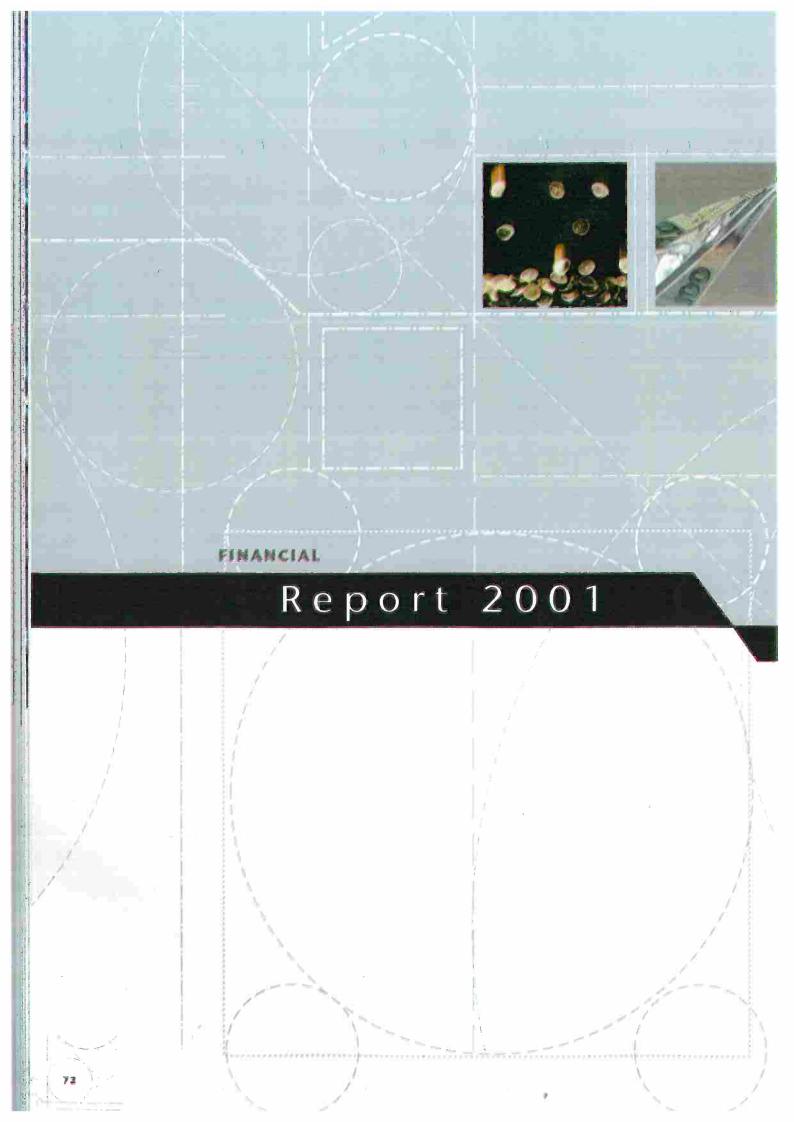
CYTA is also a founder member of the European Telecommunications Standards Institute (ETSI) and as a managing member, follows its operations closely.

Moreover, the Organisation is an active member of the Commonwealth Telecommunications Organisation (CTO) and took part in the Annual General Meeting, which was held in Mauritius from September 24-27.
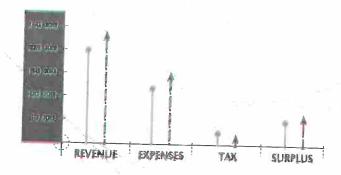
As already stated in the section of this report dealing with the network, Cyprus - represented by CYTA - is a member of the INTELSAT, EUTELSAT and INMARSAT organisations and has been using their satellite systems since 1980, 1986 and 1992 respectively. In 2001, delegations from CYTA participated in various conferences, meetings and conventions held by these organisations.

Our Organisation is also a founder member of the European Telecommunications Information Society (ETIS) and took part in the Board of Directors' General Assembly as well as the 19th and 20th Administration Committee Meetings, held in Helsinki, Finland from November 12-16. Finally, since the end of 1999, our Organisation has been a full member of the European Foundation of Quality Management (EFQM).

FINANCIAL

Report 2001

RESULTS

The surplus after tax increased from £64,5m to £68,6m indicating an increase of 6%. Included in the surplus of 2000, is the profit on disposal and revaluation of investments of £12,0m. CYTA's economic results were positive despite of the general decline in international telecommunication market. Total revenue increased by £20,1m or 9,6% and reached £228,8m, whereas total expenses increased by £33,4m and reached £150,7m.
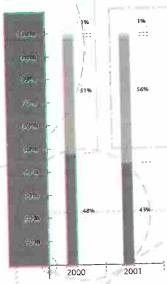
	REVENUE	EXPENSES	TAX	SURPLUS
2000	196 700	117 281	26 950	52 469
2001	228 766	150 646	9 538	68 582

Note: The revenue and the surplus of 2000 do not include profit on disposal and revaluation of investments of £12m.

FINANCIAL POSITION
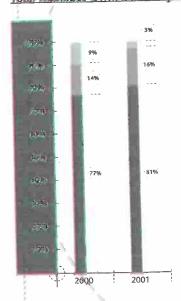
The growth of CYTA is remarkable and is being reflected on all items of the Balance Sheet. The reserve fund grew from £345,7m to £414,3m, an increase of 20%, thus reinforcing the capital structure of CYTA.

Total Assets Owned (£'000)

	2000	2001	2000	2001
Tangible and Intangible Fixed Assets	211.997	219.424	48%	43%
Current Assets	228.797	281.895	51%	56%
Investments	5.115	6.127	1%	1%
Long-term Debtors	396	325	-	-

Total Liabilities Owned and Capital Invested (£'000)

	2000	2001	2000	2001
Capital & Reserves	345.717	414.299	77%	81%
Current Liabilities	62.183	80.186	14%	16%
Long-term Loans and Other Liabilities	38.405	13.286	9%	3%

FINANCIAL HIGHLIGHTS:-

	2001	2000
	£ɛк	£ɛк
Operating revenue	215,7	184,7
Other income	13,1	12,0
Operating expenses	136,9	110,9
Profit on disposal and revaluation of investments	-	12,0
Financial and other expenses	1,1	3,5
Interest and deficits on pension funds	12,7	2,9
Surplus before Tax	78,1	91,4
Tax	9,5	26,9
Capital Expenditure	59,6	67,8

Key ratios:-

	2001	2000
Operating revenue to net assets	52%	53%
Operating expenses to operating revenue	63%	60%
Surplus to net assets *(excluding profit on disposal and revaluation of investments)*	17%	15%
Long-term liabilities to reserve	1:31,18	1:9,0
Current ratio *(times)*	3,5	3,7
Earnings before interest, tax depreciation and amortisation *(EBITDA)*	53%	56%
Services Profitability	37%	40%
Staff cost to operating expenses	20%	22%

OPERATING REVENUE

Service	2001	2000	Increase (Decrease)
	£ɛк	£ɛк	%
Telephone	192,3	169,8	13
ISDN	10,9	6,1	79
Cytanet	4,1	3,0	37
Other	8,4	5,8	45
	215,7	184,7	

Telephone Service

During the year the number of subscribers increased by 90.918 totaling 749.333. The revenue from this service represents 89% of the operating revenue increased by £22,5m or 13% compared to last year. Analytically, revenue from inland calls increased from £64,2m to £78,6m, revenue from subscriptions increased from £25,9m to £36,0m whereas the overseas calls decreased from £67,1m to £63,8m and the revenue from leased circuits rentals decreased from £8,4m to £8,2m.

Integrated Services Digital Network (ISDN)

The benefits offered by this service, resulted in an increase in the number of subscribers from 7.195 in 2000 to 14.082 in 2001, as well as a big increase in revenue from £6,1m in 2000 to £10,9m in 2001.

Internet service (Cytanet)

The subscribers of Cytanet during 2001 increased from 28.046 to 36.795 and the revenue increased from £3,0m in 2000 to £4,1m in 2001.

Other Services

The increased revenue from other services was derived from leasing, DDP's and the operation and maintenance of submarine cables £2,1m (£1,8m in 2000), the revenue from Civil Aviation and other Government Departments £2,2m (£2,1m in 2000), as well as the revenue from the introduction of the new ATM services £1,6m(£0,2m in 2000). On the other hand, as a result of the introduction of new services, the revenue from the telex service, decreased to £0,2m from £0,3m in 2000.
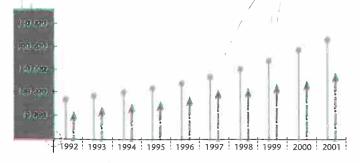
INVESTMENT AND OTHER INCOME

The investment and other income increased by £1,1m in 2001 reaching £13,1m with the largest amount being that of interest received of £12,1m.

OPERATING EXPENSES

The operating expenses for the year, after the allocations of £4,8m (2000 £5,0m) to capital and recoverable works, increased by 23,4% and totaled £136,9m compared to £110,9m in 2000. The increase is mainly due to additional depreciation that resulted from change in the depreciation rates, advertisements, maintenance materials and other expenses, staff costs and outpayments for international traffic.

Operating Revenue and Operating Expenses 1992-2001 (£'000)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Operating Revenue	86.799	90.220	100.782	109.127	124.574	139.300	154.970	168.278	184.710	215.692
Operating Expenses	64.665	71.012	77.173	80.408	85.424	93.140	95.091	103.097	110.906	136.887

INTEREST AND DEFICITS ON PENSION FUNDS

Interest and deficits on pension funds increased by £9,8m reaching £12,7m (£2,9m in 2000) as a result of the pension scheme deficiency that arose from the actuarial valuation carried out on 31.12.2001, 50% of which was written off in 2001. The balance will be written off in 2002.
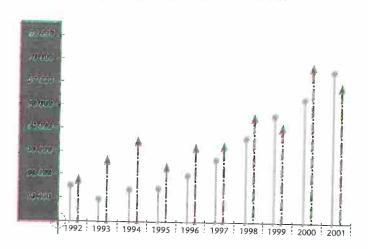
TAXATION

The provision for Corporation Tax amounted to £17,0m, whereas an amount of £19,0m was paid through temporary assessment. There was also a provision for special contribution for defence fund amounting to £2,4m. The provision for deferred taxation, decreased by £9,9m mainly due to the revision of the depreciation rates.

CAPITAL EXPENDITURE

The capital expenditure totalling £59,6m (2000 £67,8m) was completely financed by internal sources.

Surplus and Capital Expenditure 1992 - 2001 (£'000)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Surplus	16.224	10.757	13.693	13.598	21.049	27.088	38.985	46.261	52.469	68.582
Capital Expenditure	19.351	27.836	36.210	23.204	33.739	34.459	46.031	42.426	67.780	59.571

Note: The revenue and the surplus of 2000 do not include profit on disposal and revaluation of investments of £12m.

STOCKS

As a result of the full implementation of the new policy to treat materials that are intended to be used for development as tangible fixed assets stocks were reduced during the year

LIQUID FUNDS

The Government Development Stocks and other bonds and the Bank Deposits, amounted to £218,0m at 31 December 2001, increased by 22% compared to last year will be mainly used for financing CYTA's development program.

LOANS AND OTHER LONG TERM LIABILITIES

Long term liability to suppliers and foreign financial institutions was £2,6m down from £2,8m in 2000.

SHORT TERM LIABILITIES

The short term liabilities include accounts payable to suppliers of £11,3m, loans from foreign financial institutions of £0,3m, other creditors and accruals of £23,8m (with the largest obligation being that of amounts due to foreign administrations £8,0m and Value Added Tax £6,6m) and deferred income of £8,0m.

RETIREMENT BENEFITS

The liability to the Pension Scheme at 31 December 2001 amounts to £36,8m. The latest actuarial valuation carried out on 31.12.2001 by a professional actuary, showed an additional deficiency of £21,8m. Total irability to the pension scheme will be fully repaid by the end of 2002.

CONTRACTUAL COMMITMENTS

The contractual commitments amounted to £13,3m (2000 £40,0m). The amount includes outstanding orders of £10,0m for telecommunication equipment, £2,6m for buildings under construction, and £0,7m for outstanding excavations.

| E. Papadakis | N. M. Timotheou | G. Koufaris |
| Chairman | General Manager | Manager Financial Services |

AUDITOR'S REPORT AND

Financial Statements 2001

AUDITORS' REPORT
TO THE CYPRUS TELECOMMUNICATIONS AUTHORITY

We have audited the financial statements and have obtained all the information and explanations we considered necessary. These financial statements are the responsibility of the Authority's Directors. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper books of account have been kept by the Authority and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Cyprus Telecommunications Authority as of 31 December 2001 and of its surplus and cash flows for the year then ended in accordance with International Accounting Standards and comply with the Companies Law, Cap. 113.

KPMG Peat Marwick
Chartered Accountants
Nicosia, 30 April 2002

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC
TO THE CYPRUS TELECOMMUNICATIONS AUTHORITY

I have examined the foregoing report on the financial statements of the Cyprus Telecommunications Authority for the year ended 31 December 2001 submitted by the appointed auditor in accordance with section 3(1) of the Public Corporate Bodies (Audit Accounts) Law and I am satisfied that this is appropriate.

C. Giorgatzi
Auditor General of the Republic
Nicosia, 30 April 2002

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Operating revenue	4	215,692	184,710
Operating expenses	5	(136,887)	(110,906)
Operating surplus		78,805	73,804
Investment and other income	6	13,074	11,990
		91,879	85,794
Financial and other expenses	7	1,666	3,767
Interest and deficit on pension funds	8	12,700	2,862
		14,366	6,629
		77,513	79,165
Profit on sale and revaluation of investments			12,008
Foreign exchange profit		607	254
Surplus for the year before tax		78,120	91,427
Taxation	9	(9,538)	(26,950)
Surplus for the year	17	68,582	64,477

STATEMENT OF RECOGNISED GAINS

All gains or losses of the authority are recognised though the profit and loss account. There were no other gains during the period mentioned above.

The notes to the financial statements form an integral part of the financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2001

	Note	2001 £'000	2000 £'000
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets	10	209.965	203.545
Intangible fixed assets	11	9.459	8.452
Investments in subsidiary company	12	2.219	1.219
Investments available for sale	13	3.908	3.896
Long-term debtors	14	325	396
		225.876	217.508
CURRENT ASSETS			
Stock		3.254	4.339
Corporation tax receivable		5.726	3.726
Bonds	15	60.585	57.078
Cash at bank and in hand		157.412	121.841
Debtors and other receivables	16	54.918	41.813
		281.895	228.797
Total Assets		507.771	446.305
RESERVES AND LIABILITIES			
RESERVES	17	414.299	345.717
LONG-TERM LIABILITIES			
Long-term loans	18	2.555	2.809
Retirement benefits	8	-	15.010
Deferred tax	19	10.731	20.586
		13.286	38.405
SHORT-TERM LIABILITIES			
Loans due within one year	18	316	317
Creditors and other accounts payable	20	79.870	61.866
		80.186	62.183
Total Reserves and Liabilities		507.771	446.305

The notes to the financial statements form an integral part of the financial statements.

S. Papadakis
Chairman

N. M. Timotheou
General Manager

G. Koufaris
Manager Financial Services

CASH FLOW STATEMENT
For the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	109,409	108,794
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		12,058	10,857
Interest paid		(1,941)	(2,837)
Investment income		1,016	1,133
Net cash inflow from returns on investment and servicing of finance		11,133	9,153
TAXATION			
Corporation tax paid		(21,802)	(19,768)
INVESTING ACTIVITIES			
Acquisition of tangible fixed assets		(59,571)	(67,783)
(Increase)/decrease in participation with Telecommunication organisations		(1,012)	21
Proceeds from sale of fixed assets		4,266	5,244
Proceeds from sale of investments			13,357
Net cash outflow from investing activities		(56,317)	(49,161)
FINANCING ACTIVITIES			
Payments to the pension scheme		(3,134)	(13,081)
Purchase of government bonds		(3,455)	(9,404)
Repayment of loans and bills payable		(254)	(188)
Net cash outflow from financing activities		(6,843)	(22,673)
Increase in cash and cash equivalents	22	35,571	26,345

The notes to the financial statements form an integral part of the financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITY

The Cyprus Telecommunications Authority is a Corporate Body established by Law 67 of 1954 (Cap. 302), as amended by Laws 20/60, 34/62, 25/63, 54/77,98/88 and 21/89.

The main responsibility of the Authority is the provision, maintenance and development of a comprehensive telecommunications service, both local and overseas.

2. BASIS OF PRESENTATION

The financial statements, which have been prepared in accordance with International Accounting Standards, are for the year ended 31 December 2001 and are expressed in Cyprus Pounds.

3. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the Authority's financial statements.

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

Fixed assets, depreciation and amortisation
Fixed assets are stated at cost less depreciation.

(a) The cost of fixed assets 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 at material cost plus an addition for direct labour and other appropriate expenses.

Borrowing costs relating to the acquisition of plant and equipment are written off as they arise.

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

(b) Depreciation on leased fixed assets is calculated by equal annual instalments over the period of the lease or up to 33 years maximum.

(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 rest of fixed assets depreciation is charged by the Authority 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	33
Prefabricated buildings	5
Switching equipment	5-10
Transmission equipment	8
Line network	5-20
Mobile telephone service network	3-7
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	5
Computer peripherals	3
Mainframe computer and information systems	5

Land is not depreciated.

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

Intangible fixed assets

The Cyprus Telecommunications Authority applied the International Accounting Standard No. 38 "Intangible assets" as from 1 January 2000 and transferred the cost and accumulated depreciation of software from fixed assets to intangible assets. The comparative figures have been adjusted accordingly. The depreciation rate for intangible assets is 20% and is calculated by equal annual instalments over their expected useful economic lives.

Debtors

Debtors, which are receivable more than one year from the balance sheet date are classified as long-term.

Bad debts are written off and a specific provision is made for debtors considered to be doubtful.

Stocks

Stocks are valued at the lower of cost and net realisable value. The principal methods for determining the valuation of stocks 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.

Items of capital nature are capitalised within fixed assets.

Long-term liabilities

Liabilities which are due more than one year from the balance sheet date are classified as long-term.

Operating revenue

Revenue generated from calls is recognized in the profit and loss account in the period in which the calls are made from/to the Authority'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.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Cyprus pounds at the exchange rate ruling at the balance sheet date. Any exchange differences are taken to the profit and loss account.

Retirement benefits

The Authority operates a defined benefit retirement plan. Provisions in the financial statements are based on the actuarial valuation, which consider employees' age, years of service and remuneration and also the investment performance of the fund. The latest independent actuarial valuation was conducted on 31 December 2001 with the assumption that the annual average future increase in wages would be 4% and the average annual return on investment would be 6.5%.

The retirement benefit costs are charged to the profit and loss account over the period of the expected service lives of the employees.

Surpluses or deficits shown by actuarial valuations are written off against revenue over a period of 2 years.

Bonds

Investments in bonds are stated at cost.

Investments

As from 1 January 2001, the Authority has applied the International Accounting Standard No. 39 «Financial Instruments: Recognition and Measurement» and classified its financial assets, which consist of shares of private companies as available for sale.

Investments available for sale appear on the balance sheet at fair value. The fair value of these investments is determined on the basis of the additional value of exchange between a buyer and a seller, on a strictly commercial basis. This value is determined by the Board of directors.

Any surplus or deficit that arises from the fair value adjustment is transferred to the revaluation reserve.

The total profit or loss recognised in the revaluation reserve for the investments that have been sold during the year, is transferred to the profit and loss account.

As per the International Accounting Standard 39, there have been no adjustments to the comparative figures.

Taxation

A provision for corporation tax and defence contributions on taxable surplus for the period is calculated according to the laws and regulations that apply in Cyprus.

Deferred Tax

Deferred tax is provided on all temporary timing differences between accounting and tax treatment of assets and liabilities, using the tax rates that are expected to apply when tax becomes payable. Deferred tax assets arising form deductible temporary differences are recognized only when it is probable that the related tax benefit will crystallise.

4. OPERATING REVENUE

	2001 £'000	2000 £'000
Telephone service	192.307	169.839
Other services	23.385	14.871
	215.692	184.710

5. OPERATING EXPENSES

	2001 £'000	2000 £'000
Outpayments to telecommunication organisations	18.309	16.965
Staff costs	47.562	45.327
Maintenance costs	6.906	5.344
Depreciation	47.878	32.992
Leased circuits rentals	2.684	2.690
Gratuities	2.455	1.150
Other expenses	15.891	11.401
	141.685	115.869
Less: Staff and transport costs which are capitalised or payable by third parties	4.798	4.963
	136.887	110.906

6. INVESTMENT AND OTHER INCOME

	2001 £'000	2000 £'000
Interest received	12,058	10,857
Investment income	137	335
Other income	879	798
	13,074	11,990

7. FINANCIAL AND OTHER EXPENSES

	2001 £'000	2000 £'000
Bank charges and other interest	151	115
Provision for doubtful debts	1,277	891
Provision for obsolete materials	238	2,761
	1,666	3,767

8. INTEREST AND DEFICIT ON PENSION FUNDS

	2001 £'000	2000 £'000
Interest on Pension Scheme	1,791	2,722
Pension Scheme deficiency	10,662	-
Superannuation fund deficiency	247	140
	12,700	2,862

The Authority operates two separate staff retirement benefit schemes, the Superannuation fund and the pension scheme for the monthly paid employees.

The Authority's total liability for retirement benefits is as follows:

	2001 £'000	2000 £'000
Short-term	36,766	14,013
Long-term		15,010
	36,766	29,023

(a) Superannuation fund

The fund was set up in order to provide pensions to monthly employees and for this reason, contributions were made by both CY.T.A. and the employees. The fund, which had no active members as at 31 December 2001 operates independently of the finances of CY.T.A. According to the regulations of the fund, CY.T.A. 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 £432,226, and will be written off to the profit and loss account equally within 2001 and 2002. The deficit not written off as at 31 December 2001 amounted to £216,113.

(b) Pension scheme

The scheme offers retirement benefits to monthly employees and their dependants. The scheme operates independently of the finances of CY.T.A. According to the regulations of the scheme, CY.T.A. 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, CY.T.A. is liable to contribute to the scheme for any deficiencies which may be indicated by the actuarial valuation.

The last actuarial valuation which took place on 31 December 2001 by a professional actuary, showed an additional deficit of £21,323,000, and will be written off to the profit and loss account equally within 2001 and 2002. The deficit not written off as at 31 December 2001 amounted to £10,661,500.

The full repayment of the liability will take place until 31 December 2002.

The amount which appears in the balance sheet regarding retirement benefits is as follows:

	2001 £000
Present value of the scheme and fund	263,582
Fair value of scheme and fund assets	(241,826)
	21,756
Deficit not written off	(10,878)
	10,878
Liability from previous actuarial valuation	15,010
Total liability for retirement benefits as presented in the balance sheet	25,888

The pension scheme assets include shares, share options and bonds whose fair value amounted to £119,999,773 as at 31 December 2001 (2000:£117,525,243).

Liability movement as per Balance Sheet:

	2001 £'000	2000 £'000
Balance 1 January	29,023	42,104
Cost as stated below	12,700	2,862
Payments to the Pension fund and Retirement Plan	(15,835)	(15,943)
	25,888	29,023

Amount as per Profit and Loss Account:

	2001 £'000	2000 £'000
Interest on Pension scheme liabilities	1,822	2,862
Deficit written off	10,878	–
	12,700	2,862

9. TAXATION

	2001 £'000	2000 £'000
Corporation tax	17,000	15,300
Deferred tax	(9,855)	9,300
Defence fund contributions	2,393	2,350
	9,538	26,950

Analysis of taxation charge

The reconciliation of the taxation charge and the surplus for the year using the existing taxation rates is as follows:

	2001 £'000	2000 £'000
Surplus for the year before tax	78,120	91,427
Taxation at 23% – 28%	21,872	26,255
Disallowable expenditure	13,627	9,617
Non-taxable income	(286)	(3,945)
Investment allowance	(15,820)	(14,177)
	19,393	17,650
Deferred tax	(9,855)	9,300
	9,538	26,950

The Authority is subject to corporation tax at 20% on the first £40,000 of the taxable income and at 25% on the remaining balance. In addition, the Authority is subject to defence fund contributions at a fixed rate of 3%.

10. FIXED ASSETS

	Freehold land and buildings	Leasehold Buildings	Telecommu- nication plant and equipment	Motor vehicles and tools	Office furniture and equipment	Computer hardware and systems	Assets Under construction	2001 Total	2000 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost									
1 January	23,963	4,906	366,371	7,032	3,279	14,252	22,697	442,500	399,691
Additions	998	174	44,523	1,604	289	2,731	-	50,319	61,393
Disposals	(2)	(85)	(15,226)	(398)	(59)	(582)	(95)	(16,397)	(18,584)
Transfers	157	(157)	(2,176)				-	(2,176)	
31 December	25,116	4,838	393,492	8,238	3,509	16,451	22,602	474,246	442,500
Depreciation									
1 January	5,722	2,034	213,457	5,122	2,311	10,309	-	238,955	292,134
Charge for the year	690	159	33,770	609	388	2,327	-	37,943	30,161
Disposals	(2)	-	(11,149)	(397)	(53)	(530)	-	(12,131)	(13,340)
Transfers	1	(1)	(486)				-	(486)	-
31 December	6,411	2,192	235,592	5,334	2,646	12,106	-	264,281	238,955
Net Book Value									
31 December	18,705	2,646	157,900	2,904	863	4,345	22,602	209,965	203,545

a) **Assets in occupied areas**

Fixed assets include assets situated in areas currently occupied by the Turkish invasion forces which are not accessible by the Authority. C.Y.T.A. is not in a position to ascertain the present state of these assets. Full provision has been made for assets situated in the occupied areas.

b) **Land**

Certain plots of land amounting to £154,900 (2000: £252,000) included in the accounts, were in the course of being registered in the name of C.Y.T.A. at the year end.

11. INTANGIBLE ASSETS

	2001 £'000	2000 £'000
Computer software		
Cost		
1 January	15.887	9.497
Additions	9.252	6.390
Transfers	2.176	-
31 December	27.315	15.887
Depreciation		
1 January	7.435	4.605
Charge for the year	9.935	2.830
Transfers	486	-
31 December	17.856	7.435
Net Book Value		
31 December	9.459	8.452

12. INVESTMENTS IN SUBSIDIARY COMPANY

	Investment at cost		Participation %	
	2001 £'000	2000 £'000	2001 %	2000 %
Digimed Communications Ltd	2.219	1.219	100,00	100,00

Digimed Communications Ltd is a wholly owned subsidiary of the Authority. The consolidated accounts for the year ended 31 December 2001 have not been prepared due to the immaterial size of the subsidiary compared to the size of the holding company. Provision has been made during 2000 of £1.292.000 on the cost of the investment in Digimed Communications Ltd, in order to reduce the cost of the investment to the net assets of Digimed Communications Ltd. On 31 January 2001 the Authority invested an additional amount of £1.000.000 in Digimed Communications Ltd.

13. INVESTMENTS AVAILABLE FOR SALE

	Investment at cost		Participation %	
	2001 £'000	2000 £'000	2001 %	2000 %
INTELSAT	412	465	0,058	0,07
EUTELSAT	473	408	0,06	0,06
INMARSAT VENTURES PLC	3.022	3.022	1,57	1,57
ICO Global Communications (Holdings) Limited	1	1	0,05	0,05
	3.908	3.896		

In respect of the investments in Satellite Organisations, under the terms of participation, the Authority is required to make contributions proportionate to its investment share, towards future development projects of the above Organisations. The income from these Organisations, is generated as repayment of capital and is deducted from the cost of the investment, while income from the use of capital is reflected in the profit and loss account.

With the privatisation of INMARSAT and its renaming to INMARSAT VENTURES PLC, the Authority acquired 1,573.280 shares of a nominal value of GBPE0,10 each.

As per the Directors' valuation, unlisted investments appear on the balance sheet at cost, which represents their fair value.

14. LONG-TERM DEBTORS

	2001 £'000	2000 £'000
Republic of Cyprus	165	220
Other	160	176
	325	396

The debt of the Republic of Cyprus represents amounts receivable between 2003 and 2005, in respect of the transfer of the radar system to the Civil Aviation Department.

15. BONDS

	2001 £'000	2000 £'000
Government bonds	59,152	55,649
Bonds of the Cyprus Athletic Committee	1,433	1,429
	60,585	57,078

The purchase value of Government bonds as at 31 Δεκεμβρίου 2001 was £61,917,554 (2000: £55,676,778).

16. DEBTORS AND OTHER RECEIVABLES

	2001 £'000	2000 £'000
Deficit on pension funds (note 8)	10,878	-
Amounts due from overseas telecommunication organisations	8,962	11,043
Trade debtors	26,524	23,675
Other debtors and prepayments	8,554	7,095
	54,918	41,813

17. ΑΠΟΘΕΜΑΤΙΚΑ

	2001 £'000	2000 £'000
Balance 1 January	345,717	281,240
Surplus for the year	68,582	64,477
Balance 31 December	414,299	345,717

18. LOANS

	2001 £'000	2000 £'000
Loans from foreign financial institutions		
Amount due within twelve months	316	317
Amount due between two and five years	969	1,035
Amount due after more than five years	1,586	1,774
Total	2,871	3,126

The loans from foreign financial institutions are repayable between the years 2002 and 2015 and bear interest ranging between 2% and 11.62% per annum. The loans are secured by guarantee provided by the Government of the Republic of Cyprus.

19. DEFERRED TAX

Deferred tax arises as follows:

	2001 £'000	2000 £'000
Differences in depreciation and capital allowances	11,701	20,443
Unrealised exchange profit/(loss)	76	143
Deficit of pension scheme and superannuation fund	(1,046)	-
	10,731	20,586

20. CREDITORS AND OTHER ACCOUNTS PAYABLE

	2001 £'000	2000 £'000
Trade creditors	11,887	12,148
Deferred income	7,950	7,500
Amounts due to telecommunication organisations	7,964	12,444
Accrued expenses	1,535	3,210
Value Added Tax	6,610	5,699
Other creditors	7,708	6,852
Pension fund and retirement plan (note 8)	36,766	14,013
	79,870	61,866

21. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2001 £'000	2000 £'000
Operating surplus	78,120	91,427
Depreciation	47,878	32,991
Profit on disposal and revaluation of investments		(13,008)
Unrealised profit on exchange differences		(79)
Interest received	(12,058)	(10,857)
Interest paid	1,941	2,837
Investment and other income	(1,016)	(1,133)
Decrease in long-term debtors	71	99
Decrease in stocks	1,085	5,325
Increase in debtors	(2,086)	(8,107)
(Decrease)/increase in creditors	(4,121)	3,153
Increase in interest received of government bonds	(52)	(196)
(Decrease)/increase in balances with suppliers (short-term)	(811)	3,398
(Decrease) increase in loans and bills	(1)	39
Increase in deferred income	459	2,905
Net cash inflow from operating activities	109,409	108,794

22. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

Bank balances and cash in hand

	2001 £'000	2000 £'000
Balance 1 January	121,841	95,496
Net increase in cash and cash equivalents	35,571	26,345
Balance as at 31 December	157,412	121,841

23. CONTRACTUAL COMMITMENTS

Contractual commitments in respect of capital expenditure as at 31 December 2001 not provided for in the financial statements, amounted to approximately £13.284.477 (2000: £40.123.527) of which £7.707.379 (2000: £32.832.132) are payable in foreign currency. Amounts in foreign currency have been converted into Cyprus pounds at the rates of exchange ruling at 31 December 2001.

From the total contractual commitments at 31 December 2001, £12.277.057 will be repaid on completion of the relevant projects within 2002. The remaining balance will be paid in 2003.

24. CONTINGENT LIABILITIES

Contingent liabilities in respect of claims against the Authority for which no provision was made in the financial statements, amounted to approximately £1.057.000 (2000: £135.000).

From the total, an amount of £1.000.000 represents a claim by an overseas company for the acquisition of equipment. The contract between this company and the Authority was terminated during the year 2000.

25. FINANCIAL INSTRUMENTS

The main financial assets of the Authority are cash in hand and at bank, trade debtors, bonds and investments. The main financial liabilities of the Authority are loans, trade creditors and pensions' liabilities.

i)   Interest rate risk
     The interest rates and terms of repayment of the Authority's loans are presented in note 18 of the financial statements.

ii) Credit risk
     Trade debtors are presented after the deduction of the provision for doubtful debts and as a result, credit risk is limited.

iii) Fair value of current assets and liabilities
     Short term as well as long term financial current assets and liabilities of the Authority are presented in values approximately equal to their fair values.

Offices

HEAD OFFICES

Telecommunications Str, Strovolos, P.O.Box 24929, CY-1396 Nicosia, Cyprus
Telephone: +357 22701000
Telefax: +357 22494940
Web Site Address of CYTA: www.cyta.com.cy

AREA CUSTOMER SERVICES

Nicosia

Head Customer Services

14, Egypt Ave, P.O.Box 24929, CY-1396 Nicosia   **22702020**

Cytashops

- *Central, 14, Egypt Ave*
- *Strovolos, 140, Strovolos Ave*
- *Lykavitos, 5, Naxos Str.*

Limassol

Head Customer Services

89, Athinon Str, P.O.Box 50147, CY-3601 Limassol   **25705050**

Cytashops

- *Central, 89, Athinon Str*
- *Omonia, 7, Vasileos Pavlou Str*
- *Unopetra, 34, Kolonakiou Str*

Larnaca

Head Customer Services

7, Z. Pierides Str., P.O.Box 40102, CY-6301 Larnaca   **24704040**

Cytashop

7, Z. Pierides Str.

Paphos

Head Customer Services

11, Grivas Digenis Ave, P.O.Box 60043, CY-8100 Paphos   26706060

Cytashop

11, Grivas Digenis Ave

Famagusta *

Edison Str   23862500

Temporarily

111, Grivas Digenis Ave, P.O.Box 33355, CY-5313 Paralimni   23703030

Cytashop

111, Grivas Digenis Ave, Paralimni

Kyrenia *

5A, 28th October Ave   27452438

Morphou *

18, 25th March Str   22742055

Lefka *

Lefka   22817459

INFORMATION ON SERVICES PROVIDED BY CYTA   132

* Inaccessible due to occupation of the area by Turkish invasion forces