Gibtelecom

CONSOLIDATED ANNUAL REPORT

31st DECEMBER 2019

Company registration number: 37905

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A. DIRECTORS AND OTHER INFORMATION

Directors:	Fabian Picardo	Chairman
	Noel Burrows	Chief Executive Officer
	Sir Joe Bossano	
	Albert Mena	

Registered office: 15/21 John Mackintosh Square
GX11 1AA Gibraltar

Secretary: Francis Brancato
15/21 John Mackintosh Square
GX11 1AA Gibraltar

Auditor: Deloitte Limited
Merchant House
22/24 John Mackintosh Square
GX11 1AA Gibraltar

B. DIRECTORS' REPORT

1. Our CEO message

I was delighted to be appointed CEO of Gibtelecom in May 2019. My first priority on joining was to meet as many Gibtelecom colleagues as possible. I have seen the energy and commitment they bring to delivering excellence for our customers. As we build the Gibtelecom of the future, this dedication will be essential in transforming the company and improving the services we provide to our customers.

Also starting new into the business in August 2019 was Matthieu Mamou as CFO joining from Etisalat in Abu Dhabi, where he held the position of Finance Director. Matthieu adds significant Telco experience particularly in International and Submarine, having worked in senior roles in Telecom for the last 15 years.

Our strategy is to deliver a more connected Gibraltar. To ensure that Gibraltar has the best in class connectivity. Making it simpler and faster for our customers and businesses to connect.

We're investing in the future of Gibraltar

The Gibtelecom Board agreed to make two transformative investments in Fibre to the Home and 5G. We will replace our copper network with a full fibre broadband solution. We will be able to deliver speeds up to 1Gbps in the home. The fibre network will be transformative to our customers changing the way they work, with broadband speeds at the cutting edge of what is available globally. Ensuring Gibraltar remains competitive on the world stage. Our ambition is to pass to fibre every home in Gibraltar by 2023. Our new 5G network will deliver speeds of up to 1Gbps.

At the core of our strategy is the convergence of Gibtelecom's leading network capabilities to provide unrivalled customer experiences. For consumers, large and global, work is already underway on a truly differentiated software-driven solution to deliver the modular, highly automated services required for success in today's digital economy.

Three customer facing units

We have changed the way we are organised so that we can serve our customers better and we can address the specificities of each customer. We're now organised into 4 business units, with our Consumer, Enterprise and Carrier units interacting directly with our customers. Our Technology unit is supplying the 3 customer facing units and enable to share resources and achieve scale thanks to an increasingly convergent network, IT and infrastructure.

<u>Consumer</u>

We connect consumers in Gibraltar with each other, providing mobile, broadband, home phone and TV services.

<u>Enterprise</u>

We're the leading provider of enterprise services to Gibraltar. We connect business customers and public sector organisations with our extensive portfolio of communications and IT solutions.

<u>Carrier</u>

Delivering international connectivity to our enterprise customers, we enable our customers to connect and deliver service and products worldwide.

<u>Technology</u>

We design, build and operate Gibtelecom's networks, platforms and IT systems. We also work with the customer-facing units to develop and roll out products and services for their customers.

Expanding Internationally – Lobster MVNO

It's essential we continue to grow our business, identifying opportunities internationally. Lobster was launched in Q2 2019 in Spain. It's a Mobile Virtual Network Operator (MVNO) targeting Non-Spanish speaking Expats living in Spain with an English-speaking offer where all communication is in English. Lobster is delivering its services in Spain using the Telefonica access network which offers unrivalled coverage and quality in Spain. Lobster also rely on a wide range of capabilities offered by Gibtelecom in Gibraltar in the domain of billing, call centre, core network, international and roaming and IT. This enables to fully integrate the new Spanish subsidiary into the wider Gibtelecom group hence benefiting from economies of scale and relying on the Group expertise in those domains.

2. Scope

The Directors present their report, business review and the audited financial statements for the year ended 31st December 2019 for Gibtelecom Limited ("the Company") and its subsidiaries (together "Gibtelecom").

The Group has been trading as Gibtelecom since July 2002, and as from 2003 this name was formally adopted by the company and incorporated as Gibtelecom Limited (previously GNC, Gibraltar Nynex Communications Limited).

In 2009, the subsidiary company Gibraltar Telecommunications International Limited (Gibtel), whose assets and liabilities had been transferred to the parent company, was struck off as it was a non-trading subsidiary since its acquisition by GNC in 2001.

In 2016, the subsidiary Rockolo Limited, was established to handle the Company's data centres business at arm's length from the Group and began trading in 2017.

In 2017, Zinnia Limited was set up together with Zinniatel SL a company incorporated in Spain and fully owned by Zinnia Ltd, in order to operate an MVNO (Mobile Virtual Network Operator) in Spain.

In Q2 2019, Zinnia SL started to operate an MVNO in Spain under the brand Lobster. Zinnia SL is registered in Spain and is authorised under the "Ley General de Telecomunicaciones" to provide mobile virtual network operator services.

Gibconnect Limited, the former internet service provider subsidiary, remains a nominal non-trading company.

3. Principal Activities

Gibtelecom is registered in Gibraltar and is authorised under the Gibraltar Communications Act 2006 to provide various communication services and networks. 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.

4. Regulatory regime

In 2019, Gibtelecom was again designated by the Gibraltar Regulatory Authority (GRA) as the universal service provider for Gibraltar. This follows previous designations by the Authority since 2002. As a result, Gibtelecom has, for the new one-year lifecycle (three before 2018) of the designation, to provide a baseline level of services to residents. Such services include the provision of payphones; telephone directories; measures for disabled persons and affordability of tariffs; and provision of fixed line access and services. These are known as universal service obligations, or USO.

The Company continues to be assigned by the Regulator as having Significant Market Power (SMP) in each market which they have reviewed, other than in the wholesale fixed origination and wholesale SMS termination markets, both of which have been withdrawn. By having SMP status, Gibtelecom is required to adhere to strict and often onerous regulatory obligations, typically designed with much larger European operators in mind.

5. Reduce market churn and win back customers

As competition in the local market intensified, Gibtelecom continued to enhance the customer experience, with improved services and products made possible through substantial investments in technology and the upgrade of its network and infrastructure. The strategy to reduce market churn, retain and regain residential and business customers remains key to the business. Results, though measured, are encouraging and indicate a positive retention strategy. Nevertheless, the effect of operating in a consumer market close to saturation and lacking critical size to absorb costs, has impacted the Company's growth and profitability.

The aggressive competition in the broadband market experienced in the last few years continued in 2019 especially as regards bundled TV services where competitors have continued to sell unlicensed TV contents. Gibtelecom's launch of Sofi (IPTV and digital entertainment platform) in 2018 has proved to be an effective retention strategy with take-up numbers steadily increasing during the year to circa 3,200 customers.

Sofi now consists of over 100 linear channels of licensed contents, 12 popular applications for on-demand content and a mobile TV app. Whilst Sofi is not expected to generate high revenues in the short term, the value added service has become a critical piece in retaining loyal customers, with the Company offering a true one-stop-shop and improving the overall customer proposition. Sofi's TV channels are licensed through agreements with the various content and copyright holders and the Company continues to negotiate further agreements for additional channels including some of the most popular main UK terrestrial channels (the on-demand BBCs and ITVs) which will in due course further enhance the attractiveness of the Sofi product.

Sofi is available to Gibtelecom broadband subscribers as a standalone subscription but over 95% of Sofi customers subscribe to the Monster Bundle, a highly popular triple play product which includes the Company's top mobile and broadband offerings in a single bundle. Growth was also experienced in the Premium Broadband product line primarily through the Enterprise Fibre Broadband product specifically designed for small businesses which replaced the few remaining internet corporate links during the year. It is estimated that the Company currently commands a circa 50% share of the fixed broadband market with a total Fixed Broadband revenue of circa £3 million.

In order to satisfy the growing demand for mobile data, a series of new pay monthly plans and prepaid data boosters were launched in Q4 2019. The new "Mini-Extra", "Midi-Extra" and "Maxi-Extra" 12-months plans provide higher data allowances than previously at the same or lower price. In addition, the pay monthly and prepaid data bundles have also been refreshed and streamlined with the introduction of new 1, 4 and 10 Gb bundles. New data boosts for pay monthly customers have also been introduced.

Following the success of the revamped SelfCare online customer portal introduced in 2018, the Company launched a new "MyGibtelecom" mobile app and web portal in 2019. As a result, Gibtelecom customers now have greater control and visibility over their account usage. The portal and app now enable customers to view and pay bills; view historical payment information; check their mobile data consumption; and top-up their Gibtelecom prepaid service, as well as purchase bundles and boosters. Customers are also able to purchase new fixed line, internet and mobile products, change their active plans, and report service faults.

Overall mobile revenues increased by circa 12% with postpaid mobile subscriptions stimulated by the Monster Bundle, all-inclusive plans or data bundle offers. This increase was achieved in a challenging context where mobile internet growth, both locally and internationally driven by the increasing use of free OTT services such as iMessage or WhatsApp contributed to the reduction of voice and SMS traffic. The mobile revenue growth testifies that our increased mobile data offering offset the downward trends of voice and SMS.

With the demise of Limba in February 2019, Gibtelecom remains the only mobile player in the small local mobile market. However, 2019 witnessed the introduction of the EU regulation "Roam like at Home" which means that customers of any EU Telecom operator can use their mobile package in Gibraltar as if they were in their home country, hence intensifying competition and fluidifying communications in the EU single market. As a consequence, roaming usage, particularly data, continued to show growth in 2019, with revenues increasing by circa 33% to over £3.2 million despite EU wholesale price controls on data and voice.

Work on enhancing both the capacity and coverage of the existing 4G+ network was progressed throughout the year which extended the radio access network and 4x4 MIMO footprint to provide increased cell throughput of up to circa 600Mbps by year end. Additionally, further enhancements to service availability with a view to eliminate single points of failure throughout the mobile network, was completed. 4G roaming is now available with 161 operators in 71 countries including 26 operators in the EEA, 2 in the USA, and 43 in the Rest of the World including Morocco. Prepaid mobile customers can also use their mobile services in 104 countries across the globe, with 252 different operators.

The deployment of next generation Voice over LTE (VoLTE) technology and of a geographically redundant IP Multimedia Subsystem (IMS) was successfully completed in 2019. This will now enable customers to access a variety of new and improved services and features, including high-definition (HD) calling and instantaneous call setup times on their mobile devices.

The limited volumes of handsets sold in Gibraltar continues to prove a challenge in so far as network ratification is concerned. The Company however continues to engage with Apple and Samsung (the two manufacturers that comprise over 90% of our mobile handset population) to overcome this issue. Together with the planned rollout of a nationwide fibre-to-the-home infrastructure, IMS will also facilitate the introduction of 5G mobile services in Gibraltar. To this end, the Company hosted a 5G event in Q3 2019 in conjunction with Ericsson where it was announced that 5G mobile technology trials would commence in 2020.

6. Grow the global and enterprise business

Over the last few years, Gibtelecom has sought new revenue streams by exploring additional sales and lease opportunities leveraged on the Group's global network spanning circa 20,000km all the way to Asia.

The international wholesale target set for 2019 was ambitious, particularly given the highly commoditised and competitive global wholesale market. Nevertheless, despite these challenges the Company continues to experience growth mainly by maximising existing partnerships. This has enabled the Company to acquire more capacity on other submarine cables into the Middle East and South Asia.

As a result, our customers can now have direct connectivity and resilience from Europe to Singapore and to Africa and the total revenue value of new business deals in 2019 is in excess of $300k.

The Company's continued participation in the EIG sub-marine cable has been instrumental in the upgrade of its European Backbone infrastructure enabling 100Gb backhaul as well as improved connectivity to Gibraltar and its businesses.

Following the agreement between Gibtelecom and Orange Maroc to undertake a Desk Top Study in 2018 for a submarine cable link from Gibraltar to Morocco, further high-level discussions took place in 2019 to agree on the commercial model and a mutual wholesale business. It culminated in the signing of a Construction & Maintenance Agreement and a Supply Contract with Orange Marine in February 2019. Gibtelecom's partner in Morocco is Orange Maroc, and the costs of construction and installation of the submarine cable system will be shared between the parties.

Notwithstanding permitting issues, the aim is to have a functional cable by the end of 2021. This cable will be of significant strategic importance for Gibraltar and Gibtelecom and will break the current monopolistic international access into Morocco. Both entities will jointly set up a Wholesale Carrier team to pursue carrier and enterprise revenue opportunities. It will also facilitate further utilisation of the EIG submarine cable as a transit connection and provide further OPEX savings for terrestrial connectivity to Spain and beyond.

Dialogue with prospective new customers through targeted meetings and participation at carrier events continues. This year Gibtelecom participated in several key international carrier and trade group events including the Mobile World Congress, the International Telecoms Week (ITW) and the World Submarine Cable Conference, amongst others. In addition, the Company sponsored media and high-profile events, such as the e-Gaming Review (EGR) Awards and the Foreign Press Association (FPA) Media Awards.

Enterprise services, both large and SME are being developed and stimulated through Rockolo, the Group's data centre subsidiary. To this end, cloud-based services which were launched in the latter part of 2017 show significant growth in revenues reaching over the £400k mark by year-end compared to £111k in 2018. New Fixed Mobile Converged (FMC) products specifically designed for the SME market have also been developed, including a cloud-based PBX offering as an alternative option to an on-site PBX and the introduction of a high-speed synchronous Fibre to the Premises broadband solutions. A number of Narrow Band IoT and Mobile Broadband products have also been developed to address gaps in the product suite which will allow us to bring a holistic technology product solution to the customers.

The International Private Leased Circuit revenue grew by circa 8% to £4.7 million in 2019. However, Flexiband, the Company's flagship internet access product, saw a significant drop in revenues to £5.3 million in 2019 from £6.5 million the year before mainly due to mergers and consolidation amongst our e-gaming customers.

Dedicated bandwidth is still much sought after by enterprise customers looking to interconnect to their UK-based data centres and cloud environments. Changes in compliance and regulation could also see this reducing further in the coming years. These risks are being offset by a strategy to offer bandwidth and data centre products abroad in jurisdictions where the gambling community require these services such as in Asia and Africa.

Our Mobile Virtual Network Operator (MVNO) in Spain (branded as "Lobster") launched in Q2 2019, has seen steady growth throughout the year. Further sustained growth is expected in Lobster as the subsidiary grows. Central to the growth is the need to create awareness and consideration around the Lobster brand and amongst the targeted market in Spain. To this end the intention is to partner with other brands targeting the same market segment in other industries so as to create "events & noise" and create a community, a social network. Eventually the wholesale agreement signed with Telefonica will be re-negotiated as the customer base grows.

7. Improve operational efficiencies

Maximising value by improving efficiencies across all areas of its businesses remains key for the profitability of the Company. Allied to this is the need to contain operational costs and focus CAPEX expenditure on revenue generating projects. Much effort was therefore devoted throughout the year to the reduction of operational expenditure and in building new revenue lines.

To this end, new data and financial clearing systems roaming and international calls were installed, and the "welcome" SMS solution was migrated to an upgraded solution. The Company also actively negotiated inter-operator tariff (IOT) discount agreements with several key operators and destinations to achieve wholesale savings throughout the year as part of a wider roaming services review. Besides, this will assist in a post Brexit scenario. As a result, international voice settlements have been contained below £500k whilst inbound revenues have exceeded the target of £850k in the year. Plans have also been put in place for the installation of an SMS Firewall and connecting to SMS aggregators to monetise A2P messaging going forward.

A more robust and resilient Corporate IT security strategy aligned to ISO27001 and GDPR has also been put in place with enhanced endpoint encryption for both fixed and portable devices as well as improved access control to sensitive data systems. This has improved endpoint management and governance capabilities to sensitive corporate information.

In addition, project documentation and operational procedures have been streamlined which will have a positive impact on the way operational tasks are managed across business areas. Along with the full integration of these platforms at the Network Operations Control (NOC) and Rockolo. Further expansion into other areas is ongoing and will roll into 2020.

Gibtelecom continues to support its prime assets, including its employees and stakeholders, whilst being socially responsible through the strengthening of environmental policies. Recruiting and retention of local talent remains one of its key long-term strategies via the Sponsored Undergraduate initiative; Student Work Placements; and Employer Led Degree programme. The Company continues to invest and provide extensive tailored training opportunities for its' employees. In total over 767 training days by 156 personnel was conducted during the year. In addition, the company wide Gibtelecom Aspirational Programme (GAP) which was put in place in 2018, progressed throughout the year with some 12 four-day sessions. GDPR and IT security trainings were conducted during the year across the Company.

Gibtelecom was the main technology sponsor of the 2019 Island Games providing internet connectivity that catered for the Athletes Village, University accommodation, multiple sports sites, administration offices and transport officers. A special Island Games mobile pack was also produced specifically for the Games.

The Company continued its sponsorship of the Gibraltar World Music Festival (GWMF) and support for the Gibraltar International Chess Festival, powering the technology that broadcasts the event around the world. In addition, the multi-year partnership with the Gibraltar Football Association (GFA) which renamed the Association's premier cup competition to the Gibtelecom Rock Cup, entered its third successful year. The Company also sponsored and helped make the difference to local charities, cultural events and sporting organisations during the year. In conjunction with HM Government of Gibraltar Ministry for Sports, Culture, Heritage and Youth, the Company sponsored other events, including the Gibraltar Literary Festival.

The containment of power consumption, despite the growth in technology, continues to drive the Company's green agenda. Power and carbon footprint reduction measures are in place and strictly adhered to and as a result power consumption was reduced by 4.2% year on year. In addition, a general energy saving program is enforced throughout all premises and the Company underwent an ESOS assessment conducted by independent assessors.

The Company is also on track to meet EU carbon emissions target of 146g/Km on its light commercial vehicles (LCVs) well before the 2020 deadline.

8. Future Developments

The future of Gibtelecom relies on the provision of Superfast network across Wireless and Broadband by launching both a 5G and a Fibre to the Home (FTTH) infrastructure. The new improved connectivity will enable the introduction of smart solutions for a Smart City ecosystem and the transformation of Digital Gibraltar. The improved networks will also ensure the best in class connectivity for our Consumer and Business customers in Gibraltar, hence offering a key building block for the economy of Gibraltar.

Gibtelecom will also benefit from the complementarity of its footprint in both Spain and Gibraltar and will continue to invest in solutions which are able to benefit its 2 business locations.

The strategy of Gibtelecom relies also on continuing to grow the business internationally by following our customers into new markets as they expand globally in areas such as Asia, Africa and South America. This strategy will encompass notably connectivity, data centre and cloud solutions.

9. Principal risks

Gibtelecom endeavours to serve both business and consumer customers with a wide range of services and offers, this diversity enables the Company to mitigate risks of downturn in a specific market or activity and compensate one with another. It is also the guarantee that the Company will remain a convergent player in the Telecom industry without specialising into a single niche activity which in turn will be a risk of overdependence towards a reduced number of customers. Gibtelecom's complete offerings notably in the domains of fixed line activity, mobile, broadband, TV, data centre, cloud solutions, international carriers enable the Company to attract different profile of customers or to retain its customers.

In 2019, the main factor of risk identified was the adverse impact of a disorderly Brexit with effects spanning from potential loss of revenue (notably through the relocation of the e-gaming businesses from Gibraltar), the potential loss of suitably qualified staff or the potential disruptions in the relationship with non UK suppliers or partners and on the overall supply chain. Gibtelecom continues to monitor the implications for its operations considering the new trading relationship between the UK and the EU, which has yet to be negotiated.

In order to mitigate the risks, the Company has reviewed the list of non-UK suppliers and is prepared to migrate to UK suppliers or extra EEA, should the supply chain management be disrupted. In relation to key employees and potential disruptions at the border, the Company has developed work from home and online collaboration tools in order to cope with a potential lack of fluidity at the border. Those tools have been tested "live" in 2020 during the COVID-19 lockdown and has proven successful. Besides, Gibtelecom is continuing to diversify its portfolio of activities both geographically and in nature in order to alleviate the dependency on one specific sector or industry.

10. Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and shall meet the liabilities as they fall due. Hence, the Directors confirm that the going concern basis of accounting continues to be an appropriate basis of preparation of the financial statements.

Specifically, in H1 2020, the potential impact of COVID-19 on the Company and the Group has been considered as part of the going concern assessment. The management, together with the Directors of the company, have taken into account the nature of the Group, its business model and related risk in order to reforecast its trading performance, its liquidity and its net debt. In addition to liquidity forecasts, the Company has considered the availability of credit facilities and funding. The Directors have also considered sensitivities in respect of COVID-19 potential downside scenarios. To date the Company has experienced no material disruption to the network and operations despite the increased bandwidth used by customers who are increasingly relying on online facilities for business and personal matters alike. Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements.

In July 2020, the Company has secured a new loan facility with a bank of up to £10 million which will help fund the investments for the next 3 years. The Management has reasonable expectations that the Company will be able to satisfy the loan covenants in respect of this new loan based on cash flow forecasts prepared. In case of unforeseen adverse performance, the Company will be able to adjust its variable costs and or trigger contingency plans and cost optimisation programs.

The Directors have considered the impact of the Coronavirus pandemic on the 31 December 2019 consolidated financial statements. Whilst this is expected to have a material impact going forward for the activity of the Company, it was considered to be a non-adjusting subsequent event for the 2019 Financial Statements.

11. Financial results

The Group turnover has grown year-on-year by £0.1 million, mostly driven by the growth in the mobile activity in Spain and despite the drop in international circuits which is affected worldwide by price reductions and increased competition. In line with the worldwide trends, our Mobile and fixed broadband revenues are adversely affected by the take up of OTT players like WhatsApp and the increased usage of mobile data in lieu of voice calls or fixed broadband. The revenue diversification in Spain enables to broadly offset the adverse effects on our legacy lines of business. Albeit cost control, the profitability of the business measured with the EBITDA (Earnings Before Interest Tax Depreciation and Amortisation) margin stood at 25.9% (vs. 32.6% in 2018), producing profits after taxation of £3.8 million (2018: £6.1 million). The decline in profitability is mainly driven by the costs to launch our new activity in Spain and by increased content costs towards Sofi, our IPTV product. The dividends declared in the year 2019 were £1.0 million (2018: £2.6 million).

The Company turnover has decreased year-on-year by £0.7 million, mostly driven by the drop in international circuits together with a decline in Mobile and Fixed Broadband revenues. Increase in costs of £0.6 million has meant that the profitability of the business measured with the EBITDA margin has dropped to 29.6% (vs. 32.6% in 2018) mainly on account of the costs to provide TV Content. In 2019, the Company profits after taxation stand at £4.5 million (2018: £5.6 million) where the Year on Year drop is driven by the EBITDA decline.

No further dividends recommended.

12. Directors and Management

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

Fabian Picardo	Chairman	British
Sir Joe Bossano		British
Noel Burrows	Chief Executive Officer	British (appointed 6 May 2019)
Albert Mena		British
Adrian Moreno	Chief Executive Officer / Chief Operating Officer	British (appointed 22 January 2019 resigned 6 May 2019)
Tim Bristow	Chief Executive Officer	British (resigned 22 January 2019)

An Executive Committee is responsible for the day-to-day management of Gibtelecom comprised of the Senior Management team and five Operational Directors.

The Senior Management team is comprised of the Chief Executive Officer and Board Director, Noel Burrows, together with the Chief Operations Officer, Adrian Moreno and the Chief Financial Officer, Matthieu Mamou.

Five Operational Directors complete the Executive Committee, Adrian Ochello (Consumer), Daniel Hook (Enterprise) Rab Paramothayan (Carriers and international), Jansen Reyes (Technology); and Peter Borge (Legal and HR).

13. 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 Company and the Group at the end of the financial year and of the profit or loss for that period 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. 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 and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements and that Gibraltar Financial Reporting 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 enable them to ensure that the financial statements comply with applicable law. 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.

14. Auditor

The retiring auditor, Deloitte Limited, has been re-appointed by the Company's Annual General Meeting.

By order of the Board

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Company Secretary

Date: - 4 DEC 2020

C. INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GIBTELECOM LIMITED

1. 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 the Company as at 31st December 2019 and of 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 comprehensive income;
- the consolidated balance sheet;
- the company balance sheet
- the consolidated statement of changes in equity;
- the company statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 29.

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

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.

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.

2. 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.

RBhambhwani

Reshma Bhambhwani (Statutory Auditor)
For and on behalf of Deloitte Limited
Statutory Auditor
Merchant House
22/24 John Mackintosh Square
GX11 1AA Gibraltar

- 4 DEC 2020

D. CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Note	2019 £	2018 £
Turnover	3	**42,161,824**	**42,039,802**
Operating expenses:			
Technical and infrastructure		(8,171,197)	(8,159,253)
Operational charges	7	(10,153,144)	(7,514,850)
Payments to telecommunications administrations		(1,778,348)	(1,895,044)
Staff costs	4	(11,179,083)	(10,765,045)
Depreciation	11	(4,431,091)	(4,462,626)
EIG Submarine Cable amortisation	13	(1,519,080)	(1,519,080)
Total operating expenses		**(37,231,943)**	**(34,315,898)**
Group operating profit		**4,929,881**	**7,723,904**
Gain on disposal of tangible fixed assets		19,180	16,385
Interest receivable on bank deposits		2,741	3,227
Interest payable and similar charges	8	(275,793)	(338,882)
Finance costs (financial component of pension charges)	22	(228,000)	(226,000)
Profit on ordinary activities before taxation		**4,448,009**	**7,178,634**
Tax on profit on ordinary activities	9	(603,525)	(1,087,408)
Profit on ordinary activities after taxation		**3,844,484**	**6,091,226**

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 parent Company made a profit for the year after taxation of £4,505,610 (2018: £5,633,150). The parent Company has not published its own profit and loss account in these consolidated financial statements.

The notes on pages 24 to 54 form part of these financial statements.

E. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Note	2019 £	2018 £
Profit for the financial year		**3,844,484**	**6,091,226**
Other comprehensive income/(loss):			
Re-measurement of net defined benefit liability	22	(6,039,000)	(373,000)
Movement in deferred tax relating to pension liability	9	997,800	(54,000)
Exchange differences arising from investments in foreign operations		(24,643)	43,260
Total comprehensive (loss) / income for the year		**(1,221,359)**	**5,707,486**

The notes on pages 24 to 54 form part of these financial statements.

F. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Fixed assets:					
Tangible fixed assets	12	35,551,942	35,534,502	33,678,761	33,857,588
Investments	13	0	0	12,000	12,000
EIG submarine cable	14	7,848,541	9,367,621	7,848,541	9,367,621
Total fixed assets		**43,400,483**	**44,902,123**	**41,539,302**	**43,237,209**
Current assets:					
Stocks	15	1,189,562	1,463,806	1,189,562	1,463,806
Debtors					
due within one year	16	13,671,493	12,218,179	17,507,720	14,728,059
due after one year	16	1,031,869	464,697	1,026,541	464,697
Cash at bank and in hand		5,345,717	3,519,840	4,592,861	1,392,710
Total current assets		**21,238,641**	**17,666,522**	**24,316,684**	**18,049,272**
Creditors, due within one year	17	(10,126,379)	(10,465,661)	(12,069,465)	(10,579,206)
Net Current Assets		**11,112,262**	**7,200,861**	**12,247,219**	**7,470,066**
Total assets, less current liabilities		**54,512,745**	**52,102,984**	**53,786,521**	**50,707,275**
Non-current liabilities:					
Creditors, due after one year	18	(7,265,901)	(7,745,427)	(7,265,901)	(7,745,427)
Provisions for liabilities	19	(13,437,145)	(8,326,499)	(13,404,948)	(8,310,586)
Total non-current liabilities		**(20,703,046)**	**(16,071,926)**	**(20,670,849)**	**(16,056,013)**
Net Assets		**33,809,699**	**36,031,058**	**33,115,672**	**34,651,262**
Capital and Reserves:					
Called up share capital	20	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		18,809,699	21,031,058	18,115,672	19,651,262
Equity shareholders' funds		**33,809,699**	**36,031,058**	**33,115,672**	**34,651,262**

Approved by the Board on - 4 DEC 2020

………………… ………………….

Director Director

The notes on pages 24 to 54 form part of these financial statements.

G. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Note	Called up share capital £	Share premium account £	Profit and loss account £	Total £
As at 1st January 2018		**15,000**	**14,985,000**	**17,920,798**	**32,920,798**
Profit for the financial year		0	0	6,091,226	6,091,226
Re-measurement gain recognised in other comprehensive income	22	0	0	(373,000)	(373,000)
Movement on deferred tax relating to pension schemes	9	0	0	(54,000)	(54,000)
Foreign exchange difference		0	0	46,034	46,034
Total comprehensive income		**15,000**	**14,985,000**	**23,631,058**	**38,631,058**
Dividends		0	0	(2,600,000)	(2,600,000)
As at 31st December 2018		**15,000**	**14,985,000**	**21,031,058**	**36,031,058**

Group	Note	Called up share capital £	Share premium account £	Profit and loss account £	Total £
As at 1st January 2019		**15,000**	**14,985,000**	**21,031,058**	**36,031,058**
Profit for the financial year		0	0	3,844,484	3,844,484
Re-measurement loss recognised in other comprehensive income	22	0	0	(6,039,000)	(6,039,000)
Movement on deferred tax relating to pension schemes	9	0	0	997,800	997,800
Foreign exchange difference		0	0	(24,643)	(24,643)
Total comprehensive income		**15,000**	**14,985,000**	**19,809,699**	**34,809,699**
Dividends		0	0	(1,000,000)	(1,000,000)
As at 31st December 2019		**15,000**	**14,985,000**	**18,809,699**	**33,809,699**

The notes on pages 24 to 54 form part of these financial statements.

H. COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

Company	Note	Called up share capital £	Share premium account £	Profit and loss account £	Total £
As at 1st January 2018		**15,000**	**14,985,000**	**17,045,112**	**32,045,112**
Profit for the financial year		0	0	5,633,150	5,633,150
Re-measurement gain recognised in other comprehensive income	22	0	0	(373,000)	(373,000)
Movement on deferred tax relating to pension schemes	9	0	0	(54,000)	(54,000)
Total comprehensive income		**15,000**	**14,985,000**	**22,251,262**	**37,251,262**
Dividends		0	0	(2,600,000)	(2,600,000)
As at 31st December 2018		**15,000**	**14,985,000**	**19,651,262**	**36,651,262**

Company	Note	Called up share capital £	Share premium account £	Profit and loss account £	Total £
As at 1st January 2019		**15,000**	**14,985,000**	**19,651,262**	**34,651,262**
Profit for the financial year		0	0	4,505,610	4,505,610
Re-measurement loss recognised in other comprehensive income	22	0	0	(6,039,000)	(6,039,000)
Movement on deferred tax relating to pension schemes	9	0	0	997,800	997,800
Total comprehensive income		**15,000**	**14,985,000**	**19,115,672**	**34,115,672**
Dividends		0	0	(1,000,000)	(1,000,000)
As at 31st December 2019		**15,000**	**14,985,000**	**18,115,672**	**33,115,672**

The notes on pages 24 to 54 form part of these financial statements.

I. CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Notes	2019 £	2018 £
Cash flows from operating activities:			
Group operating profit		4,929,881	7,723,904
Depreciation and amortisation charges		5,950,171	5,981,706
Difference of pension charge and cash contributions		(1,050,000)	(572,894)
Foreign exchange difference		(24,643)	43,260
Decrease in stocks	14	274,244	22,678
Increase in debtors	15	(781,809)	(191,673)
Increase/(decrease) in creditors	16, 17	786,825	(1,116,068)
Decrease in other provisions for liabilities and charges		0	(132,000)
Interest paid		(503,793)	(345,879)
Corporation tax paid		(782,867)	(1,352,747)
Net cash flows used in operating activities		**8,798,009**	10,060,287
Cash flows from investing activities:			
Interest received		2,741	3,227
Proceeds from sale of tangible fixed assets		19,180	16,385
Payments to acquire tangible fixed assets	11	(4,448,531)	(6,935,073)
Net cash flows used in investing activities		**(4,426,610)**	(6,915,461)
Cash flows from financing activities:			
Equity dividends paid		(1,000,000)	(2,600,000)
Repayment of bank borrowings	16, 17	(1,545,522)	(1,961,162)
Net cash flows used in financing activities		**(2,545,522)**	(4,561,162)
Net increase / (decrease) in cash and cash equivalents		**1,825,877**	(1,416,336)
Cash and cash equivalents at the beginning of the year		3,519,840	4,936,176
Cash and cash equivalents at the end of the year		**5,345,717**	**3,519,840**

The notes on pages 24 to 54 form part of these financial statements.

J. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 ("the Company") is a private company limited by shares and the company is incorporated in Gibraltar. The address and registered office is given on page 4. 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 the 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.

1.1. Basis of consolidation

The consolidated financial statements deal with the financial statements of Gibtelecom Limited ("the Company") and its wholly owned subsidiaries, Gibconnect Limited, Rockolo Limited and Zinnia Limited as at 31st December 2019. 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.

1.2. Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and shall meet the liabilities as they fall due. Hence, the Directors confirm that the going concern basis of accounting continues to be an appropriate basis of preparation of the financial statements.

Specifically, in H1 2020, the potential impact of COVID-19 on the Company and the Group has been considered as part of the going concern assessment. The management, together with the Directors of the company, have taken into account the nature of the Group, its business model and related risk in order to reforecast its trading performance, its liquidity and its net debt. In addition to liquidity forecasts, the Company has considered the availability of credit facilities and funding. The Directors have also considered sensitivities in respect of COVID-19 potential downside scenarios. To date the Company has experienced no material disruption to the network and operations despite the increased bandwidth used by customers who are increasingly relying on online facilities for business and personal matters alike. Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements.

In July 2020, the Company has secured a new loan facility with the bank of up to £10 million which will help fund the investments for the next 3 years. The Management has reasonable expectations that the Company will be able to satisfy the loan covenants in respect of this new loan based on cash flow forecasts prepared. In case of unforeseen adverse performance, the Company will be able to adjust its variable costs and or trigger contingency plans and cost optimisation programs.

The Directors have considered the impact of the Coronavirus pandemic on the 31 December 2019 consolidated financial statements. Whilst this is expected to have a material impact going forward for the activity of the Company, it was considered to be a non-adjusting subsequent event for the 2019 Financial Statements.

1.3. 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.

1.4. 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.

1.5. Operating leases

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

1.6. Provision for doubtful debts

Provision is made for all customer billed communication 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.

1.7. 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.

Plant and equipment	5% - 33%
Furniture, office equipment, software	15% - 33%
Motor vehicles	20% - 25%
Freehold land and building	2%
Leasehold land and building	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.

1.8. 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 are 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.

1.9. 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.

1.10. 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.

1.11. 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.

1.12. 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.

1.13. 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.

1.14. 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.

1.15. 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.

1.16. 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.

1.17. 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. Critical accounting judgments and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2.1. Critical accounting judgements

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 service costs are recognised immediately in the profit and loss account.

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.

2.2. Key sources of estimation uncertainty

Management believe that there are no areas of estimation uncertainty within the financial statements and relevant notes.

3. Segmental reporting

Gibtelecom's sole activity is the provision of various communications and related services. The table below shows how Gibtelecom's turnover is broken down in the main areas of the business.

Group	2019 £	2018 £
Wireless	14,201,373	12,156,125
Fixed line rentals and voice	5,106,600	5,771,441
Fixed Broadband	2,934,015	3,480,707
National circuits	1,871,577	2,087,673
International circuits	13,272,496	14,130,949
Data Centres	3,579,546	3,082,005
Miscellaneous	1,196,217	1,330,902
Total turnover	**42,161,824**	**42,039,802**

4. Staff costs

Group	2019 £	2018 £
Wages and salaries	8,954,559	8,466,925
Social security costs	401,109	303,879
Pension costs	1,823,415	1,994,241
Total staff costs	**11,179,083**	**10,765,045**

Pension costs are calculated by the actuary in line with GFRS 102 to show the calculated current and past service costs of the schemes. The total current costs in 2019 were £1,742,000 (2018: £1,933,000). The difference to the figures reported above reflects other pension charges/credits effected by Gibtelecom.

In 2019, the total pension cash contributions paid by the Company amounted to £3,080,000 (2018: £2,844,000) which is broken down between current costs as per above and related to present and future service costs, the remainder being broadly past services costs (which are remeasured every year based on current actuarial assumptions, see note 22).

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 comprising company directorate and departmental leaders (note 5) for the year totalled £3,026,001 (2018: £2,633,574). This remuneration includes salaries, allowances, pension costs and any other allowances and benefits.

5. 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.

Company	As at 31st December 2019 headcount	As at 31st December 2018 headcount	Average for the year 2019 headcount	Average for the year 2018 headcount
Chief Executive Officer, Chief Operations Officer and Chief Financial Officer:				
Corporate & Regulatory; Finance; Human Resources; Building & Stores and Support staff	22	22	21	22
Consumer Directorate				
Customer Services and Business Development	25	27	27	27
Enterprise Directorate				
Business & Data	10	9	9	9
International Carrier Directorate				
International	3	3	3	3
Technical Directorate				
Voice Services; Transport Networks; Technical Facilities; Networks Operation Centre; Mobile Radio; Information Technology; Information Systems; Transport Network; External plant and Zinnia	92	93	93	91
Total headcount	**152**	154	**153**	152

6. Directors' emoluments

The Directors of Gibtelecom did not receive emoluments from the Company for their services as Directors during the year (2018: £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 4).

7. Operating charges

Group	2019 £	2018 £
Included in operational charges are:		
Operating lease charges on rented properties	499,268	491,404
Foreign exchange gain/(loss)	79,043	44,326
Audit fees	99,750	99,750
Audit-related assurance services	21,000	21,000
Taxation compliance services	7,450	7,450

8. Interest payable

Group	2019 £	2018 £
Interest payable on mortgage financing and bank loans	275,793	338,882

9. Tax on profit on ordinary activities

9.1. Analysis of charge for the year

Group	2019 £	2018 £
Current tax:		
Gibraltar corporation tax on profit for the year	(1,122,724)	(1,484,411)
Foreign tax for the year	(56,809)	0
Unilateral tax relief for the year	80,739	0
Total current tax (A)	**(1,098,794)**	**(1,484,411)**
Deferred tax:		
Deferred tax movement on capital allowances (see note 18)	(121,646)	235,798
Deferred tax movement on foreign operations	616,915	161,205
Total deferred tax (B)	**495,269**	**397,003**
Tax on profit on ordinary activities (A) +(B)	**(603,525)**	**(1,087,408)**
Total current and deferred tax movement relating to Other Comprehensive Income (1)	**997,800**	**(54,000)**

(1) The movement on current and deferred tax relating to other comprehensive income is solely due to the increase in the deferred tax asset on the pension liability as at 31 December 2019 and arises due to the increase in the net defined benefit pension deficit.

9.2. Factors affecting tax charge for the year

Group	2019 £	2018 £
Profit on ordinary activities before taxation	4,448,009	7,178,634
Corporation tax at 20%	889,602	1,435,727
Effect of:		
Permanent timing differences (i)	(14,386)	(12,913)
Pension cost contribution in excess of net pension cost charge (ii)	(210,000)	(128,600)
Capital allowances in excess of depreciation (iii)	100,787	172,485
Separation of non-telecommunication activities (iv)	(133,589)	(113,927)
Availability of tax losses	612,791	163,880
Effect of tax on foreign subsidiaries	(122,481)	(32,241)
Corporation tax on profit for the year	**1,122,724**	**1,484,411**

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%.

(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.

10. Dividends

	2019		2018	
Company	Total £	Pence per share	Total £	Pence per share
Final dividend paid in respect of the prior year	1,000,000	66.67	2,600,000	173.33
Interim dividend paid in respect of the current year	0	0.00	0	0.00
Total	**1,000,000**	**66.67**	**2,600,000**	**173.33**

On 13 December 2019 the Board of Directors approved a final dividend of £1,000,000.

11. Tangible fixed assets

Group	Assets under construction /delivery	Freehold land and building	Leasehold land and building	Plant and equipment	Furniture, office equipment and software	Motor vehicles	Total
	£	£	£	£	£	£	£
Cost:							
At 1st January 2019	**5,932,861**	**5,147,915**	**12,411,977**	**69,904,700**	**2,658,031**	**742,077**	**96,797,561**
Additions	1,759,173	0	145,664	5,246,997	170,029	100,035	7,421,898
Transferred on completion	(2,973,368)						(2,973,368)
Disposals						(8,951)	(8,951)
At 31st December 2019	**4,718,666**	**5,147,915**	**12,557,641**	**75,151,697**	**2,828,060**	**833,161**	**101,237,140**
Accumulated depreciation:							
At 1st January 2019	**0**	**925,377**	**2,108,041**	**55,312,242**	**2,371,048**	**546,351**	**61,263,059**
Charge for the year	0	102,924	112,385	3,966,030	132,867	116,884	4,431,091
Disposals						(8,951)	(8,951)
At 31st December 2019	**0**	**1,028,301**	**2,220,426**	**59,278,272**	**2,503,915**	**654,284**	**65,685,198**
Net book value:							
At 31st December 2019	**4,718,666**	**4,119,614**	**10,337,215**	**15,873,425**	**324,145**	**178,877**	**35,551,942**
At 31st December 2018	**5,932,861**	**4,222,538**	**10,303,936**	**14,592,458**	**286,983**	**195,726**	**35,534,502**

Company	Assets under construction /delivery	Freehold land and building	Leasehold land and building	Plant and equipment	Furniture, office equipment and software	Motor vehicles	Total
	£	£	£	£	£	£	£
Cost:							
At 1st January 2019	**5,804,262**	**5,147,915**	**12,411,975**	**68,169,715**	**2,447,013**	**742,077**	**94,722,957**
Additions	1,731,830	0	145,664	5,104,811	8,983	100,035	7,091,323
Transferred on completion	(2,973,368)	0	0	0	0	0	(2,973,368)
Disposals	0	0	0	0	0	(8,951)	(8,951)
Intercompany transfers	0	0	0	(2,495,826)	0	0	(2,495,826)
At 31st December 2019	**4,562,724**	**5,147,915**	**12,557,639**	**70,778,700**	**2,455,996**	**833,161**	**96,336,135**
Accumulated depreciation:							
At 1st January 2019	**0**	**925,377**	**2,108,041**	**54,947,271**	**2,338,331**	**546,350**	**60,865,370**
Charge for the year	0	102,924	112,385	3,652,924	64,579	116,884	4,049,696
Disposals	0	0	0	0	0	(8,951)	(8,951)
Intercompany transfers	0	0	0	(2,248,741)	0	0	(2,248,741)
At 31st December 2019	**0**	**1,028,301**	**2,220,426**	**56,351,454**	**2,402,910**	**654,283**	**62,657,374**
Net book value:							
At 31st December 2019	**4,562,724**	**4,119,614**	**10,337,213**	**14,427,246**	**53,086**	**178,878**	**33,678,761**
At 31st December 2018	**5,804,262**	**4,222,538**	**10,303,934**	**13,222,444**	**108,682**	**195,727**	**33,857,588**

11.1. 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.

11.2. Assets pledged as security

Properties with a carrying value of £14,710,024 (2018: £14,710,024) 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.

11.3. Leasehold land and building

Leasehold land and building consist 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 in subsidiaries

Details of the investments in subsidiaries, based on the subsidiary undertakings' latest unaudited financial statements as at 31st December 2019:

Company	2019 £	2018 £
At 31st December	12,000	12,000

Name of company	Country of registration	Holding	Proportion held	Nature of business	Share of total net assets / (liabilities) £	Share of the year profit £
Gibconnect Limited	Gibraltar	4,000 ordinary shares of £1 each	100%	Non-trading	4,000	0
Rockolo Limited	Gibraltar	4,000 ordinary shares of £1 each	100%	Data centre (hosting) services	3,014,807	1,319,412
Zinnia Limited (1)	Gibraltar	4,000 ordinary shares of £1 each	100%	Holding company	28,909	2,891

(1) Zinnia Limited wholly owns Zinnia Telecommunicaciones SL (Zinniatel), a Spanish registered company running a Mobile Virtual Network Operation in Spain. As at 31st December 2019, Zinniatel's shareholding comprised of €110,000 of ordinary share capital and €3,495,000 of Preference Shares.

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 MIU's (Minimum Investment Units) for the Company over the initial investment. A further upgrade was done during 2017 resulting in further costs of £307k. During 2019 the Company has not made any further payments towards the EIG cable hence the cumulative total of payments made as at 31st December 2019 remains as £20,480,200 (2018: £20,480,200), entitling the Company to circa 3.81% 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.

Group and Company	2019 £	2018 £
At 1st January	10,886,701	12,405,781
Additions	0	0
Charged to the profit and loss account	(1,519,080)	(1,519,080)
At 31st December	**9,367,621**	**10,886,701**

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.

Group and Company	2019 £	2018 £
Fixed assets	7,848,541	9,367,621
Current assets	1,519,080	1,519,080
Total	**9,367,621**	**10,886,701**

14. Stocks

Group and Company	2019 £	2018 £
Goods for resale or consumption	1,189,562	1,463,806

15. Debtors

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Amounts falling due within one year:				
Trade debtors	5,746,817	3,781,918	7,319,897	6,701,317
Other debtors and prepayments	2,231,966	4,601,053	5,275,145	4,352,740
Deferred tax asset on foreign operations	780,032	161,206	0	0
Corporation tax receivable	869,998	629,122	869,998	629,122
Deferred tax asset on pension liability	2,523,600	1,525,800	2,523,600	1,525,800
EIG submarine cable	1,519,080	1,519,080	1,519,080	1,519,080
Total	**13,671,493**	**12,218,179**	**17,507,720**	**14,728,059**

	2019	2018 £	2019	2018 £
Amounts falling due after one year (1):				
Prepaid capacity use of SMW4 cable	978,509	416,667	978,509	416,667
Security deposits	53,360	48,030	48,032	48,030
Total	**1,031,869**	**464,697**	**1,026,541**	**464,697**
Total debtors	**14,703,362**	**12,682,876**	**18,534,261**	**15,192,756**

(1) excluding the EIG cable

	2019 £	2018 £	2019 £	2018 £
Deferred tax asset on pension liability				
At 1st January	1,525,800	1,579,800	1,525,800	1,579,800
Charged to other comprehensive income	997,800	(54,000)	997,800	(54,000)
At 31st December	**2,523,600**	**1,525,800**	**2,523,600**	**1,525,800**

16. Creditors: amounts falling due within one year

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade creditors	3,858,635	3,571,616	3,732,374	3,800,783
Amounts due to subsidiaries (1)	0	0	12,000	12,000
Bank borrowings	759,801	1,524,646	759,801	1,524,646
Other creditors	15,755	38,719	15,755	25,025
PAYE and social insurance	189,208	176,097	181,401	176,097
Corporation tax	53,817	113,927	0	0
Accruals and deferred income	5,249,163	5,040,656	7,368,134	5,040,656
Total	**10,126,379**	**10,465,661**	**12,069,465**	**10,579,206**

(1) unpaid share capital

16.1. Bank borrowings

Gibtelecom has three loan facilities in place, and as at 31st December 2019 the total balance due within one year was £759,801 (2018: three loans totalling £1,524,646) and a further £4,933,368 (2018: three loans totalling £5,714,045) is due after one year (note 17).

16.2. 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 £1,685,032 as at 31st December 2019 (2018: £2,030,092). 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 at 3.5% above LIBOR and maturity date is July 2020.

16.3. 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. During 2019, the entire balance due on this loan was repaid during the first quarter of the year.

16.4. 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 circa $31.6 million which currently equates to a circa 3.81% ownership in the EIG consortium. As at 31st December 2019 the balance of the EIG loan of £8,000,000 remaining to be repaid was £408,137 (2018: £1,372,349). 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 at 3.5% above LIBOR and maturity date is April 2020.

16.5. Haven building

Gibtelecom purchased the leasehold Haven building in John Mackintosh Square from HM Government of Gibraltar in January 2014. As at 31st December 2019 the balance repayable on the loan stood at

£3,600,000 (2018: £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. 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 an interest only loan while the Company is redeveloping the building.

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

Group and Company	2019 £	2018 £
Mortgage finances:		
15/21 John Mackintosh Square	1,333,368	1,690,799
Haven building	3,600,000	3,600,000
Bank borrowings:		
EIG submarine cable system	0	423,246
Accruals and deferred income:		
EIG onward sale of capacity deferred revenue	2,332,533	2,031,382
Total	**7,265,901**	**7,745,427**

17.1. Maturity profile of bank loans

The maturity profile of the carrying amount of the bank loans falling due after more than one year at 31st December 2019 was as follows:

Group and Company	2019 £	2018 £
In more than one year but not more than two years	711,664	1,122,539
In more than two years but not more than five years	2,061,704	2,097,877
In more than five years	2,160,000	2,493,629
Total	**4,933,368**	**5,714,045**

See note 17 for the carrying amount of the bank loans falling due within one year as at 31st December 2019.

18. Provisions for liabilities

Group	Deferred tax liability £	Net defined benefits pension deficit £	Total £
At 1st January 2019	**(697,499)**	**(7,629,000)**	**(8,326,499)**
Payments made during the year	0	0	0
Charged to the profit and loss account	(121,646)	(4,989,000)	(5,110,646)
At 31st December 2019	**(819,145)**	**(12,618,000)**	**(13,437,145)**

Company	Deferred tax liability £	Net defined benefits pension deficit £	Total £
At 1st January 2019	**(681,586)**	**(7,629,000)**	**(8,310,586)**
Payments made during the year	0	0	0
Charged to the profit and loss account	(105,362)	(4,989,000)	(5,094,362)
At 31st December 2019	**(786,948)**	**(12,618,000)**	**(13,404,948)**

18.1. Deferred tax provision

Group	2019 £	2018 £
At 1st January	(697,499)	(933,297)
Charged to the profit and loss account	(121,646)	235,798
At 31st December	**(819,145)**	**(697,499)**

The deferred tax liability is broken down as follows:

Company	2019 £	2018 £
Accelerated capital allowances	(819,145)	(697,499)

19. Called up share capital and reserves

Group and Company	2019 £	2018 £
Authorised, issued and fully paid:		
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
Total shares	**15,000**	**15,000**

Group and Company	2019 £	2018 £
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. There are no differences in the rights and restrictions attached to these share classes.

20. Analysis of net cash, liquid resources and borrowings

Group	Bank balances £	Less bank loans £	Total Net debt £
At 31st December 2018	3,519,840	(7,238,691)	(3,718,851)
Cash movement	1,825,877	1,545,522	3,371,399
At 31st December 2019	**5,345,717**	**(5,693,169)**	**(347,452)**

Company	Bank balances £	Less bank loans £	Total Net debt £
At 31st December 2018	1,392,710	(7,238,691)	(5,845,981)
Cash movement	3,200,151	1,545,522	4,745,674
At 31st December 2019	**4,592,861**	**(5,693,169)**	**(1,100,307)**

21. Reconciliation of net cash flow to movement in net debt

Group	2019 £	2018 £
Net debt as at 1st January	(3,718,851)	(4,037,677)
Movement in cash	1,825,877	(1,416,336)
Movement in borrowings	1,545,522	1,735,162
Net debt as at 31st December	**(347,452)**	**(3,718,851)**

Company	2019 £	2018 £
Net debt as at 1st January	(5,845,981)	(4,037,677)
Movement in cash	3,200,151	(3,543,466)
Movement in borrowings	1,545,522	1,735,162
Net debt as at 31st December	**(1,100,307)**	**(5,845,981)**

22. Pension commitments

22.1. Overview

The Company operates two pension schemes for Gibtelecom employees. First, the Gibraltar Nynex Communications Limited Staff Pension Scheme (GNC scheme) which covers former GNC employees and most new joiners to Gibtelecom since 2002. Second, the Gibtel Pension Fund for former Gibtel employees which has since 2002 been closed to new members. Both schemes provide defined retirement benefits based on final pensionable salary. The Company has 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, the members of both pension schemes employed prior to 1 June 2011 can elect to retain the previous normal retirement age of 60 years.

The GNC Scheme is contracted out to a pensions provider, Clerical Medical Investment Group Limited (CMIG).

22.2. Actuarial reviews

The latest independent triennial actuarial valuations of the two schemes were carried out as at 1 August 2017, completed in July 2019 and the recommendations adopted by the Company have taken effect as from 1 August 2019.

The actuarial valuations as per GFRS 102 as at 31st December 2019 were completed in March 2020 for both schemes and are based on an update of the triennial valuation carried out as at 1 August 2017, thereby introducing an element of approximation relative to the result of hypothetical full actuarial valuations for GFRS 102 as at 31st December 2019.

Future service contribution rates and past service deficit contributions are derived from the triennial actuarial valuation carried out as at 1 August 2017, completed in July 2019.

22.3. Contributions

Under the GNC Scheme, the employers' contributions are 36.4% of basic salaries. The Company's total contributions to the GNC Scheme for 2019 amounted to £2,080,000 (2018: £2,034,000). These contributions also include an additional annual contribution made during the year of £360,000 (2018: £270,000) which cover past service liabilities. There were no exceptional pensions payments effected in respect of voluntary separations in 2019 (2018: £nil).

The additional annual contribution for past service liabilities calculated by the Triennial actuarial valuation as at 1 August 2017 assumes that the past service liability deficit will be recovered over a period of 10 years starting in July 2019 and finishing in July 2029. 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 actuarial valuation as at 1 August 2017 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 £3,321,000, with the level of asset cover being 88% at the valuation date.

Under the Gibtel Scheme, the employers' contributions are 41.3% of basic salaries and the employees' contribution is 5% or 6.5% depending on the individual's circumstances. The Company's total contributions to the Gibtel Scheme for 2019 amounted to £1,000,000 (2018: £810,000). These contributions also include an additional annual contribution made during the year of £683,100 (2018: £650,475) which covers past service liabilities. There were no exceptional pensions payments effected in respect of voluntary separations in 2019 (2018: £nil).

The additional annual contribution for past service liabilities calculated by the Triennial actuarial valuation as at 1 August 2017 is based on the assumption that the past service liability deficit will be recovered over a period of 10 years starting in

January 2018 and finishing in January 2027. The actuarial valuation as at 1 August 2014 indicated that the Gibtel Scheme's obligations in respect of past service liabilities exceeded the value of the assets of the Scheme at that date by £6,000,000, with the level of asset cover being 71% at the valuation date. The 2017 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 £7,250,000. The level of asset cover is 72% at the valuation date.

22.4. 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 31st December 2019 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.

The GNC Scheme has purchased annuities with CMIG in respect of pensioners and dependents when members retire. Prior to the introduction of GFRS102, 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, as from 2017, 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 in 2017, 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 to include them in both the valuation of the Defined Benefit Obligations (DBO), and the assets for the year ending 31st December 2016 and onwards.

22.5. Main assumptions

As at 31st December 2018 and 2019, the Directors have set the major assumptions as set out below, based on reviews and recommendations made by actuaries:

Group and Company	2019	2018
Rate of increase in salaries	2.1%	2.4%
Rate of increase in pensions payment	3.0%	3.0%
Discount rate	2.1%	3.0%
Inflation	2.1%	2.2%

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

Group and Company	2019	2018
Male aged 60 now	26.4 years	26.3 years
Male aged 45 now, from 60	27.4 years	27.4 years
Female aged 60 now	28.9 years	28.8 years
Female aged 45 now, from 60	30.0 years	29.9 years

22.6. GNC Scheme

(i) Analysis of the scheme assets:

GNC scheme	2019 £	2018 £
Pension contracts	51,646,000	44,196,000
Market value of assets	51,646,000	44,196,000
Present value of liabilities	(53,444,000)	(43,505,000)
Net pension (liability) / asset	**(1,798,000)**	**691,000**

The scheme has a number of purchased annuities in respect of past retirements.

Following discussions with the Scheme Actuaries and the Company's auditors in 2017, the Company decided to value these annuities under GFRS 102 and have included these in the valuation of the Defined Benefit Obligations (DBO) and the assets for the year ending 31st December 2016 onwards.

(ii) Analysis of amounts charged to operating profit:

GNC scheme	2019 £	2018 £
Current service cost	(1,392,000)	(1,543,000)
Administration costs	(20,000)	(12,000)

(iii) **Analysis of amounts charged to finance costs:**

GNC scheme	2019 £	2018 £
Net interest on net defined benefit liability	12,000	4,000

(iv) **Analysis of amounts recognised in consolidated statement of comprehensive income:**

GNC scheme	2019 £	2018 £
Actuarial (loss) / gain arising during the year	(8,186,000)	831,000
Return on plan assets greater / (less) than discount rate	5,017,000	(1,384,000)
Actuarial loss recognised in consolidated statement of comprehensive income	**(3,169,000)**	**(553,000)**

(v) **Amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit scheme:**

GNC scheme	2019 £	2018 £
Present value of defined benefit obligations	(53,444,000)	(43,505,000)
Fair value of scheme assets	51,646,000	44,196,000

(vi) **Movement in the present value of defined benefit obligations:**

GNC scheme	2019 £	2018 £
At 1st January	(43,505,000)	(42,765,000)
Current service cost	(1,392,000)	(1,543,000)
Interest costs	(1,339,000)	(1,191,000)
Actuarial (loss) / gain	(8,186,000)	831,000
Benefits paid	978,000	1,163,000
At 31st December	**(53,444,000)**	**(43,505,000)**

(vii) **Movement in the fair value of schemes assets at the balance sheet date:**

GNC scheme	2019 £	2018 £
At 1st January	44,196,000	43,526,000
Total return on plan assets	6,368,000	(189,000)
Employer contributions	2,080,000	2,034,000
Benefits paid	(978,000)	(1,163,000)
Administrative costs paid	(20,000)	(12,000)
At 31st December	**51,646,000**	**44,196,000**

22.7. Gibtel Scheme

(i) Analysis of the scheme assets:

Gibtel scheme	2019 £	2018 £
Equities	7,664,600	8,197,200
Debt securities	9,278,200	6,593,400
Cash and other assets	3,227,200	3,029,400
Market value of assets	20,170,000	17,820,000
Present value of liabilities	(30,990,000)	(26,140,000)
Net pension liability	**(10,820,000)**	**(8,320,000)**

(ii) Analysis of amounts charged to operating profit:

Gibtel scheme	2019 £	2018 £
Current service cost	(350,000)	(390,000)
Administration costs	(40,000)	(30,000)

(iii) Analysis of amounts charged to finance costs:

Gibtel scheme	2019 £	2018 £
Net interest on net defined benefit liability	(240,000)	(230,000)

(iv) Analysis of amounts recognised in consolidated statement of comprehensive income:

Gibtel scheme	2019 £	2018 £
Actuarial (loss) / gain arising during the year	(4,400,000)	1,630,000
Return on plan assets greater / (less) than discount rate	1,530,000	(1,450,000)
Actuarial (loss) / gain recognised in consolidated statement of comprehensive income	**(2,870,000)**	**180,000**

(v) Amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit scheme:

Gibtel scheme	2019 £	2018 £
Present value of defined benefit obligations	(30,990,000)	(26,140,000)
Fair value of scheme assets	20,170,000	17,820,000

(vi) Movement in the present value of defined benefit obligations:

Gibtel scheme	2019 £	2018 £
At 1st January	(26,140,000)	(27,350,000)
Current service cost	(350,000)	(390,000)
Interest costs	(780,000)	(740,000)
Actuarial (loss) / gain	(4,400,000)	1,630,000
Benefits paid	750,000	770,000
Participants' contributions	(70,000)	(60,000)
At 31st December	**(30,990,000)**	**(26,140,000)**

(vii) Movement in the fair value of schemes assets at the balance sheet date:

Gibtel scheme	2019 £	2018 £
At 1st January	17,820,000	18,690,000
Total return on plan assets	2,070,000	(940,000)
Employer contributions	1,000,000	810,000
Benefits paid	(750,000)	(770,000)
Administrative costs paid	(40,000)	(30,000)
Participants' contributions	70,000	60,000
At 31st December	**20,170,000**	**17,820,000**

22.8. Both Schemes

(i) Analysis of the schemes assets:

Both schemes	2019 £	2018 £
Pension contracts	51,646,000	44,196,000
Equities	7,664,600	8,197,200
Debt securities	9,278,200	6,593,400
Cash and other assets	3,227,200	3,029,400
Market value of assets	71,816,000	62,016,000
Present value of liabilities	(84,434,000)	(69,645,000)
Net pension liability	**(12,618,000)**	**(7,629,000)**

(ii) Analysis of amounts charged to operating profit:

Both schemes	2019 £	2018 £
Current service cost	(1,742,000)	(1,933,000)
Administration costs	(60,000)	(42,000)

(iii) Analysis of amounts charged to finance costs:

Both schemes	2019 £	2018 £
Net interest on net defined benefit liability	(228,000)	(226,000)

(iv) Analysis of amounts recognised in consolidated statement of comprehensive income:

Both schemes	2019 £	2018 £
Actuarial (loss) / gain arising during the year	(12,586,000)	2,461,000
Return on plan assets greater / (less) than discount rate	6,547,000	(2,834,000)
Actuarial loss recognised in consolidated statement of comprehensive income	**(6,039,000)**	**(373,000)**

(v) Amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit scheme:

Both schemes	2019 £	2018 £
Present value of defined benefit obligations	(84,434,000)	(69,645,000)
Fair value of schemes assets	71,816,000	62,016,000

(vi) Movement in the present value of defined benefit obligations:

Both schemes	2019 £	2018 £
At 1st January	(69,645,000)	(70,115,000)
Current service cost	(1,742,000)	(1,933,000)
Interest costs	(2,119,000)	(1,931,000)
Actuarial (loss) / gain	(12,586,000)	2,461,000
Benefits paid	1,728,000	1,933,000
Participants' contributions	(70,000)	(60,000)
At 31st December	**(84,434,000)**	**(69,645,000)**

(vii) Movement in the fair value of schemes assets at the balance sheet date:

Both schemes	2019 £	2018 £
At 1st January	62,016,000	62,216,000
Total return on plan assets	8,438,000	(1,129,000)
Employer contributions	3,080,000	2,844,000
Benefits paid	(1,728,000)	(1,933,000)
Administrative costs paid	(60,000)	(42,000)
Participants' contributions	70,000	60,000
At 31st December	**71,816,000**	**62,016,000**

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 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

As at 31st December 2019, the Group had ongoing commitments for capital expenditure of £3,347,000 (£2018: £3,548,700) and the Company had ongoing commitments for capital expenditure of £3,136,600 (2018: £3,392,700).

The latest operational capital budget for 2020 for the Group is £14,245,000 (2018 Group: £13,498,000 and Company: £13,123,000) excluding further EIG submarine cable investment.

25. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Due within one year	397,600	387,900	261,800	252,500
Due between one and five years	543,000	543,200	543,200	543,200
Due later than five years	407,400	407,400	407,400	407,400
Total	**1,348,000**	**1,338,500**	**1,212,400**	**1,203,100**

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.

27. Contingent liability

The Company is involved in an ongoing legal case in respect of the right of use of some assets. At present, there are no certainties in relation to the outcome of this legal case which may or may not crystallise in an outflow of resources embodying economic benefits.

28. Subsequent events

The Directors consider the COVID-19 pandemic during 2020, and the associated government measures in Gibraltar in response, as a non-adjusting post balance sheet event.

Specifically, in H1 2020, the potential impact of COVID-19 on the Company and the Group has been considered as part of the going concern assessment.

The management, together with the Directors of the company, have taken into account the nature of the Group, its business model and related risk in order to reforecast its trading performance, its liquidity and its net debt. In addition to liquidity forecasts, the Company has considered the availability of credit facilities and funding. The Directors have also considered sensitivities in respect of COVID-19 potential downside scenarios.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

In July 2020, the Company has secured a new loan facility with the bank of up to £10 million which will help fund the investments for the next 3 years.

The Management has reasonable expectations that the Company will be able to satisfy the loan covenants. In case of unforeseen adverse performance, the Company will be able to adjust its variable costs and or trigger contingency plans and cost optimisation programs.

End