Annual Report & Financial Statements 2017

Together.

As it should be.

GO is Malta's leading telecommunications services organisation, with over 500,000 customer connections and services. The first quadruple play operator in the market, GO is a converged and integrated telecommunications group, offering an unparalleled range of services. These include fixed-line and mobile telephony, data and TV services for consumers and business clients. Furthermore, the Group provides state of the art data services and ICT solutions to its business clients. GO also holds a majority shareholding in Cablenet, a 'triple play' telecommunications company operating in Cyprus.

GO's growth is the result of a focused strategy of delivering international standard products and services, and a first rate customer experience. The Group invests heavily in technology and infrastructure, with an ambitious investment programme comprising a number of far-sighted projects, such as 4G and providing Fibre-to-the-Home, thereby creating a resilient and unmatched network that is revolutionising Malta's connectivity.

GO p.l.c. is a publicly listed entity with shares traded on the Malta Stock Exchange; the majority shareholder is TT Malta Limited, a wholly owned subsidiary of Tunisie Telecom.

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Annual Report 2017

& Financial Statements

GO p.l.c., Fra Diegu Street, Marsa, MRS 1501, Malta

2017 at a Glance

Malta's largest Telecommunications Group

GO Group is Malta's leading integrated telecommunications services provider. Its high speed networks form the backbone of the country's modern communications infrastructure. The services provided by the Group include fixed-line and mobile telephony, data and TV services for consumers and business clients. The Group also provides business clients with data centre facilities and ICT solutions.

GO continues to grow its customer base and services which now reach in excess of 500,000 customer connections. This is the largest customer base of any operator in Malta.

Best Mobile Network

Research carried out by Net Check GmbH, a leading, independent German firm specialising in performance testing of mobile networks, confirmed that GO has the best mobile network in Malta.

The research, which was conducted nationwide, also revealed that GO's mobile internet service is significantly faster than that of any of its competitors. The fact that GO's 4G network performed significantly better than that of its competitors is due to the fact that GO's network is the only one in the market where the radio base stations, on which the service depends, are all connected with fibre.

€166.3M
In Revenue

As a result of a strong and steady performance across the Group's businesses in Malta and Cyprus during 2017, GO generated revenues of €166.3 million, an increase of €9.3 million over the previous year.

A Diversified Stream of Revenues

The Group is now a diversified business, encompassing business services, as well as a range of telecommunications and value-added content services for consumers in both Malta and Cyprus, which means it has increasingly diversified revenue streams.

€135.4M
Malta Operations – 81.4% of Group revenues

€31.0M
Cyprus Operations – 18.6% of Group revenues

Managing Costs

In 2017, cost of sales, administrative and related costs amounted to €138.0 million (2016: €131.9 million). The costs increased by 4.6% to sustain the 6% increase in sales activity.

2017 at a Glance
continued

Operating Profit increased by 12% to €29.5M

GO achieved another year of healthy profitability and cash flows generation; Group EBITDA grew to €65.6 million, an increase of 6.5% over the previous year.

Operating profit amounted to €29.5 million, whilst profit before tax amounted to €27.9 million (2016: €28.1 million).

Fibre-to-the-Home & 4G

The roll out of Fibre-to-the-Home (FTTH) continued, and there are now more than 64,000 homes passed, enabling both business and personal customers to benefit from a greatly increased internet capacity.

GO's parallel investment in fibre-connected 4G means a superior and more resilient mobile internet service. In November, GO submitted an application to the Malta Communications Authority (MCA) to be allocated 800 MHz spectrum. The allocation of this spectrum will enable GO to launch 4G+ services on a commercial basis, in high population density areas.

Integrated Solutions for Businesses and Organisations

GO has become a one-stop-shop for all the communications and ICT needs of business users, corporations and other entities for which robust communications are critical.

This is achieved by combining traditional core competencies in fixed, mobile telephony and internet, with hosting, data and cloud services, which are provided by the Group's subsidiaries BMIT and Kinetix.

Cablenet Shareholding

GO holds a majority shareholding in Cablenet Communications Systems Limited, a 'triple play' telecommunications company operating in Cyprus. This subsidiary continues to perform strongly, growing customer numbers and profitability across its broadband internet, fixed telephony and digital HD TV portfolio. Cablenet's contribution is clear, as it contributed €1.9 million to the growth in total Group revenues.

Chairman's Message

We are confident that the combination of an outstanding network and industry-leading customer experience will create new opportunities for growth across all our customer segments and enable GO to continue along its successful path.

Mohamed Fadhel Kraiem
Chairman *appointed 22 November, 2017*

Another Strong Set of Results

In my first message as GO's Chairman, may I firstly express my gratitude and appreciation for the genuine welcome we have received, and my growing conviction that our Group is not only in a strong position today, but also well placed to continue on its impressive journey.

It is certainly gratifying to report that 2017 was another positive year for GO, with an encouraging performance which was above our expectations. As a result of our sustained focus and strong team effort, our Group delivered a strong set of results, growing revenues to €166.3 million (2016: €157.0 million) and earnings before interest, tax, depreciation and amortisation (EBITDA) to €65.6 million (2016: €61.6 million), representing a year-on-year increase of 6.5%. As a result, the Group's pre tax profit reached €27.9 million (2016: €28.1 million) whilst our operating profit reached €29.5 million, an increase of 12.2% on the €26.3 million recorded in 2016. On the basis of this impressive performance, the Board is in a position to recommend a dividend of €0.13 per share, an 18.2% increase over 2016.

Stable Foundations, Exciting Future

Our Group's success in 2017 builds on the positive progress registered over a number of years. This is undoubtedly due, not only to our sound strategy and vision, but also to the dedication of both the management team and our employees.

Our focus on infrastructure, creating the fastest mobile network in Malta and developing a fixed FTTH network, as well as providing unrivaled content for our TV customers, while at the same time effectively managing costs, have continued to deliver improvements in EBITDA. Additionally, GO's investment strategy in recent years, which has brought BMIT, Kinetix and Cypriot operator Cablenet into the Group portfolio, has also made a significant contribution to our overall profitability. The result is that GO is not only Malta's leading quad play communications operator, but also a provider of 360 degree communications and ICT services for the business community, and a player with a regional dimension.

Chairman's Message
continued

Stable Foundations, Exciting Future continued

These strong foundations mean that GO is in a position to look forward to an exciting future, and a debt of gratitude is therefore due to our senior leadership team, who continue to drive all this forward, and to my predecessor, Nizar Bouguila, who occupied the post of Chairman till November 2017.

Whilst we move steadily forward, we are conscious that the future will require a paradigm shift in the experience which GO delivers to its residential and business customers. We will continue to invest in our network, with a further €100 million committed to this over the next five years. This will result in further improvements in data capacity, thanks also to enhancements in Malta's international connectivity and the completion of a new data centre in Żejtun. At the same time we will also invest in making GO's customer experience stand out.

To this end, we have begun restructuring and aligning our internal processes, further developing our already excellent human resources, and planning for the deployment of new technologies, particularly Artificial Intelligence, to help us deliver a seamless customer experience across all the channels through which our customers interact with GO.

We are confident that the combination of an outstanding network and industry-leading customer experience will create new opportunities for growth across all our customer segments, and enable GO to continue along its successful path.

Our Regional Strength

Further supporting our optimism for the future are the already tangible benefits which have resulted from Tunisie Telecom's investment in GO. Having a telecommunications operator, which operates in a significantly larger regional market, as a majority shareholder has greatly enhanced GO's negotiating power in the wholesale market. In fact, the synergies created between Tunisie Telecom, GO and Cablenet have helped all three companies to secure better rates for international voice and data transmission. This has already had a clear positive impact on GO's profitability.

Going forward, however, the strength created through these synergies also has the potential to improve the security of Malta's communications infrastructure by opening up the possibility of new international connections which do not pass through Italy, as is the case with all of Malta's international cables today. Furthermore the strength of Tunisie Telecom's infrastructure, both within Tunisia and in terms of its international connectivity, which is routed through France, can potentially also open up new opportunities for GO in servicing organisations looking to do business with North Africa from within the EU or further afield.

Vision and Commitment

Behind our success is a great team of talented individuals who are committed and driven to implement our strategy and business plan. It has been a real privilege over these past few months to get to know and work with the team.

A clear strategy is in place, which aims to build on our Group's achievements to take GO to a new level where it is not only a leader in customer experience in Malta, but sets a new standard for the telecommunications industry internationally.

This focus on customer experience in Malta, across both residential and business markets, the significant growth potential, which we continue to see in Cyprus, and the on-going commitment and regional strength provided by Tunisie Telecom, are the pillars on which we believe a new era of success for GO can be built.

We look forward to achieving this together.

Chief Executive Officer's Review

2017 was another encouraging year for GO, with Group revenues of €166.3 million and EBITDA of €65.6 million, an increase of 6.5%.

Attila Keszeg
CEO *appointed 01 June, 2017*

GO continues to succeed

2017 proved to be another positive and encouraging year for the GO Group, thanks to our ongoing determination and focus, and the successful strategies which we have in place. Our strong results validate our ambitious investment programme in infrastructure and in complementary, value generating businesses, such as BMIT, Kinetix and Cablenet in Cyprus, which continues to deliver results for shareholders.

The stable, positive performance from GO's core operations, coupled with the impressive growth in data and managed services, ICT and Cypriot subsidiaries underpinned such a resilient 2017 performance. We continue to deliver strong Group revenues, which amounted to €166.3 million (2016: €157.0 million), whilst Group EBITDA amounted to €65.6 million (2016: €61.6 million) an increase of 6.5% over the prior year.

We also continued to manage costs effectively; cost of sales, administrative and related costs amounted to €138.0 million (2016: €131.9 million). The costs increased by 4.6% to sustain the 6% increase in sales activity. Group operating profit amounted to €29.5 million, an increase of 12.2% on the €26.3 million recorded in 2016, whilst our profit before tax reached €27.9 million (2016: €28.1 million).

The numbers are certainly positive, however we should also celebrate what we are achieving in terms of service delivery. Research carried out by Net Check GmbH, a leading, independent German firm specialising in performance testing of mobile networks, confirmed that GO has the best mobile network in Malta. This nationwide research was subsequently endorsed by Ookla, which through its world renowned Speedtest app, confirmed that GO's mobile internet service is significantly faster than that of any of its competitors. The results of this research, particularly the latter which is based directly on consumer experience, are something we can all be proud of.

Clearly, GO is in good shape, and well placed to continue to forge ahead and for this, I must thank all the Group's senior management, as well as all our staff, for their hard work and dedication.

A changing world

Despite all our successes, now is not the time to rest on our laurels; on the contrary, we must maintain our focus, re-evaluate our strategies and assess how best to continue to move forward together.

Chief Executive Officer's Review
continued

A changing world continued

In the short period of time that I have been with GO, I have not only come to understand the many strengths the Group has, but also recognised that new challenges can emerge quickly. The attempted takeover of Vodafone Malta Limited by Melita during 2017 was perhaps the most obvious example of how the competitive environment in which we operate can change. As we reiterated in several fora, though GO does not shy away from competition, the proposed takeover would potentially have resulted in a scenario that would have been bad for consumers, and bad for a sustainable and viable communications industry.

Eventually, the parties to the proposed takeover abandoned the transaction, following a detailed Phase II investigation carried out by the Office for Competition within the Malta Competition and Consumer Affairs Authority. Yet, the attempt does highlight the fact that our competitors remain focused on finding new synergies and opportunities to obtain significant market advantages.

We therefore need to remain alert to any new initiatives which may follow and which may still lead to a change in the way the market in Malta operates.

Changing technology and customer habits also present a series of new opportunities and challenges. Over the years GO has invested heavily in 4G and fibre internet, and we will continue to invest in connectivity both in Malta and internationally with a further €100 million committed over the coming five years.

As we move forward and the Internet of Things, as well as the use of Artificial Intelligence, becomes more widespread, our world class infrastructure is becoming a key enabler of future economic development.

This is a great opportunity but one which, if we are not careful, will see other non-telecoms companies, reaping the greatest benefits.

To generate greater organic growth from its core operations, it is important that GO does not remain just a utility, delivering a data and communications network, but also uses the strength of this network to create its own value-adding services, and experiences, for customers.

An area where this reality is very clearly brought to light is TV. This is a sector in which GO has invested millions of euros over the years, and we are proud to deliver a truly excellent selection of world class sport, drama and movies. It is also clear, however, that internet-based services, both legal and not, are providing a considerable challenge to more traditional TV operators. While we will continue to fight for our rights as legitimate rights holders, we also need to accept reality and work hard to develop new services that not only meet, but exceed, consumer expectations, and fit in with their media and entertainment consumption patterns.

Towards 2022

Similar creativity will be needed to develop other data enabled services, even in areas where GO has not previously operated. TV and fixed telephony have traditionally been the services through which GO has occupied a central role within the household. We must retain this position if GO is to evolve and grow further.

It is therefore essential that in the coming few years, and certainly by 2022, we develop new products, services, and experiences that will be at the heart of future homes. Bringing this far-sighted vision to life will require not only creativity and hard work, but also necessitate a fundamental turn-around in the way GO interacts with customers, ensuring that it is able to respond to customer needs quickly and seamlessly across its portfolio of personal and business products. An important first step in this regard has been the appointment of a new Chief Customer Experience Officer whose task will primarily be to drive our already high customer experience standards to new levels.

Preparing for the next leap forward

Though there is much work to do, and a number of challenges to overcome, I am convinced that GO has all the elements to continue its successful journey. It is a Group which has been built over many years on the vision and determination of many, and consequently, has both the human and financial resources to make the next leap forward.

Investing in Malta's Future

An impressive investments programme

€340M

over a 15 year period

Investing in Malta's Future
continued

Back to the future

In line with its ongoing commitment to Malta, as in previous years GO continues to make substantial investments in developing a world-class and modern communications infrastructure that is suited to future needs.

During 2017, GO announced plans to invest in excess of €100 million in the coming five years. This will bring the total Group investment in infrastructure, over a 15 year period, to no less than €340 million. Such investments will enable Malta to handle the exponentially greater data requirements necessitated by the Internet of Things.

Commercial Review

Investing in our network

With a well trained and well motivated workforce, GO is able to push forward and successfully deliver improvements across its network. Over recent years, GO has invested heavily, particularly in its 4G fibre connected mobile network and in fibre and fixed internet services.

These investments have already resulted in significant improvements in service delivery to our customers. During 2017, in fact, GO's 4G network was confirmed as the fastest network in Malta on two occasions, firstly through an audit carried out by the independent German consultancy Net Check and then by Ookla, the company behind the widely used Speedtest® app. This second recognition, based on the direct experience of thousands of unique mobile internet users across the Maltese Islands, confirmed the nationwide strength of GO's mobile network, the benefits of which translate into a far better service that thousands of customers can actually experience.

The development of our mobile internet service continued throughout the year and ended with GO also taking the lead in becoming commercially ready for 4G+ services in Malta. Following our application to the MCA to be allocated 800 MHz spectrum, the MCA has published a public call for expressions of interest. This gives other operators the opportunity to submit their own spectrum applications prior to the launch of commercial 4G+ services in Malta. This is a development which GO has been planning for some time, and we are therefore well placed to launch 4G+ where it can be most useful, that is, in the more densely populated areas of the country.

Throughout the year, investment also continued on our fixed and fibre internet networks. This has enabled GO to deliver improvements in fixed internet speeds practically across the entire network.

The roll out of fibre has now passed more than 64,000 homes and will continue throughout 2018 as part of the process to create a resilient and unmatched network that is revolutionising connectivity in Malta.

While such investment in the infrastructure in Malta is of course crucial, it is equally important that Malta's connectivity to the rest of the world is able to accommodate the growing demands for data, from both individual and business customers. While GO remains the only undertaking in Malta to operate two submarine cables between Malta and Sicily, during 2017, in collaboration with Sparkle, the international services arm of Italian operator TIM Group, we concluded an upgrade to our bilateral international cable to also introduce 100 GB transmission technology.

In July, the German firm Net Check found that GO has Malta's fastest mobile network; this was subsequently confirmed by Ookla through the world renowned Speedtest app.

Commercial Review
continued

€100 million on infrastructure by 2022

GO's commitment to delivering world class infrastructure and systems that reflect technological developments and continue to serve the growing demands of the Maltese community and economy, was further emphasised in 2017 when we announced plans to invest in excess of €100 million in the coming five years. This will bring our total investment in infrastructure over a 15 year period to €340 million. This will continue to lay the ground for the exponentially greater data requirements necessitated by the Internet of Things.

In October, GO announced significant future investments, in the presence of the Hon. Dr Joseph Muscat, Prime Minster of Malta (Right).

Turning investment into commercial success

Investments in our people, our systems and our infrastructure, lead to commercial success.

For domestic customers, GO is able to continue to offer unrivalled bundles of services across fixed telephony, mobile, internet and TV, at excellent value. We have seen developments across our portfolio, particularly with the Home Pack, where we have improved and simplified the proposition.

Investing in our staff

Though GO is very much a technology-driven, future-focused organisation, it is the people who are at the heart of our on-going success. Indeed, the skill and commitment of our hard-working employees are vital to everything we do, from upgrades to our infrastructure, to managing back office systems, and are critical to our customer service. As we look forward to the new opportunities that our business can take advantage of, it is important that we continue to invest in our team to ensure they have the knowledge and motivation to be the best they can be.

In 2017 we took an important step forward by concluding a new collective agreement with the General Workers Union. This agreement delivered increased salaries across the organisation and introduced, or improved, numerous other employee benefits, including enhanced provision for flexible working and long-term sickness.

Commercial Review
continued

Looking ahead

There can be little doubt, that GO's strategy over recent years has delivered what can be considered, very satisfactory results.

As we now look ahead at the next five years, we shall continue to invest in our people, our infrastructure, and our products, to continue to meet our customers' expectations.

With equal determination, we will develop new products, services, and experiences, and evolve our own systems and processes, as we remain focused on our objective of building further on our success.

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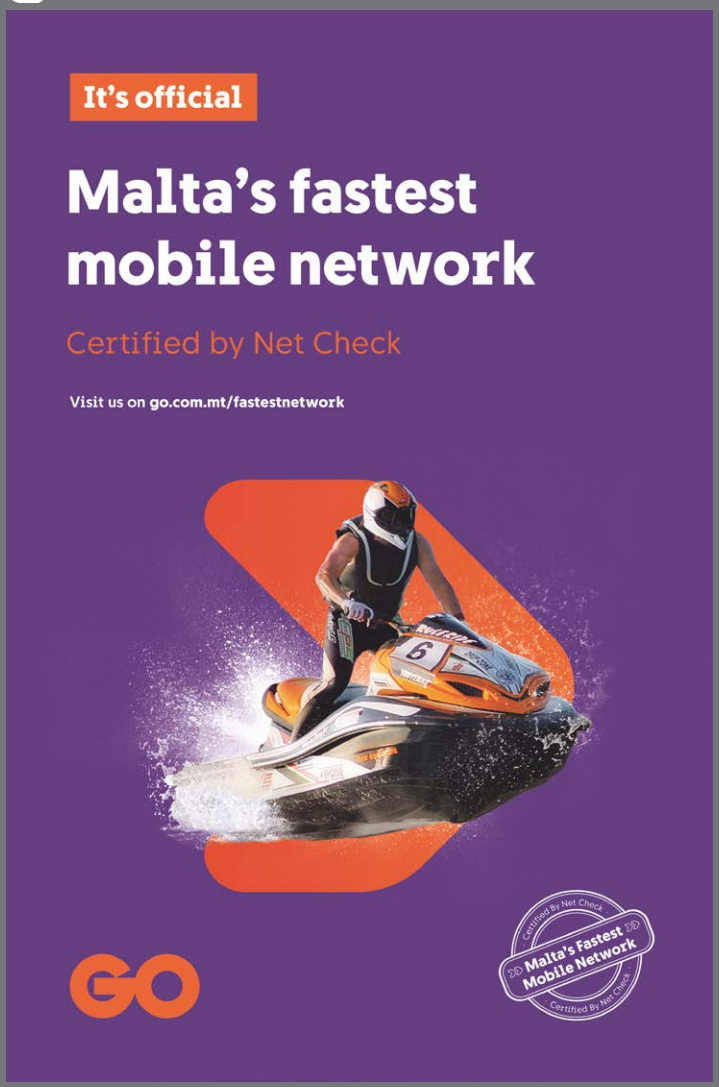


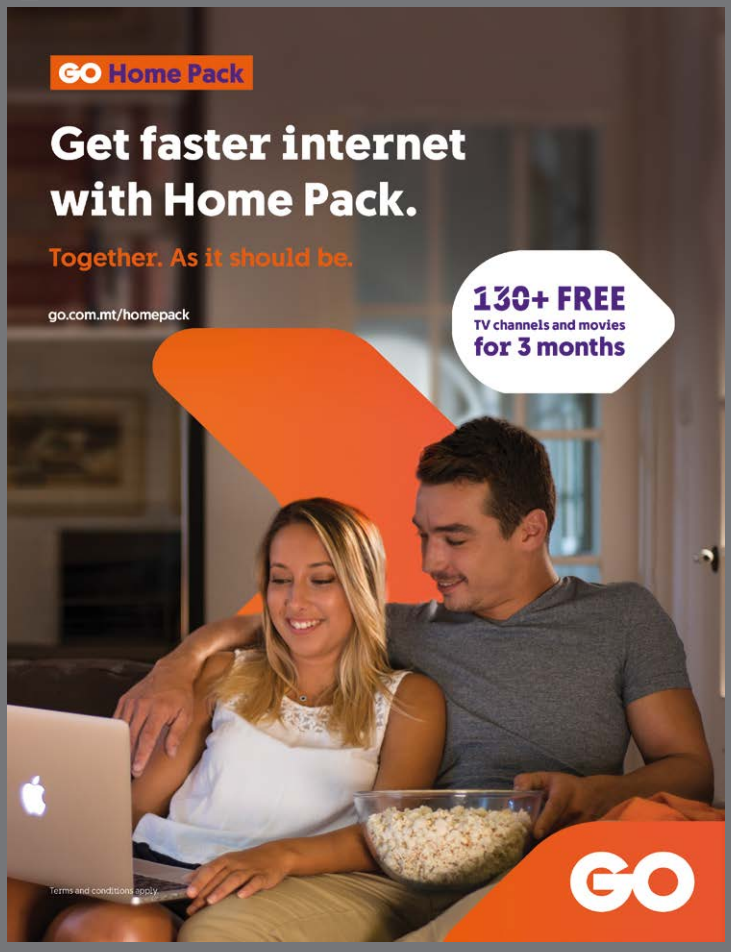
Commercial Review
continued

1 – 2.
Christmas Campaign.

3.
Malta's fastest mobile network.

4 – 6.
Home Pack Campaign.

4



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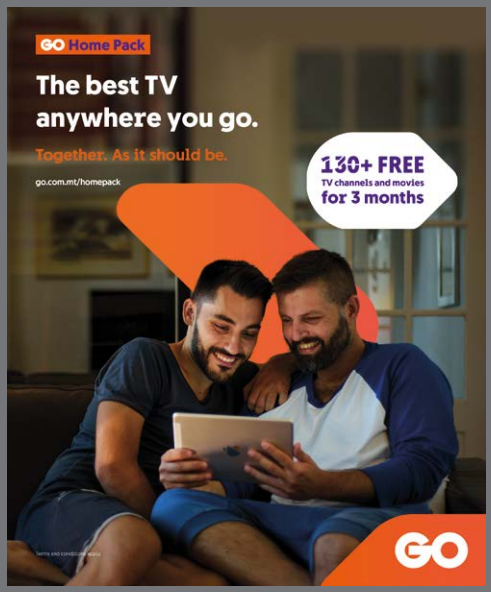


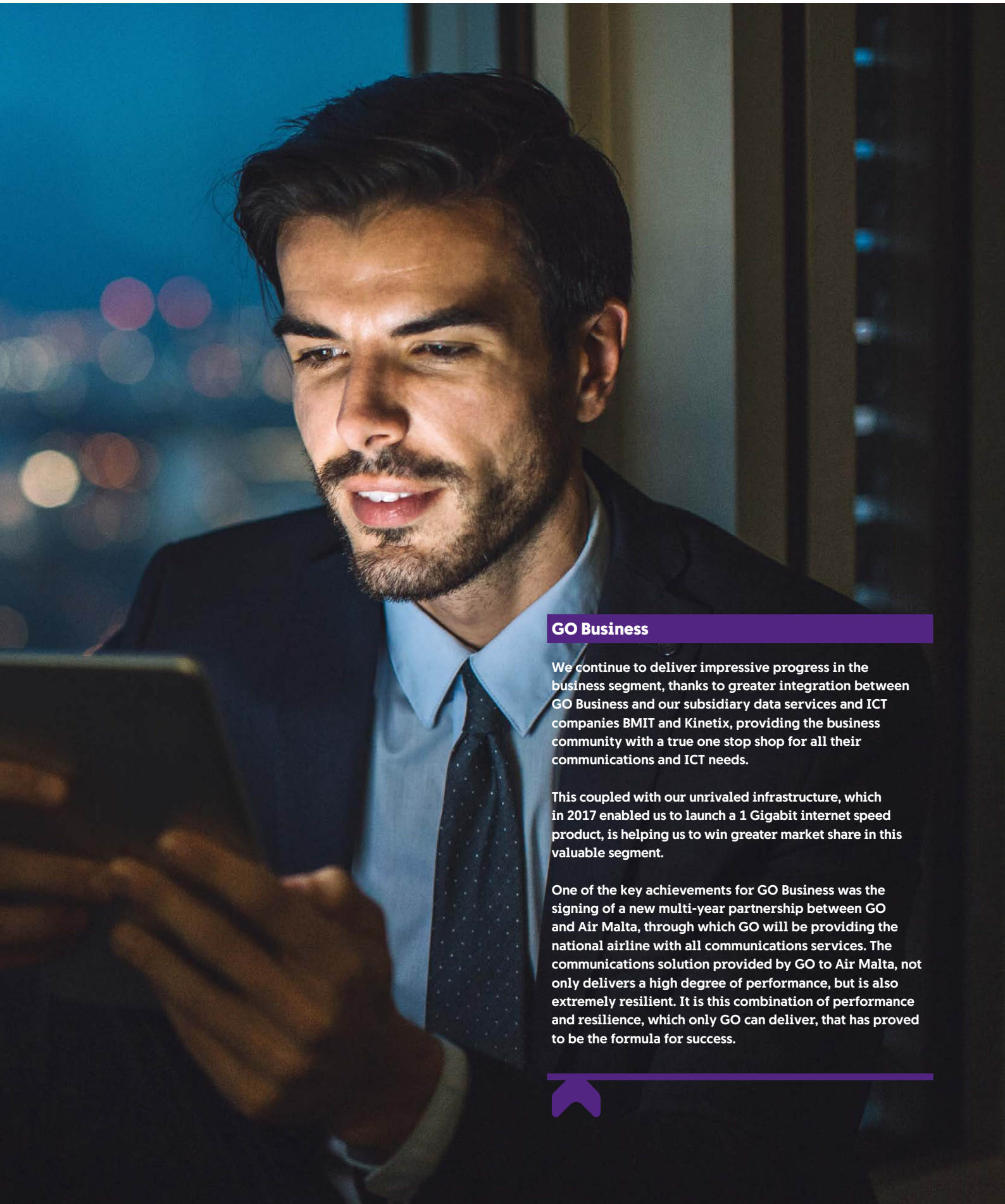
Together for Business

360°

communications & ICT services to corporate clients

GO also continues to lead in the business segment, with a strong offering and a unique ability to provide a comprehensive range of critical communications and data services to businesses and organisations operating in, and from Malta. A number of strategic investments in recent years have enhanced the Group's ability to deliver a 360 degree communications and ICT service to corporate clients, delivering greater value both to corporate clients and to shareholders.

Together for Business
continued



GO Business

We continue to deliver impressive progress in the business segment, thanks to greater integration between GO Business and our subsidiary data services and ICT companies BMIT and Kinetix, providing the business community with a true one stop shop for all their communications and ICT needs.

This coupled with our unrivaled infrastructure, which in 2017 enabled us to launch a 1 Gigabit internet speed product, is helping us to win greater market share in this valuable segment.

One of the key achievements for GO Business was the signing of a new multi-year partnership between GO and Air Malta, through which GO will be providing the national airline with all communications services. The communications solution provided by GO to Air Malta, not only delivers a high degree of performance, but is also extremely resilient. It is this combination of performance and resilience, which only GO can deliver, that has proved to be the formula for success.

Together in the Community

'GO for the future'

The 'GO for the future' fund was launched in late 2016 with two clear aims: supporting literacy, and popularising science. In an evermore competitive, technology driven, global economy, Malta's greatest asset remains its human resources, and as a key enabler of Malta's economic and social development, we believe that investing in both infrastructure and skills is crucial to ensure that our community's success is undiminished.

During 2017, GO invested the initial €80,000 allocated by the Company to 'GO for the future' in a number of initiatives. Foremost among these is 'Aqra Kemm Tiflaħ', a project to install new libraries in every Year 1, 2 and 3 classroom in state schools across Malta. 'GO for the future' has already invested €22,000 in this project, which is run by the National Literacy Agency within the Ministry for Education and Employment, with a further €11,000 to be invested in 2018.

The second major initiative undertaken by 'GO for the future' during 2017 was the fund's partnership with the Malta Robotics Olympiad, an event which educated and entertained thousands of school children and their families. The event, which included several inter-school robotics competitions, also featured 'The Big Challenge' in which a number of Malta built robots autonomously tackled a challenging obstacle course.

1.
'Aqra Kemm Tiflaħ' initiative.

1

Together in the Community
continued

Helping in the present

While investing in education and our collective future remains a priority, GO also continues to be a very active citizen, supporting those in our community who need help now. Over recent years, we have developed a close, ongoing relationship with the Malta Community Chest Fund, which does so much for those who find themselves in difficulty. In addition to the financial support given throughout the year, and sponsorship of several events, such as the 'Festa Ċitru', GO also provides communications and data services, as well as technical support. This also includes providing all of the infrastructure required for the annual 'L-Istrina' fundraising event. This in itself accounts for some €250,000 worth of services, all of which are provided free of charge.

GO's support towards the community also involves the active participation of many of our employees. The GO Cares Employee Fund continues to raise significant sums through voluntary donations and fund raising initiatives by employees, which are then topped up by the Company. These funds are used to support a number of good causes such as Id-Dar tal-Providenza, the Teresa Nuzzo Mission Group, the Richmond Foundation and YMCA, among others. In addition to these donations, GO Cares Employee Fund also regularly delivers voluntary practical help to these organisations. The refurbishment of the YMCA's Dar Niki Cassar by a group of our employees towards the end of 2017, is a prime example.

2 – 3.
GO 'għall-Istrina' event.

4.
GO Cares Employee Fund for Teresa Nuzzo Mission Group.

5.
GO 'Festa Ċitru'.

6.
YMCA's Dar Niki Cassar refurbishment.

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Together in the Community
continued

Enriching lives

As a provider of both communications and entertainment services, GO also aims to support events that enrich the lives of the broader community that we are all part of. This means that, in addition to contributions towards charitable and educational initiatives, GO also supports a number of cultural, sporting and entertainment events. In 2017, GO was once again a main sponsor of the Joseph Calleja concert, which also featured the legendary Andrea Bocelli and the internationally acclaimed bass-baritone Sir Bryn Terfel Jones.

In a completely different sphere, GO also continued to provide significant financial and infrastructural support to the fast growing eSports scene in Malta. The GO eSports Festival, which took place at the Kordin Sports Pavilion in November, attracted an enthusiastic participation of more than 200 competitors, and was powered by GO's 1Gbps superfast internet connection.

7

8

7.
Joseph Calleja Concert.

8.
eSports Festival.

Together in the Community
continued

Ongoing investment in our Community

The events highlighted in this review illustrate GO's ongoing commitment to the community in which we live and work. As GO continues to invest millions of euro in ensuring Malta has the communications and data infrastructure it needs to continue its successful journey into the future, we also remain focused on doing what we can, so that all those who live in Malta, young and old, can make the most of the opportunities that greater connectivity and technological development will create.

To this end, GO will continue to pursue its vision and to invest in education, particularly through the 'GO for the future' fund, while at the same time, helping those in need today, and helping to make Malta a more culturally enriching and entertaining place to live.

Board of Directors

Mohamed Fadhel Kraiem
Chairman
Chairman and Chief Executive Officer of Tunisie Telecom Group, he first joined TT in July 2010 as Deputy Chief Executive Officer. In 2016 he was appointed Chief Executive Officer of Monoprix, a major retail company in Tunisia. He returned to the TT Group early in 2017 and chairs a number of its subsidiaries. He is a graduate with diplomas from the Ecole Polytechnique and the Ecole Nationale des Télécommunications (Paris).

Sofiane Antar
A Certified Public Accountant and Chartered Accountant, has seven years experience as an auditor with international firms and nine years of industry experience in telecommunications. Executive Director Business Control and Planning at Tunisie Telecom where he is involved at senior level with several strategic projects. Holds a Bachelor Degree in Accountancy from the University of Carthage (HEC), and a Telecom Mini-MBA.

Saviour Baldacchino
An engineer by profession, and currently serving on a number of public boards, he has occupied various managerial posts. Was involved in a number of key projects such as the first satellite earth station, information technology implementation and also formed part of the business development advisory team at Maltacom.

Paul Fenech
Owner and founder of Classic Group Limited, where he is Executive Chairman. He is also the president of the Republic Street Business Community and an active member of the Valletta Business Community Committee.

Faker Hnid
Joined Tunisie Telecom in 2002, where he held several key managerial positions, the latest of which as Head of the Internal Audit Department. Also a board member of Agence Tunisienne d'Internet. Graduated in Finance from Ecole Supérieure de Commerce de Tunis and holds an MBA from Ecole Nationale Supérieure des PTT de Paris.

Mohsin Majid
Deputy CEO of Tunisie Telecom, and Board Member of Tunisie Telecom, Malta Properties Company and Forthnet. Previously led strategy development and investment projects at Emirates International Telecommunications, LLC. Also spent several years as a strategy consultant at Analysys, advising telecom and media companies, investment banks and regulators on various issues. Studied Manufacturing Engineering at Cambridge University.

Jamel Sakka
An experienced Engineer, also Board Member and Executive Committee Member of Internet service provider TOPNET in Tunisia. Senior managerial experience at Tunisie Telecom, most recently as Head of Network Development. A key team member involved in several strategic initiatives. Holds a Diploma in Telecommunications from SUP'COM (Tunis) and a Research Diploma in Telecommunications from ENIT (Ecole Nationale des Ingénieurs de Tunis) as well as an eMBA.

The Noble Paul Testaferrata Moroni Viani
A Director of Aquasun Services Limited, with responsibility for market research, contracting with tour operators, administration and property. Also a Director of Moroni Investments, Circles Limited, Euro Appliances Company Limited, MACAPPS Limited, Spinola Hotels Limited and St. George's Park Company Limited.

Dr Francis Galea Salomone
Company Secretary
Holds a Doctorate of Law from the University of Malta, a Masters degree in European Studies from the University of Kent (Canterbury) and a Bachelors degree in International Business. Currently a partner in Galea Salomone & Associates, with particular focus on Corporate and Commercial law. He has extensive experience in advising public listed companies on the regulatory and corporate governance aspects of their business including assisting international clients who need to establish new operations in Malta.

Directors' Report

The Directors are pleased to present their report together with the financial statements of the Company for the year ended on 31 December 2017.

Principal activities

The Group is Malta's leading integrated telecommunications services provider and its high speed networks form the backbone of the island's modern communications infrastructure. The services provided by the Group include fixed-line and mobile telephony, data and TV services for consumers and business clients. The Group also provides business clients with data centre facilities and ICT solutions.

The Group also has a controlling interest in Cablenet Communication Systems Limited (Cablenet), a leading provider of high speed broadband, TV and fixed-line telephony services to personal and business clients in Cyprus.

Business review

A review of the business of the Group during the year under review, events which took place since the end of the accounting period and an indication of likely future developments are given in the Chief Executive Officer's Review on pages 6 to 7.

Review of financial performance

2017 marked another positive year for the Group, the result of a sound investment policy that the Group is now reaping the benefits of, following the strategy it embarked on in previous years. GO's investment in its infrastructure and in complementary value generating business such as BM Group and Kinetix, has consolidated our results and has seen a robust performance in Malta operations. This positive trend extends to our Cyprus operations.

The financial year has been positive for the Group as it delivered growth in its operations, both in Malta as well as in Cyprus in spite of an intense competitive environment. Customer behaviour remains in a state of transition, driven by the growing convergence of telecommunications, information technology, media and entertainment. Furthermore, domestic operators not only compete against each other, but also against competing services available free of charge, through applications over the internet which are provided by organisations with a global reach. Within such a scenario, data services are fast becoming the primary telecommunication service sought by customers, as people seek to access the internet from anywhere and at any time of the day, using a multitude of devices. Innovation and a positive customer experience are crucial to succeed in such an environment and it is therefore encouraging that the Group retains healthy levels of revenue from a number of services besides revenue from internet access.

GO is pleased to report continued growth in its Malta Operations with its bundled packages, the increase in use of mobile post-paid services and data services which are the main contributors to growth in retail revenues. This performance is being achieved as a result of the continued investment in GO's network infrastructure. Our investment programme is designed to meet the challenges and opportunities that the customer behaviours and changing technologies demand from GO. GO is also undertaking the challenge to invest in its connectivity both in Malta and internationally with an investment of €100 million over the next five years. During the current year GO's fibre network coverage was extended to cover another 20,000 households. Now GO has covered more than 64,000 households which represents around 37% of Maltese households. Over the coming years GO intends to continue investing heavily in its FTTH network with the intention to cover the Maltese Islands in the shortest possible time. In Cyprus, Cablenet's network currently covers approximately 52% of households. Coverage is being extended as part of a multi-year programme which also includes ongoing improvements in systems and processes to retain the leading edge in the provision of quality broadband and TV in this market. During the year under review Cablenet's broadband client base has increased by more than 3,000 subscribers to circa 22% of the market.

The Group generated revenue of €166.3 million (2016: €157.0 million), an increase of €9.3 million over the comparative year. Revenue generated by Cablenet represents €31.0 million. On a standalone basis, Cablenet results show revenue growth of 6.4%. Revenue generated in Malta has maintained an upward trend, growing by 5.8% to €135.3 million. Whilst retail revenue from legacy fixed voice service continued to decline, GO experienced growth in all other retail sectors, particularly through attractive bundling propositions which continue to drive the strong performance at the retail level. During 2017 GO launched new mobile post-paid packages to attract customers to switch to a post-paid package, thus increasing Average Revenue per User (ARPU). The Group also saw a growth from its business arm which is now offering a one stop shop for all the communications and ICT needs of business users.

Cost of sales, administrative and related costs amounted to €138.0 million (2016: €131.9 million). The main increase of €6.1 million is the result of the increase in sales activity which has driven up the cost of goods sold.

Directors' Report
continued

Review of financial performance continued

Group Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) grew by 6.5% to €65.6 million, an increase of €4.0 million over the comparative year. Operating profit amounted to €29.5 million (2016: €26.3 million) representing underlying growth in operating performance of the Group. The results of prior year include an income of €6.1 million as a result of recognising a fair value gain on the remeasurement of the equity holding in Cablenet prior to acquiring control.

The investment in Cablenet continues to perform well. During 2017, Cablenet suffered a slight decline of 2.7% in its EBITDA arising from greater marketing effort by the company to address the competition in the Cypriot telecommunications market.

As part of the restructuring process of Forthnet S.A. (Forthnet), and GO's decision not to participate in the process of bond conversions, GO's investment in Forthnet was diluted to 15.2%. No further investments in Forthnet are envisaged as the value of this investment is completely impaired.

Profit before tax amounted to €27.9 million (2016: €28.1 million) resulting in an earnings per share of €0.165 (2016: €0.182).

Cash generated from operations amounted to €57.0 million (2016: €63.8 million), a decrease of €6.8 million compared to 2016 which year includes for the first time Cablenet and Kinetix operations effect. In 2017 the Group's investments in property, plant, equipment and intangible assets amounted to a cash outflow of €33.9 millon (2016: €45.6 million), a decrease of €11.7 million over 2016. In 2017 €9.3 million related to capital expenditure made by Cablenet, whereas the main investments by GO were in FTTH. Investments by GO in the acquisition of subsidiaries amounted to €4.4 million in 2016. During 2017 GO financing includes €15.6 million bank loan which it had extended to Cablenet to repay other bank loans.

During the year, GO reduced its borrowings by €39.2 million and paid dividends amounting to €11.1 million. The Group's cash and cash equivalents as at year end improved by €3.9 million. GO has adequate facilities in place, enabling it to maintain its investment programme and honour loan repayment obligations.

GO's business model is delivering results, as GO continues to maintain a robust operating performance in Malta and now also pursues growth opportunities available to Cablenet as a quality challenger operator in the Cypriot market. With more than 500,000 customer connections, GO's customer base remains the largest of any operator in Malta. In Cyprus, Cablenet serves more than 154,000 customer connections. The Group continues to enjoy year-on-year growth in customer connections in both markets across broadband and TV and is also growing the mobile base in the Maltese market.

It is encouraging to note that this sustained growth is being driven by an ever increasing number of customers adopting bundles of services. Thanks to the loyalty shown by customers to GO's and Cablenet's product portfolios, the Group continues to deliver robust levels of revenues, profitability and cash generation from its core operations.

Within a highly competitive environment, these results continue to augur well, as the Group seeks to retain a strong presence in its domestic market as well as grow its presence in Cyprus across all product lines, striving to remain the leading telecommunication services provider and operator of choice.

Throughout the past year GO has also continued to implement its employee transformation programme leading to further improvements in its operations and customer service; we have every intention of continuing to invest further in our people. We operate in a technology-led, and rapidly evolving sector, and our skilled and committed teams are fundamental as we adapt to change and continue to innovate and drive this business forward together. Total employee benefit expense for the year amounted to €30.8 million (2016: €29.4 million). The average number of persons employed by the Group, including part-timers and students, during the year amounted to 1,172 (2016: 1,140). The increased cost and headcount are due to growth at Cablenet.

The Group continues to retain a careful eye on environmental considerations in all its activities, as well as ethical behaviour with regards to its interactions with all its stakeholders.

Directors' Report
continued

Financial position

Following another year of robust operating performance, shareholders' funds as at year end amounted to €106.9 million (2016: €101.1 million), an increase of €5.8 million over the prior year in spite of a dividend distribution of €11.1 million during the year. The Group's net asset value per share stands at €1.14 (2016: €1.08), whilst the Group's equity position stands at 2.12x (2016: 1.70x) the Group's net debt position.

The Group's total asset base stands at €251.8 million (2016: €249.8 million), an increase of €2.0 million over the prior year as a result of the acquisition of Cablenet. The Group's total asset base is 45.7% (2016: 43.7%) funded through equity.

GO had the option of acquiring a further 49% shareholding in Kinetix. This option was exercised on 1 March 2018.

The Group's current assets amounted to €56.0 million (2016: €49.9 million) and are mainly represented by trade and other receivables of €33.9 million (2016: €31.9 million), inventories of €8.3 million (2016: €8.0 million) and cash of €13.7 million (2016: €9.7 million). Total liabilities decreased from €140.6 million as at December 2016 to €136.7 million as at December 2017.

A strong and sustained operational performance, and appropriate funding arrangements will allow the Group to continue to fund its investments in technology, honour its obligations with its bankers and pursue new investment initiatives aimed at increasing shareholder value.

The Directors recommend that at the forthcoming Annual General Meeting, the shareholders approve the payment of a net dividend of €0.13 per share (after taxation) – such dividend to be payable on 16 May 2018. Total distributions relating to this year's operations amount to €0.13 per share.

The amount of €13,170,363 has been transferred to the dividend payment reserve.

Retained profits carried forward at the balance sheet date amounted to €47.3 million (2016: €41.8 million) for the Group and €47.6 million (2016: €40.5 million) for the Company.

Our principal risks and uncertainties

Security and resilience

The Group's commercial success is dependent upon the resilience of the various networks, IT systems, exchanges and data centres. Our networks, systems and infrastructure face a variety of hazards that could cause significant interruptions to the delivery of our services. If the Group experiences any significant failure of its systems the impact could be considerable and include significant financial loss besides reputational damage that could jeopardise future revenue. The Group manages this risk by having significantly invested in the resiliency of its key networks and infrastructure wherever this is possible and feasible. Furthermore, the Group adopts a robust control framework that focuses on prevention supported by tried-and-tested recovery capabilities.

Customer data processing

On a daily basis the Group processes personal data of its significant client base. The Group recognises the importance of adhering to data privacy laws and wants its customers to feel confident that the Group acts properly and protects the data they share with it. Failure to abide by all relevant data protection and privacy laws could result in reputational damage for the Group as well as regulatory action and fines. The Group manages this risk by having in place a robust governance and monitoring framework. This framework defines roles and responsibilities of employees who have access to personal data, provides training and awareness to these employees and includes monitoring, reporting and audit to ensure compliance with various policies and procedures aimed to protect customer data and privacy.

Ability to grow

The Group operates in two highly developed and well penetrated markets characterised by extensive competition, pressure on pricing, technology substitution and product convergence. The Group strives to maintain its ability to grow revenues in spite of this adverse environment as failure to do so will impact profitability and the Group's ability to maintain its investment programme. The Group mitigates this risk by identifying opportunity to diversify its product portfolio and invest in new markets. The Group also pursues innovative product bundling and extends to its customer new technologies soon after these become available whilst working hard to become a leaner organisation.

Directors' Report
continued

Our principal risks and uncertainties continued

i-gaming industry

The i-gaming industry has grown to become one of Malta's main economic pillars. GO is a major supplier of technology and services to operators working out of Malta and any negative impact on the ability of the industry to retain its significant presence in Malta will impact the Group's profitability. Aware of this risk the Group is augmenting its range of co-location services to include a holistic ICT experience targeted at the Group's large business client base, thereby reducing the Group's reliance on the i-gaming industry.

Communications industry regulation

The Malta Communications Authority can request GO to provide specific wholesale services on specified terms following market reviews. These terms and regulations can include control over prices, both at the wholesale as well as the retail level besides other conditions. Furthermore, GO is also bound by regulation that from time-to-time does come into force across the European Union. Regulatory requirements and constraints can impact revenues and GO's ability to compete effectively with the resultant impact on profitability and cash generation. GO manages this risk by maintaining ongoing dialogue with regulators through a team of regulatory specialists who, with the help of various advisors, continuously monitor and review regulatory changes and how these may impact our Group.

Pensions

GO is faced with a number of cases from past employees for the payment of a pension. Whilst GO has acknowledged the entitlement to a pension in various cases, most of which have been settled through the payment of a lump sum, a number of other claims remain pending and will be decided by the Maltese Courts. In the case of an adverse decision GO may have to recognise the obligation to pay a pension to various claimants which obligations could, in their totality, be material. To mitigate this risk GO has appointed a strong team of legal advisors to argue GO's position.

Financial risk management

The Group's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management, covering risk exposures for all subsidiaries, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the respective company's financial performance. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Accordingly, the Company's Board of Directors provides principles for overall Group risk management, as well as risk management policies covering risks referred to above and specific areas such as investment of excess liquidity. A detailed review of the risk management policies employed by the Group is included in Note 2 to the financial statements.

Non-financial statement in terms of the requirements of the Sixth Schedule to the Companies Act

The Group is required to present a non-financial statement including information to the extent necessary for an understanding of GO's development, performance, position and impact of its activities, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

(a) a brief description of the undertaking's business model;
(b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
(c) the outcome of those policies;
(d) the principal risks related to those matters linked to GO's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
(e) non-financial key performance indicators relevant to the particular business.

Throughout the years, GO has proven to be a major contributor to society, both environmentally and socially, and has taken one of the top spots as a leading employer on the Island, attracting top talent locally and internationally. However, GO has not yet adopted formal policies in relation to issues such as environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. Also GO does not track its progress in these areas by reference to specific non-financial key performance indicators set in the context of formal policies and procedures. Hence the content of GO's non-financial statement is impacted in a significant manner by these two factors.

The Company is controlled by Tunisie Telecom and accordingly any policies in such areas would necessarily have to take into account the circumstances, direction and strategy of the controlling party, focusing on policies, if any, adopted by the controlling party and non-financial key indicators, if any, utilised by the controlling party at group level to monitor progress in such areas.

Directors' Report
continued

Our principal risks and uncertainties continued
Non-financial statement in terms of the requirements of the Sixth Schedule to the Companies Act continued
Employee matters

Throughout the past year GO has continued to implement its employee transformation programme leading to further improvements in its operations and customer service; GO has every intention of continuing to invest further in people. We operate in a technology-led, and rapidly evolving sector, and GO's skilled teams are fundamental as we adapt to change and continue to innovate and drive the business forward.

Our people are a vital part of our ambition to deliver a great customer experience, sustainable profit and revenue growth. Our people strategy supports this ambition by creating an environment where talented people can do excellent things as part of a dynamic business; we want great people to work for GO. We want management and staff members to feel engaged and inspired to be the best they can be. Together we can create a high-performing, thriving organisation, where difference and innovation are celebrated. At the heart of this are GO's people values. Every employee has a role to play in bringing these values to life. We will deliver on our objectives in this manner and use the power of communications to make the community a better place. We know the majority of our employees want to do and will do the right thing, highlighting the necessity to live GO's values and work in an ethical way at all times.

We continue to grow our workforce and recruit highly talented people. Total employee benefit expense for the year amounted to €30.8 million (2016: €29.4 million). The average number of persons employed by the Group, including part-timers and students, during the year amounted to 1,172 (2016: 1,140).

We continually redeploy our people to meet the needs of our customers and ensure they get a first-class experience. We work on improving our policies, cultures and working practices to achieve the goal of being a truly integrated organisation. Our focus on recruitment of talented people is based on demonstrating what makes GO such a great place to work. One of GO's targets is having a customer connected workforce as improving the quality of our customer relationships remains central to our people strategy. We also continue to recognise the importance of retaining experience within the workforce, as experienced employees bring to bear legacy and results achieved over the years.

At GO our people do not stop learning – whether that is on the job, with colleagues or in a formal training environment, so that the Group adapts to a changing world and rises to the challenges of tomorrow. We invest in our leadership capability, developing effective leaders at all levels and in all parts of our business. GO has continued to invest substantially in its employees by supporting learning opportunities which are targeted to not only secure the necessary skill set on modern technologies and innovation, but also to support career development.

We engage our people by giving them the opportunity to provide any feedback whatsoever that will make GO a better place to work, that will improve levels of employee engagement and that will give rise to actions that improve the way we serve our customers. We keep our people informed about company results, major business decisions and other things that affect them using a variety of channels. Leaders regularly connect with their teams.

GO strives to be an inclusive and gender-balanced employer. It is pleased to report an increased number of female employees across different levels, year in year out. GO is also very proud of its flexible work environment that encompasses various family-friendly measures, which enables its workforce to ensure a better work-life blend. Our maternity return rate continues to improve. Diversifying the mix of our people continues to be a priority within our people strategy. We are particularly keen to encourage women into technology careers. We have run recruitment campaigns for certain posts that aim to attract more women. We want to create an environment where our people can feel open about being themselves at work. We firmly believe in equality and respect for human rights. We actively encourage the recruitment, development and retention of persons with disability. We will automatically put an applicant with a disability or long-term health condition, who meets the minimum criteria for a vacancy, through to the first stage of a recruitment process. An inclusive culture is fundamental to ensuring our diverse workforce can develop. We are focused on embedding themes of inclusivity within all our training and development programmes, with a specific focus on developing diverse future talent.

We recognise that the wellbeing of our people feeds directly into our customers' experience and helps ensuring the profitability of our business. We look at what we can do to increase wellbeing. We are working hard to eliminate all avoidable health and safety incidents by investing in improved training and equipment. Our business entails some activity which may potentially lead to injury or be hazardous to the health of our employees. It is essential that we do all we can to keep our people safe; not only for legal compliance purposes but also because this implies they'll be better at work. Failure to implement and maintain effective health and safety management could have a huge impact on our people. It could lead to people being injured, work-related sickness and service disruption for customers. An unhappy or unhealthy workforce also leads to higher work absence rates and lower performance levels. We have taken a lot of steps to mitigate these risks – especially how our people work with electricity or at height.

Directors' Report
continued

Our principal risks and uncertainties continued
Non-financial statement in terms of the requirements of the Sixth Schedule to the Companies Act continued
Employee matters continued
We are continuing to implement a strategy which embeds effective management of health and safety into all our operations and promotes health and wellbeing to help improve business performance. We are implementing a health, safety and wellbeing strategy whereby every line of business produces its own health and safety plan. People managers take responsibility for making sure their teams know how to comply with health and safety standards. All our people undertake training in basic health and safety. We will put in place policies and programmes to make sure we adhere to our own standards and that those standards meet or exceed minimum legal requirements. We will also work to make sure our products comply with safety regulations, including meeting industry standards. We provide direction to help teams understand and control health and safety risks, and help everyone feel involved in health, safety and wellbeing issues.

We regularly review our pay and benefits to make sure that our remuneration is competitive when compared to other companies of a similar size and complexity, ensuring fairness to all. In 2017, GO also renewed its Collective Agreement with the GWU whereby various employment conditions were improved to ensure the better wellbeing of its employees. Our managers' pay ranges are set at competitive levels. Bonuses are determined through a combination of business performance and personal contribution to the Company.

The Group has also invested considerable time and effort in ensuring the right policies are in place, and updated regularly, on matters related to Whistle Blowing, Social Media, Anti-Harassment and Anti Bullying; and in ensuring these are updated from time to time and that such knowledge is widespread across the organisation.

Social support
Our purpose in the area of community and society influences our decisions and actions. We invest to help a number of initiatives that deliver social and environmental benefits. This investment is a mixture of cash, time volunteered and in-kind contributions.

As a major presence in the community, GO has always taken its social responsibility very seriously. As in previous years, in 2017 the Group has maintained a steady programme of activities aimed at improving the quality of life of its work force and their families, as well as of the local community and society at large. 'L-Istrina' was once again an event which was heavily supported by GO, not only in terms of a substantial donation but also in terms of equipment, communications infrastructure and hundreds of man-hours, freely granted to ensure the success of this annual fundraiser. GO also supported various NGOs. During the year GO also continued to build on the 'GO for the Future' campaign supporting various educational initiatives which encourage reading and a passion for science.

GO continues to provide social support to the community in which it operates. Support towards the Malta Community Chest Fund Foundation continued throughout the year as outlined previously, not solely through two key events such as 'L-Istrina' and 'Festa Ċitru'. GO remained committed to various educational and cultural initiatives such as the Malta Robotics Olympiad, the 'Aqra Kemm Tiflaħ' literacy programme and the annual Joseph Calleja concert. These initiatives are highlighted extensively in the Annual Report on pages 16 to 19. This is in addition to various other one-off and ongoing charitable and social initiatives, including a host of projects carried out by the 'GO Cares Employee Fund'.

It is always particularly encouraging to note that while employee support for company-driven events is growing from year to year, so are the number of personal initiatives taken, as this is very much in line with the Company's belief in a holistic approach to their work-life balance as well as strengthening community team spirit. Our people use working days for volunteering activities. Some choose to help charities with particular challenges that need their input and knowledge. Others use their energy and enthusiasm to make a practical difference in the community.

The Group recognises how important it is for everyone to have access to fast broadband and the Group is focusing on increasing in a significant manner, in the next few months, the number of homes covered by the FTTH project. GO also has the objective of promoting digital inclusion as digital transformation has the power to improve quality of life, boost the economy and protect the environment. It has always been our aim to ensure that no one is left out, especially vulnerable groups like the elderly, disabled or financially disadvantaged. The Group's view is that the next generation are great tech customers, but few are active creators. So much of our life and work depends on technology that tech literacy may be the difference between moving ahead or being left behind. The answer is to build a culture of tech literacy, so that young people grow up with the tech know-how to step up to the jobs of the future and to shape a more inclusive society that works for them.

Directors' Report
continued

Our principal risks and uncertainties continued
Non-financial statement in terms of the requirements of the Sixth Schedule to the Companies Act continued

Environmental matters

The Group continues to retain a careful eye on environmental considerations in all its activities. However the Group is cognisant of the fact that its impact on the environment is quite contained taking into account the level of energy and water consumption, services offered and waste generated. Hence it is difficult to conceive how GO's business model impacts environmental matters and for GO to devise specific policies in this area with non-financial key performance indicators utilised to monitor progress in this area.

However, from an environmental perspective, the company has been successful in its attempts at reducing its carbon footprint. This is a result of consistent and extensive investment in new technologies and equipment which are more efficient in terms of energy consumption. It has also invested in renewable energy by installing PV panels on its main roof tops. GO has undertaken every effort to ensure that its car fleet is modern and that all vehicles are meeting or exceeding low emission standards. Efforts have also been extended to increasing the necessary awareness and encouraging best practice internally. A number of awareness programmes on waste management and recycling have been implemented. All employees are strongly encouraged to recycle, not only waste generated at work, but also electronic waste at home through the provision of proper disposal facilities within the Company's main offices including collection points for e-waste.

Respect for human rights

We are committed to respecting human rights. We take cognisance of the UN Guiding Principles on Business and Human Rights. We believe that our communication services have a positive impact on society, empowering people to exercise their rights and freedoms. However, we are convinced that our work does not adversely impact human rights, either directly or indirectly, through our business relationships. Hence the business model of GO does not impact issues dealing with respect for human rights and does not give rise to the necessity to have specific policies in this respect.

Privacy and free expression are the rights most at risk from communication services. We want our customers to know they can trust us with their information. We will review our policies to make it easier for customers to understand how they should use our online services to express themselves.

Anti-corruption and bribery matters

One of GO's key objectives is to strive for ethical behaviour with regards to its interactions with all its stakeholders. Our Company's long-standing commitment to doing business with integrity means avoiding corruption in any form, including bribery, and complying with the local legislation in this respect. Although to date GO has no formal policies in respect of these matters, the Group will be working towards enhancing its formal documented approach in this respect notwithstanding the fact that its business model does not give rise to undue anti-corruption or bribery risk factors.

It is crucial that we maintain high ethical standards. We do not tolerate fraud, bribery, any form of corruption or any illegal or unethical activity. We follow local and international law, including anti-corruption and bribery laws.

We also face the risks associated with inappropriate and unethical behaviour in the market by our people or associates, such as suppliers or agents, which can be difficult to detect. Go faces the risks that our controls are designed to prevent, detect and correct such behaviour may be circumvented. Controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions, regardless of how remote.

If our people, or associates like suppliers or agents, breach anti-corruption, bribery, sanctions or other legislation there could be significant penalties, criminal prosecution and damage to our brand. This could have an impact on future revenue and cash flows depending on the nature of the breach, the legislation concerned and any penalties. Accusations of corruption, bribery, violating sanctions, regulations or other laws, could lead to reputational damage with investors, regulators and customers. If fraud is committed, there is a risk of financial misstatement which if undetected can have a material financial impact and potential litigation together with regulatory consequences.

Financial and other controls play an important part in our ability to prevent and detect inappropriate and unethical behaviour. This behaviour includes fraud, deliberate financial misstatement and improper accounting practices, as well as breaches of anti-corruption, bribery, or sanctions legislation. If the design, operation or the assurance over these controls is ineffective or they are circumvented, there is a greater risk that the impacts described above may materialise.

Directors' Report
continued

Our principal risks and uncertainties continued
Non-financial statement in terms of the requirements of the Sixth Schedule to the Companies Act continued
Anti-corruption and bribery matters continued
We plan to enhance our controls and compliance programme to strengthen awareness of the standards we expect, the capabilities of our people, and to reinforce the importance of doing business in an ethical, disciplined and standardised way.

Our relevant controls will include an anti-corruption and bribery programme and an ethical code. We will ask all our people to complete training to embrace our zero tolerance to bribery and corruption. We will also have policies covering gifts, hospitality, charitable donations and sponsorship. We will run tailored training for people in higher-risk roles like procurement and sales.

Our internal audit team will run checks on our business. We will do due diligence checks on third parties like suppliers, agents, resellers and distributors. Our policy is that procurement contracts will include anti-corruption and bribery clauses.

Our suppliers provide the products and services that are so important in executing our strategy. We want to know who we are doing business with and who is acting on our behalf. So we choose suppliers using principles that make sure we act ethically and responsibly, ensuring as much as is practicable that suppliers act in a socially and environmentally responsible way.

Our services are regulated to make sure that providers comply with common standards and rules, and that nobody is disadvantaged by providers with strong positions in the market place. Electronic communications networks and services are governed by directives and regulations set by the European Commission (EC). These create a Europe-wide framework (known as the European Common Regulatory Framework) covering services such as fixed and mobile voice, broadband, cable and satellite transmission. The directives include rules covering:
- access and interconnection;
- universal service obligations; and
- a requirement for national regulators to review markets for significant market power (SMP) every three years and to put appropriate and proportionate SMP remedies in place.

Board of Directors
The Directors who served on the Board during the year under review or up to the date of this report are listed hereunder. None of the Directors in office during the year or at the balance sheet date held an executive appointment with the Company or its subsidiaries.

Mohamed Fadhel Kraiem (appointed 22 November 2017)
Sofiane Antar
Saviour Baldacchino
Paul Fenech
Faker Hnid
Mohsin Majid
Jamel Sakka
Paul Testaferrata Moroni Viani
Nizar Bouguila (resigned 22 November 2017)

In terms of Article 58.2 of the Articles of Association, the term of appointment of the Directors still in office expires at the forthcoming Annual General Meeting.

Saviour Baldacchino, Paul Fenech and Paul Testaferrata Moroni Viani, offered themselves for election at the Seventeenth Annual General Meeting for the three seats on the Board of Directors and all three were elected to represent the Company's shareholders.

Of the Directors of the Company, Mohamed Fadhel Kraiem and Paul Testaferrata Moroni Viani, together with Attila Keszeg (GO's Chief Executive Officer) were acting as Directors of *Innovate Software Limited*. Nizar Bouguila and Yiannos Michaelides resigned on 22 November 2017 and 1 June 2017 respectively.

Mohamed Fadhel Kraiem and Attila Keszeg (GO's Chief Executive Officer) were acting as Directors of GO *Data Centre Services Limited*. Nizar Bouguila and Yiannos Michaelides resigned on 22 November 2017 and 1 June 2017 respectively.

Mohsin Majid and Jamel Sakka, together with Attila Keszeg (GO's Chief Executive Officer) are the Directors of the following subsidiary companies: *BMIT Limited, Bellnet Limited and BM Support Services Limited*. Yiannos Michaelides resigned on 1 June 2017.

Adrian Dalli, Curt Gauci, together with Attila Keszeg (GO's Chief Executive Officer) and Christian Sammut (GO's Chief Officer GO Business), are the Directors of *Kinetix IT Solutions Limited*. Joseph Attard and Yiannos Michaelides resigned on 1 October 2017 and 1 June 2017 respectively.

Mohamed Fadhel Kraiem, Faker Hnid and Attila Keszeg (GO's Chief Executive Officer) and Paul Testaferrata Moroni Viani were acting as Directors of *Cablenet Communications Systems Limited* at 31 December 2017. Nizar Bouguila and Edmond Brincat resigned on 27 November 2017, and Yiannos Michaelides resigned on 1 June 2017.

None of the Directors have service contracts with either the Company or its subsidiaries.

Directors' Report
continued

Remuneration committee and corporate governance
The activities of the remuneration committee and the Group's arrangements for corporate governance are reported on pages 31 to 38.

Directors' responsibilities
The Directors are required by the Companies Act (Cap. 386 of the Laws of Malta) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the Company as at the end of each reporting period and of the profit and loss for that period.

In preparing the financial statements, the Directors are responsible for:
- Ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- Selecting and applying consistently suitable accounting policies;
- Making accounting judgements and estimates that are reasonable; and
- Ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining such internal control as they deem necessary for the preparation of financial statements that are free from financial misstatements, whether due to fraud or error.

The financial statements of GO p.l.c. for the year ended 31 December 2017 are included in the Annual Report 2017, which is published in hard-copy printed form and may be made available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Information provided in accordance with *Listing Rule 5.70.1*
There were no material contracts to which the Company, or any of its subsidiaries was a party, and in which anyone of the Company's Directors was directly or indirectly interested.

Going concern
The Directors, as required by the Listing Rule 5.62, have considered the Company's operating performance, the balance sheet at year end, as well as the business plan for the coming year, and they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, they continue to adopt the going concern basis in preparing the financial statements.

Auditors
The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office. A resolution to re-appoint the auditors and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Information provided in accordance with *Listing Rule 5.64*
The authorised share capital of the Company is three hundred forty nine million four hundred and five thousand eight hundred euro (€349,405,800) divided into six hundred million (600,000,000) shares of fifty eight point two three four three euro cents (€0.582343) each share.

The issued share capital of the Company is fifty eight million nine hundred and ninety seven thousand, four hundred and fifty three euro and fifty one euro cents (€58,997,453.51) divided into one hundred and one million three hundred and ten thousand four hundred and eighty eight (101,310,488) ordinary shares of fifty eight point two three four three euro cents (€0.582343) each share, which have been subscribed for and allotted fully paid up. The issued shares of the Company consist of one class of ordinary shares with equal voting rights attached.

The Company did not modify in any way the structure of its share capital during the year. No further issues were made and neither did the Company acquire ownership of or any rights over any portion of its issued share capital.

The Directors confirm that as at 31 December 2017, only TT ML Limited held a shareholding in excess of 5% of the total issued share capital.

Any shareholder holding in excess of 40% of the issued share capital of the Company having voting rights may appoint the Chairman. In the event that there is no one single shareholder having such a shareholding, the Chairman shall be elected by shareholders at the Annual General Meeting of the Company.

Directors' Report
continued

Information provided in accordance with *Listing Rule 5.64*
continued

The rules governing the appointment of Board members are contained in Clause 55.3 of the Company's Articles of Association as follows:

The Directors shall be appointed as set out hereunder:

(a) A Shareholder holding not less than 12% (twelve per centum) of the issued share capital of the Company having voting rights shall be entitled to appoint one Director for every such 12% holding by letter addressed to the Company. Provided that anyone Shareholder who, pursuant to the provisions of sub article 55.1 (a) is entitled to appoint the Chairman, shall for the purposes of the appointment of Directors in terms of this sub-article have 12% of his holdings deducted and may accordingly only appoint Directors with the residual balance of shares having voting rights after such deduction.

(b) Any Shareholder who does not qualify to appoint Directors, in terms of the provisions of paragraph (a) of this sub-article 55.3, and who has not aggregated his holdings with those of other Shareholders for the purposes of appointing a Director(s) pursuant thereto, shall be entitled to participate and vote in an election of Directors to take place once in every year at the Annual General Meeting of the Company.

(c) Shareholders entitled to appoint Directors pursuant to the provisions of paragraph (a) sub-article 55.3 shall not be entitled to participate in the election of Directors in terms of paragraph (b) of this sub-article.

(d) Members shall be entitled in lieu of voting at an election of Directors, to aggregate their shareholdings, and to appoint one Director for every twelve per cent (12%) shareholding having voting rights held between them, by letter addressed to the Company in accordance with the provisions of sub-article 55.3 (a); and for the purposes of this paragraph and voting rights of persons entitled to vote pursuant to the provisions of sub-article 55.3 (b) remaining after the exercise of such vote may aggregate such rights as aforesaid.

Any amendment to the Company's Memorandum and Articles of Association has to be made in accordance with the Companies Act.

Without prejudice to any special rights previously conferred on the holders of any of the existing shares or class thereof, any share in the Company may be issued with such preferred, deferred, or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Board of Directors may from time to time determine, as provided for in Clauses 3.2 and 3.3 of the Articles of Association, as long as any such issue of Equity Securities falls within the authorised share capital of the Company.

The Company may, subject to the applicable restrictions, limitations and conditions contained in the Companies Act, acquire its own shares and or Equity Securities.

Pursuant to Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 it is hereby declared that, as at 31 December 2017, none of the requirements apply to the Company.

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors on 6 March 2018 and signed on its behalf by:

Mohamed Fadhel Kraiem
Chairman

Paul Testaferrata Moroni Viani
Director

Registered office: **GO** Fra Diegu Street, Marsa, Malta

6 March 2018

Corporate Governance – Statement of Compliance

A. Introduction

Pursuant to the Malta Financial Services Authority Listing Rules, GO p.l.c. ('the Company') whose equity securities are listed on a regulated market should endeavour to adopt the Code of Principles of Good Corporate Governance ('the Code') as contained in Appendix 5.1 to Chapter 5 of the Listing Rules. In terms of the Listing Rules the Company is hereby reporting on the extent of its adoption of the Code.

The Company acknowledges that the Code does not prescribe mandatory rules but recommends principles so as to provide proper incentives for the Board of Directors ('the Board') and the Company's management to pursue objectives that are in the interests of the Company and its shareholders. Good corporate governance is the responsibility of the Board, and in this regard the Board has carried out a review of the Company's compliance with the Code during the period under review, and hereby provides its report thereon.

As demonstrated by the information set out in this statement, together with the information contained in the Report of the Remuneration Committee to the Shareholders, the Company believes that it has, save as indicated herein the section entitled Non-Compliance with the Code, throughout the period under review, applied the principles and complied with the provisions of the Code.

B. Compliance

Principle 1: The Board

The Board, the members of which are appointed by the shareholders, is primarily tasked with the administration of the Company's resources in such a way as to enhance the prosperity of the business over time, and therefore the value of the shareholders' investment. The Board is composed of eight Directors (one of whom is the Chairman) all of whom are non-executive Directors.

The Board is in regular contact with the Chief Executive Officer and is continuously informed of any decisions taken by the Executive Committee in order to ensure an effective contribution to the decision making process, whilst at the same time exercising prudent and effective controls. Directors, individually and collectively, are of appropriate calibre, with the necessary skill and experience to assist them in providing leadership, integrity and judgement in directing the Company towards the maximisation of shareholder value.

The Board delegates specific responsibilities to a number of committees, notably the Remuneration Committee, the Audit Committee and the Executive Committee, each of which operates under formal terms of reference approved by the Board.

Further detail in relation to the Committees and the responsibilities of the Board is found in paragraph 'Principles 4 and 5' of this statement.

Principle 2: Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are filled by separate individuals, and the Chief Executive Officer is appointed by the Board for a definite period of time. During the period under review Attila Keszeg was appointed as Chief Executive Officer following the end of term for Yiannos Michaelides.

The responsibilities and roles of the Chairman and the Chief Executive Officer are clearly established and agreed to by the Board of Directors.

The Chairman is responsible to lead the Board and set its agenda. The Chairman ensures that the Board is in receipt of precise, timely and objective information and also encourages active engagement by all members of the Board for discussion of complex and contentious issues.

The Chairman also leads the Executive Committee, the composition of which is set out below, and whose main role and responsibilities are to execute agreed strategy and manage the business. His role in this respect does not render his directorship an executive role.

Principle 3: Composition of the Board

In accordance with the provisions of the Company's Articles of Association, the appointment of Directors to the Board is exclusively reserved to the Company's shareholders, except in so far as appointment is made to fill a casual vacancy on the Board, and which appointment would expire at the Company's Annual General Meeting following appointment. Any vacancy among the Directors may be filled by the co-option of another person to fill such vacancy. Such co-option shall be made by the Board of Directors.

The Board has the overall responsibility for the activities carried out within the Company and the Group and thus decides on the nature, direction, strategy and framework of the activities and sets the objectives for the activities.

The Board of Directors is currently chaired by Mohamed Fadhel Kraiem and comprises eight (8) non-executive Directors. The following Directors served on the Board during the period under review:

Mohamed Fadhel Kraiem (appointed 22 November 2017)
Sofiane Antar
Saviour Baldacchino
Paul Fenech
Faker Hnid
Mohsin Majid
Jamel Sakka
Paul Testaferrata Moroni Viani
Nizar Bouguila (resigned 22 November 2017)

Corporate Governance – Statement of Compliance
continued

B. Compliance continued

Principle 3: Composition of the Board continued

For the purposes of the Code, the non-executive Directors are independent. The Company deems that, although Mohamed Fadhel Kraiem, Sofiane Antar, Faker Hnid, Mohsin Majid and Jamel Sakka have an employee and director relationship with the controlling shareholder, in terms of Supporting Principle 3(vii) of the Code of Principles of Good Corporate Governance such relationship is not considered to create a conflict of interest such as to jeopardise the exercise of their free judgement.

Application of Diversity Policy in relation to the Board of Directors

The Company does not have in place a formal diversity policy which is applied in relation to the Board of Directors with regard to aspects such as age, gender or educational and professional backgrounds. This is principally attributable to the fact that the Company is controlled by Tunisie Telecom and accordingly policies such as this which govern the composition of the Board necessarily have to take into account the circumstances, direction and strategy of the controlling party. Notwithstanding the absence of a diversity policy, the Company endeavours to have in place a Board composed of members who possess a diverse range of skills, characteristics and qualities. The objective of the Company is that the Board composition contributes to different views and opinions, enhancing the level and quality of challenge together with oversight exercised at Board level.

Principles 4 and 5:
The Responsibilities of the Board and Board Meetings

The Board has a formal schedule of matters reserved to it for decisions, but also delegates specific responsibilities to various board committees and sub-committees, the most prominent being the Audit Committee, the Remuneration Committee and the Executive Committee. Directors receive board and committee papers in advance of meetings and have access to the advice and services of the Company Secretary. Directors may, in the course of their duties, take independent professional advice on any matter at the Company's expense. The Directors are fully aware of their responsibility always to act in the best interests of the Company and its shareholders as a whole, irrespective of whoever appointed or elected them to serve on the Board. As delegated and monitored by the Board, the Company Secretary keeps detailed records of all dealings by Directors and senior executives of the Company and its subsidiaries in the Company's shares and all minutes of meetings of the Board and its sub-committees.

During the year under review the Board met six (6) times.

On joining the Board, a Director is provided with a presentation by the departmental heads on the activities of their respective business unit in the Company and its subsidiaries. The Directors receive, on a regular basis, information on the Group financial performance and position.

The Board has the responsibility to ensure that the activities are organised in such a way that the accounts, management of funds and financial conditions in all other respects are controlled in a satisfactory manner and that the risks inherent in the activities are identified, defined, measured, monitored and controlled in accordance with external and internal rules, including the Articles of Association of the Company. The Board of Directors, through the work carried out by the Executive Committee, continuously assesses and monitors the Company's operational and financial performance, assesses and controls risk, and monitors competitive forces in all areas of operation. It also ensures that both the Company and its employees maintain the highest standards of corporate conduct.

Board Committees

Audit Committee

The Audit Committee supports the work of the Board in terms of quality control of the Group's financial reports and internal controls. The Audit Committee is currently chaired by Faker Hnid, with the other members being Saviour Baldacchino and Paul Fenech. The Audit Committee is independent and is constituted in accordance with the requirements of the Listing Rules, with Faker Hnid being chosen as the member competent in accounting and/or auditing in view of his experience in the field. The Internal Auditor is present at Audit Committee meetings. The Chief Finance Officer and the external auditors of the Company attend the meetings of the Committee by invitation. Other executives are requested to attend when required. The Company Secretary also acts as Secretary to the Audit Committee.

The Committee scrutinises and monitors related party transactions. It considers the materiality and the nature of the related party transactions carried out by the Company to ensure that the arm's length principle is adhered to at all times.

As part of its duties, the Committee receives and considers reports on the system of internal financial controls and the audited statutory financial statements of all companies comprising the Group. The Committee held four (4) meetings during the year. The external auditors attended all of these meetings.

Corporate Governance – Statement of Compliance
continued

B. Compliance continued

Principles 4 and 5: The Responsibilities of the Board and Board Meetings continued

Board Committees continued

Remuneration Committee

The Committee is responsible for determining and agreeing with the Board the framework or broad policy for the Remuneration of the Company's chief officers, the Chairman of the Company, the Directors of the Board, and such other members as it is designated to consider. In determining such policy, the Committee takes into account all factors which it deems necessary, including the position of the Group companies relative to other companies in the marketplace. The objective of such policy shall be to ensure that Directors and chief officers are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group companies.

The Remuneration Committee is currently chaired by Mohamed Fadhel Kraiem, the other members being Paul Testaferrata Moroni Viani and Paul Fenech. The Company Secretary, Dr Francis Galea Salomone, acts as Secretary to the Remuneration Committee. The Remuneration Committee met five (5) times in 2017. The Report of the Committee to the shareholders is set out on pages 37 to 38.

Executive Committee

The day-to-day management of the Company is led by the Chief Executive Officer and supported by the Board of Directors directly and through the Executive Committee. The Executive Committee is equipped with the necessary decision-making tools and strict Board oversight to facilitate the successful execution of its duties. The Executive Committee provides oversight, guidance and leadership for the management of the business within the guidelines and approval limits set from time to time by the Board of Directors. It recommends and forwards to the Board of Directors those decisions that are outside its approval limits.

The Executive Committee, currently chaired by Mohamed Fadhel Kraiem, is also comprised of Attila Keszeg, Jamel Sakka and Sofiane Antar. Nizar Bouguila, Yiannos Michaelides and Edmond Brincat resigned during the year. The Company Secretary acts as Secretary to the Executive Committee. The Executive Committee held five (5) meetings during the year under review.

Principle 6: Information and Professional Development

The Board is responsible for the appointment of the Chief Executive Officer. The Chief Executive Officer, although responsible for the recruitment and selection of senior management, consults with the Remuneration Committee and with the Board on the appointment of senior management.

On joining the Board, Board members are informed in writing by the Company Secretary of the Directors' duties and obligations, relevant legislation as well as rules and bye-laws. In addition, Directors have access to the advice and services of the Company Secretary and the Board is also advised directly, as appropriate, by its legal advisors. Directors are also provided with a presentation by the departmental heads on the activities of their respective business unit in the Company and subsidiaries. On a regular basis, the Directors receive periodic information on the Group's financial performance and position. The Company Secretary ensures effective information flows within the Board, committees and between senior management and Directors, as well as facilitating professional development. The Company Secretary advises the Board through the Chairman on all governance matters.

Directors may, in the course of their duties, take independent professional advice on any matter at the Company's expense. The Company will provide for additional individual Directors' training on a requirements basis.

Principle 7: Evaluation of the Board's Performance

The Chairman of the Board informally evaluates the performance of the Board members, which assessment is followed by discussions within the Board. Through this process the activities and working methods of the Board and each committee member are evaluated. Amongst the things examined by the Chairman through his assessment are the following: how to improve the work of the Board further, whether or not each individual member takes an active part in the discussions of the Board and the committees; whether they contribute independent opinions and whether the meeting atmosphere facilitates open discussions. Under the present circumstances the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role as the Board's performance is furthermore also under the scrutiny of the shareholders.

On the other hand, the performance of the Chairman is evaluated by the Board of Directors of the ultimate controlling party, taking into account the manner in which the Chairman is appointed. The self-evaluation of the Board has not led to any material changes in the Company's governance structures and organisations.

Principle 8: Committees

The Remuneration Committee is dealt with under the Remuneration Report, which also includes the Remuneration Statement in terms of Code Provisions 8.A.3 and 8.A.4.

The Company has opted not to set up a Nomination Committee. Further explanation is provided under the section entitled Non-Compliance with the Code of this Statement.

Corporate Governance – Statement of Compliance
continued

B. Compliance continued

Principles 9 and 10: Relations with Shareholders and with the Market, and Institutional Shareholders

The Company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood. During the period under review the Company has maintained an effective communication with the market through a number of Company announcements and press releases.

The Company also communicates with its shareholders through the Company's Annual General Meeting ('AGM'). The Chairman of the Board ensures that all Directors attend the AGM and that both the Chairman of the Board and the Chairman of the Audit Committee are available to answer questions.

Both the Chairman and Chief Executive Officer also ensure that sufficient contact is maintained with major shareholders to understand issues and concerns.

Apart from the AGM, the Company communicates with its shareholders by way of the Annual Report and Financial Statements and also through the Company's website (www.go.com.mt) which also contains information about the Company and its business, including an Investor Relations section.

In addition, the Company holds meetings with major stockbrokers and financial intermediaries, which meetings usually coincide with the publication of financial statements.

The office of the Company Secretary maintains regular communication between the Company and its investors. Individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the year, and are given the opportunity to ask questions at the AGM or to submit written questions in advance.

As provided by the Companies Act, 1995 minority shareholders may convene Extraordinary General Meetings.

Principle 11: Conflicts of Interest

The Directors are fully aware of their responsibility always to act in the best interests of the Company and its shareholders as a whole irrespective of whoever appointed or elected them to serve on the Board.

On joining the Board and regularly thereafter, the Directors are informed of their obligations on dealing in securities of the Company within the parameters of law, including the Listing Rules, and Directors follow the required notification procedures.

Directors' interest in the shareholding of the Company:

	Number of shares as at 31 December 2017
Mohamed Fadhel Kraiem	nil
Sofiane Antar	nil
Saviour Baldacchino	10,600
Paul Fenech	130,995
Faker Hnid	nil
Mohsin Majid	nil
Jamel Sakka	nil
Paul Testaferrata Moroni Viani	94,444

Paul Fenech has a beneficial interest in the Company of 130,995 shares through the shareholding of Classic Group Ltd. in GO p.l.c..

Saviour Baldacchino has a beneficial interest in the Company of 10,600 shares.

Paul Testaferrata Moroni Viani has a beneficial interest in the Company of 16,050; 75,494 and 2,900 shares through the shareholding of other related parties including Testaferrata Moroni Viani (Holdings) Ltd. and Testaferrata Moroni Viani Ltd. respectively in GO p.l.c..

None of the other Directors of the Company have any interest in the shares of the Company or the Company's subsidiaries or investees or any disclosable interest in any contracts or arrangements either subsisting at the end of the last financial year or entered into during this financial year.

There were no other changes in the Directors' interest in the shareholding of the Company between year-end and 9 February 2018.

Principle 12: Corporate Social Responsibility

As a major presence in the community, GO has always taken its corporate social responsibility very seriously. As in previous years, in 2017 the Group has maintained a steady programme of activities aimed at improving the quality of life of its work force and their families, as well as of the local community and society at large. 'L-Istrina' was once again an event which was heavily supported by GO, not only in terms of a substantial donation but also in terms of equipment, communications infrastructure and hundreds of man-hours, freely given to ensure the success of this annual fundraiser. GO also continued to support various NGOs. During the year GO also continued to build on the 'GO for the Future' campaign supporting various educational initiatives which encourage reading and a passion for science.

Corporate Governance – Statement of Compliance
continued

B. Compliance continued

Principle 12: Corporate Social Responsibility continued

The Company retained a careful eye on environmental considerations in all its activities, as well as ethical behaviour with regards to its interactions with all its stakeholders. Accordingly, GO also began installing solar panels on the roofs of its premises including GO's Head Office in Marsa, and other properties in Żebbuġ, Malta and in Xewkija, Gozo. Apart from contributing to a better environment, this also delivers costs savings to the Group.

It is always particularly encouraging to note that while employee support for company-driven events is growing from year to year, so are the number of personal initiatives taken, as this is very much in line with the Company's belief in a holistic approach to their work-life balance as well as strengthening community team spirit.

C. Non-compliance with the code

Principle 3: Executive and Non-Executive Directors on the Board

As explained in Principle 3 in Section B, the Board is composed entirely of non-executive Directors. Notwithstanding this, it is considered that the Board, as composed, provides for sufficiently balanced skills and experience to enable it to discharge its duties and responsibilities effectively. In addition, no cases of conflict of interest are foreseen.

Principle 4: Succession Policy for the Board (code provision 4.2.7)

This Code Provision recommends 'the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility'.

In the context of the appointment of Directors being a matter reserved exclusively to the Company's shareholders (except where the need arises to fill a casual vacancy) as explained under Principle 3 in Section B, considering that every Director retires from office at the AGM and on the basis of the Directors' non-executive role, the Company does not consider it feasible to have in place such a succession policy.

Principle 6: Succession Plan for Senior Management

Although the Chief Executive Officer is responsible for the recruitment and appointment of senior management, the Company has not established a formal succession plan. This is basically due to the fact that the appointment of senior management is always discussed at the Remuneration Committee and approved by the Board of Directors.

Principle 8 B: Nomination Committee

Pursuant to the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders. Shareholders holding not less than 12% (twelve per centum) of the issued share capital of the Company having voting rights shall be entitled to appoint one Director for every such 12% holding by letter addressed to the Company. The other shareholders are entitled to appoint the remaining Board members at the AGM in accordance with the provisions of the Articles of Association. The nomination of a candidate by a shareholder is to be seconded by a shareholder or shareholders holding at least 15,000 shares.

Within this context, the Board believes that the setting up of a Nomination Committee is currently not suited to the Company since it will not be able to undertake satisfactorily its full functions and responsibilities as envisaged by the spirit of the Code. The Company also considers that some of the functions of the Nomination Committee (particularly those relating to succession planning and the appointment of senior management) are already dealt with by the Remuneration Committee.

Principle 9: Conflicts between Shareholders (code provision 9.3)

Currently there is no established mechanism disclosed in the Company's Memorandum and Articles of Association to trigger arbitration in the case of conflict between the minority shareholders and the controlling shareholders. In any such cases should a conflict arise, the matter is dealt with in the appropriate fora in the Board meetings, wherein the minority shareholders are represented. There is also an open channel of communication between the Company and the minority shareholders via the office of the Company Secretary.

D. Internal controls

The key features of the Group's system of internal controls are as follows:

Organisation

The Group operates through boards of directors of subsidiaries with clear reporting lines and delegation of powers. The Company's Chairman is also the chairman of the board of directors of the Company's subsidiaries, except for BMIT Limited, BM Support Services Limited, Bellnet Limited and Kinetix IT Solutions Limited.

Control environment

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives. Lines of responsibility and delegation of authority are documented.

Corporate Governance – Statement of Compliance
continued

D. Internal controls continued

Control environment

The Group and the individual companies comprising it have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties and reviews by management, internal audit and the external auditors.

Risk identification

Group management is responsible together with each of the subsidiary companies' management, for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

Information and communication

Group companies participate in periodic strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives.

Monitoring and corrective action

There are clear and consistent procedures in place for monitoring the system of internal financial controls. The Audit Committee meets regularly during the year and, within its terms of reference as approved by the Listing Authority, reviews the effectiveness of the Group's systems of internal financial controls. The committee receives reports from management, internal audit and the external auditors.

E. General meetings

Shareholders' influence is exercised at the Annual General Meeting (AGM), which is the highest decision-making body of the Company. All shareholders, registered in the Shareholders' Register, have the right to participate in the Meeting and to vote for the full number of their respective shares. A shareholder who cannot participate in the Meeting can be represented by proxy.

Business at the Company's AGM will cover the Annual Report and Financial Statements, the declaration of dividends, election of Directors and the approval of their remuneration, the appointment of the auditors and the authorisation of the Directors to set the auditors' fees. Shareholders' meetings are called with sufficient notice to enable the use of proxies to attend, vote or abstain. The Company clearly recognises the importance of maintaining a regular dialogue with its shareholders in order to ensure that its strategies and performance are understood. It communicates with the shareholders through the AGM by way of the Annual Report and Financial Statements and by publishing its results on a regular basis during the year. This is done through the Investor Relations Section on the Company's internet site, the office of the Company Secretary, and Company announcements to the market in general. A free-phone service is reserved for communication by shareholders with the Company. Regular meetings are held with financial intermediaries and stockbrokers.

Remuneration Committee Report

A. Terms of reference and membership

The Committee is responsible for determining and agreeing with the Board the framework or broad policy for the Remuneration of the Company's Chief Officers, the Chairman of the Company, the Directors of the Board, and such other members as it is designated to consider. In determining such policy, the Committee takes into account all factors which it deems necessary, including the position of the Group companies relative to other companies in the marketplace. The objective of such policy shall be to ensure that Directors and Chief Officers are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group Companies.

The Remuneration Committee is composed of Mohamed Fadel Kraiem (Chairman), Paul Testaferrata Moroni Viani and Paul Fenech, all of whom are non-executive Directors of the Company. The Chief Executive Officer (CEO) of the Company is invited to attend the meetings of the Committee. The Company Secretary, Dr Francis Galea Salomone acts as Secretary to the Remuneration Committee.

B. Meetings

During the period under review the Committee held five meetings. All Committee members attended the five meetings held.

The Committee discussed the following matters:

- Remuneration report;
- Remuneration of Senior Management;
- Approval of bonus to Senior Management and other staff;
- Resignation and appointment of new Chief Officers;
- Approval of performance bonus for 2016; and
- Bonus scheme for 2017.

C. Remuneration policy – Directors

The Board is composed exclusively of non-executive Directors. The determination of remuneration arrangements for Board members is a matter reserved for the Board as a whole. The maximum annual aggregate emoluments that may be paid to Directors is approved by the shareholders in General Meeting in terms of the Articles of Association of the Company. The aggregate amount approved for this purpose during the last Annual General Meeting was €200,000.

The current Directors' fees as approved by the Board are set at €190,146.

No Board Committee fees were payable to any of the Directors during the year under review.

None of the Directors have service contracts with either the Company or its subsidiaries.

None of the Directors, in their capacity as a Director of the Company or any of its subsidiaries, is entitled to profit sharing, share options or pension benefits. In terms of non-cash benefits, Directors are entitled to a number of services offered by the Company and to health insurance.

Total emoluments received by Directors during the year under review are reported below under section E in terms of the Code Provisions.

D. Remuneration policy – Senior Management

For the purposes of this Remuneration Statement, references to Senior Management shall mean the Chief Executive Officer and the Chief Officers.

The base salaries of all Senior Management are established in accordance with the Company's salary structure. The Remuneration Committee is satisfied that in all cases the base remuneration established is in line with the criteria described in the introduction to this report. In particular, in reaching this conclusion, the Committee has paid due regard to market conditions and remuneration rates offered by comparable organisations for comparable roles and to the established performance-related remuneration and evaluation system.

Members of the Senior Management are each entitled to a cash performance bonus. In addition, the Board of Directors may approve additional bonuses for outstanding performances and achievements. Performance is measured on the basis of appraisals drawn up or endorsed by the CEO. These bonuses constitute the variable remuneration disclosed in the table below.

The rate at which the bonus is paid depends on the Committee's evaluation of the CEO's assessment of the individual officer's performance. Bonuses are calculated on the basis of personal performance, departmental and Company objectives. Total amounts are subject to the discretion of the Remuneration Committee and the Board of Directors.

The Company does not have a policy in place which regulates the terms and conditions of contracts of Senior Management with respect to contract duration, notice periods, termination payments and related matters.

As is the case with Directors, Senior Management are entitled to non-cash benefits in terms of a number of services offered by the Company and to health insurance. None of the Senior Management are entitled to profit sharing, share options or pension benefits.

Total emoluments received by Senior Management during the year under review are reported below under section E in terms of the Code Provisions.

During the current financial year, the Company has recognised a charge totalling €175,693 payable to two of its Chief Officers.

Remuneration Committee Report
continued

E. Code provisions 8.A.5

Emoluments of Directors

Fixed Remuneration	Variable Remuneration	Share Options	Others
€190,146	None	None	€2,685

Emoluments of Senior Management

Fixed Remuneration	Variable Remuneration	Share Options	Others
€1,250,535	€442,860	None	€5,154

Mohamed Fadhel Kraiem
Chairman, Remuneration Committee

6 March 2018

Independent Auditor's Report

To the Shareholders of GO p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- GO p.l.c.'s Group financial statements and Parent Company financial statements (the financial statements) give a true and fair view of the Group's and the Parent Company's financial position as at 31 December 2017, and of the Group's and the Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

GO p.l.c.'s financial statements, set out on pages 49 to 121 comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2017;
- the Consolidated and Parent Company income statements and statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Parent Company and its subsidiaries are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Group and its subsidiaries, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 22 to the financial statements.

Independent Auditor's Report
continued

Our audit approach

Overview

Overall group materiality: €1.4 million, which represents 5% of profit before tax

- The Parent Company and 5 subsidiaries are based in Malta, and the financial statements of these entities have been audited by our audit team.
- The group engagement team performed a full scope audit on all components other than Cablenet Communications Systems Limited, which was audited by other auditors.
- The group engagement team performed oversight procedures on the work of other auditors.

- Assessment of carrying amount of goodwill and intangible assets attributable to the Group
- Accuracy of the Company's revenue due to complex billing systems and revenue recognition

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall group materiality	€1,405,000 (2016: €1,080,000)
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €70,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent Auditor's Report
continued

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter

Assessment of carrying amount of goodwill and intangible assets attributable to the Group

Goodwill with a carrying amount of €27.9 million and intangible assets having a carrying amount of €26.3 million as at 31 December 2017, have arisen from a number of acquisitions effected during the preceding financial years. An assessment is required annually to establish whether goodwill and intangible assets that have an indefinite useful life should continue to be recognised, or if any impairment is required. The assessment was performed at the lowest level at which the Group could allocate and assess goodwill, which is referred to as a cash generating unit (CGU). Goodwill and intangible assets arising from acquisitions have been allocated to the Malta CGU and the Cyprus CGU.

The impairment assessment relied on the calculation of a value in use for each of the CGUs. This calculation was based on estimated future cash flows for each CGU, including assumptions around revenue growth, margins and EBITDA levels, discounted at an appropriate weighted average cost of capital. The Group used its business plan as the basis for the first 5 years of cash flows and then extrapolated returns into perpetuity using a terminal growth factor.

The assumptions supporting the underlying forecast cash flows reflect significant judgements as these are affected by unexpected future market or economic conditions. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires judgement. The extent of judgement and the size of the goodwill and intangible assets, resulted in this matter being identified as an area of audit focus.

Relevant references in the Annual Report and Financial Statements:
- Accounting policy : Note 1.6, Note 2.3
- Note on intangible assets: Note 6
- Critical accounting judgements and estimates: Note 3.1

We evaluated the suitability and appropriateness of the impairment methodology applied and the discounted cash flow model as prepared by management or independent experts appointed by management.

We assessed the methodology and assumptions used by utilising our independent valuation experts. The calculations used in the model were re-performed to check accuracy and the key inputs in the model were agreed to approved sources.

Management's cash flow forecasts used in the model were assessed by:
- testing that the forecasts agreed to the most recent business plan which had been approved by the Board of Directors;
- considering current year performance against plan and the reasons for any deviation also through discussion with management for each CGU; and
- assessing historical forecasting accuracy through back-testing by reviewing the historical achievement of the business plan given the uncertainties in forecasting, comparing the actual historical cash flow results with previous forecasts, including forecast profit margins to historical margins.

We also focused on understanding and challenging management's future plans for the CGUs and understanding the manner in which the related cash flow forecasts were drawn up. We benchmarked key assumptions in management's forecasts in respect of revenue growth, gross margins and EBITDA margins, to the extent practicable, to relevant economic and industry indicators, where possible.

Our independent valuation experts critically assessed the discount rate and terminal growth rates used in the discounted cash flow models.

The challenge of our valuation experts was focused on the methodology used to determine the discount rates used by each CGU by reference to the overall calculated cost of

Independent Auditor's Report
continued

Key audit matter	How our audit addressed the Key audit matter
	capital for the Group, and on which benchmarks were the most appropriate in determining the terminal growth rate of cash flows for each CGU. We independently calculated a weighted average cost of capital by making reference to market data and benchmarked the long-term growth rates to market data. We concluded that the parameters utilised by the Group were reasonable, given historic results, economic outlook, industry forecasts and other market data. Our discussions with the Audit Committee in respect of this key audit matter focused on the key assumptions, both individually and when combined together. During these discussions, management confirmed their view that the forecast for each CGU remained appropriate and that the key assumptions were subject to oversight. We assessed the sufficiency of the sensitivity analysis performed by management or independent experts appointed by the Group. Independent sensitivity analysis was performed, making adjustments to a number of modelled assumptions simultaneously to identify any CGUs which were most sensitive to a change in value in use. We critically assessed whether or not a reasonably possible change to the assumptions could result in an impairment considering the sensitivity of the valuations to these assumptions. The deterioration in performance or long-term growth rates which would need to occur, or the increase in discount rate which would need to be applied to the model, that may lead to impairment in one or more CGUs is significant in view of the significant levels of headroom with respect to CGU carrying values. We determined that a movement in those key assumptions of this extent is unlikely. The value in use of the two CGUs remains in excess of the carrying amounts by a comfortable headroom. The appropriateness of disclosures made in relation to goodwill and intangible assets was also reviewed.

Independent Auditor's Report
continued

Key audit matter	How our audit addressed the Key audit matter
Accuracy of the Company's revenue due to complex billing systems and revenue recognition The accuracy of revenue amounts recorded is an inherent industry risk. This is because telecoms billing systems are complex and process large volumes of data with a combination of different products sold and tariff changes during the year, through a number of different systems. The Company retails subscription packages to customers which include multiple elements and may include discounts and offers, such as services sold for a single package price. The allocation of revenue to each element of a bundled transaction is complex and requires judgement, as described in the Company's accounting policy on page 72. There is a risk that inappropriate allocations could lead to non-compliance with accounting standards and inaccurate acceleration or deferral of revenue. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.23	We evaluated the relevant systems and the design of controls, and tested the operating effectiveness of automated and non-automated controls over the: • capture and recording of revenue transactions comprising services supplied to customers; • authorisation of tariff changes and the input of this information to the billing systems; and • calculation of amounts billed to customers. We also tested the accuracy of a sample of customer bills. We evaluated the Company's revenue recognition policy and management's current year assessment in respect of accounting for bundled transactions against relevant accounting standards and guidance. We tested the policy's implementation by: • performing tests to confirm our understanding of the process by which revenue is calculated by the relevant billing systems as reflected above; • performing an assessment of the different product bundles and offers made available to customers during the year and confirming the fair value of the different elements of these packages to appropriate evidence of fair value; • assessing whether revenue should be accelerated or deferred based on the relative fair value of elements delivered at different points during the contract, when compared to the revenue calculated by the relevant billing system; and • where differences arose between the revenue calculated by the billing system and the revenue recognition profile calculated in accordance with the Company's revenue recognition policy, we assessed the accuracy of those adjustments recognised to align revenue recognised with the Company's accounting policy. In respect of these key audit matters, we found no significant exceptions in our controls testing and no material misstatements were identified in our substantive testing.

Independent Auditor's Report
continued

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's accounting process is structured around a group finance function at its head office. Supporting finance functions exist for each of the key business operating areas (Malta and Cyprus), and these report to the Group finance team as appropriate.

The group audit engagement team in Malta carried out a full scope audit on all components located in Malta, accounting for 82% of Group revenues and 92% of Group profit before tax. The financial statements of Cablenet Communications Systems Limited (the remaining subsidiary within the Group), based in Cyprus, was audited by other auditors, to whom we issued instructions.

Where the work was performed by other auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. We have reviewed the subsidiary's accounting policies. We have assessed the audit memorandum document prepared by the other auditors and submitted to us, the group reporting package and the audited financial statements, including all relevant financial disclosures. We have reviewed the other auditor's audit working papers utilising a risk-based approach.

The group audit team performed all of this work by applying the overall Group materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Independent Auditor's Report
continued

Other information

The Directors are responsible for the other information. The other information comprises the *Directors' Report*, the *Remuneration Committee Report*, the *Chairman's Message* and the *Chief Executive Officer's Review* and the *Five Year Record* (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this Auditor's Report, and other information comprising *2017 at a Glance, Investing in Malta's Future, Together for Business, Together in the Community, Commercial Review* and *GO for the Future* which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information, including the Directors' Report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

When we read *2017 at a Glance, Investing in Malta's Future, Together for Business, Together in the Community, Commercial Review* and *GO for the Future*, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance in accordance with International Standards on Auditing.

Responsibilities of the Directors and those charged with governance for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report
continued

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 and the Parent Company'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 Group's or the Parent 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 Group or the Parent 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report
continued

Report on other legal and regulatory requirements

Report on the statement of compliance with the Principles of Good Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the Directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the Directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 31 to 36 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

Independent Auditor's Report
continued

Other matters on which we are required to report by exception

We also have responsibilities

- under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:
  - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
  - The financial statements are not in agreement with the accounting records and returns.
  - We have not received all the information and explanations we require for our audit.
  - Certain disclosures of Directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities.

Appointment

We were first appointed as auditors on 17 May 2010 of the Company. Our appointment has been renewed annually by resolution representing a total period of uninterrupted engagement appointment of 8 years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Fabio Axisa
Partner

6 March 2018

Financial Statements 2017

Statements of Financial Position

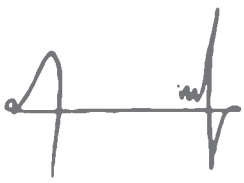
	Notes	Group As at 31 December 2017 €000	Group As at 31 December 2016 €000	Company As at 31 December 2017 €000	Company As at 31 December 2016 €000
ASSETS					
Non-current assets					
Property, plant and equipment	5	**129,183**	126,450	**93,720**	91,119
Intangible assets	6	**62,305**	67,684	**5,521**	8,770
Investments in subsidiaries	7	**–**	–	**33,311**	33,311
Investments in associate	8	**18**	18	**–**	–
Loan receivable from subsidiary	10	**–**	–	**15,600**	–
Deferred tax assets	12	**2,315**	4,262	**1,783**	3,159
Trade and other receivables	14	**2,005**	1,465	**1,807**	1,465
Total non-current assets		**195,826**	199,879	**151,742**	137,824
Current assets					
Inventories	13	**8,340**	8,025	**8,101**	7,789
Trade and other receivables	14	**33,888**	31,865	**42,475**	42,377
Current tax assets		**41**	255	**–**	521
Cash and cash equivalents	15	**13,722**	9,728	**10,925**	8,105
Total current assets		**55,991**	49,873	**61,501**	58,792
Total assets		**251,817**	249,752	**213,243**	196,616

Statements of Financial Position
continued

	Notes	Group As at 31 December 2017 €000	Group As at 31 December 2016 €000	Company As at 31 December 2017 €000	Company As at 31 December 2016 €000
EQUITY AND LIABILITIES					
EQUITY					
Share capital	16	**58,998**	58,998	**58,998**	58,998
Reserves	17	**616**	266	**6,095**	5,745
Retained earnings		**47,273**	41,839	**47,645**	40,541
Total capital and reserves attributable to owners of the Company		**106,887**	101,103	**112,738**	105,284
Non-controlling interests		**8,224**	8,099	**–**	–
Total equity		**115,111**	109,202	**112,738**	105,284
LIABILITIES					
Non-current liabilities					
Borrowings	18	**46,910**	53,892	**32,021**	27,208
Deferred tax liabilities	12	**2,716**	2,943	**362**	324
Provisions for pensions	19	**2,992**	3,138	**2,992**	3,138
Trade and other payables	20	**320**	2,496	**320**	2,496
Total non-current liabilities		**52,938**	62,469	**35,695**	33,166
Current liabilities					
Borrowings	18	**21,009**	19,940	**18,927**	14,003
Provisions for pensions	19	**3,340**	3,205	**3,340**	3,205
Trade and other payables	20	**58,202**	54,936	**41,824**	40,958
Current tax liabilities		**1,217**	–	**719**	–
Total current liabilities		**83,768**	78,081	**64,810**	58,166
Total liabilities		**136,706**	140,550	**100,505**	91,332
Total equity and liabilities		**251,817**	249,752	**213,243**	196,616

The notes on pages 59 to 121 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 121 were authorised for issue by the Board on 6 March 2018 and were signed on its behalf by:



Mohamed Fadhel Kraiem
Chairman

Paul Testaferrata Moroni Viani
Director

Income Statements

Year ended 31 December	Notes	Group 2017 €000	Group 2016 €000	Company 2017 €000	Company 2016 €000
Revenue	21	**166,301**	156,972	**118,391**	112,166
Cost of sales	22	**(96,558)**	(94,498)	**(70,633)**	(69,186)
Gross profit		**69,743**	62,474	**47,758**	42,980
Administrative and other related expenses	22	**(41,439)**	(37,437)	**(29,878)**	(28,939)
Other income	25	**1,507**	1,339	**1,277**	987
Other expenses	26	**(284)**	(101)	**(231)**	(99)
Operating profit		**29,527**	26,275	**18,926**	14,929
Analysed as follows:					
EBITDA		**65,574**	61,633	**42,144**	38,248
Depreciation and amortisation	22	**(36,047)**	(35,358)	**(23,218)**	(23,319)
Operating profit		**29,527**	26,275	**18,926**	14,929
Finance income	27	**327**	821	**9,425**	8,009
Finance costs	28	**(2,180)**	(3,355)	**(1,194)**	(1,882)
Adjustments arising on fair valuation of property	5	**206**	(228)	**206**	–
Losses attributable to investments	9	**(11)**	(1,495)	**(11)**	(1,495)
Gain arising on remeasurement to fair value of the previously held equity interest upon acquisition of subsidiary	7	**–**	6,078	**–**	–
Profit before tax		**27,869**	28,096	**27,352**	19,561
Tax expense	29	**(9,867)**	(7,804)	**(8,988)**	(7,512)
Profit for the year		**18,002**	20,292	**18,364**	12,049
Attributable to:					
Owners of the Company		**16,694**	18,444	**18,364**	12,049
Non-controlling interests		**1,308**	1,848	**–**	–
Profit for the year		**18,002**	20,292	**18,364**	12,049
Earnings per share (euro cents)	30	**16c5**	18c2		

The notes on pages 59 to 121 are an integral part of these consolidated financial statements.

Statements of Comprehensive Income

Year ended 31 December	Notes	Group 2017 €000	Group 2016 €000	Company 2017 €000	Company 2016 €000
Comprehensive income					
Profit for the year		**18,002**	20,292	**18,364**	12,049
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Surplus arising on revaluation of land and buildings	5	**292**	–	**292**	–
Remeasurements of defined benefit obligations	19	**(57)**	4	**(57)**	4
Income tax relating to components of other comprehensive income:					
– Surplus on revaluation of land and buildings	12	**(21)**	–	**(21)**	–
– Remeasurements of defined benefit obligations	12	**20**	(1)	**20**	(1)
Total other comprehensive income for the year, net of tax		**234**	3	**234**	3
Total comprehensive income for the year		**18,236**	20,295	**18,598**	12,052

The notes on pages 59 to 121 are an integral part of these consolidated financial statements.

Statements of changes in Equity

Group

	Notes	Attributable to owners of the Company				Non-controlling interests €000	Total equity €000
		Share capital €000	Reserves €000	Retained earnings €000	Total €000		
Balance at 1 January 2016		58,998	(543)	33,642	92,097	–	92,097
Comprehensive income							
Profit for the year		–	–	18,444	18,444	1,848	20,292
Other comprehensive income:							
Remeasurements of defined benefit obligations, net of deferred tax	19	–	3	–	3	–	3
Transfer from retained earnings in relation to insurance contingency reserve	17	–	116	(116)	–	–	–
Total other comprehensive income		–	119	(116)	3	–	3
Total comprehensive income		–	119	18,328	18,447	1,848	20,295
Transactions with owners in their capacity as owners							
Distribution to owners:							
Dividends paid to equity holders	31	–	–	(10,131)	(10,131)	–	(10,131)
Changes in ownership interest that do not result in loss of control:							
Non-controlling interest arising on acquisition of subsidiary	7	–	–	–	–	6,251	6,251
Reserve arising upon reorganisation of subsidiary companies	7	–	690	–	690	–	690
Total transactions with owners in their capacity as owners		–	690	(10,131)	(9,441)	6,251	(3,190)
Balance at 31 December 2016		**58,998**	**266**	**41,839**	**101,103**	**8,099**	**109,202**

Statements of changes in Equity
continued

Group continued

	Notes	Attributable to owners of the Company				Non-controlling interests €000	Total equity €000
		Share capital €000	Reserves €000	Retained earnings €000	Total €000		
Balance at 1 January 2017		58,998	266	41,839	101,103	8,099	109,202
Comprehensive income							
Profit for the year		–	–	16,694	16,694	1,308	18,002
Other comprehensive income:							
Surplus arising on revaluation of land and buildings	5	–	292	–	292	–	292
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	12	–	(21)	–	(21)	–	(21)
Remeasurements of defined benefit obligations, net of deferred tax	19	–	(37)	–	(37)	–	(37)
Transfer from retained earnings in relation to insurance contingency reserve	17	–	116	(116)	–	–	–
Total other comprehensive income		–	350	(116)	234	–	234
Total comprehensive income		–	350	16,578	16,928	1,308	18,236
Transactions with owners in their capacity as owners							
Distribution to owners:							
Dividends paid to equity holders	31	–	–	(11,144)	(11,144)	(1,183)	(12,327)
Total transactions with owners in their capacity as owners		–	–	(11,144)	(11,144)	(1,183)	(12,327)
Balance at 31 December 2017		**58,998**	**616**	**47,273**	**106,887**	**8,224**	**115,111**

Statements of changes in Equity
continued

Company

	Notes	Share capital €000	Reserves €000	Retained earnings €000	Total €000
Balance at 1 January 2016		58,998	5,626	38,739	103,363
Comprehensive income					
Profit for the year		–	–	12,049	12,049
Other comprehensive income:					
Remeasurements of defined benefit obligations, net of deferred tax	19	–	3	–	3
Transfer from retained earnings in relation to insurance contingency reserve	17	–	116	(116)	–
Total other comprehensive income		–	119	(116)	3
Total comprehensive income		–	119	11,933	12,052
Transactions with owners in their capacity as owners					
Distribution to owners:					
Dividends paid to equity holders	31	–	–	(10,131)	(10,131)
Total transactions with owners in their capacity as owners		–	–	(10,131)	(10,131)
Balance at 31 December 2016		**58,998**	**5,745**	**40,541**	**105,284**

Statements of changes in Equity
continued

Company continued

	Notes	Share capital €000	Reserves €000	Retained earnings €000	Total €000
Balance at 1 January 2017		58,998	5,745	40,541	105,284
Comprehensive income					
Profit for the year		–	–	18,364	18,364
Other comprehensive income:					
Surplus arising on revaluation of land and buildings	5	–	292	–	292
Movement in deferred tax liability on revalued land and buildings determined on basis applicable to property disposals	12	–	(21)	–	(21)
Remeasurements of defined benefit obligations, net of deferred tax	19	–	(37)	–	(37)
Transfer from retained earnings in relation to insurance contingency reserve	17	–	116	(116)	–
Total other comprehensive income		–	350	(116)	234
Total comprehensive income		–	350	18,248	18,598
Transactions with owners in their capacity as owners					
Distribution to owners:					
Dividends paid to equity holders	31	–	–	(11,144)	(11,144)
Total transactions with owners in their capacity as owners		–	–	(11,144)	(11,144)
Balance at 31 December 2017		**58,998**	**6,095**	**47,645**	**112,738**

The notes on pages 59 to 121 are an integral part of these consolidated financial statements.

Statements of Cash Flows

Year ended 31 December	Notes	Group 2017 €000	Group 2016 €000	Company 2017 €000	Company 2016 €000
		Year ended 31 December			
Cash flows from operating activities					
Cash generated from operations	32	**64,933**	72,232	**50,352**	52,178
Interest received		**14**	235	**14**	227
Interest paid on bank overdrafts		**(30)**	(676)	**(30)**	(133)
Tax paid		**(6,977)**	(6,379)	**(4,153)**	(4,150)
Tax refund received		**–**	160	**–**	–
Payments under voluntary retirement scheme		**(813)**	(1,408)	**(813)**	(1,408)
Payments in relation to pension obligations		**(80)**	(349)	**(80)**	(349)
Net cash from operating activities		**57,047**	63,815	**45,290**	46,365
Cash flows from investing activities					
Payments to acquire property, plant and equipment and intangible assets		**(33,931)**	(45,574)	**(25,365)**	(30,322)
Payment for acquisition of subsidiaries, net of cash acquired		**–**	(4,375)	**–**	(3,050)
Repayment of loans by related parties		**–**	16,000	**–**	16,000
Acquisition of investment in associate		**–**	(18)	**–**	–
Payments to acquire investment in joint venture		**–**	(1,495)	**–**	(1,495)
Loans advanced to subsidiary		**–**	–	**(14,600)**	(1,000)
Net cash used in investing activities		**(33,931)**	(35,462)	**(39,965)**	(19,867)
Cash flows from financing activities					
Proceeds from bank loans		**39,652**	10,000	**24,652**	10,000
Repayment of bank loans		**(39,233)**	(19,061)	**(14,969)**	(17,564)
Repayment of other loans		**(6,439)**	(184)	**–**	–
Dividends paid		**(11,085)**	(10,016)	**(11,085)**	(10,016)
Loan interest paid		**(2,150)**	(2,857)	**(1,075)**	(1,460)
Net cash used in financing activities		**(19,255)**	(22,118)	**(2,477)**	(19,040)
Net movements in cash and cash equivalents		**3,861**	6,235	**2,848**	7,458
Cash and cash equivalents at beginning of year		**3,462**	(3,593)	**3,756**	(4,522)
Exchange differences on cash and cash equivalents		**8**	(8)	**8**	(8)
Movement in cash pledged as guarantees		**(1,318)**	828	**(1,318)**	828
Cash and cash equivalents at end of year	15	**6,013**	3,462	**5,294**	3,756

The notes on pages 59 to 121 are an integral part of these consolidated financial statements.

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Notes to the Financial Statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements include the financial statements of GO p.l.c. and its subsidiaries and are prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act (Cap. 386). They have been prepared under the historical cost convention, except as modified by the fair valuation of derivative financial instruments, available-for-sale financial assets, the land and buildings class within property, plant and equipment, and investment property. Unless otherwise stated, all financial information presented has been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Financial position of the Group

As at 31 December 2017, the Group's current liabilities exceeded its current assets by €27.8 million (2016: €28.2 million). The Group envisages that a significant level of earnings will be generated throughout the forthcoming financial year, through its cash generating units, which will enable the Group to manage effectively its forecasted cash flows and liquidity needs. Furthermore, the Group has unutilised banking facilities which are considered in the context of the Group's liquidity management programme. These factors are embedded within the Group's cash flow forecasts.

Standards, interpretations and amendments to published standards effective in 2017

In 2017, the Group adopted amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Group's accounting policies impacting the Group's financial performance and position.

Standards, interpretations and amendments to published standards that are not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2017. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, and the Company's Directors are of the opinion that, except as disclosed below, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

IFRS 15, 'Revenue from contracts with customers'

In May 2014, IFRS 15, 'Revenue from contracts with customers' was issued. It was subsequently amended in September 2015 and April 2016. It will be effective for periods beginning on or after 1 January 2018.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.

As outlined, the new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative stand-alone selling price basis, based on a five-step model.

Performance obligations

IFRS 15 requires that at contract inception, the Group assess the good or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer. Promises in a contract can be explicit, or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

IFRS 15 will require disclosures relating to the Group's performance obligations. The stand-alone selling prices of the Group's products and services can be determined.

Transition

The Group's decision to adopt the modified retrospective approach depends on a number of factors considering the time, effort and cost involved in doing so when compared to the benefits to users of the financial statements.

Financial impact

The Group is in the process of quantifying the implications of the standard and the financial impact is not yet reasonably estimable. Based on the analysis to date the Group does not expect the impact of adoption to be significant.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued
1.1 Basis of preparation continued
Standards, interpretations and amendments to published standards that are not yet adopted continued
Financial impact continued
The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 9, 'Financial instruments'
IFRS 9 is effective for GO from 1 January 2018. It is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities.

The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Group is yet to assess the full impact of IFRS 9 but it does not expect the standard to have a material impact on financial results.

Providing for loss allowance on our existing financial assets is not expected to have a material impact. However, the Group has yet quantified the impact on contract assets which will be recognised under IFRS 15. This is being considered as part of the wider IFRS 15 project.

IFRS 16 'Leases'
IFRS 16 was published in January 2016 and will be effective for GO from 1 January 2019, replacing IAS 17 'Leases'. The Group does not expect to early-adopt the standard and so transition to IFRS 16 will take place on 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The accounting for lessors will not significantly change.

The Group is still in the process of quantifying the implications of this standard. However, the following indicative impacts are expected:
– There is expected to be an increase in total assets, as leased assets which are currently accounted for off balance sheet (i.e. classified as operating leases under IAS 17) will be recognised on balance sheet. The biggest asset category impacted for the Group is expected to be land and buildings.
– There is expected to be an increase in debt, as liabilities relating to existing operating leases are recognised. This is still under review. The increase in total debt will have an impact on gearing ratios.
– Operating lease expenditure will be reclassified and split between depreciation and finance costs. Therefore EBITDA will increase.

1.2 Consolidation
(a) Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where, for instance the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.2 Consolidation continued

(a) Subsidiaries continued

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of acquiring the investment. Provisions are recorded where, in the opinion of the Directors, there is impairment in value. Where there has been impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss. Loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, an extension of the Company's investment in that subsidiary. Loans to subsidiaries for which settlement is planned are classified as loans and receivables in accordance with the requirements of IAS 39 (Note 1.11.1).

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests, where the acquisition or disposal of partial interests in a subsidiary has no impact on the Group's ability to control the subsidiary's financial and operating policies, as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the identifiable net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Joint ventures

The Group has applied IFRS 11 to joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. GO has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method in the consolidated financial statements. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's separate financial statements, investments in joint ventures are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is impairment in value. Where there has been impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of the joint venture are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

(e) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued
1.2 Consolidation continued
(e) Associates continued
The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

In the Company's separate financial statements, investments in associates are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is impairment in value. Where there has been impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of the associate are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

(f) Business combinations involving entities under common control
Business combinations involving entities under common control are transactions in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. The key feature of a transaction among entities under common control is that there is no change in the ultimate control of the combining entities as a result of the transaction. Control could be exercised by a group of individuals that are all part of the same close family group when they have the collective power to govern the financial and operating policies of the entity.

The Company has chosen to apply the pooling of interests method or predecessor accounting to account for transactions involving entities under common control. The Company accounts for business combinations involving entities under common control by recording:
(a) the transaction as if it had already taken place at the beginning of the earliest period presented;
(b) the assets and liabilities of the acquired entity using predecessor book values from the consolidated financial statements of the controlling party; and
(c) the difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity as an adjustment to equity.

When the controlling party does not prepare financial statements, the book values from the financial statements of the acquired entity are used.

1.3 Segment reporting
The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is the Group's chief operating decision-maker in accordance with the requirements of IFRS 8 '*Operating Segments*'.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance executing the function of the chief operating decision-maker.

1.4 Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Company's functional and presentation currency.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.4 Foreign currency translation continued

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. All foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'.

1.5 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings comprise various exchanges, offices and outlets around the Maltese islands. Land and buildings are shown at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged to profit or loss, and then reflected in other comprehensive income and shown as a revaluation reserve.

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's property portfolio at periodical intervals. The fair values are based on market values, being the estimated amount or price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risk inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The rates of depreciation used for the current and comparative periods are as follows:

	%
Land and buildings	
Buildings	1–3
Improvements to leasehold premises	7.14–10
Plant and equipment	
Cable, wireless and mobile networks	4–33.33
Subscribers' equipment and line	8–20
Exchange and junction equipment	8.33–20
Radio plant and equipment	10–20
Other plant, machinery and equipment	7–30
Office furniture and equipment	10–25
Air conditioning equipment	10–20
Earth station	6.7–7
Computer equipment	20–33.33
DTTV platform	10–50
Motor vehicles	20–35

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.5 Property, plant and equipment continued

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.8).

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognised in profit or loss.

When revalued assets are sold, the amounts included in the revaluation reserve relating to the asset are transferred to retained earnings.

1.6 Intangible assets

(a) Indefeasible rights of use

Indefeasible rights of use (IRUs) and Droit de Passage (DDPs) correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognised as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres, or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. They are depreciated over the shorter of the expected period of use and the life of the contract.

(b) Computer software

The Group's computer software comprises software developed by Group entities and software acquired by Group entities. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

(c) Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill that is recognised separately within 'intangible assets' is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and also whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment losses on goodwill are not reversed.

(d) Licences

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

(e) Brand names

Brand names acquired in a business combination are recognised at fair value at the acquisition date. These assets have a finite useful life and are carried at cost less accumulated amortisation, which amortisation is calculated using the straight-line method over the expected life of the brand. The fair value of the brand names acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.6 Intangible assets continued

(f) Customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

(g) Broadcasting rights

Broadcasting rights represent the payments made in relation to acquiring rights to broadcast various television networks or events. Amortisation is calculated using the straight-line method to allocate the cost of these rights over their contractual life. Premium TV content such as film or sports broadcasting rights, are recognised in the statement of financial position when they are contracted and expensed when broadcast. The cost of premium TV content is recognised in profit or loss on the first broadcast, or where the rights are for a period, seasons or competitions, such rights are principally recognised on a straight-line basis across the period, seasons or competitions.

(h) Technical knowledge

Technical knowledge acquired or developed to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised expenditure on technical knowledge is stated at cost less accumulated amortisation and accumulated impairment losses.

(i) Other intangible assets

Other intangibles include the customer bases acquired by the Group. They have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is calculated using the straight-line method to allocate the cost of the intangible assets to their residual value over their estimated useful lives as follows:

	Years
Indefeasible rights of use (IRUs)	4.75–24.75
Computer software	3–10
Licences	2–15
Leasehold rights on building	1.33
Brand names	6–10
Customer relationships	5
Technical knowledge	2–15
Broadcasting rights	over the period of rights

The assets' residual values and useful lives are reviewed and adjusted as appropriate, at the end of each reporting period.

1.7 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies within the Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property, when such identification is made.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value, representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location, or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the end of the reporting period by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.7 Investment property continued

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the Group decides to dispose of an investment property without development, the Group continues to treat the property as an investment property. Similarly, if the Group begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment. If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

1.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or certain intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Goodwill that forms part of the carrying amount of an investment in a joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in a joint venture is tested for impairment as a single asset when there is objective evidence that the investment in a joint venture may be impaired.

1.9 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Certain derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible loan, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the consolidated income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); or
(c) hedges of a net investment in a foreign operation (net investment hedges).

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.9 Derivative financial instruments and hedge accounting continued

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 to 125 per cent.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

Cash flow hedge

The Group designates certain derivative financial instruments as hedging instruments in cash flow hedging relationships to hedge its interest rate risk exposures. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the consolidated income statement under 'Net gains/(losses) on financial instruments classified as held for trading'. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets or financial liabilities designated at fair value are included in 'Net gains on financial instruments designated at fair value'.

1.10 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

1.11 Financial assets

1.11.1 Classification

The Group classifies its financial assets (other than investment in subsidiaries in the Company's case) in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, i.e. financial assets acquired principally for the purpose of selling in the short-term. A financial asset is also classified in this category if, on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables principally comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 1.13 and 1.15).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale financial assets. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months of the end of the reporting period.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued
1.11 Financial assets continued
1.11.2 Recognition and measurement
The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the settlement date, which is the date on which an asset is delivered to or by the Group.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. The other changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income directly in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

1.11.3 Impairment
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group first assesses whether objective evidence of impairment exists. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

(a) Assets carried at amortised cost
For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in Note 1.13.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.11 Financial assets continued

1.11.3 Impairment continued

(b) Assets classified as available-for-sale

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

1.12 Inventories

Goods held for resale and other inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average cost method, and comprises the invoiced value of goods, including transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property held for resale

When the main object of a property is for resale purposes, the asset is classified in the financial statements as inventories. Such property is carried at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the land together with other costs incurred during its subsequent development, including costs incurred on demolition, site clearance, excavation, construction and other related activities. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

1.13 Trade and other receivables

Trade receivables comprise amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'administrative expenses'. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in profit or loss.

1.14 Deferred expenditure

(a) Accounting for free customer premises equipment and free TV installation services

Expenses relating to customer premises equipment (e.g. set-top boxes and modems) and TV installations provided for free to subscribers are considered as benefits in kind as incentives to motivate subscribers to enter into a fixed-term contract for the provision of DTTV, IPTV and broadband services. In consideration of the conclusion of a binding sale arrangement, the Group is recognising an asset in respect of those benefits prior to recognition in profit or loss. The cost of benefits in kind provided directly to the subscriber is recognised as an asset, if it is probable that economic benefits will be derived from the transaction. These costs are then recognised in profit or loss over the shorter of the customer retention period or the term of the specific binding sale arrangement entered into with subscribers. The Group monitors customer retention regularly and the amortisation policy is re-assessed accordingly if deemed appropriate. The related amortisation charge is deemed as a discount in kind and recognised as reduction in revenue.

(b) Accounting for free credits and subsidised mobile handsets

Expenses relating to equipment (e.g. a mobile handset) or discount (e.g. free credit) given by the Group as part of a multi-year subscriber agreement, are recognised as an asset. These costs in the light of the binding sale arrangements being concluded with subscribers comprise multiple components and cover a term longer than one year, hence extending over more than one accounting period. Multiple components generally include the provision of a mobile phone service, other ancillary services and the delivery of related equipment, namely mobile handsets. The components other than the phone service included in the sale arrangements may be separable or not separable from the phone service.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.14 Deferred expenditure continued

(b) Accounting for free credits and subsidised mobile handsets continued

The substance of sale agreements with subscribers is evaluated for the identification of different components and the determination of whether these components are separable from one another. Delivered components are separable if they have value to the subscriber on a stand-alone basis, objective and reliable fair value exists for the undelivered components, the arrangement includes a general right of return for the delivered components, and delivery or performance of the undelivered components is considered probable and substantially in control of the Group. Revenue from separable delivered components is recognised upon satisfaction of the above-mentioned criteria and is measured at fair value using the relative fair value method. This method allocates revenue to each separable component on a pro-rata basis using the fair value attributed to each component when sold separately. The fair value attributed to an undelivered phone service considers an estimated period that is the shorter of the customer retention period and the contract period.

In the case of components that cannot be separated from the phone service (e.g. free credits), the fair value of these components is recognised over the estimated period of the undelivered phone service (generally two years) and netted from the related phone service revenue.

1.15 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

1.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1.17 Financial liabilities

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative contracts, are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities, except for derivative financial instruments, are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.18 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

1.19 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.20 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.21 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.21 Current and deferred tax continued

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.22 Provisions

Provisions for legal and other claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is recognised upon delivery of products or performance of services. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Products and services may be sold separately or in bundled packages (multiple element arrangements). In revenue arrangements including more than one deliverable, the arrangements are divided into separate units of accounting. Deliverables are considered separate units of accounting if the following two conditions are met:

(i) the deliverable has value to the customer on a stand-alone basis; and
(ii) there is evidence of the fair value of the item.

The arrangement consideration is allocated to each separate unit of accounting based on its relative fair value.

(a) Sale of goods

Sale of goods is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(b) Sale of services

Revenue from telecommunications and other services rendered is recognised in profit or loss when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue and the associated costs can be measured reliably. Revenue from contract customers is recognised as services are performed, with unbilled revenue resulting from services already provided that is accrued at the end of each period and unearned revenue from services to be provided in future periods that is deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the credit or credit expires. Revenue from calls and messaging is recognised at the time the call or message is effected over the Group's network. Fees, consisting primarily of monthly charges for access to broadband, other internet access and connected services, TV and voice services, are recognised as revenue as the service is provided. Revenue arising from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the Group's network.

(c) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.23 Revenue recognition continued

(d) Interest income

Interest income is recognised using the effective interest method.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

1.24 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or a series of payments, the right to use an asset for an agreed period of time.

1.24.1 Operating leases

(a) The Group is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(b) The Group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with Note 1.5. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term.

1.24.2 Finance leases

(a) The Group is the lessor

When assets are leased out under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to the accounting period is referred to as the 'actuarial method'. The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

1.25 Employee benefits

(a) Provisions for pensions

As explained in Note 19, following a judgement by the Court of Appeal on 7 July 2008, the Group was required to set up a pension scheme in favour of its eligible employees and former employees within three months of the judgement on a basis similar to that prescribed by the Pensions Ordinance, 1937. Such a scheme is in the form of a defined benefit plan.

A defined benefit plan defines an amount of pension benefit that an employee will receive on retirement. In the Group's case, this amount is dependent on an employee's final compensation upon retirement, as well as completed months of service. Eligibility to the scheme is also dependent on a minimum of 10 years' service and vests only if at retirement date the employee is still in the employment of the Group.

The liability recognised in the statement of financial position in respect of a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognised past-service costs. A defined benefit obligation is calculated annually using the projected unit credit method. The present value of a defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate yields of government or high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

(b) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

1.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

The Company measures a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. Upon settlement of the dividend payable the Company recognises the difference between the carrying amount of the assets to be distributed and the carrying amount of the dividend payable in profit or loss.

Notes to the Financial Statements
continued

1. Summary of significant accounting policies continued

1.27 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment or investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the Group's interest-bearing borrowings.

2. Financial risk management

2.1 Financial risk factors

The Group's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management, covering risk exposures for all subsidiaries, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the respective company's financial performance. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Accordingly, the Company's Board of Directors provides principles for overall Group risk management, as well as risk management policies covering risks referred to above and specific areas such as investment of excess liquidity. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's risk policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency, which would be considered a foreign currency. The Group's and the Company's revenues, purchases and operating expenditure, financial assets and liabilities, including financing, are mainly denominated in euro. However, a portion of the Group's revenues and purchases, including interconnect traffic, and certain capital expenditure are denominated in foreign currencies and accordingly the Group is potentially exposed to foreign exchange risk arising from such transactions.

Notes to the Financial Statements
continued

2. Financial risk management continued
2.1 Financial risk factors continued
(a) Market risk continued
(i) Foreign exchange risk continued
The Group's main risk exposures reflecting the carrying amount of receivables and payables denominated in foreign currencies at the end of the reporting periods were as follows:

	31 December 2017			31 December 2016		
	USD €000	**GBP €000**	**SDR €000**	USD €000	GBP €000	SDR €000
Group						
Trade receivables	1,021	259	1	643	170	–
Trade payables	(250)	(25)	(29)	(466)	(103)	(15)
Net recognised receivables/ (payables) denominated in foreign currency	771	234	(28)	177	67	(15)
Available funds in foreign currency	246	140	–	139	192	–
Net exposure	**1,017**	**374**	**(28)**	316	259	(15)
Company						
Trade receivables	1,014	251	1	643	136	–
Trade payables	(223)	(25)	(29)	(292)	(103)	(15)
Net recognised receivables/ (payables) denominated in foreign currency	791	226	(28)	351	33	(15)
Available funds in foreign currency	246	140	–	139	192	–
Net exposure	**1,037**	**366**	**(28)**	490	225	(15)

Management does not consider foreign exchange risk attributable to recognised assets and liabilities arising from transactions denominated in foreign currencies, presented within the tables above, to be significant. Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

Notes to the Financial Statements
continued

2. Financial risk management continued
2.1 Financial risk factors continued
(a) Market risk continued
(ii) Cash flow and fair value interest rate risk
The interest rate profile of the Group's and the Company's interest-bearing financial instruments at the end of the reporting periods is analysed below:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Financial assets				
Subject to floating rates				
Bank balances	**13,722**	9,728	**10,925**	8,105
	13,722	9,728	**10,925**	8,105
Subject to fixed rates				
Loans and other amounts receivable from subsidiaries	**–**	–	**15,600**	1,000
Other receivables*	**229**	229	**229**	229
	229	229	**15,829**	1,229
Total	**13,951**	9,957	**26,754**	9,334
Financial liabilities				
Subject to floating rates				
Bank overdrafts	**(6,174)**	(6,049)	**(4,096)**	(4,132)
Bank loans	**(61,745)**	(60,795)	**(46,852)**	(37,079)
Other loans	**–**	(6,988)	**–**	–
Total	**(67,919)**	(73,832)	**(50,948)**	(41,211)

*The amounts attributable to other receivables disclosed above, are stated gross of provisions for impairment.

The Company's significant instruments which are subject to fixed interest rates consist principally of loans to related parties. In this respect, the Company is potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

The Group's interest rate risk principally arises from bank borrowings issued at variable rates that are partially offset by balances held with banks subject to floating interest rates, which expose the Group to cash flow interest rate risk. Floating interest rates on these financial instruments are linked to reference rates such as Euribor or the respective banker's base rate. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments taking into consideration refinancing, renewal of existing positions, alternative financing and hedging techniques.

Based on the analysis referred to above, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period as a measure of cash flow interest rate risk. An increase/(decrease) of 100 basis points (2016: 100 basis points) would have increased/(decreased) the profit for the Group and Company by €661,000 and €511,000 respectively (2016: increase/(decrease) in profit by €726,000 and €405,000), which principally takes into account the impact of this shift on the interest amounts arising on variable interest borrowings as at 31 December 2017. Accordingly, the Group's financial results are substantially independent of changes in market interest rates and the level of interest risk to the Group is deemed to be quite contained.

(iii) Price risk
The Group is not exposed to equity securities price risk attributable to investments held by the Group which are classified as available-for-sale, in view of impairment charges reflected in relation to the cost of the investment, bringing its carrying amount down to nil (2016: nil) (Note 11).

Notes to the Financial Statements
continued

2. Financial risk management continued
2.1 Financial risk factors continued
(b) Credit risk
Credit risk principally arises from cash and cash equivalents comprising deposits with financial institutions and loans to related parties, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. The Group's and the Company's principal exposures to credit risk as at the end of the reporting period are analysed as follows:

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Carrying amount				
Loans and receivables category:				
Loans and other amounts receivable from subsidiaries	**–**	–	**15,600**	1,000
Trade and other receivables	**19,956**	17,916	**30,473**	30,617
Cash and cash equivalents	**13,722**	9,728	**10,925**	8,105
	33,678	27,644	**56,998**	39,722

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The Group does not hold any significant collateral as security in this respect. The figures disclosed in the table above in respect of trade and other receivables exclude prepayments and deferred expenditure.

The Group principally banks with local and European financial institutions with high quality standing or rating.

Trade and other receivables
The Group assesses the credit quality of its trade customers, the majority of which are unrated, taking into account financial position, past experience and other factors. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. Standard credit terms are in place for individual clients, however, wherever possible, new corporate customers are analysed individually for creditworthiness before the Group's standard payment and service delivery terms and conditions are offered. The creditworthiness analysis for new customers includes a review through external creditworthiness databases when available. The Group monitors the performance of its trade and other receivables on a regular basis to identify incurred collection losses, which are inherent in the Group's debtors, taking into account historical experience in collection of accounts receivable.

In view of the nature of the Group's activities and the market in which it operates, a limited number of customers account for a certain percentage of the Group's trade and other receivables. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk with respect to contractual debts, these material exposures are monitored and reported more frequently and rigorously. These customers trade frequently with the respective Group undertaking and are deemed by management to have positive credit standing, usually taking cognisance of the performance history without defaults.

The Group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The Group's trade and other receivables, which are not impaired financial assets, are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers.

Notes to the Financial Statements
continued

2. Financial risk management continued
2.1 Financial risk factors continued
(b) Credit risk continued
Trade and other receivables continued
The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance represents specific provisions against individual exposures with the amount of the provisions being equivalent to the balances attributable to impaired receivables. The movements in the allowance for impairment during the year were as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Trade receivables				
Balance at 1 January	**10,616**	10,530	**9,337**	10,084
Acquired on acquisition of subsidiaries	**–**	829	**–**	–
Decrease in provisions	**(1,506)**	(743)	**(1,338)**	(747)
Balance at 31 December	**9,110**	10,616	**7,999**	9,337
Other receivables				
Balance as at 1 January	**229**	444	**229**	444
Decrease in provisions	**–**	(215)	**–**	(215)
Balance as at 31 December	**229**	229	**229**	229

The individually impaired trade receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Provisions for impairment in respect of balances with corporate trade customers relate to entities, which are in adverse trading and operational circumstances. Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The Group and the Company do not hold any significant collateral as security in respect of the impaired assets.

Notes to the Financial Statements
continued

2. Financial risk management continued
2.1 Financial risk factors continued
(b) Credit risk continued
Trade and other receivables continued
The ageing of trade receivables and impaired balances at the end of the reporting period was as follows:

	Gross 2017 €000	Impaired 2017 €000	Gross 2016 €000	Imapired 2016 €000
Group				
Current	**3,332**	**–**	2,876	–
Up to 30 days	**3,488**	**–**	2,296	–
31 to 60 days	**2,935**	**–**	2,240	22
61 to 90 days	**2,244**	**–**	2,144	8
Over 90 days	**14,486**	**9,110**	17,928	10,586
	26,485	**9,110**	27,484	10,616
Company				
Current	**1,831**	**–**	912	–
Up to 30 days	**2,598**	**–**	2,046	–
31 to 60 days	**2,536**	**–**	2,036	–
61 to 90 days	**2,027**	**–**	1,963	–
Over 90 days	**13,090**	**7,999**	16,062	9,337
	22,082	**7,999**	23,019	9,337

As at 31 December 2017, trade receivables of €2,539,000 (2016: €1,404,000) and €2,539,000 (2016: €1,194,000) for the Group and the Company respectively, were past due but not impaired. Such past due debtors comprise debts allocated to the over 180 days category and the balances would in certain cases be recovered through offsetting of balances due to the Group with contractual liabilities owed to the same customer. These past due debtors mainly relate to a number of independent customers for whom there is no recent history of default. Whilst a limited number of customers account for a certain percentage of the Group's past due debts, management has not identified any major concerns with respect to concentration of credit risk as outlined above. Categorisation of receivables as past due is determined by the Group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers.

At 31 December 2017 and 2016, the carrying amount of trade receivables that would otherwise be past due or impaired whose terms have been renegotiated is not deemed material in the context of the Group's trade receivables figures.

Loans receivable from subsidiaries, associate and related party; and amounts due from subsidiaries
The Company's receivables include loans receivable from subsidiaries and related parties and other amounts owed by subsidiaries (Notes 10 and 14). The Company monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall Group liquidity management. The Company assesses the credit quality of these related parties taking into account financial position, performance and other factors. The Company takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

(c) Liquidity risk
The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise borrowings (Note 18) and trade and other payables (Note 20). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations.

Notes to the Financial Statements
continued

2. Financial risk management continued

2.1 Financial risk factors continued

(c) Liquidity risk continued

Management monitors liquidity risk by reviewing expected cash flows through cash flow forecasts, and ensures that no additional financing facilities are expected to be required over the coming year. This is performed at a central treasury function, which controls the overall liquidity requirements of the Group within certain parameters. The Group ensures that it has sufficient cash on demand, within pre-established benchmarks, to meet expected operational expenses and servicing of financial obligations over specific short-term periods, excluding the potential impact of extreme circumstances that cannot reasonably be predicted. The Group's liquidity risk is actively managed taking cognisance of the matching of cash inflows and outflows arising from expected maturities of financial instruments, together with the Group's committed bank borrowing facilities and other financing that it can access to meet liquidity needs. In this respect, management does not consider liquidity risk to the Group as significant taking into account the liquidity management process referred to above.

The tables below analyse the Group's and the Company's financial liabilities, which expose the reporting entity to liquidity risk, into relevant maturity groupings based on the remaining term at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount €000	Contractual cash flows €000	6 months or less €000	6-12 months €000	1-5 years €000	After 5 years €000
Group						
Bank loans	61,745	67,238	8,138	7,697	35,580	15,823
Bank overdrafts	6,174	6,174	6,174	–	–	–
Trade and other payables	52,775	52,775	51,817	638	320	–
31 December 2017	**120,694**	**126,187**	**66,129**	**8,335**	**35,900**	**15,823**
Bank loans	60,795	66,058	6,213	7,159	46,957	5,729
Other loans	6,988	7,891	1,217	657	6,017	–
Bank overdrafts	6,049	6,049	6,049	–	–	–
Trade and other payables	44,605	44,605	40,489	1,620	2,496	–
31 December 2016	118,437	124,603	53,968	9,436	55,470	5,729
Company						
Bank loans	46,852	49,733	7,907	7,466	27,585	6,775
Bank overdrafts	4,096	4,096	4,096	–	–	–
Trade and other payables	38,057	38,057	37,126	611	320	–
31 December 2017	**89,005**	**91,886**	**49,129**	**8,077**	**27,905**	**6,775**
Bank loans	37,079	39,122	5,239	5,981	25,067	2,835
Bank overdrafts	4,132	4,132	4,132	–	–	–
Trade and other payables	39,457	39,457	35,341	1,620	2,496	–
31 December 2016	80,668	82,711	44,712	7,601	27,563	2,835

Notes to the Financial Statements
continued

2. Financial risk management continued

2.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

The Group monitors the level of capital on the basis of the ratio of aggregated net debt to total capital. Net debt is calculated as total borrowings (as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the respective statement of financial position, plus net debt.

The figures in respect of the Group's and the Company's equity and borrowings are reflected below:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Borrowings (Note)	**67,919**	73,832	**50,948**	41,211
Less: Cash and cash equivalents (Note)	**(13,722)**	(9,728)	**(10,925)**	(8,105)
Net debt	**54,197**	64,104	**40,023**	33,106
Total equity	**115,111**	109,202	**112,738**	105,284
Total capital	**169,308**	173,306	**152,761**	138,390
Net debt ratio	**32.0%**	37.0%	**26.2%**	23.9%

The Group manages the relationship between equity injections and borrowings, being the constituent elements of capital as reflected above, with a view to managing the cost of capital. The level of capital, as reflected in the consolidated statement of financial position, is maintained by reference to the Group's respective financial obligations and commitments arising from operational requirements. In view of the nature of the Group's activities and the extent of borrowings or debt, the capital level at the end of the reporting period determined by reference to the consolidated financial statements is deemed adequate by the Directors.

2.3 Fair values of financial instruments and non-recurring fair value measurements

Fair value estimation in relation to financial instruments measured at fair value

The Group's financial instruments, which are carried at fair value, include the Group's available-for-sale financial assets (Note 11).

The Group is required to disclose fair value measurements by level of a fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value (Level 1, 2 or 3). The different levels of the fair value hierarchy are defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly i.e. as prices, or indirectly i.e. derived from prices (Level 2).
- Inputs for the asset or liability that are not based on observable market data i.e. unobservable inputs (Level 3).

The fair value of available-for-sale financial assets traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer or broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of available-for-sale financial assets and other financial instruments (e.g. over-the-counter derivatives) that are not traded in an active market, is determined by using valuation techniques, principally discounted cash flow models. When the Group uses valuation techniques, it makes assumptions that are based on market conditions existing at the end of each reporting period. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Notes to the Financial Statements
continued

2. Financial risk management continued

2.3 Fair values of financial instruments and non-recurring fair value measurements continued

Fair values of financial instruments not carried at fair value

At 31 December 2017 and 2016, the carrying amounts of certain financial instruments not carried at fair value comprising cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances to related parties and other balances with related parties, which are short-term or repayable on demand, is equivalent to their carrying amount. The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The carrying amount of the Company's non-current loans receivable from subsidiaries, associate and related parties fairly approximates the estimated fair value of these assets based on discounted cash flows. The fair value of the Group's non-current floating interest rate bank borrowings at the end of the reporting period is not significantly different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

3.1 Impairment testing

IFRSs require management to undertake an annual test for impairment of goodwill and non-financial assets having an indefinite useful life, and require management to test for impairment if events or changes in circumstances indicate that the carrying amount of a non-financial asset having a finite useful life may not be recoverable. For the purposes of assessing impairment, non-financial assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Group also assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets or cash-generating units can be supported by the net present value of future cash flows derived from such assets or cash-generating units using cash flow projections, which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, in particular those derived from the Group's cash-generating units, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of growth in earnings before interest, taxation, depreciation and amortisation (EBITDA); developments in number of subscribers and average revenue per user (ARPU); long-term growth rates; and the selection of discount rates to reflect the risks involved. Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

3.2 Business combinations

The definition of control encompasses three distinct principles, which, if present, identify the existence of control by the Group over an investee, hence forming a parent-subsidiary relationship: power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. When the Group assesses whether it has power over an investee, it needs to assess whether any rights it has are protective (rather than substantive), whether rights held by other investors are protective, or whether other parties have substantive rights that can prevent the Group from directing the relevant investee's activities (for example, veto rights). Protective rights are different to substantive rights. Protective rights are considered as rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate. Given that power is required to control an investee, if the Group only has protective rights it will not control the investee.

Notes to the Financial Statements
continued

3. Critical accounting estimates and judgements continued

3.2 Business combinations continued

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Allocation of the purchase price affects the results of the Group as intangible assets with a finite life are amortised, whereas intangible assets with an indefinite life and goodwill are not amortised. Identifiable intangible assets may include licences, customer bases and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exist. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets.

3.3 Provisions for pension obligations

The Group exercises judgement in measuring and recognising provisions for its pension obligations. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. In the Company's case, the specific judgements involved are more subjective, taking cognisance of the nature of the Company's obligations and the ongoing developments in this respect.

3.4 Fair valuation of property

The Group's land and buildings category of property, plant and equipment and investment property are fair valued on the basis of professional advice, which considers current market prices for the properties. Fair valuation of property requires the extensive use of judgement and estimates.

3.5 Estimation of useful life

The useful life used to amortise intangible assets relates to the future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. The useful lives and residual values of the Group's property, plant and equipment are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology.

Assessment of matters referred to above

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these consolidated financial statements, which have been highlighted above, are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

The Directors also draw attention to the fact that there are no assumptions and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. Segment information

4.1 Operating segments

During the latter part of the current financial year, the Group has modified its internal reporting organisation and structure such that Telecommunication services (Telecommunication Malta CGU) and Data Centre services are treated as one business segment taking cognisance of continued technology, market, consumer demand and product developments, which further demonstrate the inextricable linkage of these two service lines. The following summary describes the operations in each of these service lines:

Telecommunication Services (Malta) comprise the Group's fixed-line telephony services, mobile telephony services, digital television services, sale of broadband, internet services and other business communication solutions provided within Malta.

Data Centre Services comprise the Group's data centre facilities and ICT solutions in Malta. The operations and activities of Kinetix IT Solutions Limited, a subsidiary acquired during 2016 (Note 7), have been allocated to this service line.

Cash flows generated and returns secured from these services are significantly interdependent, also in the context of commonality of risks to which the Group is exposed as a result of the provision of these services and in the context of commonality of customer base. Management of these services lines has been adapted to reflect the factors mentioned above, with a view to achieving synergies and to approach the business market in a different manner focusing on the evolution of customer demands. Accordingly, the composition of the Group's reportable segments for the purposes of IFRS 8, 'Operating Segments' has changed.

Prior to the change in the Group's internal reporting organisation and structure, the Group had three reportable segments, which were considered to be effectively the Group's strategic business units and cash generating units: Telecommunications Malta CGU, Data Centre CGU and Telecommunications Cyprus CGU. Whereas the former two segments have been described above, the latter segment represents the Group's business in Cyprus.

Notes to the Financial Statements
continued

4. Segment information continued

4.1 Operating segments continued

The operations of the Cypriot subsidiary, Cablenet Communications Systems Limited acquired during 2016, constitute a reportable segment (Cyprus CGU) in view of the specific nature and characteristics of the Cypriot telecommunications sector, giving rise to a varied degree of business risks and returns. The company provides broadband, cable television and telephony services.

Subsequent to the modification of the Group's internal reporting organisation and structure, the Group defined its two reportable segments as the Malta CGU (Telecommunications Malta CGU and Data Centre CGU on a combined basis) and the Cyprus CGU, which are viewed as the Group's key and distinct strategic business units and its cash generating units as they represent the lowest level at which separately identifiable cash flows can be identified.

The Group's internal reporting to the Board of Directors and Senior Management is analysed according to these two segments. For each of these two strategic business units, the Board of Directors reviews internal management reports at least on a monthly basis.

As a result of the change in the composition of its reportable segments, the Group has restated all comparative financial information in respect of segment information reflected within the tables below.

Information about reportable segments

	Malta		Cyprus		Total	
	2017 €000	2016 €000	**2017 €000**	2016 €000	**2017 €000**	2016 €000
Total revenue	**135,409**	128,060	**30,983**	29,109	**166,392**	157,169
Inter-segment revenue	**(91)**	(197)	**–**	–	**(91)**	(197)
Revenue from external customers	**135,318**	127,863	**30,983**	29,109	**166,301**	156,972
Reportable segment profit before tax	**27,049**	20,193	**820**	1,825	**27,869**	22,018
Tax	**(9,829)**	(8,034)	**(38)**	230	**(9,867)**	(7,804)
Results for reportable segments	**17,220**	12,159	**782**	2,055	**18,002**	14,214
Information about profit or loss:						
Finance income	**502**	821	**–**	–	**502**	821
Finance costs	**(1,194)**	(1,882)	**(1,163)**	(1,473)	**(2,357)**	(3,355)
Depreciation and amortisation	**(25,957)**	(25,961)	**(10,090)**	(9,397)	**(36,047)**	(35,358)
Other non-cash items						
Losses attributable to investments	**(11)**	(1,495)	**–**	–	**(11)**	(1,495)
Provisions for impairment of trade receivables	**(1,482)**	(743)	**(24)**	829	**(1,506)**	86
Adjustment on fair valuation of land and buildings	**206**	–	**–**	(228)	**206**	(228)
Reportable segment assets	**185,536**	166,608	**82,739**	82,900	**268,275**	249,508
Capital expenditure	**23,107**	27,605	**9,323**	11,821	**32,430**	39,426
Reportable segment liabilities	**108,396**	96,369	**44,768**	43,937	**153,164**	140,306

Notes to the Financial Statements
continued

4. Segment information continued

4.1 Operating segments continued

A reconciliation of reportable segment results, assets and liabilities and other material items, to the amounts presented in the consolidated financial statements, is as follows:

	2017 €000	2016 €000
Profit		
Total profit for reportable segments	**18,002**	14,214
Consolidation adjustments	**–**	6,078
Consolidated profit after tax	**18,002**	20,292
Assets		
Total assets for reportable segments	**268,275**	249,508
Inter-segment eliminations	**(16,458)**	244
Consolidated total assets	**251,817**	249,752
Liabilities		
Total liabilities for reportable segments	**153,164**	140,306
Inter-segment eliminations	**(16,458)**	244
Consolidated total liabilities	**136,706**	140,550

4.2 Information about geographical segments

The Group's revenues are derived from operations carried out in Malta and in Cyprus, subsequent to the acquisition referred to previously. However both segments also derive revenue from incoming interconnect traffic and inbound roaming from foreign administrators worldwide. Considering the nature of the Group's activities, its non-current assets are predominantly located in Malta and Cyprus.

4.3 Information about major customers

The Group does not have any particular major customer, as it largely derives revenue from a significant number of customers availing of its services. Accordingly, the Group does not deem necessary any relevant disclosures in respect of reliance on major customers.

Notes to the Financial Statements
continued

5. Property, plant and equipment
Group

	Land and buildings €000	Plant and equipment €000	Motor vehicles €000	Payments on account and assets in course of construction €000	Total €000
At 1 January 2016					
Cost or valuation	4,945	281,974	825	1,895	289,639
Accumulated depreciation	(941)	(190,134)	(738)	–	(191,813)
Net book amount	4,004	91,840	87	1,895	97,826
Year ended 31 December 2016					
Opening net book amount	4,004	91,840	87	1,895	97,826
Acquisition of subsidiaries (Note 7)	1,558	22,819	157	–	24,534
Additions	352	29,153	–	371	29,876
Reclassifications	–	1,895	–	(1,895)	–
Disposals and write-offs	(150)	(6,128)	(111)	–	(6,389)
Depreciation charge	(275)	(25,005)	(66)	–	(25,346)
Depreciation released on disposals and write-offs	16	6,050	111	–	6,177
Revaluation of land and buildings – effect on cost or valuation	(228)	–	–	–	(228)
Closing net book amount	5,277	120,624	178	371	126,450
At 31 December 2016					
Cost or valuation	6,477	329,713	871	371	337,432
Accumulated depreciation	(1,200)	(209,089)	(693)	–	(210,982)
Net book amount	5,277	120,624	178	371	126,450
Year ended 31 December 2017					
Opening net book amount	5,277	120,624	178	371	126,450
Additions	255	28,212	147	–	28,614
Reclassifications					
– cost	(452)	823	–	(371)	–
– accumulated depreciation	398	(398)	–	–	–
Revaluation of land and buildings					
– effect on cost or valuation	75	–	–	–	75
– effect on accumulated depreciation	423	–	–	–	423
Disposals and write-offs	–	(16,811)	–	–	(16,811)
Depreciation charge	(562)	(25,698)	(68)	–	(26,328)
Depreciation released on disposals and write-offs	–	16,760	–	–	16,760
Closing net book amount	**5,414**	**123,512**	**257**	**–**	**129,183**
At 31 December 2017					
Cost or valuation	6,355	341,937	1,018	–	349,310
Accumulated depreciation	(941)	(218,425)	(761)	–	(220,127)
Net book amount	**5,414**	**123,512**	**257**	**–**	**129,183**

Notes to the Financial Statements
continued

5. Property, plant and equipment continued
Company

	Land and buildings €000	Plant and equipment €000	Motor vehicles €000	Payments on account and assets in course of construction €000	Total €000
At 1 January 2016					
Cost or valuation	4,350	251,372	825	1,895	258,442
Accumulated depreciation	(346)	(167,425)	(738)	–	(168,509)
Net book amount	4,004	83,947	87	1,895	89,933
Year ended 31 December 2016					
Opening net book amount	4,004	83,947	87	1,895	89,933
Additions	–	18,661	–	362	19,023
Reclassifications	–	1,895	–	(1,895)	–
Disposals and write-offs	(115)	(5,877)	(25)	–	(6,017)
Depreciation charge	(111)	(17,585)	(26)	–	(17,722)
Depreciation released on disposals and write-offs	–	5,877	25	–	5,902
Closing net book amount	3,778	86,918	61	362	91,119
At 31 December 2016					
Cost or valuation	4,235	266,051	800	362	271,448
Accumulated depreciation	(457)	(179,133)	(739)	–	(180,329)
Net book amount	3,778	86,918	61	362	91,119
Year ended 31 December 2017					
Opening net book amount	3,778	86,918	61	362	91,119
Additions	164	19,751	–	–	19,915
Reclassifications					
– cost	(452)	814	–	(362)	–
– accumulated depreciation	398	(398)	–	–	–
Revaluation of land and buildings					
– effect on cost or valuation	75	–	–	–	75
– effect on depreciation	423	–	–	–	423
Disposals and write-offs	–	(16,719)	–		(16,719)
Depreciation charge	(364)	(17,419)	(29)	–	(17,812)
Depreciation released on disposals and write-offs	–	16,719	–	–	16,719
Closing net book amount	**4,022**	**89,666**	**32**	**–**	**93,720**
At 31 December 2017					
Cost or valuation	4,022	269,897	800	–	274,719
Accumulated depreciation	–	(180,231)	(768)	–	(180,999)
Net book amount	**4,022**	**89,666**	**32**	**–**	**93,720**

The Group's land and buildings are secured as collateral for the Group's banking facilities.

Notes to the Financial Statements
continued

5. Property, plant and equipment continued

Fair valuation of property

The Company's land and buildings within property, plant and equipment were revalued on 31 December 2017 by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Management have reviewed the carrying amounts of the properties as at 31 December 2017, on the basis of assessments by the independent property valuers, and the carrying amount was adjusted to reflect these valuations. No adjustments to the carrying amounts were deemed necessary as at 31 December 2016.

Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites together with their development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

Adjustments to the carrying amounts of the Company's land and buildings as at 31 December 2017 were deemed necessary as reflected in the table above, which presents an increase of €498,000. These adjustments were deemed necessary to reflect the properties' estimated open market value on an individual asset level. Increases amounting to €206,000 were recognised in profit or loss, whereas the other movements amounting to €292,000 have been recognised in other comprehensive income as an adjustment to the revaluation reserve within shareholders' equity.

The subsidiary's leasehold property was revalued on 31 December 2016 by an independent firm of property valuers having appropriate professional qualifications and experience in the category of the property being valued. Management has reviewed the carrying amount of the property as at 31 December 2016 on the basis of the valuation, and a decrease of €228,000 was recognised in profit or loss.

The Group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's land and buildings, within property, plant and equipment, comprise exchanges, warehouses, offices and retail outlets. All the recurring property fair value measurements at 31 December 2017 and 2016 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy. The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the years ended 31 December 2017 and 2016.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above. The changes during the year are mainly attributable to the movement in the fair value of land and buildings, additions and depreciation charge.

Valuation processes

The valuations of the properties are performed regularly on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the respective Company which is derived from the Company's financial systems and is subject to the Company's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market-related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the Chief Finance Officer (CFO). This includes a review of fair value movements over the period. When the CFO considers that the valuation report is appropriate, the valuation report is recommended to the Audit Committee. The Audit Committee considers the valuation report as part of its overall responsibilities.

At the end of every reporting period, the CFO assesses whether any significant changes or developments have been experienced since the last external valuation. This is supported by an assessment performed by the independent firm of property valuers. The CFO reports to the Audit Committee on the outcome of this assessment.

Valuation techniques

The external valuations of the Company's Level 3 property have been performed using predominantly an adjusted sales comparison approach. In view of a limited number of similar sales in the local market, the valuations have been performed using unobservable inputs. The significant input to this approach is generally a sales price per square metre related to transactions in comparable properties located in proximity to the Group's property, with significant adjustments for differences in the size, age, exact location and condition of the property. The term airspace is a conceptual unit representing a packet of three-dimensional accessible, usable and developable space. The concept of sales price factor per airspace or square metre is the value expected to be fetched on the open market and represents the present value of the property after deduction of all development, refurbishment and related costs.

Notes to the Financial Statements
continued

5. Property, plant and equipment continued

Information about fair value measurements using significant unobservable inputs (Level 3)

Company

	At 31 December 2017 and 2016		
Description by class based on highest and best use	**Valuation technique**	**Significant unobservable input**	**Range of unobservable inputs (weighted average) €**
Current use as office premises	Adjusted sales comparison approach	Sales price per square metre	1,000 – 2,650 (1,500)

The subsidiary's property was revalued as at 31 December 2016 on the basis of its current use as office premises. The valuation amounting to €750,000 was based on the valuer's assessment of the open market value of the subsidiary's property after taking into account the limitations on its potential uses. The external valuation of the Level 3 property has been performed using the capitalised rentals approach. In view of the limited market information available, the valuation has been performed using unobservable inputs. The significant unobservable inputs include a capitalisation rate applied at 7.5%, which is effectively the discount rate adjusted for anticipated growth, and the expected annual rental value taking into account the rental rate per square metre of €30 daily, determined by reference to comparable properties located in proximity to the subsidiary's property with adjustments for differences in the size, age, exact location and condition of the property.

The Group's improvements to premises not owned, have not been included in the analysis above.

The higher the sales price per square metre or the sales price factor per airspace/square metre, the higher the resultant fair valuation. The higher the rental rate per square metre, the higher the resultant fair valuation. Conversely the lower the capitalisation rate, the higher the fair value. The highest and best use of the properties referred to above is equivalent to their current use.

If the land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2017 €000
Cost	**5,634**	5,407	**3,473**	3,308
Accumulated depreciation	**(904)**	(730)	**(474)**	(438)
At 31 December	**4,730**	4,677	**2,999**	2,870

Depreciation charge

The depreciation charge for the year is recognised in profit or loss as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Cost of sales	**24,126**	24,423	**17,497**	17,318
Administrative and other related expenses	**2,202**	923	**315**	404
	26,328	25,346	**17,812**	17,722

Recoverability of the telecommunications infrastructure

At 31 December 2017, the Group's telecommunications infrastructure and licences together with other related tangible and intangible assets, attributable to the Malta and Cyprus CGUs, were carried at a total of €97,686,000 and €38,863,000 respectively. No impairment indicators were identified by management in respect of these CGUs as at the end of the reporting period (Note 6).

Notes to the Financial Statements
continued

6. Intangible assets
Group

	IRUs and DDPs €000	Computer software €000	Brand names, customer relationships and related assets €000	Licences €000	Goodwill €000	Broadcasting rights €000	Total €000
At 1 January 2016							
Cost	1,119	14,161	2,703	5,945	4,368	12,316	40,612
Accumulated amortisation/ impairment	(860)	(13,053)	(2,093)	(4,134)	(349)	(6,924)	(27,413)
Net book amount	259	1,108	610	1,811	4,019	5,392	13,199
Year ended 31 December 2016							
Opening net book amount	259	1,108	610	1,811	4,019	5,392	13,199
Acquisition of subsidiaries (Note 7)	11,018	457	19,022	–	23,898	–	54,395
Additions	2,325	320	–	–	–	6,905	9,550
Development	–	552	–	–	–	–	552
Expiration of rights	–	–	–	–	–	(8,273)	(8,273)
Amortisation charge	(1,313)	(934)	(2,208)	(388)	–	(5,169)	(10,012)
Amortisation released on expiration of rights	–	–	–	–	–	8,273	8,273
Closing net book amount	12,289	1,503	17,424	1,423	27,917	7,128	67,684
At 31 December 2016							
Cost	14,462	15,490	21,725	5,945	28,266	10,948	96,836
Accumulated amortisation/ impairment	(2,173)	(13,987)	(4,301)	(4,522)	(349)	(3,820)	(29,152)
Net book amount	12,289	1,503	17,424	1,423	27,917	7,128	67,684
Year ended 31 December 2017							
Opening net book amount	12,289	1,503	17,424	1,423	27,917	7,128	67,684
Additions	1,462	197	–	–	–	2,157	3,816
Development	–	524	–	–	–	–	524
Expiration of rights	–	–	–	–	–	(804)	(804)
Amortisation charge	(1,516)	(811)	(2,188)	(386)	–	(4,818)	(9,719)
Amortisation released on expiration of rights	–	–	–	–	–	804	804
Closing net book amount	**12,235**	**1,413**	**15,236**	**1,037**	**27,917**	**4,467**	**62,305**
At 31 December 2017							
Cost	15,924	16,211	21,725	5,945	28,266	12,301	100,372
Accumulated amortisation/ impairment	(3,689)	(14,798)	(6,489)	(4,908)	(349)	(7,834)	(38,067)
Net book amount	**12,235**	**1,413**	**15,236**	**1,037**	**27,917**	**4,467**	**62,305**

Notes to the Financial Statements
continued

6.Intangible assets continued

Company

	IRUs and DDPs €000	Computer software €000	Brand names and related assets €000	Broadcasting rights €000	Licences €000	Total €000
At 1 January 2016						
Cost	1,119	1,912	1,462	12,316	5,945	22,754
Accumulated amortisation	(860)	(1,912)	(1,462)	(6,924)	(4,134)	(15,292)
Net book amount	259	–	–	5,392	1,811	7,462
Year ended 31 December 2016						
Opening net book amount	259	–	–	5,392	1,811	7,462
Additions	–	–	–	6,905	–	6,905
Expiration of rights	–	–	–	(8,273)	–	(8,273)
Amortisation charge	(40)	–	–	(5,169)	(388)	(5,597)
Amortisation released on expiration of rights	–	–	–	8,273	–	8,273
Closing net book amount	219	–	–	7,128	1,423	8,770
At 31 December 2016						
Cost	1,119	1,912	1,462	10,948	5,945	21,386
Accumulated amortisation	(900)	(1,912)	(1,462)	(3,820)	(4,522)	(12,616)
Net book amount	219	–	–	7,128	1,423	8,770
Year ended 31 December 2017						
Opening net book amount	219	–	–	7,128	1,423	8,770
Additions	–	–	–	2,157	–	2,157
Expiration of rights	–	–	–	(804)	–	(804)
Amortisation charge	(202)	–	–	(4,818)	(386)	(5,406)
Amortisation released on expiration of rights	–	–	–	804	–	804
Closing net book amount	**17**	**–**	**–**	**4,467**	**1,037**	**5,521**
At 31 December 2017						
Cost	1,119	1,912	1,462	12,301	5,945	22,739
Accumulated amortisation	(1,102)	(1,912)	(1,462)	(7,834)	(4,908)	(17,218)
Net book amount	**17**	**–**	**–**	**4,467**	**1,037**	**5,521**

Amortisation charge

The amortisation charge for the year is recognised in profit or loss within 'cost of sales'.

Notes to the Financial Statements
continued

6. Intangible assets continued

Goodwill

Goodwill arising on business combinations is allocated to the different CGUs as follows:

	2017 €000	2016 €000
Malta	**4,354**	4,354
Cyprus	**23,563**	23,563

Goodwill arising on the acquisition of Cablenet amounting to €23,563,000 (Note 7.1) has been allocated to the Cyprus CGU, whereas goodwill arising on the acquisition of Kinetix amounting to €335,000 has been allocated to the Malta CGU. Other goodwill arising on business combinations effected in previous financial years has been allocated to the Malta CGU. The recoverable amount of the cash-generating units has been estimated by management on the basis of value in use (VIU) reflecting the net present value of future cash flows derived from such cash-generating units. The net present value of the future cash flows is based on the five year cash flow forecast within the operational plan approved by the Board of Directors and the extrapolation of the cash flow forecast beyond the five year period through the estimation of terminal values.

The key assumptions in the determination of the recoverable amount of the CGUs are the levels of forecast EBITDA, the terminal value growth rates applied to the estimated cash flows beyond the explicit forecast period and the discount rate.

Budgeted EBITDA levels for the Malta CGU have been principally based on past experience adjusted for market developments and industry trends, in particular the following factors over the five year period:

- expected continued downward trend in revenue from fixed voice services; forecast growth in revenue streams from data services, TV and mobile driven by growth in subscribers and ARPU;
- higher margins in the fixed voice services, TV and mobile are expected due to a lower cost base primarily in view of reduced interconnection charges, forecast containment of TV content costs and management of payroll cost whilst the Group is expecting an increase in EBITDA margins for the data services due to a fixed nature of certain key elements in its cost base.

Forecast EBITDA levels for the Cyprus CGU are mainly based on past experience modified for market developments and industry trends, taking cognisance of the following key factors throughout the forecast explicit period:

- forecast overall growth in revenue primarily driven by a significant increase in the number of retail cable subscribers in view of the entity's standing and competitive advantage in the market; and
- projected higher gross profit margins as a result of lower negotiated prices giving rise to lower termination costs throughout the projection period, together with lower maintenance costs of international capacity as a result of lower acquisition costs for international capacity.

The estimated terminal value growth rates and post-tax discount rates for CGUs, applied as at 31 December 2016 and 2017, are disclosed in the table below:

	Terminal value growth rate %	Post-tax discount rate %
Malta	1.8	8.1
Cyprus	2.0	11.0

These parameters have been principally based on market observable data.

Management's estimation of the VIU indicates that there is significant headroom between the estimated recoverable amount and the carrying amount of the CGUs. Accordingly, management's views are that there appear to be no reasonable possible changes in key assumptions on which it has based its determination of the CGUs' recoverable amount that would cause the carrying amount to exceed VIU.

Notes to the Financial Statements
continued

6. Intangible assets continued

Goodwill continued

Brand names and customer relationships acquired in business combinations, and related assets

Brand names and customer relationships acquired in business combinations are allocated to CGUs as follows:

	Brand names			Customer relationships		
	Acquisition date fair value	Year-end carrying amount	Year-end carrying amount	Acquisition date fair value	Year-end carrying amount	Year-end carrying amount
		2017	2016		2017	2016
	€000	€000	€000	€000	€000	€000
Cyprus CGU	4,295	**4,295**	4,295	12,480	**8,780**	10,630
Malta CGU	9,263	**507**	507	2,263	**826**	1,164

The intangibles acquired throughout the Cablenet acquisition have been allocated to the Cyprus CGU, constituting the aggregate of the assets allocated to this CGU, whereas those attributable to the acquisition of Kinetix with an acquisition date fair value of €507,000 for brand and €1,122,000 for customer relationships, have been allocated to the Malta CGU. The carrying amount of intangible assets attributable to the Malta CGU at 31 December 2017 and 2016 mainly pertains to assets arising on the acquisition of Kinetix. Brands acquired through business combinations incorporate trade names, trademarks, service marks, trade dress, branding and internet domain names. These have been generally valued using the Relief From Royalty method (RFR). Customer bases compromise customer contracts (renewable), customer relationships and customer list. These have been generally valued using the Multi-Period Excess Earnings method (MEEM).

The RFR method was used to value Cablenet's brand. The RFR method assumes that the intangible asset has a fair value based on royalty income attributable to it. The royalty rate represents hypothetical savings enjoyed by the entity that owns the intangible asset, because that entity is relieved from having to license that intangible asset from another owner and pay royalties to use the intangible asset. In the valuation of the Cablenet brand, the cash flows were derived from the projected total revenues in conjunction with a royalty rate of 1.5%. A discount rate of 13.9% was used for the valuation of the brand and as at the end of 2020, the residual value was based on a terminal growth rate of 1.5%. An indefinite useful life was deemed appropriate for the Cablenet brand.

The MEEM method was used to value Cablenet's customer relationships. In valuing the customer relationships, the total cash flows for the acquired customers were based on an estimate of historical customer retention rates and the projected revenues and operating margins going forward. The MEEM is used as a basis for the fair value of an intangible asset based on a residual notion. The principle behind the MEEM is that the fair value of an intangible asset can be determined by estimating the cash flows that are expected to be generated by several assets in combination and deducting the cash flows attributable to all of the other assets that contribute to the cash flows (contributory charges). The 'excess' cash flows are ascribed to the intangible assets and the fair values based on the present value of those cash flows attributable only to the intangible assets. It is presumed that the contributory assets are leased from a third party. All considerations refer to the attributable fair value of the relevant asset. The applied contributory asset charges (CACs – sometimes referred to as 'economic rents') consider the return of the asset and the return on the asset with the latter comprising a reasonable interest on the capital invested.

In respect of the valuation of customer relationships, total projected revenue attributable to existing customer relationships was estimated on the basis of:

- Existing number of subscribers by service line;
- Projected revenue growth (before churn) for existing customer relationships;
- Projected ARPU by service line;
- Projected churn rate by service line for existing customer relationships.

EBIT margins were assumed to be equal to the EBIT margin of the overall business operations of Cablenet, adjusted for the royalty of Cablenet's brand amounting to 1.5% of the revenue attributable to existing relationships. CACs as a percentage of revenue have been applied including principally a 'return-of' and a 'return-on' contributory asset charge for depreciable assets. The 'return-on' contributory asset charge reflects the required rate of return on depreciable assets.

Notes to the Financial Statements
continued

6. Intangible assets continued

Goodwill continued

Brand names and customer relationships acquired in business combinations, and related assets continued

A discount rate for the valuation of the customer relationships intangible asset of 12.9% was utilised after considering the relatively higher level of risk for the customer relationships as compared to the overall business operations of Cablenet. The residual reflects excess earnings attributable to beyond the explicit period, extrapolated assuming an ARPU growth rate and churn rate which are held constant at end of explicit period levels. The useful life of the retail customer relationships intangible asset was estimated at ten years, whilst the useful life of the business customer relationships intangible asset was established at five years.

Disclosures in respect of intangible assets attributable to the acquisition of Kinetix were not deemed necessary in view of the immateriality of the carrying amount of the intangible assets. Other related intangible assets primarily comprise customer bases and IP addresses acquired by the Group.

7. Investments in subsidiaries

	Company	
	2017	2016
	€000	€000
Cost and carrying amount at 1 January	**33,311**	10,566
Reclassification upon conversion of loan into equity	**–**	10,494
Reclassification from *Investment in associate* upon acquisition and reclassification of derivative financial instruments	**–**	9,201
Acquisition of further interest	**–**	3,050
Cost and carrying amount at 31 December	**33,311**	33,311

The carrying amount of the investments at 31 December 2017 and 2016 is equivalent to the cost of the investments. The subsidiaries at 31 December 2017 and 2016 are shown below:

Subsidiaries	Registered office	Percentage of shares held		Nature of business
		2017	2016	
		%	%	
Innovate Software Limited	GO, Fra Diegu Street, Marsa, Malta	**99.9**	99.9	Development of software, including implementation, support and maintenance
GO Data Centre Services Limited	GO, Fra Diegu Street, Marsa, Malta	**99.9**	99.9	Investment holding
Cablenet Communications Systems Limited	41 – 49 Agiou Nicolaou Street Block A, Nimeli Court 3rd Floor, 2408, Egkomi Nicosia Cyprus	**51.0**	51.0	Provision of broadband, cable television, and telephony services

GO Data Centre Services Limited holds 99.9% (2016: 99.9%) in Bellnet Limited, BMIT Limited and BM Support Services Limited and 51% (2016: 51%) of Kinetix IT Solutions Limited. The latter investment has been acquired during 2016. The companies provide co-location and internet services, technical assistance and leasing of plant and equipment and IT solutions. The registered office of all the companies is Building SCM 02, Level 2 SmartCity Malta, Ricasoli, Kalkara, Malta.

Notes to the Financial Statements
continued

7. Investments in subsidiaries continued

7.1 Acquisition of subsidiaries

Acquisition of Cablenet Communication Systems Limited

On 28 March 2014, GO entered into a share purchase agreement with (i) Cablenet Communication Systems Limited (Cablenet), a limited liability company incorporated under the Laws of Cyprus, and (ii) Mr Nicolas Shiacolas (being the legal, registered and beneficial owner of the entire issued share capital in Cablenet), for the purchase by GO from Mr Shiacolas of an initial stake of 25% of the issued share capital (with an equivalent amount of voting rights) of Cablenet in exchange for a convertible loan of €12 million granted in instalments on pre-established dates to Cablenet. The loan was not subject to interest until 31 December 2017.

The Company had the option to convert the loan into equity by 31 December 2017, such that upon conversion the total number of shares held by the Company would be equal to 45% of the issued share capital of Cablenet.

The agreement also granted the Company an option to acquire a controlling stake in Cablenet until 30 June 2018, by acquiring an additional number of shares at a pre-established price such that upon acquisition the total number of shares held by the Company would be equal to 51% of the issued share capital of Cablenet.

In January 2016 GO p.l.c. announced that at a Board meeting, it was agreed to proceed with the option of converting into equity the loan provided to Cablenet. Through the conversion of the €12 million loan, GO's shareholding in Cablenet increased from 25% to 45% of the issued share capital of Cablenet.

GO also announced that it would exercise the option included in the Share Purchase Agreement to acquire a further 6% of the issued share capital of Cablenet at the pre-established consideration of €3 million, thus increasing GO's shareholding to 51% in order to acquire control over Cablenet. The acquisition provided GO with access and exposure to the telecommunications sector in Cyprus. Cablenet's principal activity is the provision of cable television, internet connectivity and telephony, using a network of coaxial and optical fibre.

Considering the terms within the Share Purchase Agreement, the Group assessed whether any rights it has are protective (rather than substantive), whether rights held by the other investor are protective and whether the other shareholder has substantive rights that can prevent the Group from directing Cablenet's activities. GO's Board of Directors have concluded that the other shareholder's rights are protective rights which are designed to protect the interests of the party without giving that party power over the entity. Accordingly, the Group has the power to exercise control over Cablenet according to this analysis.

Details of the purchase consideration are as follows:

	€000
Fair value of initial 25% equity holding in Cablenet as at acquisition date	11,335
Fair value of €12 million loan receivable as at acquisition date	11,001
Intrinsic value of embedded derivatives as at acquisition date	3,397
Purchase price of further 6% equity holding	3,000
Total fair value of purchase consideration	28,733

The equity holding in Cablenet prior to acquiring control, equivalent to 25% (Note 8) was fair valued at acquisition date on the basis of the amounts reflected in the table above. A gain arising on this remeasurement was recognised in profit or loss during 2016 amounted to €6,078,000.

Notes to the Financial Statements
continued

7. Investments in subsidiaries continued

7.1 Acquisition of subsidiaries

Acquisition of Cablenet Communication Systems Limited continued

The fair values of identifiable assets and liabilities of Cablenet as at date of acquisition were as follows:

	€000
Property, plant and equipment	24,514
Intangible assets:	
International capacity	10,793
Brand	4,295
Customer relationships	12,480
Others	1,300
Current assets (principally trade and other receivables)	4,408
Non-current borrowings	(24,904)
Trade and other payables	(11,089)
Current borrowings	(8,696)
Deferred tax liabilities	(2,263)
Net identifiable assets acquired	10,838
Net identifiable assets attributable to non-controlling interests	(5,668)
	5,170
Goodwill	23,563
	28,733

Goodwill is mainly attributable to growth potential and envisaged future profitability attributable to Cablenet. Non-controlling interests have been measured at the related proportion of the net identifiable assets at acquisition.

The goodwill which arose due to the above acquisition was based on the fair values of the consolidated assets and liabilities of the acquired companies as at 1 January 2016. In the twelve month period to 31 December 2016, Cablenet contributed revenue of €29,109,000 and profit of €3,460,000.

Acquisition of Kinetix IT Solutions Limited

In January 2016, GO p.l.c. announced that GO Data Centre Services Limited finalised the acquisition of 51% of the issued share capital of Kinetix for a consideration of €1,200,000. Kinetix is principally engaged in providing managed IT services, a service offering that subsidiaries of GO Data Centre Services Limited have been developing in the past years and that is also ancillary to services currently provided by these subsidiaries.

This acquisition is expected to give rise to synergies within the Group, especially with operations of the subsidiaries of GO Data Centre Services Limited.

GO Data Centre Services Limited has been granted the option to purchase the remaining 49% of the share capital at a pre-established price until 30 June 2018. Subject to a number of conditions stipulated in the share purchase agreement, including achievement of EBITDA targets, the vendors have been granted the option to sell the remaining 49% of the share capital at a pre-established price during the period from 1 January 2018 to 30 June 2018. The fair value of these options was deemed to be insignificant at acquisition date and as at 31 December 2016 and 2017.

Details of the purchase consideration are as follows:

	€000
Fair value of initial 51% equity holding in Kinetix as at acquisition date	1,200

Notes to the Financial Statements
continued

7. Investments in subsidiaries continued
7.1 Acquisition of subsidiaries continue
Acquisition of Kinetix IT Solutions Limited continued
The fair values of identifiable assets and liabilities of Kinetix as at date of acquisition were as follows:

	€000
Property, plant and equipment	20
Intangible assets:	
Brand	507
Customer relationships	1,122
Current assets (principally trade and other receivables)	1,536
Trade and other payables	(918)
Deferred tax liabilities	(570)
Net identifiable assets acquired	1,697
Net identifiable assets attributable to non-controlling interests	(832)
	865
Goodwill	335
	1,200

Non-controlling interests have been measured at the related proportion of the net identifiable assets at acquisition.

The goodwill which arose due to the above acquisition was based on the fair values of the consolidated assets and liabilities of the acquired company as at 1 January 2016. In the twelve month period to 31 December 2016, Kinetix contributed revenue of €2,812,000 and profit of €351,000.

Payments for acquisition of subsidiaries, net of cash acquired
The amounts presented in the statement of cash flows for the year ended 31 December 2016 comprise the payments referred to above of €3,000,000 for Cablenet and €1,200,000 for Kinetix, net of cash and cash equivalents attributable to both operations taken over at acquisition date.

8. Investments in associate

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Carrying amount at 1 January	**18**	1,917	**–**	1,917
Reclassification to *Investment in subsidiaries*	**–**	(1,917)	**–**	(1,917)
Addition	**–**	18	**–**	–
Carrying amount at 31 December	**18**	18	**–**	–

As disclosed in Note 7, during 2014 GO purchased an initial stake of 25% of the issued share capital (with an equivalent amount of voting rights) of Cablenet in exchange for a convertible loan of €12 million, which was not subject to interest until 31 December 2017. The instalments of the loan advanced to Cablenet till 31 December 2015, with a nominal value of €12 million, were carried at €10.5 million in these financial statements, at fair value, reflecting the discount attributable to the fact that the advances were not subject to interest until 31 December 2017 (Note 10).

The initial 25% equity stake in the company, was measured at €1.7 million as at 31 December 2014, representing the estimated fair value of this stake.

Notes to the Financial Statements
continued

8. Investments in associate continued

During the financial year ended 31 December 2016, GO exercised the options to convert the loan into equity, increasing its holding in Cablenet to 45%, and to acquire a further 6% holding for the purposes of securing control over Cablenet. Hence the carrying amount of the investment was reclassified.

The investment in associate was measured using the equity method of accounting. The cost of the investment and the impacts of equity accounting since acquisition are reflected in the table above.

During the year ended 31 December 2016, a subsidiary acquired an investment in an associate, MIGS Limited, a company registered in Malta, with its registered address at Level 1, Suite No 5, Tower Business Centre, Tower Street, Swatar, Birkirkara BKR 4013, Malta. The company's principal activity is to organise events, seminars, conferences, training programmes and other initiatives oriented towards knowledge development in different sectors and to promote lifelong education in general. In view of the immateriality of this investment to GO as a reporting entity in terms of the requirements of IFRS 12 'Disclosure of interest in other entities', the disclosure of the summarised financial information and other matters in accordance with the requirements of IFRS 12 is not deemed necessary. The 40% stake in this entity was acquired for an amount of €18,000. The company has negative capital and reserves as at 31 December 2017 amounting to €1,188 and registered a loss for the year after tax amounting to €2,385 (2016: capital and reserves of €1,187 and period profit of €2,985).

9. Investment in Forthnet SA

GO p.l.c. controlled 50% of the share capital and voting rights of a joint venture, Forgendo Limited (Forgendo), a company registered in Cyprus. Furthermore Forgendo controlled 50% of Giradena Limited (Giradena), a company also registered in Cyprus. The sole activity of both Forgendo and Giradena was that of holding investments in an undertaking, Hellenic Company for Telecommunications and Telematic Applications S.A. (Forthnet), a Greek company listed on the Athens Stock Exchange which was treated as an associated undertaking of Forgendo. Forthnet provides fixed line telephony services, broadband services and satellite pay TV services in Greece. The ownership interest of Forgendo in Forthnet was 41.27%, whereas Giradena's ownership interest in Forthnet was 3.94%. During 2016, Forgendo has transferred its entire shareholding in Forthnet to its shareholders for nil consideration. Also, Forgendo transferred its entire shareholding in Giradena to its shareholders on a 50:50 basis, and Forgendo's shareholders acquired the remaining 50% shareholding in Giradena. As a result of the above, GO became the direct owner of a 50% (equivalent to voting power) shareholding in Giradena, which was considered a joint venture of GO. The cost of these transfers amounted to €1,495,000, which amount has been reflected in profit or loss during 2016 in view of the restructuring process referred to within this note.

Giradena has also transferred its entire shareholding in Forthnet to its shareholders for nil consideration during 2016.

As a result of these transactions, as at 31 December 2017, GO is the direct owner of a total of 24,887,737 shares in Forthnet (equivalent to a total direct shareholding in Forthnet of 22.605% and equivalent voting power), and hence Forthnet was categorised as an associate of GO with a nil carrying amount.

Forgendo and Giradena were earmarked for liquidation as at 31 December 2016. The Group's exposures to such entities had a nil carrying amount at 31 December 2016.

Forthnet had issued a convertible bond loan, with ordinary registered bonds convertible into ordinary shares of the company, and GO had resolved not to participate in the issue. During the year ended 31 December 2017, a portion of the convertible bonds was actually converted into ordinary shares, giving rise to a dilution in GO's shareholding. GO's shareholding in Forthnet declined from 22.605% to 15.197%. However, GO's Board of Directors considers that GO still exercises significant influence on Forthnet taking into account the unchanged composition of the Board of Forthnet and Forthnet's unmodified management structure.

As at 31 December 2017, the listed price of Forthnet's equity quoted on the Athens Stock Exchange, within the Companies under Surveillance segment, was €0.36 per ordinary share taking cognisance of the thin trading activity levels on the Stock Exchange. The value ascribed to GO's interest in Forthnet, based on the quoted price of the equity at the end of the reporting period, determined with the limitation referred to above, was €9.1 million.

Summarised financial information and other disclosures

In view of the matters highlighted above and the fact that the investments had a nil carrying amount, the Group's joint ventures and associate are not deemed material to GO as a reporting entity in terms of the requirements of IFRS 12 'Disclosure of interest in other entities'. Therefore, the disclosure of the summarised financial information and other matters in accordance with the requirements of IFRS 12 is not deemed necessary.

Notes to the Financial Statements
continued

10. Loans receivable from subsidiary, associate and related party

Loans receivable from subsidiary	Company	
	2017	2016
	€000	€000
Non-current		
Advances effected during the year	**15,600**	–
Carrying amount at 31 December	**15,600**	–

The non-current advances as at 31 December 2017 to Cablenet mature on 30 June 2026. Loans receivable are secured by a floating charge on the subsidiary's assets and are subject to a floating interest rate computed using a margin of 0.353% over the subsidiary's banker's base rate.

Loans receivable from associate	Group and Company	
	2017	2016
	€000	€000
Carrying amount at 1 January	**–**	10,494
Reclassification to *Investments in subsidiaries* upon conversion into equity	**–**	(10,494)
Carrying amount at 31 December	**–**	–

The loans receivable from Cablenet, the associate, were not subject to interest until 31 December 2017 and the Company had the option to convert the loans into an equity stake in the associate by that date. During the financial year ended 31 December, the Company converted the loan into equity (Note 7).

Loans receivable from related party	Group and Company	
	2017	2016
	€000	€000
Carrying amount at 1 January	**–**	16,000
Repayment	**–**	(16,000)
Carrying amount at 31 December	**–**	–

The residual loans to Malta Properties Company p.l.c. (MPC) emanating upon spin-off, amounting to €16,000,000 were reclassified to loans receivable from related party. MPC is ultimately controlled by Dubai Holding LLC, which exerts significant influence on GO's current ultimate parent and accordingly is classified as a related party. These loans were fully repaid during the financial year ended 31 December 2016.

Notes to the Financial Statements
continued

11. Other investments

	Group and Company	
	2017	2016
Available-for-sale financial assets	**€000**	€000
At 31 December		
Cost	**1,770**	1,770
Accumulated fair value losses	**(1,770)**	(1,770)
Carrying amount	**–**	–

At 31 December 2017 and 2016, the available-for-sale financial assets consisted of the equity investment in Loqus Holdings p.l.c.. This equity investment was deemed to be impaired and accordingly its carrying amount was written down to nil.

The carrying amount of loans receivable from the investee, included in other receivables, amounting to €229,000 (2016: €229,000), had also been written down to nil in view of the impairment indicators highlighted above (Note 14).

12. Deferred tax assets and liabilities

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rate used in respect of Malta based Group companies is 35% (2016: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property, which is computed on the basis applicable to disposals of immovable property i.e. principally tax effect of 10% (2016: 10%) of the transfer value. The tax rate applied in Cyprus in respect of the taxable profits attributable to Cablenet is 12.5% (2016: 12.5%).

The balance at 31 December represents temporary differences attributable to:

Group

	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
	€000	€000	**€000**	€000	**€000**	€000
Depreciation of property, plant and equipment	**–**	–	**(3,410)**	(2,439)	**(3,410)**	(2,439)
Fair valuation of land and buildings	**–**	–	**(362)**	(324)	**(362)**	(324)
Intangible assets	**–**	–	**(2,429)**	(2,772)	**(2,429)**	(2,772)
Provisions for pensions and other liabilities	**2,217**	2,220	**–**	–	**2,217**	2,220
Provisions on trade receivables and other assets	**2,900**	3,423	**–**	–	**2,900**	3,423
Unabsorbed capital losses	**683**	683	**–**	–	**683**	683
Investment tax credits	**–**	528		–	**–**	528
Tax assets/(liabilities)	**5,800**	6,854	**(6,201)**	(5,535)	**(401)**	1,319
Offsetting	**(3,485)**	(2,592)	**3,485**	2,592	**–**	–
Net tax assets/(liabilities)	**2,315**	4,262	**(2,716)**	(2,943)	**(401)**	1,319

Notes to the Financial Statements
continued

12. Deferred tax assets and liabilities continued

Company

	Assets		Liabilities		Net	
	2017 €000	2016 €000	**2017 €000**	2016 €000	**2017 €000**	2016 €000
Depreciation of property, plant and equipment	**–**	–	**(3,657)**	(2,763)	**(3,657)**	(2,763)
Fair valuation of land and buildings	**–**	–	**(362)**	(324)	**(362)**	(324)
Intangible assets	**–**	–	**(257)**	(248)	**(257)**	(248)
Provisions for pensions and other liabilities	**2,217**	2,220	**–**	–	**2,217**	2,220
Provisions on trade receivables and other assets	**2,797**	3,267	**–**	–	**2,797**	3,267
Unabsorbed capital losses	**683**	683	**–**	–	**683**	683
Tax assets/(liabilities)	**5,697**	6,170	**(4,276)**	(3,335)	**1,421**	2,835
Offsetting	**(3,914)**	(3,011)	**3,914**	3,011	**–**	–
Net tax assets/(liabilities)	**1,783**	3,159	**(362)**	(324)	**1,421**	2,835

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period. The deferred tax assets and liabilities reflected in other comprehensive income relate to fair valuation of property, plant and equipment, and to movements in provisions for pensions attributable to actuarial assumptions.

Capital losses are only available for offset against future capital gains.

The movement in the Group's deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, is as follows:

Group

	Balance 1 January 2016 €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	Balance 31 December 2016 €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	**Balance 31 December 2017 €000**
Property, plant and equipment	(1,811)	(628)	–	(2,439)	(971)	–	**(3,410)**
Intangible assets	(636)	(2,136)	–	(2,772)	343	–	**(2,429)**
Provisions for pensions and other liabilities	2,339	(118)	(1)	2,220	(23)	20	**2,217**
Provisions on trade receivables and other assets	3,685	(262)	–	3,423	(523)	–	**2,900**
Unabsorbed capital losses	683	–	–	683	–	–	**683**
Investment tax credits	1,232	(704)	–	528	(528)	–	**–**
	5,492	(3,848)	(1)	1,643	(1,702)	20	**(39)**
Revaluation of land and buildings	(334)	10	–	(324)	(17)	(21)	**(362)**
	5,158	(3,838)	(1)	1,319	(1,719)	(1)	**(401)**

Notes to the Financial Statements
continued

12. Deferred tax assets and liabilities continued

Group continued

Recognition of deferred tax assets by a subsidiary with respect to investment tax credits

Innovate Software Limited, a Company's subsidiary (Note 7) continues to generate taxable profits. The balance of unutilised investment tax credits had been fully absorbed during the previous year (refer to Note below).

Unrecognised deferred tax assets

The movement in the Group's unrecognised deferred tax assets during the year are analysed below:

	Balance 1 January 2016 €000	Movement €000	Balance 31 December 2016 €000	Movement €000	**Balance 31 December 2017 €000**
Investment tax credits	907	(907)	–	–	–
Impairment and other losses on investments	46,025	523	46,548	4	46,552
Tax losses	–	127	127	(127)	–
	46,932	(257)	46,675	(123)	46,552

The movement in the Company's deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, is as follows:

Company

	Balance 01 January 2016 €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	Balance 31 December 2016 €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	**Balance 31 December 2017 €000**
Property, plant and equipment	(1,916)	(847)	–	(2,763)	(894)	–	**(3,657)**
Intangible assets	(503)	255	–	(248)	(9)	–	**(257)**
Provisions for pensions and other liabilities	2,339	(118)	(1)	2,220	(23)	20	**2,217**
Provisions on trade receivables and other assets	3,529	(262)	–	3,267	(470)	–	**2,797**
Unabsorbed capital losses	683	–	–	683	–	–	**683**
	4,132	(972)	(1)	3,159	(1,396)	20	**1,783**
Revaluation of land and buildings	(334)	10	–	(324)	(17)	(21)	**(362)**
	3,798	(962)	(1)	2,835	(1,413)	(1)	**1,421**

Notes to the Financial Statements
continued

13. Inventories

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Operating spares	**6,362**	5,711	**6,232**	5,605
Goods held for resale	**1,978**	2,314	**1,869**	2,184
	8,340	8,025	**8,101**	7,789

The cost of inventories recognised as expense is disclosed in Note 22. During the current financial year, an increase in provisions for obsolescence of inventories amounting to €85,000 (2016: decrease of €197,000) for the Group and an increase of €75,000 (2016: decrease of €195,000) for the Company, have been reflected in these financial statements. Inventory write-downs during the year amounted to €104,000 (2016: €174,000) and €104,000 (2016: €172,000) for the Group and Company respectively. These amounts have been included within 'cost of sales' in profit or loss.

Provisions for obsolescence of inventories are as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
At 31 December	**227**	142	**195**	120

14. Trade and other receivables

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Non-current				
Amounts receivable under finance leases	**42**	63	**42**	63
Deferred expenditure	**1,963**	1,402	**1,765**	1,402
	2,005	1,465	**1,807**	1,465
Current				
Trade receivables – net of provisions	**17,375**	16,868	**14,082**	13,682
Amounts owed by subsidiaries	**–**	–	**14,075**	15,458
Amounts owed by related parties	**–**	17	**–**	–
Other receivables – net of provisions	**360**	383	**95**	89
Prepayments and accrued income	**11,016**	9,877	**9,086**	8,428
Amounts receivable under finance leases	**42**	45	**42**	45
Deferred expenditure	**5,095**	4,675	**5,095**	4,675
	33,888	31,865	**42,475**	42,377

Amounts owed by subsidiaries and related parties are unsecured, interest free and repayable on demand (2016: €1,000,000 due from a subsidiary, was subject to interest at a fixed rate of 3.75%).

Deferred expenditure consists of installation and equipment costs and redeemable credits provided as incentives to subscribers by the Group. These costs are amortised over the shorter of the customer contract term and customer churn rate.

Notes to the Financial Statements
continued

14. Trade and other receivables continued

Receivables, disclosed in the table above, are stated net of provisions for impairment as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Trade receivables	**9,110**	10,616	**7,999**	9,337
Other receivables	**229**	229	**229**	229
Total provisions for impairment	**9,339**	10,845	**8,228**	9,566

Finance lease receivables are analysed as follows:

	Group and Company	
	2017 €000	2016 €000
Non-current		
Gross receivables	**44**	66
Unearned finance income	**(2)**	(3)
	42	63
Current		
Gross receivables	**46**	54
Unearned finance income	**(4)**	(9)
	42	45
Gross finance lease receivables:		
Later than 1 year and not later than 5 years	**44**	66
Not later than 1 year	**46**	54
	90	120
Unearned finance income on finance leases	**(6)**	(12)
Net investment in finance leases	**84**	108

15. Cash and cash equivalents

For the purposes of the statements of cash flows, cash and cash equivalents comprise the following:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Cash at bank and in hand	**13,722**	9,728	**10,925**	8,105
Bank overdrafts (Note 18)	**(6,174)**	(6,049)	**(4,096)**	(4,132)
Cash pledged as guarantees	**(1,535)**	(217)	**(1,535)**	(217)
	6,013	3,462	**5,294**	3,756

Notes to the Financial Statements
continued

16. Share capital

	Company	
	2017 €000	2016 €000
Authorised		
600,000,000 ordinary shares of €0.582343 each	**349,406**	349,406
Issued and fully paid		
101,310,488 ordinary shares of €0.582343 each	**58,998**	58,998

17. Reserves
Group

	Insurance contingency reserve €000	Adjustments relating to non-controlling interests €000	Property revaluation reserve €000	Other reserves €000	Total €000
Balance at 1 January 2016	1,510	(2,964)	1,405	(494)	(543)
Remeasurements of defined benefit obligations:					
– Actuarial gains	–	–	–	4	4
– Deferred taxes thereon	–	–	–	(1)	(1)
Transfer from retained earnings	116	–	–	–	116
Reserve arising upon reorganisation of subsidiary companies	–	–	–	690	690
Balance at 31 December 2016	1,626	(2,964)	1,405	199	266
Balance at 1 January 2017	1,626	(2,964)	1,405	199	266
Surplus arising on revaluation of land and buildings	–	–	292	–	292
Movement in deferred tax liability on land and buildings determined on the basis applicable to property disposals	–	–	(21)	–	(21)
Remeasurements of defined benefit obligations:					
– Actuarial losses	–	–	–	(57)	(57)
– Deferred taxes thereon	–	–	–	20	20
Transfer from retained earnings	116	–	–	–	116
Balance at 31 December 2017	**1,742**	**(2,964)**	**1,676**	**162**	**616**

Notes to the Financial Statements
continued

17. Reserves continued

Company

	Merger reserve €000	Insurance contingency reserve €000	Property revaluation reserve €000	Other reserves €000	Total €000
Balance at 1 January 2016	3,843	1,510	1,405	(1,132)	5,626
Remeasurements of defined benefit obligations:					
– Actuarial gains	–	–	–	4	4
– Deferred taxes thereon	–	–	–	(1)	(1)
Transfer from retained earnings	–	116	–	–	116
Balance at 31 December 2016	3,843	1,626	1,405	(1,129)	5,745
Balance at 1 January 2017	3,843	1,626	1,405	(1,129)	5,745
Surplus arising on revaluation of land and buildings	–	–	292	–	292
Movement in deferred tax liability on land and buildings determined on the basis applicable to property disposals	–	–	(21)	–	(21)
Remeasurements of defined benefit obligations:					
– Actuarial losses	–	–	–	(57)	(57)
– Deferred taxes thereon	–	–	–	20	20
Transfer from retained earnings	–	116	–	–	116
Balance at 31 December 2017	**3,843**	**1,742**	**1,676**	**(1,166)**	**6,095**

These reserves are non-distributable.

Insurance contingency reserve
The insurance contingency reserve represents amounts that are intended to be utilised in the event that adequate coverage for an incident would not be provided by the current Company's insurance policies.

Adjustments relating to non-controlling interests
The adjustments relating to non-controlling interests reflect the excess of the purchase consideration paid to acquire non-controlling interests in Group entities over the net carrying amount of such non-controlling interests in the consolidated financial statements.

Property revaluation reserve
The revaluation reserve relates to fair valuation of the land and buildings component of property, plant and equipment, and the balance represents the cumulative net increase in fair value of such property, net of related deferred tax.

Other reserves
During the year ended 31 December 2016, a reserve amounting to €690,000 arose on the reorganisation of the subsidiaries of Cablenet (Note 7), which have been merged with Cablenet during the preceding financial period.

The other reserve also reflects the impact of actuarial gains and losses recognised in other comprehensive income in respect of provisions for pensions (Note 19) in accordance with the Group's accounting policy.

Merger reserve
The merger reserve represents amounts arising on the merger of a subsidiary with the Company.

Notes to the Financial Statements
continued

18. Borrowings

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Non-current liabilities				
Secured bank loans (i)	**46,910**	48,766	**32,021**	27,208
Other loans (ii)	**–**	5,126	**–**	–
	46,910	53,892	**32,021**	27,208
Current liabilities				
Secured bank loans (i)	**14,835**	12,029	**14,831**	9,871
Other loans (ii)	**–**	1,862	**–**	–
Bank overdrafts (iii)	**6,174**	6,049	**4,096**	4,132
	21,009	19,940	**18,927**	14,003

Group

			2017		2016	
	Currency	**Year of maturity**	**Face value €000**	**Carrying amount €000**	Face value €000	Carrying amount €000
Bank loans						
Loan 1	euro	2019	7,500	7,485	13,500	13,455
Loan 2	euro	2019	–	–	4,000	4,000
Loan 3	euro	2019	3,000	3,000	4,000	4,000
Loan 4	euro	2019	1,500	1,496	2,500	2,492
Loan 5	euro	2020	1,700	1,679	3,288	3,203
Loan 6	euro	2023	9,200	9,148	10,000	9,929
Loan 7	euro	2023	10,000	10,000	–	–
Loan 8	euro	2025	14,069	14,044	–	–
Loan 9	euro	2023	–	–	15,603	15,603
Loan 10	euro	2020	–	–	2,394	2,394
Loan 11	euro	2024	–	–	4,683	4,683
Loan 12	euro	2018	–	–	609	609
Loan 13	euro	2024	–	–	427	427
Loan 14	euro	2026	15,000	14,893	–	–
			61,969	**61,745**	61,004	60,795
Other loans						
Loan 15	euro	2017	–	–	548	548
Loan 16	euro	2021	–	–	1,189	1,189
Loan 17	euro	2022	–	–	5,251	5,251
			–	–	6,988	6,988
			61,969	**61,745**	67,992	67,783

Notes to the Financial Statements
continued

18. Borrowings continued

Company

			2017		2016	
	Currency	**Year of maturity**	**Face value €000**	**Carrying amount €000**	Face value €000	Carrying amount €000
Loan 1	euro	2019	7,500	7,485	13,500	13,455
Loan 2	euro	2019	–	–	4,000	4,000
Loan 3	euro	2019	3,000	3,000	4,000	4,000
Loan 4	euro	2019	1,500	1,496	2,500	2,492
Loan 5	euro	2020	1,702	1,679	3,288	3,203
Loan 6	euro	2023	9,200	9,148	10,000	9,929
Loan 7	euro	2024	10,000	10,000	–	–
Loan 8	euro	2025	14,069	14,044	–	–
			46,971	**46,852**	37,288	37,079

(i) Secured bank loans

The Company's bank loans are subject to financial covenants and are secured by hypothecs over the present and future assets of the Company, and by guarantees provided by a number of subsidiaries. Loans 1, 3, 4, 5, 6, 7 and 8 are term loans with scheduled repayments, while Loan 2 is a revolving term loan. Loan 2 is repayable through a bullet repayment in March 2019.

The floating interest rate applicable on Loans 3, 4, 6, 7 and 8 is computed using a margin over the 3 month Euribor; whereas on Loans 1 and 2 it is computed using a margin over the bank's base rate and on Loan 5 it is computed using a margin over the 6 month Euribor.

Loans 9 to 14 attributable to a subsidiary are secured by mortgages on the immovable property of the subsidiary and of a company related to the minority shareholder of the subsidiary, by floating charges over the assets of the subsidiary and by guarantees by parties which are related to the minority shareholder.

The floating interest rate applicable on Loans 9 to 14 is mainly computed using a margin over the bank's base rate. Loans 9 to 13 have been fully repaid during the current year.

As at 31 December 2017, the Company had unutilised bank loan facilities amounting to €27,000,000 (2016: €30,000,000).

(ii) Other loans

Other loans to a subsidiary had been mainly granted by the minority shareholder of the subsidiary and entities related to the minority shareholder. Other loans were secured by mortgages on the immovable property of parties which are related to the minority shareholder. The floating rate applicable to these loans was computed using a margin over the 6 month Euribor. These loans have been repaid during the current financial year.

The weighted average effective interest rates of the bank and other loans as at the end of the reporting period are as follows:

	Group		Company	
	2017 %	2016 %	**2017 %**	2016 %
Bank loans	**2.52**	2.99	**2.20**	2.55
Other loans	**–**	4.56	**–**	–

Notes to the Financial Statements
continued

18. Borrowings continued

(iii) Bank overdrafts

The Group's and Company's banking facilities at 31 December 2017 amounted to €15,000,000 (2016: €13,300,000) and €11,000,000 (2016: €11,000,000) respectively. The Company's facilities are secured by hypothecs over the present and future assets of the Company. The subsidiary's facilities are secured by guarantees by, and mortgages on the immovable property of, entities which are related to the minority shareholder of the subsidiary.

As at 31 December 2017 and 2016, Group's and the Company's facilities were mainly subject to a floating interest rate linked to the bank's base rate.

The weighted average effective interest rates as at the end of the reporting period are as follows:

	Group		Company	
	2017 %	2016 %	**2017 %**	2016 %
Bank overdrafts	**2.82**	3.64	**2.91**	3.90

19. Provisions for pensions

The provision of telephone, telex, radio and cable services in Malta was nationalised in 1975 through the enactment of the Telemalta Corporation Act. The Company (in the form of Telemalta Corporation, its predecessor in title) committed itself to take over the employees of Cable and Wireless as part of this nationalisation process. As a result, the Company also committed itself to set up a pension scheme in favour of these employees. Additionally, this commitment was extended to some employees where a pension obligation was expressly agreed as part of their terms of employment.

Following a judgement by the Court of Appeal on 7 July 2008, the Company was required to set up the pension scheme in favour of ex-Cable and Wireless employees, with an effective date of 1 January 1975 and set up in a manner similar to that prescribed by the Pensions Ordinance, 1937. A pension scheme set up in accordance with this Ordinance falls under the category of a defined benefit plan within the scope of IAS 19, 'Employee Benefits'.

GO p.l.c. submitted an application to the Malta Financial Services Authority (MFSA) as the pensions' regulator detailing the measures planned by the Company to implement the scheme. Following the issue of the Special Funds (Regulation) Act (Retirement Schemes Exemption) Regulations, 2009 by the MFSA on 5 June 2009, the Company established the scheme on 1 July 2009 with effect from 1 January 1975.

Subsequent to the setting up of the scheme, the Company offered a number of beneficiaries a one-time lump sum settlement in lieu of joining the scheme. Until 31 December 2017, a significant number of beneficiaries have taken up this offer. As at 31 December 2017, the Company estimated that its obligations towards the remaining potential beneficiaries amounted to €6,332,000 (2016: €6,343,000).

In view of the extent of the remaining potential beneficiaries, the Company has not considered it necessary to engage actuaries. The Company has measured its retirement benefit obligations using the accounting rules applicable to defined benefit plans.

A defined benefit plan defines an amount of pension benefit that an employee will receive on retirement. In GO p.l.c.'s case, as originally provided for in the terms of employment, this amount is dependent on employee's final compensation upon retirement, as well as completed months of service. Furthermore, qualifying employees must have worked for the Company for a minimum of 10 years, and must have remained in service with the Company until retirement (the vesting period), in order to be unconditionally eligible to receive a pension under the scheme.

As at 31 December, the Company estimates the present value of the benefit obligation as follows:

	Group and Company	
	2017 €000	2016 €000
Carrying amount of pension obligations	**6,332**	6,343

Notes to the Financial Statements
continued

19. Provisions for pensions continued

The Company's scheme is unfunded and the amounts in the statement of financial position reflect essentially the present value of the unfunded obligations. The movement in the defined benefit obligation throughout the year is analysed as follows:

	Group and Company	
	2017	2016
	€000	€000
At 1 January	**6,343**	6,684
Actuarial losses/(gains) – attributable to financial assumptions	**57**	(4)
Settlements paid	**(80)**	(349)
Current service costs	**12**	12
At 31 December	**6,332**	6,343

The provision is analysed in the statement of financial position as follows:

	Group and Company	
	2017	2016
	€000	€000
Non-current	**2,992**	3,138
Current	**3,340**	3,205
	6,332	6,343

The amounts recognised in profit or loss are as follows:

	Group and Company	
	2017	2016
	€000	€000
Current service costs	**(12)**	(12)

The amounts recognised in other comprehensive income are as follows:

	Group and Company	
	2017	2016
	€000	€000
Actuarial (losses)/gains	**(57)**	4

The key assumptions used were as follows:

Discount rates

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate yields of Malta Government Stocks that have terms to maturity approximating to the terms of the related pension liability. As at 31 December 2017, the weighted average discount rate used was 1.33% (2016: 1.21%).

Mortality assumptions

Assumptions regarding future mortality experience are based on published mortality tables in the UK and in Malta, which translate into an average life expectancy ranging between 80 and 95 years depending on age and gender of the beneficiaries.

Notes to the Financial Statements
continued

19. Provisions for pensions continued

Other assumptions comprise:

Future salary increases

GO p.l.c.'s employees are remunerated on the basis of salary scales in accordance with collective agreements. Future salary increases have been estimated on a basis consistent with the natural progression of an employee's salary in line with the Company's salary scales, past experience and market conditions.

The sensitivity of the pension obligation to changes in the key assumptions is disclosed below:

	Impact on defined benefit obligation		
2017	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	decrease of 0.04%	increase of 0.04%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		2.9%	3.1%
2016	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	decrease by 3.8%	increase by 4.2%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		2.9%	3.1%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the pension obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of financial position.

20. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Non-current				
Trade payables	**320**	2,496	**320**	2,496
	320	2,496	**320**	2,496
Current				
Trade payables	**16,995**	16,726	**10,234**	11,674
Amounts owed to related party	**1,523**	–	**–**	–
Other payables	**2,720**	3,283	**–**	–
Indirect tax payable	**5,906**	6,168	**4,212**	4,094
Accruals and deferred income	**31,058**	28,759	**27,378**	25,190
	58,202	54,936	**41,824**	40,958

Amounts owed to related parties are unsecured, interest free and repayable on demand.

Notes to the Financial Statements
continued

21. Revenue

The Group's turnover is generated in Malta and Cyprus and further information on the activities within the different markets is reflected in Note 4 'Segment information'. The Group's turnover is analysed as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Category of activity				
Telecommunication and data centre services	**151,191**	145,611	**110,826**	107,434
Sale of goods	**7,875**	5,488	**6,333**	4,027
Other services and sundry revenues	**7,235**	5,873	**1,232**	705
	166,301	156,972	**118,391**	112,166

Included in revenue from *telecommunication and data centre services* is an amount of €5,250,000 in respect of international private leased circuit capacity.

22. Expenses by nature

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Cost of goods sold	**7,806**	6,009	**5,721**	4,067
Third party network charges, content costs and other direct costs	**43,517**	42,630	**34,199**	34,446
Employee benefit expense (Note 23)	**30,757**	29,411	**24,087**	23,707
Depreciation of property, plant and equipment (Note 5)	**26,328**	25,346	**17,812**	17,722
Amortisation of intangible assets (Note 6)	**9,719**	10,012	**5,406**	5,597
Movement in provisions and write-offs relating to inventories (Note 13)	**189**	(23)	**179**	(23)
Movement in provisions for impairment of trade and other receivables (Note 14)	**(1,506)**	86	**(1,338)**	(747)
Bad debts written off	**1,990**	885	**1,634**	855
Operating lease rentals payable	**5,057**	5,308	**4,307**	4,445
Other	**14,140**	12,271	**8,504**	8,056
Total cost of sales, administrative and other related expenses	**137,997**	131,935	**100,511**	98,125

Auditor's fees

Fees charged by the parent company auditor for services rendered during the financial years ended 31 December 2017 and 2016 relate to the following:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Annual statutory audit	**170**	190	**154**	166
Other assurance services	**82**	98	**82**	98
Other non-audit services	**37**	300	**37**	300
	289	588	**273**	564

Notes to the Financial Statements
continued

22. Expenses by nature continued

Auditor's fees continued

Audit fees attributable to a subsidiary charged by other auditors amount to €25,000.

The following non-audit services have been provided by the auditor to the Company:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Assistance with vendor due diligence	**–**	260	**–**	260
Tax advisory and compliance services	**37**	40	**37**	40
	37	300	**37**	300

23. Employee benefit expense

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Wages and salaries	**32,433**	30,470	**24,918**	23,424
Social security costs	**2,257**	2,010	**1,591**	1,542
Capitalised labour costs	**(4,071)**	(4,252)	**(2,036)**	(1,909)
Recharged to subsidiaries	**–**	–	**(524)**	(533)
	30,619	28,228	**23,949**	22,524
Voluntary retirement costs	**126**	1,171	**126**	1,171
Movement in provisions for pensions	**12**	12	**12**	12
Total employee benefit expense	**30,757**	29,411	**24,087**	23,707

Wages, salaries and social security costs, other than those relating to capital projects, are allocated between operational expenses (included within 'cost of sales') and 'administrative expenses' as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Operational expenses	**7,511**	6,815	**7,148**	6,611
Administrative and other related expenses	**23,246**	22,596	**16,939**	17,096
	30,757	29,411	**24,087**	23,707

The average number of persons employed by the Group and the Company, including part-timers, and students, during the year amounted to 1,172 (2016: 1,140) and 851 (2016: 842) respectively. The number of persons employed by the Group and the Company, including part-timers and students, at the end of the year was as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Operational	**416**	408	**310**	286
Management and administration	**782**	795	**567**	618
	1,198	1,203	**877**	904

Notes to the Financial Statements
continued

24. Directors' emoluments

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Directors' emoluments:				
Fees	**190**	74	**190**	74
Total Directors' emoluments	**190**	74	**190**	74

During the current year, subsidiary companies paid remuneration to their directors amounting to €602,000 (2016: €405,000). The directors do not form part of the Company's Board of Directors.

Directors' emoluments are included within 'administrative and other related expenses'.

25. Other income

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Rent receivable	**506**	321	**506**	321
Realised operating exchange gains	**46**	29	**–**	–
Late payment charges	**272**	200	**272**	200
Others	**683**	789	**499**	466
	1,507	1,339	**1,277**	987

26. Other expenses

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Unrealised and realised operating exchange losses	**254**	98	**231**	95
Others	**30**	3	**–**	4
	284	101	**231**	99

27. Finance income

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Dividend income from subsidiaries	**–**	–	**8,923**	7,188
Bank interest receivable	**13**	4	**13**	4
Interest receivable from related parties	**–**	585	**177**	585
Late payment interest receivable	**256**	208	**256**	208
Other interest receivable	**58**	24	**56**	24
	327	821	**9,425**	8,009

Notes to the Financial Statements
continued

28. Finance costs

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Bank loan interest	**1,790**	2,354	**1,060**	1,525
Other loan interest	**178**	401	**–**	–
Other bank interest and charges	**212**	600	**134**	357
	2,180	3,355	**1,194**	1,882

29. Tax expense

The Group's and the Company's tax expense recognised in profit or loss is analysed below:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Current tax				
Current tax expense	**8,148**	3,966	**7,575**	6,550
Deferred tax				
Deferred tax expense (Note 12)	**1,719**	3,838	**1,413**	962
Tax expense	**9,867**	7,804	**8,988**	7,512

The tax impacts, which are entirely attributable to deferred taxation, relating to components of other comprehensive income and accordingly presented directly in equity are as follows:

	2017			2016		
	Before tax €000	**Tax (charge)/ credit €000**	**Net of tax €000**	Before tax €000	Tax (charge)/ credit €000	Net of tax €000
Group						
Revaluation of land and buildings	**292**	**(21)**	**271**	–	–	–
Remeasurements of defined benefit obligations	**(57)**	**20**	**(37)**	4	(1)	3
	235	**(1)**	**234**	4	(1)	3
Company						
Revaluation of land and buildings	**292**	**(21)**	**271**	–	–	–
Remeasurements of defined benefit obligations	**(57)**	**20**	**(37)**	4	(1)	3
	235	**(1)**	**234**	4	(1)	3

Notes to the Financial Statements
continued

29. Tax expense continued

The tax recognised in profit or loss on the Group's and the Company's profit before tax differs from the theoretical amount that would arise by applying the basic tax rate in Malta to the results of the consolidated entities as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Profit before tax	**27,869**	28,096	**27,352**	19,561
Tax on profit at 35% applicable to taxable profits in Malta	**9,754**	9,833	**9,573**	6,846
Tax effect of:				
Expenses and losses disallowed for tax purposes	**627**	788	**209**	624
Temporary differences arising on depreciation of property, plant and equipment	**–**	500	**–**	477
Further allowances on rental income	**(16)**	(8)	**(16)**	(8)
Different tax rate applied to taxable income attributable to subsidiary (see below)	**(572)**	(1,211)	**–**	–
Different tax rates applied to finance income	**(3)**	(9)	**(3)**	(9)
Dividend income not subject to tax	**–**	–	**(782)**	(543)
Gains not subject to tax	**–**	(2,127)	**–**	–
Others	**77**	38	**7**	125
Tax expense	**9,867**	7,804	**8,988**	7,512

The tax rate applied to taxable profits attributable to a subsidiary registered in Cyprus, Cablenet, is 12.5%.

30. Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2017 €000	2016 €000
Profit attributable to equity holders of the Company (€000)	**16,694**	18,444
Weighted average number of shares in issue (thousands) (Note 16)	**101,310**	101,310
Earnings per share (euro cents)	**16c5**	18c2

The Company has no instruments or arrangements which give rise to potential ordinary shares and accordingly diluted earnings per share is equivalent to basic earnings per share.

Notes to the Financial Statements
continued

31. Dividends

	Company	
	2017 €000	2016 €000
Net dividends paid on ordinary shares	11,144	10,131
Dividends per share (euro cents)	11c0	10c0

A dividend in respect of the year ended 31 December 2017 of €0.13 (2016: €0.11) per share, amounting to €13,170,363 (2016: €11,144,154), was proposed by the Board of Directors subsequent to the end of the reporting period. The financial statements do not reflect this proposed dividend.

32. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Operating profit	**29,527**	26,275	**18,926**	14,929
Adjustments for:				
Depreciation and amortisation	**36,047**	35,358	**23,218**	23,319
Net increase in provisions and write-downs in relation to receivables and inventories	**673**	948	**475**	85
Voluntary retirement costs	**126**	1,171	**126**	1,171
Provisions for pensions	**12**	12	**12**	12
Changes in working capital:				
Inventories	**(504)**	1,840	**(491)**	1,707
Trade and other receivables	**(3,047)**	(1,468)	**(2,420)**	6,118
Trade and other payables	**2,099**	8,096	**9,123**	4,277
Group undertakings' balances	**–**	–	**1,383**	560
Cash generated from operations	**64,933**	72,232	**50,352**	52,178

Non-cash transactions

The Group's non-cash transactions during the financial year ended 31 December 2016 comprised the conversion of loans receivable from Cablenet (Note 7) into equity in connection with GO's decision to acquire a controlling interest in Cablenet.

Notes to the Financial Statements
continued

33. Operating lease commitments

(a) Operating leases – where the Group/the Company is the lessee

Operating lease rentals under non-cancellable leases at 31 December are payable as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Less than one year	**3,315**	2,786	**2,124**	2,182
Between one and five years	**11,390**	9,873	**7,745**	8,065
More than five years	**32,902**	34,966	**32,574**	34,550
	47,607	47,625	**42,443**	44,797

The Group and the Company lease various premises and other assets under operating leases. The leases run for an initial period of up to twenty years. Specific lease arrangements include an option to renew the lease after the original term but the amounts presented in the tables above do not reflect lease charges applicable to the renewal period.

During the current year, operating lease payments in respect of cancellable and non-cancellable leases amounting to €5,057,000 (2016: €5,308,000) for the Group and €4,307,000 (2016: €4,445,000) for the Company, were recognised as an operating expense in profit or loss.

Additionally, as at 31 December 2017 a subsidiary had commitments in relation to the payment of operating and maintenance fees from 2018 to 2035 amounting to €10,829,184, tv-content fees from 2018 to 2020 of €4,763,709 and sponsorships to football clubs from 2018 to 2024 of €1,790,000.

(b) Operating leases – where the Group/the Company is the lessor

The Group and the Company lease out certain premises and plant and equipment under operating leases. The future minimum lease payments under non-cancellable leases at 31 December are as follows:

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Less than one year	**31**	31	**31**	31

As at 31 December 2017 and 2016, the Group and the Company are also party to a non-cancellable operating lease agreement for an indefinite period with an annual lease amount receivable of €225,000 (2016: €225,000). During the current year, amounts of €506,000 (2016: €321,000) for the Group and Company, were recognised as rental income in profit or loss within other operating income.

34. Capital commitments

	Group		Company	
	2017 €000	2016 €000	**2017 €000**	2016 €000
Contracted for:				
Property, plant and equipment	**3,114**	1,892	**2,653**	1,892
Intangible assets	**32,795**	–	–	–
Authorised but not contracted for:				
Property, plant and equipment	**4,343**	2,526	**4,343**	2,526
	40,252	4,418	**6,996**	4,418

Notes to the Financial Statements
continued

35. Contingencies

The contingencies of the Group and the Company are listed below:

(a) Contingent liabilities arising in the ordinary course of business

As a result of its operations and activities in the ordinary course of the Group's business, the Group has, as at 31 December 2017, contingent liabilities arising from:

- Guarantees in favour of third parties and performance bonds given amounting to €1,318,000 (2016: €217,000) for the Group and the Company;
- Actual or potential claims and litigation arising from provision of services, acquisition of goods and services by the Group and other legal issues; and
- Claims by a restricted number of employees;

in respect of which no losses which are deemed material, individually or in aggregate, in the context of understanding the Group's financial results and financial position, are expected.

At the end of the reporting period, the Group had a contingent liability arising from an overseas court judgement requiring that a Group company implements measures to prevent a specific client from providing certain services. The company was ordered to pay for the costs of the court proceedings and to pay a fine of €100,000 per day subsequent to service of the said judgement, unless and until the company complies with it. On the basis of legal advice obtained by the Group, the company has not yet been correctly served with the judgement and, additionally, the judgement can be enforced in Malta only in the event that it is declared enforceable by the Courts in Malta. This legal advice obtained by the Group highlights serious doubts on the enforceability of the overseas court judgement in Malta and accordingly no provision has been recognised as the Directors are of the opinion that a cash outflow is not probable.

Another overseas court proceeding has been instituted against the same Group company with respect to similar claims in relation to services provided to another client. Until the date of authorisation for issue of these financial statements, no judgement has been delivered by the court. No provision for expected losses was deemed necessary by the Directors as at the end of the reporting period taking cognisance of legal advice received.

(b) Contingencies relating to pension liabilities

As disclosed in Note 19 following a judgement by the Court of Appeal, GO p.l.c. was required to set up a pension scheme in favour of its eligible employees and former employees. Further claims for the payment of a pension have been made by a number of ex-employees and employees of the Company. However, the Directors have considered legal advice obtained and are of the opinion that an outflow of resources is not probable beyond provisions already accounted for by the Company.

In this respect the Group has not disclosed additional information related to this contingent liability in accordance with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' on the grounds that disclosure may be seriously prejudicial to the Group's interests.

(c) A subsidiary of the Company has given guarantees to bankers in favour of related parties so as to secure the related parties banking facilities. The maximum exposure arising from these guarantees amounts to €1,480,000 as at 31 December 2017, and the directors do not expect any losses to occur in this respect.

Notes to the Financial Statements
continued

36. Related party transactions

The Company and its subsidiaries have a related party relationship with Société Nationale des Télécommunications, the Company's ultimate parent (Note 38), related entities ultimately controlled by Société Nationale des Télécommunications, together with the Company's Directors (key management personnel). Subsequent to the change in the Company's shareholders, Dubai Holding LLC (GO's former ultimate parent) and all entities ultimately controlled by it are still considered to be related parties, in view of Dubai Holding LLC's interest in and significant influence on GO's current ultimate parent.

The following principal operating transactions, which were carried out with related parties, have a material effect on the operating results and financial position of the Group and Company:

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Current ultimate parent and related entities				
Services provided to	**15**	56	**15**	56
Services provided by	**370**	268	**24**	16
Expenses recharged to	**–**	5,100	**–**	5,100
Dividends paid to	**7,291**	–	**7,291**	–

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Former ultimate parent and related entities				
Services provided to	**27**	–	**27**	–
Services provided by	**–**	7	**–**	7
Dividends paid to	**–**	6,078	**–**	6,078
Amounts paid on behalf of the company by	**–**	266	**–**	266
Rent paid to	**2,927**	3,055	**2,927**	3,055
Interest received from	**–**	585	**–**	585

MPC was considered a related party during the years ended 31 December 2017 and 2016, since its ultimate parent is Dubai Holding LLC, which exerts significant influence on GO's ultimate parent subsequent to the change in GO's shareholding.

	Company	
	2017	2016
	€000	€000
Subsidiaries		
Loans advanced to (at face value)	**15,600**	1,000
Services provided to	**1,735**	1,499
Expenses recharged to	**524**	615
Services provided by	**4,810**	3,869
Interest received from	**177**	70
Dividends received from	**8,923**	7,188

Further to the loans granted as disclosed above, the Company has indicated its intention to continue providing financial support to Cablenet, a subsidiary, to enable it to continue to grow its operations. At the end of the year, no losses are deemed probable or possible under this arrangement.

Notes to the Financial Statements
continued

36. Related party transactions continued

In the opinion of the Directors, disclosure of related party transactions, which are generally carried out on commercial terms and conditions, is only necessary when the transactions effected have a material impact on the operating results and financial position of the Group. The aggregate invoiced amounts in respect of a number of transaction types carried out with related parties are not considered material and accordingly they do not have a significant effect on these financial statements.

Except for remuneration payable (Note 24), the Group has not entered into material transactions with key management personnel which would warrant disclosure thereof for the purpose of understanding the Group's financial results or its financial position. Also, the Group has not entered into material transactions with entities in which the Group's key management personnel directly or indirectly have an interest or over which they have direct or indirect influence. Any such transactions would constitute normal operating transactions under normal market and commercial terms relating to provision of operational services by the Group, and would not comprise financing transactions.

Year end balances with related parties, arising principally from the above transactions, are disclosed in Notes 10, 14 and 20 to these financial statements.

37. Events after the end of the reporting period

On 1 March 2018 the Company announced that its subsidiary GO Data Centre Services Limited, which owned 51% of the issued share capital of Kinetix IT Solutions Limited, as at 31 December 2017 has exercised its option to acquire the remaining 49%, through which it will become the sole shareholder of Kinetix. The impact of this completion of the acquisition of Kinetix on the Group's financial position is not deemed to be material for the purposes of disclosure.

38. Statutory information

GO p.l.c. is a public limited liability company domiciled and incorporated in Malta. The Company's ultimate parent is Société Nationale des Télécommunications (Tunisie Telecom), the registered office of which is situated at Tunisie Telecom Building, 1053 Jardins du Lac II, Tunis, Tunisia which owns 65.4% of the Company's shares. The Company's immediate parent is TT ML Limited, a fully owned subsidiary of Tunisie Telecom, established as a special purpose vehicle for the purpose of holding GO's shares. The Tunisian Government holds a 65% shareholding in Tunisie Telecom, and Emirates International Telecommunications (EIT), a subsidiary of Dubai Holding LLC which is GO's former ultimate parent, owns the other 35%.

Five Year Record

GO p.l.c.

	2017 €M	2016 €M	2015 €M	2014 Restated €M	2013 €M
Revenue	166.3	157.0	123.7	122.2	122.1
Results from operating activities	29.5	26.3	27.8	21.8	18.0
Profit before income tax	27.9	28.1	34.2	13.7	15.6
Profit for the year	18.0	20.3	26.4	8.0	11.8
Total assets	251.8	249.8	207.6	217.3	235.0
Total liabilities	136.7	140.6	115.5	113.8	131.5
Total equity	115.1	109.2	92.1	103.4	103.5
Operating cash flow	57.0	63.8	36.8	40.3	39.6
Investing cash flow	(33.9)	(35.5)	(33.4)	(30.6)	(19.3)
Financing cash flow	(19.2)	(22.1)	(18.3)	(23.9)	(17.4)
	€	€	€	€	€
Earnings per share	0.165	0.182	0.261	0.079	0.116
Dividends per share	0.13	0.11	0.10	0.07	0.07

Company Information

Company Secretary

Dr Francis Galea Salomone L.L.D.

Auditors

PricewaterhouseCoopers
Certified Public Accountants
Malta

Registrar

Malta Stock Exchange
Malta

Legal Counsel

Mamo TCV
Malta

Gatt Tufigno Gauci (Advocates)
Malta

Registered Office

GO
Fra Diegu Street
Marsa MRS 1501

Company registration Number

C 22334

Financial Calendar

Preliminary announcement of results	06 March 2018
Record date: Final dividend	13 April 2018
Ex-dividend date	14 April 2018
Annual General Meeting	14 May 2018
Final dividend payment date	16 May 2018
Announcement of half yearly results (provisional)	August 2018

Shareholder Information

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Together. As it should be.

Together. **As it should be.**

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