

# 2012

ANNUAL REPORT



**Gibtelecom**



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Annual report for the year ended  
**31 December 2012**

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# Chairman's Review



**My first full year as Gibtelecom's Chairman has seen the business face continuing challenges. In particular, the rapid pace of technological development and the community's increasing demand for and dependence on state-of-the-art communications.**

With the Europe India Gateway (EIG) submarine cable system partially completed, the Company's global business started to take off in 2012. A number of important international partnerships were forged with other telecommunications carriers and Gibtelecom is now firmly positioned as a small global communications player. This role being played by Gibtelecom is contributing to Gibraltar becoming a truly international communications hub.

Another key achievement in 2012 was the commencement of the deployment of the Next Generation Network (NGN), transitioning the Company from the established internet service to a new superfast broadband service providing customers with high guaranteed download speeds. The development of the NGN will in time facilitate bringing the fixed line, internet and mobile technologies closer together as part of a new converged services offering.

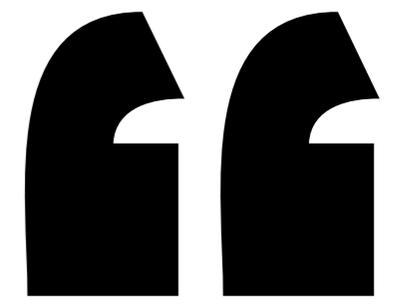
The Company's server hosting business goes from strength to strength and Gibtelecom are now the largest data centres provider on the Rock. In 2012 two new data centres were built and commissioned at the Company's Mount Pleasant premises, thereby increasing rack capacity to meet the growing demand for such facilities from the e-gaming industry in particular. To this end Gibtelecom's successful retention of its Payment Card Industry (PCI) certification, an essential pre-requisite for e-commerce customers due to the volumes of financial data they process, was an important attainment.

Significant investment is also being made in replacing the Company's legacy computerised customer management system, which handles over 100 million transactions a year and holds all the fixed network, customer services and billing records. This new computerised system should serve the needs of the business and our customers for many years to come.

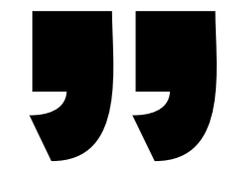
In September I had the particular satisfaction of presenting eight Gibtelecom apprentices with their National Vocational Qualification certificates in communication technologies, knowing they had all been given employment contracts with the Company. Gibtelecom are now launching a new employer led degree programme, aimed at encouraging top "A" level students in sciences and mathematics to study for a degree in communications technologies or engineering. This new scheme has been designed in an endeavour to ensure that Gibtelecom can continue to grow and nurture the high level of technological skills that are so critical to the continuing development of the business.

The Company's enduring commitment to investing in quality services and products means that Gibtelecom is well positioned for future success.

Dr Joseph Garcia  
Chairman



**“Gibtelecom's server hosting business goes from strength to strength and we are now the biggest data centre providers on the Rock”**





## Chief Executive Officer's Statement

“ By the end of the current year, over 90 per cent of Gibraltar should be reached by Gibtelecom's new NGN network that can deliver speeds of up to 100 Mbps.”

Despite the challenging environment in which Gibtelecom operates, what with fast developing technologies, the growing demand for more and more communications, regulatory pressures and competitive challenges, the Company retains its position as the leading local telecommunications provider in Gibraltar.

The business has also successfully embarked on its journey towards being a global communications player in highly competitive and tough worldwide market conditions. Against this backdrop, 2012 was another busy year for Gibtelecom, with steady growth in the mobile, internet and business enterprise segments providing the Company with a solid foundation for the future.

The expansion into a global business was undoubtedly one of the highlights of the year. The near completion of the Europe India Gateway (EIG) submarine cable system in 2012, providing route diversification and enhanced direct connectivity for Gibraltar worldwide, is key to enabling the Company to grow at home and abroad. Gibtelecom was awarded a high value contract by Vodacom South Africa (part of the Vodafone Group) in early 2012, as their preferred supplier on the EIG system stretching 15,000 kilometres from the UK to India. This partnership was the first big step towards Gibtelecom's ambition of becoming a global carrier, paving the way for helping to build Gibraltar as an international communications hub. A strategic partnership was subsequently forged with Monaco Telecom who selected Gibtelecom to be their carrier of choice on the EIG system. This partnership also provides communications capacity for Gibtelecom to access the European market via the Principality, which sits in a strategic position within the Southern European fibre network. These contracts have been complemented with other important global deals with major communications companies headquartered in Australia, London, Singapore and the United States of America, amongst others in the pipeline.



Investment in innovation and new technologies also continues to be a key strategy for Gibtelecom, evidenced by the Company investing an average of a quarter of its net revenues in technology and infrastructure over the last decade. 2012 saw the beginnings of the roll-out of the Company's new Next Generation Network (NGN), with the deployment of VDSL2 technology and the installation of street cabinets, extending the Company's extensive fibre network and bringing the associated electronics even closer to customers' premises and from thereon maximising the use of the copper network of many years standing. This, together with the re-engineering of the IP (internet protocol) core system, has enabled the Company to double its broadband offers in 2012 thereby catering for the demand for higher data speeds from an increasingly "internet hungry" world. These technological endeavours will facilitate the provisioning of some of the highest internet broadband speeds available in Europe. The European Commission's target of 30 per cent of households being capable of receiving at least 30 Mbps per second download speeds by 2020, has already been surpassed by Gibtelecom. By the end of the current year, over 90 per cent of Gibraltar should be reached by Gibtelecom's new NGN network that is capable of delivering speeds of up to 100 Mbps. The next challenge for Gibtelecom will be what media services can the Company realistically put down telephone lines, such as television channels together with videos and music on demand.

Concurrently, the Company is engaged on another major computerisation project for a replacement automated system that embraces the entire business. Amongst other things, it holds the networks records, all customers' services accounts and billing facilities for fixed, internet, mobile and business services, as well as a convergent technologies management system for the next decade and beyond. This flagship "Project Phoenix" is due to become operational later this year. The new solution will enable Gibtelecom to manage its portfolio through a single, unified user interface, allowing more rapid roll-out of new products and service packages across both the general consumer and business enterprise customer segments. It will also handle all the Company's service requests and fault notifications through various communications channels, as well as many other customer care functions. In total the system will handle each year well over 100 million real-time customer transactions a year, hundreds of thousands of customer service requirements and a fixed network of cables and wires stretching to many thousands of kilometres.



Gibtelecom prides itself on being in sync with new technologies, as well as in touch with its customers. The Company has continued to improve its mobile and internet services offerings, as well as enhancing its range of focused business enterprise solutions which are supporting the development of Gibraltar as a vibrant and enterprising European economy. Top broadband speeds were increased to an uncontended 20 Mbps (from 8 Mbps) and the lower ones to 4 and 8 Mbps from 2 and 4 Mbps respectively. At the same time, new and more flexible Mobile Internet “bundle” packages with increased data usage allowances were introduced at lower prices. Gibtelecom is also increasing its global mobile roaming footprint and now has agreements in place with some 500 operators in over 170 countries. Mobile data coverage within Gibraltar continues to be enhanced, with the installation of more remote radio units and the deployment of additional in-building pico-cells. Although understandable, local planning considerations are constraining the installation of additional and necessary base transmitter stations (BTS) which are needed to handle the increased demand for data transmissions on the move.

Another of the Company’s growth areas is providing international connectivity for e-commerce companies that contract dedicated bandwidth to connect them with their markets and customers around the world. Following a lowering of these business enterprise services prices at the beginning of the year, sales of global bandwidth grew steadily in 2012 as did those of the bandwidth point-to-point circuits in Gibraltar and abroad. Gibtelecom also provides server hosting services within its high tech data centres for a range of customers, and demand continues to grow to the extent that these centres were running at virtually full capacity throughout the year. All Gibtelecom’s data centres employ the latest industry standard technologies, including state of the art cooling and standby power, and are all Payment Industry Card certified. The Company’s latest new build data centres came on stream towards the end of 2012 ensuring that, together with the growing number of competitors in this area, the needs of an economy in which communications plays a pivotal role are met.



Gibtelecom also continues to meet its many and diverse regulatory obligations, whilst maintaining the edge in an increasingly competitive environment. The Company reduced its roaming (including data roaming) charges and modified its “bill shock” notifications in order to remain compliant with the latest European Union (EU) roaming regulations. Another EU requirement was the implementation of fixed and mobile number portability (NP) which was launched in April 2012. This facility allows customers to keep their existing fixed or mobile telephone numbers when switching local service providers, albeit the demand for such facilities has been temporarily set-back by one competitor closing its business. Not because of Gibtelecom, but because it didn’t pay its licence and other fees to the regulator which were a small fraction compared to the £1 million plus that Gibtelecom is heading towards contributing. The NP system was originally due to come on stream in 2011 but had been postponed due to delays in setting-up the regulator’s central database of numbers and other licensed operators not being ready for implementation.

Gibtelecom’s commitment to investing in its people is enduring. The Company needs to attract and retain highly skilled staff who can handle the complexities of the latest technologies and the dynamics of a continually changing business. This year the Company is launching a new employer led degree programme aimed at nurturing local science and mathematics students who are prepared to study for a top telecommunications, science or engineering degree. Gibtelecom celebrated in 2012 the completion of the fourth year of its junior apprenticeship programme, with all of the graduating apprentices receiving the top UK Business and Technology Council (BTEC) diploma in communications and joining the business on full time employment contracts.

In order to continue to place the Company in a position to meet the challenges of its change management programme, a further voluntary separation programme was offered to employees in 2012. This sixth separation package, which was aimed at adapting the business to the changing needs of society, is being used as a vehicle to renew the workforce with the appropriate skills to face the ever developing and demanding world of technological advancement. It is not easy to say goodbye to colleagues, younger and older, but necessary if Gibtelecom is to continue to stay ahead of the curve.



In 2012, the Company continued its engagement with the community by donating around one per cent of its earnings after tax to sponsor a range of local youth, sporting and cultural organisations, as well as charitable events. A particular highlight was the international Gibraltar Chess Festival which celebrated its tenth anniversary in January 2012 and attracted players from 58 countries, including 57 Grandmasters. Although no longer the lead commercial sponsor, Gibtelecom continues to play a key role in ensuring that the tournament remains at the forefront of chess technology, attracting interest over the internet from chess enthusiasts around the world.

For the first time in 2012, the Company committed itself to achieving some specific and demanding environmental targets for reducing power consumption through the use of smaller footprint PCs and deploying less and more power efficient IT servers. Other initiatives were introduced to reduce the use of in-printed paper and for the recycling and disposal of equipment and materials.

In conclusion, 2012 has seen Gibtelecom’s substantial investment in infrastructure, technology and people come to the fore with several transformational projects coming to fruition. Looking ahead, the Company is well positioned to take advantage of new opportunities and handle the changing demands of a dynamic industry.

**Tim Bristow**  
Chief Executive Officer

# Directors' Report and Business Review for the year ended 31 December 2012

The Directors present their report, business review and audited financial statements for the year ended 31 December 2012 for Gibtelecom Limited ("Gibtelecom").

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), all its assets or liabilities having been transferred to the parent company several years ago, was struck off having been a non-trading subsidiary following its acquisition by GNC. Gibconnect Limited remains a nominal non-trading company as at 31 December 2012.



## 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.

“

In 2012 the Board reviewed the Company's corporate governance procedures and performance, the outcome of which was very satisfactory.

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## GIBTELECOM'S CORE VALUES

## Mission

Gibtelecom is the consumers' communications business of choice, through delivering quality and cost effective products and services together with an excellent customer experience.

## Vision

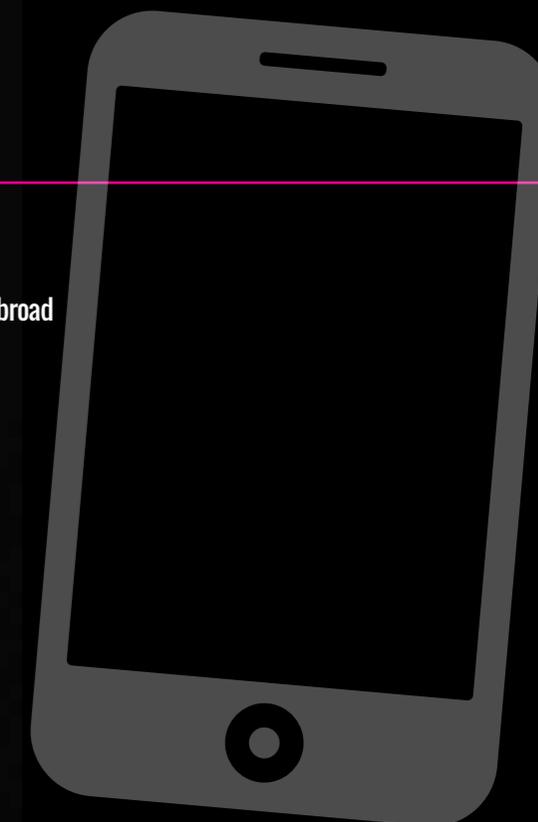
Gibtelecom continues to be a modern and innovative communications business focused on stakeholders, in Gibraltar and globally.

Gibtelecom continues to be recognised as a European business, worthy of being benchmarked.

## Values

Gibtelecom is focused on its stakeholders:

- providing an exceptional service to customers and partners at home and abroad
- being aware of the community and the environment
- employing people with the right abilities and positive attitudes
- being responsive to shareholders



# Gibtelecom's strategies

## Sustaining local revenues

- ✓ delivering quality services
- ✓ developing products and services
- ✓ building additional data centres capability

## Building a global business

- ✓ exploiting EIG submarine cable capacity

## Developing the technology for the future

- ✓ commencement of next generation converged network
- ✓ replacing customer care and networks management system

## Operating the business efficiently and effectively

- ✓ delivering service excellence, achieving targets and undertaking efficiency measures

## Being corporately and socially responsible

- ✓ ensuring good governance
- ✓ engaging employees
- ✓ supporting the community
- ✓ safeguarding the environment





# Sustaining local revenues

## Delivering quality services

### Mobile coverage enhanced

The Company's mobile data network was further enhanced with the deployment of additional remote radio units across Gibraltar. This allowed for improved traffic handling and coverage. Mobile coverage around the territory was also improved by the continuing deployment of 2G and 3G in-building signalling systems, although new planning requirements in the second half of the year meant a slower than expected rollout of new radio base stations.

### Roaming services increased

The number of roaming partners with which Gibtelecom has agreements continues to increase. As at the end of 2012, the Company offered customers the ability to use their mobile phones and other mobile devices across the world with nearly 499 operators in over 166 countries. This represents a significant achievement for an enterprise the size of Gibtelecom, which is dependent on larger foreign companies being prepared to enter into partnerships with a smaller entity either directly or through intermediaries such as dedicated roaming clearing providers.

### Services maintained throughout power outage

During one serious electricity power outage which occurred in July and affected most of Gibraltar for several hours, Gibtelecom managed to maintain its fixed line, internet, mobile and business enterprise services with minimal disruption. The Company has invested heavily in recent years in its own standby-power generation across many of its technical sites around the Rock. This paid clear dividends during the outage. Particularly significant was that the Company's communications switches, data centres, IT and customer services systems all remained operational.

### Other initiatives

A wide range of pricing and marketing initiatives were launched throughout the year including

- ✓ reductions in voice, data and SMS roaming charges;
- ✓ threshold notifications for data usage whilst roaming and locally;
- ✓ enhanced Mobile Internet (MI) offerings with reduced prices and increased data allowances;
- ✓ introduction of a "Data check" feature enabling Gibtelecom's mobile data package users to check the status of their data bundles; receive notification of the expiry date of their bundle; and data consumed; and
- ✓ ability to pay on-line using the PayPal system

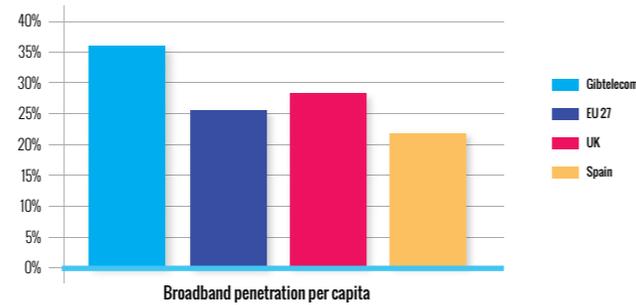


## Developing products and services



### Ultra-high speed broadband deployment

Gibtelecom began the roll-out of its new Next Generation Network (NGN) in 2012. Part of this process saw the Company upgrading its existing broadband infrastructure, based on ADSL technology, to the more advanced VDSL2. As a first step, the lower download speed offerings "Standard" (1Mbps) and "Standard Plus" (2Mbps) were doubled in March to 2 and 4Mbps respectively. These were doubled again to 4 and 8Mbps in November. The increase in the higher end "Enhanced" service (8Mbps) to 20Mbps, dependant on the deployment across Gibraltar of new VDSL2 "active" street cabinets, commenced in October. Overall, broadband subscriptions grew by 9% in the year.



### IP Flexiband growth

IP Flexiband sales increased steadily throughout the year by nearly 20%. Rental prices were reduced on average by some 14% at the beginning of the year, a consequence of the Company's substantial investment in developing its international network and infrastructure over recent years. In addition, a new Service Level Agreements (SLAs) network availability monitoring tool and a "live view" service for individual links to upstream customers were also introduced in March. Gibtelecom estimates that it currently has some 65% and 90% of the internet circuits and point-to-point leased circuits local market.

### Local and international voice traffic

Reflecting global trends, both fixed local voice and international direct dialling (IDD) traffic continued to decline with drops of 3% and 5% respectively. This is mainly attributable to greater use of mobile phones, and other technologies which make use of communication services over the internet.

### Number Portability

Number Portability (NP) was launched in Gibraltar in April 2012. This facility, which allows customers to keep their existing fixed or mobile telephone numbers when switching local service providers, was mandated by the Gibraltar Regulatory Authority (GRA) as part of EU and Gibraltar universal service legislation. This is the second such time the GRA had issued a direction requiring the introduction of NP. The first was in November 2010, for introduction of NP in 2011, but the regulator's overseas independent provider for the numbers porting database (which communicates porting requests between operators) was at the time not able to implement the automated validation of fixed line ports, as well as other locally licensed operators not being ready.

### Building additional data centres capability

Demand for Gibtelecom's server hosting services continued to grow in 2012. In order to meet this need, the Company built two new high tech data centres at its Mount Pleasant complex well above sea level. The new facilities came on stream towards the end of the year and brought the total number of Gibtelecom data centres to five, increasing overall rack capacity by nearly 60%. Looking ahead, the Company is considering further data centre expansion.

## DIRECTORS' REPORT & BUSINESS REVIEW

# Building a global business

### Exploiting EIG cable capacity

In 2008, Gibtelecom committed to invest in the Europe India Gateway (EIG) system as a founder member. The EIG is a state-of-the-art fibre optic submarine cable system running 15,000 km and spanning three continents and 13 landing points. The cable, which was landed in Gibraltar in 2010, was partially activated a year later allowing the Company to activate its own portion of the system and establish a technical Point of Presence (PoP) in London. The EIG cable became fully operational in 2012, albeit a second route through Egypt has still to be completed.



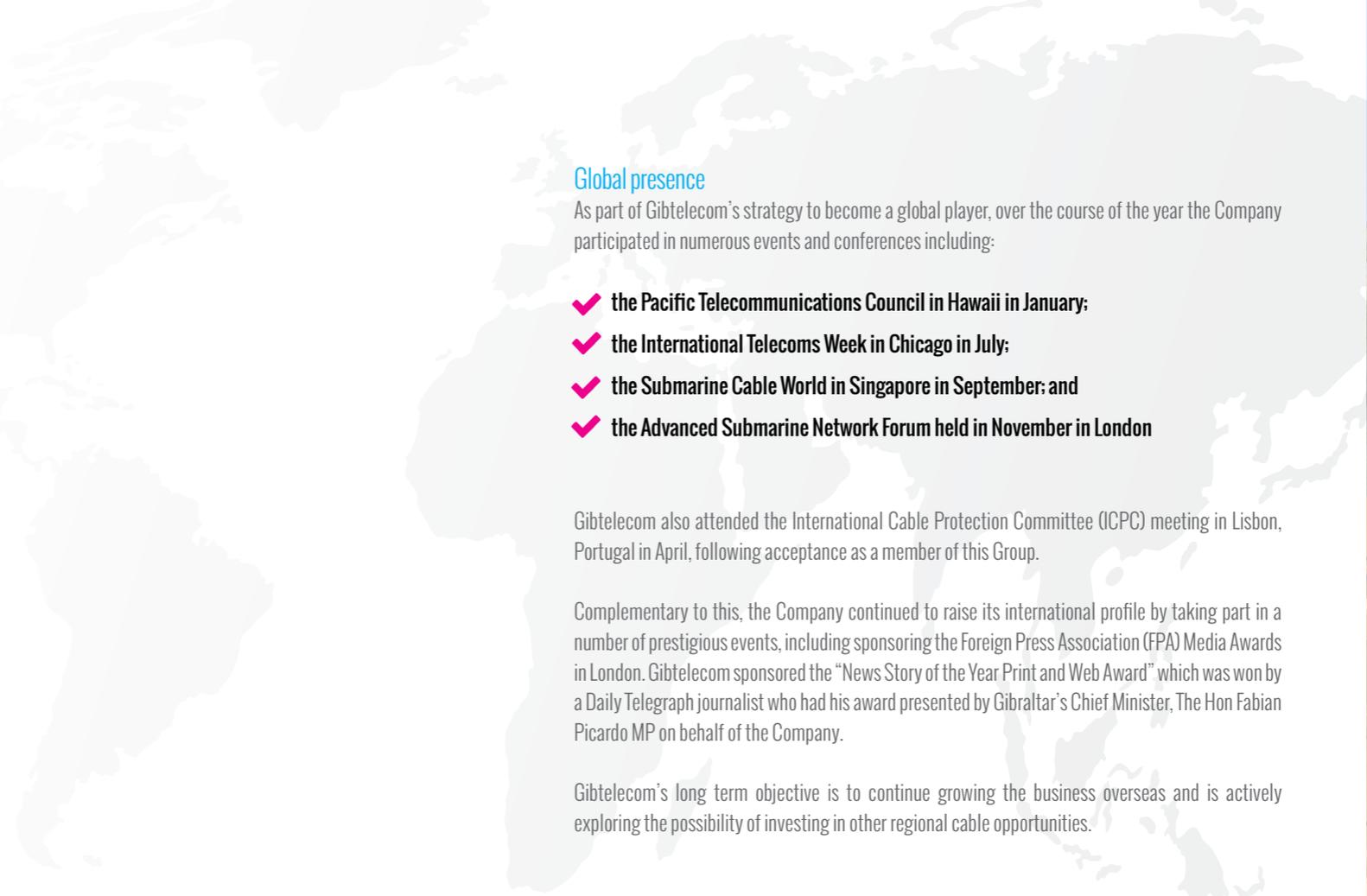
Gibtelecom CEO, Tim Bristow and Monaco Telecom CEO, Martin Peronnet signing the international connectivity agreement in Monaco.

### Building strategic partnerships

The EIG investment complements existing routes and provides Gibraltar with direct connectivity to the UK, Europe and the rest of the world. Not only does the EIG cable provide Gibtelecom with high quality transmission and capacity to meet future growth, it also offers opportunities to extend the Company's global reach via partnerships with other international carriers. During 2012, these included selling capacity to Vodacom South Africa and Monaco Telecom International amongst other operators. The EIG system also facilitated the renegotiation of agreements to augment the Company's existing route diversity and resilience paths.

### Gibtelecom's international partners

Carrier partners - international business



### Global presence

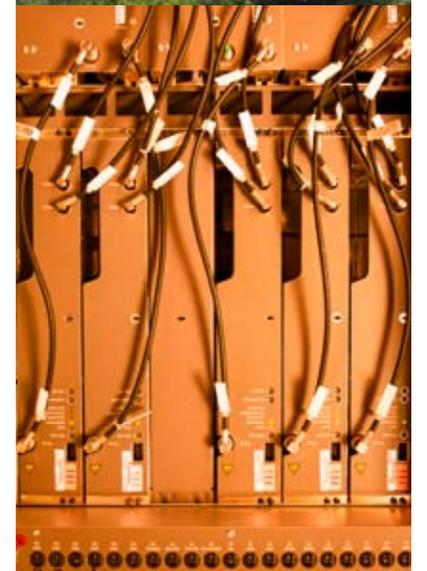
As part of Gibtelecom's strategy to become a global player, over the course of the year the Company participated in numerous events and conferences including:

- ✔ the Pacific Telecommunications Council in Hawaii in January;
- ✔ the International Telecoms Week in Chicago in July;
- ✔ the Submarine Cable World in Singapore in September; and
- ✔ the Advanced Submarine Network Forum held in November in London

Gibtelecom also attended the International Cable Protection Committee (ICPC) meeting in Lisbon, Portugal in April, following acceptance as a member of this Group.

Complementary to this, the Company continued to raise its international profile by taking part in a number of prestigious events, including sponsoring the Foreign Press Association (FPA) Media Awards in London. Gibtelecom sponsored the "News Story of the Year Print and Web Award" which was won by a Daily Telegraph journalist who had his award presented by Gibraltar's Chief Minister, The Hon Fabian Picardo MP on behalf of the Company.

Gibtelecom's long term objective is to continue growing the business overseas and is actively exploring the possibility of investing in other regional cable opportunities.



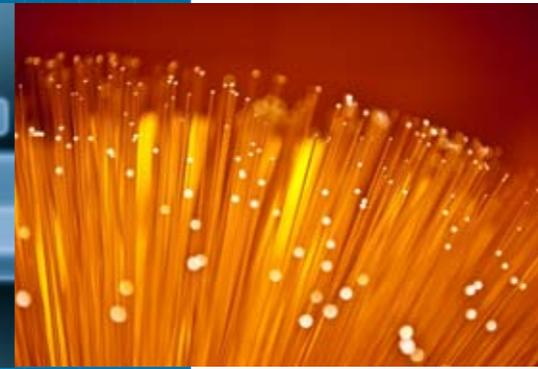
The Chief Minister of Gibraltar, The Hon Fabian Picardo MP and CEO, Tim Bristow, meeting TV presenter and comedian Sandi Toksvig during the Foreign Press Association media awards in London.

# Developing technology for the future

Commencement of next generation converged network

### Next Generation Network deployment

In 2012, Gibtelecom laid the foundations of its Next Generation Network (NGN) that will serve both the Company and Gibraltar for many years to come. This involved a highly complex and substantial upgrade of the technical infrastructure including the deployment and commissioning of Multi Service Access Nodes (MSANs) to the majority of the Company's Remote Concentrator Units (RCUs) distributed around the territory. This project starts to bring together the fixed line, internet and mobile technologies and creates a new converged communications roadway that will deliver super-fast broadband connectivity to customers.



### VDSL2 street cabinet programme

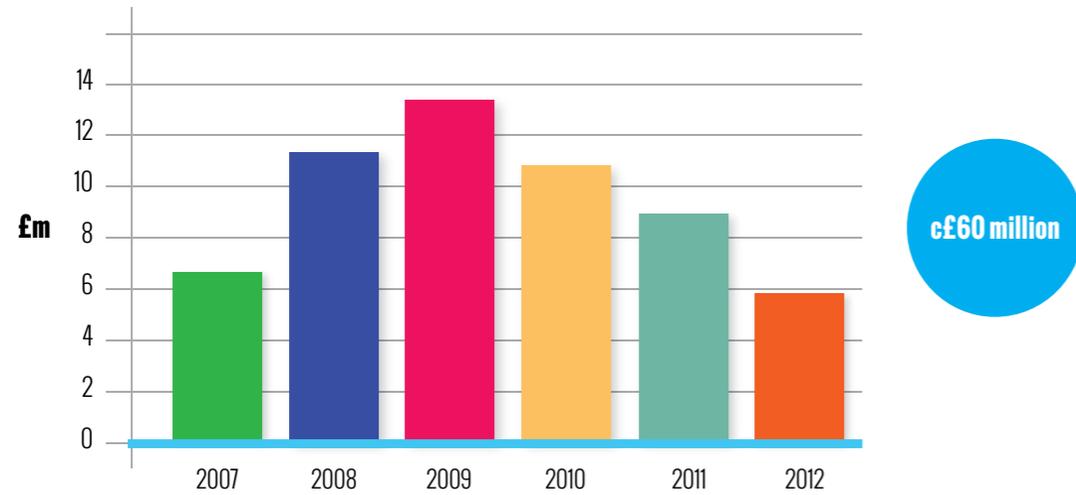
The installation programme for the VDSL2 "active" street-side cabinets got underway towards the latter part of the year. These cabinets, which are an integral part of Gibtelecom's superfast broadband rollout, will take the Company's extensive fibre network closer to customers' premises, shortening the distances between end-users in specific areas and facilitating higher internet speeds to be delivered. In an effort to blend in the cabinets with their surroundings, Gibtelecom worked with Government planning representatives to beautify some cabinets, extending their use to not only provide essential telecoms equipment but to promote Gibraltar's tourist and local heritage information. The cabinet in the Laguna/Glaciis area was the first to get the beautification treatment, displaying information on the history of the area and general sites of interest in Gibraltar.



One of Gibtelecom's new beautified active street cabinets containing VDSL2 technology.

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✓	51.331.231.231
	46.324.345.546
	24.345.112.988
	18.242.768.500
	11.556.898.114

Capital investment - technology & infrastructure



Internet enhancements

The Company's internet provisioning service was enhanced through the development of the international network to provide increased capacity, better peering and reduced latency. International IP links were upgraded, in particular those to Gibtelecom's London Point of Presence (PoP), whilst those into Madrid and elsewhere got underway and are due to be finalised in the coming months.

Replacing customer care networks management system

Project Phoenix

Another flagship technology project that got underway in 2012 was Project Phoenix. This will see the current Integrated Customer Management System (ICMS) replaced by a new customer, billing and plant management system. ICMS became operational in May 1999 and is now dated, nevertheless remaining critical to the business as it manages all customers' services accounts and billing, together with all fixed network plant records. Following an EU-wide tender process which started in 2011, Gibtelecom selected a UK-based customer relationship management and billing organisation to supply the replacement system. The new solution will support all of Gibtelecom's fixed line, mobile, broadband and business enterprise services including delivery of an integrated network inventory system. Following stringent acceptance trials, it is expected that the system will be fully operational later in 2013.

Other projects in 2012 included

- ✔ enhancing the fixed network by expansion and refurbishments of some of Gibtelecom's many equipment rooms around the Rock; and
- ✔ installation of a new north fibre ring

Operating

the business

efficiently and

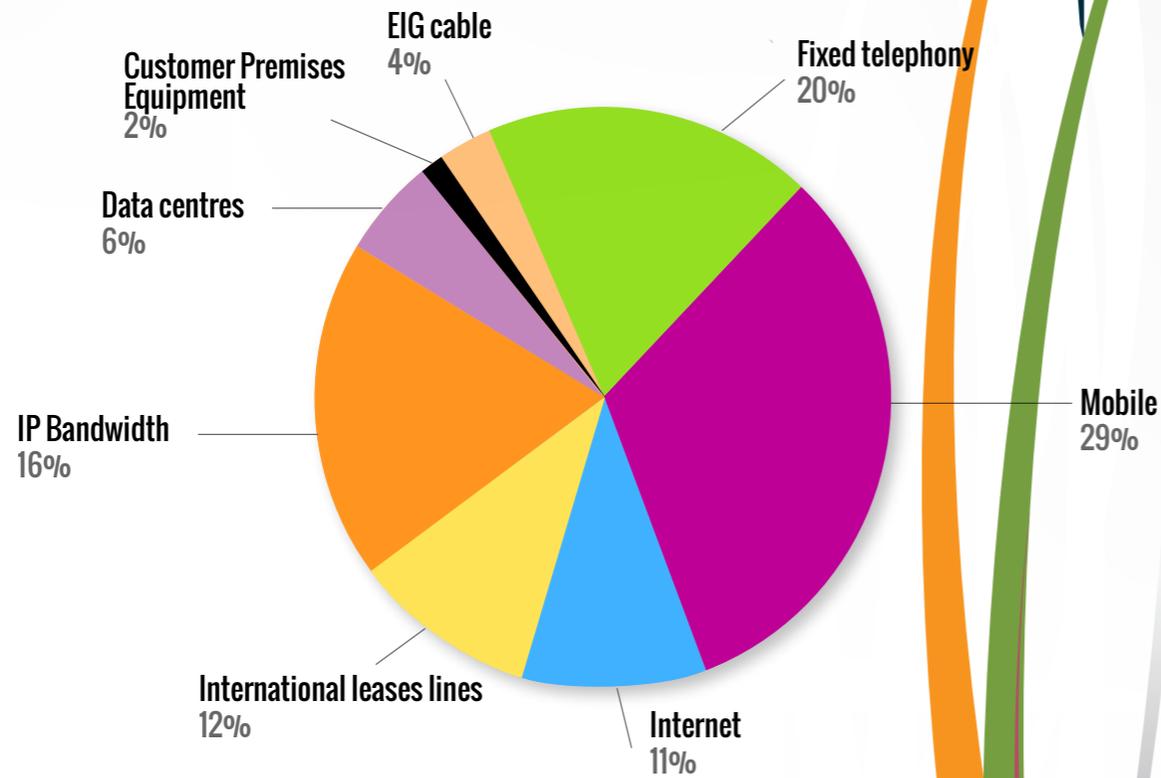
effectively

Delivering service excellence, achieving targets and undertaking efficiency measures

Gibtelecom continued to deliver service excellence and be responsive to customers and partners' needs. To this end, the Company again conducted bi-annual independent customer satisfaction surveys in April and October 2012. The surveys provide vital feedback and understanding of customers' requirements and concerns as well as feeding into the setting of the Company's challenging performance targets.

Other key achievements in this area during the year include

- ✔ retaining Payment Card Industry Data Security Standard (PCI DSS) accreditation in respect of the Company's data centre hosting facilities. This is essential for customers, particularly those in the e-gaming sector, due to the large volumes of financial transactions processed; and
- ✔ re-certification of the ISO 2001:2008 Quality Management Systems award which highlighted the maturity of the quality system in place and compliments the Company's Business Plan objectives and key measures



**Financials**

The turnover of the business increased year-on-year by over 5% to £38.7 million. Gibtelecom's profit on ordinary activities after taxation for the twelve months to 31 December 2012 was £6.5 million, a decrease from the previous year as restated (£9.2 million) primarily due to the costs of a restructuring programme facilitating staff voluntary separations and other costs. These included new one-off payments to the Gibraltar Nynex Communications Limited Staff Pension Scheme and the impact of some fraudulent financial activity. More information on these expenditure amounts can be found in the notes to the financial statements.

The Directors declared dividends from the 2012 earnings of £6.7 million, of which £4.5 million was paid as an interim dividend in October 2012, with the final dividend of £2.2 million being declared in December and paid in March 2013. This equates to £3.35 million being paid to each shareholder in respect of the 2012 earnings. The total dividend for the financial year 2011 was £6.6 million.

**Ensuring good governance**

Since 2010, Gibtelecom has been using a "Corporate Governance Compliance Checklist". This was developed to assist both the Board of Directors and senior management to assess and manage compliance with the requirements of good governance and accountability across a wide spectrum of areas. The checklist was updated in 2012 to take account of the latest UK and European standards, including the Financial Reporting Council's UK Corporate Governance Code.

**Other measures included**

- ✓ updated risk assessment of the Company's key technical equipment and installations; and
- ✓ review and update of Health & Safety (H&S) procedures and the appointment of a H&S consultant

# Being corporate & socially RESPONSIBLE



### Engaging employees

Recruiting and retaining top talent is central to Gibtelecom's success. In 2012, the Company continued with its policy of engaging with its employees and to this end conducted an independent employee communication survey (the second of its kind). Employee participation reached 91%, up on the previous survey of 2009, with 93% of participants commenting said that they would recommend Gibtelecom as a good place in which to work.

Gibtelecom is committed to developing technical and non-technical skills across the business. Increasingly the Company is investing in developing home-grown talent, through its apprenticeship scheme, internship and undergraduate programmes. In addition in 2012, Gibtelecom launched a new Employer Led Degree Programme, targeting top level students in science and mathematics looking to study for a technical degree in telecommunications or engineering at University.

A particular highlight of the year was the first graduation of the Company's apprentices, who successfully completed the fourth year of their apprenticeship programme. A total of eight graduating apprentices received certificates marking the completion of their four year programme and a BTEC Level 3 Diploma in Professional Competence for IT & Telecoms professionals. Eight other apprentices also received various NVQ (UK National Vocational Qualification) and the City & Guilds London Institute certificates. The eight graduating apprentices are taking up fixed term employment contracts with the Company.

In order to be better placed to meet the challenges of the change management programme and developing technology, the Company offered a further voluntary separation programme to all employees. Whilst only a small number are to be numerically replaced, the scheme allows for younger and better qualified people to be recruited thus permitting the Company to better face future challenges.

Going forward Gibtelecom is looking at developing an employee "well-being" programme as well as a formal employee community volunteering scheme.



### Supporting the community

The Company aims to secure its continued involvement with the community by supporting educational, cultural, youth and sports organisations and charities. This not only puts resources back into the community to make a difference where needed but also helps strengthen the Gibtelecom brand and win customer loyalty.

In 2012, Gibtelecom supported eight charities, sixteen cultural and nineteen sporting organisations. Some of these are highlighted below

- ✔ **the International Chess Festival. This tournament attracted several hundred million website hits and included the participation of 57 Grandmasters from 58 countries. Gibtelecom provided financial as well as technical support;**
- ✔ **Westside School. The Company financed and installed a Wi-Fi network, as well as providing computers and printers. This complements the Wi-Fi system previously installed in Bayside School, the other secondary educational establishment in Gibraltar;**
- ✔ **Scouts. Gibtelecom provided internet connectivity, hardware and technical support for the group's "Internet Jamboree";**
- ✔ **St John Ambulance. Purchase of defibrillators; and**
- ✔ **Donation of refurbished surplus vehicles to a number of local charities**



### Safeguarding the environment

In 2012, the Company committed itself to some specific environmental targets including the reduction of overall power consumption. Extending the use of small footprint power-saving computers; the virtualisation of production servers within the IT department; and increasing the efficiency of data centre operations through the lowering of Power Usage Efficiency (PUE) levels were some of the measures taken to meet this challenging objective. Going forward, the aim is to develop a comprehensive Company-wide power consumption reduction strategy that will set benchmark levels of power consumption for all in-house technical and non-technical areas.

Other "green" initiatives in 2012 included the

- ✔ reduction of in-house printing by c27% from previous years, and recycling of used paper;
- ✔ promotion of email bills and on-line services; and
- ✔ safe and environmentally-friendly disposal or recycling of equipment and materials



## Directors

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

Directors		Nationality
Joseph Garcia	Chairman	British
Tim Bristow	Chief Executive Officer	British
Dilip Dayaram Tirathdas		British
Zoran Vehovar		Slovenian
Brigita Bohorč		Slovenian
Marko Boštjančič		Slovenian

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

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



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 this will be considered at the Company's Annual General Meeting.

By order of the Board

**F Brancato**  
Company Secretary  
Gibraltar

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

### Report on the financial statements

We have audited the financial statements of Gibtelecom Limited for the year ended 31 December 2012 which comprise the consolidated profit and loss account, the statement of group total recognised gains and losses, the consolidated and the Company's balance sheet, the consolidated cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report, including the opinion, 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.

### 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 ("Gibraltar Generally Accepted Accounting Practice"). 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 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 of the state of the group and parent company's affairs as at 31 December 2012 and of the group and company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with Gibraltar Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies Act, the Companies (Accounts) Act 1999 and the Companies (Consolidated Accounts) Act 1999.

## Opinion on other matter prescribed by the Companies (Accounts) Act 1999

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act requires us to report to you if, in our opinion:

- the company has not kept proper accounting records; or
- if information specified by law regarding Directors' remuneration and other transactions is not disclosed; or
- we have not received all the information and explanations we require for our audit.



### Barry Pillans

Statutory auditor  
For and on behalf of  
PricewaterhouseCoopers Limited

## Consolidated profit and loss account for the year ended 31 December 2012

	Note	2012 £	Restated 2011 £
<b>Turnover – continuing operations</b>	3	<b>38,686,150</b>	36,617,902
Payments to other telecommunications administrators		<b>(3,104,080)</b>	(2,784,559)
Other external charges		<b>(4,956,416)</b>	(5,624,282)
Staff costs	4	<b>(8,128,337)</b>	(7,797,036)
Corporate restructuring costs	18	<b>(1,741,561)</b>	-
Depreciation	11	<b>(3,828,167)</b>	(3,681,624)
EIG amortisation	13	<b>(820,974)</b>	-
Other operating charges	7	<b>(7,066,936)</b>	(5,729,825)
<b>Operating expenses – continuing operations</b>		<b>(29,646,471)</b>	(25,617,326)
<b>Group operating profit</b>		<b>9,039,679</b>	11,000,576
Gain on disposal of tangible fixed assets		<b>169,517</b>	30,331
Interest receivable on bank deposits		<b>47,494</b>	9,879
Interest payable and similar charges	8	<b>(488,241)</b>	(531,132)
Other finance costs	25	<b>(238,000)</b>	(168,000)
<b>Profit on ordinary activities before taxation</b>		<b>8,530,449</b>	10,341,654
Tax on profit on ordinary activities	9	<b>(1,736,607)</b>	(1,143,624)
<b>Profit for the financial year</b>	21	<b>6,793,842</b>	9,198,030
Dividends	10	<b>(6,700,000)</b>	(6,400,000)
<b>Retained profit for the financial year</b>	22	<b>93,842</b>	2,798,030

There is no difference between the profit on ordinary activities before taxation and the 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 2012

	Note	2012 £	Restated 2011 £
Profit for the financial year	21	6,793,842	9,198,030
Actual return less expected return on pension scheme assets	25	443,000	(770,000)
Experience gains/(losses) arising on the pension scheme liabilities	25	330,000	(288,000)
Changes in assumptions underlying the present value of the pension scheme liabilities	25	(3,819,000)	(756,000)
Prior period adjustment	2	(455,703)	-
Movement on deferred tax relating to pension asset	18	367,800	204,600
<b>Total recognised gains since last annual report</b>		<b>3,659,939</b>	<b>7,588,630</b>

## Balance sheets as at 31 December 2012

	Note	2012 £	Group Restated 2011 £	2012 £	Company Restated 2011 £
<b>Fixed assets</b>					
Tangible assets	11	26,783,613	44,606,352	26,783,613	44,606,352
Investments	12	-	-	4,000	4,000
EIG submarine cable	13	17,123,219	-	17,123,219	-
		<b>43,906,832</b>	44,606,352	<b>43,910,832</b>	44,610,352
<b>Current assets</b>					
Stocks	14	1,089,483	1,087,979	1,089,483	1,087,979
Debtors	15	8,726,130	6,531,398	8,726,130	6,531,398
Cash at bank and in hand	24	6,849,133	5,587,269	6,849,133	5,587,269
		<b>16,664,746</b>	13,206,646	<b>16,664,746</b>	13,206,646
<b>Creditors: amounts falling due within one year</b>	16	<b>(13,675,130)</b>	(9,854,868)	<b>(13,679,130)</b>	(9,858,868)
<b>Net current assets</b>		<b>2,989,616</b>	3,351,778	<b>2,985,616</b>	3,347,778
<b>Total assets less current liabilities</b>		<b>46,896,448</b>	47,958,130	<b>46,896,448</b>	47,958,130
<b>Creditors: amounts falling due after more than one year</b>	17	<b>(11,099,669)</b>	(13,155,981)	<b>(11,099,669)</b>	(13,155,981)
Provisions for liabilities and charges	18	(2,551,950)	(444,162)	(2,551,950)	(444,162)
<b>Net assets excluding pension liability</b>		<b>33,244,829</b>	34,357,987	<b>33,244,829</b>	34,357,987
Pension liability	25	(6,900,000)	(5,428,800)	(6,900,000)	(5,428,800)
<b>Net assets including pension liability</b>		<b>26,344,829</b>	28,929,187	<b>26,344,829</b>	28,929,187
<b>Capital and reserves</b>					
Called up share capital	19	15,000	15,000	15,000	15,000
Share premium account	20	14,985,000	14,985,000	14,985,000	14,985,000
Profit and loss account	21	11,344,829	13,929,187	11,344,829	13,929,187
<b>Equity shareholders' funds</b>	22	<b>26,344,829</b>	28,929,187	<b>26,344,829</b>	28,929,187

The financial statements on pages 32-56 were approved by the Board of Directors on \_\_\_\_\_ and were signed on its behalf by:



T J Bristow  
Director



M Boštjančič  
Director

## Consolidated cash flow statement for the year ended 31 December 2012

	Note	2012 £	Restated 2011 £
<b>Net cash flow from operating activities</b>	23	<b>17,132,880</b>	15,501,118
<b>Returns on investments and servicing of finance</b>			
Interest received		47,494	9,879
Interest paid		(488,241)	(531,132)
<b>Net cash outflow from return on investments and servicing of finance</b>		<b>(440,747)</b>	(521,253)
<b>Corporation tax paid</b>		<b>(1,633,864)</b>	(1,100,453)
<b>Capital expenditure and financial investments</b>			
Sale of tangible fixed assets		169,517	30,331
Payments to acquire tangible fixed assets		(5,357,005)	(9,078,071)
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(5,187,488)</b>	(9,047,740)
<b>Equity dividends paid</b>		<b>(6,700,000)</b>	(6,400,000)
<b>Financing</b>			
Proceeds from bank borrowings		-	1,300,000
Repayment of bank borrowings		(1,908,917)	(1,783,340)
<b>Net cash outflow from financing</b>	24	<b>(1,908,917)</b>	(483,340)
<b>Increase/(decrease) in cash</b>	24	<b>1,261,864</b>	(2,051,668)

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

	Note	2012 £	Restated 2011 £
Movement in net funds	24	1,261,864	(2,051,668)
Movement in borrowings	24	1,908,917	483,340
Net funds at 1 January	24	(9,421,883)	(7,853,555)
<b>Net funds at 31 December</b>	24	<b>(6,251,102)</b>	(9,421,883)

## Notes to the financial statements for the year ended 31 December 2012

### 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 2012. In accounting for its shareholding in its non-trading subsidiary, the Group consolidates fully its nominal shareholding 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, as Gibconnect Limited is not currently trading and has a nominal value.

#### Turnover

Turnover represents the amounts billed for various communications services, related equipment rentals and sales and data centre services.

Revenue in respect of all communications 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 rentals and data centre 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 regarding billing which are over three months old. In all other cases specific provisions are made should the Directors consider that the recovery of debts is in serious doubt.

#### Tangible fixed assets

Tangible fixed assets are stated at cost, which comprise cost of equipment and materials, including freight, charges for installation and building works, less accumulated depreciation and any impairment losses. On disposal of tangible fixed assets, the difference between the sales proceeds and the net book value at the date of disposal is recognised in the profit and loss account. No direct labour costs incurred by Gibtelecom in the installation of the Company's communications infrastructure, network equipment and plant are currently capitalised.

## 1 Accounting policies - continued

### Tangible fixed assets (continued)

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 and routes	5%	-	20%
Rental equipment	18%	-	33%
Furniture and fittings	15%	-	33%
Motor vehicles	20%	-	25%
Computers	20%	-	33%
Freehold land and building			2%
Leasehold building			2%

The freehold land and building relates to the Company's premises at 15/21 John Mackintosh Square. The leasehold land building held by the Company relates to the 49 year leasehold property at Mount Pleasant.

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

### Impairment

Financial assets 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 assets with their recoverable amount, which is the higher of net realisable value and value in use. The carrying value of the 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 financial asset in the period in which it occurs. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not occurred.

### EIG submarine cable

The Europe India Gateway submarine cable is recognised as a prepayment in the balance sheet and is amortised equally over the estimated useful life of the cable.

Payments received as a result of onward sales of capacity are recognised as deferred income on the balance sheet and amortised over the length of the agreement or the estimated useful life of the cable, whichever is shorter.

### 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 as determined at the year end under FRS (Financial Reporting Standard) 17 – 'Retirement benefits'

The pension cost for the schemes is determined by the actuaries who analyse 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.

## 1 Accounting policies – continued

### Pension schemes (continued)

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 an FRS17 end of year valuation and from updating the latest actuarial valuations to reflect conditions at the balance sheet date, are taken to the statement of group total recognised gains and losses for the year.

### Stocks

Stocks 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.

### Debtors

Debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### Prepayments

Prepayments for goods and services which are to be provided in future years are recognised as prepayments and are measured at cost, with the prepayment amortised over the duration of which the service is provided. Prepayments are disclosed within debtors in the financial statements.

### Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

### Voluntary separation provision

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### Cash flow statement

Cash flows are defined as increases or decreases in cash. The cash includes monies in hand and deposits with banks repayable on demand. Deposits are repayable on demand if they are in practice accessible within twenty-four hours.

### Current taxation

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

## 1 Accounting policies - continued

### 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.

## 2 Prior period adjustment

During April 2013 fraudulent accounting entries were discovered to have been posted by a member of the finance team to conceal funds, primarily misappropriated via a staff savings fund from the Company during the period from 2005 to April 2013. The fraudulent accounting entries had the effect of misstating various balance sheet financial statement items and although these balances were corrected for the financial year ended 31 December 2012, some losses which were identified corresponded to prior years.

The effect on the profit and loss account, resulting from the above, has been included within "other operating charges", both in 2011 and 2012. The reserves in respect of the financial year ended 31 December 2011 have also been restated to take into account funds misappropriated between 2005 and 31 December 2010.

	Cumulative impact £	2012 £	2011 £	2010 and prior years £
Write off included in "other operating charges"	(636,121)	(180,418)	(151,912)	(303,791)

The comparatives have been restated to reflect these changes, the effects of which are set out below:

	2011 £	Prior year adjustments £	As restated 2011 £
<b>Profit and loss account</b>			
Other operating charges	(5,577,913)	(151,912)	(5,729,825)
<b>Operating expenses – continuing operations</b>	(25,465,414)	(151,912)	(25,617,326)
<b>Group operating profit</b>	11,152,488	(151,912)	<b>11,000,576</b>
<b>Profit on ordinary activities before taxation</b>	10,493,566	(151,912)	<b>10,341,654</b>
<b>Profit for the financial year</b>	9,349,942	(151,912)	<b>9,198,030</b>
<b>Retained profit for the financial year</b>	2,949,942	(151,912)	<b>2,798,030</b>

Balance sheet	2011 £	Prior year adjustments £	As restated 2011 £
Debtors (Group and Company)	6,645,472	(114,074)	<b>6,531,398</b>
Cash at bank and in hand (Group and Company)	5,756,706	(169,437)	<b>5,587,269</b>
<b>Creditors: amounts falling due within one year (Group)</b>	(9,682,676)	(172,192)	<b>(9,854,868)</b>
<b>Creditors: amounts falling due within one year (Company)</b>	(9,686,676)	(172,192)	<b>(9,858,868)</b>
<b>Net current assets (Group)</b>	3,807,481	(455,703)	<b>3,351,778</b>
<b>Net current assets (Company)</b>	3,803,481	(455,703)	<b>3,347,778</b>
<b>Total assets less current liabilities (Group and Company)</b>	48,413,833	(455,703)	<b>47,958,130</b>
<b>Net assets excluding pension liability (Group and Company)</b>	34,813,690	(455,703)	<b>34,357,987</b>
Profit and loss account (Group and Company)	14,384,890	(455,703)	<b>13,929,187</b>
<b>Equity shareholders' funds (Group and Company)</b>	29,384,890	(455,703)	<b>28,929,187</b>

An additional loss of approximately £105,000 will be included in the financial statements for the 2013 financial year to reflect amounts misappropriated during the period from 1 January 2013 to 30 April 2013. This has not been accounted for in these financial statements as they relate to the following financial year.

## 3 Segmental reporting

Gibtelecom's sole activity is the provision of various communications and related services 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.

	2012 £	2011 £
Fixed line	<b>7,543,847</b>	7,740,007
Wireless	<b>11,217,441</b>	10,857,821
Internet	<b>4,436,610</b>	4,085,572
Leased circuits	<b>11,371,765</b>	10,609,415
EIG cable	<b>1,101,078</b>	564,992
Other	<b>3,015,409</b>	2,760,095
	<b>38,686,150</b>	36,617,902

#### 4 Staff costs

	2012 £	2011 £
Wages and salaries	6,769,714	6,502,382
Social security costs	269,157	262,346
Pension costs	1,089,466	1,032,308
	<b>8,128,337</b>	<b>7,797,036</b>

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 £1,080,000 in 2012 (2011: £1,073,000). The difference to the figures reported above reflects other pension costs/credits incurred/received by Gibtelecom which are not included within the FRS 17 assessments by the actuaries.

#### 5 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	
	2012 No	2011 No	2012 No	2011 No
<b>By Directorate</b>				
Chief Executive Officer: International Business Director, Human Resources, Head Office and Corporate Affairs	12	12	11	11
Business Director: Finance, Customer Services, Marketing and Business Development, Regulatory and Network Operations Centre	54	57	54	57
Operations Director: Internet, Resources and Administration, External Plant and Networks Infrastructure	59	53	55	51
Technical Director: Information Technology, Wireline, Wireless and Next Generation Network	25	19	25	19
Apprentices	8	16	14	14
<b>Total</b>	<b>158</b>	<b>157</b>	<b>159</b>	<b>152</b>

#### 6 Directors' emoluments

Gibtelecom Directors did not receive emoluments from the Company for their services as Directors during the year (2011: 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.

#### 7 Other operating charges

	2012 £	Restated 2011 £
<b>Included in other operating charges are:</b>		
Operating lease charges on rented properties	306,232	278,046
Impact on profit and loss arising from misappropriated funds	180,418	151,912

#### 8 Interest payable and similar charges

	2012 £	2011 £
Interest payable on mortgage financing and bank loans	488,241	531,132

#### 9 Tax on profit on ordinary activities

##### (a) Analysis of charge in period

	2012 £	2011 £
<b>Current tax</b>		
Gibraltar corporation tax on profit for the period	(1,109,542)	(1,838,904)
<b>Deferred tax</b>		
Deferred tax movement (see note 18 – capital allowances)	(841,986)	695,280
Total deferred tax (see note 18 – corporate restructuring costs)	214,921	-
<b>Tax on profit on ordinary activities</b>	<b>(1,736,607)</b>	<b>(1,143,624)</b>

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

The standard rate of Gibraltar corporation tax is 10%. However utility (including Gibtelecom) and energy providers and companies that enjoy a dominant position are required to pay at a higher rate of 20%.

	2012 £	2011 £
Profit on ordinary activities before taxation (2011: prior to restatement)	8,530,449	10,493,566
Notional corporation tax at 20% (2011: 20%)	1,706,090	2,098,713
<b>Effects of:</b>		
Permanent timing differences (i)	(491)	(6,331)
Pension cost contribution in excess of net pension cost charge (ii)	(241,400)	(158,200)
Capital allowances in excess of depreciation (iii)	(478,437)	205,731
Corporate restructuring costs paid (iv)	214,921	-
Losses charged to prior period reserves (v)	(91,141)	-
Losses brought forward	-	(301,009)
<b>Gibraltar corporation tax on profit for the period</b>	<b>1,109,542</b>	<b>1,838,904</b>

## 9 Tax on profit on ordinary activities - continued

### (i) 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.

### (ii) Pension cost contribution in excess of net pension cost charge

This tax charge relates to an adjustment made in respect of taxation on pension contributions, which are adjusted annually in line with the FRS 17 actuarial valuations.

### (iii) Capital allowances in excess of depreciation

The capital allowances in excess of depreciation represents the difference between the writing down allowances taken by the Company for tax purposes and the depreciation reflected in the financial statements under FRS 15, Tangible Fixed Assets.

### (iv) Corporate restructuring costs paid

This tax charge represents the timing difference between the corporate restructuring provision and the payments made for tax purposes.

### (v) Losses charged to prior period reserves

This tax adjustment arises from the prior year adjustments explained in Note 2.

## 10 Dividends

	Pence per share	2012 £	Pence per share	2011 £
Final dividend paid in respect of the prior year	146.67	2,200,000	133.33	2,000,000
Interim dividend paid in respect of the current year	300.00	4,500,000	293.33	4,400,000
	446.67	6,700,000	426.66	6,400,000

A final dividend of £2,200,000 for the financial year 2012 was approved at the Board of Directors meeting held on 28 February 2013, to be effected on 18 March 2013. Following the requirements of Financial Reporting Standard 21 'Post balance sheet events' this dividend will be reflected in the 2013 financial statements.

## 11 Tangible fixed assets

Group and Company	Assets under construction £	Freehold land and building £	Leasehold land and building £	Plant and equipment £	Furniture, office equipment and software £	Motor vehicles £	Total £
<b>Cost</b>							
At 1 January 2012	22,115,904	5,113,519	5,414,004	44,445,609	1,649,256	507,113	79,245,405
Additions	2,055,048	-	-	3,133,526	61,107	107,324	5,357,005
Transferred on completion	(1,563,482)	-	-	1,563,482	-	-	-
EIG cable (see note 13)	(19,351,577)	-	-	-	-	-	(19,351,577)
Disposals	-	-	-	(2,408,232)	(11,109)	(66,663)	(2,486,004)
<b>At 31 December 2012</b>	<b>3,255,893</b>	<b>5,113,519</b>	<b>5,414,004</b>	<b>46,734,385</b>	<b>1,699,254</b>	<b>547,774</b>	<b>62,764,829</b>
<b>Accumulated depreciation</b>							
At 1 January 2012	-	211,024	338,731	32,909,216	829,659	350,423	34,639,053
Charge for the year	-	99,890	113,350	3,292,506	254,202	68,219	3,828,167
Disposals	-	-	-	(2,408,232)	(11,109)	(66,663)	(2,486,004)
<b>At 31 December 2012</b>	<b>-</b>	<b>310,914</b>	<b>452,081</b>	<b>33,793,490</b>	<b>1,072,752</b>	<b>351,979</b>	<b>35,981,216</b>
<b>Net book value</b>							
<b>At 31 December 2012</b>	<b>3,255,893</b>	<b>4,802,605</b>	<b>4,961,923</b>	<b>12,940,895</b>	<b>626,502</b>	<b>195,795</b>	<b>26,783,613</b>
At 31 December 2011	22,115,904	4,902,495	5,075,273	11,536,393	819,597	156,690	44,606,352

## 11 Tangible fixed assets - continued

### (i) Assets under construction

Assets under construction represent payments towards the expansion of the computer hosting business through developing the Company's data centres at Mount Pleasant and payments towards a new billing platform.

### (ii) Assets pledged as security

Property with a carrying value of £9,764,528 (2011: £9,977,768) are pledged as security for the borrowings of the Company. Details of the loans are disclosed in Note 16.

### (iii) Leasehold land and building

Leasehold land and buildings consist of a short-term lease of less than 50 years.

## 12 Investments included in fixed assets

Company	2012 £	2011 £
<b>At cost, investment in subsidiary</b>		
At 1 January and 31 December	4,000	4,000

The investment consists of a 100% shareholding in the ordinary shares of Gibconnect Limited (Gibconnect), at a cost of £4,000. All the assets, liabilities and any other commitments of the subsidiary company, including the employees were transferred to the parent company (Gibtelecom) on 8 December 2005.

## 13 EIG submarine cable

The Company entered into an agreement with several other parties (the 'consortium') during 2008 to construct a high capacity fibre-optic submarine cable system-the Europe India Gateway (EIG). As at 31 December 2012, the Company has made payments towards the EIG cable totalling £19,351,577, entitling the Company to c4.3% of the EIG's total capacity.

Although the Company is entitled to c4.3% of the EIG cable's capacity, the Company does not control end to end physical access and does not control the specific fibres through which the data is transmitted. The EIG investment has consequently been recognised as a prepayment in the Company's balance sheet, with the prepayment being amortised over the estimated useful life of the cable.

The EIG cable was not fully operational as at 31 December 2012 as the Egypt crossing had not been completed, however on 1 June 2012 the Company was able to start activating capacity. The total payments to 31 December 2012 of £19,351,577 have therefore been transferred out of 'assets under construction' and recognised as a prepayment on 1 June 2012, and amortised assuming a remaining useful life of 13.75 years.

Group and Company	2012 £	2011 £
At 1 January	-	-
Amounts transferred from 'Assets under construction'	19,351,577	-
Charged to the profit and loss account	(820,974)	-
<b>At 31 December</b>	<b>18,530,603</b>	<b>-</b>
	2012 £	2011 £
Fixed assets: EIG submarine cable	17,123,219	-
Current assets: EIG submarine cable	1,407,384	-
	18,530,603	-

As the EIG cable will be amortised over a period of 13.75 years (this being the remaining expected useful life of the cable when the capacity was activated), the prepayment is split in the balance sheet between fixed assets and current assets as follows:

## 14 Stocks

Group and Company	2012 £	2011 £
Goods for resale	1,089,483	1,087,979

## 15 Debtors

Group and Company	2012 £	Restated 2011 £
<b>Amounts falling due within one year:</b>		
Trade debtors	6,098,857	5,473,722
Other debtors and prepayments	1,175,101	752,050
EIG submarine cable (see note 13)	1,407,384	-
	<b>8,681,342</b>	<b>6,225,772</b>
<b>Amounts falling due after more than one year (excluding EIG submarine cable):</b>		
Deferred tax asset (see note 18)	-	260,838
Security deposits	44,788	44,788
	<b>8,726,130</b>	<b>6,531,398</b>

## 16 Creditors: amounts falling due within one year

	Group		Company	
	2012 £	Restated 2011 £	2012 £	Restated 2011 £
Trade creditors	4,527,327	4,091,919	4,527,327	4,091,919
Amounts due to Group undertakings	-	-	4,000	4,000
Bank borrowings	2,000,566	1,853,171	2,000,566	1,853,171
Other creditors	72,274	100,096	72,274	100,096
PAYE and social insurance	184,278	207,329	184,278	207,329
Corporation tax	190,090	714,412	190,090	714,412
Accruals and deferred income	6,700,595	2,887,941	6,700,595	2,887,941
	<b>13,675,130</b>	<b>9,854,868</b>	<b>13,679,130</b>	<b>9,858,868</b>

## Bank borrowings

Gibtelecom has four loans, one for £4,100,000 relating to the mortgage finance facility of 15/21 John Mackintosh Square; one for the mortgage finance facility of £4,725,000 for the Mount Pleasant property; a loan facility for £8,000,000 relating to the part funding of the Europe India Gateway (EIG) submarine cable project; and one for £1,300,000 for the latest data centre. The loans carry floating interest rates which are directly linked to the LIBOR (London Interbank Offered Rate).

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

Gibtelecom's purpose built building centralises many of the Company's various operational units and takes advantage of its close proximity to Gibtelecom's main fixed line and internet technology in the adjoining and connecting Haven building and City Hall premises.

The bank loan obtained from The Royal Bank of Scotland International trading as NatWest, was for the replenishment of Gibtelecom's own resources utilised in the purchase and redevelopment of 15/21 John Mackintosh Square. This loan facility of £4,100,000 taken out in June 2010 was for 70% of the total cost and as at 31 December 2012 the balance repayable stood at £2,806,655 (2011: £3,201,307).

The loan is secured by the bank through a first legal charge over the property including all permanent fixtures and fittings. Repayment of the principal is calculated on the basis of a 10 year amortising facility.

### (ii) Mount Pleasant

Mount Pleasant, a building which has always been associated with telecommunications in Gibraltar, currently houses the Company's Network Operations Centre and data centres, together with some training and other office facilities.

The bank loan, secured with Barclays Bank, relates to the purchase of a 49 year lease. The property was previously occupied by Gibtelecom under a 20 year lease which expired on 31 December 2008. This mortgage facility is for 90% of the cost of the lease. As at 31 December 2012 the balance repayable on the mortgage stood at £2,928,334 (2011: £3,494,167).

The loan is secured by a legal charge over the property. Repayment of the principal is being made in 20 quarterly instalments, which commenced three months after the drawdown of the £4,725,000 in November 2008. The repayment instalments are calculated on the basis of a 10 year amortising facility.

### (iii) Europe India Gateway (EIG) submarine cable system

The EIG submarine cable consortium comprises 16 telecommunications companies, including Gibtelecom. The cable is a 15,000 kilometre system connecting three continents (Europe, Africa and Asia) with 13 sea landings, including Gibraltar. Gibtelecom's investment in the project is c\$30m which equates to c4.3% ownership in the EIG consortium. The Company has funded 60% of the project costs from its own working capital, with the remaining 40% being funded by means of a loan of £8,000,000 obtained from the Royal Bank of Scotland International trading as NatWest. This loan was fully drawn down by December 2010. As at 31 December 2012 the balance of the loan outstanding was £6,431,526 (2011: £7,133,680).

The loan is secured by various warranties and covenants. The three key covenants are that during the term of the loan:

- (a) the net tangible assets of Gibtelecom shall not be less than £20,000,000;
- (b) the ratio of EBITA to debt service liability shall not be less than 1:1; and
- (c) the ratio of Net Borrowings to EBITDA shall not be more than 1.5:1

Repayment of the principal is calculated on the basis of a 10 year amortising facility.

### (iv) Data centres

This loan was for the fourth and fifth data centres that Gibtelecom has constructed within its Mount Pleasant premises. The loan was used for carrying out the required works and fully fitting out the centres.

The Company has funded 32% of the project costs from its own working capital with the remaining 68% being funded by means of a loan of £1,300,000 obtained from The Royal Bank of Scotland International trading as NatWest on June 2011.

As at 31 December 2012 the outstanding balance of the loan was £933,720 (2011: £1,179,998).

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

Group and Company	2012 £	2011 £
<b>Mortgage finances</b>		
15/21 John Mackintosh Square	2,385,455	2,836,606
Mount Pleasant	2,362,502	2,881,014
<b>Bank borrowings</b>		
Europe India Gateway (EIG) submarine cable system	5,673,306	6,501,163
Data Centres	678,406	937,198
	<b>11,099,669</b>	<b>13,155,981</b>

### Maturity profile of bank loans

The maturity profile of the carrying amount of the bank loans falling due after more than one year at 31 December was as follows:

Group and Company	2012 £	2011 £
In more than one year but not more than two years	2,000,566	1,885,300
In more than two years but not more than five years	6,937,441	9,377,861
In more than five years	2,161,662	1,892,820
	<b>11,099,669</b>	<b>13,155,981</b>

See note 16 for the carrying amount of the bank loans falling due within one year at 31 December 2012.

## 18 Provisions for liabilities and charges

Group and Company	Corporate restructuring costs (i) £	Deferred tax provision (ii) £	Total £
At 1 January 2012	-	444,162	444,162
Deferred tax asset reclassified to provisions	-	(260,838)	(260,838)
Charged to the profit and loss account	1,741,561	627,065	2,368,626
<b>31 December 2012</b>	<b>1,741,561</b>	<b>810,389</b>	<b>2,551,950</b>

### (i) Corporate restructuring costs

As part of an internal restructure, the Company initiated a further corporate restructuring programme that offered current employees a voluntary separation package. At the balance sheet date, the Company had formally announced the voluntary separation programme and had received interest from numerous employees. After completing an initial assessment, a total of 13 employees were offered the redundancy package. As at 31 December 2012, the restructuring costs are estimated to be £1,741,561 and have been fully provided for and are expected to be fully utilised by 31 December 2013.

## 18 Provisions for liabilities and charges - continued

### (ii) Deferred tax provision

Group and Company	2012 £	2011 £
At 1 January	444,162	1,139,442
Deferred tax asset reclassified to provisions	(260,838)	-
Charged to the profit and loss account (see note 9)	627,065	(695,280)
<b>At 31 December</b>	<b>810,389</b>	<b>444,162</b>

A deferred tax asset was disclosed under debtors (note 15) for the year ended 31 December 2011. This has been moved to the provisions for liabilities and charges balance for the year ended 31 December 2012 to more appropriately reflect the deferred tax position of the Company.

	Group 2012 £	2011 £	Company 2012 £	2011 £
<b>Provision for deferred tax comprises:</b>				
Accelerated capital allowances	1,025,310	444,162	1,025,310	444,162
Other timing differences	(214,921)	-	(285,126)	-
<b>Deferred tax provision excluding that relating to pension liability</b>	<b>810,389</b>	<b>444,162</b>	<b>740,184</b>	<b>444,162</b>
Deferred tax asset on pension liability (note 25)	(1,725,000)	(1,357,200)	(1,725,000)	(1,357,200)
<b>Total provision for deferred tax</b>	<b>(914,611)</b>	<b>(913,038)</b>	<b>(984,816)</b>	<b>(913,038)</b>

## 19 Called up share capital

Group and Company	2012 £	2011 £
<b>Authorised, issued and fully paid</b>		
7,500 A ordinary shares of £1 each	7,500	7,500
7,500 B ordinary shares of £1 each	7,500	7,500
	<b>15,000</b>	<b>15,000</b>

Following the sale of Verizon Communications; 50 per cent Class B shareholding to Telekom Slovenije D.D. in April 2007, the shareholders are considering a new Joint Venture Agreement. The Articles of Association provide for separate voting rights over the appointment of Directors.

## 20 Share premium account

Group and Company	2012 £	2011 £
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.

## 21 Profit and loss account

Group and Company	2012 £	Restated 2011 £
At 1 January (restated)	13,929,187	12,740,557
Profit for the financial year	6,793,842	9,198,030
Dividends (note 10)	(6,700,000)	(6,400,000)
Actuarial loss on pension schemes (note 25)	(3,046,000)	(1,814,000)
Movement on deferred tax relating to pension schemes (note 25)	367,800	204,600
<b>At 31 December</b>	<b>11,344,829</b>	<b>13,929,187</b>

## 22 Reconciliation of movements in Shareholders' funds

Group and Company	2012 £	Restated 2011 £
Profit for the financial year	6,793,842	9,198,030
Dividends	(6,700,000)	(6,400,000)
	93,842	2,798,030
Actuarial (loss)/gain on pension scheme (note 25)	(3,046,000)	(1,814,000)
Movement on deferred tax relating to pension schemes (note 18)	367,800	204,600
<b>Net (decrease)/increase to shareholders' funds</b>	<b>(2,584,358)</b>	<b>1,188,630</b>
<b>Opening shareholders' funds (restated)</b>	<b>28,929,187</b>	<b>27,740,557</b>
<b>Closing shareholders' funds</b>	<b>26,344,829</b>	<b>28,929,187</b>

## 23 Reconciliation of group operating profit to net cash flow from operating activities

	2012 £	Restated 2011 £
Group operating profit	9,039,679	11,000,576
Depreciation and amortisation charges	4,649,141	3,681,624
Tangible fixed assets adjustments	-	666,943
Gain on sale of assets	-	(30,331)
Prior period adjustment	-	(203,829)
Difference between pension charge and cash contributions	(1,445,000)	(959,000)
Increase in stocks	(1,504)	(11,925)
Increase in debtors	(787,348)	(27,982)
Increase in creditors	3,640,329	2,024,358
Increase/(decrease) in other provisions for liabilities and charges	2,037,583	(695,280)
<b>Net cash flow from operating activities</b>	<b>17,132,880</b>	<b>15,501,118</b>

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

Group and Company	2012 £	Cash flow movement £	Restated 2011 £
<b>Net cash:</b>			
Bank balances	6,849,133	1,261,864	5,587,269
Less: Bank loans (note 16 & 17)	(13,100,235)	1,908,917	(15,009,152)
	<b>(6,251,102)</b>	<b>3,170,781</b>	<b>(9,421,883)</b>

## 25 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 is reviewing the possibility of bringing the pension schemes closer together, possibly through a merger of the Funds.

### Actuarial reviews

The Gibraltar Nynex Communications Limited Staff Pension Scheme is a defined benefits pension scheme contracted out to a pension's administrator, Clerical Medical Investment Group Limited. A full actuarial valuation was carried out as at 1 August 2011 by an independent actuary and their report was presented to the Board of Directors in July 2012. The valuation indicated that the Scheme's obligations in respect of past services liabilities exceeded the value of the Scheme at that date by £4,430,500, with the level of asset cover being 76% at the valuation date. The overall Company's contribution rate was determined to be 32% of pensionable salary. Additional annual contributions of £460,000 a year for the next ten years will be paid in order to cover the remaining deficit.

The Company's total contributions to the Gibraltar Nynex Communications Limited Staff Pension Scheme for 2012 amounted to £1,745,000 (2011: £1,302,000). These contributions include exceptional payments in respect of voluntary separations, amounting in 2012 to £nil (2011: £63,000).

The GIBTEL Pension Fund is a defined benefits pension scheme. A full valuation as at 1 August 2011 was carried out by Towers Watson Limited and their report was presented to the Board of Directors in July 2012. The value of the past service liabilities exceeded the market value of the assets by £4,490,000 with the level of asset cover being 73% at the valuation date. Consequently, as recommended by the actuary, the Company decided to keep its contributions at 32% of pensionable salaries from 1 January 2012, with additional annual contributions rising to £474,626 a year for eight years, increasing annually at 5%.

The Company's total contributions to the GIBTEL Pension Fund for 2012 amounted to £780,000 (2011: £730,000). This includes the additional annual contribution made during the year which as at 31 December 2012 amounted to £474,626 (2011: £452,025).

### Financial Reporting Standard 17 'Retirement benefits'

Valuations of both schemes, for the purposes of FRS 17, were carried out at 31 December 2012 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.

## 25 Pension commitments - continued

The Directors set the major assumptions as at 31 December 2012, on the basis of actuarial advice, as set out below.

	2012	2011	2010
Rate of increase in salaries	3.1%	3.2%	3.5%
Rate of increase in pensions payment	3.0%	3.0%	3.0%
Discount rate	4.6%	5.1%	5.6%
Inflation assumption	2.6%	2.7%	3.0%
Equities rate of return	7.2%	7.7%	8.3%
Corporate bonds rate of return	4.6%	5.0%	5.5%
UK Government bonds rate of return	3.0%	2.9%	4.2%
Cash and other assets rate of return	2.4%	2.9%	4.1%
Group Pension Contract	5.3%	4.5%	5.3%

The fair value of the assets in the schemes and the expected rate of return under FRS17 valuation were:

### Gibraltar Nynex Communications Limited Staff Pension Scheme

	Long-term rate of return expected at 31 December 2012	Long-term rate of return expected at 31 December 2011	Long-term rate of return expected at 31 December 2010	Long-term rate of return expected at 31 December 2009	Long-term rate of return expected at 31 December 2008
Pension Contract	5.3%	4.5%	5.3%	5.4%	5.3%
Other net assets	2.4%	2.9%	4.1%	4.5%	3.6%

	Value at 31 December 2012 £	Value at 31 December 2011 £	Value at 31 December 2010 £	Value at 31 December 2009 £	Value at 31 December 2008 £
Pension Contract	17,077,000	14,376,000	12,737,000	10,183,000	9,332,000
Other net assets	-	-	-	25,000	27,000
Market value of assets	17,077,000	14,376,000	12,737,000	10,208,000	9,359,000
Present value of liabilities	(19,612,000)	(16,362,000)	(15,120,000)	(13,993,000)	(9,219,000)
Scheme (deficit)/surplus	(2,535,000)	(1,986,000)	(2,383,000)	(3,785,000)	140,000
Related deferred tax asset/(liability)	507,000	397,200	476,600	832,700	(37,886)
<b>Net pension (liability)/asset</b>	<b>(2,028,000)</b>	<b>(1,588,800)</b>	<b>(1,906,400)</b>	<b>(2,952,300)</b>	<b>102,114</b>

The scheme has a number of purchased annuities in respect of past retirements valued at £4,209,852 as at 31 December 2012 (2011: £4,074,736). These annuities are understood to fully match the relevant liabilities and so have been excluded from both the assets and the liabilities.

## 25 Pension commitments - continued

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

	2012 £	2011 £
Current service cost	(810,000)	(780,000)
Past service cost	-	(63,000)
<b>Total operating charge</b>	<b>(810,000)</b>	<b>(843,000)</b>

### Analysis of the amount charged to other finance costs

	2012 £	2011 £
Expected return on pension scheme assets	676,000	690,000
Interest on pension scheme liabilities	(834,000)	(848,000)
<b>Net charge</b>	<b>(158,000)</b>	<b>(158,000)</b>

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

	2012 £	2011 £
Actual return less expected return on pension scheme assets	443,000	400,000
Experience losses arising on the pension scheme liabilities	-	(8,000)
Changes in the assumptions underlying the present value of the pension scheme liabilities	(1,769,000)	(296,000)
<b>Actuarial (loss)/gain recognised in statement of group total recognised gains and losses</b>	<b>(1,326,000)</b>	<b>96,000</b>

### Movement in deficit during the year

	2012 £	2011 £
Deficit in the scheme at the beginning of the year	(1,986,000)	(2,383,000)
<b>Movement:</b>		
Current service cost	(810,000)	(780,000)
Contributions	1,745,000	1,302,000
Past service cost	-	(63,000)
Other finance cost	(158,000)	(158,000)
Actuarial (loss)/gain	(1,326,000)	96,000
<b>Deficit in the scheme at the end of the year</b>	<b>(2,535,000)</b>	<b>(1,986,000)</b>

## 25 Pension commitments - continued

### History of experience gains and losses

	2012 £	2011 £	2010 £
<b>Difference between the actual and expected return on scheme assets:</b>			
Amount	443,000	400,000	1,019,000
Percentage of scheme assets	2.6%	2.8%	8%
<b>Experience gains and losses on pension scheme liabilities:</b>			
Amount	-	(8,000)	(373,000)
Percentage of the present value of the scheme liabilities	0.0%	0.0%	(2.5)%
<b>Total amount recognised in statement of group total recognised gains and losses:</b>			
Amount	(1,326,000)	96,000	1,282,000
Percentage of the present value of the scheme liabilities	6.8%	0.6%	8.5%

### Gibtel Pension Fund

	Long-term rate of return expected at 31 December 2012	Long-term rate of return expected at 31 December 2011	Long-term rate of return expected at 31 December 2010	Long-term rate of return expected at 31 December 2009	Long-term rate of return expected at 31 December 2008
Equities	7.2%	7.7%	8.3%	8.5%	8.4%
Corporate bonds	4.6%	5.0%	5.5%	5.7%	6.3%
UK Government bonds	3.0%	2.9%	4.2%	4.5%	4.0%
Cash and other assets	2.4%	2.9%	4.1%	4.5%	3.6%

	Value at 31 December 2012 £	Value at 31 December 2011 £	Value at 31 December 2010 £	Value at 31 December 2009 £	Value at 31 December 2008 £
Equities	7,593,000	6,192,000	5,899,000	5,120,000	4,850,000
Corporate bonds	2,712,000	2,338,000	2,982,000	2,206,000	1,637,000
UK Government bonds	1,260,000	1,073,000	858,000	984,000	433,000
Cash and other assets	1,225,000	1,897,000	1,961,000	2,140,000	1,880,000
Market value of assets	12,790,000	11,500,000	11,700,000	10,450,000	8,800,000
Present value of liabilities	(18,880,000)	(16,300,000)	(15,080,000)	(14,610,000)	(12,590,000)
Scheme deficit	(6,090,000)	(4,800,000)	(3,380,000)	(4,160,000)	(3,790,000)
Related deferred tax asset	1,218,000	960,000	676,000	915,200	1,023,300
<b>Net pension liability</b>	<b>(4,872,000)</b>	<b>(3,840,000)</b>	<b>(2,704,000)</b>	<b>(3,244,800)</b>	<b>(2,766,700)</b>

## 25 Pension commitments - continued

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

	2012 £	2011 £
Current service cost	(270,000)	(230,000)
<b>Total operating charge</b>	<b>(270,000)</b>	<b>(230,000)</b>

### Analysis of the amount charged to other finance costs

	2012 £	2011 £
Expected return on pension scheme assets	730,000	820,000
Interest on pension scheme liabilities	(810,000)	(830,000)
<b>Net charge</b>	<b>(80,000)</b>	<b>(10,000)</b>

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

	2012 £	2011 £
Actual return less expected return on pension scheme assets	-	(1,170,000)
Experience gains/(losses) arising on pension scheme liabilities	330,000	(280,000)
Changes in the assumptions underlying the present value of the pension scheme liabilities	(2,050,000)	(460,000)
<b>Actuarial loss recognised in statement of group total recognised gains and losses</b>	<b>(1,720,000)</b>	<b>(1,910,000)</b>

### Movement in deficit during the year

	2012 £	2011 £
Deficit in the scheme at the beginning of the year	(4,800,000)	(3,380,000)
<b>Movement:</b>		
Current service cost	(270,000)	(230,000)
Contributions	780,000	730,000
Other finance cost	(80,000)	(10,000)
Actuarial loss	(1,720,000)	(1,910,000)
<b>Deficit in the scheme at the end of the year</b>	<b>(6,090,000)</b>	<b>(4,800,000)</b>

## 25 Pension commitments - continued

### History of experience gains and losses

	2012 £	2011 £	2010 £
<b>Difference between the actual and expected return on scheme assets:</b>			
Amount	-	(1,170,000)	210,000
Percentage of scheme assets	-	(10.2)%	1.8%
<b>Experience gains on pension scheme liabilities:</b>			
Amount	330,000	(280,000)	-
Percentage of the present value of the scheme liabilities	2.6%	(1.7)%	-
<b>Total amount recognised in statement of group total recognised gains and losses:</b>			
Amount	(1,720,000)	(1,910,000)	330,000
Percentage of the present value of the scheme liabilities	(9.1)%	(11.7)%	2.2%

### Deferred tax and closing liability – cumulative

<b>Group and Company</b>	2012 £	2011 £
Deficit in the Gibtel pension fund	(6,090,000)	(4,800,000)
Deficit in the Gibraltar Nynex Communications Limited Staff Pension Scheme	(2,535,000)	(1,986,000)
<b>Total deficit</b>	<b>8,625,000</b>	<b>6,786,000</b>
Deferred tax at 20% (note 18)	(1,725,000)	(1,357,200)
<b>Pension liability</b>	<b>6,900,000</b>	<b>5,428,800</b>

## 26 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. These amounts are settled on their due dates.

As at 31 December 2012, the Company owed the Government of Gibraltar amounts in respect of Corporation Tax based on its profits. As a result of the effect of the tax adjustments as disclosed in note 9, the Company had a corporation tax liability of £190,090 (2011: £714,412) as at 31 December 2012.

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. The Company also pays licence fees to the Gibraltar Regulatory Authority (GRA). The licence fee for their period 2012/13 was £912,394 (2011/12 £389,018) of which £412,394 was paid in 2012 and the remaining instalment of £500,000 was paid in 2013.

The Directors also consider Telekom Slovenije D.D. of Slovenia to be a related party by virtue of its 50% interest in the share capital of Gibtelecom.

Gibtelecom has an agreement with Telekom Slovenije D.D., to purchase technical support and services on an arms length commercial basis from its mobile arm, Mobitel, as and when utilised. Total fees accrued for these services in 2012 amounted to £6,000 (2011: £5,600).

The amounts of the balances due to and from the Government are shown below.

<b>Group and Company</b>	2012 £	Restated 2011 £
<b>Amounts due to/(from) the Government</b>		
Corporation tax payable (note 16)	190,090	738,451
Corporation tax - debtor (note 16)	-	(24,039)
<b>PAYE and social insurance (note 16)</b>	<b>184,278</b>	<b>207,239</b>
	<b>374,368</b>	<b>921,651</b>

## 27 Capital commitments

At 31 December 2012 the Company had ongoing commitments for capital expenditure of £2,014,000 (2011: £1,818,100). The capital budget for 2013 is £3,900,000 (2012: £4,760,000).

## 28 Financial commitments

The Company had annual commitments in respect of properties under contractual operating leases expiring as set out below:

	2012 £	2011 £
Within one year	154,902	-
Within two to five years	62,586	77,200
After five years	109,840	246,900
	<b>327,328</b>	<b>324,100</b>

## 29 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.

## 30 Subsequent events

The Haven building was built in 1972 and Gibtelecom, and its predecessors, have occupied the fourth floor of this building since inception. This building is located adjacent to its headquarters at 15/21 John Mackintosh Square from which the fourth floor can be accessed.

An agreement was reached with the Government of Gibraltar during 2012 for the purchase of this building for £5,800,000. A loan facility agreement for £3,600,000 was agreed with The Royal Bank of Scotland International Limited trading as NatWest on 19 December 2012. Both the purchase and the loan agreement are expected to be finalised before the end of the financial year 2013.

# Gibtelecom

Gibtelecom,  
15/21 John Mackintosh Square,  
PO Box 929, Gibraltar

T: +350 20052200

E: [info@gibtele.com](mailto:info@gibtele.com)

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



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