

MELITA CAPITAL P.L.C.

Annual Report and Consolidated
Financial Statements
31 December 2012

	Pages
Directors' report	1 - 4
Corporate governance – Statement of compliance	5 - 11
Independent auditor's report	12 - 13
Statements of financial position	14
Statements of comprehensive income	15
Statements of changes in equity	16
Statements of cash flows	17
Notes to the financial statements	18 - 41

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2012.

Principal activity

The Company was incorporated on 16 July 2009 to carry on the business of a finance and investment company, raising funds to finance the operations of Melita Mobile Ltd and Melita Infrastructure Limited in the fields of wireless communication and wholesale fibre services offering 3G digital wireless services throughout Malta and wholesale voice and data fibre connectivity from Malta to Sicily. Both these companies, as well as Melita Capital plc, form part of the group of companies owned by the Company's parent Superholdco Limited.

Review of the business

In 2009, the Company issued to the public €25.9 million bonds 2014 – 2016 of a nominal value of €100 per bond issued at par and bearing interest at a rate of 7.15% per annum (the "Bonds"). The Bonds are listed on the Second Tier Market of the Malta Stock Exchange. Proceeds from this bond issue were advanced by way of loan facility by the Company to:

- its affiliate company Melita Mobile Ltd (the "Affiliate") for the funding of the continued capital expenditure associated with the expansion and development of its third generation mobile telephony network, funding of the working capital needs associated with the early growth phase of its operations, and for the general corporate funding purposes of its business; and to
- its subsidiary company Melita Infrastructure Ltd (the "Subsidiary") for the purpose of substituting project finance which the Subsidiary had obtained in respect of the laying and setting up of a submarine fibre optic cable between Malta and Sicily.

During the year under review, interest receivable from the Affiliate amounted to €2.1 million (2011: €2.4 million) and interest receivable from the Subsidiary amounted to €0.2 million (2011: €0.2 million). Interest payable on the Bonds and loan facility together with the amortisation of the related issue costs amounted to €2 million (2011: €2 million). The profit for the reporting period amounted to €0.66 million (2011: €0.781 million) after deducting administrative expenses and taxation of €1.2 million (2011: €1.1 million) and €0.196 million (2011: €0.055 million) respectively.

Profit per share, which is based on the profit after taxation divided by the weighted average number of ordinary shares in issue during the year, amounted to €0.14 (2011: €0.17).

Intra-group funding

On 28 August 2009, the Company had entered into a loan agreement with the Affiliate pursuant to which the Company agreed to lend and advance to the Affiliate a sum not exceeding €16,500,000 from the proceeds of the Company's abovementioned 2009 bond issue, such amount increasing to a maximum of €21,500,000 in the event that the Over-Allotment Option referred to in the bond prospectus was exercised by the Company. On 2 August 2011, the Company and Melita Mobile Limited entered into an Acknowledgment of Revised Loan Amount Agreement, in which it was agreed and acknowledged, inter alia, that the amount actually lent to Melita Mobile Limited was €19,333,404. At the Board meeting held over the 31 January and 1 February 2012 it was resolved that the Company would enter into a loan amendment agreement with the Affiliate, pursuant to which the term and repayment schedule contained in the original loan agreement was to be amended. Such amendments were agreed to with the Affiliate on 26 April 2012. A further amendment to the loan agreement was agreed to with the Affiliate on 10 December 2012, providing for a bullet repayment on the 31 July 2016. During the year under review the Affiliate effected repayments to the Company, inclusive of interest, amounting to €1,450,000 in aggregate.

Directors' report - continued

Intra-group funding -continued

In parallel, on 28 August 2009, the Company had entered into a loan agreement with the Subsidiary pursuant to which the Company agreed to lend and advance to the Subsidiary a sum not exceeding €7,500,000 from the proceeds of the Company's abovementioned 2009 bond issue. The amount actually lent by the Company to the Subsidiary from the proceeds of the bond issue was €4,941,690. Following repayments effected during the course of 2010 and 2011, as at the date of the board meeting held over the 31 January and 1 February 2012 the balance outstanding from the aforesaid amount was of €2,086,821, and it was resolved that the Company would enter into a loan amendment agreement with the Subsidiary, pursuant to which the term and repayment schedule contained in the original loan agreement was to be amended. Such amendments were agreed to with the Subsidiary on the 26 April 2012. Pursuant to the agreement, as amended, any repayments effected by the Subsidiary in advance of the 31 July 2016 would be limitedly in respect of interest due on the loan, with any outstanding interest on the loan at maturity payable on 31 July 2016. The repayment of the outstanding principal by the Subsidiary is to be effected in full by bullet repayment on the 31 July 2016. During the year under review the Subsidiary effected a repayment to the Company, inclusive of interest, amounting to €500,000.

Sinking Fund

Pursuant to the undertaking set out in section 20.11 of the prospectus dated 4 September 2009 for the Company to build, over a period of five (5) years commencing from the financial year ending 31 December 2011, a sinking fund to meet part of the redemption proceeds on the redemption date of the Bonds, on 20 December 2012, the second payment into the sinking fund since its setting up was duly effected by the Company.

Results and dividends

The statement of comprehensive income is set out on page 15. The directors do not recommend the payment of a dividend.

Directors

The directors of the company who held office during the year were:

1. Joseph Gasan (Chairman of the Board of Directors)
2. Timothy Simon Green – resigned on 30 October 2012
3. Massimo Prelz
4. Robert Pierre Savignol
5. James Wade
6. Paul Connolly
7. Gary Quin
8. Jeffrey Davis Montgomery – appointed on 30 October 2012

In accordance with article 56.1 of the articles of association of the Company, unless they resign or are removed directors shall hold office up until the end of the annual general meeting next following their appointment. Directors whose term of office expires or who resign or are removed are eligible for re-appointment.

Directors' report - continued

Directors' statement of responsibilities in relation to the financial statements

The directors are required by the Companies Act (Cap. 386 of the Laws of Malta) to prepare financial statements 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 or 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 appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- 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 internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act (Cap. 386 of the Laws of Malta). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Melita Capital p.l.c. for the year ended 31 December 2012 are included in the Annual Report 2012, which is 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 group'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.

Statement by directors pursuant to Listing Rule 5.68

The directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Going concern basis

After making enquiries, the directors, at the time of approving the financial statements, have determined that there is reasonable expectation that the group and the company have adequate resources to continue operating for the foreseeable future.

Directors' report - continued

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board on 19 April 2013 and signed on its behalf by:



Joseph Gasan
Chairman



Massimo Prez
Director

Registered office: Gasan Centre, Imriehel By-Pass, Imriehel BKR 3000, Malta.
Telephone: (+356) 27270000
Company Secretary: Henri Mizzi - Company secretary

Corporate governance - Statement of compliance

1. Introduction

Pursuant to the Listing Rules issued by the Malta Financial Services Authority, Melita Capital p.l.c. (the "Company") is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance (the "Principles") with respect to the financial year under review.

The Company acknowledges that although the Code does not dictate or prescribe mandatory rules, compliance with the principles of good corporate governance recommended in the Code is in the best interests of the Company, its shareholders and other stakeholders.

The directors report that since the Company only issues debt securities and has not issued equity securities which are traded in a multilateral trading facility, the Company is exempt from disclosing the information prescribed in Listing Rules 5.97.1 to 5.97.3, 5.97.6 and 5.97.7 in this corporate governance statement (the "Statement"). It is in the light of this exemption afforded to the Company that the directors are herein reporting on the corporate governance of the Company.

2. General

Good corporate governance is the responsibility of the Board of Directors of the Company (the "Board") as a whole, and has been and remains a priority for the Company. In deciding on the most appropriate manner in which to implement the Code, the Board took cognisance of the Company's size, nature and operations, noted that the Company does not have any employees, and formulated the view that the adoption of certain mechanisms and structures which may be suitable for companies with extensive operations may not be appropriate for the Company. The limitations of size and scope of operations inevitably impact on the structures required to implement the Code, without however diluting the effectiveness thereof.

The Board considers that, to the extent otherwise disclosed herein, the Company has generally been in compliance with the Principles throughout the year under review.

This Statement shall now set out the structures and processes in place within the Company and how these effectively achieve the goals set out in the Code for the financial year under review. For this purpose, this Statement will make reference to the pertinent principles of the Code and then set out the manners in which the Board considers that these have been adhered to.

For the avoidance of doubt, reference in this Statement to compliance with the principles of the Code means compliance with the Code's main principles and the Code Provisions.

3. Compliance with the Code

Principles One to Five

Principles One to Five of the Code deal fundamentally with the role of the Board and of the directors.

The directors believe that for the year under review the Company has generally complied with the requirements for each of these principles. Further information in this respect is provided hereunder.

Principle One

The directors report that for the financial year under review, the directors have provided the necessary leadership in the overall direction of the Company and have performed their responsibilities for the efficient and smooth running of the Company with honesty, competence and integrity.

Corporate governance - Statement of compliance - continued

3. Compliance with the Code - continued

Principle Two

In compliance with the provisions of this Principle, the functions of the Chairman and the Chief Executive Officer (the "CEO") of the Company are segregated.

Principle Three

The Board is composed exclusively of non-executive directors. The directors who served on the Board during the financial year under review were Mr Joseph Gasan (Chairman of the Board) and the other non-executive directors Mr Massimo Prelz, Mr Robert Pierre Savignol, Mr James Wade, Mr Paul Connolly, Mr Gary Quin, Mr Timothy Simon Green (up until his resignation effective 30 October 2012) and Mr Jeffrey Davis Montgomery (as from his appointment effective 30 October 2012).

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 by the Board to fill a casual vacancy, which appointment would be valid until the conclusion of the next Annual General Meeting of the Company following such an appointment. In terms of the Articles of Association of the Company, for so long as Superholdco Limited will continue to hold shares in the Company, it shall be entitled at any time to appoint five (5) persons to the Board as non-executive directors, which non-executive directors would in turn have the power to co-opt an additional two (2) non-executive directors.

In its capacity as majority shareholder, Superholdco Limited is also solely entitled to remove any person appointed as a non-executive director of the Company for any reason whatsoever and to appoint another person in his place.

Mr Paul Connolly and Mr Gary Quin are considered by the Board to be independent non-executive members of the Board notwithstanding their respective roles within Grand Canal Capital Limited, which holds a marginal 2.25% shareholding in the parent company of the group of companies of which Melita Capital plc forms part.

Principle Four

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for the Company's strategy and decisions with respect to the issue, servicing and redemption of its bonds in issue and secured notes, and for monitoring that its operations are in conformity with its commitments towards note and bondholders, shareholders, and all relevant laws and regulations. The Board is also responsible for ensuring that the Company installs and operates effective internal control and management information systems and that it communicates effectively with the market.

Despite having the power to appoint an executive committee in terms of the Company's Articles of Association, in light also of the support provided pursuant to the terms of the management and support services agreement entered into between the Company and Melita p.l.c. (C-12715) (the "MSS Agreement"), the Board has elected not to appoint an executive committee to assist the Board in the Company's operations. In terms of the MSS Agreement, Melita p.l.c. provides the Company with management services at the strategic and operational level of its business. In terms of the MSS Agreement, the persons responsible for managing the Company are:

Corporate governance - Statement of compliance - continued

3. Compliance with the Code - continued

Principle Four - continued

- Andrei Torriani (Chief Executive Officer)
- Stuart Williamson (Chief Financial Officer)
- Simon Montanaro (Chief Technical Officer)

The executive officers of the Company may be asked to attend board meetings or general meetings of the Company, although they do not have the right to vote thereat until such time as they are also appointed to the Board. The Directors may entrust to and confer upon a Chief Executive (or Managing Director, if applicable) any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

Principle Five

The directors meet regularly, principally to review the financial performance of the Company. The Directors are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting board papers, which are circulated well in advance of the meeting. The Board met formally twice during the year under review.

Attendance by the directors at Board meetings held during the financial year under review was as follows:

<i>Director</i>	<i>Attendance out of 2 Board meetings held</i>
Joseph Gasan (Chairman of the Board of Directors)	2
Timothy Simon Green	1
Massimo Prelz	2
Robert Pierre Savignol	2
James Wade	2
Paul Connolly	0
Gary Quin	2
Jeffrey Davis Montgomery	N/A ¹

Principle Six

Principle Six of the Code deals with information and professional development

The Directors believe that for the year under review the Company has generally complied with the requirements for this Principle.

¹ No board meetings were held in 2012 following the date of Mr Montgomery's appointment

Corporate governance - Statement of compliance - continued

3. Compliance with the Code - continued

Principle Seven

Principle Seven of the Code deals with evaluation of the Board's performance

The Board believes that the Company has a corporate decision-making and supervisory structure that is tailored to suit its specific requirements and designed to ensure the existence of adequate checks and balances within the Company. The Board ensures that such structures are kept under continuous review to enable the Company to meet the changing demands of the business and to strengthen the checks and balances necessary for better corporate governance.

Principle Eight

Principle Eight A of the Code deals with the establishment of a remuneration committee for the Company aimed at developing policies on remuneration for directors and senior executives and devising appropriate remuneration packages.

In view of the size and type of operation of the Company, the Board does not consider the Company to require the setting up of a remuneration committee, and the Board itself carries out the functions of the remuneration committee specified in, and in accordance with, Principle Eight A of the Code.

The Board hereby makes the following **Remuneration Statement**:

The Board confirms that there have been no changes in the Company's remuneration policy during the year under review and the Company does not intend to effect any changes in its remuneration policy for the following financial year.

The maximum annual aggregate emoluments that may be paid to the Directors is, pursuant to the Company's Memorandum and Articles of Association, approved by the shareholders in general meeting.

None of the directors or executive officers of the Company have service contracts with the Company and, in view of the MSS agreement, none of the directors or executive officers of the Company receive remuneration or are entitled to profit sharing, share options or pension benefits from the Company.

Principle Eight B of the Code deals with the formal and transparent procedure for the appointment of directors.

In view of the size and type of operation of the Company, the Board does not consider the Company to require the setting up of a nomination committee. Reference is also made to the information provided under the subheading 'Principle Three' above.

Principle Nine

Principle Nine deals with relations with shareholders and with the market

Pursuant to the company's statutory obligations in terms of the Companies Act (Cap. 386 of the Laws of Malta) and the Listing Rules issued by the Malta Financial Services Authority, the Annual Report and Financial Statements, the election of directors and approval of directors' fees, the appointment of the auditors and the authorisation of the directors to set the auditors' fees, and other special business, are proposed and approved at the Company's Annual General Meeting.

With respect to the Company's bondholders and the market in general, during the year under review, the Company communicated with its bondholders through the following schedule of financial reporting:

Corporate governance - Statement of compliance - continued

3. Compliance with the Code - continued

Principle Nine - continued

- (i) The audited financial statements of the Company, covering the financial period from 1 January 2011 until 31 December 2011, were published on the 27 April 2012; and
- (ii) Interim financial statements covering the six month period from 1 January 2012 until 30 June 2012 were published on 29 August 2012.

The Board considers that through the above it is providing bondholders and the market with adequate information about its activities.

Principle Ten

Principle Ten deals with institutional shareholders

The directors are of the view that this Principle is not applicable to the Company.

Principle Eleven

Principle Eleven deals with conflicts of interest and the principle that directors should always act in the best interests of the Company

All of the directors of the Company save for Mr Paul Connolly and Mr Gary Quin are officers of the principal corporate shareholder, and as such are susceptible to conflicts arising between the potentially diverging interests of the corporate shareholder and the Company. During the year under review, no private interests or duties unrelated to the Company were disclosed by the directors which were or could have been likely to place any of them in conflict with any interests in, or duties towards, the Company.

The Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the Company. Furthermore, in accordance with the provisions of article 145 of the Companies Act (Cap. 386 of the Laws of Malta), every Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company is under the duty to fully declare his interest in the relevant transaction to the Board at the first possible opportunity and he will not be entitled to vote on matters relating to the proposed transaction and only parties who do not have any conflict in considering the matter will participate in the consideration of the proposed transaction.

Principle Twelve

Principle Twelve encourages directors of listed companies to adhere to accepted principles of corporate social responsibility

The Company seeks to adhere to sound Principles of Corporate Social Responsibility in its management practices, and is committed to enhance the quality of life of all stakeholders and of the employees of the Subsidiary and Affiliate.

4. The Audit Committee

The Audit Committee's primary objective is to assist the Board in fulfilling its responsibilities: in dealing with issues of risk, control and governance; and review the financial reporting processes, financial policies and internal control structure. During the year under review, the Audit Committee oversaw the conduct of the internal and external audit and acted to facilitate communication between the Board, management, the external auditors and the internal audit team.

Corporate governance - Statement of compliance - continued

4. The Audit Committee - continued

Although the Audit Committee was set up at the level of the Company its main tasks are related principally to the activities of its subsidiary Melita Infrastructure Limited and to a limited extent to the activities of its affiliate Melita Mobile Limited. The latter's audit committee function is undertaken at the level of Melita plc, its 70% shareholder.

The Board has set formal terms of establishment and the terms of reference of the Audit Committee that establish its composition, role and function, the parameters of its remit as well as the basis for the processes that it is required to comply with. The Audit Committee is a sub-committee of the Board and is directly responsible and accountable to the Board. The Board reserves the right to change these terms of reference from time to time.

Briefly, the Audit Committee dealt with and advised the Board on:

- monitoring the integrity of the financial statements issued by the Company, as well as the internal control structures (including the appropriateness and security of computer systems being utilized), the financial reporting process (ensuring that the recommendations made by external auditors were implemented in a timely manner) and financial policies of the Company;
- maintaining communications on such matters between the Board, management and the external auditors;
- preserving the Issuer's assets by understanding the Company's risk environment and determining how to deal with those risks;
- the appointment of the external Auditor and the approval of the remuneration and terms of engagement thereof following appointment by the shareholders in general meeting.

Furthermore, pursuant to its terms of reference, the Audit Committee was charged with the monitoring and review of, *inter alia*:

- (a) the Company's internal financial control systems;
- (b) the external audit functions, including the external auditors' independence, objectivity and effectiveness;
- (c) the information upon which the management based its decision to consider the business as a going concern;
- (d) the accounting policies adopted and assumption made;
- (e) whether the Company's financial statements compared well with the industry norm;
- (f) the Company's annual and interim financial statements and evaluated the completeness of the financial information presented;
- (g) the adherence to laws and regulations and compliance with the Listing Rules;
- (h) the financial performance of related companies, in relation to any outstanding borrowings the latter may have with the Company; and
- (i) the Company's tax position.

Furthermore, the Audit Committee had the role and function of scrutinising and evaluating any proposed transaction to be entered into by the Company and a related party, to ensure that the execution of any such transaction was at arm's length and on a commercial basis and ultimately in the best interests of the Company. These transactions are summarised in note 22 to the financial statements.

The Audit Committee is composed of 3 non-executive directors, as follows: Joseph A. Gasan acts as chairman of the Audit Committee, whilst Massimo Prelz and Paul Connolly act as members. Paul Connolly is a non-executive director and a qualified accountant, who the Board considers as independent and competent in accounting as required in terms of the Listing Rules.

Corporate governance - Statement of compliance - continued

4. The Audit Committee – continued

The Audit Committee met formally for the purpose of reviewing and approving the interim and annual financial statements of the Company. All members of the Audit Committee were present, either in person or by telephone conference, and the Chairman, CEO, CFO and external auditors were invited to attend. The Chairman of the audit committee updated the full board at every board meeting on any audit committee business.

5. Internal Control

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. The Directors are aware that internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against normal business risks.

During the year under review the Company operated a system of internal controls which provided reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing the Company.

Other key features of the system of internal control adopted by the Company in respect of its own internal control as well as the control of its Subsidiary and Affiliate are as follows:

Organization

The board of directors of each of the Subsidiary and Affiliate regularly reports to the Board of the Company. The Company's Chairman is also the chairman of the boards of directors of the Subsidiary and Affiliate.

Risk identification

The directors, with the assistance of the Management team, is responsible for the identification and evaluation of key risks applicable to the areas of business in which the Company, Subsidiary and Affiliate are involved. These risks are assessed on a continual basis.

Information and communication

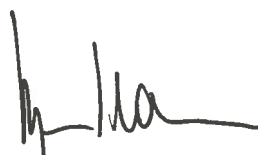
Periodic strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives are regularly convened by the Board. Regular budgets are prepared and performance against these plans is actively monitored and reported to the Board.

In conclusion, the Board considers that the Company has generally been in compliance with the Principles throughout the year as befits a company of this size and nature.

Approved by the Board on 19 April 2013 and signed on its behalf by:



Joseph Gasan
Chairman



Massimo Prelz
Director



Independent auditor's report

To the Shareholders of Melita Capital p.l.c.

Report on the Financial Statements for the year ended 31 December 2012

We have audited the financial statements of Melita Capital p.l.c. on pages 14 to 41 which comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, changes in equity and of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Maltese Companies Act, 1995 and International Financial Reporting Standards (IFRSs) as adopted by the EU as applied in accordance with the provisions of the said Act. As described in the directors' report on page 3, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements:

- give a true and fair view of the financial position of the company as at 31 December 2012, and of the financial performance and the cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

Independent auditor's report - continued

Report on Other Legal and Regulatory Requirements

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 5 to 11 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

We also read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. Our responsibilities do not extend to any other information.

We also have responsibilities:

- Under the Maltese Companies Act, 1995 to report to you if, in our opinion:
 - The information given in the directors' report is not consistent with the financial statements.
 - 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, set out on page 3, 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.

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta



David Valenzia
Partner

19 April 2013

Statements of financial position

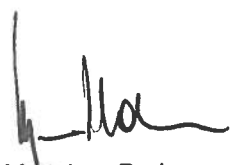
		As at 31 December			
		Group		Company	
	Notes	2012 €'000	2011 €'000	2012 €'000	2011 €'000
ASSETS					
Non-current assets					
Intangible assets	4	263	263	-	-
Property, plant and equipment	5	7,790	8,358	-	-
Investment in subsidiary	6	-	-	1	1
Available-for-sale investment	7	120	120	120	120
Loans receivable	8	27,956	27,348	29,791	28,023
Deferred tax asset	14	29	4	-	-
Total non-current assets		36,158	36,093	29,912	28,144
Current assets					
Loans receivable	8	-	-	-	1,500
Trade and other receivables	9	1,614	448	46	131
Cash and cash equivalents	10	1,233	1,019	734	366
Total current assets		2,847	1,467	780	1,997
Total assets		39,005	37,560	30,692	30,141
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	11	4,676	4,676	4,676	4,676
Retained earnings		965	305	214	(76)
Total equity		5,641	4,981	4,890	4,600
Non-current liabilities					
Borrowings	12	30,089	29,436	25,168	24,979
Current liabilities					
Borrowings	12	1,120	1,120	-	-
Trade and other payables	13	2,155	2,023	634	562
Total current liabilities		3,275	3,143	634	562
Total liabilities		33,364	32,579	25,802	25,541
Total equity and liabilities		39,005	37,560	30,692	30,141

The notes on pages 18 to 41 are an integral part of these financial statements.

The financial statements on pages 14 to 41 were authorised for issue by the board on 19 April 2013 and were signed on its behalf by:



Joseph Gasan
Chairman



Massimo Prelz
Director

Statements of comprehensive income

	Notes	Year ended 31 December			
		Group		Company	
		2012 €'000	2011 €'000	2012 €'000	2011 €'000
Turnover	15	4,389	3,728	275	275
Cost of sales	16	(2,025)	(1,781)	-	-
Gross profit		2,364	1,947	275	275
Administrative expenses	16	(1,207)	(1,150)	(356)	(329)
Operating profit/(loss)		1,157	797	(81)	(54)
Finance income	17	2,061	2,360	2,219	2,584
Finance costs	18	(2,362)	(2,321)	(1,848)	(1,848)
Profit for the year before tax		856	836	290	682
Tax expense	19	(196)	(55)	-	-
Profit for the year after tax		660	781	290	682
Profit attributable to:					
Owners of the parent		660	781	290	682
Earnings per share from continuing operations attributable to the parent (in Euro cents)					
From profit for the year	20	0.14	0.17	0.06	0.15

The notes on pages 18 to 41 are an integral part of these financial statements.

Statements of changes in equity

	Notes	Share capital €'000	Capital contribution €'000	Retained earnings €'000	Total €'000
Company					
Balance at 1 January 2011		176	4,500	(758)	3,918
Comprehensive income					
Profit for the period		-	-	682	682
Transactions with owners					
Issue of share capital	11	4,500	-	-	4,500
Capital contribution	11	-	(4,500)	-	(4,500)
		4,500	(4,500)	682	682
Balance at 31 December 2011		4,676	-	(76)	4,600
Comprehensive income					
Profit for the year		-	-	290	290
Balance at 31 December 2012		4,676	-	214	4,890
Group					
Balance at 1 January 2011		176	4,500	(476)	4,200
Comprehensive income					
Profit for the period		-	-	781	781
Transactions with owners					
Issue of share capital	11	4,500	-	-	4,500
Capital contribution	11	-	(4,500)	-	(4,500)
		4,500	(4,500)	781	781
Balance at 31 December 2011		4,676	-	305	4,981
Comprehensive income					
Profit for the year		-	-	660	660
Balance at 31 December 2012		4,676	-	965	5,641

The notes on pages 18 to 41 are an integral part of these financial statements.

Statements of cash flows

		Year ended 31 December			
		Group		Company	
	Notes	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Cash generated from operations	21	880	1,915	265	48
Interest received	17	1	-	1	-
Interest paid	18	(1,898)	(1,910)	(1,848)	(1,848)
Tax paid		(221)	(68)	-	-
Net cash used in operating activities		(1,238)	(63)	(1,582)	(1,800)
Cash flows from investing activities					
Repayments of loans and receivables	8	1,452	900	1,950	2,046
Net cash generated from investing activities		1,452	900	1,950	2,046
Cash flows from financing Activities					
Transfer to bond redemption fund	10	(350)	(100)	(350)	(100)
Net cash used in financing activities		(350)	(100)	(350)	(100)
Net movement in cash and cash equivalents		(136)	737	18	146
Cash and cash equivalents at beginning of year		919	182	266	120
Cash and cash equivalents at end of year	10	783	919	284	266

The notes on pages 18 to 41 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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 Melita Capital p.l.c., (the Company), and its subsidiary undertaking, Melita Infrastructure Limited.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Companies Act, 1995. They have been prepared under the historical cost convention. 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 (refer to Note 3 – Critical accounting estimates and judgements).

Standards, interpretations and amendments to published standards effective in 2012.

In 2012, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2012. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

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 2012. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

1.2 Consolidation

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. 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 interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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.

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.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in these financial statements of each of the Groups entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The euro is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 the income statement within finance income or expenses.

1.4 Investments in subsidiaries

Investments in subsidiaries 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 an impairment in value. Where there has been an 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.

1. Summary of significant accounting policies - continued

1.5 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses (Note 1.7). Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and 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.

1.6 Plant and equipment

Plant and equipment, comprising submarine cables, are stated at historical cost less depreciation. The capitalised amount includes all direct costs including an element of overhead expenses, incurred during the period of the installation of the submarine cables.

Additions and major improvements are capitalised and 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 or the Company 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 the profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

Submarine cable wet plant	20 years
Submarine cable day plant	5 to 20 years

The assets' 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 1.7)

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with carrying amount and are recognised within 'other income/(expenses)' in profit or loss.

1. Summary of significant accounting policies - continued

1.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill or intangible assets not ready to use are not subject to depreciation or 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 an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.8 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.9 Financial assets

1.9.1 Classification

The Group classifies its investments in the following categories: 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) 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 are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position (refer to Note 1.11 and 1.12).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months end of the reporting period.

1. Summary of significant accounting policies - continued

1.9 Financial assets - continued

1.9.2 Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the income statement. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

1.9.3 Impairment of financial assets

(a) Assets carried at amortised cost

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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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 carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 the consolidated income statement.

1. Summary of significant accounting policies - continued

1.9 Financial assets - continued

1.9.3 Impairment of financial assets - continued

(b) Assets classified as available-for-sale

The Group 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. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence 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 removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

1.10 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.

1.11 Trade and other receivables

Trade receivables are amounts due from group or related companies 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 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 provision 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 the income statement within 'administration 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 'administration expenses' in the profit or loss.

1.12 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 and deposits held at call with banks.

1. Summary of significant accounting policies - continued

1.13 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.

1.14 Trade and other payables

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

1.15 Finance income and costs

Finance income and costs are recognised in the profit or loss for all interest-bearing instruments on a time-proportion basis using the effective interest method. Finance costs include the effect of amortising any difference between net proceeds and redemption value in respect of the Group's borrowings. Finance income and costs are recognised as they accrue, unless collectability is in doubt.

1.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Issue costs incurred in connection with the issue of the bonds include professional fees, publicity, printing, listing, registration, underwriting, management fees, selling costs and other miscellaneous costs.

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 reporting period.

1.17 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.

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 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. Summary of significant accounting policies - continued

1.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. 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 estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of services

Revenue from services is generally recognised in the period the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

(b) Interest income

Interest income is recognised for all interest-bearing instruments as it accrues unless collectability is in doubt.

(c) Dividend income

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

1.19 Provisions

Provisions 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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.20 Dividend distribution

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

1.21 Earnings per share

The Group present basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

1.22 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors that makes strategic decisions. The Board considers the company to be made up of no reportable segment.

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 currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management, covering risk exposures for all group undertakings, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the respective Group's financial performance. The Group's board of directors provides principles for overall group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The Group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Market risk

i) 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	
	2012	2011	2012	2011
	€000	€000	€000	€000
Financial assets				
<i>Subject to fixed rates</i>				
Amounts due from subsidiary undertaking	-	-	1,835	2,129
Amounts due from related party	27,956	27,348	27,956	27,394
Total	27,956	27,348	29,791	29,523
Financial liabilities				
<i>Subject to floating rates</i>				
Bank loans	2,003	2,003	-	-
	2,003	2,003	-	-
<i>Subject to fixed rates</i>				
7.15% bonds 2014-2016	25,168	24,979	25,168	24,979
Ultimate shareholders' subordinated loans	4,038	3,574	-	-
	29,206	28,553	25,168	24,979
Total	31,209	30,556	25,168	24,979

The Group's interest rate risk principally arises from long-term borrowings. Borrowings issued at floating interest rates, comprising bank borrowings (refer to Note 12), expose the Group to cash flow interest rate risk. Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

i) Cash flow and fair value interest rate risk - continued

The Group's significant interest-bearing assets comprise amounts owed by the subsidiary and owed by the related party and are subject to fixed interest rates (refer to Note 8). Fixed interest instruments comprise ultimate shareholders' loans (Note 12) which are measured at amortised cost and accordingly the Group is not exposed to fair value interest rate risk. The Group's interest rate risk principally arises from bank borrowings issued at variable rates (Note 12) which expose the Group to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on amounts reported in the income statement in respect of these instruments.

ii) 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 entity's functional currency. The Group is not exposed to foreign exchange risk given that the majority of its transactions are denominated in euro. 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 periods is not deemed necessary.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, loan and receivables and intra-group receivables. The maximum exposure to credit risk at the reporting date was:

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Loans and receivables category:				
Trade and other receivables (Notes 8 and 9)	29,514	27,765	29,837	29,654
Cash and cash equivalents (Note 10)	1,233	1,019	734	366

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 collateral as security in this respect. The Group banks only with local financial institutions with high quality standing or rating.

The Group's loans and advances consist of advances to related parties of Melita Capital p.l.c (Note 8), which advances have been effected out of the bond issue proceeds and the capital contribution. The Group monitors intra-group credit exposures on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The Group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The Group takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

The Group's trade and other receivables mainly include interest receivable from the Group's immediate parent and other related parties in respect of the advances referred to previously. As at the end of the reporting periods, the Group had no past due or impaired financial assets.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The Group assesses the credit quality of these group companies and other related parties taking into account financial position, performance and other factors. The Group takes cognisance of group relationship with these entities and directors do not expect any loss 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 interest-bearing borrowings (Note 12) and trade and other payables (Note 13). 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.

Management monitors liquidity risk by reviewing expected cash flow and ensures that no additional financing facilities are expected to be required over the coming year. This process is performed through a rigorous assessment of detailed cash flow projections of the subsidiary where matching of cash inflows and outflows arising from expected maturities of financial instruments are assessed on an annual basis.

The liquidity risk arising from the above was extensively tested when the bonds were issued to ensure that the commitments entered into by the Company could be covered by the cashflow generated from operations. A sinking fund arrangement was set up for this purposes (Note 10) and was designed to accumulate, over the life of the bond, the liquidity needed to ensure the repayment of the bond.

A portion of the profit is invested annually in a Bond redemption fund in accordance with the terms of issue of the bond. In addition, management regularly monitors the accumulation of the fund against the Company's original projections and the Company's current and expected future performance. Where necessary, liquid assets are retained for an amount higher than the Bond redemption fund. At 31 December 2012, liquid funds amounting to €783,000 (2011: €919,000) were retained in excess of the Bond redemption fund.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The following table analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table 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	Within one year €'000	One to five years €'000	Over five years €'000
Group					
31 December 2012					
Unsecured bonds	25,168	32,817	1,850	30,967	-
Borrowings	6,041	84,488	1,151	893	82,444
Trade and other payables	2,155	2,155	2,155	-	-
	33,364	119,460	5,156	31,860	82,444
31 December 2011					
Unsecured bonds	24,979	34,668	1,850	5,551	27,267
Borrowings	5,577	84,405	1,160	897	82,348
Trade and other payables	2,023	2,023	2,023	-	-
	32,579	121,096	5,033	6,448	109,615
Company					
31 December 2012					
Unsecured bonds	25,168	32,817	1,850	30,967	-
Trade and other payables	634	634	634	-	-
	25,802	33,451	2,484	30,967	-
31 December 2011					
Unsecured bonds	24,979	34,668	1,850	5,551	27,267
Trade and other payables	562	562	562	-	-
	25,541	35,230	2,412	5,551	27,267

2. Financial risk management - continued

2.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 Group may issue new shares or adjust the amount of dividends paid to shareholders.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as structural borrowings divided by the total capital.

Total capital is measured by reference to the amounts reflected in the financial statements. Structural borrowings include all interest bearing borrowings, less funds attributable to the Bond redemption fund (Note 10).

The resultant gearing was as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Total borrowings (Note 12)	31,209	30,556	25,168	24,979
Less: Bond redemption fund (Note 10)	(450)	(100)	(450)	(100)
Net borrowings	30,759	30,456	24,718	24,879
Total equity	5,641	4,981	4,890	4,600
Total capital	36,400	35,437	29,608	29,479
Gearing	85.0%	85.9%	83.0%	84.4%

2.3 Fair values of financial instruments

At 31 December 2012 and 2011 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are assumed to approximate their 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.

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.

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

4. Intangibles

Group	Goodwill €'000
Opening and closing net book amount	<u>263</u>

During 2009, the Company entered into a business combination where it acquired 100% of the share capital of Melita Infrastructure Limited. Goodwill recognised upon this acquisition amounts to €263,000 and is included in non-current assets.

The goodwill arising on consolidation relates to the acquisition of Melita Infrastructure in 2009. The recoverable amount is reassessed annually based on estimates of expected future cash flows as identified from a business plan approved by management for the next five years and a growth rate of 35% growth beyond management's approved budgets. A post tax discount rate of 7.03% has been applied and reflects the specific risks relating to all the market segments in which the Group operates.

On the basis of the latest business plan and current market data available to the board, no impairment charge was deemed necessary at both group and company level.

5. Property, plant and equipment

Group	Property, plant and equipment €'000
At 1 January 2011	
Cost	9,777
Accumulated depreciation	(838)
Net book amount	8,939
 Year ended 31 December 2011	
Opening net book amount	8,939
Disposals	(7)
Depreciation for the year	(574)
Closing net book amount	8,358
 At 31 December 2011	
Cost	9,770
Accumulated depreciation	(1,412)
Net book amount	8,358
 Year ended 31 December 2012	
Opening net book amount	8,358
Depreciation for the year	(568)
Closing net book amount	7,790
 At 31 December 2012	
Cost	9,770
Accumulated depreciation	(1,980)
Net book amount	7,790

6. Investment in subsidiary

Company	€'000
 As at 31 December 2012 and 2011	
Closing cost and carrying amount	1

6. Investment in subsidiary - continued

The subsidiary at 31 December 2012 and 2011 is shown below:

	Registered office	Class of shares held	Percentage of shares held %
Melita Infrastructure Limited	Gasam Centre Mriehel By-Pass Mriehel, Birkirkara	Ordinary Shares	100

7. Available-for-sale investment

Group and Company

On 3 September 2009 the Company subscribed for 168,079 ordinary shares of €2.329373 in Melita Mobile Limited, 30.65% paid up. This investment represented an equity interest of 30% in Melita Mobile Limited. In view of the control exercised by the 70% shareholder in Melita Mobile Limited, through its equity investment and financing arrangements, the stake held by Melita Capital p.l.c. is not deemed to represent significant influence on the Company's financial and operating policies. Accordingly, this investment has been treated as an available for sale investment.

	€'000
As at 31 December 2012 and 2011	
Closing cost and carrying amount	120

8. Loans receivable

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Non-current				
Amounts due from subsidiary undertaking	-	-	1,835	2,129
Amounts due from related party	27,956	27,348	27,956	25,894
	27,956	27,348	29,791	28,023
Current				
Amounts due from related party	-	-	-	1,500
Total loans receivable	27,956	27,348	29,791	29,523

The amounts due from the subsidiary and the related party are repayable in 2016 and 2016 to 2018 respectively, are unsecured and are subject to interest of 7.65% per annum.

9. Trade and other receivables

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Prepayments	56	31	-	-
Amounts due from related parties	1,555	414	29	73
Amounts due from subsidiary	-	-	17	58
Other receivables	3	3	-	-
	1,614	448	46	131

The amounts owed by subsidiary and related parties are unsecured, interest free and are repayable on demand.

10. Cash and cash equivalents

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

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Cash at bank and in hand	1,233	1,019	734	366
Bond redemption fund	(450)	(100)	(450)	(100)
	783	919	284	266

As disclosed above cash and cash equivalents exclude the contribution to the bond redemption fund held in the bank, which use is restricted pursuant to the terms and conditions stated in the bond prospectus.

The establishment of the bond redemption fund was announced on 28 December 2011 in terms of the bond prospectus dated 4 September 2009. By the maturity of the bonds on 30 September 2016, the bond redemption fund is expected to amount to 50% of the total amount of outstanding bonds amounting to €25,878,829.

11. Share capital

Group and Company	2012 €'000	2011 €'000
Authorised		
5,000,000 ordinary shares of € 1 each	5,000	5,000
Issued and fully paid		
4,676,400 ordinary shares of € 1 each	4,676	4,676

11. Share capital - continued

On 21 December 2010, the shareholders advanced €4.5 million to the Group, with a view of this being converted into ordinary share capital. The capitalisation was formalised on the 27 April 2011 upon filing with the Registry of Companies of the amendments to the Company's Memorandum and Articles of Association required in light of the change in capital structure and increase in authorised share capital of the Company.

12. Borrowings

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Current				
Bank loan	1,120	1,120	-	-
Total current borrowings	1,120	1,120	-	-
Non-current				
7.15% bonds 2014-2016	25,168	24,979	25,168	24,979
Bank loans	883	883	-	-
Ultimate shareholders' subordinated loans	4,038	3,574	-	-
Total non-current borrowings	30,089	29,436	25,168	24,979
Total Borrowings	31,209	30,556	25,168	24,979

The bonds are measured at the amount of the net proceeds adjusted for the amortisation of the difference between the net proceeds and the redemption value of such bonds, using the effective interest method as follows:

	2012 €'000	2011 €'000
Group and Company		
Face value of the secured bonds	25,879	25,879
Issue costs	1,326	1,326
Accumulated amortisation	(615)	(426)
Closing net book amount	711	900
Amortised cost at 31 December	25,168	24,979

By virtue of a prospectus dated 4 September 2009, on 9 September 2009, the Group issued bonds with a face value of €100 each. The bonds are redeemable at par (€100 for each bond) and are due for redemption on 30 September 2016, but are redeemable in whole or in part, at the option of the Group at any date between 30 September 2014 and 30 September 2016. The bonds shall become due for final redemption on 30 September 2016, provided that the issuer reserves the right to redeem the bonds or any part thereof on any of the Designated Early Redemption Dates, as the Issuer may determine, on giving not less than thirty (30) days notice to Bondholders.

12. Borrowings - continued

Redemption of the bonds shall be made at the nominal value of the bonds. In addition, the Issuer reserves the right to purchase, from the market at any time after the issue, Bonds for cancellation.

The bonds constitute the general, direct, unconditional, unsubordinated and unsecured obligations of the Group and shall at all times rank pari passu without any priority or preference amongst themselves and with other unsecured debt other than subordinated debt, if any.

The bonds are senior to the loans granted by the shareholders to each subsidiary or affiliate. Such loans are subordinated to any and all claims of the creditors of the group companies including the bond holders.

The Listing Authority authorised the bonds as admissible to listing on the Second Tier Market of the Malta Stock Exchange pursuant to the Listing Rules by virtue of a letter dated 28 August 2009. The quoted market price as at 31 December 2012 for the bonds was €103.75 (2011: €101.5), which in the opinion of the directors fairly represents the fair value of these financial liabilities.

The ultimate shareholders' subordinated loans constitute a direct and unsecured interest in the Group, subordinated in accordance with the provisions of the subordinated instrument agreements and are subordinated to any unsecured and subordinated obligations of the Group. Claims in respect of the instruments are subordinated to all the present and future claims of all trade and other payables of the Group.

The interest on the ultimate shareholders subordinated loans will be payable only if declared by the board and if the Group has sufficient funds available to settle any obligations of the Group to which these instruments are subordinated.

The capital and interest are repayable at the discretion of the Group with a maximum repayment period of 30 years from the date the loans were granted to the Group.

The bank loan is secured by:

- (i) general hypothec on the Group's assets;
- (ii) pledge over future receivables from Melita p.l.c. deriving from the IP transit services agreement;
- (ii) pledge over the Company's bank accounts

The interest rate exposure of borrowings was as follows:

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Total borrowings:				
At fixed rates	29,206	28,553	25,168	24,979
At floating rates	2,003	2,003	-	-
	31,209	30,556	25,168	24,979

12. Borrowings - continued

Effective interest rates on bank loans and ultimate shareholders' subordinated loans at the end of the reporting period are:

	Group		Company	
	2012 %	2011 %	2012 %	2011 %
Bank loans	2.85	2.85	-	-
Ultimate shareholders' subordinated loan	12.83	12.83	-	-

13. Trade and other payables

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Current				
Trade payables	190	341	55	30
Accruals	705	676	503	499
Amounts due to related parties	1,165	934	76	33
Other taxes and social security	95	72	-	-
	2,155	2,023	634	562

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

14. Deferred taxation

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
At beginning of year	4	(9)	-	-
Credit to statement of comprehensive income (Note 19)	25	13	-	-
At end of year	29	4	-	-

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% for 2012 and 2011, deferred tax arises on the following temporary differences:

	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Temporary differences arising on fixed assets	29	4	-	-
At the end of the year	29	4	-	-

14. Deferred taxation - continued

The deferred tax asset arising on the tax loss carried forward of €976,163 (2010: €494,357) have not been recognised in these financial statements (Note 19).

15. Revenue

€3,651 thousand (2011: €3,004 thousand) of the group's revenue was derived from the sale of international bandwidth to Melita p.l.c and Melita Mobile Limited.

16. Expenses by nature

Year ended 31 December

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Cost of sales	2,025	1,781	-	-
Wages and salaries recharged by a related party	60	60	-	-
Depreciation (Note 5)	568	574	-	-
Other expenses	579	516	356	329
Total expenses	3,232	2,931	356	329

Auditor's fees

Fees charged by the auditor for services rendered during the financial period ended 31 December 2012 and 2011 relate to the following:

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Annual statutory audit	22	17	14	10

17. Finance income

Year ended 31 December

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Bank interest receivable	1	-	1	-
Interest due from related party	2,060	2,360	2,218	2,584
	2,061	2,360	2,219	2,584

18. Finance costs

	Year ended 31 December			
	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Interest on bank loans	50	64	-	-
Interest on ultimate shareholder loans	464	409	-	-
Interest on secured bonds	1,848	1,848	1,848	1,848
	2,362	2,321	1,848	1,848

19. Tax expense

	Year ended 31 December			
	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Deferred tax credit	(25)	(13)	-	-
Current tax - Group relief paid	221	68	-	-
	196	55	-	-

The tax on the Group's and Company's loss before tax differs from the theoretical amount that would arise using the basic tax rate applicable as follows:

	Year ended 31 December			
	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Profit before tax	856	836	290	682
Tax on profit at 35%	300	293	102	239
Tax effect of:				
Unrecognised temporary differences	(168)	(554)	(168)	(554)
Expenses not deductible for tax purposes	64	316	66	315
Tax expense in the accounts	196	55	-	-

At 31 December 2012, the company had unabsorbed tax losses of €976,163 (2011: €494,357).

Deferred income taxes are calculated on temporary differences under the liability method using a principle tax rate of 35%. Deferred tax assets are recognised to the extent that realisation of the related tax benefits through future taxable profits, is probable.

20. Earnings per share

Earnings per share is based on the profit after taxation attributable to the ordinary shareholders of the Group and the Company divided by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December			
	Group 2012	2011	Company 2012	2011
Net profit attributable to owners of the Company (€'000)	660	781	290	682
Weighted average number of ordinary shares in issue (Note 11)	4,676,400	4,676,400	4,676,400	4,676,400
Earnings per share (€)	0.14	0.17	0.06	0.15

21. Cash generated from operations

Reconciliation of operating profit/(loss) for the year to cash generated from operations:

	Year ended 31 December			
	Group 2012 €'000	2011 €'000	Company 2012 €'000	2011 €'000
Operating profit/(loss)	1,157	797	(81)	(54)
Adjustment for:				
Amortisation of capitalised bond issue expenses	189	189	189	189
Depreciation (Note 5)	568	574	-	-
Loss on disposal of property, plant and equipment	-	7	-	-
	1,914	1,567	108	135
Changes in working capital:				
Trade and other receivables	(1,166)	190	85	(86)
Trade and other payables	132	158	72	(1)
Cash generated from operations	880	1,915	265	48

Non-cash transactions

Group

Non-cash transactions, include €2,060,000 (2011: €2,360,000) which represent the interest on the amounts due from related party.

Company

Non-cash transactions, include €2,219,000 (2011: €2,584,000) which represent the interest on the amounts due from related party.

22. Related party transactions

Melita Capital p.l.c. forms part of the Superholdco Group which is owned by Superholdco Lux S.a.r.l. All companies forming part of the above groups are thus considered to be related parties.

Transactions entered into during the period, principally by the Group and Company with related parties, were as follows:

	Year ended 31 December			
	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Revenue from related parties	4,389	3,646	175	175
Management fees charged to subsidiary	-	-	100	100
Interest charged to related parties	2,059	2,360	2,059	2,360
Interest charged to subsidiary	-	-	159	223
Costs recharged by related parties	(188)	(112)	(76)	(83)
Interest charged by ultimate shareholder	(466)	(410)	-	-
Costs charged by other related parties	(18)	(15)	-	-

Year end balances arising from related party transactions are disclosed in Notes 9, 12 and 13.

23. Comparatives note

Comparative figures disclosed in the main statements of cash flows have been reclassified to conform with the current year's disclosure format for the purpose of fairer presentation.

24. Statutory information

Melita Capital p.l.c. is a public limited liability company and is incorporated in Malta.

The immediate parent company of Melita Capital p.l.c. is Superholdco Limited, a company registered in Malta, with its registered address at Gasan Centre, Mriehel By-Pass, Mriehel, Birkirkara.

The ultimate parent company and controlling party of Melita Capital p.l.c. is Superholdco Lux S.a.r.l., a company registered in Luxembourg, with its registered address at 65, Boulevard Grande Duchesse, Charlotte, L-1331.

The financial statements of the Melita Capital p.l.c. Group are included in the consolidated financial statements prepared by the intermediate parent.