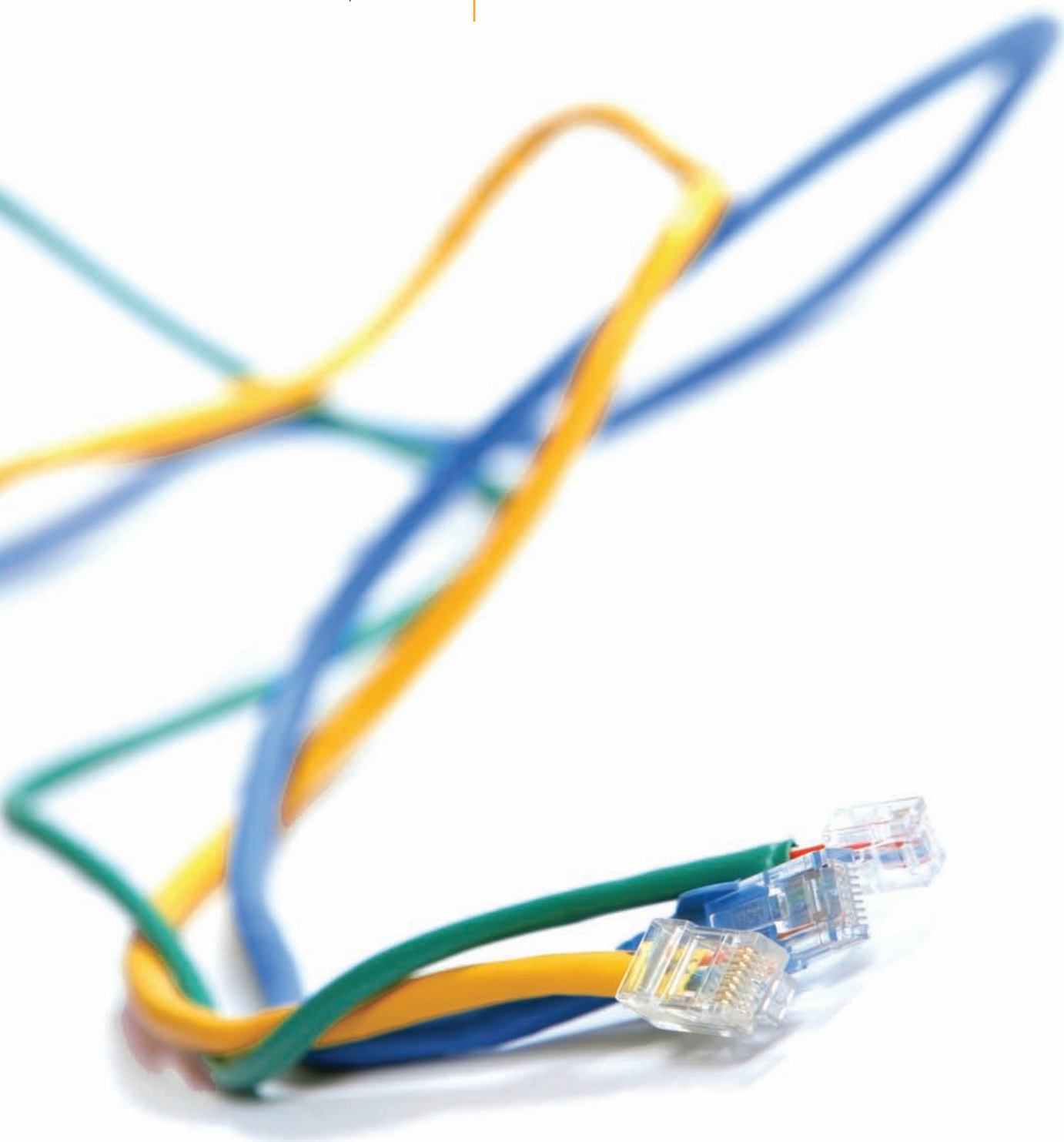
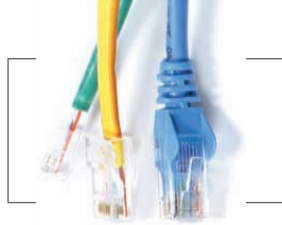




Annual Report | 2008



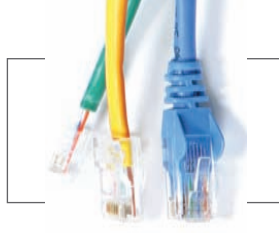
[www.gibtele.com](http://www.gibtele.com)



# Gibtelecom

Driving Gibraltar's  
Telecommunications

● Fixed ● Mobile ● Internet



# Annual report for the year ended 31 December 2008

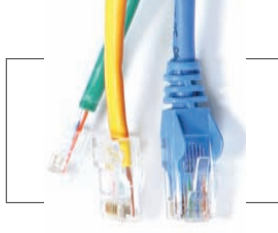
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## Board of Directors

**Bottom left to right:** Bojan Dremelj, Joe Holliday (Chairman), Tim Bristow (CEO)  
**Top left to right:** Filip Ogris-Martič, Dilip Dayaram Tirathdas, Klavdij Godnič



# Chairman's foreword

**“Gibtelecom's focus on meeting customer needs and commitment to investing in quality means that the Company is well positioned for future success”**

2008 has been another good year for Gibtelecom, with overall business turnover increasing despite increased competition and the worldwide economic climate.

The year saw the final stage of the implementation of the new Gibraltar fixed line numbering plan. Gibtelecom, as required by the Gibraltar Regulatory Authority, extended all five digit fixed line numbers to eight digits with the addition of 200 in front of the existing numbers. Parallel running, where customers could continue to call the old five digit number, ended on 30 September 2008. The announcement informing customers who were still dialling an old five digit number, which was originally scheduled for removal at the end of 2008, was extended to 31 March 2009 to allow for the significant amount of misdialled calls still being made at the time.

The last financial year largely saw the completion of the construction of the Company's new premises at John Mackintosh Square. These state-of-the-art premises, located next to the Company's 'System X' digital exchange and main distribution frame in the neighbouring Haven Building, will house the Company's new Customer Services Centre and many other operational units. Relocation to the new premises has already commenced and is expected to be completed shortly.

Gibtelecom is a business that is committed to quality. The Company has recently upgraded its already existing internationally-recognised ISO certification to the ISO9001:2008 standard. Gibtelecom is also preparing a submission for the European Foundation of Quality Management's 'Recognised for Excellence' award, building on its 'Certificate for Excellence' achievement. This would be a first for a Gibraltar company. This investment in quality will undoubtedly contribute to enhancing Shareholder value and customer satisfaction in the long term.



Telecommunications plays an increasingly integral part in all our lives - whether a business dependent on e-commerce through to a family just keeping in touch - and Gibtelecom's management and workforce continue to make strides in developing the business to meet the challenging demands of a dynamic industry. Independently conducted surveys in 2008 showed that over 95% of customers rated Gibtelecom as satisfactory or above across the board, with an impressive 59% of these rating the service overall as excellent. Gibtelecom's focus on meeting customer needs and commitment to investing in quality means that the company is well positioned for future success.

**Joe Holliday**  
Chairman



# Chief Executive Officer's statement

## **“Gibtelecom takes a proactive, customer-centric approach to delivering new technologies and products”**

The year 2008 was another successful period for Gibtelecom, with overall business turnover up by nearly 4%. All lines of business made a positive contribution to this revenue growth, although like most telecommunications businesses, mobile and internet technologies are experiencing greater expansion than traditional fixed line telephony. Nevertheless, in the current economic climate, the Company faces the challenge of containing costs, in particular with regards to the deterioration in the value of the pound sterling against the euro and dollar.

Gibtelecom, despite its small customer base, provides customers with services that match those offered by much larger telecommunications companies in substantially bigger markets. The Company's portfolio of products has expanded further with the commercial launch of Gibtelecom's 3G network and the establishment of new data centres for hosting customers' IT equipment. Concurrently, Gibtelecom is laying the foundations for its own Next Generation Network to handle converging technologies, which will help keep the Company as the leading edge communications provider in Gibraltar. Gibtelecom takes a proactive, customer-centric approach to delivering new technologies and products to Gibraltar, all of which is underpinned by the Company's continuous investment in information technology.

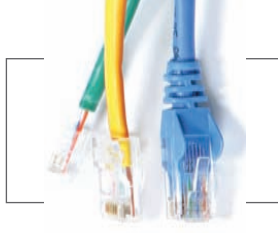
Gibtelecom meets the challenging demands of its customers through its modern state-of-the-art customer services centre and call centre, available through its Network Operations Centre, which operates 24 hours a day, every day of the year. With its ongoing investment in infrastructure, Gibtelecom is also expanding its local networks to reach the large number of new developments and handle the changing topography of Gibraltar.

The Company now offers bandwidth over five diverse international fibre routes, which includes a new route from Gibraltar to Madrid partnering with Interoute and increased capacity on the FLAG submarine cable which uses different carriers on the same cable. Gibtelecom is also an investing



member of the Europe India Gateway [EIG] consortium, which will see a high-bandwidth optical fibre submarine cable connecting the United Kingdom to India and linking three continents. The cable is scheduled for completion in 2010-11 and the plans include Gibraltar as a branch landing point.

The competitive environment continues to grow in Gibraltar, together with increasing regulatory requirements. The industry is working towards implementing number portability for fixed and mobile numbers. This comes on the back of the successful implementation in 2008 of the new eight digit numbering scheme for fixed line numbers by Gibtelecom. The burden of implementing an EU regulated regime for an incumbent operator, that was designed to promote competition in European states with much larger populations and markets than Gibraltar, remains a significant challenge for the Company.



2008 saw continuing progress in the upgrading of Gibtelecom's premises with the completion of the new John Mackintosh Square building on budget, albeit delivered slightly later than originally envisaged. The Company will take advantage of the many benefits associated with having these new premises adjoining the Haven and City Hall, where much of the Company's technology is already located.

The focus for Gibtelecom's training and development investment in 2008 moved more to groups of individuals and away from the Company-wide programmes of change management and business development pioneered over recent years. Gibtelecom recognises its people are an important asset, and that the Company's continued success will depend on our ability to engage and retain the highly motivated people needed to take the business to the next level. Consequently, the start of 2009 saw employee focus groups being run for over half of the workforce followed by an independently conducted on-line employee engagement survey, which achieved an excellent response rate of over 90% of all the staff. The results of these surveys should help the Company to harness and develop the potential of its employees so as to continue to enhance business performance.

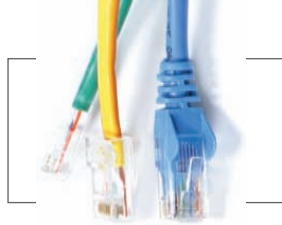
A particularly proud occasion was in September 2008, which marked the successful launch of the Gibtelecom Apprenticeship Scheme in conjunction with the Government of Gibraltar's Department of Employment and Vocational Training. This is the first time a telecommunications training scheme of this nature has been offered in Gibraltar for over a quarter of a century. The Company took on eight young apprentices and intends to continue the scheme into this year and beyond, not only to meet Gibtelecom's future requirements but to contribute to enhancing the skills base of Gibraltar in the vitally important areas of telecommunications and information technology.

Gibtelecom's support for the local community also extends to sponsoring numerous local youth,

sporting and cultural organisations and charitable events. This year, amongst other activities, the Company donated vans to various local charities following the upgrading of Gibtelecom's vehicle fleet. The start of 2009 saw another Gibtelecom International Chess Festival take place, an event which is gaining in popularity and international recognition with 330 players (including many grandmasters) from 40 different countries participating. As well as being the main commercial sponsor of the event, Gibtelecom provides technical support, facilitating live audio and video streaming of the event over the internet, with over 36 million hits worldwide being recorded on the Chess Festival's website. The event has also generated a lot of interest within the younger community, with chess being actively taken up in all local schools.

Looking ahead, the Company believes it is well positioned to handle the continuing challenges that will inevitably arise from the demands of a dynamic industry. Gibtelecom's investment in people, infrastructure and technology will undoubtedly contribute to the Company maintaining its position as the leading telecommunications company of choice in Gibraltar.

**Tim Bristow**  
Chief Executive Officer



# Directors' Report & Business Review

The Directors present their report, business review and audited financial statements for the year ended 31 December 2008 for Gibtelecom Limited ("Gibtelecom"), including its wholly-owned subsidiary Gibconnect Limited ("Gibconnect").

The Group has been trading as Gibtelecom since July 2002, and as of 1 October 2003 this name was formally adopted by the Company (previously Gibraltar Nynex Communications [GNC]). In January 2009 the subsidiary company, Gibraltar Telecommunications International (Gibtel), having no assets or liabilities was struck off, having being a non-trading subsidiary following the acquisition of this company by GNC several years ago. Gibconnect remains as a nominal non-trading company as of 31 December 2008.

## Principal Activities

Gibtelecom is registered in Gibraltar and its principal activities are the provision of fixed line, internet and mobile services, together with the supply of various communications equipment in Gibraltar. The share capital of the Company is jointly owned by Telekom Slovenije, listed on the Ljubljana Stock Exchange, and the Government of Gibraltar.

Gibtelecom is authorised under the Communications Act 2006 to provide fixed line, internet, mobile, satellite and other radio-communication services. The current authorisations supplement the licences issued by 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.

## Corporate Governance

Gibtelecom's Board of Directors is strongly committed to maintaining high standards of corporate governance, which it considers are critical to business success and delivering value to stakeholders. Gibtelecom acts in accordance with corporate governance best practice and guidelines, through adopting proper standards of business practice and procedures and by expecting all its executives and employees to uphold the highest ethical standards of honesty, integrity and fairness. Gibtelecom is committed to quality and recently had its ISO9001 quality certification upgraded to the ISO9001:2008 standard by independent auditors. Preparations are well advanced for the Company to submit an application for the European Foundation of Quality Management [EFQM] 'Recognised for

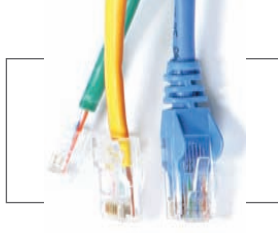
Excellence' award. Gibtelecom is currently a member of the EFQM, having attained the "Committed to Excellence" award in 2003. Gibtelecom's quality systems are audited twice a year by the Company's internal auditors and by independent external assessors.

May 2008 saw the completion of the Gibtelecom Development Programme [GDP], ran in conjunction with Durham University Business School. Over 100 Gibtelecom employees successfully completed the GDP which supplemented the previous Gibtelecom Management Development Programme, and covered areas such as caring for customers, improving communications, getting the best from employees and improving business processes.

## Financial Performance

The overall turnover of the business increased year-on-year to £31,476,870 (2007: £30,382,468). Gibtelecom's consolidated profit after tax for the twelve months to 31 December 2008 was £8,787,120 (2007: £8,663,715). The Directors declared and paid total dividends for the year of £6,400,000 (2007: £6,300,000). The Group's undistributed profits for the financial year carried forward to retained earnings, following the payment of dividends, is £2,387,120 (2007: £2,363,715). The retained earnings of the Group as at 31 December 2008 now stands at £6,754,163.

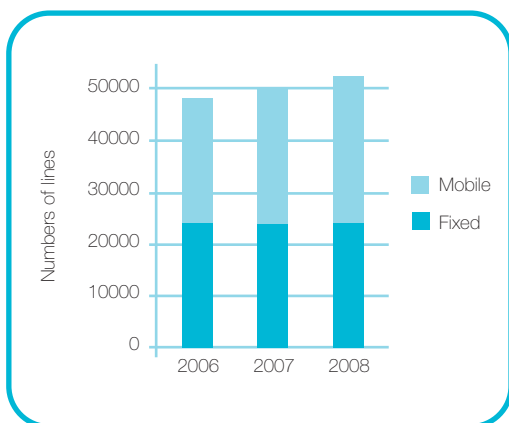
The level of retained earnings in the Directors' view sufficiently provides for possible future fluctuations in the value of pension liabilities, arising from changing market conditions and actuarial assumptions. Gibtelecom operates two pension schemes for employees. One for all former GNC employees and new recruits to Gibtelecom (Gibraltar Nynex Communications Staff Pension Scheme) and the other for former Gibtel employees (Gibtel Pension Fund), both providing defined post-retirement benefits based on final pensionable salary. The Company remains committed to continue making the necessary contributions to ensure that the Pension Funds are adequately funded going forward. As of 31 December 2008, it is estimated that the two Pension Funds combined have an asset value of over £18 million. The Company is keeping under review the operation of the two schemes, and whether there are ways in due course of bringing them closer together and thereby streamlining the Company's pension arrangements.



## Customers

Gibtelecom continues to invest to provide a high quality and reliable service to customers. On the wireless front, 2008 finally saw the launch of a 3G plus HSDPA (High Speed Downlink Packet Access) service, providing customers with high-speed mobile internet access and other interactive facilities. A new intelligent pre-paid mobile platform is expected to be rolled-out during 2009, allowing pre-paid mobile customers to avail themselves of the same services that are currently available to post-paid customers whilst roaming in some other mobile networks. The Company continues to be assisted by Mobitel, a subsidiary of Telekom Slovenije and the leading mobile operator in Slovenia, in the general planning and implementation of these mobile developments.

Compared to 2007, there has been a growth in mobile telephony, whereas the number of traditional fixed line telephony users is starting to experience a small decline. The former largely reflects the increasing numbers of young people using mobile phones, and the latter the combined effect of the increasing reliance on mobile telephony, and the impact of internet technologies.



Gibtelecom's internet services, for both business and residential customers, continue to be a growth area. Whilst dial-up services are becoming less popular, more and more customers are subscribing to Gibtelecom's WOW (Wideband over Wires) ADSL service. At the start of 2009 ADSL speeds were increased by up to four times with the maximum bandwidth available being 8 Mbps.

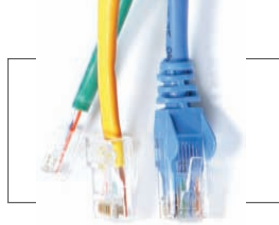
Unlike other service providers throughout the EU, Gibtelecom's ADSL service continues to be uncontended. This means that customers are guaranteed the speeds they contract. Broadband penetration per capita has increased to around 28% which is higher than the current EU average of 22.5%, and means that around 80% of Gibraltar households are estimated to have broadband access.

Business customers have seen price reductions in IP Flexiband and international private leased circuits [IPLCs] rental charges, together with national private leased circuit (NPLC) and Ethernet circuit installation fees. The Ethernet and Flexiband business continues to grow, whilst the number of more traditional national and international private leased circuit users has slightly reduced. The year 2008 has seen the Company enhance its local infrastructure and expand its existing international routes, providing even further diversity and redundancy.

**Over 66,000 customer visits at the Customer Service Centre**

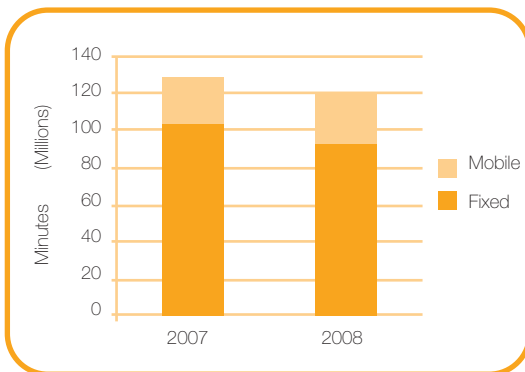
**Average waiting time for a customer is 62 seconds**

Gibtelecom commissions independently-run customer satisfaction surveys to be carried out twice every year. The latest survey shows that Gibtelecom continues to exceed its stringent targets for customer service. Overall customers appear to be happier with the level of service over previous years, with nearly 60% of customers rating Gibtelecom's service as excellent. Over 9 out of every 10 customers rate the Company's fixed, wireline, and internet services as being satisfactory and above. The purpose of the surveys is also to highlight areas for possible service improvements. The Company then works on these areas to determine ways in which particular services or products can be developed in order to enhance the customer experience.



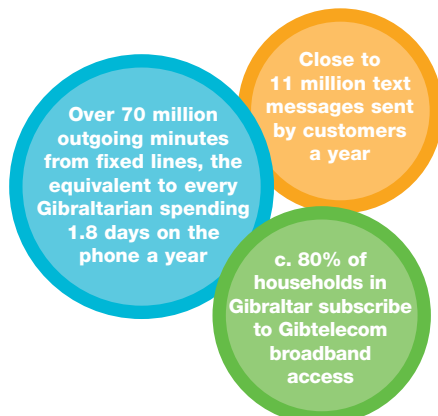
## Traffic

In 2008 Gibtelecom carried over 120 million fixed line, Voice over Internet Protocol (VoIP) and mobile minutes. Despite an increase in mobile minutes of around 14% over 2007, the expected decline in fixed line minutes of some 11% for the same period has reduced the increase year-on-year to around 10 million minutes in total. Notwithstanding the overall drop in voice minutes, there has been an increase in the use of alternative technologies. Gibtelecom customers sent close to 11 million short text messages in 2008, up from 9.7 million in 2007 and 7.7 million in 2006.



Deployment of bandwidth continues to experience growth, with over 8,000 ADSL accounts and some 6,000 Mbps of bandwidth contracted on Gibtelecom's other IP products: leased circuits (national and international), Flexiband and Ethernet.

The commercial launch of Mobile Internet in July 2008, encompassing 3G, has also meant some growth in GSM data services. The number of fixed plan Mobile Internet 3G data subscribers more than doubled from 2007 to 2008, albeit at less than 200 active users the numbers are relatively small.



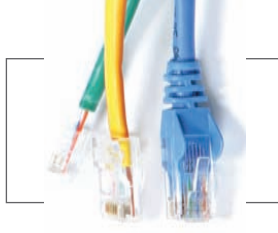
## Operations

Following the successful commissioning in 2008 of the Company's second new data centre facility at Mount Pleasant, Gibtelecom has concluded the purchase of these premises for £5.25 million on a 49 year lease. This will allow the Company to further invest in providing more top-of-the-line data centre and related services over the coming years. The construction of a third data centre at Mount Pleasant is already underway, and is expected to be completed in June 2009. Gibtelecom is also looking into building further high-tech data centres, although these are still at the planning stage. The resilient fibre links to the building, state-of-the-art Network Operations Centre [NOC] and purpose-built hosting facilities, have attracted many businesses to host their equipment in these secure premises. At the time of publication over 100 racks of equipment were in use by 18 external companies.

The new Gibtelecom building at John Mackintosh Square has also been completed, with various departments starting the relocation process to the new building during the first half of 2009. This new building is connected to the Haven and City Hall premises, which is the hub of Gibtelecom's technology, housing the main distribution frame for fixed line services, together with switching equipment and internet services. The Company continues its policy of rationalising premises, and making better use of the existing properties where possible.

Gibtelecom's NOC handled close to 340,000 calls in 2008, an average of over 6,500 calls a week. The NOC continues to provide a 24 hour a day, every day of the year service to all Gibtelecom customers with a tiered structure which includes specialised qualified engineers. The enhanced monitoring systems also allows NOC staff to identify, respond to, and resolve any problems within the various networks and services as well as take service orders and handle other enquiries around the clock.

**Over 480,000 minutes of calls handled by Gibtelecom's 24/7 Network Operations Centre in 2008**



The Company continues to invest in alternative and diverse international routes, providing resilience for voice and IP traffic. Gibtelecom now provides five diverse routes, including a route totally independent from Gibtelecom's existing international providers, which was recently commissioned with Interoute. In April 2008 Gibtelecom's large earth station satellite was safely removed from the site at Mount Pleasant, which it had occupied over the last thirty years. The Earth Station, which had become a local landmark, was originally installed to provide an alternative telecommunications route out of Gibraltar at a time when outgoing routes were limited.

However, only a small proportion of Gibtelecom's traffic was relayed via this satellite due to other multiple carriers and resilient links via fibre and microwave. The former satellite dish was replaced with a smaller dish occupying a much smaller footprint, offering enhanced technical capabilities.

Gibtelecom currently employs around 140 employees and continues to invest in people, with 474 training days in 2008, an average of around 3.5 days per employee. Sickness absenteeism is reducing, with a yearly average of less than five days of sick leave a year per employee. September 2008 saw the introduction of a Telecommunications Apprenticeship Scheme for school leavers, the first such scheme in Gibraltar for close on 25 years. The Company took on eight apprentices with a view to continue running the scheme in future years. The apprentices have received training both in-house and with BT in the UK and are working towards a professional telecommunications qualification (NVQ).



## Moving Forward

The Company is working towards building the business for sustainability in a challenging technological and increasingly competitive environment. The company is continually dependent on anticipating and meeting customers' needs. Quarterly focus groups and successful monthly marketing campaigns have helped Gibtelecom

position itself as a Company that takes into account customers needs and the requirement to provide quality and value added services. In 2009 the Company will introduce further mobile value added services, such as outgoing calls when roaming for pre-paid customers and a Blackberry™ service -all driven by customer demands.

There are currently seven other telecommunications providers authorised to operate from Gibraltar and 2008 has seen growing competition in the local telecommunications market. Gibtelecom provides a Reference Unbundling Offer for alternative providers wishing to contract to use certain elements of Gibtelecom's national infrastructure. To date, none of the other Gibraltar-based alternative providers have chosen to take up this option.

The telecoms market is heavily regulated and the Gibraltar Regulatory Authority (GRA) has designated Gibtelecom as having Significant Market Power (SMP) in all the EU defined markets. Consequently the GRA can and has imposed certain obligations on Gibtelecom, including price controls. One such measure was the imposition of per-second billing for local calls which required Gibtelecom to complete the rebalancing of its fixed line tariffs. This took effect from June 2009 and the increase in line rentals is expected to be mitigated with the introduction of per-second billing, so that it is cost neutral to customers. Based on normal traffic patterns, it is estimated that the average residential customer will actually make savings on their monthly phone bill. These price control obligations will last until January 2012 and involve limiting Gibtelecom prices to a pre-determined inflationary measure.

**“The Company is working towards building the business for sustainability in a challenging technological and increasingly competitive environment”**

The Company looks forward to the year ahead. Gibtelecom's operations remain strong and are supported by a robust balance sheet, ensuring the ability of the business to pursue its objective of remaining the leading telecommunications Company of choice in Gibraltar.



## Directors

The various Board Directors who held office during the year are shown below.

Directors		Nationality
Joe Holliday	Chairman	British
Tim Bristow	Chief Executive Officer	British
Dilip Dayaram Tirathdas		British
Bojan Dremelj		Slovenian
Filip Ogris-Martić		Austrian
Klavdij Godnič		Slovenian

An Executive Committee are responsible for the day-to-day management of Gibtelecom. This senior management group comprises the Chief Executive Officer and Board Director, Tim Bristow, and four Operational Directors.



*Gibtelecom's Executive Committee (Left to Right): Adrian Moreno, Operations Director; Xavi Bado, Technical Director; Tim Bristow, Chief Executive Officer; Francis Lopez, Business Director; Brian Asquez, Resources Director.*

## 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 Group 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.

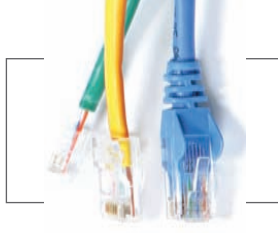
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Gibraltar Companies Act and other applicable legislation. 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 Limited, have indicated their willingness to continue in office, and the appointment of auditors for 2009 will be considered at the next Annual General Meeting.

By order of the Board

Company Secretary  
Gibraltar



## **Independent auditors' report to the members of Gibtelecom Limited**

### **PricewaterhouseCoopers Limited**

International Commercial Centre Casemates Square  
Gibraltar  
Telephone +350 200 73520  
Facsimile +350 200 48267  
[www.pwc.com/gi](http://www.pwc.com/gi)

### **Report on the financial statements**

We have audited the group and parent company financial statements of Gibtelecom Limited for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet, the cash flow statement, 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 and Gibraltar Accounting Standards. 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' judgement, 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 controls 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 2008 and of the profit and cash flows of the group for the year then ended.



## Independent auditors' report to the members of Gibtelecom Limited - continued

### 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 Companies Act, the Companies (Accounts) Act 1999 and the 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 Companies Act, the Companies (Accounts) Act 1999 and the 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 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 website 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.

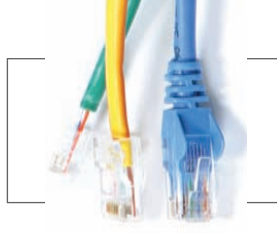
Legislation in Gibraltar governing preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Colin Vaughan**

Statutory auditor

For and on behalf of

PricewaterhouseCoopers Limited



## Consolidated profit and loss account for the year ended 31 December 2008

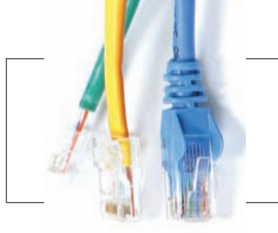
	Note	2008 £	2007 £
<b>Turnover - continuing operations</b>	2	<b>31,476,870</b>	30,382,468
Payments to other telecommunications administrations		<b>(2,174,033)</b>	(1,666,877)
Other external charges		<b>(4,219,160)</b>	(3,558,844)
Staff costs	3	<b>(6,475,176)</b>	(6,348,237)
Depreciation	10	<b>(3,927,913)</b>	(3,720,555)
Other operating charges	6	<b>(4,250,502)</b>	(4,788,992)
<b>Operating expenses - continuing operations</b>		<b>(21,046,784)</b>	(20,083,505)
<b>Group operating profit</b>		<b>10,430,086</b>	10,298,963
Interest receivable on bank deposits		<b>631,780</b>	698,541
Interest payable and similar charges	7	<b>(154,599)</b>	(106,322)
Other finance income	23	<b>133,000</b>	90,000
<b>Profit on ordinary activities before taxation</b>		<b>11,040,267</b>	10,981,182
Tax on profit on ordinary activities	8	<b>(2,253,147)</b>	(2,317,467)
<b>Profit for the financial year</b>	20	<b>8,787,120</b>	8,663,715
Dividends	9	<b>(6,400,000)</b>	(6,300,000)
<b>Retained profit for the financial year</b>	19	<b>2,387,120</b>	2,363,715

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 2008

	Note	2008 £	2007 £
Retained profit for the financial year		<b>2,387,120</b>	2,363,715
Actual return less expected return on pension scheme assets	23	<b>(3,887,000)</b>	(764,000)
Experienced losses arising on the pension scheme liabilities	23	<b>(451,000)</b>	(490,000)
Changes in assumptions underlying the present value of the pension scheme liabilities	23	<b>722,000</b>	3,089,000
Movement on deferred tax relating to pension asset	16	<b>745,384</b>	(916,131)
<b>Total losses/gains recognised since last annual report</b>		<b>(483,496)</b>	3,282,584



## Balance sheets as of 31 December 2008

	Note	2008 £	Group 2007 £	2008 £	Company 2007 £
<b>Fixed assets</b>					
Tangible assets	10	<b>21,687,711</b>	16,633,490	<b>21,687,711</b>	16,633,490
Investments	11	-	-	<b>4,000</b>	7,742,082
		<b>21,687,711</b>	16,633,490	<b>21,691,711</b>	24,375,572
<b>Current assets</b>					
Stock	12	<b>961,613</b>	881,215	<b>961,613</b>	881,215
Debtors	13	<b>5,745,157</b>	5,339,077	<b>5,745,157</b>	5,339,077
Prepayments	13	<b>5,411,300</b>	-	<b>5,411,300</b>	-
Cash at bank and in hand		<b>12,429,799</b>	16,608,446	<b>12,429,799</b>	16,608,446
		<b>24,547,869</b>	22,828,738	<b>24,547,869</b>	22,828,738
<b>Creditors: amounts falling due within one year</b>	14	<b>(15,456,359)</b>	(12,920,148)	<b>(15,460,359)</b>	(21,405,092)
<b>Net current assets</b>		<b>9,091,510</b>	9,908,590	<b>9,087,510</b>	1,423,646
<b>Total assets less current liabilities</b>		<b>30,779,221</b>	26,542,080	<b>30,779,221</b>	25,799,218
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(4,252,500)</b>	(1,750,000)	<b>(4,252,500)</b>	(1,750,000)
Provisions for liabilities and charges	16	<b>(2,107,972)</b>	(1,905,451)	<b>(2,107,972)</b>	(1,905,451)
<b>Net assets excluding pension liability</b>		<b>24,418,749</b>	22,886,629	<b>24,418,749</b>	22,143,767
Pension liability	23	<b>(2,664,586)</b>	(648,970)	<b>(2,664,586)</b>	(648,970)
<b>Net assets including pension liability</b>		<b>21,754,163</b>	22,237,659	<b>21,754,163</b>	21,494,797
<b>Capital and reserves</b>					
Called up share capital	17	<b>15,000</b>	15,000	<b>15,000</b>	15,000
Share premium account	18	<b>14,985,000</b>	14,985,000	<b>14,985,000</b>	14,985,000
Profit and loss account	19	<b>6,754,163</b>	7,237,659	<b>6,754,163</b>	6,494,797
<b>Equity shareholders' funds</b>	20	<b>21,754,163</b>	22,237,659	<b>21,754,163</b>	21,494,797

The financial statements on pages 11 to 30 were approved by the Board of Directors on the 18 June 2009 and were signed on its behalf by:

**T J Bristow**  
Director

**B Dremelj**  
Director

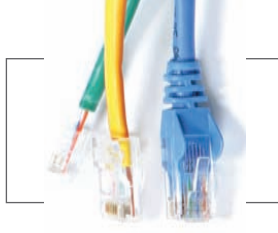


## Consolidated cash flow statement for the year ended 31 December 2008

	Note	2008 £	2007 £
<b>Net cash flow from operating activities</b>	21	<b>7,179,818</b>	14,598,101
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>631,780</b>	724,471
Interest paid		<b>(154,599)</b>	(106,322)
<b>Net return on investments and servicing of finance</b>		<b>477,181</b>	618,149
<b>Corporation tax paid</b>		<b>(2,521,242)</b>	(1,257,757)
<b>Capital expenditure and financial investments</b>			
Payments to acquire tangible fixed assets		<b>(9,016,404)</b>	(5,592,888)
Receipts from sales of tangible fixed assets		<b>27,000</b>	-
<b>Net capital expenditure and financial investment</b>		<b>(8,989,404)</b>	(5,592,888)
<b>Equity dividends paid</b>		<b>(6,400,000)</b>	(6,300,000)
<b>Proceeds from bank borrowings for financing activity</b>	22	<b>6,075,000</b>	-
<b>Management of liquid resources</b>			
Decrease/(increase) in short term deposits	22	<b>2,017,833</b>	(2,851,290)
<b>(Decrease)/increase in cash</b>		<b>(2,160,814)</b>	(785,685)

### Reconciliation of net cash flow to movement in net funds

	Note	2008 £	2007 £
Decrease in cash		<b>(2,160,814)</b>	(785,685)
Cash used/provided to increase liquid resources	22	<b>(2,017,833)</b>	2,851,290
Movement in net funds	22	<b>(4,178,647)</b>	2,065,605
Movement in borrowings	22	<b>(6,075,000)</b>	(1,750,000)
Net funds at 1 January	22	<b>14,858,446</b>	14,542,841
<b>Net funds at 31 December</b>	22	<b>4,604,799</b>	14,858,446



# Notes to the financial statements for the year ended 31 December 2008

## 1 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 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 non-trading subsidiary, Gibconnect Limited as at 31 December 2008. In accounting for its shareholding in the subsidiary, the Group consolidates fully its assets and liabilities at the year end.

The Company has opted for the exemption from preparing its own profit and loss account and related notes available under section 10(3) of the Companies (Consolidated Accounts) Act 1999.

### 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 pounds sterling at the prevailing rates of exchange at the balance sheet date. Transactions in foreign currency are translated into pounds 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.

### 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, No direct labour costs incurred by Gibtelecom in the installation of the Company's telecommunication infrastructure and equipment plant are capitalised.

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%

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



## 1 Accounting policies - continued

### Impairment

Tangible fixed assets and fixed asset investments are subject to impairment review in accordance with FRS (Financial Reporting Standard) 11 - 'Impairment of fixed assets and goodwill' 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

Gibtelecom 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 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.

### 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 and no Gibtelecom labour costs.

### 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.

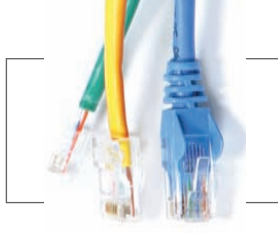
A net deferred tax asset is treated as recoverable and therefore recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

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 that are proposed to be enacted in law.

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

Gibtelecom's sole activity is the provision of various telecommunications and related services in Gibraltar and accordingly a segmental analysis has not been provided. The table below shows how Gibtelecom's turnover has been derived split by the main areas of the business.

	<b>2008</b> £	2007 £
Wireline	<b>9,723,110</b>	9,578,265
Wireless	<b>9,714,231</b>	8,489,733
Internet	<b>3,102,532</b>	3,132,687
Leased circuits	<b>7,549,407</b>	8,034,719
Other and one-off charges	<b>1,387,590</b>	1,147,064
	<b>31,476,870</b>	30,382,468

A separate audited Accounting Separation Report (ASR) is prepared on an annual basis. This Gibtelecom report analyses the business into distinct regulated telecommunications activities as required by the Gibraltar Regulatory Authority under the provisions of the Gibraltar Communications Act 2006.

## 3 Staff costs

	<b>2008</b> £	2007 £
Wages and salaries	<b>5,455,857</b>	5,170,134
Social security costs	<b>197,721</b>	183,227
Pension costs	<b>821,598</b>	994,876
	<b>6,475,176</b>	6,348,237

Pension costs are calculated by the actuary in line with FRS (Financial Reporting Standard) 17 - 'Retirement benefits' to show the calculated current and past service costs of the schemes. These totalled £805,000 in 2008 (2007: £884,000). The difference to the figures reported above reflects other pension costs incurred by Gibtelecom which are not included within the FRS 17 expenses.



## 4 Employee information

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

	Actual as at 31 December		Average for the year	
	2008 No.	2007 No.	2008 No.	2007 No.
<b>By Directorate</b>				
Chief Executive Officer: Head Office, Corporate Affairs and Regulatory Unit	9	10	9	9
Business Director: Finance, Customer Services and Sales and Marketing	27	25	27	25
Operations Director: Internet and Network Operations Centre	44	46	45	45
Resources Director: External Plant, Human Resources, Resources and Administration and Fixed Network Planning	42	40	41	41
Technical Director: Information Technology, Wireline and Wireless	18	17	17	16
<b>Total</b>	<b>140</b>	138	<b>139</b>	136

## 5 Directors' emoluments

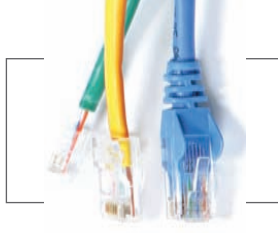
Gibtelecom Directors did not receive emoluments from the Company for their services as Directors during the year (2007: nil). One Director receives emoluments in his capacity as the Chief Executive Officer of the Company and under the provisions of the Companies (Accounts) Act 1999 [schedule 7, paragraph 3] these emoluments are not disclosed.

## 6 Other operating charges

	2008 £	2007 £
<b>Included in other operating charges are:</b>		
Operating lease charges - rented property	408,089	420,748

## 7 Interest payable and similar charges

	2008 £	2007 £
Interest payable on bank loan and mortgage financing (See Note 15)	154,599	106,322



## 8 Tax on profit on ordinary activities

### (a) Analysis of charge in period

	2008 £	2007 £
<b>Current tax</b>		
Gibraltar corporation tax on profit for the period	<b>2,050,626</b>	2,339,152
<b>Deferred tax</b>		
Total deferred tax (See Note 16)	<b>202,521</b>	(21,685)
<b>Tax on profit on ordinary activities</b>	<b>2,253,147</b>	2,317,467

### (b) Factors affecting tax charge for the period

	2008 £	2007 £
Profit on ordinary activities before corporation tax	<b>11,040,267</b>	10,981,182
Notional corporation tax at 27% (2007: 30%)	<b>2,980,872</b>	3,294,355
<b>Effects of:</b>		
Adjustment to tax charge in respect of prior year period	<b>(348,904)</b>	-
Permanent timing differences	<b>(170,581)</b>	(209,562)
Other timing differences	-	(28,613)
Pension cost contribution in excess of net pension cost charge	<b>(230,850)</b>	(173,700)
Capital allowances in excess of depreciation	<b>(179,911)</b>	(543,328)
<b>Gibraltar corporation tax on profit for the period</b>	<b>2,050,626</b>	2,339,152

### 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 previously arisen as a result of provisions made for early retirements and voluntary separations in the years 2002 to 2007 that were partly paid during 2007. As at 31 December 2008, all provisions for early retirements and voluntary separations had been utilised. These provisions are not allowable for Corporation Tax purposes until such a time as the actual payment is made and therefore gave rise to the other timing differences reflected above.

## 9 Dividends

	2008 £	2007 £
Interim paid	<b>4,200,000</b>	2,274,000
Final declared and paid	<b>2,200,000</b>	4,026,000
	<b>6,400,000</b>	6,300,000



## 10 Tangible fixed assets

### Group

	Assets under construction £	Plant and equipment £	Furniture, office equipment and software £	Motor vehicles £	<b>Total £</b>
<b>Cost</b>					
At 1 January 2008	2,183,656	32,455,237	2,696,826	562,486	37,898,205
Additions	3,523,350	5,011,090	195,645	259,319	8,989,404
Disposals	-	(1,415,462)	(121,793)	(193,675)	(1,730,930)
<b>At 31 December 2008</b>	<b>5,707,006</b>	<b>36,050,865</b>	<b>2,770,678</b>	<b>628,130</b>	<b>45,156,679</b>
<b>Accumulated depreciation</b>					
At 1 January 2008	-	19,221,718	1,727,168	315,829	21,264,715
Charge for the year	-	3,588,707	253,480	85,726	3,927,913
Disposals	-	(1,415,462)	(121,793)	(186,405)	(1,723,660)
<b>At 31 December 2008</b>	<b>-</b>	<b>21,394,963</b>	<b>1,858,855</b>	<b>215,150</b>	<b>23,468,968</b>
<b>Net book value</b>					
<b>At 31 December 2008</b>	<b>5,707,006</b>	<b>14,655,902</b>	<b>911,823</b>	<b>412,980</b>	<b>21,687,711</b>
At 31 December 2007	2,183,656	13,233,519	969,658	246,657	16,633,490

### Company

	Assets under construction £	Plant and equipment £	Furniture, office equipment and software £	Motor vehicles £	<b>Total £</b>
<b>Cost</b>					
At 1 January 2008	2,183,656	31,617,870	2,696,826	562,486	37,060,838
Additions	3,523,350	5,011,090	195,645	259,319	8,989,404
Disposals	-	(1,415,462)	(121,793)	(193,675)	1,730,930
<b>At 31 December 2008</b>	<b>5,707,006</b>	<b>35,213,498</b>	<b>2,770,678</b>	<b>628,130</b>	<b>44,319,312</b>
<b>Accumulated depreciation</b>					
At 1 January 2008	-	18,384,351	1,727,168	315,829	20,427,348
Charge for the year	-	3,588,707	253,480	85,726	3,927,913
Disposals	-	(1,415,462)	(121,793)	(186,405)	(1,723,660)
<b>At 31 December 2008</b>	<b>-</b>	<b>20,557,596</b>	<b>1,858,855</b>	<b>215,150</b>	<b>22,631,601</b>
<b>Net book value</b>					
<b>At 31 December 2008</b>	<b>5,707,006</b>	<b>14,655,902</b>	<b>911,823</b>	<b>412,980</b>	<b>21,687,711</b>
At 31 December 2007	2,183,656	13,233,519	969,658	246,657	16,633,490

Assets under construction represent the purchase and development of a site at 15/21 John Mackintosh Square and payments towards the development of network infrastructure.





## 13 Debtors and prepayments - continued

Prepayment relates to the acquisition of a property at Mount Pleasant representing a short-term leasehold property. The lease commences on 1 January 2009 and has a term of 49 years and was purchased by Gibtelecom on 21 November 2008. With effect from the new financial year, the Mount Pleasant property will be classified as a tangible fixed asset.

## 14 Creditors: amounts falling due within one year

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Trade creditors	<b>4,636,370</b>	5,215,300	<b>4,636,370</b>	5,215,300
Amounts due to Group undertakings	-	-	<b>4,000</b>	8,484,944
Bank borrowings	<b>3,572,500</b>	-	<b>3,572,500</b>	-
Other creditors	<b>148,586</b>	198,019	<b>148,586</b>	198,019
PAYE and social insurance	<b>125,754</b>	413,295	<b>125,754</b>	413,295
Corporation tax payable	<b>4,505,587</b>	4,773,682	<b>4,505,587</b>	4,773,682
Accruals and deferred income	<b>2,467,562</b>	2,319,852	<b>2,467,562</b>	2,319,852
	<b>15,456,359</b>	12,920,148	<b>15,460,359</b>	21,405,092

### Bank borrowings

Gibtelecom has two loans, one for £3,100,000 relating to the purchase and redevelopment of 15/21 John Mackintosh Square and the second relating to the mortgage finance facility for £4,725,000 for the purchase of the property at Mount Pleasant.

#### (i) 15/21 John Mackintosh Square loan

This bank loan, obtained from The Royal Bank of Scotland International trading as NatWest, is for the purchase and redevelopment of 15/21 John Mackintosh Square. As at 31 December 2008 this loan facility is for £3,100,000 (2007: £1,750,000) and is structured into two loans, Loan No. 1 for £1,125,000 and Loan No. 2 for £1,975,000.

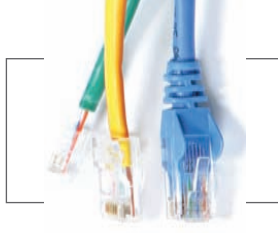
Loan No. 1 is secured by a cash deposit of £1,125,000 and interest on this loan is charged quarterly at 1/2 % above the Bank of England base rate.

Loan No. 2 is secured by a legal charge over the property and the interest is charged quarterly at 1% above the Bank of England base rate.

The further drawdown from Loan No. 1 is secured on production of architects certificates as the building is completed and this amount will be added onto Loan No. 2. Loan No. 2 is repayable within one year and the Company plans to convert this loan into a commercial mortgage on the premises.

#### (ii) Mount Pleasant

This bank loan relates to the mortgage finance facility of £4,725,000 obtained from Barclays Bank for the purchase of the property at Mount Pleasant, of which £4,252,500 has been recognised as a creditor in Note 15. The property was previously occupied by Gibtelecom under a 20 year lease expiring on 31 December 2008. Interest is charged quarterly at 1% above the Bank of England base rate. Repayment of the principal is being made in 20 quarterly instalments commencing three months after the drawdown of the loan which was received on November 2008. The repayment instalments will be calculated on the basis of a 10 year amortising facility.



## 15 Creditors: amounts falling due after more than one year

Group and Company	2008 £	2007 £
Mortgage finance	4,252,500	1,750,000

### Maturity profile of bank loans

The maturity profile of the carrying amount of the bank loans at 31 December was as follows:

Group and Company	2008 £	2007 £
Due within one year (See Note 14)	3,572,500	-
In more than one year but not more than two years	472,500	1,750,000
In more than two years but not more than five years	1,417,500	-
In more than five years	2,362,500	-
	7,825,000	1,750,000

## 16 Provisions for liabilities and charges

Group	Deferred tax Provision £	Total £
At 1 January 2008	1,905,451	1,905,451
Charged to the profit and loss account	202,521	202,521
Utilised during the year	-	-
<b>At 31 December 2008</b>	<b>2,107,972</b>	<b>2,107,972</b>
<b>Company</b>		
At 1 January 2008	1,905,451	1,905,451
Charged to the profit and loss account	202,521	202,521
Utilised during the year	-	-
<b>At 31 December 2008</b>	<b>2,107,972</b>	<b>2,107,972</b>

### Deferred tax provision

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
<b>Provision for deferred tax comprises:</b>				
Accelerated capital allowances	2,107,972	1,905,451	2,107,972	1,905,451
Other timing differences	-	-	-	-
<b>Deferred tax provision excluding that relating to pension liability</b>	<b>2,107,972</b>	<b>1,905,451</b>	<b>2,107,972</b>	<b>1,905,451</b>
Deferred tax asset on pension liability (See Note 23)	(985,414)	(240,030)	(985,414)	(240,030)
<b>Total provision for deferred tax</b>	<b>1,122,558</b>	<b>1,665,421</b>	<b>1,122,558</b>	<b>1,665,421</b>

### The movement on deferred tax is as follows:

<b>At 1 January 2008</b>	<b>1,665,421</b>	770,975	<b>1,665,421</b>	770,975
Amount (released)/charged to profit and loss (See Note 8)	202,521	(21,685)	202,521	(21,685)
Amount credited to statement of total recognised gains and losses	(745,384)	916,131	(745,384)	916,131
<b>Provision at end of year including deferred tax on pension asset</b>	<b>1,122,558</b>	<b>1,665,421</b>	<b>1,122,558</b>	<b>1,665,421</b>



## 17 Called up share capital

Group and Company	2008 £	2007 £
<b>Authorised, issued and fully paid</b>		
7,500 A ordinary shares of £1 each	<b>7,500</b>	7,500
7,500 B ordinary shares of £1 each	<b>7,500</b>	7,500
	<b>15,000</b>	15,000

Class A and B shares carry equal rights in all respects, other than the Government of Gibraltar having restrictions placed on the sale of its shareholding under the terms of the extant Joint Venture Agreement. Following the sale of Verizon Communications 50 per cent Class B shareholding to Telekom Slovenije D.D. in April 2007, a new Joint Venture Agreement is under discussion. The Articles of Association also provide for separate voting rights over the appointment of Directors.

## 18 Share premium account

Group and Company	2008 £	2007 £
Share premium	<b>14,985,000</b>	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.

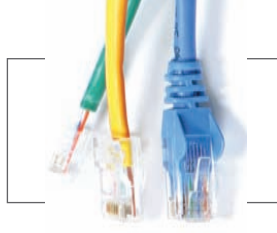
## 19 Group profit and loss account

	2008 £	2007 £
At 1 January 2008	<b>7,237,659</b>	3,955,075
Retained profit for the financial year	<b>2,387,120</b>	2,363,715
Actuarial (loss)/gain on pension schemes	<b>(3,616,000)</b>	1,835,000
Movement on deferred tax relating to the pension schemes	<b>745,384</b>	(916,131)
<b>At 31 December 2008</b>	<b>6,754,163</b>	7,237,659

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.

## 20 Reconciliation of movements in Shareholders' funds

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Profit for the financial year	<b>8,787,120</b>	8,663,715	<b>9,529,982</b>	8,663,715
Dividends	<b>(6,400,000)</b>	(6,300,000)	<b>(6,400,000)</b>	(6,300,000)
	<b>2,387,120</b>	2,363,715	<b>3,129,982</b>	2,363,715
Actuarial (loss)/gain on pension scheme (See Note 23)	<b>(3,616,000)</b>	1,835,000	<b>(3,616,000)</b>	1,835,000
Movement on deferred tax relating to pension schemes (See Note 16)	<b>745,384</b>	(916,131)	<b>745,384</b>	(916,131)
<b>Net reduction/addition to shareholders' funds</b>	<b>(483,496)</b>	3,282,584	<b>259,366</b>	3,282,584
<b>Opening shareholders' funds</b>	<b>22,237,659</b>	18,955,075	<b>21,494,797</b>	18,212,213
<b>Closing shareholders' funds</b>	<b>21,754,163</b>	22,237,659	<b>21,754,163</b>	21,494,797



## 21 Reconciliation of operating profit to net cash inflow from operating activities

	2008 £	Group 2007 £
Operating profit	<b>10,430,086</b>	10,298,963
Depreciation charges	<b>3,927,913</b>	3,720,555
Loss on sale of tangible fixed assets	<b>7,270</b>	12,758
Difference between pension charge and cash contributions	<b>855,000</b>	(489,317)
(Increase)/decrease in stocks	<b>(80,398)</b>	2,385
(Increase)/decrease in debtors and prepayments	<b>(5,817,380)</b>	627,107
(Decrease)/increase in creditors	<b>(768,194)</b>	515,299
Decrease in other provisions for liabilities and charges	<b>(1,374,479)</b>	(89,649)
<b>Net cash inflow from operating activities</b>	<b>7,179,818</b>	14,598,101

## 22 Analysis of net cash, liquid resources and borrowings

Group	2008 £	Cash flow movement £	2007 £
<b>Net cash:</b>			
Bank balances	<b>12,429,799</b>	<b>(4,178,647)</b>	16,608,446
Less: Deposits included in liquid resources	<b>(11,010,395)</b>	<b>2,017,833</b>	(13,028,228)
Less: Bank loans (See Note 15)	<b>(7,825,000)</b>	<b>(6,075,000)</b>	(1,750,000)
	<b>(6,405,596)</b>	<b>(8,235,814)</b>	1,830,218
<b>Liquid resources:</b>			
Deposits included in cash	<b>11,010,395</b>	<b>(2,017,833)</b>	13,028,228
	<b>4,604,799</b>	<b>(6,208,017)</b>	14,858,446

## 23 Pension commitments

The Company 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) which has since 2002 been closed to new members. Both schemes provide defined retirement benefits based on final pensionable salary. The Company also plans to review the possibility of bringing the pension schemes closer together, possibly through the merger of the Funds.

### Actuarial review

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 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. Consequently, the Company increased its contributions with effect from 1 September 2005 from the rate of 28.0% to 32.0% of pensionable salary to secure future benefits.

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 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. Consequently, the Company increased its contributions from 28.0% to 32.0% of pensionable salaries from 1 January 2006, with additional annual contributions of £155,000 a year for ten years, increasing annually at 5%.



## 23 Pension commitments - continued

### Actuarial review - continued

These financial statements record a Company contribution to the GNC Pension Scheme of £1,087,000 (2007: £1,013,000). These payments are composed of £1,087,000 of normal pension costs and none as a consequence of the voluntary separation/early retirement packages (2007: £981,800 and £31,200 respectively).

The Company contributions to the Gibtel Pension Fund for 2008 amounted to £440,000 (2007: £360,000). These comprised payments of £440,000 normal pension costs and none as a consequence of the voluntary separation/early retirement packages (2007: £360,000 and £nil respectively).

Actuarial valuations as at 31 August 2008 are currently close to completion for both pension schemes.

### Financial Reporting Standard 17 'Retirement benefits'

Valuations of both schemes, for the purposes of FRS 17, were carried out at 31 December 2008 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 as at 31 December 2008, on the basis of actuarial advice, as set out below.

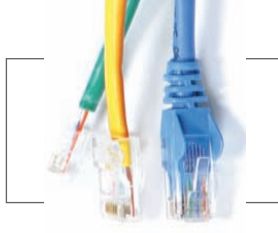
	2008	2007	2006
Rate of increase in salaries	<b>3.75%</b>	4.00%	4.00%
Rate of increase in pensions in payment	<b>3.00%</b>	3.00%	3.00%
Discount rate	<b>6.25%</b>	6.00%	5.30%
Inflation assumption	<b>2.75%</b>	3.00%	2.75%
Equities rate of return	<b>8.40%</b>	8.20%	8.20%
Bonds rate of return	<b>4.80%</b>	5.30%	5.20%
Cash and other assets rate of return	<b>3.60%</b>	4.50%	4.50%

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 31 December 2008	Value at 31 December 2008	Long-term rate of return expected at 31 December 2007	Value at 31 December 2007 £	Long-term rate of return expected at 31 December 2006	Value at 31 December 2006 £
Pension Contract	<b>5.3%</b>	<b>9,332,000</b>	6.4%	9,079,000	5.9%	9,071,683
Other net assets	<b>3.6%</b>	<b>27,000</b>	4.5%	32,000	4.5%	(583,000)
Total market value of assets		<b>9,359,000</b>		9,111,000		8,488,683
Present value of scheme liabilities		<b>(9,219,000)</b>		(8,760,000)		(8,912,000)
Surplus/(deficit) in the scheme		<b>140,000</b>		351,000		(423,317)
Related deferred tax asset		<b>(37,886)</b>		(94,770)		148,161
Net pension liability		<b>102,114</b>		256,230		(275,156)

The scheme has a number of purchased annuities in respect of past retirements (valued at £3,105,103 as at 31 December 2008). These annuities are understood to fully match the relevant liabilities and so have been excluded from both the assets and the liabilities.



## 23 Pension commitments - continued

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

	2008 £	2007 £
Current service cost	645,000	683,000
Past service cost	-	31,000
<b>Total operating charge</b>	<b>645,000</b>	714,000

### Analysis of the amount credited to other finance expense

	2008 £	2007 £
Expected return on pension scheme assets	616,000	534,000
Interest on pension scheme liabilities	(543,000)	(484,000)
<b>Net return</b>	<b>73,000</b>	50,000

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

	2008 £	2007 £
Actual return less expected return on pension scheme	(1,417,000)	(754,000)
Experienced gains and losses arising on the pension scheme liabilities	89,000	(490,000)
Changes in the assumptions underlying the present value of the pension scheme liabilities	602,000	1,669,000
<b>Actuarial loss/gain recognised in statement of total recognised gains and losses</b>	<b>(726,000)</b>	425,000

### Movement in surplus during the year

	2008 £	2007 £
Surplus/(deficit) in the scheme at the beginning of the year	351,000	(423,000)
<b>Movement:</b>		
Current service cost	(645,000)	(683,000)
Contributions	1,087,000	1,013,000
Past service cost	-	(31,000)
Other finance income/(expense)	73,000	50,000
Actuarial (loss)/gain	(726,000)	425,000
Surplus in the scheme at the end of the year	<b>140,000</b>	351,000



## 23 Pension commitments - continued

### History of experience gains and losses

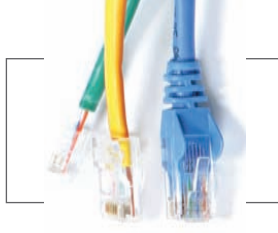
	2008 £	2007 £	2006 £
<b>Difference between the actual and expected return on scheme assets:</b>			
Amount	<b>(1,417,000)</b>	(754,000)	582,000
Percentage of scheme assets	<b>15.1%</b>	8.3%	7.4%
<b>Experienced gains and losses on pension scheme liabilities:</b>			
Amount	<b>89,000</b>	(490,000)	385,000
Percentage of the present value of the scheme liabilities	<b>1.0%</b>	5.6%	4.3%
<b>Total amount recognised in statement of total recognised gains and losses:</b>			
Amount	<b>(726,000)</b>	425,000	1,220,000
Percentage of the present value of the scheme liabilities	<b>(7.9)%</b>	4.9%	13.7%

### Gibtel Pension Fund

	Long-term rate of return expected at 31 December 2008	Value at 31 December 2008	Long-term rate of return expected at 31 December 2007	Value at 31 December 2007 £	Long-term rate of return expected at 31 December 2006	Value at 31 December 2006 £
Equities	<b>8.4%</b>	<b>4,850,000</b>	8.2%	7,050,000	8.2%	6,710,000
Bonds	<b>4.8%</b>	<b>2,070,000</b>	5.3%	1,780,000	5.2%	1,920,000
Cash and other assets	<b>3.6%</b>	<b>1,880,000</b>	4.5%	1,670,000	4.5%	1,240,000
Total market value of assets		<b>8,800,000</b>		10,500,000		9,870,000
Present value of scheme liabilities		<b>(12,590,000)</b>		(11,740,000)		(12,750,000)
Deficit in the scheme		<b>(3,790,000)</b>		(1,240,000)		(2,880,000)
Related deferred tax asset		<b>1,023,300</b>		334,800		1,008,000
<b>Net pension liability</b>		<b>(2,766,700)</b>		(905,200)		(1,872,000)

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

	2008 £	2007 £
Current service cost	<b>170,000</b>	170,000
Past service cost	-	-
Total operating charge	<b>170,000</b>	170,000



## 23 Pension commitments - continued

### Analysis of the amount credited to other finance expense

	2008 £	2007 £
Expected return on pension scheme assets	750,000	700,000
Interest on pension scheme liabilities	(690,000)	(660,000)
<b>Net return</b>	<b>60,000</b>	40,000

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

	2008 £	2007 £
Actual return less expected return on pension scheme	(2,470,000)	(10,000)
Experienced losses arising on the pension scheme liabilities	(540,000)	-
Changes in the assumptions underlying the present value of the pension scheme liabilities	120,000	1,420,000
<b>Actuarial loss/gain recognised in statement of total recognised gains and losses</b>	<b>(2,890,000)</b>	1,410,000

### Movement in deficit during the year

	2008 £	2007 £
Deficit in the scheme at the beginning of the year	(1,240,000)	(2,880,000)
<b>Movement:</b>		
Current service cost	(160,000)	(170,000)
Contributions	440,000	360,000
Past service cost	-	-
Other finance income	60,000	40,000
Actuarial (loss)/gain	(2,890,000)	1,410,000
<b>Deficit in the scheme at the end of the year</b>	<b>(3,790,000)</b>	(1,240,000)

### History of experience gains and losses

	2008 £	2007 £	2006 £
<b>Difference between the actual and expected return on scheme assets:</b>			
Amount	2,470,000	10,000	40,000
Percentage of scheme assets	28.0%	0.1%	0.4%
<b>Experienced gains on pension scheme liabilities:</b>			
Amount	540,000	-	-
Percentage of the present value of the scheme liabilities	4.29%	-	-
Total amount recognised in statement of total recognised gains and losses:			
Amount	2,890,000	1,410,000	300,000
Percentage of the present value of the scheme liabilities	22.9%	12.0%	2.4%



## 24 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 Company, 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 Company also owes the Government of Gibraltar amounts in respect of Corporation Tax based on its profits. These amounts are settled on their due dates. Further amounts are also due in respect of telecommunications licence fees.

The amounts of the balances due are shown below.

<b>Amounts due to the Government</b>	<b>2008</b> <b>£</b>	<b>Group</b> 2007 £
PAYE and Social Insurance	<b>125,754</b>	413,295
Telecommunication licence fees (five months)	<b>145,760</b>	130,000
Corporation tax	<b>4,918,089</b>	4,773,682
	<b>5,189,603</b>	5,316,977

The Company provides some parts of 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.

Gibtelecom also has an agreement with Mobitel D.D., a subsidiary of Telekom Slovenije D.D. (See Note 27), to purchase technical support and services on commercial terms as and when utilised. Total fees accrued for these services in 2008 amounted to £2,941 (2007: nil).

## 25 Capital commitments

At 31 December 2008 the Company had ongoing commitments for capital expenditure of £1,294,400 (2007: £1,210,200). The capital budget for 2009 is a further £5,245,000 (2007: £5,215,000), additional provision having been made for further capital expenditure of £155,000 (2007: £320,000) for possible projects arising from Gibraltar Regulatory requirements on number portability and carrier pre-selection for customers.

The total capital budget for John Mackintosh Square is £4,797,000 of which £4,572,900 has been expended on the purchase of the site, construction and furnishings. The remaining £224,100 will be spent during 2009.

## 26 Financial commitments

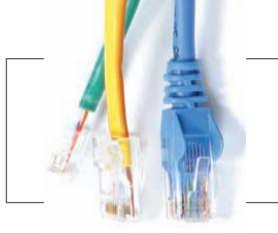
At 31 December 2008 the Company had annual commitments in respect of properties under contractual operating leases expiring as follows:

	<b>2008</b> <b>£</b>	2007 £
Within one year	-	104,800
Within two to five years	-	146,840
After five years	335,542	34,659
	<b>335,542</b>	<b>286,299</b>

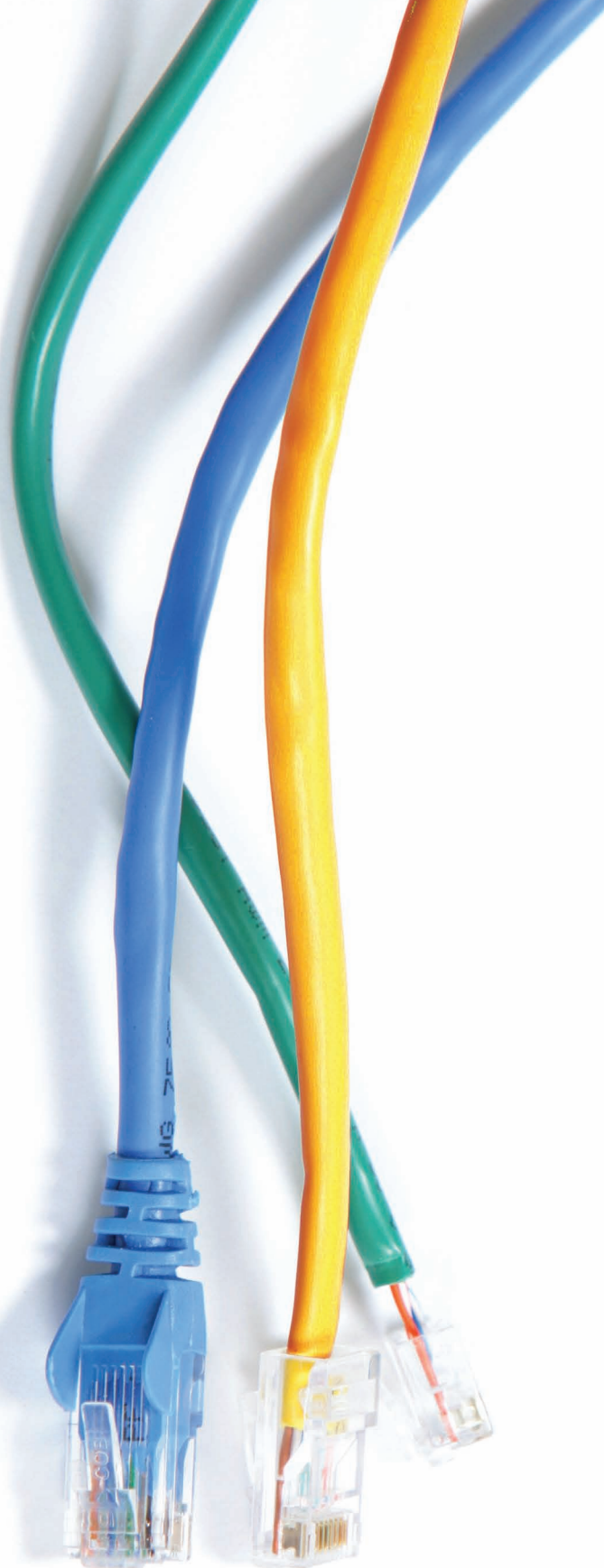
The annual commitment in respect of the property at Mount Pleasant was a prepaid amount over the 20 years life of the lease to 31 December 2008 and not disclosed (See Note 13).

## 27 Ultimate controlling parties

The Directors consider Telekom Slovenije D.D. of Slovenia and the Government of Gibraltar as joint controlling parties by virtue of each holding a 50% interest in the share capital of Gibtelecom.



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