

**GIBTELECOM LIMITED**  
**CONSOLIDATED ANNUAL REPORT**  
**31 DECEMBER 2016**

# **GIBTELECOM LIMITED**

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**GIBTELECOM LIMITED**  
**DIRECTORS AND OTHER INFORMATION**

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**Directors:**

Fabian Picardo  
Adrian Moreno  
Sir Joe Bossano  
Albert Mena

Chairman  
Chief Operating Officer

**Registered office:**

15/21 John Mackintosh Square  
Gibraltar

**Secretary:**

Francis Brancato  
15/21 John Mackintosh Square  
Gibraltar

**Auditor:**

Deloitte Limited  
Merchant House  
22/24 John Mackintosh Square  
Gibraltar

## GIBTELECOM LIMITED

### DIRECTORS' REPORT

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The Directors present their report, business review and the audited consolidated financial statements for the year ended 31 December 2016 for Gibtelecom Limited ("Gibtelecom" or the "Company") and its subsidiaries (together the "Group").

The Company 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 its subsidiary company, Gibraltar Telecommunications International (Gibtel), whose assets and liabilities had been transferred to the Company, was struck off having been a non-trading subsidiary following its acquisition by GNC in September 2001. In August 2016 a new wholly owned subsidiary company, Rockolo Limited, was established to handle the Group's data centre business at arm's length from the Company and began trading in 2017. In March 2017 another subsidiary company, Zinnia Limited, was established to invest in and oversee a new MVNO (Mobile Virtual Network Operator) - Lobster - the all in English mobile in Spain. Gibconnect Limited, the former internet service provider subsidiary, continues to remain a nominal non-trading company.

#### **Principal Activities**

Gibtelecom is registered in Gibraltar and is authorised under the Gibraltar Communications Act 2006 to provide various communication services. The Group's principal activities are the provision of fixed line, mobile, broadband and various business enterprise services, together with the supply of communications equipment in Gibraltar. The Group is also a provider of data centre services in Gibraltar and a global communications carrier, through its ownership investment in submarine fibre optic cables and several technical points of presence in Europe.

#### **Business review**

##### Gibraltar

The delivery of quality communication services, backed up with the Group's continuing investment in technology and infrastructure, has been at the forefront of Gibtelecom's activities throughout 2016. Following the completion of the fixed line Superswift broadband roll out programme, subscribers are now able to access fixed line broadband speeds of up to 100Mbps, well ahead of the EU "Digital Agenda" for broadband speeds and coverage. The ADSL internet network, which had served the Group well since it launched broadband services in 2002 has now been decommissioned, with customers subscribing to the lower broadband speeds automatically upgraded at no extra cost to them.

The Group provides fibre to various nodes around Gibraltar meaning that no building is further than a few hundred metres away from a fibre node. In addition the Group's fibre network is being extended with all new premises being pre-wired with fibre as part of a wider rollout programme. This technology will eventually facilitate offering fixed broadband speeds to the domestic consumer that are substantially higher than those currently available in the local market.



## **GIBTELECOM LIMITED**

### **DIRECTORS' REPORT**

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Nevertheless, despite several initiatives like the 'Go double' and 'Monster bundle' offerings designed to simulate broadband connections by rewarding residential customers loyalty, the Group's share of the broadband market fell to c75% by the end of 2016 from an estimated 90% at the beginning of the year. This is as a result of two competitors entering the market with bundled triple play (broadband, voice and TV).

In contrast, Gibtelecom's mobile revenues and customer base continue to grow, mainly as a result of the positive impact of the introduction of 4G+ services and its recent upgrades allowing for download speeds of up to 300Mbps and improved indoor penetration. The Group's three new mobile "mini"; "midi" and "maxi" plans proved popular with customers, increasing the use of smart devices and stimulating data usage.

Ahead of the European Commission timeline for the abolition of roaming surcharges in Europe, Gibtelecom introduced its "Roam like at home" tariffs on 1 June 2017, abolishing roaming surcharges for customers using their phones in the UK and Spain, as well as other European Economic Area (EEA) countries. Following customer feedback, data roaming outside the EEA has also now been opened up to mobile users by default, albeit advisory text messages are sent to consumers on their data consumption and unless they have otherwise advised, their spending is capped at c£50 a month.

During 2016 the Group kick-started project "Succeed". A three-year initiative to replace Gibtelecom's legacy voice exchanges with an IP Multimedia Subsystem (IMS) based infrastructure. This technology allows the Group to seamlessly continue serving fixed voice customers, whilst simultaneously providing the capabilities to extend traditional voice calling to fibre-only dwellings. Additionally, this investment in IMS will allow Gibtelecom to introduce native voice over 4G, with customers then being able to make and receive voice calls, in HD, without interrupting the streaming of data. The year 2016 also saw numerous improvements in the supporting ICT (information and communications technology) infrastructure, including preparatory work to leverage Gibtelecom's mobile technology to support an overseas MVNO. The Group also focused on improving the customer-facing experience with the launch of a new website designed to allow customers to apply for all Gibtelecom services from their home; purchase mobile phones and have them delivered, and as well as to get technical support and advice.

Data centre hosting revenues continue to increase year-on-year driven by new customer contracts in the new state-of-the-art facility at the World Trade Center which opened in early 2017. This follows the creation of a subsidiary Company, Rockolo Limited, to run the Group's data centre hosting business at arm's length from the main Company. Rockolo will be able to better tailor its products to meet customers' evolving needs and requirements, including rolling out new services and other facilities in due course. The Company now has some 1600m<sup>2</sup> of facilities at two locations in different parts of Gibraltar, providing clients with much sought after local geographical redundancy and Payment Card Industry (PCI) standards. Additional data hosting facilities are scheduled to be provided at the soon to be refurbished Haven building; these premises will also house Gibtelecom's new dedicated technology centre designed to host a multitude of services and platforms, with the medium-term plan of building resiliency to equipment hosted in the adjoining City Hall and Mount Pleasant site.

# GIBTELECOM LIMITED

## DIRECTORS' REPORT

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### Statement of directors' responsibilities

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the profit or loss of the Group for that year and which comply with the Gibraltar Companies Act, 2014.

Under that law the Directors have elected to prepare the financial statements in accordance with applicable law in Gibraltar and Gibraltar Financial Reporting Standards ("Gibraltar Generally Accepted Accounting Practice"). In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments 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 Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements and that Gibraltar Financial Reporting 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 enable them to ensure that the financial statements comply with applicable law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditor

The retiring auditor, Deloitte Limited, has been reappointed by the Company's Annual General meeting.

### By order of the Board

  
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Company Secretary

28 MAR 2019

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF GIBTELECOM LIMITED**

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**Report on the audit of the consolidated financial statements**

**Opinion**

In our opinion the consolidated financial statements of Gibtelecom Limited ("the Company") and its subsidiaries (together the "Group"):

- give a true and fair view of the state of affairs of the Group and Company as at 31 December 2016 and the Group's profit for the year then ended;
- have been properly prepared in accordance with Gibraltar Generally Accepted Accounting Practice including Gibraltar Financial Reporting Standard 102; and
- have been prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of other comprehensive income;
- the balance sheet;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law in Gibraltar and Gibraltar Accounting Standards, including Gibraltar Financial Reporting Standard 102 (Gibraltar Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF GIBTELECOM LIMITED (continued)**

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**Responsibilities of directors**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with applicable law in Gibraltar and Gibraltar Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF GIBTELECOM LIMITED (continued)**

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#### **Report on other legal and regulatory requirements**

##### **Opinions on other matters prescribed by the Companies Act 2014**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the requirements of the Companies Act 2014.

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

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

We have nothing to report in respect of the matter where the Companies Act 2014 requires us to report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

##### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Section 257 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Reshma Bhambhwani (Statutory Auditor)**  
**For and on behalf of Deloitte Limited**  
**Statutory Auditor**  
**Merchant House**  
**22/24 John Mackintosh Square**  
**Gibraltar**

**29 March 2019**

**GIBTELECOM LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

		2016 £	2015 £
	Notes		
<b>TURNOVER</b>	2	41,484,339	41,653,628
<b>OPERATING EXPENSES</b>			
Technical and infrastructure		(6,706,354)	(6,287,700)
Operational charges	7	(5,963,855)	(6,074,443)
Payments to telecommunications administrators		(1,826,505)	(2,152,989)
Staff costs	3	(9,424,215)	(9,622,407)
Corporate restructuring costs	18	(145,194)	(86,170)
Depreciation	11	(5,348,912)	(5,228,896)
EIG Submarine Cable amortisation	13	(1,481,460)	(1,427,644)
<b>Total operating expenses</b>		<b>(30,896,495)</b>	<b>(30,880,249)</b>
<b>Group operating profit</b>		<b>10,587,844</b>	<b>10,773,379</b>
Gain on disposal of tangible fixed assets		21,580	-
Interest receivable on bank deposits		11,154	11,112
Interest payable and similar charges	8	(470,797)	(540,380)
Finance cost	22	(310,000)	(446,000)
<b>Profit on ordinary activities before taxation</b>		<b>9,839,781</b>	<b>9,798,111</b>
Tax on profit on ordinary activities	9	(1,371,862)	(1,632,016)
<b>Profit on ordinary activities after taxation</b>		<b>8,467,919</b>	<b>8,166,095</b>

There have been no discontinued activities or acquisitions in the current or preceding year and there are no recognised gains and losses other than as disclosed above.

The Company's own profits are the same as the Group's profits as its subsidiaries as at 31 December 2016, Gibconnect Limited and Rockolo Limited, were non-trading.

The notes on pages 15 to 42 form part of these financial statements.

**GIBTELECOM LIMITED**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

		2016 £	2015 £
	Notes		
<b>Profit for the financial year</b>		8,467,919	8,166,095
Remeasurement (loss)/gain recognised in other comprehensive income	22	(2,613,000)	3,158,000
Movement in deferred tax relating to pension liability	9	348,950	(755,000)
<b>Total other comprehensive income for the year</b>		<u>6,203,869</u>	<u>10,569,095</u>

The notes on pages 15 to 42 form part of these financial statements.



**GIBTELECOM LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2016**

		<b>Group</b>		<b>Company</b>	
	<b>Notes</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>FIXED ASSETS</b>					
Tangible fixed assets	11	31,626,232	31,760,231	31,626,232	31,760,231
Investments	12	-	-	8,000	4,000
EIG submarine cable	13	12,098,626	13,580,086	12,098,626	13,580,086
		<u>43,724,858</u>	<u>45,340,317</u>	<u>43,732,858</u>	<u>45,344,317</u>
<b>CURRENT ASSETS</b>					
Stocks	14	1,081,365	947,932	1,081,365	947,932
Debtors					
- due within one year	15	11,516,220	10,585,566	11,516,220	10,585,566
- due after one year	15	605,542	675,964	605,542	675,964
Cash at bank and in hand		6,050,954	6,021,249	6,050,954	6,021,249
		<u>19,254,081</u>	<u>18,230,711</u>	<u>19,254,081</u>	<u>18,230,711</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	16	(9,251,160)	(9,209,711)	(9,259,160)	(9,213,711)
<b>Net current assets</b>		<u>10,002,921</u>	<u>9,021,000</u>	<u>9,994,921</u>	<u>9,017,000</u>
<b>Total assets less current liabilities</b>		<u>53,727,779</u>	<u>54,361,317</u>	<u>53,727,779</u>	<u>54,361,317</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	17	(11,688,001)	(13,865,493)	(11,688,001)	(13,865,493)
<b>PROVISIONS FOR LIABILITIES</b>	18	(11,724,064)	(10,383,979)	(11,724,064)	(10,383,979)
<b>NET ASSETS</b>		<u>30,315,714</u>	<u>30,111,845</u>	<u>30,315,714</u>	<u>30,111,845</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	19	15,000	15,000	15,000	15,000
Share premium account	19	14,985,000	14,985,000	14,985,000	14,985,000
Profit and loss account		15,315,714	15,111,845	15,315,714	15,111,845
<b>Equity shareholders' funds</b>		<u>30,315,714</u>	<u>30,111,845</u>	<u>30,315,714</u>	<u>30,111,845</u>

Approved by the Board on 28 MAR 2019

.....  
**Director**

.....  
**Director**

The notes on pages 15 to 42 form part of these financial statements.



**GIBTELECOM LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**AS AT 31 DECEMBER 2016**

	<b>Called up share capital £</b>	<b>Share premium account £</b>	<b>Profit and loss account £</b>	<b>Total £</b>
As at 1 January 2015	15,000	14,985,000	10,542,750	25,542,750
Profit for the financial year	-	-	8,166,095	8,166,095
Dividends	-	-	(6,000,000)	(6,000,000)
Retained profit for the financial year	15,000	14,985,000	12,708,845	27,708,845
Remeasurement gain recognised in other comprehensive income (note 22)	-	-	3,158,000	3,158,000
Movement on deferred tax relating to pension schemes (note 15)	-	-	(755,000)	(755,000)
As at 31 December 2015	15,000	14,985,000	15,111,845	30,111,845
As at 1 January 2016	15,000	14,985,000	15,111,845	30,111,845
Profit for the financial year	-	-	8,467,919	8,467,919
Dividends	-	-	(6,000,000)	(6,000,000)
Retained profit for the financial year	15,000	14,985,000	17,579,764	32,579,764
Remeasurement loss recognised in other comprehensive income (note 22)	-	-	(2,613,000)	(2,613,000)
Movement on deferred tax relating to pension schemes (note 15)	-	-	348,950	348,950
As at 31 December 2016	15,000	14,985,000	15,315,714	30,315,714

The notes on pages 15 to 42 form part of these financial statements.

**GIBTELECOM LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016 £	2015 £
Group operating profit	10,587,844	10,773,379
Depreciation and amortisation charges	6,830,372	6,655,540
Difference of pension charge and cash contributions	(2,061,150)	(1,063,200)
(Increase)/decrease in stocks	(133,433)	(40,953)
(Increase)/decrease in debtors	(511,282)	765,731
Increase/(decrease) in creditors	862,093	378,648
Decrease in other provisions for liabilities and charges	115,686	86,170
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>15,690,130</b>	<b>17,555,315</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received	11,154	11,112
Interest paid	(538,013)	(548,084)
<b>Net cash outflow from return on investments and servicing of finance</b>	<b>(526,859)</b>	<b>(536,972)</b>
<b>CORPORATION TAX PAID</b>	<b>(1,994,393)</b>	<b>(1,169,978)</b>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS</b>		
Sale of tangible fixed assets	1,310	108,424
Payments to acquire tangible fixed assets	(5,220,224)	(6,659,509)
<b>Net cash outflow for capital expenditure and financial investments</b>	<b>(5,218,914)</b>	<b>(6,551,085)</b>
<b>EQUITY DIVIDENDS PAID</b>	<b>(6,000,000)</b>	<b>(6,000,000)</b>
<b>FINANCING</b>		
Repayment of bank borrowings	(1,920,259)	(1,464,161)
<b>Net cash outflow from financing</b>	<b>(1,920,259)</b>	<b>(1,464,161)</b>
<b>Increase in cash at bank and in hand</b>	<b>29,705</b>	<b>1,833,119</b>

The notes on pages 15 to 42 form part of these financial statements.

**GIBTELECOM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**1. ACCOUNTING POLICIES**

These financial statements have been prepared under the historical cost convention and in accordance with the accounting policies set out below, applicable legislation and Gibraltar Financial Reporting Standard 102 ("GFRS 102"), which is based on the United Kingdom Financial Reporting Standards.

Gibtelecom Limited is a company incorporated in Gibraltar. As a communications business, the Company operates mobile, broadband and fixed networks in Gibraltar, providing a range of voice and data services and business enterprise products including data centres. The Company also operates a global fibre optic network, with points of presence in several European cities.

Gibraltar legislation applied in the preparation of these financial statements is the Companies Act 2014. The functional currency of Group is considered to be pounds sterling because that is the currency of the primary economic environment in which the Group operates, albeit the Group carries out transactions in Euros and United States dollars.

A summary of the significant 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 subsidiaries, Gibconnect Limited and Rockolo Limited, as at 31 December 2016. In accounting for its shareholding in its non-trading subsidiaries, the Company 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 288(2) of the Companies Act 2014, as Gibconnect Limited and Rockolo Limited are not currently trading and have a nominal value. Rockolo Limited began trading from 1 January 2017.

**Going concern**

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Turnover**

Turnover represents the amounts billed for various domestic and international 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.

Revenue in respect of global wholesale carrier contracts is accounted for in the period in which the services are provided.

Equipment rentals and data centre charges are recognised as income over the period to which the charges relate.

**GIBTELECOM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**1. ACCOUNTING POLICIES (continued)**

**Foreign currencies**

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

**Operating leases**

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

**Provision for doubtful debts**

Provision is made for all customer billed communications debts 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 comprises cost of equipment and materials, including freight, charges for installation and building works) less accumulated depreciation and any provision for impairment. 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.

Tangible fixed assets are depreciated to their residual value in equal annual instalments over their estimated useful lives on a straight-line basis. The annual rates applied are set out below.

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 buildings	2%

The freehold land and building relates to the Company's premises at 15/21 John Mackintosh Square. The leasehold buildings held by the Company relate to the 49 years leasehold property at Mount Pleasant and the 150 years leasehold Haven property in John Mackintosh Square.

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

**GIBTELECOM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**1. ACCOUNTING POLICIES (continued)**

**Impairment**

Financial assets are subject to impairment review in accordance with GFRS 102 Section 27 'Impairment of assets' if there are events or changes in circumstances that indicate that their carrying amount exceeds their recoverable amount. 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.

**Submarine cable**

The Europe India Gateway (EIG) submarine cable system in which Gibtelecom has an ownership interest, is recognised as a prepayment in the balance sheet. This investment is amortised equally over the estimated useful life of the cable.

Payments received as a result of onward sales of EIG 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 year end under GFRS 102 Section 28 'Employee Benefits'.

The pension schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustees administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at a rate determined by reference to market yields on high quality corporate bonds of a currency and term consistent with those of the scheme liabilities. The actuarial valuations are obtained triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, gross of the related deferred tax, is presented within 'provisions for liabilities' on the face of the balance sheet.

The pension cost for the schemes is determined by the actuaries who analyse the current and past service costs, together with gains and losses on settlements and curtailments. These costs are included as part of staff costs. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service cost is the actuarially calculated adjustment in the present value of scheme liabilities related to employee service in prior periods arising in the current period as a result of the guaranteed retirement benefits. Past services costs are recognised immediately in the profit and loss account.

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**1. ACCOUNTING POLICIES (continued)**

**Pension schemes (continued)**

The net interest cost on the net defined benefit liability is shown within finance costs in the profit and loss account.

The actuarial gains or losses, which arise from an end of year actuarial valuation report prepared in accordance with GFRS 102, to reflect conditions at the balance sheet date, are taken to other comprehensive income.

**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. A provision is made where necessary for obsolete, slow moving or defective stocks.

**Debtors**

Trade 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.

**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 the service provided. Prepayments are disclosed within debtors in the financial statements with the exception of the non-current portion of the EIG submarine cable prepayment.

**Creditors**

Trade 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 creditors are measured at amortised cost using the effective interest method.

**Provision for corporate restructuring costs**

Termination benefits are payable when employment is ceased by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for such termination benefits. The Company recognises termination benefits when it is demonstrably committed to a termination through having a formal plan to cease the employment of extant employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancies, 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 original maturities of three months or less.

**GIBTELECOM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

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**1. ACCOUNTING POLICIES (continued)**

**Current taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not been reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences between the taxable profits and the results, as stated in the financial statements arise from the inclusion of gains and losses in tax assessments in periods different from those which are recognised in the financial statements.

The tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

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

Deferred tax is measured on a non-discounted basis.

**2. SEGMENTAL REPORTING**

Gibtelecom's sole activity is the provision of various communications and related services. The table below shows how Gibtelecom's turnover has been derived split by the main areas of the business.

<b>Group and Company</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Wireless	12,895,845	12,360,940
Fixed line rentals and voice	6,513,779	6,955,698
Fixed Broadband	4,938,728	5,179,370
National circuits	2,067,616	1,963,115
International circuits	11,466,170	11,609,576
Data Centres	2,834,916	2,672,710
Miscellaneous	767,285	912,219
	<u>41,484,339</u>	<u>41,653,628</u>

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**3. STAFF COSTS**

<b>Group and Company</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Wages and salaries	7,630,922	7,543,757
Social security costs	265,467	269,232
Pension costs	1,527,826	1,809,418
	<u>9,424,215</u>	<u>9,622,407</u>

Pension costs are calculated by the actuary in line with FRS102 to show the calculated current and past service costs of the schemes. The total current costs in 2016 were £1,402,000 (2015: £1,554,000). The difference to the figures reported above reflects other pension charges/credits effected by Gibtelecom.

In order to calculate what relates only to current year pension costs, the actuaries take into account the cash contributions effected during the year.

The total remuneration for key management personnel (19) comprising company, directorate and departmental leaders (note 4) for the year totalled £2,207,197 (2015: £2,054,483). This remuneration includes salaries, allowances, pension costs and any other allowances and benefits.

**4. EMPLOYEE INFORMATION**

The number of persons employed by Gibtelecom during the year is set out below under the various directorate responsibilities, with the comparative numbers for the prior year.

<b>Group and Company</b>	<b>As At 31 December</b>		<b>Average for the year</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
<b>By Directorate</b>				
<b>Chief Executive Officer and Chief Operations Officer:</b>				
Corporate & Regulatory; Finance; Human Resources and support staff	17	18	16	18
<b>Director Technology:</b>				
Voice Services; Transport Networks; Technical Facilities; Networks Operation Centre; Mobile Radio; Information Technology; Information Systems, Enterprise Services & Data Centres and Broadband Networks	62	57	60	58
<b>Director Customer Operations:</b> External Plant; Buildings & Stores; and Customer Services	66	67	66	68
<b>Director Global Business:</b> Marketing and Business Development	10	11	11	11
<b>Total</b>	<u>155</u>	<u>153</u>	<u>153</u>	<u>155</u>



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**5. DIRECTORS' EMOLUMENTS**

The Directors of Gibtelecom did not receive emoluments from the Company for their services as directors during the year (2015: £nil). One Director receives emoluments in his capacity as the Chief Executive Officer of the Company and under the provisions of the Companies Act 2014 [Schedule 16, paragraph 4], these emoluments are not disclosed, but are included in the total remuneration paid to key management (note 3).

**6. IMPAIRMENT OF HAVEN BUILDING**

Two valuations of the Haven building were performed during the year ended 31 December 2014 by independent third party surveyors, yielding a highest value of £5,200,000 and it is not considered this would increase pending the redevelopment. The carrying value of the building on a cost basis as at 31 December 2014 was £6,181,355, and consequently the building value was impaired for the difference between these two amounts.

As at 31 December 2016, redevelopment of the building is still in the planning stage and the building is being carried at £5,200,000.

**7. OPERATING CHARGES**

<b>Group and Company</b>	<b>2016 £</b>	<b>2015 £</b>
<b>Included in operational charges are:</b>		
Operating lease charges on rented properties	298,927	330,315
Foreign exchange (gain)/loss	(136,867)	(3,781)

**8. INTEREST PAYABLE**

<b>Group and Company</b>	<b>2016 £</b>	<b>2015 £</b>
Interest payable on mortgage financing and bank loans	470,797	540,380

**GIBTELECOM LIMITED**  
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**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**a) Analysis of charge for the year**

<b>Group and Company</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Current tax:</b>		
Gibraltar corporation tax on profit for the year	(1,557,212)	(1,704,081)
Over provision from previous years	-	86,144
	<u>(1,557,212)</u>	<u>(1,617,937)</u>
<b>Deferred tax:</b>		
Deferred tax movement on capital allowances (see note 18)	185,350	(14,079)
<b>Tax on profit on ordinary activities</b>	<u>(1,371,862)</u>	<u>(1,632,016)</u>
<b>Total current and deferred tax relating to Other Comprehensive Income</b>	<u>348,950</u>	<u>(755,000)</u>

**b) Factors affecting tax charge for the year**

The standard rate of Gibraltar corporation tax is 10%. However utility providers, fuel suppliers and companies that enjoy a dominant position are required to pay a higher rate of 20%. Gibtelecom's activities are split between telecommunication activities and non- telecommunication activities. Telecommunication activities are subject to taxation at a higher rate of 20% given that this business is classified as a utility. Non-telecommunication activities are subject to the standard rate of taxation at 10%.

<b>Group and Company</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Profit on ordinary activities before taxation	9,839,781	9,798,111
Corporation tax	<u>1,967,956</u>	<u>1,959,622</u>
<b>Effects of:</b>		
Permanent timing differences (i)	618	(2,214)
Pension cost contribution in excess of net pension cost charge (ii)	(203,600)	(123,400)
Capital allowances in excess of depreciation (iii)	(190,229)	158,466
Separation of non-telecommunication activities (iv)	371,828	-
Development aid (v)	<u>(389,361)</u>	<u>(288,393)</u>
<b>Gibraltar corporation tax on profit for the year</b>	<u>1,557,212</u>	<u>1,704,081</u>

**GIBTELECOM LIMITED**  
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**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 and 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 GFRS 102 actuarial valuations.

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

The capital allowances in excess of depreciation represent the difference between the written down allowances taken by the Group for tax purposes and the depreciation reflected in the financial statements under GFRS 102 'Property, Plant and Equipment'.

**(iv) Separation of non-telecommunication activities**

This represents the separation of data centre income which is charged at a lower rate.

**(v) Development aid**

This represents any development aid allowances that can be set off against corporation tax. In respect of the Group these are currently for works carried out on the development of the John Mackintosh Square premises and the investment in the EIG submarine cable system.

**10. DIVIDENDS**

	<b>Pence per share</b>	<b>2016 £</b>	<b>Pence per share</b>	<b>2015 £</b>
Final dividend paid in respect of the prior year	166.67	2,500,000	160.00	2,400,000
Interim dividend paid in respect of the current year	233.33	3,500,000	240.00	3,600,000
	<u>400.00</u>	<u>6,000,000</u>	<u>400.00</u>	<u>6,000,000</u>

A final dividend of £2,500,000 for the financial year 2016 was approved by the Board of Directors, with the payment effected on 21 March 2017. Following the requirements of GFRS 102 'Events after the End of the Reporting Period' this dividend will be reflected in the 2017 financial statements.

**GIBTELECOM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
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**11. TANGIBLE FIXED ASSETS**

<b>Group and Company</b>	<b>Assets under construction/delivery £</b>	<b>Freehold land and building £</b>	<b>Leasehold land and building £</b>	<b>Plant and equipment £</b>	<b>Furniture, office equipment and software £</b>	<b>Motor vehicles £</b>	<b>Total £</b>
<b>Cost</b>							
At 1 January 2016	2,878,279	5,147,915	11,661,911	57,146,975	2,274,697	654,213	79,763,990
Additions	4,659,357	-	556,866	5,947,124	114,462	57,994	11,335,803
Transferred on completion	(6,119,581)	-	-	-	-	-	(6,119,581)
Disposals	-	-	-	-	-	(88,795)	(88,795)
At 31 December 2016	1,418,055	5,147,915	12,218,777	63,094,099	2,389,159	623,412	84,891,417
<b>Accumulated depreciation</b>							
At 1 January 2016	-	616,603	1,768,627	43,441,372	1,775,160	401,997	48,003,759
Charge for the year	-	102,926	110,435	4,783,327	247,717	104,507	5,348,912
Disposals	-	-	-	-	-	(87,486)	(87,486)
At 31 December 2016	-	719,529	1,879,062	48,224,699	2,022,877	419,018	53,265,185
<b>Net book value</b>							
At 31 December 2016	1,418,055	4,428,386	10,339,715	14,869,400	366,282	204,394	31,626,232
At 31 December 2015	2,878,279	4,531,312	9,893,284	13,705,603	499,537	252,216	31,760,231

**GIBTELECOM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**11. TANGIBLE FIXED ASSETS (continued)**

**(i) Assets under construction/delivery**

Assets under construction/delivery represent payments towards the development and expansion of the Group's technology facilities and the costs of the ongoing upgrade of the mobile system.

**(ii) Assets pledged as security**

Properties with a carrying value of £14,692,919 (2015: £14,424,596) are pledged as security for the borrowings of the Group in respect of premises. Details of the loans are disclosed in notes 16 and 17.

**(iii) Leasehold land and building**

Leasehold land and building consists of one short-term lease of less than 49 years on the Mount Pleasant property and one lease of 150 years on the Haven property in John Mackintosh Square.

**12. INVESTMENTS INCLUDED IN FIXED ASSETS**

Company	2016 £	2015 £
At cost, investment in subsidiary		
At 1 January and 31 December	8,000	4,000

The Company owns all the issued share capital of Gibconnect Limited, a non-trading entity. The Company also owns all the issued share capital of Rockolo Limited, a wholly owned subsidiary operating in data centre (hosting) services.

**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 called the Europe India Gateway (EIG). One of the upgrades carried out on the system was finalised during 2015, resulting in a threefold increase in capacity in available MIUs (Minimum Investment Units) for the Company over the initial investment. During 2016 the Company has not made any further payments towards the EIG cable hence the cumulative total of payments made as at 31 December 2016 still remains as £20,149,236 (2015: £20,149,236), entitling the Company to c4.1% of the EIG's total capacity. The Company determines how it uses its EIG cable capacity, but does not control end to end physical access and the specific fibres through which the data is transmitted. The EIG investment is recognised as a prepayment in the Company's balance sheet, with the prepayment being amortised over the estimated useful life of the cable.

The Company was able to start activating capacity on the EIG cable as from June 2012. Consequently the asset was 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 from this date albeit the cable is expected to continue in use beyond this period.

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**13. EIG SUBMARINE CABLE (continued)**

<b>Company</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
At 1 January	15,061,546	16,165,902
Amounts transferred from 'Assets under construction'	-	323,288
Charged to the profit and loss account	(1,481,460)	(1,427,644)
<b>At 31 December</b>	<u>13,580,086</u>	<u>15,061,546</u>

Albeit the EIG cable is being amortised over a period of 13.75 years, the prepayment is split in the balance sheet between fixed assets and current assets as set out below.

	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
<b>EIG submarine cable</b>		
Fixed assets	12,098,626	13,580,086
Current assets	1,481,460	1,481,460
	<u>13,580,086</u>	<u>15,061,546</u>

**14. STOCKS**

<b>Group and Company</b>	<b>2016</b> <b>£</b>	<b>2015</b> <b>£</b>
Goods for resale or consumption	<u>1,081,365</u>	<u>947,932</u>

**GIBTELECOM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**15. DEBTORS**

<b>Group and Company</b>	<b>2016 £</b>	<b>2015 £</b>
Amounts falling due within one year:		
Trade debtors	6,177,193	5,683,230
Other debtors and prepayments	1,525,453	1,437,712
Corporation tax	231,964	231,964
Deferred tax asset on pension liability	2,100,150	1,751,200
EIG submarine cable (see note 13)	1,481,460	1,481,460
	<u>11,516,220</u>	<u>10,585,566</u>
Amounts falling due after more than one year (excluding EIG submarine cable):		
Prepaid capacity use of SMW4 submarine cable system	557,512	627,934
Security deposits	48,030	48,030
	<u>605,542</u>	<u>675,964</u>
<b>Total Debtors</b>	<u>12,121,762</u>	<u>11,261,530</u>
<b>Deferred tax asset on pension liability</b>		
<b>Group and Company</b>		
At 1 January	1,751,200	2,506,200
Credited /(charged) to other comprehensive income	348,950	(755,000)
At 31 December	<u>2,100,150</u>	<u>1,751,200</u>

**GIBTELECOM LIMITED**  
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**16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade creditors	3,068,560	2,457,246	3,068,560	2,457,246
Amounts due to Group undertakings	-	-	8,000	4,000
Bank borrowings	1,680,328	1,675,546	1,680,328	1,675,546
Other creditors	29,437	96,653	29,437	96,653
PAYE and social insurance	162,176	157,210	162,176	157,210
Corporation tax	47,846	544,398	47,846	544,398
Accruals and deferred income	4,262,813	4,278,658	4,262,813	4,278,658
	<u>9,251,160</u>	<u>9,209,711</u>	<u>9,259,160</u>	<u>9,213,711</u>

**Bank borrowings**

Gibtelecom has four loan facilities in place, and as at 31 December 2016 the total balance due within one year was £1,680,328 (2015: five loans totalling £1,675,546) and a further £8,992,492 (2015: five loans totalling £10,837,548) is due after one year (note 17).

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

Mortgage finance on the Company's freehold premises at 15/21 John Mackintosh Square, taken out in June 2010 following construction of this building, has a total balance outstanding of £2,692,919 as at 31 December 2016 (2015: £3,064,000). The loan is secured by the lending bank through a first legal charge on the property. Repayment terms on this loan are quarterly repayments of £106,750 (includes capital plus interest) with interest rate charged @ 3.5% above LIBOR and maturity date is October 2019.

**(ii) Mount Pleasant**

Mount Pleasant, a building which has always been associated with telecommunications in Gibraltar, currently houses one of the Company's technology centres, the Network Operations Centre and Rockolo data centres together with some related office facilities. The Mount Pleasant mortgage on this leasehold premises, acquired by the Company on 1 January 2009, has a balance repayable of £1,181,250 (2015: £1,653,750) at 31 December 2016 and is secured by the lending bank through a first legal charge over the property. Repayment terms on this loan are quarterly repayments of £118,125 (includes capital only) with interest rate charged @ 4.0% above LIBOR and maturity date is February 2019.

**(iii) EIG submarine cable system**

The EIG (Europe India Gateway) submarine cable consortium comprises various 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\$31.6 million which currently equates to a c4.1% ownership in the EIG consortium. As at 31 December 2016 the balance of the EIG loan of £8,000,000 remaining to be repaid was £3,198,652 (2015: £4,054,898). The bank loan agreement provides for the Company to adhere to covenants on net tangible assets and borrowings, together with the debt servicing liability. Repayment terms on this loan are quarterly repayments of £252,000 (includes capital plus interest) with interest rate charged @ 3.5% above LIBOR and maturity date is April 2020.



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**16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (continued)**

**(iv) Data centres**

This loan was for fitting out the fourth and fifth data centres for hosting customers' equipment that Gibtelecom constructed within its Mount Pleasant premises, prior to the establishment of its data centres subsidiary company Rockolo. This loan was fully repaid during 2016 (2015: £140,446 remained outstanding).

**(v) Haven building**

Gibtelecom purchased the leasehold Haven building in John Mackintosh Square from HM Government of Gibraltar in January 2014. As at 31 December 2016 the balance repayable on the loan stood at £3,600,000 (2015: £3,600,000), with the loan secured by the lending bank with a first legal charge over the property. The Haven building, built in 1972, was originally planned to house the then Gibraltar Government Telephone Department. Gibtelecom and its predecessors have occupied since inception part of this building, where some of the Company's fixed, mobile and broadband technologies are housed. The building is located adjacent to Gibtelecom's headquarters at 15/21 John Mackintosh Square, from which it can be accessed. Similarly there is a footbridge connecting the Haven building to the City Hall in John Mackintosh Square which is also partly occupied by Gibtelecom. This loan is currently an interest only loan to allow the Company time to complete the Haven Building redevelopment plans.

**17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

<b>Group and Company</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Mortgage finances</b>		
15/21 John Mackintosh Square	2,368,630	2,834,200
Mount Pleasant	708,750	1,181,250
Haven building	3,600,000	3,600,000
<b>Bank borrowings</b>		
EIG submarine cable system	2,315,112	3,222,098
	<hr/> 8,992,492	<hr/> 10,837,548
<b>Accruals and deferred income</b>		
EIG onward sale of capacity deferred revenue	2,695,509	3,027,945
	<hr/> 11,688,001	<hr/> 13,865,493

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**17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)**

**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:

<b>Group and Company</b>	<b>2016 £</b>	<b>2015 £</b>
In more than one year but not more than two years	2,040,228	1,971,600
In more than two years but not more than five years	3,720,886	5,097,448
In more than five years	3,231,378	3,768,500
	<u>8,992,492</u>	<u>10,837,548</u>

See note 16 for the carrying amount of the bank loans falling due within one year at 31 December 2016.

**18. PROVISIONS FOR LIABILITIES**

<b>Group and Company</b>	<b>Corporate restructuring costs (i) £</b>	<b>Deferred tax liability (ii) £</b>	<b>Total £</b>
At 1 January 2016	(351,765)	(1,276,414)	(1,628,179)
Payments made during the year	364,959	-	364,959
Charged to the profit and loss account	(145,194)	185,350	40,156
<b>At 31 December 2016</b>	<u>(132,000)</u>	<u>(1,091,064)</u>	<u>(1,223,064)</u>
Provision for net defined pensions benefit scheme deficit (note 22)			(10,501,000)
			<u>(11,724,064)</u>

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**18. PROVISIONS FOR LIABILITIES (continued)**

**(i) Corporate restructuring costs**

The Group had in place a corporate restructuring programme that offered employees a voluntary separation package from time to time. In 2016, the restructuring costs accrued under this programme were £145,194 (2015: £86,170).

In total, as at 31 December 2016, some 48 employees had left Gibtelecom since 2003 under the Company's various voluntary separation schemes, including through individual early retirements.

**(ii) Deferred tax provision**

	<b>2016</b> £	<b>2015</b> £
<b>Group and Company</b>		
At 1 January	(1,276,414)	(1,262,335)
Charged to the profit and loss account	185,350	(14,079)
<b>At 31 December</b>	<u>(1,091,064)</u>	<u>(1,276,414)</u>

Deferred tax is provided as follows:

	<b>2016</b> £	<b>2015</b> £
<b>Group and Company</b>		
Accelerated capital allowances	<u>(1,091,064)</u>	<u>(1,276,414)</u>

**19. CALLED UP SHARE CAPITAL AND RESERVES**

	<b>2016</b> £	<b>2015</b> £
<b>Group and Company</b>		
<b>Authorised, issued and fully paid</b>		
7,500 ordinary Class A shares of £1 each	7,500	7,500
7,500 ordinary Class B shares of £1 each	7,500	7,500
	<u>15,000</u>	<u>15,000</u>

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**19. CALLED UP SHARE CAPITAL AND RESERVES (continued)**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
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.

The profit and loss reserve represents cumulative profits or losses.

**20. ANALYSIS OF NET CASH, LIQUID RESOURCES AND BORROWINGS**

<b>Group and Company</b>	<b>2015</b>	<b>Cash flow movement</b>	<b>2016</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Net debt:</b>			
Bank balances	6,021,249	29,705	6,050,954
Less: bank loans (notes 16 and 17)	(11,923,620)	1,250,800	(10,672,820)
	<u>(5,902,371)</u>	<u>1,280,505</u>	<u>(4,621,866)</u>

**21. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

<b>Group and Company</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Movement in cash	29,705	1,833,119
Movement in borrowings	1,250,800	2,158,247
Net debt at 1 January	(5,902,371)	(9,893,737)
<b>Net debt at 31 December</b>	<u>(4,621,866)</u>	<u>(5,902,371)</u>

**22. PENSION COMMITMENTS**

The Company operates two pension schemes for Gibtelecom employees. One for former GNC employees and most new joiners to Gibtelecom as determined by the Company and any former GNC employees (Gibraltar Nynex Communications Limited Staff Pension Scheme). The other 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 looked at the possibility of bringing the two pension schemes closer together, possibly through a merger of the funds, but has not proceeded in this direction at this time.

The normal retirement age of the Company is 65 years of age. However, employed members in both of the Company's pensions schemes prior to 1 June 2011 can elect to retain the previous normal retirement age of 60 years.

# GIBTELECOM LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 22. PENSION COMMITMENTS (continued)

##### Actuarial reviews

The Gibraltar Nynex Communications Limited Staff Pension Scheme [GNC Scheme] is a defined benefit pension scheme contracted out to a pensions provider, Clerical Medical Investment Group Limited, (CMIG).

The Company's total contributions to the GNC Scheme for 2016 amounted to £1,795,000 (2015: £1,904,000). The contributions also include an additional annual contribution made during the year of £270,000 (2015: £460,000). There were no exceptional pensions payments effected in respect of voluntary separations in 2016 (2015: £nil).

The latest independent actuarial valuations of the two schemes were carried out as at 1 August 2014, completed in 2016 and the recommendations adopted by the Company have taken effect as from 1 January 2016.

Under the GNC Scheme the employers' contributions are 32% of basic salaries. The additional annual contribution for past service liabilities is £270,000 from 2016 and is to be paid each year for the remainder of the ten year period that commenced in 2014 and ends in 2022. The actuarial valuation as at 1 August 2014 indicated that the GNC Scheme's obligations in respect of past service liabilities exceeded the value of the assets of the Scheme at that date by £2,691,000, with the level of asset cover being 87% at the valuation date.

The Gibtel Pension Fund [Gibtel Scheme] is also a defined benefit pension scheme. The Company's total contributions to the Scheme for 2016 amounted to £1,050,000 (2015: £840,000). This includes an additional annual contribution made during the year which amounted to £590,000 (2015: £549,439).

The actuarial valuation of the Gibtel Scheme as at 1 August 2014, as confirmed by the Company, provide for the employer's contribution to remain at 32% of basic salaries. Employees' contribution remain at 5-6.5%, depending on the individual's circumstances. From 2016 the additional annual contribution is £590,000, to be paid over ten years and increasing by 5% each year. This 2014 Gibtel Scheme valuation indicated that the Scheme's obligations in respect of past service liabilities exceed the value of the assets of the fund at that date by £6,000,000. The level of asset cover is 73% at the valuation date.

##### Gibraltar Financial Reporting Standard (GFRS) 102 Section 28 'Employee Benefits'

Valuations of both schemes, for the purposes of GFRS 102 section 28 were carried out at 31 December 2016 by qualified actuaries.

Under GFRS 102 Section 28 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.

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**22. PENSION COMMITMENTS (continued)**

**Gibraltar Financial Reporting Standard (GFRS) 102 Section 28 'Employee Benefits' (continued)**

The GNC Scheme has purchased annuities with CMIG in respect of pensioners and dependents when members retire. Prior to the introduction of FRS102, together with a new Statement of Recommended Practice (SORP) in 2015, there was no requirement to include the cost, or market value, of the insured annuities in the Scheme's accounts. A voluntary note was nevertheless made in the Scheme's accounts to show the total cash cost of the annuities purchased to date. However, the introduction of the new accounting rules made it a requirement for annuities to be valued annually at the amount of the related obligation if the annuities were held in the name of the trustees. After an extensive review by legal advisors, actuaries, accountants and financial advisors, it was concluded that although the annuities were taken out in the members' names, the Scheme had legal title and therefore the annuities required revaluation in the GNC Scheme accounts. Following discussions with the Scheme Actuaries and the Company's auditors, the Company decided to value these annuities and have these included in the valuation of the Defined Benefit Obligations (DBO) and the assets for the year ending 31 December 2016.

The Directors set the major assumptions as at 31 December 2015 and 2016, on the basis of actuarial advice, as set out below.

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Rate of increase in salaries	3.0	3.0	3.0
Rate of increase in pensions payment	3.0	3.0	3.0
Discount rate	2.7	3.8	3.7
Inflation assumption	2.6	2.6	2.6

The actuaries have determined the assumed life expectation on retirement at age 60 are:

	<b>Valuation in</b>	
	<b>2016</b>	<b>2015</b>
	<b>years</b>	<b>years</b>
Male aged 60 now	26.9	27.2
Male aged 45 now, from 60	28.2	28.7
Female aged 60 now	29.0	29.6
Female aged 45 now, from 60	30.5	31.2

**GIBTELECOM LIMITED**

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**22. PENSION COMMITMENTS (continued)**

**Gibraltar Nynex Communications Limited Staff Pension Scheme (GNC Scheme)**

The analysis of the scheme assets at the balance sheet date was as follows:

	Value at 31 December 2016 £	Value at 31 December 2015 £	Value at 31 December 2014 £	Value at 31 December 2013 £	Value at 31 December 2012 £
Pension Contract	44,221,000	21,245,000	20,187,000	19,041,000	17,077,000
Market value of assets	44,221,000	21,245,000	20,187,000	19,041,000	17,077,000
Present value of liabilities	(45,342,000)	(23,631,000)	(25,218,000)	(23,324,000)	(19,612,000)
Net pension liability	(1,121,000)	(2,386,000)	(5,031,000)	(4,283,000)	(2,535,000)

The scheme has a number of purchased annuities in respect of past retirements. Following discussions with the Scheme Actuaries and the Company's auditors, the Company decided to value these annuities under FRS 102 and have included these in the valuation of the Defined Benefit Obligations (DBO) and the assets for the year ending 31 December 2016.

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**22. PENSION COMMITMENTS (continued)**

**Gibraltar Nynex Communications Limited Staff Pension Scheme (GNC Scheme) (continued)**

Amounts recognised in the profit and loss account in respect of the defined benefit scheme are as follows:

**Analysis of amount charged to operating profit**

	<b>2016</b> £	<b>2015</b> £
Current service cost	(1,122,000)	(1,224,000)
Administration costs incurred during the year	(95,000)	(87,000)
	<u>(1,217,000)</u>	<u>(1,311,000)</u>

**Analysis of the amount charged to finance costs**

	<b>2016</b> £	<b>2015</b> £
Net interest on net defined benefit liability	(80,000)	(176,000)
	<u>(80,000)</u>	<u>(176,000)</u>

**Analysis of amount recognised in consolidated statement of other comprehensive income**

	<b>2016</b> £	<b>2015</b> £
Actuarial gain arising during the year	858,000	3,154,000
Return on plan assets less than discount rate	(91,000)	(926,000)
Actuarial gain recognised in consolidated statement of other comprehensive income	<u>767,000</u>	<u>2,228,000</u>



**GIBTELECOM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**22. PENSION COMMITMENTS (continued)**

**Gibraltar Nynex Communications Limited Staff Pension Scheme (GNC Scheme) (continued)**

The amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit scheme is as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Present value of defined benefit obligations	(45,342,000)	(23,631,000)
Fair value of scheme assets	44,221,000	21,245,000

**Movement in the present value of defined benefit obligations is as follows:**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
At 1 January	(23,631,000)	(25,218,000)
Current service cost	(1,122,000)	(1,224,000)
Interest costs	(913,000)	(945,000)
Actuarial (loss)/gain	(8,971,000)	3,154,000
Introduction of insured annuities	(11,144,000)	-
Benefits paid	439,000	602,000
<b>At 31 December</b>	<b>(45,342,000)</b>	<b>(23,631,000)</b>

**Movement in the fair value of schemes assets at the balance sheet date is as follows:**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
At 1 January	21,245,000	20,187,000
Total return on plan assets	742,000	(157,000)
Introduction of guaranteed annuities	20,973,000	-
Employer contributions	1,795,000	1,904,000
Benefits paid	(439,000)	(602,000)
Administrative costs paid	(95,000)	(87,000)
<b>At 31 December</b>	<b>44,221,000</b>	<b>21,245,000</b>

**GIBTELECOM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**22. PENSION COMMITMENTS (continued)**

**Gibtel Pension Fund (Gibtel Scheme)**

The analysis of the scheme assets at the balance sheet date was as follows:

	Value at 31 December 2016 £	Value at 31 December 2015 £	Value at 31 December 2014 £	Value at 31 December 2013 £	Value at 31 December 2012 £
Equities	7,563,600	6,630,600	8,918,700	8,473,000	7,593,000
Debt securities	5,157,000	4,780,200	4,721,400	4,366,000	3,972,000
Cash and other assets	4,469,400	4,009,200	1,609,900	1,501,000	1,225,000
Market value of assets	17,190,000	15,420,000	15,250,000	14,340,000	12,790,000
Present value of liabilities	(26,570,000)	(21,790,000)	(22,750,000)	(19,960,000)	(18,880,000)
Net pension liability	(9,380,000)	(6,370,000)	(7,500,000)	(5,620,000)	(6,090,000)

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**22. PENSION COMMITMENTS (continued)**

**Gibtel Pension Fund (Gibtel Scheme) (continued)**

Amounts recognised in the profit and loss account in respect of the defined benefit scheme are as follows:

**Analysis of amount charged to operating profit**

	<b>2016</b> £	<b>2015</b> £
Current service cost	(280,000)	(330,000)
Administration costs incurred during the year	(20,000)	(40,000)
	<u>(300,000)</u>	<u>(370,000)</u>

**Analysis of the amount charged to finance (costs)/income**

	<b>2016</b> £	<b>2015</b> £
Net interest on net defined benefit liability	(230,000)	(270,000)
	<u>(230,000)</u>	<u>(270,000)</u>

**Analysis of amount recognised in consolidated statement of other comprehensive income**

	<b>2016</b> £	<b>2015</b> £
Actuarial (loss)/gain arising during the year	(4,180,000)	1,470,000
Return on plan assets less/(greater) than discount rate	800,000	(540,000)
Actuarial (loss)/gain recognised in consolidated statement of other comprehensive income	<u>(3,380,000)</u>	<u>930,000</u>

**GIBTELECOM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**22. PENSION COMMITMENTS (continued)**

**Gibtel Pension Fund (Gibtel Scheme) (continued)**

The amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit scheme is as follows:

	<b>2016</b> £	<b>2015</b> £
Present value of defined benefit obligations	(26,570,000)	(21,790,000)
Fair value of scheme assets	17,190,000	15,420,000

**Movement in the present value of defined benefit obligations is as follows:**

	<b>2016</b> £	<b>2015</b> £
At 1 January	(21,790,000)	(22,750,000)
Current service cost	(280,000)	(330,000)
Interest costs	(820,000)	(840,000)
Actuarial (loss)/gain	(4,180,000)	1,470,000
Participants' contributions	(70,000)	(70,000)
Fund introductions	(150,000)	-
Benefits paid	720,000	730,000
<b>At 31 December</b>	<b>(26,570,000)</b>	<b>(21,790,000)</b>

**Movement in the fair value of schemes assets at the balance sheet date is as follows:**

	<b>2016</b> £	<b>2015</b> £
At 1 January	15,420,000	15,250,000
Total return on plan assets	1,390,000	30,000
Employer contributions	1,050,000	840,000
Plan participants' contributions	70,000	70,000
Benefits paid	(720,000)	(730,000)
Administrative costs paid	(20,000)	(40,000)
<b>At 31 December</b>	<b>17,190,000</b>	<b>15,420,000</b>

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**22. PENSION COMMITMENTS (continued)**

**Closing liability – cumulative**

The finance cost of £310,000 (2015: £446,000) reflected in the Profit and Loss Account, comprises £80,000 (2015: £176,000) for the GNC Scheme and £230,000 (2015: £270,000) for the Gibtel Scheme as explained above.

	2016 £	2015 £
Net liability on the Gibtel Scheme	(9,380,000)	(6,370,000)
Net liability on the GNC Scheme	(1,121,000)	(2,386,000)
Total defined benefit scheme liability	<u>(10,501,000)</u>	<u>(8,756,000)</u>

**23. RELATED PARTY TRANSACTIONS**

The Directors consider HM Government of Gibraltar, by virtue of being the ultimate shareholder of Gibtelecom, to be a related party.

Gibtelecom Limited have elected to apply the provisions within the GFRS 102 Section 33.11 and not disclose transactions and balances with HM Government of Gibraltar and other HM Government of Gibraltar controlled entities.

**24. CAPITAL COMMITMENTS**

At 31 December 2016 the Company had ongoing commitments for capital expenditure of £3,276,800 (2015: £4,128,800). The latest operational capital budget for 2017 is £8,164,000 (2016: £8,180,000), excluding further EIG submarine cable investment.

**25. FINANCIAL COMMITMENTS**

The Company has annual lease payments totaling approximately £360,000 per annum (2016: £340,000). The Company hold a variety of leases whose terms vary from 1 month notice to 20 years. These leases are reviewed as and when required.

**26. ULTIMATE CONTROLLING PARTIES**

The Directors consider HM Government of Gibraltar to be the ultimate controlling party by virtue of holding 100% of the legal interest in the share capital of Gibtelecom.

**GIBTELECOM LIMITED**  
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**27. SUBSEQUENT EVENTS**

**Haven Building loan facility**

The 12 months capital repayment moratorium on the loan facility agreement for £3,600,000 for the Haven building [note 16(v)] has been extended to February 2020 to allow the Company time to complete the Haven redevelopment project plan. This extension has been reflected in the maturity profile of bank loans disclosure in note 16 and 17. In due course it is intended to combine this existing £3,600,000 loan with some of the redevelopment project costs into one mortgage finance facility.

**Subsidiary companies**

On 26 August 2016, the Company established a new wholly owned subsidiary, Rockolo Limited, to operate its data centres (hosting) services business. Rockolo Limited's share capital is £4,000 as it is for Gibconnect. The Directors of Rockolo Limited at commencement were the Company's CEO, Tim Bristow, and COO, Adrian Moreno, together with Peter Borge (Director/ Customer Operations). Danny Hook, the Managing Director of Rockolo Limited, subsequently joined the Board. Rockolo Limited commenced trading as from 1 January 2017.

Another new wholly-owned Gibtelecom subsidiary company, Zinnia Limited, was incorporated on 1 March 2017 with the intention of establishing a new mobile virtual network operator (MVNO), initially in Spain. Zinnia Limited's share capital is £4,000 and the Directors of the Zinnia Limited at commencement were Tim Bristow (Chairman), Adrian Moreno, Jansen Reyes (Director/Technology) and Peter Borge.

On 24 May 2017 Zinnia Limited incorporated the company Zinnia Telecomunicaciones S.L.U. (Zinniatel, trading as Lobster Mobile) in Madrid, Spain, with an initial share capital of €5,000 (5,000 shares of €1) and a shareholder contribution of €11,700 (£10,600). In December 2018, Zinniatel was further capitalised with the issue of 100,000 new shares at €1, with a premium of €25 on each share. In total, the capitalisation is €105,000 (105,000 shares), with a share premium of €2,500,000. This wholly-owned subsidiary will run the MVNO operation in Spain. Its Directors are currently Jansen Reyes (Chairman), Adrian Moreno, Peter Borge, and Gabriel Miguez (Director General).

Tim Bristow resigned from the Board of Directors of the Company and all subsidiary companies on 22 January 2019.

**GNC Pension Scheme**

The treatment of the annuities purchased by the GNC Pension Scheme led to a delay in the finalisation of the year end accounts for 2016. This was as a result of seeking clarity on an extremely complex and technical pensions matter which required input and advice from legal counsel, accountants, actuaries and financial advisors. It concerned placing a market valuation on the annuities already purchased by the GNC pension scheme which does not impact the Company's profit and loss account or balance sheet, but which had to be included in the valuation of the scheme's defined benefits obligation and assets following the introduction of new accounting rules (note 22).