



Gibtelecom

Annual Report 2006



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Annual Report 2006

Board of Directors

Chairman Directors

The Hon Fabian Vinet
Tim Bristow
Dilip Dayaram Tirathdas
Bojan Dremelj*
Filip Ogris-Martič*
Klavdij Godnič*

Executive Committee

Chief Executive Officer Tim Bristow
Resources Director Brian Asquez
Technical Director Xavi Bado
Business Director Francis Lopez
Operations Director Adrian Moreno

* Appointed 23 April 2007

Gibtelecom, the main provider of telecommunications services on the Rock, has played a pioneering role in the growth and development of telecommunications in Gibraltar. The company provides sophisticated solutions to all types of business and residential customers using fibre optic networks, satellite communications and microwave links to transport voice, data and internet services.

Gibtelecom, an ISO9001 registered company, will provide you with products and services matching those offered by leading telecommunications companies throughout the world. Gibtelecom's experienced and dedicated staff will ensure that you receive a professional, customised and cost-effective service.

Gibtelecom is owned jointly by Telekom Slovenije of Slovenia and the Government of Gibraltar. Telekom Slovenije purchased fifty percent of the shares in the Company from Verizon International Communications Inc. on 23 April 2007.

We look forward to doing business with you!

Our Mission

Gibtelecom will be the telecommunications business of choice in Gibraltar, by offering quality and cost effective wireline, wireless and internet services.

Our Vision

Gibtelecom will be a modern and innovative communication business focused on stakeholders. Gibtelecom will be recognised as a leading business in Gibraltar worthy of being benchmarked.

Our Values

Gibtelecom is focused on its stakeholders by:

- providing an excellent service to customers
- being aware of the community and environment
- employing people with the right abilities and positive attitudes
- being responsive to Shareholders

Gibtelecom

Contents

Annual report for the year ended 31 December 2006

Director's report	<i>1 – 7</i>
Independent auditor's report	<i>8 – 9</i>
Consolidated profit and loss account	<i>10</i>
Statement of group total recognised gains and losses	<i>11</i>
Balance sheets	<i>12</i>
Consolidated cash flow statement	<i>13</i>
Notes to the financial statements	<i>14 - 37</i>


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Directors' report for the year ended 31 December 2006

The Directors present their report and the audited financial statements for the year ended 31 December 2006, for Gibtelecom Limited ("Gibtelecom") and its two wholly-owned subsidiaries: Gibraltar Telecommunications International Limited ("Gibtel"); and Gibconnect Limited ("Gibconnect").

The Group has been trading as Gibtelecom since July 2002, and as of 1 October 2003 this name was formerly adopted by the Company (previously Gibraltar Nynex Communications Limited [GNC]). All assets and liabilities of Gibconnect were transferred to the parent Company, Gibtelecom, on 31 December 2005. Both subsidiaries will now remain as non-trading Companies, Gibtel having ceased trading on 31 December 2003.

Principal activities

Gibtelecom and its subsidiaries are registered in Gibraltar and their principal activities are the provision of telecommunications, internet services and the supply of various communications equipment within Gibraltar. The share capital of the Company is jointly owned by Verizon Communications Inc of the USA, through a wholly owned subsidiary, Verizon International Holdings Inc, a Company incorporated in Delaware, USA and by the Government of Gibraltar.

Gibtelecom is authorised under the Communications Act 2006 to provide fixed line, mobile, satellite and other radiocommunication services. The current authorisations supplement the licences issued by the Minister for Trade, Industry and Telecommunications of the Government of Gibraltar on 1 August 2003 for a period of 15 years, which in turn replaced the previous licences issued to GNC in May 1990 and Gibtel in January 1988.

Review of business and future developments

At the forefront of communications

The year 2006 was overall another resounding success, during which the Company continued to enhance significantly Gibraltar's communications infrastructure, deliver improved services to customers, invest in its people and achieve strong financial results.

One of the pillars of Gibtelecom's success has been the development of a state-of-the-art Internet Protocol (IP) infrastructure, to meet the demands of e-commerce customers who require greater technical support 24 hours, 7 days a week. Gibtelecom continues to upgrade its communications links investing in bandwidth capacity, which enables the Company to provide IP bandwidth on demand. New routes to and via Spain have been established, providing enhanced resilience and eliminating potential single points of failure. Since 2002, Gibtelecom's bandwidth capacity has increased over thirty-fold.

The number of locally originated voice minutes carried by Gibtelecom in 2006 surpassed 117 million. The company also terminated more than 35 million minutes on its network as a result of incoming international and mobile roaming traffic. Gibtelecom's GSM customers sent some 7.7 million short text messages (2005 – 5.9 million) during the same period.

On 10 February 2007 Gibtelecom achieved a historic milestone with the successful implementation of +350 and +34 dialling from and to Spain respectively. Additionally, on the same day, the Company concluded its first roaming arrangement with a Spanish Operator (Telefónica Móviles) allowing Gibtelecom's GSM customers to use their mobiles throughout Spain. Agreements with other Spanish mobile operators are being progressed. This will undoubtedly increase Gibtelecom's GSM customer base, which currently stands at c24,000 subscribers, with a per-capita penetration of 83%.

Directors' report for the year ended 31 December 2006

The recognition by Spain of Gibraltar's international access code +350 and its agreement to allow Spanish operators to enter into roaming agreements with Gibtelecom formed part of the tri-partite Cordoba Agreement between the Governments of the United Kingdom, Spain and Gibraltar of 18 September 2006. Consequently, the Company is currently assessing the position on the numbering and roaming cases lodged in the European Court of First Instance against the European Commission for their decision not to take action. The complaints had originally been filed with the Directorate General IV of the European Commission in 1996. Gibtelecom's (then GNC) complaint was in connection with the refusal by the Spanish Government to allow Spanish operators to recognise the Gibraltar International Telephone Code '350', and the consequential shortage of telephone numbers in Gibraltar. The second complaint (filed by Gibtel) concerned the Spanish Government's refusal to allow Spanish GSM operators to conclude roaming agreements with the Company.

Throughout 2007 Gibtelecom plans to continue to invest to provide a first class service and to continue to be the main telecommunications company of choice in Gibraltar. Some of the projects envisaged for the year include further upgrading the mobile network, deploying an IP Centrex service, continuing to explore cable route alternatives for IP traffic and resilience and commencing the construction of the superstructure for the new John Mackintosh Square building adjacent to the Haven and City Hall, where much of the Company's fixed line switching and internet equipment is located. The first phase comprising the foundations, basement and other ground level structures was completed early this year.

Business synergies

Gibtelecom operates within an increasingly volatile and competitive, but regulated environment. Customers increasing demands for enhanced high quality and resilient telecommunications services, with support available on a 24 hour basis, has been a major catalyst driving Gibtelecom's programme of change management.

This year saw the completion of a fully operational Network Operations Centre (NOC), offering extensive 24/7 support to Gibtelecom's customers, especially the e-commerce business sector. Driven by the demands of the e-gaming community and financial traders the internet capabilities of the business were also further strengthened in 2006. The NOC is based on a dedicated three tier structure, with Tier One serving as the Company's front-line call centre for all services. Tier Two is composed of two specialist sections – a Plant and Provisioning team and an IP support team. Tier Three comprises the Company's individual technical departments, and in particular the strengthened Internet Department which now comprises 17 members of staff who are responsible for all internet services and data communications via leased lines. This setup provides full and efficient round the clock support to the Company's customers.

Gibconnect [Internet Service Provider] ceased trading as a separate entity and was reintegrated into the parent company with effect from 1 January 2006. As a result of this, Gibtelecom completed the integration of the three previous businesses within the Group into one entity, facilitating the growing convergence of services between the fixed line, internet and data line provisioning.

In 2006 the Company also achieved its objective of integrating the Installations and Maintenance and Fixed Networks Engineering areas to create a streamlined and more efficient External Plant Department. In addition, the Customer Services staff have undergone a 'multi-tasking' training programme which is enhancing the one-stop shop focus of the business, in a newly refurbished and modernised shop for customers.

Since 2003, the Company has offered various Early Retirement and Voluntary Separation packages to staff, which has contributed towards refocusing the business to meet the changing market conditions and technological challenges. As a result a total of 29 employees (18 per cent) have left the Company, which has concurrently enabled Gibtelecom to create internal development opportunities and recruit new personnel with the skills and expertise needed to keep moving the business forward. Consequent to this ongoing programme of change management, the Company is now better placed to meet the challenges ahead.

Directors' report for the year ended 31 December 2006

The Group operates two pension schemes for Gibtelecom employees. One for all former GNC employees and new joiners to Gibtelecom (Gibraltar Nynex Communications Limited Staff Pension Scheme) and the other for former Gibtel employees (Gibtel Pension Fund), both providing defined post-retirement benefits based on final pensionable salary. This is the second year that the Group is applying the full provisions of Financial Reporting Standard [FRS17] on Retirement benefits, whereby any deficit or surplus on pension funds has to be accounted for in the Company's accounts. The two Pension Funds combined have an asset value of £18.4million (2005 - £16.4m), which equates to a funding of liabilities of 84.8% (2005 - 76.3%). The Company is committed to continue making the necessary contributions to ensure that the Pension Funds are funded going forward. In 2002, the Group identified ways of merging the two funds, but this was not proceeded with pending favourable market conditions. The Group now proposes to revisit the merger of the Funds, thereby further streamlining its operations.

Our People

The Company acknowledges that its c130 employees are one of its greatest assets and recognises the importance of continuing to develop its staff, both in their job and as individuals, if it is to enjoy continued success. In order to ensure that members of staff have the appropriate skills to fulfil their responsibilities in a competent and professional manner the Company invests substantially in training, which pays dividends for the Company and the Gibraltar economy as a whole. In 2006 an average of seven working days were spent per employee on training and development activities [equivalent to four person working years]; the objective is to increase this to an average of ten days per employee per year.

The two year Gibtelecom Management Development Programme, run in partnership with Durham University Business School, concluded in November 2006. This was attended by management and supervisory staff, and contributed to further developing and modernising the business. It has played a part in improvements to many aspects of the business, including enhanced leadership, communications, business planning, customer care and people management.

Following on from the success of the Management Development Programme, the Company has introduced similar 'in-house' development training for nearly 100 staff. The Gibtelecom Development Programme, also being facilitated by the Company in partnership with Durham University Business School, commenced in September 2006. One important output has been the introduction of Personal Development Reviews for all staff, a breakthrough in a small community like Gibraltar.

The Company's affirmative action plan continues to enjoy success. The number of female employees in the Company has increased by 9% to represent 22% of the workforce. There are also two registered disabled persons amongst the Company's workforce. Since 2003 there has been an unprecedented level of staff turnover. Whilst some 42 employees have left the business, this has equated to an equivalent number of staff opportunities, and the Company is now actively building its skills base in expanding areas of the business.

A testament to Gibtelecom's human resources expertise is that it is now being tapped by other organisations. The Company is assisting in the running of people selection assessment centres elsewhere and its management of sick leave, which has now fallen to an average of only 1.15 days per employee per quarter, is being used as a successful benchmark by other organisations.

Company Communications

The Company continues to communicate with its customers, primarily using the Gibtelecom Info News which is sent out with the one integrated monthly bill, covering wireline, wireless and internet services. In addition, the Company advertises extensively in the local media and has become a willing participant in using television and radio news opportunities to get across its messages.

Gibtelecom also recognises the importance of communicating with its employees and keeping them informed on Company matters, as they are the most important interface with customers. This information is disseminated in various ways.

Directors' report for the year ended 31 December 2006

Last year, an Employee Handbook, compiled in consultation with the staff and their Union representatives, was issued to every employee. The handbook comprehensively sets out all the Company's employment policies and practices and employee's obligations and rights. The internal Weekly Bulletin celebrated its second anniversary in November 2006 and has become the official means of communications throughout the Company. Staff are informed about the Company's policies; business developments; products and services; regulatory issues; quality initiatives; and training and development opportunities amongst many other matters.

Since the creation of Gibtelecom in 2002, an Annual Staff meeting to which all staff are invited has been held. The 2006 meetings were held over to 25 January 2007, where members of staff were briefed at the Company's Mount Pleasant Training Suite by the Chief Executive Officer and other Directors on the past year's performance and the 2007 Business Plan. In May 2006, the Company held its fifth Management Annual Conference, over a weekend away from the Gibraltar environment. The main topic of the conference was 'Leadership, Motivation and Communication', and all managers gave a presentation on how they lead and motivate their respective Teams.

Our work in the community

Gibtelecom believes in supporting the community and its sponsorship activities are primarily focused on supporting youth, sports and cultural organisations. Financial support was given to numerous bodies, with some of the highlights being the Philharmonic Society, Duke of Edinburgh scheme and a Gibraltar Health Authority Nursing Conference.

The Company also sponsors the 'Gibtelecom International Chess Tournament' which is held during the first quarter of the year. Since its commencement in 2003, this international festival has developed into one of the premier open international chess events in Western Europe. In 2006, more than 200 chess players from 32 different countries participated, including seven of the world's top Grandmasters. The technical expertise and infrastructure to support the festival was provided by Gibtelecom. The technology enabled chess enthusiasts from around the world to be able to follow the festival online, with live commentary by a chess Grandmaster. The festival website experienced a total of 27 million hits from some 170,000 addresses. In 2006, the junior tournament was also very successful, attracting more than 100 participants. This initiative has not only helped the Company develop its technical capabilities, but encouraged the development of chess in local schools.

Gibtelecom is also actively involved with Gibraltar schools through the 'Gibtelecom Christmas Card' competition. This year, students from the ages of 6 to 8 took part. This competition creates awareness of Gibtelecom amongst the younger generation and the winning school is provided with computer equipment.

The Company continues with its Graduate Sponsorship Scheme, now in its fifth consecutive year. These places are offered to students undertaking a relevant technical orientated degree, such as information technology, an engineering or telecommunications qualification. Each successful applicant receives an annual Educational Support Allowance and a personal laptop computer, and the prospect of employment during vacations. The Company has sponsored a total of 10 students since its inception in 2002, and two have since been successful in taking up full time employment with Gibtelecom.

For many years Gibtelecom has been providing paid employment for University students during the summer period. In 2006, 31 students participated in Gibtelecom's work experience programme, bringing to nearly 300 the students who have had the opportunity to gain experience within different areas of the business over the last decade. The Company has also participated in career presentations run by local secondary schools.

In June 2006 Gibtelecom facilitated, through sponsorship of the technical support, the launch of the new 'Childline Gibraltar' [a free helpline for children and young people in danger or distress]. It has been set up to provide a point of contact for children, parents and members of the general public in Gibraltar in need of help, guidance or support with matters directly or indirectly affecting the welfare or well-being of children. Discussions are underway to support a similar 'Women in Need' telephone service.

The Company intends to continue supporting the community in a similar manner for the year ahead, sponsoring many organisations across a wide range of activities.

Directors' report for the year ended 31 December 2006

Regulatory Environment

The EU Communications Framework consists of a number of Directives. These outline matters such as the objectives to be pursued by National Regulatory Authorities (NRAs); the way in which telecommunications operators and providers are to be licensed; remedies to be taken to protect consumers and promote competition; ensuring the universal provision of a minimum set of services; and the terms and basis upon which operators interconnect and provide access to each other's networks.

The Company continued to face the challenges of these ever-widening EU requirements and finalised a number of regulatory-led projects during the year. A third Accounting Separation Report, detailing the various aspects of the business from a financial perspective was produced. This report is used to determine the Company's interconnection and access charges for other operators and service providers using Gibtelecom's fixed line network. The resulting Reference Interconnect Offer is cleared with the Gibraltar Regulatory Authority (GRA) and posted on the Company's website, www.gibtele.com

Additionally, the Company completed its first Reference Unbundling Offer (RUO) in May 2006. This comprehensive document outlines Gibtelecom's terms, conditions and charges for renting out its copper local loop, including providing co-location space where practicable, to authorised operators. This document is also available on the company's website.

The GRA has also started consultative proceedings on number portability. This process would allow customers to retain their subscriber number when changing operators and is envisaged by the GRA to be in place during 2008. During the year the Company was also required to submit information for the GRA's market analyses questionnaires. This will allow the GRA to determine the scope of significant market power in a number of EU pre-defined markets, ultimately leading to the imposition of ex-post obligations and remedies in cases where these are required to foster competition.

As with previous years, all these requirements, which are designed to stimulate a liberalised and competitive marketplace across European States with exponentially larger customer bases, continue to pose significant challenges to a small Company the size of Gibtelecom.

Market Highlights

During the year, Gibtelecom continued to face competition from one operator authorised to offer fixed and internet services and a number of service providers offering international outgoing voice calls and data services. In addition, five neighbouring mobile companies' GSM signals penetrated Gibraltar's small territorial space of 6.5 km².

The continued success of the Company is dependent on meeting and anticipating customers' needs. Throughout 2006 the Company continued its comprehensive and intensive marketing campaigns, launching an initiative every month. This programme has proved to be extremely successful, and during the last eighteen months Gibtelecom has reduced its charges in a number of product lines, including telephone and mobile calls, internet services, leased circuits and its flagship IP Flexiband product.

Gibtelecom plans to continue to increase its exposure by offering new and innovative packages to customers. In 2007, the Company will continue to launch a new initiative every month, which will help position Gibtelecom as an organisation who looks after its customer and offers quality and value for money products. As of 31 December 2006, the ADSL (fast internet access or broadband) service has seen year-on-year growth of c53%, with an identical per-household penetration rate of 53% (2005 – c35%). Gibtelecom expects these figures to be even higher in 2007, a year which commenced with increasing uncontended ADSL speeds at reduced prices.

Directors' report for the year ended 31 December 2006

Quality Journey

Gibtelecom has continued its quality journey by applying Total Quality Management [TQM] principles, retaining its European Foundation of Quality Management Certificate for Excellence [EFQM]. Gibtelecom was the first Company in Gibraltar to be registered with the European Foundation of Quality Management. The Company will continue to apply the principles of the EFQM Business Excellence Model and one of Gibtelecom's objectives is to achieve the higher 'Recognised for Excellence' Award.

Following an extensive tri-annual review of the Quality Management System in April 2006, the Company was re-awarded the ISO 9001/2000 Quality Certificate. The quality systems are audited bi-annually by Gibtelecom internal auditors and by external assessors from SGS.

Additionally, independent customer satisfaction surveys and seminars for large customers are carried out every six months. These show a high appreciation of the services provided and give an indication of where Gibtelecom should focus its efforts to continue to grow the quality of its services and operations.

Corporate Governance

Gibtelecom, and in particular the Board of Directors, are committed to maintaining the highest standards of corporate governance, which it considers are critical to business integrity and maintaining stakeholder trust in the Company. Gibtelecom expects all its Operational Directors and employees to act with honesty, integrity and fairness and will strive to act in accordance with best corporate governance guidelines by adopting proper standards of business practice and procedures.

Financial results and dividends

Gibtelecom's consolidated profit after tax for the twelve months to 31 December 2006 was £6,843,934 (2005: £7,158,795). The Directors have declared and paid a total dividend for the year of £5,800,000 (2005: £5,000,000). The Group's retained earnings, following the payment of dividends, is £1,043,934 (2005: £2,158,795).

Financial Reporting Standard [FRS21] – 'Events after the balance sheet date' came into effect for accounting periods beginning on or after 1 January 2005. Adoption of FRS 21 means that proposed dividends that are not declared and approved by the Company's General Meeting before the balance sheet date can no longer be accrued as a liability at the year end. During 2005 the Directors approved and paid an interim dividend and a final dividend was declared and authorised by a General Meeting of the Company, thereby providing continuity with the published 2004 financial statements. The consequence of fully applying FRS 21 would have meant the prior-year figures having to be restated with the resulting loss of comparability between the financial statements, in this case between the years 2004 and 2005. The Directors therefore did not restate the 2004 comparatives and the dividends for the 2005 year, as required by FRS 21. The 2005 dividends now constitute prior-year figures and would therefore also need to be restated under the requirements of FRS 21, to reflect the final dividend 2004. In order to provide the necessary continuity for 2006, the Directors have decided not to restate the 2005 comparatives figures as this would misrepresent the amount of dividends in 2005 and 2006 and accordingly not give a true and fair view. Consequently, the external auditors have qualified their audit opinion in respect of this matter.

Directors

The various Directors who held office during the year are given below:

Fabian Vinet	Chairman	Nationality	
Tim Bristow	Chief Executive Officer	British	
Ernest Montado		British	To 1 December 2006
Rahul Saxena		American	
Luigi Pinna		Italian	
Rich McCarthy		American	To 10 October 2006
Ed McQuaid		American	From 10 October 2006
Dilip Dayaram Tirathdas		British	From 1 December 2006

Directors' report for the year ended 31 December 2006

On 10 October 2006 Ed McQuaid replaced Rich McCarthy as Director upon the latter's resignation. In addition, Dilip Dayaram Tirathdas replaced Ernest Montado as Director on 1 December 2006 upon the latter's retirement from the Government of Gibraltar.

Statement of directors' responsibilities

Gibraltar company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements and that Gibraltar Accounting Standards have been applied in their preparation.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Gibraltar Companies Act and other applicable legislation. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and the appointment of auditors for 2007 will be considered at the next Annual General Meeting.

By order of the Board

D Lara
Company Secretary

Gibraltar
23rd April 2007



PricewaterhouseCoopers Limited
 International Commercial Centre
 Casemates square
 Gibraltar
 Telephone: +350 73520
 Facsimile: +350 48267
www.pwc.com/gi

Independent auditor's report to the members of Gibtelecom Limited

Report on the financial statements

We have audited the group and parent company financial statements of Gibtelecom Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement and the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation and true and fair presentation of these financial statements in accordance with applicable law in Gibraltar. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibilities

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

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Practice, of the state of the group's and the company's affairs as at 31 December 2006 and of the profit and cash flows of the group for the year then ended.



Independent auditor's report to the members of Gibtelecom Limited - continued

Emphasis of matter

We draw attention to note 10 that states the Company did not fully adopt accounting standard FRS 21 'Events after the balance sheet date' in its 2005 financial statements. The adoption of this standard required a change in the manner in which dividends, and in particular proposed dividends, are accounted for. Had the directors fully adopted this standard the 2005 comparatives would have reflected an appropriation of dividends for the year of £7,200,000 instead of the reported appropriation of £5,000,000. However this non compliance with FRS 21 has not had an effect upon the opening balances of or results for 2006.

Report on other legal and regulatory requirements

In addition to reporting on the financial statements, Gibraltar legal and regulatory requirements also require us to:

- (a) Report to you our opinion as to whether the financial statements have been properly prepared in accordance with the Gibraltar Companies Act, the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies (Consolidated) Accounts Act 1999.
- (b) State in our report whether in our opinion the information given in the directors' report is consistent with the financial statements.
- (c) Report to you if, in our opinion, the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Opinion

In our opinion the financial statements have been properly prepared in accordance with the Gibraltar Companies Act, the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies (Consolidated Accounts) Act 1999, and the information given in the directors' report is consistent with the financial statements.

We have nothing to report to you in respect of our responsibility set out in (c) above.

Other matters

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 182 of the Gibraltar Companies Act and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The maintenance and integrity of the Gibtelecom Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Gibraltar governing preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PricewaterhouseCoopers
Registered Auditors

Gibraltar
23rd April 2007

Consolidated profit and loss account for the year ended 31 December 2006

	Note	2006 £	2005 £
Turnover – continuing operations	2	28,467,596	26,497,679
Payments to other telecommunication administrations		(1,381,834)	(1,420,781)
Other external charges		(3,316,867)	(2,312,681)
Staff costs	3	(6,759,557)	(5,602,518)
Voluntary separations	17	(259,014)	(1,005,000)
Depreciation	11	(3,457,205)	(2,886,335)
Other operating charges	6	(4,084,401)	(4,134,580)
Operating expenses – continuing operations		(19,258,878)	(17,361,895)
Group operating profit		9,208,718	9,135,784
Interest receivable on bank deposits		729,134	476,642
Interest payable and similar charges	7	(90,830)	(90,149)
Other finance costs	24	(40,000)	(154,000)
Profit on ordinary activities before taxation		9,807,022	9,368,277
Tax on profit on ordinary activities	8	(2,963,088)	(2,209,482)
Profit for the financial year	21	6,843,934	7,158,795
Dividends	10	(5,800,000)	(5,000,000)
Retained profit for the financial year	20	1,043,934	2,158,795

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

**Statement of group total recognised gains and losses for the year ended
31 December 2006**

	Note	2006 £	2005 £
Retained Profit for the financial year		1,043,934	2,158,795
Actual return less expected return on pension scheme assets	24	542,000	1,097,000
Experience gains and losses arising on the scheme liabilities	24	385,000	67,000
Changes in assumptions underlying the present value of the scheme liabilities	24	593,000	(2,737,000)
Movement on deferred tax relating to pension asset	17	(626,389)	550,550
Total recognised gains and losses relating to the year		1,937,545	1,136,345
Prior year adjustment – FRS 17		-	(2,287,950)
Total gains/(losses) recognised since last annual report		1,937,545	(1,151,605)

Balance sheets as at 31 December 2006

	Note	Group		Company	
		2006 £	2005 £	2006 £	2005 £
Fixed assets					
Tangible assets	11	14,773,915	14,275,146	14,773,915	13,915,218
Investments	12	-	-	7,742,082	8,938,082
		14,773,915	14,275,146	22,515,997	22,853,300
Current assets					
Stock	13	883,600	793,630	883,600	793,630
Debtors	14	5,992,114	6,174,497	5,992,114	5,784,464
Cash at bank and in hand		14,542,841	14,719,450	14,542,841	13,183,764
		21,418,555	21,687,577	21,418,555	19,761,858
Creditors: amounts falling due within one year	15	(11,323,454)	(11,698,249)	(19,808,398)	(19,827,942)
Net current assets/ (liabilities)		10,095,101	9,989,328	1,610,157	(66,084)
Total assets less current liabilities		24,869,016	24,264,474	24,126,154	22,787,216
Creditors: amounts falling due after more than one year	16	(1,750,000)	(1,750,000)	(1,750,000)	(1,750,000)
Provisions for liabilities and charges	17	(2,016,785)	(2,186,494)	(2,016,785)	(2,186,494)
Net assets excluding pension liability		21,102,231	20,327,980	20,359,369	18,850,722
Pension liability	24	(2,147,156)	(3,310,450)	(2,147,156)	(3,310,450)
Net assets including pension liability		18,955,075	17,017,530	18,212,213	15,540,272
Capital and reserves					
Called up share capital	18	15,000	15,000	15,000	15,000
Share premium account	19	14,985,000	14,985,000	14,985,000	14,985,000
Profit and loss account	20	3,955,075	2,017,530	3,212,213	540,272
Equity shareholders' funds	21	18,955,075	17,017,530	18,212,213	15,540,272

The financial statements on pages 10 to 37 were approved by the Board of Directors on 23 April 2007 and were signed on its behalf by:

T J Bristow
Director

R Saxena
Director

Consolidated cash flow statement for the year ended 31 December 2006

	Note	2006 £	2005 £
Net cash flow from operating activities	22	12,938,221	10,802,653
Returns on investments and servicing of finance			
Interest received		729,134	476,642
Interest paid		(90,830)	(90,149)
Net return on investments and servicing of finance		638,304	386,493
Taxation – corporation tax paid		(2,115,687)	(1,192,784)
Taxation – corporation tax refunded		117,123	-
Taxation		(1,998,564)	(1,192,784)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		(3,978,446)	(3,708,296)
Receipts from sales of tangible fixed assets		23,876	19,669
Sale of fixed asset investment		-	459,524
Net capital expenditure and financial investment		(3,954,570)	(3,229,103)
Equity dividends paid		(7,800,000)	(5,200,000)
Cash flow before management of liquid resources		(176,609)	1,567,259
Management of liquid resources			
Increase in short term deposits	23	(1,252,696)	(298,657)
(Decrease)/increase in cash	23	(1,429,305)	1,268,602

Reconciliation of net cash flow to movement in net funds

	Note	2006 £	2005 £
(Decrease)/increase in cash		(1,429,305)	1,268,602
Cash used to increase liquid resources	23	1,252,696	298,657
Movement in net funds	23	(176,609)	1,567,289
Net funds at 1 January	23	14,719,450	13,152,161
Net funds at 31 December	23	14,542,841	14,719,450

Notes to the financial statements for the year ended 31 December 2006

I Accounting policies

These financial statements have been prepared under the historical cost convention, the accounting policies set out below, applicable legislation and in accordance with Gibraltar Accounting Standards.

Gibraltar legislation applied in the preparation of these financial statements includes the Companies Act, the Companies (Accounts) Act 1999 and the Companies (Consolidated Accounts) Act 1999.

A summary of the more important Group accounting policies is set out below.

Basis of consolidation

The consolidated financial statements deal with the financial statements of Gibtelecom Limited ("Gibtelecom") and its wholly owned subsidiaries, Gibraltar Telecommunications International Limited ("Gibtel") and Gibconnect Limited, made up to 31 December 2006. In accounting for its subsidiaries, the Group consolidates fully its assets, liabilities and results for the year. All inter-company balances, transactions and unrealised profits are eliminated from the consolidated statements.

Turnover

Turnover represents the amounts billed for telecommunications services and equipment rental and sales.

Revenue in respect of all telecommunications services is accounted for in the period when the services are provided, including prepaid mobile call card sales which are deferred until the customer uses the stored value in the card to pay for the relevant calls.

Equipment rental charges are recognised as income over the period to which the charges relate.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Sterling at the prevailing rates of exchange at the balance sheet date. Transactions in foreign currency are translated into Sterling at the rate prevailing on the date of the transaction. Differences on exchange are taken directly to the profit and loss account in the period in which they arise.

Operating leases

Rentals on operating leases are charged to the profit and loss account as incurred.

Provision for doubtful debts

Provision is made for all customer debts over three months old. In all other cases specific provisions are made when the Directors consider that the recovery of debts is in serious doubt.

Notes to the financial statements for the year ended 31 December 2006

I Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost, which comprises cost of equipment and materials, including freight, charges for installation and building works and where appropriate direct labour costs incurred in the installation of exchanges and underground plant.

Tangible fixed assets are depreciated by equal annual instalments over their estimated useful lives on a straight-line basis.

The annual rates applied are:

Exchange equipment	7%	-	16%
Network equipment	5%	-	20%
Rental equipment	18%	-	33%
Furniture and fittings	15%	-	33%
Motor vehicles	20%	-	25%
Computers	20%	-	33%
International Cable routes	33%		

These International Cable routes which are capitalised have had their depreciation advanced to 33% from 4% - 7% with effect from 2006.

Assets in the course of construction are not depreciated until they are brought into use.

Impairment

Tangible fixed assets and fixed asset investments are subject to impairment review in accordance with FRS 11 if there are events or changes in circumstances that indicate that their carrying amount may not be fully recoverable. The impairment review comprises a comparison of the carrying amount of the fixed assets with its recoverable amount, which is the higher of net realisable value and value in use. The carrying value of fixed assets is written down by the amount of any impairment and this loss is recognised in the profit and loss account in the period in which it occurs. If the occurrence of an external event gives rise to the reversal of an impairment loss, the reversal is recognised in the profit and loss account and by increasing the carrying amount of the fixed asset in the period in which it occurs. The carrying amount of the fixed asset will only be increased up to the amount that it would have been had the original impairment not occurred.

Pension schemes

The Group operates two funded defined-benefit pension schemes. The pension asset or liability recognised in the balance sheet is the value of the schemes' assets less the present value of the schemes' liabilities.

The pension cost for the schemes is analysed between current service cost, past service cost and net return on the pension schemes. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employees service in prior periods arising in the current period as a result of changes in actuarial assumptions, would be recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest.

Net expected return on the pension asset or liability comprises the expected return on the pension schemes assets less interest on schemes liabilities.

The actuarial gains or losses, which arise from a valuation and from updating the latest actuarial valuations to reflect conditions at the balance sheet date, are taken to the statement of total recognised gains and losses for the period.

Notes to the financial statements for the year ended 31 December 2006

I Accounting policies (continued)

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In the case of the stock of goods for resale, cost is determined on a first in first out basis and includes transport and handling costs. Provision is made where necessary for obsolete, slow moving and defective stocks.

In the case of work in progress, costs only include direct expenditure.

Current taxation

Provision at the applicable rate is made for corporation tax payable on profits for the year, as adjusted for tax purposes.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not been reversed at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is treated as recoverable and therefore recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Cash flow statement

Cash flows are defined as increases or decreases in cash. Cash includes cash in hand and deposits with banks repayable on demand. Deposits are repayable on demand if they are in practice available within twenty-four hours. Liquid resources, for cash flow purposes, are classified as deposits with banks which are repayable after more than one day.

2 Segmental reporting

The Group's sole activity is the provision of telecommunications and related services within Gibraltar and accordingly a segmental analysis has not been provided. The table below shows how the Group's turnover has been derived split by each area of the business.

	2006 £	2005 £
Rentals and one off charges	8,174,577	7,624,937
Fixed line voice telephony usage	6,135,354	6,715,411
International leased circuits	7,794,771	6,210,700
Mobile usage	6,362,894	5,946,631
	28,467,596	26,497,679

Notes to the financial statements for the year ended 31 December 2006

3 Staff costs

	2006 £	2005 £
Wages and salaries	4,950,124	4,831,791
Social security costs	179,496	184,605
Pension costs	1,193,647	586,122
Corporate restructure costs	436,290	-
	6,759,557	5,602,518

Pension costs resulting from the funding by the Company of the two pension schemes to meet the commitments agreed with employees as part of their early retirement or voluntary separation packages are included as part of the overall voluntary separations expenses in the profit and loss account. Pension costs are calculated by the actuary in line with FRS 17 to show the calculated current and past service costs of the schemes. These totalled £1,255,000 in 2006 (2005: £921,000).

The corporate restructure costs reflect the expense incurred by the company of a one-off after tax payment of £2,000 made to nearly all employees. The Company made this one-off payment as part of implementing a comprehensive new pay agreement for staff at Team Leader level and below, which superseded all previous pay arrangements made between Gibtelecom and the Union and provided for further modernising working practices and more flexible manning.

4 Employee information

The number of persons employed by the Group during the year is set out below.

	Actual as at 31 December		Average for the year	
	2006 No.	2005 No.	2006 No.	2005 No.
By Directorate				
Chief Executive Officer: Corporate and Regulatory Unit and Head Office	9	10	9	10
Business Director: Finance, Customer Services and Sales and Marketing	26	24	24	23
Operations Director: Internet and Network Operations Centre	44	33	42	30
Resources Director: External Plant, Human Resources and Resources and Administration	41	53	46	58
Technical Director: Information Systems, Wireline and Wireless	14	19	16	20
Total	134	139	137	141

Prior years' staff figures have been adjusted to reflect the current organisation and thereby afford comparability. It should be also noted that staff have been transferred from the Technical to Operations Directorate on the establishment of the Network Operations Centre. Currently the Company is recruiting further staff for the Operations and Technical Directorates, together with Head Office.

Notes to the financial statements for the year ended 31 December 2006

5 Directors' emoluments

The Directors received no emoluments from the Company for their services as Directors during the year (2005: nil).

6 Other operating charges

	2006 £	2005 £
Included in other operating charges are:		
Operating lease charges – property	356,316	370,897

7 Interest payable and similar charges

	2006 £	2005 £
Interest payable on bank loan (see note 16)	90,830	90,149

8 Tax on profit on ordinary activities

(a) Analysis of charge in period

	2006 £	2005 £
Current tax		
Gibraltar corporation tax on profit for the period	2,344,155	1,391,436
Adjustment in respect of previous periods	-	(117,337)
	2,344,155	1,274,099
Deferred tax		
Recognition of timing differences	524,544	468,833
Pension cost charge in excess of pension cost relief	94,389	466,550
Total deferred tax (see note 17)	618,933	935,383
Tax on profit on ordinary activities	2,963,088	2,209,482

Notes to the financial statements for the year ended 31 December 2006

8 Tax on profit on ordinary activities (continued)

(b) Factors affecting tax charge for the period

	2006 £	2005 £
Profit on ordinary activities before tax	9,807,022	9,368,277
Notional tax at 35%	3,432,458	3,278,897
Effects of:		
Development Aid Allowance	-	(696,033)
Permanent timing differences	(252,994)	(158,710)
Other timing differences	(222,779)	180,226
Pension cost contribution in excess of net pension cost charge	(94,389)	(466,550)
Capital allowances in excess of depreciation	(518,141)	(596,606)
Current tax charge for the period	2,344,155	1,541,224
Cessation of trading by Gibconnect on 31 December 2005	-	(149,788)
Gibraltar corporation tax on profit for the period	2,344,155	1,391,436

Development Aid

The Company had a Development Aid Licence given in 2005 for the installation of a new mobile GPRS (General Packet Radio Service) switch and equipment at its Mount Pleasant premises, together with various other locations in Gibraltar. The Licence permitted the Company to obtain an additional tax allowance equal to the expenditure incurred on this project of £1,988,666.

Permanent Timing Differences

The tax rules in Gibraltar result in certain types of income and expenses not being taken into account for Corporation Tax purposes. These are permanent timing differences as they will not reverse at a future date.

Other timing differences

Other timing differences have arisen as a result of provisions made for early retirements in the years 2002 to 2005 that was only partly paid during the years 2003 to 2006. During 2006 a further provision was made in respect of voluntary separation by employees. These provisions are not allowable for Corporation Tax purposes until such a time as the actual payment is made. These have given rise to further timing differences reflected in these financial statements.

Cessation of trading by Gibconnect

The cessation of trading by Gibconnect on 31 December 2005 affected the tax payable by the Company. The Corporation Tax rules in Gibraltar result in a Company's initial trading results being assessed to taxation more than once. Consequently, on cessation of trading, a period of trading is not assessed for Corporation Tax purposes.

Notes to the financial statements for the year ended 31 December 2006

9 Profits of holding Company

Of the profits for the financial year, a profit after tax of £7,578,330 (2005: £6,428,244), which includes a dividend received from its subsidiary Gibconnect of £734,396 (2005: nil), is dealt with in the accounts of Gibtelecom. The Directors of Gibtelecom have taken advantage of the exemption available under the Gibraltar Companies (Consolidated Accounts) Act 1999 and have not presented a separate profit and loss account for the holding Company alone.

The results of the Group Companies for the year, excluding dividends payable to the parent Company and their reconciliation to the consolidated results, are set out below.

	2006 £	2005 £
Profit after tax:		
Gibtelecom (excluding £734,396 [2005: nil] dividend received from its subsidiary Gibconnect)	6,843,934	6,428,244
Gibconnect	-	730,551
Combined profits prior to dividends	6,843,934	7,158,795
Dividend declared by Gibtelecom	(5,800,000)	(5,000,000)
Group results for the year to 31 December 2006	1,043,934	2,158,795

10 Dividends

	2006 £	2005 £
Interim paid	-	3,000,000
Final declared and paid	5,800,000	2,000,000
	5,800,000	5,000,000

The Company did not fully adopt accounting standard FRS 21 'Events after the balance sheet date' in its 2005 financial statements. The 2005 comparatives do not reflect a proposed final dividend in respect of 2004 of £2,200,000 which was declared and paid in 2005, which would have increased the dividends for 2005 to £7,200,000.

Notes to the financial statements for the year ended 31 December 2006

11 Tangible fixed assets

Group	Assets under construction £	Plant and equipment £	Furniture, office equipment and software £	Motor vehicles £	Total £
Cost					
At 1 January 2006	747,816	29,035,556	4,513,462	387,530	34,684,364
Reclassification	117,988	(101,971)	(52,289)	36,272	-
Additions	467,356	2,959,002	477,267	74,821	3,978,446
Disposals	-	(2,430,248)	(2,253,210)	(54,030)	(4,737,488)
At 31 December 2006	1,333,160	29,462,339	2,685,230	444,593	33,925,322
Accumulated depreciation					
At 1 January 2006	-	16,800,844	3,363,805	244,569	20,409,218
Reclassification	-	(106,283)	88,776	17,507	-
Charge for the year	-	2,986,764	407,221	63,220	3,457,205
Disposals	-	(2,430,248)	(2,253,210)	(31,558)	(4,715,016)
At 31 December 2006	-	17,251,077	1,606,592	293,738	19,151,407
Net book value					
At 31 December 2006	1,333,160	12,211,262	1,078,638	150,855	14,773,915
At 31 December 2005	747,816	12,234,712	1,149,657	142,961	14,275,146

Notes to the financial statements for the year ended 31 December 2006

II Tangible fixed assets (continued)

Company	Assets under construction £	Plant and equipment £	Furniture, office equipment and software £	Motor vehicles £	Total £
Cost					
At 1 January 2006	747,816	27,838,261	4,513,462	387,530	33,487,069
Reclassification	117,988	(101,971)	(52,289)	36,272	-
Additions	467,356	3,318,930	477,267	74,821	4,338,374
Disposals	-	(2,430,248)	(2,253,210)	(54,030)	(4,737,488)
At 31 December 2006	1,333,160	28,624,972	2,685,230	444,593	33,087,955
Depreciation					
At 1 January 2006	-	15,963,477	3,363,805	244,569	19,571,851
Reclassification	-	(106,283)	88,776	17,507	-
Charge for the year	-	2,986,764	407,221	63,220	3,457,205
Disposals	-	(2,430,248)	(2,253,210)	(31,558)	(4,715,016)
At 31 December 2006	-	16,413,710	1,606,592	293,738	18,314,040
Net book value					
At 31 December 2006	1,333,160	12,211,262	1,078,638	150,855	14,773,915
At 31 December 2005	747,816	11,874,784	1,149,657	142,961	13,915,218

Assets under construction represent the purchase and development of a site at 13/21 John Mackintosh Square. Gibtelecom plans to develop the site for use by the Group for customer services, technical facilities and offices.

Notes to the financial statements for the year ended 31 December 2006

12 Investments included in fixed assets

Group	2006 £	2005 £
Valuation		
At 1 January	-	459,524
Disposal	-	(459,524)
31 December	-	-
At cost		
At 1 January	-	357,473
Disposal	-	(357,473)
31 December	-	-
Company	2006 £	2005 £
At cost		
At 1 January and 31 December	7,742,082	8,938,082

The investments consist of a 100% shareholding in the ordinary shares of Gibconnect Limited, at a cost of £4,000 and a 100% shareholding in the ordinary shares of Gibraltar Telecommunications International Limited (Gibtel) acquired on the 26 September 2001 for a consideration of £7,738,082. Both companies are registered in Gibraltar. The reduction in the value of the investments during 2006 resulted from the redemption of the redeemable preference shares held in Gibconnect Limited.

The capital and reserves of the subsidiaries are as follows:

	2006 £	2005 £
Gibconnect Limited	4,000	1,936,396
Gibtel	8,478,944	8,478,944
	8,482,944	10,415,340

13 Stocks

Group and Company	2006 £	2005 £
Goods for resale	883,600	793,630

Notes to the financial statements for the year ended 31 December 2006

14 Debtors

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Amounts falling due within one year:				
Trade debtors	5,141,983	5,017,250	5,141,983	4,635,901
Prepaid licence fee	325,637	363,818	325,637	363,818
Other debtors and prepayments	424,763	326,968	424,763	318,284
	5,892,383	5,708,036	5,892,383	5,318,003
Amounts falling due after more than one year:				
Prepaid licence fee	-	317,016	-	317,016
Rent prepaid	99,731	149,445	99,731	149,445
	99,731	466,461	99,731	466,461
	5,992,114	6,174,497	5,992,114	5,784,464

Amounts owed by Group undertakings, largely comprising inter-Company accounting arrangements that arise as a consequence of the transfer of the business of Gibtel and Gibconnect to Gibtelecom Limited, are unsecured, interest free and have no fixed date of repayment. The prepaid license is estimated to be fully utilised by November 2007. Thereafter Gibtelecom will become liable to make physical payments in respect of administrative charges in accordance with the Communications Ordinance 2006, an amount which will be calculated on the basis of the relevant turnover of network providers in the Gibraltar market and the relevant costs of the Gibraltar Regulatory Authority.

15 Creditors: amounts falling due within one year

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Trade creditors	4,685,621	4,030,417	4,685,621	3,964,175
Amounts due to Group undertakings	-	-	8,484,944	8,505,351
Other creditors	640,639	204,316	640,639	204,316
Corporation tax payable	3,692,287	3,346,696	3,692,287	3,185,161
Accruals and deferred income	2,304,907	2,116,820	2,304,907	1,968,939
Dividend payable	-	2,000,000	-	2,000,000
	11,323,454	11,698,249	19,808,398	19,827,942

Amounts due to Group undertakings are unsecured, interest free and have no fixed date of repayment.

Notes to the financial statements for the year ended 31 December 2006

16 Creditors: amounts falling due after more than one year

Group and Company	2006 £	2005 £
Bank loan	1,750,000	1,750,000

The Bank loan relates to financing obtained from NatWest (Gibraltar) for the purchase and redevelopment of 13/21 John Mackintosh Square. The loan is secured by a legal charge over the credit balances of the Company limited to a maximum of £1,750,000 held with Natwest Offshore, Gibraltar. Drawdown from the loan account is secured on production of architects certificates as the building works progresses and a legal charge over the property. Interest on the loan is payable quarterly at 1% above the Bank of England base rate. As at 31 December 2006 £428,000 had been drawn down and secured by means of a legal charge over the property and £1,322,000 remained secured against the credit balances held by the Company with Natwest Offshore, Gibraltar. Once the building is completed the Company plans to convert the bank loan into a mortgage on the premises.

17 Provisions for liabilities and charges

Group	Provision for early retirements and voluntary separations £	Provision for unfunded retirement gratuities £	Deferred tax Provision £	Total £
At 1 January 2006	862,086	16,205	1,308,203	2,186,494
Charged to the profit and loss account	259,014	-	618,933	877,947
Utilised during the year	(1,031,451)	(16,205)	-	(1,047,656)
At 31 December 2006	89,649	-	1,927,136	2,016,785
Company				
At 1 January 2006	862,086	16,205	1,308,203	2,186,494
Charged to the profit and loss account	259,014	-	618,933	877,947
Utilised during the year	(1,031,451)	(16,205)	-	(1,047,656)
At 31 December 2006	89,649	-	1,927,136	2,016,785

Provision for early retirements and voluntary separations

During 2006, three employees took up the Company's voluntary separation offer. Two of these employees left employment with the Company prior to the year end and the remaining employee has done so in January 2007. The full cost of the separation package and enhancement of pensionable service, together with that for the previous early retirement programme, is being borne by the Company.

This brings to a conclusion the Company's early retirement and voluntary separation programmes which resulted in 20 and 9 employees respectively leaving the Company. The Company now looks at further voluntary separations on a case by case basis and this resulted in the Company offering 2 employees a separation package during the year.

Notes to the financial statements for the year ended 31 December 2006

17 Provisions for liabilities and charges (continued)

Deferred tax provision

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Provision for deferred tax comprises:				
Accelerated capital allowances	1,958,513	1,613,854	1,958,513	1,613,854
Other timing differences	(31,377)	(305,651)	(31,377)	(305,651)
Deferred tax provision excluding that relating to pension liability	1,927,136	1,308,203	1,927,136	1,308,203
Deferred tax asset on pension liability (Note 24)	(1,156,161)	(1,782,550)	(1,156,161)	(1,782,550)
Total provision for deferred tax	770,975	(474,347)	770,975	(474,347)
The movement on deferred tax is as follows:				
At 1 January 2006	(474,347)		(474,347)	
Amount charged to profit and loss (Note 8)	618,933		618,933	
Amount credited to statement of total recognised gains and losses	626,389		626,389	
Provision at end of year including deferred tax on pension asset	770,975		770,975	

Notes to the financial statements for the year ended 31 December 2006

18 Called up share capital

Group and Company	2006 £	2005 £
Authorised, issued and fully paid		
7,500 A ordinary shares of £1 each	7,500	7,500
7,500 B ordinary shares of £1 each	7,500	7,500
	15,000	15,000

Class A and B shares carry equal rights in all respects except that the Government of Gibraltar has restrictions placed on the sale of its shareholding. The Articles of Association also provide for separate voting rights over the appointment of Directors.

19 Share premium account

Group and Company	2006 £	2005 £
Share premium	14,985,000	14,985,000

The share premium account represents a premium of £999 per share paid up on the share capital of 7,500 Class A ordinary shares and 7,500 Class B ordinary shares.

20 Profit and loss account

	Group £	Company £
At 1 January 2006	2,017,530	540,272
Retained profit for the financial year	1,043,934	1,778,330
Actuarial gain on pension schemes	1,520,000	1,520,000
Movement on deferred tax relating to the pension schemes	(626,389)	(626,389)
At 31 December 2006	3,955,075	3,212,213

FRS 17 requires actuarial gains and losses to be recognised in the Statement of Total Recognised Gains and Losses ("STRGL"). These movements are reflected in the above note.

Notes to the financial statements for the year ended 31 December 2006

21 Reconciliation of movements in Shareholders' funds

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Profit for the financial year	6,843,934	7,158,795	7,578,330	6,428,244
Dividends	(5,800,000)	(5,000,000)	(5,800,000)	(5,000,000)
	1,043,934	2,158,795	1,778,330	1,428,244
Actuarial gain/(loss) on pension scheme (note 24)	1,520,000	(1,573,000)	1,520,000	(1,573,000)
Movement on deferred tax relating to pension schemes (note 17)	(626,389)	550,550	(626,389)	550,550
Net addition to shareholders' funds	1,937,545	1,136,345	2,671,941	405,794
Opening shareholder's funds	17,017,530	15,881,185	15,540,272	15,134,478
Closing shareholders' funds	18,955,075	17,017,530	18,212,213	15,540,272

22 Reconciliation of operating profit to net cash inflow from operating activities

	Group	
	2006 £	2005 £
Operating profit	9,208,718	9,135,784
Depreciation charges	3,457,205	2,886,335
Profit on sale of tangible fixed assets	1,403	55,114
Difference between pension charge and cash contributions	(312,490)	(1,487,000)
Increase in stocks	(89,970)	(59,716)
Decrease in debtors and prepayments	182,383	231,259
Increase/(decrease) in creditors	1,279,614	(225,057)
(Decrease)/increase in other provisions for liabilities and charges	(788,642)	265,934
Net cash inflow from operating activities	12,938,221	10,802,653

Notes to the financial statements for the year ended 31 December 2006

23 Analysis of net cash and liquid resources

	2006 £	Group Cash flow £	2005 £
Net cash:			
Bank balances	14,542,841		14,719,450
Less: Deposits included in liquid resources	(10,176,938)		(8,924,242)
	4,365,903	(1,429,305)	5,795,208
Liquid resources:			
Deposits included in cash	10,176,938	1,252,696	8,924,242
	14,542,841	(176,609)	14,719,450

24 Pension commitments

Actuarial review

The Group operates two pension schemes for Gibtelecom employees. One for all former GNC employees and any new joiners to Gibtelecom (Gibraltar Nynex Communications Limited Staff Pension Scheme) and one for former Gibtel employees (Gibtel Pension Fund). Both schemes provide defined post-retirement benefits based on final pensionable salary. In 2002 the Group studied merging the Pension Funds, but this was not proceeded with at the time due to the prevailing market conditions. It remains the intention of the Group to keep under review the merger of the Funds.

The GNC Staff Pension Scheme is a defined benefits pension scheme contracted out to a pensions administrator, Clerical Medical Investment Group Limited. A full actuarial valuation was carried out as at 31 August 2005 by an independent actuary and their final report was issued in July 2006. The valuation indicated that the Scheme's obligations in respect of past services liabilities exceeded the value of the Scheme at that date by £3,013,000, with the level of asset cover being 64% at the valuation date. The actuaries recommended that the Company increase its contributions with effect from 1 September 2005 from the rate of 28.0% to 32.0% of pensionable salary to secure future benefits. This was implemented by the Company.

The Gibtel Staff Pension Scheme is a defined benefits pension scheme. A full valuation as at 31 August 2005 was carried out by Watson Wyatt Limited and their final report was issued in July 2006. The value of the past service liabilities exceeded the market value of the assets by £2,430,000 with the level of asset cover being 78% at the valuation date. In this valuation the actuary recommends that the Company increase its contributions from 28.0% to 32.0% of pensionable salaries from 1 January 2006, with annual contributions of £155,000 a year for ten years, increasing annually at 5%. This was implemented by the Company.

Notes to the financial statements for the year ended 31 December 2006

24 Pension commitments (continued)

These financial statements record a Company contribution to the GNC Pension Scheme of £1,125,000 (2005: £1,888,000). These payments are composed of £730,000 of normal pension costs and £395,000 as a consequence of the Voluntary Separation/Early retirement packages (2005: £966,000 and £116,000 respectively).

The Company contributions to the Gibtel Pension Fund for 2006 amount to £440,000 (2005: £520,000). These comprised payments of £409,000 normal pension costs and £31,000 as a consequence of the voluntary separation/early retirement packages (2005: £409,000 and £111,000 respectively).

Financial Reporting Standard 17 'Retirement benefits'

Valuations of both schemes, for the purposes of Financial Reporting Standard 17, were carried out at 31 December 2005 by qualified actuaries.

Under FRS 17 rules all physical payments made during the year, irrespective of the periods they relate to, are fully utilised to reduce the pension liability at the time of payment.

The Directors set the major assumptions, on the basis of actuarial advice, as set out below.

	2006	2005	2004
Rate of increase in salaries	4.00%	3.80%	3.80%
Rate of increase in pensions in payment	3.00%	3.00%	3.00%
Discount rate	5.30%	5.10%	5.60%
Inflation assumption	2.75%	2.75%	2.50%
Equities rate of return	8.20%	8.40%	8.25%
Bonds rate of return	5.20%	5.00%	5.00%
Cash and other assets rate of return	4.50%	4.25%	4.00%

Notes to the financial statements for the year ended 31 December 2006

24 Pension commitments (continued)

The fair value of the assets in the schemes and the expected rate of return were:

Gibraltar Nynex Communications Staff Pension Scheme

	Long-term rate of return expected at		Long-term rate of return expected at		Long-term rate of return expected at	
	31 December 2006	31 December 2006	31 December 2005	31 December 2005	31 December 2004	31 December 2004
	Value at	Value at	Value at	Value at	Value at	Value at
	31 December 2006	31 December 2006	31 December 2005	31 December 2005	31 December 2004	31 December 2004
	£	£	£	£	£	£
Group Pension Contract	5.9%	9,071,683	5.7%	6,977,000	5.5%	4,971,000
Other net assets	4.5%	(583,000)	4.3%	234,000	4.0%	30,000
Total market value of assets		8,488,683		7,211,000		5,001,000
Present value of scheme liabilities		(8,912,000)		(8,874,000)		(6,524,000)
Deficit in the scheme		(423,317)		(1,663,000)		(1,523,000)
Related deferred tax asset		148,161		582,050		533,050
Net pension liability		(275,156)		(1,080,950)		(989,950)

The scheme has a number of purchased annuities in respect of past retirements. These are understood to fully match the relevant liabilities and so have been excluded from both the assets and the liabilities.

Notes to the financial statements for the year ended 31 December 2006

24 Pension commitments (continued)

Analysis of amount charged to operating profit in respect of defined benefit schemes

	2006 £	2005 £
Current service cost	672,000	538,000
Past service cost	363,000	113,000
Cost of settlements and curtailments	-	-
Total operating charge	1,035,000	651,000

Analysis of the amount credited to other finance expense

	2006 £	2005 £
Expected return on pension scheme assets	375,000	291,000
Interest on pension scheme liabilities	(445,000)	(365,000)
Net return	(70,000)	(74,000)

Analysis of amount recognised in statement of total recognised gains and losses

	2006 £	2005 £
Actual return less expected return on pension scheme	582,000	477,000
Experience gains and losses arising on the scheme liabilities	385,000	(123,000)
Changes in the assumptions underlying the present value of the scheme liabilities	253,000	(1,657,000)
Actuarial loss recognised in statement of total recognised gains and losses	1,220,000	(1,303,000)

Notes to the financial statements for the year ended 31 December 2006

24 Pension commitments (continued)

Movement in deficit during the year

	2006 £	2005 £
Deficit in the scheme at the beginning of the year	(1,663,000)	(1,523,000)
Movement:		
Current service cost	(672,000)	(538,000)
Contributions	1,125,000	1,888,000
Past service costs	(363,000)	(113,000)
Other finance expense	(70,000)	(74,000)
Actuarial gain/(loss)	1,220,000	(1,303,000)
Deficit in the scheme at the end of the year	(423,000)	(1,663,000)

History of experience gains and losses

	2006 £	2005 £	2004 £	2003 £	2002 £
Difference between the actual and expected return on scheme assets:					
Amount	582,000	477,000	252,000	(20,000)	(29,000)
Percentage of scheme assets	7.4%	7.5%	5.0%	0.4%	0.6%
Experience gains and losses on scheme liabilities:					
Amount	385,000	(123,000)	(492,000)	(152,000)	(127,000)
Percentage of the present value of the scheme liabilities	4.3%	1.4%	7.5%	2.6%	2.4%
Total amount recognised in statement of total recognised gains and losses:					
Amount	1,220,000	(1,303,000)	(470,000)	(573,000)	(156,000)
Percentage of the present value of the scheme liabilities	13.7%	14.7%	7.2%	9.8%	3.0%

Notes to the financial statements for the year ended 31 December 2006

24 Pension commitments (continued)

Gibtel Pension Fund

	Long-term rate of return expected at		Long-term rate of return expected at		Long-term rate of return expected at	
	31 December 2006	Value at 31 December 2006 £	31 December 2005	Value at 31 December 2005 £	31 December 2004	Value at 31 December 2004 £
Equities	8.2%	6,710,000	8.40%	6,220,000	8.25%	5,110,000
Bonds	5.2%	1,920,000	5.00%	1,610,000	5.00%	1,430,000
Cash and other assets	4.5%	1,240,000	4.25%	1,390,000	4.00%	1,480,000
Total market value of assets		9,870,000		9,220,000		8,020,000
Present value of scheme liabilities		(12,750,000)		(12,650,000)		(11,350,000)
Deficit in the scheme		(2,880,000)		(3,430,000)		(3,330,000)
Related deferred tax asset		1,008,000		1,200,500		1,165,500
Net pension liability		(1,872,000)		(2,229,500)		(2,164,500)

Notes to the financial statements for the year ended 31 December 2006

24 Pension commitments (continued)

Analysis of amount charged to operating profit in respect of defined benefit schemes

	2006 £	2005 £
Current service cost	180,000	150,000
Past service cost	40,000	120,000
Total operating charge	220,000	270,000

Analysis of the amount credited to other finance expense

	2006 £	2005 £
Expected return on pension scheme assets	660,000	550,000
Interest on pension scheme liabilities	(630,000)	(630,000)
Net return	30,000	(80,000)

Analysis of amount recognised in statement of total recognised gains and losses

	2006 £	2005 £
Actual return less expected return on pension scheme	(40,000)	620,000
Experience gains and losses arising on the scheme liabilities	-	190,000
Changes in the assumptions underlying the present value of the scheme liabilities	340,000	(1,080,000)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	300,000	(270,000)

Movement in deficit during the year

	2006 £	2005 £
Deficit in the scheme at the beginning of the year	(3,430,000)	(3,330,000)
Movement:		
Current service cost	(180,000)	(150,000)
Contributions	440,000	520,000
Past service cost	(40,000)	(120,000)
Other finance expenses	30,000	(80,000)
Actuarial gain/(loss)	300,000	(270,000)
Deficit in the scheme at the end of the year	(2,880,000)	(3,430,000)

Notes to the financial statements for the year ended 31 December 2006

24 Pension commitments (continued)

History of experience gains and losses

	2006 £	2005 £	2004 £	2003 £	2002 £
Difference between the actual and expected return on scheme assets:					
Amount	40,000	(620,000)	(100,000)	(630,000)	(1,710,000)
Percentage of scheme assets	0.41%	6.72%	1.25%	8.55%	27.99%
Experience gains and losses on scheme liabilities:					
Amount	-	(190,000)	(10,000)	(120,000)	(1,390,000)
Percentage of the present value of the scheme liabilities	-	1.50%	0.09%	1.11%	14.49%
Total amount recognised in statement of total recognised gains and losses:					
Amount	300,000	(270,000)	(80,000)	(30,000)	(3,100,000)
Percentage of the present value of the scheme liabilities	2.35%	2.13%	0.70%	0.28%	32.33%

25 Related party transactions

The Directors consider the Government of Gibraltar, by virtue of its 50% interest in the share capital of Gibtelecom, to be a related party.

The Group, at any given time, owes the Government of Gibraltar amounts deducted from its employees' wages and salaries in respect of personal taxation (PAYE) and Social Insurance contributions, together with employer's Social Insurance contributions. The Group companies also owe the Government of Gibraltar amounts in respect of Corporation Tax based on their profits. These amounts are settled on their due dates. Further amounts are also due in respect of the licence fees and dividend payable.

The amounts of these balances due are shown below.

	Group	
Amounts due to the Government	2006 £	2005 £
PAYE and Social Insurance	491,411	388,168
Dividend	-	1,000,000
Corporation tax	4,314,155	3,346,696
	4,805,566	4,734,864

The Group also provides the Government of Gibraltar with some telephony services and equipment in the normal course of business at its published tariffs to the business community and the general public.

Notes to the financial statements for the year ended 31 December 2006

26 Capital commitments

At 31 December 2006 the Group had ongoing commitments for capital expenditure of £1,091,620 (2005: £743,000). The capital budget for 2007 is a further £5,240,000 (2005: £3,966,000), additional provision has been made for further capital expenditure of £505,000 for projects arising from Gibraltar Regulatory Requirements.

The total capital budget for John Mackintosh Square is £4,900,000 of which £1,333,160 has been expended on the purchase of the site, preliminary costs and part of the construction of the foundations and basement. Some £3,000,000 is due to be spent over the period 2007 to 2008.

27 Financial commitments

At 31 December 2006 the Group had annual commitments in respect of properties under non-cancellable operating leases expiring as follows:

	2006 £	2005 £
Within one year	89,675	-
Within two to five years	149,697	90,400
After five years	34,883	208,640
	274,255	299,040

28 Ultimate controlling parties

The Directors consider Verizon Communications Inc and the Government of Gibraltar as joint controlling parties by virtue of each holding a 50% interest in the share capital of the Gibtelecom.


www.gibtele.com

2006 at a Glance

117 million
local minutes

43 million
International incoming & outgoing minutes

53%
ADSL service penetration rate per-household

83%
GSM mobile penetration rate per-capita

7.7 million
short text messages (SMS) sent

219
Roaming partners in 82 countries

Key Initiatives

A review of Gibtelecom's advances through 2006

January

■ **Introduction of new 9p rate for the 884 Service** applying to 39 destinations including the UK, Portugal, other Western European destinations, USA, Israel and Australia (excluding calls to mobiles which are charged at 20p per minute).

■ **Inclusion of Spain in the 884 Service** within the new 9p rate (excluding calls to mobiles which are charged at 20p per minute).

■ **20% reduction on SMS** (Short Message Service) text messages from 10p to 8p per SMS throughout the world.

February

■ **Gibtelecom International Chess Tournament** held January and February. Website attracts 27 million hits from around the world.

■ **Reductions on calls to mobiles from Gibraltar landlines.** The cheap rate was reduced from 18p to 15p per minute and the standard rate was reduced from 20p to 17p per minute.

June

■ **Free Voicemail on all Gibraltar landlines** including the removal of monthly rental fees (£2 residential and £3 business), call diversion usage charges during forwarding of calls to voicemail and mailbox access charges from landlines.

■ **Hosts twelfth Teleforum of Telecom Operators of Small States.** Conference in Gibraltar attended by 13 companies and 12 commercial sponsors from 20 different Countries.

August

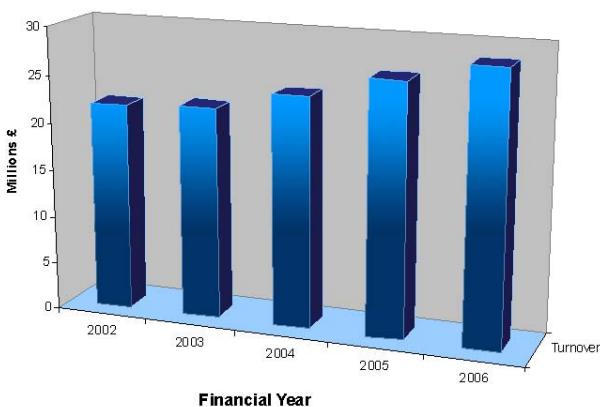
■ **ADSL (WOW) free connection** promotional offer, saving £75.

December

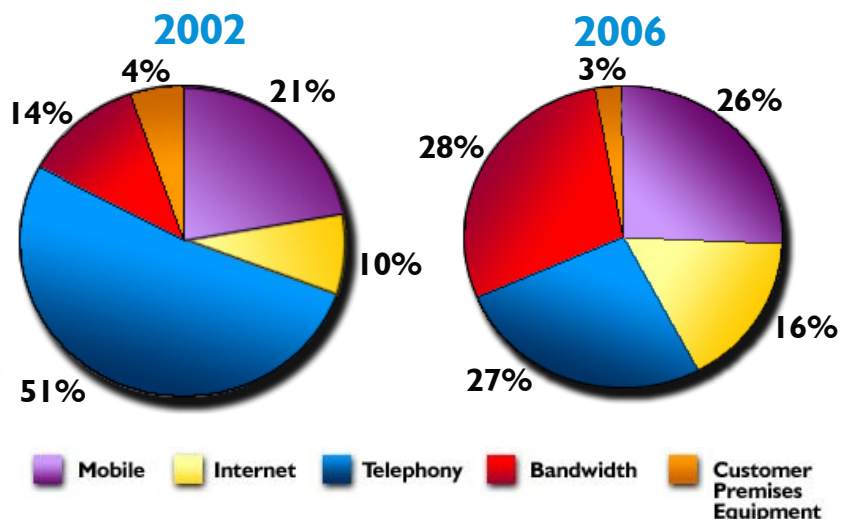
■ **New Customer Services Centre** with open-plan area and multi-tasking work stations.

Gibtelecom 2002-2006

Group Turnover



The Changing Business





www.gibtele.com



Registered Office

www.gibtele.com

Email: info@gibtele.com

Tel: +350 52200

P.O. Box 929

Gibtelecom, Suite 942,
Europort, Gibraltar.

Registered number: 37905

