

GIBTELECOM

SMP REGULATED ACCOUNTS

FOR YEAR ENDED 31 DECEMBER 2010



REGULATORY FINANCIAL STATEMENTS

RESUBMITTED

Gibtelecom SMP Regulated Accounts

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Introduction

Gibtelecom has been designated by the Gibraltar Regulatory Authority (GRA) through Decision Notices 03/08, 04/08 and 05/08, as having Significant Market Power (SMP) in the wholesale mobile, wholesale fixed, and retail fixed markets respectively. Gibtelecom is required to prepare and maintain accounting records to provide information to reflect as closely as possible the performance of different activities within the business. With the new SMP requirements, the GRA requires audited separated accounts to be provided on an annual basis by the end of every September.

In August 2008, the GRA released Statement 07/08 on 'Accounting Separation, Cost Orientation, Cost Accounting methods and compliance under SMP obligations'. This Statement describes, at a high level, the principles to be applied to accounting separation, the methodology to be used for cost orientation, and the implementation of cost accounting systems. In February 2011 the GRA released a further document (Decision Notice 01/11) building on Statement 07/08 and providing additional guidance and requirements on accounting separation. Gibtelecom has used the guidelines set out under the Statement and Decision Notice as the basis for the production of its separated accounts.

Gibtelecom's first two Accounting Separation Reports (ASR) (July 2001 and March 2004) had been prepared by external consultants in line with Historical Cost Accounting (HCA) principles. The third submission (November 2004) was prepared using the available in-house expertise and produced, for the first time, applying Current Cost Accounting (CCA) methodologies. The principles applied are explained in Section 6 below.

Following on from the GRA's new SMP obligation requirements in August 2008, Gibtelecom submitted a fourth iteration of the ASR, also using CCA methodologies, in March 2009. In order to meet the new SMP requirements, in particular to provide separated financial information on wholesale fixed services, Gibtelecom contracted the services of external consultants to set-up and populate a completely new complex ASR costing model. A further ASR was submitted in September 2009. This report (the Fixed services ASR) focused on fixed line services and identified the mobile profit and loss unit as a whole. An additional ASR (the sixth to date) disaggregating wholesale mobile services was subsequently submitted to the GRA in April 2010. The information contained in this later ASR was not available at the time the fixed services ASR was submitted. A seventh ASR, combining both fixed and mobile services for the first time, was submitted in September 2010. This submission was represented in December of the same year following some additional reporting requirements by the GRA.

The same approach has been followed for the submission of this, the Company's eighth ASR to date, which again has been produced entirely in-house. The fixed ASR costing model was populated and used to separate the various wholesale and retail fixed business streams, together with calculating the mobile business as a unitary whole. A separate costing model was subsequently employed to disaggregate this business into wholesale mobile services. As for the previous ASR (2009 financial data), this ASR presents the combined results of each separate ASR exercise.

This document, "GIBTELECOM ASR 2010 FINANCIAL STATEMENTS" contains the financial statements resulting from the ASR exercise. Two other documents; "GIBTELECOM ASR 2010 ACCOUNTING DOCUMENTS"; and "GIBTELECOM ASR 2010 ATTRIBUTION METHODOLOGY DOCUMENT" provide further supportive information on the work underpinning these financial statements. The separation of this information into three separate documents is a new requirement of the GRA's Decision Notice 01/11.

Separated financial statements have been prepared for the following wholesale mobile and wholesale and retail fixed activities:

Activities

Wholesale Core Network	Fixed origination Fixed termination Leased Lines Remaining activities
Wholesale Access Network	Unbundled access Broadband access Remaining activities
Retail	Fixed Access Fixed domestic calling Fixed international calling
Wholesale mobile Network	Voice termination
Remaining activities	n/a

In accordance with the GRA's requirements, Gibtelecom has calculated variable fixed interconnection (termination) rates for Standard and Cheap charging periods. These are based on a tariff gradient using a retail revenue per minute allocation. A blended mobile voice termination rate has also been calculated.

The fixed services calculations shown in Section 5.2 show a Standard rate interconnection charge of 2.6 pence per minute and a Cheap rate interconnection charge of 0.9 pence per minute. Standard rate and Cheap rate access charges of 2.7 pence per minute and 0.9 pence per minute respectively have also been calculated.

Section 5.2 also shows an average mobile voice termination rate of 10.5 pence per minute.

The mobile separated accounts deal with the disaggregation of the wholesale mobile activities recorded in the Fixed Services ASR 2010 that covered wholesale core and access networks and retail services.

As with the previous ASR submissions, the cost of Gibtelecom carrying Universal Service Obligations have not been factored into the interconnection charge. Gibtelecom, however, reserves its right to seek funding of its Universal Service Obligations in accordance with the applicable EU and Gibraltar communications legislation, and this may be the subject of a separate submission.

The separated accounts are prepared in accordance with the accounting documents which set out the framework under which the statements are to be prepared.

1. REGULATORY FINANCIAL STATEMENTS – This document herein shows the separated accounts and includes a Statement of Unit Costs showing, amongst others, separate fixed and national termination charges; a Statement of Transfer Charges explaining how charges are raised and revenue recorded from Gibtelecom's various regulated businesses / activities.
2. ACCOUNTING DOCUMENT – This document explains the following: Regulatory accounting principles, which lay out the general rules by which the separated accounts should be prepared; accounting policies, which detail the accounting policies adopted in preparing the underlying financial information; description of the costing model; methods of revaluation; and a detailed description of the weighted average cost of capital (WACC) calculation.
3. CONTRIBUTION METHODOLOGY DOCUMENT – This document explains how revenue, costs, assets and liabilities are attributed to the network elements and activities.

Statement of responsibility

The GRA has imposed SMP accounting separation obligations on Gibtelecom in the wholesale mobile voice termination and a number of relevant fixed wholesale and retail markets. These obligations require Gibtelecom to compile profit and loss accounts, and associated statements of capital employed (balance sheets) for these relevant markets. These are known as SMP Regulated Accounts and are contained with the following three separate documents.

1. **FINANCIAL STATEMENTS** – This document herein shows the separated accounts and includes a Statement of Unit Costs showing, amongst others, separate fixed and national termination charges; a Statement of Transfer Charges explaining how charges are raised and revenue recorded from Gibtelecom's various regulated businesses / activities.
2. **ACCOUNTING DOCUMENT** – This document explains the following: Regulatory accounting principles, which lay out the general rules by which the separated accounts should be prepared; accounting policies, which detail the accounting policies adopted in preparing the underlying financial information; description of the costing model; methods of revaluation; and a detailed description of the weighted average cost of capital (WACC) calculation.
3. **ATTRIBUTION METHODOLOGY DOCUMENT** – This document explain how revenue, costs including transfer charges, assets and liabilities are attributed to the network elements and activities.

Gibtelecom is required by the GRA to submit independently audited SMP Regulated Accounts within nine months of the Company's financial year end (currently 31 December).

The SMP Regulated Accounts for the year ended 31 December 2010 therefore comprise for each relevant market:

1. a profit and loss account;
2. a statement of mean capital employed (balance sheet)

They also include:

3. a consolidation and reconciliation with statutory accounts;
4. descriptions of the costing methodologies used, including references to cost base and standards, allocated and valuation methodologies, identification and treatment of indirect costs;
5. non-discrimination notes (transfer charges statement);
6. a description of accounting policies and regulatory accounting principles; and
7. National termination and origination calculations.

Gibtelecom confirms that the SMP Regulated Accounts for the year ended 31 December 2010 contained herein have been reconciled to the Gibtelecom audited statutory accounts and to the best of its knowledge and commitment have been prepared in accordance with the requirements of the relevant governing EU and Gibraltar communications legislation.



Francis Lopez
Business Director
25 April 2012



Dwayne Lara
Regulatory Manager
25 April 2012



Report of the Independent Auditors to Gibtelecom Limited

We have examined the SMP Regulated Accounts for 2010, which consist of the Regulatory Financial Statements, the Attribution Methodologies and the Accounting Documents (the "SMP Regulated Accounts"), and which include information in respect of economic markets in which Gibtelecom Limited (the "Company") has Significant Market Power ("SMP") obligations.

These SMP Regulated Accounts for 2010 set out the statements required by Decision and Obligations – Wholesale Mobile Markets – Statement 03/08, Decision and Obligations – Wholesale Fixed Markets – Statement 04/08; and Decision and Obligations – Wholesale Retail Markets – Statement 05/08.

Statements 03/08, 04/08 and 05/08 were issued on 11 August 2008 by the Gibraltar Regulatory Authority.

For the purposes of this report and opinion, the reference to the "SMP Regulated Accounts" herein and henceforth refers to the SMP Regulated Accounts prepared in compliance with Statement 03/08, 04/08 and 05/08.

The SMP Regulated Accounts are prepared by the Company in accordance with:

- the Communications Act 2006;
- Accounting Separation, Cost Orientation, Cost Accounting methods and compliance under SMP Obligations – Statement No. 07/08 issued on 11 August 2008 by the Gibraltar Regulatory Authority; and
- Accounting Separation and Cost Accounting Systems – Statement No. 01/11 issued on 22 February 2011 by the Gibraltar Regulatory Authority.

The SMP Regulated Accounts comprise the following statements for the year ended 31 December 2010:

- profit and loss statements;
- capital employed statements;
- reconciliation of the profit and loss statements with the statutory accounts;
- a description of the costing methodologies;
- non-discrimination notes (transfer charges statement);
- a description of accounting policies and regulatory accounting principles;
- a statement of compliance with Community and national rules; and
- interconnection calculations.

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Report of the Independent Auditors to Gibtelecom Limited - continued

Respective responsibilities of the Company and auditors

The Company is responsible for preparing and approving these SMP Regulated Accounts. Our responsibilities, as independent auditors, are established by the Gibraltar Regulatory Authority statements and guidance and our profession's ethical guidance.

Our responsibility is to audit these SMP Regulated Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing. This report, including the opinion, has been prepared for and only for the Company and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report our opinion as to whether these SMP Regulated Accounts are properly prepared in accordance with:

- the Communications Act 2006;
- Accounting Separation, Cost Orientation, Cost Accounting methods and compliance under SMP Obligations – Statement No. 07/08 issued on 11 August 2008 by the Gibraltar Regulatory Authority; and
- Accounting Separation and Cost Accounting Systems – Statement No. 01/11 issued on 22 February 2011 by the Gibraltar Regulatory Authority

We also report whether, in forming that opinion, anything has come to our attention that would lead us to conclude that the principles and procedures contained in these SMP Regulated Accounts have not been properly applied in the preparation of these SMP Regulated Accounts.

Basis of audit opinion

The Company has prepared these SMP Regulated Accounts by disaggregating balances recorded in the general ledgers and other accounting records of the Company and its subsidiary maintained in accordance with the Companies Act and used, in accordance with that Act, for the preparation of the Company's statutory consolidated financial statements for the year ended 31 December 2010 ("the Statutory Financial Statements").

We have audited the Statutory Financial Statements on which we expressed an unqualified audit opinion. In conducting our subsequent examination of these SMP Regulated Accounts, and in providing the opinions in the paragraph below, we have not performed any additional tests of the transactions and balances which are recorded in the general ledgers and other accounting records beyond those already performed for the purpose of the audit of the Statutory Financial Statements.



**Report of the Independent Auditors
to Gibtelecom Limited - continued**

Having regard to the above:

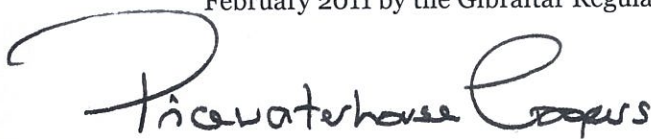
(i) we conducted our examination of these SMP Regulated Accounts in accordance with International Standards on Auditing. Our work included examination on a test basis, of evidence relevant to the amounts and disclosures in these SMP Regulated Accounts. We also included an assessment of the significant estimates and judgements made by the Company in their preparation;

(ii) we planned and performed our examination of these SMP Regulated Accounts so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that these SMP Regulated Accounts are properly prepared in accordance with the accounting documents, the attribution methodologies, the Communications Act 2006 and the Gibraltar Regulatory Authority statements. However, the applicable legislation contains only the high level principles of attribution and contains only the procedures describing how these high level principles are applied. In forming our opinion we also evaluated the overall adequacy of the presentation of information in these SMP Regulated Accounts.

Opinion

In our opinion, the SMP Regulated Accounts for the year ended 31 December 2010 have been properly prepared in accordance with the accounting documents and the attribution methodologies and complies with the requirements of:

- the Communications Act 2006 issued 5 May 2006 by Government of Gibraltar; and
- Accounting Separation, Cost Orientation, Cost Accounting methods and compliance under SMP Obligations – Statement No. 07/08 issued on 11 August 2008 by the Gibraltar Regulatory Authority; and
- Accounting Separation and Cost Accounting Systems – Statement No. 01/11 issued on 22 February 2011 by the Gibraltar Regulatory Authority


PricewaterhouseCoopers

25 April 2012

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SMP Regulated Financial Statements for the Year Ended 31 December 2010

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1. Separated Accounts Schedules

1.1 The schedules for the various separated accounts are found below.

**1.1.1 Wholesale Core Network
 Summary for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	12,179	12,100
External sales	54	48
Regulated rate of return adjustment	-	-
Total turnover	12,233	12,148
Operating costs specific to service	8,088	8,064
Exceptional operating costs specific to service		
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	518	262
Total operating costs	8,606	8,326
Return	3,627	3,822

**1.1.2 Wholesale Core Network
 Summary for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	27,348	24,535
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	27,348	24,535
Current assets		
Stock	168	184
Debtors	272	237
Other	2,601	3,425
Total current assets	3,041	3,846
Creditors	(5,867)	(3,405)
Provisions for liabilities and charges	(830)	-
Mean capital employed	23,692	24,976

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	3,627	3,822
Mean capital employed	23,692	24,976
Return on mean capital employed	15%	15%

**1.1.3 Wholesale Core Network
 Fixed origination for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	175	188
External sales	33	33
Regulated rate of return adjustment	-	-
Total turnover	208	221
Operating costs specific to service	168	176
Exceptional operating costs specific to service		
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	7	3
Total operating costs	175	179
Return	33	42

**1.1.4 Wholesale Core Network
 Fixed origination for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	234	257
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	234	257
Current assets		
Stock	1	2
Debtors	17	15
Other	22	39
Total current assets	40	56
Creditors	(50)	(39)
Provisions for liabilities and charges	(7)	-
Mean capital employed	217	274

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	33	42
Mean capital employed	217	274
Return on mean capital employed	15%	15%

**1.1.5 Wholesale Core Network
 Fixed termination for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	52	56
External sales	12	7
Regulated rate of return adjustment	-	-
Total turnover	64	63
Operating costs specific to service	51	50
Exceptional operating costs specific to service	-	-
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	2	1
Total operating costs	53	51
Return	11	12

**1.1.6 Wholesale Core Network
 Fixed termination for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £00
Fixed assets		
Tangible fixed assets	71	73
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	71	73
Current assets		
Stock	-	-
Debtors	5	4
Other	7	11
Total current assets	12	15
Creditors	(15)	(11)
Provisions for liabilities and charges	(2)	-
Mean capital employed	66	77

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	11	12
Mean capital employed	66	77
Return on mean capital employed	17%	16%

**1.1.7 Wholesale Core Network
 Leased lines for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	338	346
External sales	9	8
Regulated rate of return adjustment	-	-
Total turnover	347	354
Operating costs specific to service	163	176
Exceptional operating costs specific to service	-	-
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	15	11
Total operating costs	178	187
Return	169	167

**1.1.8 Wholesale Core Network
 Leased lines for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	1,298	1,083
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	1,298	1,083
Current assets		
Stock	2	3
Debtors	2	2
Other	131	166
Total current assets	135	171
Creditors	(293)	(160)
Provisions for liabilities and charges	(42)	-
Mean capital employed	1,098	1,094

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	169	167
Mean capital employed	1,098	1,094
Return on mean capital employed	15%	15%

**1.1.9 Wholesale Core Network
 Remaining activities for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	11,614	11,510
External sales	-	-
Regulated rate of return adjustment	-	-
Total turnover	11,614	11,510
Operating costs specific to service	7,706	7,662
Exceptional operating costs specific to service	-	-
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	494	247
Total operating costs	8,200	7,909
Return	3,414	3,601

**1.1.10 Wholesale Core Network
 Remaining activities for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	25,745	23,122
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	25,745	23,122
Current assets		
Stock	165	179
Debtors	248	216
Other	2,441	3,209
Total current assets	2,854	3,604
Creditors	(5,509)	(3,195)
Provisions for liabilities and charges	(779)	-
Mean capital employed	22,311	23,531

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	3,414	3,601
Mean capital employed	22,311	23,531
Return on mean capital employed	15%	15%

**1.1.11 Wholesale Access Network
 Summary for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	4,866	4,740
External sales	-	-
Regulated rate of return adjustment	-	-
Total turnover	4,866	4,740
Operating costs specific to service	3,992	3,783
Exceptional operating costs specific to service	-	-
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	145	111
Total operating costs	4,137	3,894
Return	729	846

**1.1.12 Wholesale Access Network
 Summary for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	4,650	4,885
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	4,650	4,885
Current assets		
Stock	768	699
Debtors	116	95
Other	406	631
Total current assets	1,290	1,425
Creditors	(1,039)	(787)
Provisions for liabilities and charges	(130)	-
Mean capital employed	4,771	5,523

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	729	846
Mean capital employed	4,771	5,523
Return on mean capital employed	15%	15%

**1.1.13 Wholesale Access Network
 Unbundled access for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	2,342	2,171
External sales	-	-
Regulated rate of return adjustment	-	-
Total turnover	2,342	2,171
Operating costs specific to service	1,869	1,692
Exceptional operating costs specific to service	-	-
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	76	43
Total operating costs	1,945	1,735
Return	397	436

**1.1.14 Wholesale Access Network
 Unbundled access for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	2,487	2,506
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	2,487	2,506
Current assets		
Stock	409	374
Debtors	55	45
Other	184	312
Total current assets	648	731
Creditors	(478)	(390)
Provisions for liabilities and charges	(59)	-
Mean capital employed	2,598	2,847

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	397	436
Mean capital employed	2,598	2,847
Return on mean capital employed	15%	15%

**1.1.15 Wholesale Access Network
 Broadband access for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	2,395	2,416
External sales	-	-
Regulated rate of return adjustment	-	-
Total turnover	2,395	2,416
Operating costs specific to service	2,019	1,974
Exceptional operating costs specific to service	-	-
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	66	64
Total operating costs	2,085	2,038
Return	310	378

**1.1.16 Wholesale Access Network
 Broadband access for the year ended 31 December 2010**

STATEMENT OF MEAN CAPITAL EMPLOYED	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
as at 31 December 2010		
Fixed assets		
Tangible fixed assets	2,022	2,188
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	2,022	2,188
Current assets		
Stock	344	306
Debtors	59	48
Other	213	301
Total current assets	616	655
Creditors	(539)	(375)
Provisions for liabilities and charges	(68)	-
Mean capital employed	2,031	2,468

RETURN ON MEAN CAPITAL EMPLOYED	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	310	378
Mean capital employed	2,031	2,468
Return on mean capital employed	15%	15%

**1.1.17 Wholesale Access Network
 Remaining activities for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	129	153
External sales	-	-
Regulated rate of return adjustment	-	-
Total turnover	129	153
Operating costs specific to service	104	117
Exceptional operating costs specific to service	-	-
Charges from other services	-	-
Exceptional charges from other services	-	-
Holding Loss / (Gain)	3	4
Total operating costs	107	121
Return	22	32

**1.1.18 Wholesale Access Network
 Remaining activities for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10	31-Dec-09
	£000	£000
Fixed assets		
Tangible fixed assets	141	191
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	141	191
Current assets		
Stock	15	19
Debtors	2	2
Other	9	18
Total current assets	26	39
Creditors	(22)	(22)
Provisions for liabilities and charges	(3)	-
Mean capital employed	142	208

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to	12 months to
	31-Dec-10	31-Dec-09
	£000	£000
Return	22	32
Mean capital employed	142	208
Return on mean capital employed	15%	15%

**1.1.19 Retail
 Fixed Access for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	-	-
External sales	5,286	4,932
Total turnover	5,286	4,932
Operating costs		
Operating costs specific to service	629	635
Exceptional operating costs specific to service	-	-
Transfer charges from Wholesale Core Network	-	-
Transfer charges from Wholesale Access Network	4,856	4,729
Exceptional charges from other services	-	-
Holding Loss / (Gain)	-	-
	-	-
Total operating costs	5,485	5,364
Return	(199)	(432)

**1.1.20 Retail
 Fixed Access for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	268	281
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	268	281
Current assets		
Stock	0	4
Debtors	469	498
Other	75	136
Total current assets	544	638
Creditors	(1,651)	(1,528)
Provisions for liabilities and charges	(24)	-
Mean capital employed	(863)	(609)

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	(199)	(432)
Mean capital employed	(863)	(609)
Return on mean capital employed	N/A	N/A

**1.1.21 Retail
 Fixed Domestic Calling for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	-	-
External sales	2,414	2,755
Total turnover	2,414	2,755
Operating costs		
Operating costs specific to service	1,490	1,574
Exceptional operating costs specific to Retail	-	-
Transfer charges from Wholesale Core Network	1,227	1,299
Transfer charges from Wholesale Access Network	-	-
Exceptional transfer charges from other services	-	-
Holding Loss / (Gain)	-	-
	-	-
Total operating costs	2,718	2,874
Return	(304)	(119)

**1.1.22 Retail
 Fixed Domestic Calling for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	274	283
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	274	283
Current assets		
Stock	-	4
Debtors	922	988
Other	54	106
Total current assets	976	1,098
Creditors	(265)	(244)
Provisions for liabilities and charges	(17)	-
Mean capital employed	968	1,137

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	(304)	(119)
Mean capital employed	968	1,137
Return on mean capital employed	(31)%	(10)%

**1.1.23 Retail
 Fixed International Calling for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	-	-
External sales	1,798	1,911
Total turnover	1,798	1,911
Operating costs		
Operating costs specific to service	1,514	1,476
Exceptional operating costs specific to service	-	-
Transfer charges from Wholesale Core Network	252	250
Transfer charges from Local Access Network	-	-
Exceptional transfer charges from other services	-	-
Holding Loss / (Gain)	-	-
	-	-
Total operating costs	1,766	1,727
Return	32	185

**1.1.24 Retail
 Fixed International Calling for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	144	150
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	144	150
Current assets		
Stock	-	2
Debtors	708	819
Other	197	341
Total current assets	905	1,162
Creditors	(712)	(647)
Provisions for liabilities and charges	(63)	-
Mean capital employed	274	665

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	32	185
Mean capital employed	274	665
Return on mean capital employed	12%	28%

**1.1.25 Retail
 Remaining activities for the year ended 31 December 2010**

PROFIT AND LOSS ACCOUNT	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Turnover		
Internal sales	-	-
External sales	24,263	22,292
Turnover	24,263	22,292
Operating costs		
Operating costs specific to service	11,690	9,873
Exceptional operating costs specific to service	(24)	(283)
Transfer charges from Wholesale Core Network	10,753	11,838
Transfer charges from Wholesale Access Network	-	-
Exceptional transfer charges from other services	-	-
Holding Loss / (Gain)	1	-
Total operating costs	22,420	21,428
Return	1,843	864

**1.1.26 Retail
 Remaining activities for the year ended 31 December 2010**

**STATEMENT OF MEAN CAPITAL EMPLOYED
 as at 31 December 2010**

	31-Dec-10 £000	31-Dec-09 £000
Fixed assets		
Tangible fixed assets	1,508	1,620
Intangible fixed assets	-	-
Investments	-	-
Total fixed assets	1,508	1,620
Current assets		
Stock	-	97
Debtors	3,816	3,112
Other	1,410	2,380
Total current assets	5,226	5,589
Creditors	(8,424)	(5,677)
Provisions for liabilities and charges	(450)	-
Mean capital employed	(2,140)	1,532

RETURN ON MEAN CAPITAL EMPLOYED

	12 months to 31-Dec-10 £000	12 months to 31-Dec-09 £000
Return	1,843	864
Mean capital employed	(2,140)	1,532
Return on mean capital employed	(86)%	56%

1.1.27 Wholesale Mobile Network activity for the year ended 31 December 2010

PROFIT AND LOSS ACCOUNT

	31 Dec 10		31 Dec 09		31 Dec 10		31 Dec 09	
	Totals		Totals		Voice termination		Other	
	£	£	£	£	£	£	£	£
Turnover								
Internal sales	44,912	3,314,475	44,912	1,063,287	-	-	2,251,188	-
External sales	3,699,021	30,689	1,256,318	30,689	2,442,703	-	-	-
Regulated rate of return adjustment								
Total turnover	3,743,933	3,345,164	1,301,230	1,093,976	2,442,703	2,442,703	2,251,188	2,251,188
Operating Costs								
Operating costs specific to service	2,480,701	2,301,961	876,060	769,946	1,604,641	1,604,641	1,532,015	-
Exceptional operating costs specific to service	-	-	-	-	-	-	-	-
Charges from other services	-	-	-	-	-	-	-	-
Exceptional charges from other services	-	-	-	-	-	-	-	-
Holding loss / (gain)	242,918	55,733	79,530	18,471	163,388	163,388	37,262	-
Total operating costs	2,723,619	2,357,694	955,590	788,417	1,768,029	1,768,029	1,569,277	1,569,277
Return	1,024,314	987,470	345,640	305,559	674,674	674,674	681,911	681,911

1.1.28 Wholesale Mobile Network activity for the year ended 31 December 2010

STATEMENT OF MEAN CAPITAL EMPLOYED

	31 Dec 10		31 Dec 09		31 Dec 10		31 Dec 09	
	Totals		Totals		Voice termination		Other	
	£	£	£	£	£	£	£	£
Fixed Assets								
Tangible assets	6,767,151	6,398,568	2,289,995	1,977,462	4,477,157	4,421,106		
Intangible fixed assets	-	-	-	-	-	-		
Investments								
Total fixed assets	6,767,151	6,398,568	2,289,995	1,977,462	4,477,157	4,421,106		
Current Assets								
Stock	139	201	50	73	89	127		
Debtors	39,613	33,460	14,364	12,182	25,250	21,278		
Other	96,308	272,356	36,275	102,471	60,032	169,885		
Total current assets	136,060	306,017	50,689	114,726	85,371	191,290		
Creditors	(214,455)	(261,227)	(80,775)	(98,284)	(133,680)	(162,943)		
Provisions for liabilities and charges	(30,737)	-	(11,577)	-	(19,159)	-		
Mean capital employed	6,658,019	6,443,358	2,248,332	1,993,904	4,409,689	4,449,453		

MEAN CAPITAL EMPLOYED

	31 Dec 10		31 Dec 09		31 Dec 10		31 Dec 09	
	£	£	£	£	£	£	£	
Return	1,020,314	987,470	345,640	305,559	674,674	681,910		
Mean capital employed	6,658,019	6,443,358	2,248,332	1,923,904	4,409,689	4,449,453		
Return on mean capital employed	15%	15%	15%	15%	15%	15%		

2 Reconciliation with statutory accounts statement

2.1 Reconciliation Statement for the year ended 31st December 2010

Profit and Loss

	Turnover (£)	Cost (£)	Return (£)
Wholesale core network	12,233,000	8,606,000	3,627,000
Wholesale access network	4,866,000	4,137,000	729,000
Retail fixed - access	5,286,000	5,485,000	(199,000)
Domestic calling	2,414,000	2,718,000	(304,000)
International calling	1,798,000	1,766,000	32,000
Remaining Activities	24,263,000	22,420,000	1,843,000
<i>Wholesale Mobile Network</i>	<i>3,743,933</i>	<i>2,723,619</i>	<i>1,020,314</i>
<i>Retail Mobile Network</i>	<i>5,549,435</i>	<i>3,004,159</i>	<i>2,545,276</i>
<i>Remaining Activities -other</i>	<i>14,969,631</i>	<i>16,692,221</i>	<i>(1,722,590)</i>
Total	50,860,000	45,132,000	5,728,000

Adjustments:

	Gibtelecom (£)
CCA Adjustments	3,304,199
Corporation Tax	3,142,983
Dividends payable	(4,000,000)
Interest	(278,527)
Other adjustments	(533)
Total adjustments	2,168,122
As per statutory accounts	7,896,122

3 Statement of Unit Costs

3.1 Statement of Unit Costs for the year ended 31 December 2010

Summary Unit Costs by wholesale service

	Unit	equivalent traffic / LINES	equivalent traffic / Mbps	equivalent traffic / Mins	Total costs (£)	Per Service Unit Cost (GBP/unit)	Service Unit
National fixed call origination	Mins	-	-	12,799,915	207,964	0.0162	min
National fixed call termination	Mins	-	-	3,908,755	63,507	0.0162	min
National physical network infrastructure at a fixed location	Lines	33,124	-	-	3,347,166	101.05	line
Broadband Access	Lines	9,945	-	-	6,127,442	616.13	line
Leased circuits*	Mbps	-	243.72	-	-	1,422.79	Mbps
Leased circuits - direct internet*	Mbps	-	2,670.28	-	-	1,884.55	Mbps
Mobile voice termination	-	-	-	27,597,669	2,886,969	0.1046	min

* Separation of terminating segments of leased lines

3.2 National termination and origination charges for the year ended 31 December 2010

- 3.2.1 Once all costs, assets and liabilities had been allocated and, where required, apportioned to their relevant business area it was possible to calculate the origination and termination cost per call minute.
- 3.2.2 The number of call minutes to be used for the calculation of the national termination rate is the total number of national termination calls. The minutes are then divided into the total network costs for the service to arrive at the calculated national termination charge in pence per minute.
- 3.2.3 Gibtelecom adds an extra 5% charge to the call termination rate to arrive at an access (call origination) charge.

Fixed National Termination

The Fixed National Termination rate is calculated by converting the network costs associated with the provision of this service and dividing these by the total number of national termination minutes for 2010.

	£
Wholesale national termination service total costs	63,507
Total national termination minutes	3,908,755
National termination rate	0.0162

Separation of termination rate into standard and cheap rates

In accordance with GRA requirements, standard and cheap rate national fixed call termination rates are calculated on a tariff gradient based on retail revenue per minute. A discount factor is then applied to determine the level of reduction from a standard to a cheap rate call.

The calculations for 2010 are found below.

National termination rates inputs

Rate:	0.0162
Retail Rates (GBP)	fixed national
Standard	0.02002
Cheap	0.00693
discount factor	65.4%
Standard Traffic in %	43.8%

Calculation of new rates

cheap discount factor	65.4%
Traffic standard	43.8%
Traffic cheap	56.2%
Standard (GBP / min.)	0.026
Cheap (GBP / min.)	0.009

National Origination

	Standard (GBP / min.)	Cheap (GBP / min.)
National Termination Rate	0.026	0.009
Access charge (5% surcharge)	0.027	0.009

Gibtelecom adds an extra 5% charge to the national termination rate to arrive at an access (national call origination) charge. This is the rate accepted by the regulator for previous accounting separation reports and is intended to reflect the additional resources and costs of facilitating other service providers making use of Gibtelecom call origination services.

Mobile voice termination

The wholesale voice mobile termination rate is calculated by dividing the mobile network voice costs (whether the costs are generated by on-Gibraltar fixed to mobile or mobile to mobile) associated with the provision of both pre-paid and post-paid mobile voice termination services by the total number of mobile voice termination minutes onto both Gibtelecom pre-paid and post-paid mobile phones whilst in Gibraltar for 2010. The mobile network voice costs comprise the sum of the total network costs (capital reallocation including the regulated return on investment element of 15.3%) plus network employee costs (opex) plus network operating costs (opex).

Voice services

	£
Wholesale mobile voice termination service total cost	2,886,969
Total mobile voice termination minutes	27,597,669
Mobile voice termination rate	0.105

4 Statement of transfer charges

4.1 Background and overview

4.1.1 Under Accounting Separation Gibtelecom prepares separate financial statements for its wholesale core network; wholesale access network; retail; wholesale mobile voice termination and other activities as disaggregated. Gibtelecom is required to prepare SMP Regulated Accounts on a Current cost basis using Transfer Charges calculated in accordance with the principles outlined below.

4.2 Network charges

4.2.1 The wholesale core and mobile network business sells a range of network services to meet the differing needs of other operators and the retail business respectively. The price of each service is based on the fully allocated cost of the network elements or parts thereof and wholesale services are charged at the relevant wholesale price as would be charged to other operators. For the purposes of this ASR, only the network costs for the mobile voice termination products will be outlined and the remaining network costs for all other mobile products will be grouped under a single "other mobile" products/service category.

4.2.2 A network element is a unit of network plant or activity, which can be separately costed but, in most cases, cannot be separately supplied. e.g. a line card, remote concentrator, mobile cell site. All services sold by the wholesale core and mobile network business, either to other operators or the retail business, are built up from combinations of one or more network elements. The majority of mobile network elements have been grouped together within the common mobile network platform cost analysis. Some wholesale mobile product specific network elements, such as SMSC, voicemail platform, prepay platform etc can be costed separately and allocated to the wholesale mobile products they are aligned to. All services provided by the wholesale mobile network business, either to other operators or the retail mobile business, are built up from combinations of the allocation by common volume usage of the common mobile network platform and where appropriate the additional wholesale mobile product specific network elements.

4.2.3 A mobile support service is a unit of headcount, support or operating cost or overhead, which in most cases cannot be separately supplied nor costed separately e.g. mobile network / engineering salary or mobile vendor network element support costs. The majority of mobile network support services have therefore been grouped together within the common mobile network platform cost analysis. Some wholesale mobile product specific network elements, such as SMSC, voicemail platform, pre-pay platform etc incur identifiable and specific support services and can be costed separately and allocated to the wholesale mobile products they are aligned to. All services provided by the wholesale mobile network business, either to other operators or the retail mobile business, are built up from combinations of the allocation by common volume usage of the common mobile network support services and where appropriate the additional wholesale mobile product specific support services.

4.2.4 The price of network services includes a return on capital. In November 2005 the GRA issued a Decision Notice (11/05) to Gibtelecom relating to a pre tax nominal weighted average cost of capital (WACC) of 15.3%. Gibtelecom continues to apply this rate in its separated regulatory accounts.

4.2.5 From the analysis of the network call flows across the Gibtelecom mobile network, it has been concluded that the cost of terminating a call and the cost of originating a call are virtually identical. Consequently, the mobile separated accounts assume that wholesale call origination and termination rates for on-Gibraltar voice traffic will be the same. Where traffic involves origination and termination on the Gibtelecom mobile network, as for

foreign roamers or Gibtelecom mobile subscribers in Gibraltar, then two legs of the Gibtelecom mobile network are used. Where on-Gibraltar traffic in which a foreign roamer or Gibtelecom mobile subscriber in Gibraltar is only one party (i.e. the other party is Gibtelecom fixed subscriber or a subscriber of another Gibraltar other authorised operator outside Gibraltar) then the cost allocation will only assume a single leg of the Gibtelecom mobile network being used.

4.3 Transfer charges from the Wholesale Access Network Business

4.3.1 Volumes and usage data requirements

4.3.1.1 The system used to calculate the transfer charges and produce the regulatory separated accounts contains non-financial data, including detailed analyses of service volumes and network usage data. The main classes of information are summarised below.

- a) Call conveyance and Network element usage
 - Call traffic by product/service (in minutes)
 - Route factors by Network Element by product/service
 - Network Element usage
- b) Ancillary services
 - Various volume and usage information by product/service

4.4 Reporting of transfer charges

4.4.1 The SMP Regulated Accounts record transfer charges as specified above as:

1. revenue in the Wholesale Core Network Business from Gibtelecom Retail Activities and other operators;
2. revenue as an Access Deficit Charge in the Wholesale Access Network;
3. operating costs in the Retail Activities;
4. revenue in the wholesale mobile network;
5. charges to wholesale mobile voice termination; and
6. charges to other mobile services.

Gibtelecom can provide the following transfer charging matrices representing the various transfer charges between wholesale and retail services found in the 2010 Accounting Separation Report.

**SMP Regulated Accounts
 31 December 2010**

Matrix 1 – Retail to Wholesale services

Retail service	Wholesale service	Billing rate	Billing rate unit	Usage of billing units	Total (£000)
Fixed access	Access Network				
	Unbundled lines	101.049576	Lines	23,180	2,342
	Line cards	5.143361427	Lines	23,180	119
	DSLAMs	139.7826049	Lines	9,944	1,390
	Unbundled lines	101.049576	Lines	9,944	1,005
Total					4,856
Fixed domestic calling	Core network				
	Fixed origination	0.01624727	mins	12,004,764	195
	National calling	0.021759388	mins	46,887,031	1,020
	Dial-up	0.01624727	mins	735,059	12
Total					1,227
Fixed international calling	Core network				
	International calling	0.021660427	mins	11,630,962	252
Total					252
Others	Core network	Note 1	Note 1	Note 1	10,341

1. Others are composed of a basket of non-regulated services and only a total can be calculated.

Matrix 2 – all services

		Retail				Wholesale Fixed Access Network			Wholesale Core Network				Wholesale Mobile		
		Fixed Access	Fixed domestic calling	Fixed international calling	Others	Unbundled access	Broadband access	Others	Call origination	Call termination	Leased lines	Others	Core Network	Voice termination	Others
Retail	Fixed Access		-	-	-	2,342	2,395	129	-	-	-	-	-	-	-
	Fixed domestic calling	-		-	-	-	-	-	207	-	-	1,020	-	-	-
	Fixed international calling	-	-		-	-	-	-	-	-	-	252	-	-	-
	Others	-	-	-		-	-	-	-	-	-	10,342	-	-	-
Wholesale Fixed access network	Unbundled access	2,342	-	-	-		-	-	-	-	-	-	-	-	-
	Broadband access	2,395	-	-	-	-		-	-	-	-	-	-	-	-
	Others	129	-	-	-	-	-		-	-	-	-	-	-	-
Wholesale Fixed core network	Call origination	-	207	-	-	-	-			-	-	-	-	-	-
	Call termination	-	-	-	-	-	-	-			-	64	-	-	-
	Leased lines	-	-	-	-	-	-	-	-			347	-	-	-
	Others	-	1,020	252	10,342	-	-	-	-	64	347		-	-	-
Wholesale Mobile core network	Core Network	-	-	-	-	-	-	-	-	-	-	-		1,301	2,443
	Voice termination	-	-	-	-	-	-	-	-	-	-	-	1,301		-
	Others	-	-	-	-	-	-	-	-	-	-	-	2,443	-	

All amounts in £'000

End of Regulatory Financial Statements 2010