

MELITA CAPITAL P.L.C.

Annual Report and Consolidated Financial Statements
31 December 2010

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Directors' report

The directors present their report and the audited financial statements of Melita Capital plc (the "Company") for the period ended 31 December 2010.

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 Superholdco Limited group.

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 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 period under review, interest receivable from the Affiliate amounted to €1.4 million and interest receivable from the Subsidiary amounted to €0.3 million. Interest payable on the bond and loan facility together with the amortisation of the related issue costs amounted to €2.3 million. The loss for the reporting period amounted to €0.476 million after deducting administrative expenses and taxation of €1.8 million and €0.009 million respectively.

Loss 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 €2.70.

Subsequent events

Capital Restructuring

As part of a two-phase capital restructuring exercise, on 21 December 2010 the entire issued share capital of the Company (save for one share held by Honey II Group Limited) was transferred to Superholdco Lux S.a.r.l., a company registered in Luxembourg having its registered address at 65, Boulevard Grande Duchesse Charlotte, L-1331 Luxembourg, as follows:

- a) GMT (Honey I) S.a.r.l. transferred 89,522 ordinary shares of a nominal value of €1.00 each to Superholdco Lux S.a.r.l.;
- b) M/C Ventures Partners VI, L.P. transferred 61,740 ordinary shares of a nominal value of €1.00 each to Superholdco Lux S.a.r.l.;
- c) Gee Five Limited transferred 21,168 ordinary shares of a nominal value of €1.00 each to Superholdco Lux S.a.r.l.; and
- d) Grand Canal Capital Limited transferred 3,969 ordinary shares of a nominal value of €1.00 each to Superholdco Lux S.a.r.l..

Directors' report - continued

Subsequent events - continued

Capital Restructuring - continued

Superholdco Lux S.a.r.l. is owned by the four shareholders listed above and by Honey II Group Limited which holds the remaining one share. The shareholders' respective holding in Superholdco Lux S.a.r.l. reflects the proportion applicable in respect of their shareholding in the Company prior to the share transfers referred to above taking effect.

The first phase of the capital restructuring exercise was followed immediately by a transfer of the shares in the Company held by Superholdco Lux S.a.r.l. to its subsidiary Superholdco Limited, a private limited liability company registered in Malta with company number C-50696 and having its registered office at Gasan Centre, Mriehel By-Pass, Birkirkara BKR3000, Malta.

Capital increase

On 21 December 2010, the shareholders advanced €4.5 million to the Company, with a view to this being converted into ordinary share capital. This 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.

Results and dividends

The statement of comprehensive income is set out on page 13. 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
3. Massimo Prelz
4. Robert Pierre Savignol
5. James Wade
6. Paul Connolly
7. Gary Quin

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' statement of responsibilities in relation to the financial statements

The directors are required by the Companies Act, 1995 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.

Directors' report - continued

Directors' statement of responsibilities in relation to the financial statements - continued

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, 1995. 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 period ended 31 December 2010 are included in the Annual Report 2010, which is made available on the group'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 2010, and of the financial performance and the cash flows for the period 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 face.

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. As at 31 December 2010, an amount of €25.9 million is due from Melita Mobile Limited. This amount has been deemed to be recoverable on the basis that the Group will successfully renegotiate its senior banking facilities. On the successful conclusion of the renegotiations, the shareholders, who have injected €3 million into Melita Mobile Limited in the first quarter of 2011, will inject a further €10 million during 2011. Furthermore, Melita plc will make available to Melita Mobile Limited cash resources of €14.5 million over 5 years, of which €2.5 million can be drawn in 2011. Taking cognisance of the factors outlined above, the directors are of the opinion that the use of the going concern assumption in the preparation of these financial statements is appropriate.


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 29 April 2011 and signed on its behalf by:



Joseph Gasan
Chairman



Robert Savignol
Director

Registered office: Gasan Centre, Imriehel By-Pass, Imriehel BKR 3000, Malta.

Corporate governance - Statement of compliance

Introduction

Pursuant to Listing Rule 5.97 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 period under review.

In deciding on the most appropriate manner in which to implement the Principles, the Board of Directors of Melita Capital Plc (the "Board") has taken cognisance of the company's size, nature and operations. The company does not have any employees. This limitation of size inevitably impacts on the structures required to implement the Principles, without however diluting the effectiveness thereof.

Compliance with the Principles

Good corporate governance is the responsibility of the Board of Directors as a whole, and has been and remains a priority for the Company. The Board has reviewed the Company's compliance with the Principles, and hereby provides its report thereon. 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.

The Board of Directors

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.

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 8 times during the period under review.

The directors who served on the Board during the period under review, together with an indication of their attendance at Board meetings held during such period, are as follows:

<i>Director</i>	<i>Attendance out of 8 Board meetings held</i>
Joseph Gasan (Chairman of the Board of Directors)	8
Timothy Simon Green	8
Massimo Prelz	8
Robert Pierre Savignol	8
James Wade	8
Paul Connolly	6
Gary Quin	8

All of the above hold the post of director in a non-executive capacity. Mr Paul Connolly and Mr Gary Quin, who were co-opted by the remaining five members of the Board, are considered by the Board of Directors to be independent non-executive members of the Board despite their respective roles within Grand Canal Capital Limited, which held an marginal 2.25% shareholding in the Company until the capital restructuring effected on 21 December 2010.

Corporate governance - Statement of compliance - continued

The Board of Directors - continued

The Company is party to a management and support services agreement (the "MSS Agreement") with Melita plc (C-12715) in connection with the provision by Melita plc of management services at the strategic and operational level of the Company's business. In terms of the MSS Agreement, the persons responsible for managing the Company are:

- Andrei Torriani (Chief Executive Officer with effect from the 1 January 2010)
- Michael Maltby (Chief Financial Officer with effect from 27 July 2009)
- Simon Montanaro (Chief Technical Officer since the Company's incorporation)

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 there at until such time as they are not 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.

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.

Roles and responsibilities

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.

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 period 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.

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.

Corporate governance - Statement of compliance - continued

Audit Committee - continued

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 23 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 Timothy Simon Green 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.

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 such meetings. In addition to the formal meetings, the Chairman of the audit committee updated the full board at every board meeting on any audit committee business.

Corporate governance - Statement of compliance - continued

Executive and other Committees

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 MSS Agreement referred to above, the Board has elected not to appoint an executive committee to assist the Board in the Company's operations. Furthermore, in view of the size and type of operation, the Board does not consider the Company to require the setting up of a nomination and, or remuneration committee.

Interest of the directors in the share 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 period 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, 1995, 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.

Appointment and election of directors

In terms of the Articles of Association of the Company in force during the period under review:

- for as long as GMT (Honey) 1 Sarl and Honey II Group Limited BVI) held shares having voting rights in the Company, together they were entitled at any time to appoint (and thereafter for any reason whatsoever remove and replace) two persons to the Board as non-executive directors;
- for as long as M/C Venture Partners VI, L.P. held shares having voting rights in the Company, it was entitled at any time to appoint (and thereafter for any reason whatsoever remove and replace) two persons to the Board as non-executive directors;
- for so long as Gee Five Limited held shares having voting rights in the Company, it was entitled at any time to appoint (and thereafter for any reason whatsoever remove and replace) one person to the Board as a non-executive director.

Following the change in shareholding in the Company referred to above, the new shareholders of the Company resolved to amend the Memorandum and Articles of Association of the Company to the effect that 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. The said new Memorandum & Articles of Association of the Company were approved by the Listing Authority on the 26 April 2011 and registered with the Registry of Companies on the 28 April 2011.

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.

Corporate governance - Statement of compliance - continued

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 period 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,

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.

Shareholdings in excess of 5%

Throughout the majority of the period under review, that is from the Company's registration until the 21 December 2010, GMT (Honey I) S.a.r.l. held 50.75% (89,522 ordinary shares) of the issued share capital of the Company, M/C Ventures Partners VI, L.P. held 35.00% (61,740 ordinary shares) and Gee Five Limited held 12.00% (21,168 ordinary shares).

On the aforesaid date, the above shareholders and Grand Canal Capital Limited (holder of the remaining 2.25% of the share capital in the Company) transferred their entire shareholding in the Company to Superholdco Lux S.a.r.l., a company incorporated in Luxembourg and owned by the same four shareholders listed above and by Honey II Group Limited which holds the remaining one share. Shortly thereafter, Superholdco Lux S.a.r.l. transferred its entire shareholding in the Company to its subsidiary Superholdco Limited, a private limited liability company registered in Malta with company number C-50696 and having its registered office at Gasan Centre, Mriehel By-Pass, Birkirkara BKR3000, Malta.

Corporate governance - Statement of compliance - continued

Relations with note and bondholders and the market

Pursuant to the company's statutory obligations in terms of the Maltese Companies Act, 1995 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.

During the period under review, the Company communicated with its bondholders through the following schedule of financial and other reporting in respect of the financial period commencing on the Company's date of registration:

- (i) Interim financial statements of the Company covering the period from incorporation until 31 December 2009 were published on 31 August 2010;
- (ii) Half yearly financial statements covering the period from 1 January 2010 until 30 June 2010 were published on 31 August 2010;
- (iii) A financial reporting update was provided by the Board in the form of a company announcement on 23 December 2010 following completion of the aforementioned restructuring exercise; and
- (iv) The present first audited financial statements of the Company, covering the financial period from incorporation until 31 December 2010.

In addition to the above, during the period under review the Company issued two newsletters to bondholders informing them of the updated position of the Company and its subsidiary and affiliate companies.

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

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

Approved by the Board on 29 April 2011 and signed on its behalf by:


Joseph Gasan
Chairman


Robert Savignol
Director

Independent auditor's report

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

Report on the Financial Statements

We have audited the financial statements of Melita Capital p.l.c. on pages 12 to 35 which comprise the statement of financial position as at 31 December 2010 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 pages 2 to 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 2010, 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1.1 – Basis of Preparation - which indicates that an amount of €25.9 million is due from Melita Mobile Limited. This amount has been deemed to be recoverable on the basis that the Group will successfully renegotiate its senior banking facilities. On the successful conclusion of the renegotiations, the shareholders, who have injected €3 million into Melita Mobile Limited in the first quarter of 2011, will inject a further €10 million during 2011. Furthermore, Melita plc will make available to Melita Mobile Limited cash resources of €14.5 million over 5 years, of which €2.5 million can be drawn in 2011. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Independent auditor's report - continued

Report on Other Legal and Regulatory Requirements - continued

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 4 to 9 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 

167 Merchants Street
Valletta
Malta

David Valenzia
Partner

29 April 2011

Statement of financial position

		Group	Company
		As at 31 December 2010 €'000	As at 31 December 2010 €'000
	Notes		
ASSETS			
Non-current assets			
Intangible assets	4	263	-
Property, plant and equipment	5	8,939	-
Investment in subsidiary	6	-	1
Available-for-sale investment	7	120	120
Loans and receivables	8	25,888	28,985
Total non current assets		35,210	29,106
Current assets			
Trade and other receivables	9	638	45
Cash and cash equivalents	10	182	120
Total current assets		820	165
Total assets		36,030	29,271
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	176	176
Capital contribution	12	4,500	4,500
Retained earnings		(476)	(758)
Total equity		4,200	3,918
Provision for liabilities and charges			
Deferred tax liabilities	15	9	-
Non-current liabilities			
Borrowings	13	28,836	24,790
Current liabilities			
Borrowings	13	1,120	-
Trade and other payables	14	1,865	563
Total current liabilities		2,985	563
Total liabilities		31,821	25,353
Total equity and liabilities		36,030	29,271

The notes on pages 16 to 35 are an integral part of these financial statements.

The financial statements on pages 12 to 35 were authorised for issue by the board on 29 April 2011 and were signed on its behalf by:


Joseph Gasan
Chairman


Robert Savignol
Director

Statement of comprehensive income

		Group	Company
		Period from 16 July 2009 to 31 December 2010 €'000	Period from 16 July 2009 to 31 December 2010 €'000
	Notes		
Turnover	16	4,388	275
Cost of sales	17	(1,945)	-
Gross profit		2,443	275
Administrative expenses	17	(1,849)	(610)
Operating profit/(loss)		594	(335)
Finance income	18	1,579	1,878
Finance costs	19	(2,640)	(2,301)
Loss for the period before tax		(467)	(758)
Tax expense	20	(9)	-
Loss for the period after tax		(476)	(758)
Loss per share	21	(2.70)	(4.30)

The notes on pages 16 to 35 are an integral part of these financial statements.

Statement of changes in equity

Company	Notes	Share capital €'000	Capital contribution €'000	Retained earnings €'000	Total €'000
Comprehensive income					
Loss for the period		-	-	(758)	(758)
Transactions with owners					
Issue of share capital	11	176	-	-	176
Capital contribution	12	-	4,500	-	4,500
		176	4,500	-	4,676
Balance at 31 December 2010		176	4,500	(758)	3,918

Group

Comprehensive income					
Loss for the period		-	-	(476)	(476)
Transactions with owners					
Issue of share capital	11	176	-	-	176
Capital contribution	12	-	4,500	-	4,500
		176	4,500	-	4,676
Balance at 31 December 2010		176	4,500	(476)	4,200

The notes on pages 16 to 35 are an integral part of these financial statements.

Statement of cash flows

		Group	Company
		Period from 16 July 2009 to 31 December 2010 €'000	Period from 16 July 2009 to 31 December 2010 €'000
	Notes		
Cash generated from/(used in) operations	22	2,896	420
Interest received	18	1,579	1,878
Interest paid	19	(2,640)	(2,301)
Net cash generated from/(used in) operating activities		1,835	(3)
Cash flows from investing activities			
Goodwill recognised upon acquisition	4	(263)	-
Purchase of property, plant and equipment	5	(10,130)	-
Proceeds from disposal of property, plant and equipment	5	353	-
Purchase of investment in subsidiary	6	-	(1)
Purchase of available-for-sale investment	7	(120)	(120)
Investments in loans and receivables	8	(25,888)	(28,985)
Net cash used in investing activities		(36,048)	(29,106)
Cash flows from financing activities			
Issue of share capital	11	176	176
Capital contribution from shareholders	12	4,500	4,500
Proceeds from bond issue	13	25,879	25,879
Bond issue cost	13	(1,326)	(1,326)
Proceeds from bank loans	13	2,003	-
Proceeds from ultimate shareholder subordinated loans	13	3,163	-
Net cash generated from financing activities		34,395	29,229
Net movement in cash and cash equivalents		182	120
Cash and cash equivalents at end of period	10	182	120

The notes on pages 16 to 35 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 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 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 2009. 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.

As at 31 December 2010, an amount of €25.9 million is due from Melita Mobile Limited. This amount has been deemed to be recoverable on the basis that the Group will successfully renegotiate its senior banking facilities. On the successful conclusion of the renegotiations, the shareholders, who have injected €3 million into Melita Mobile Limited in the first quarter of 2011, will inject a further €10 million during 2011. Furthermore, Melita plc will make available to Melita Mobile Limited cash resources of €14.5 million over 5 years, of which €2.5 million can be drawn in 2011. Taking cognisance of the factors outlined above, the directors are of the opinion that the use of the going concern assumption in the preparation of these financial statements is appropriate.

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.

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.

1. Summary of significant accounting policies - continued

1.2 Subsidiaries - continued

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

1.3 Foreign currency translation

(a) Functional and presentation currency

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

All foreign exchange gains and losses are presented in the income statement within 'other income/(expense)'.

1.4 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 of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is recognised separately within intangible assets, and is tested annually for impairment and carried at cost less accumulated impairment losses (note 1.5). 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.

1.5 Impairment of non-financial assets

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

1. Summary of significant accounting policies - continued

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 and certain indirect 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.

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 the profit or loss.

1.7 Financial assets

1.7.1 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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than 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 1.8 and 1.9).

(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 management intends to dispose of the investment within 12 months of the statement of financial position date. 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 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 carried at amortised cost using the effective interest method.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.1 Classification - continued

(b) Available-for-sale financial assets – continued

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

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

1.7.2 Recognition and measurement

The Group recognises a financial instrument in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Loans and receivables are initially recognised at fair value plus transaction costs. All regular way transactions in assets classified in the loans and receivables category are accounted for using settlement date accounting, i.e. on the date an asset is delivered to or by the entity. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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

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. If there is objective evidence that an impairment loss on loans and receivables has been incurred, 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 discounted at the financial asset's original effective interest rate.

1.8 Trade and other receivables

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 'selling and other direct 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 'selling and other direct expenses' in the profit or loss.

1. Summary of significant accounting policies - continued

1.9 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.

1.10 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.

1.11 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

1.12 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 collectibility is in doubt.

1.13 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, advertising, 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.

1.14 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.

1.15 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.

1. Summary of significant accounting policies - continued

1.15 Current and deferred tax - continued

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 substantially 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.

1.16 Revenue recognition

(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.

1.17 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.

1.18 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. Summary of significant accounting policies - continued

1.19 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.

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) 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.

ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates, comprising bank borrowings (refer to Note 13), 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. The Group's interest bearing assets relate to loans to subsidiaries (refer to Note 8) which are issued at the same terms and conditions as the loans from ultimate shareholders.

The Group has no significant interest-bearing assets other than amounts owed by subsidiaries subject to fixed interest rates (refer to Note 8). Fixed interest instruments comprise ultimate shareholders' loans (Note 13) 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 13) 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(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 2010 €'000	Company 2010 €'000
Loans and receivables category:		
Trade and other receivables (Notes 8 and 9)	26,526	29,030
Cash and cash equivalents (Note 10)	182	120

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.

During the period under review, the Group did utilise all the funds available to it through the bond issue.

The Group's 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.

(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 13) and trade and other payables (Note 14). 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 fellow subsidiary where matching of cash inflows and outflows arising from expected maturities of financial instruments are assessed on an annual basis.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The table below analyses the below 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 2010					
Unsecured bonds	24,790	36,518	1,850	5,551	29,117
Borrowings	5,166	157,286	3,322	1,985	151,980
Trade and other payables	3,275	3,275	3,275	-	-
	33,231	197,080	8,447	7,536	181,097
Company					
31 December 2010					
Unsecured bonds	24,790	36,518	1,850	5,551	29,117
Trade and other payables	563	563	563	-	-
	25,353	37,081	2,413	5,551	29,117

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 Groups equity, as disclosed in the statement of financial position, constitutes its capital. The Group maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Group's activities and the extent of borrowings or debt, the capital level as at the end of the reporting period is deemed adequate by the directors.

2.3 Fair values of financial instruments

At 31 December 2010 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.

Included in the amounts receivable, is an amount due of €25.9 million from Melita Mobile Limited. The directors expect this amount to be recoverable following the review of the business plans prepared for Melita Mobile Limited that assume that the Group will successfully renegotiate its senior banking facilities. On the successful conclusion of the renegotiations, the shareholders, who have injected €3 million in the first quarter of 2011, will inject a further €10 million during 2011. Furthermore, Melita plc will make available to Melita Mobile Limited cash resources of €14.5 million over 5 years, of which €2.5 million can be drawn in 2011.

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	263

During the period, 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.

5. Property, plant and equipment

Group	Property, plant and equipment €'000
Year ended 31 December 2010	
Assets taken over at acquisition	9,645
Additions	485
Disposals	(353)
Depreciation for the period	(874)
Depreciation released on disposal	36
Closing net book amount	8,939
At 31 December 2010	
Cost	9,777
Accumulated depreciation	(838)
Net book amount	8,939

Included with plant and equipment, is interest capitalised until the commencement of operations amounting to €387,077.

6. Investment in subsidiary

Company	2010 €'000
Period ended 31 December 2010	
Closing cost and carrying amount	<u>1</u>

The subsidiary at 31 December 2010 is shown below:

	Registered office	Class of shares held	Percentage of shares held %
Melita Infrastructure Limited	Gasán Centre Mriehel By-Pass Mriehel	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
Period ended 31 December 2010	
Closing cost and carrying amount	<u>120</u>

The available-for-sale investment at 31 December 2010 is shown below:

	Registered office	Class of shares held	Percentage of shares held %
Melita Mobile Limited	Gasán Centre Mriehel By-Pass Mriehel	Ordinary Shares	30

8. Loans and receivables

	Group 2010 €'000	Company 2010 €'000
Amounts due from subsidiary undertaking	-	3,097
Amounts due from related party	25,888	25,888
	<u>25,888</u>	<u>28,985</u>

9. Trade and other receivables

	Group 2010 €'000	Company 2010 €'000
Prepayments	47	-
Amounts due from related parties	588	45
Other receivables	3	-
	<hr/> 638	<hr/> 45

10. Cash and cash equivalents

For the purposes of the statement of cash flows, the period-end cash and cash equivalents comprise the following:

	Group 2010 €'000	Company 2010 €'000
Cash at bank and in hand	182	120
	<hr/>	<hr/>

11. Share capital

Group and Company	2010 €'000
Authorised	
1,000,000 ordinary shares of € 1 each	1,000
	<hr/>
Issued and fully paid	
176,400 ordinary shares of € 1 each	176
	<hr/>

12. Capital contribution

Group and Company	2010 €'000
Capital contribution at 31 December	4,500
	<hr/>

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.

13. Borrowings

	Group 2010 €'000	Company 2010 €'000
Current		
Bank loan	1,120	-
Total current borrowings	1,120	-
Non-current		
7.15% bonds 2014-2016	24,790	24,790
Bank loans	883	-
Ultimate shareholders' subordinated loans	3,163	-
Total non-current borrowings	28,836	24,790
Total Borrowings	29,956	24,790

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:

	2010 €'000
Group and Company	
Face value of the secured bonds	25,879
Issue costs	1,326
Accumulated amortisation	(237)
Closing net book amount	1,089
Amortised cost at 31 December	24,790

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. 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.

13. Borrowings - continued

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 2010 for the bonds was 100.15, 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 ultimate shareholders subordinated loans 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) comfort letter by the shareholders;
- (iii) pledge over future receivables from Melita P.L.C. deriving from the IP transit services agreement;
- (iv) pledge over the Company's bank accounts

The interest rate exposure of borrowings was as follows:

	Group 2010 €'000	Company 2010 €'000
Total borrowings:		
At fixed rates	27,953	25,879
At floating rates	2,003	-
	29,956	25,879

13. Borrowings - continued

Effective interest rates at the end of the reporting period are:

	Group 2010 %	Company 2010 %
Bonds 2014 - 2016	7.15	7.15
Bank loans	2.52	-
Ultimate shareholders' subordinated loan	12.83	-

14. Trade and other payables

	Group 2010 €'000	Company 2010 €'000
Current		
Trade payables	158	35
Accruals	821	503
Amounts due to related parties	744	25
Other taxes and social security	142	-
	1,865	563

15. Deferred taxation

	Group 2010 €'000	Company 2010 €'000
At beginning of year	-	-
Charge to statement of comprehensive income (Note 20)	9	-
At end of year	9	-

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% for 2010, deferred tax arises on the following temporary differences:

	2010 €'000	2009 €'000
Temporary differences arising on fixed assets	23	-
Temporary differences arising on unabsorbed capital allowances	(14)	-
At the end of the year	9	-

16. Revenue

All the group's revenue was derived from the sale of international bandwidth to Melita p.l.c and Melita Mobile Limited.

17. Expenses by nature

	Group Period from 16 July 2009 to 31 December 2010 €'000	Company Period from 16 July 2009 to 31 December 2010 €'000
Wages and salaries recharged by a related party	141	-
Depreciation	874	-
Other expenses	2,779	610
Total expenses	3,794	610

Auditor's fees

Fees charged by the auditor for services rendered during the financial period ended 31 December 2010 relate to the following:

	Group 2010 €'000	Company 2010 €'000
Annual statutory audit	16	10
Other assurance services	15	15
Tax advisory and compliance services	7	5
	38	30

18. Finance income

	Group Period from 16 July 2009 to 31 December 2010 €'000	Company Period from 16 July 2009 to 31 December 2010 €'000
Interest receivable	1,579	1,878

19. Finance costs

	Group Period from 16 July 2009 to 31 December 2010 €'000	Company Period from 16 July 2009 to 31 December 2010 €'000
Interest on bank loans	144	-
Interest on ultimate shareholder loans	195	-
Interest on secured bonds	2,301	2,301
	<u>2,640</u>	<u>2,301</u>

20. Tax charge

	Group Period from 16 July 2009 to 31 December 2010 €'000	Company Period from 16 July 2009 to 31 December 2010 €'000
Deferred tax expense	9	-
	<u>9</u>	<u>-</u>

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:

	Group Period from 16 July 2009 to 31 December 2010 €'000	Company Period from 16 July 2009 to 31 December 2010 €'000
Loss before tax	(467)	(758)
Tax on loss at 35%	(163)	(265)
Tax effect of: Unrecognised temporary differences	172	265
Tax charge in the accounts	<u>9</u>	<u>-</u>

21. Loss per share

Loss per share is based on the loss 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.

	Group 2010	Company 2010
Net loss attributable to owners of the Company (€'000)	(476)	(758)
Weighted average number of ordinary shares in issue (Note 11)	176,400	176,400
Loss per share (€)	(2.70)	(4.30)

22. Cash generated from operations

Reconciliation of operating profit/(loss) for the period to cash operations:

	Group Period from 16 July 2009 to 31 December 2010 €'000	Company Period from 16 July 2009 to 31 December 2010 €'000
Operating profit/(loss)	594	(335)
Adjustment for:		
Amortisation of capitalised bond issue expenses	237	237
Depreciation	874	-
Gain on disposal of property, plant and equipment	(36)	-
	1,669	(98)
Changes in working capital:		
Trade and other receivables	(638)	(45)
Trade and other payables	1,865	563
Cash generated from operations	2,896	420

23. Related party transactions

Melita Capital plc 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.

All companies forming part of the Superholdco group are considered to be related parties due to common shareholding.

23. Related party transactions - continued

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

	Group Period from 16 July 2009 to 31 December 2010 €'000	Company Period from 16 July 2009 to 31 December 2010 €'000
Revenue from group companies	4,388	175
Management fees charged to subsidiaries	-	100
Interest charged to group companies	1,441	1,741
Interest charged to subsidiaries	-	300
Costs recharged by group companies	346	83

24. Subsequent events

As part of a two-phase capital restructuring exercise, on 21 December 2010 the entire issued share capital of the Company (save for one share held by Honey II Group Limited) was transferred to Superholdco Lux S.a.r.l., a company registered in Luxembourg having its registered address at 65, Boulevard Grande Duchesse Charlotte, L-1331 Luxembourg, as follows:

- a) GMT (Honey I) S.a.r.l. transferred 89,522 ordinary shares of a nominal value of €1.00 each to Superholdco Lux S.a.r.l.;
- b) M/C Ventures Partners VI, L.P. transferred 61,740 ordinary shares of a nominal value of €1.00 each to Superholdco Lux S.a.r.l.;
- c) Gee Five Limited transferred 21,168 ordinary shares of a nominal value of €1.00 each to Superholdco Lux S.a.r.l.; and
- d) Grand Canal Capital Limited transferred 3,969 ordinary shares of a nominal value of €1.00 each to Superholdco Lux S.a.r.l..

Superholdco Lux S.a.r.l. is owned by the four shareholders listed above and by Honey II Group Limited which holds the remaining one share. The shareholders' respective holding in Superholdco Lux S.a.r.l. reflects the proportion applicable in respect of their shareholding in the Company prior to the share transfers referred to above taking effect.

The first phase of the capital restructuring exercise was followed immediately by a transfer of the shares in the Company held by Superholdco Lux S.a.r.l. to its subsidiary Superholdco Limited, a private limited liability company registered in Malta with company number C-50696 and having its registered office at Gasan Centre, Mriehel By-Pass, Birkirkara BKR3000, Malta.

On 21 December 2010, the shareholders advanced €4.5 million to the Company, with a view to this being converted into ordinary share capital. This 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.

25. Contingencies and commitments

At 31 December 2010, the Group was in dispute with the Commissioner of VAT over amounts claimed by the latter amounting to €1.3 million, and for which no provision has been made in these accounts. The Group has appealed the assessments raised by the Commissioner of VAT and the directors are of the opinion, following advice obtained, that they have strong grounds to support their appeal.

26. 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 Ltd, 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 pls is Superholdco Lux S.A.R.L., a company registered in Luxembourg, with its registered address at 65, Boulevard Grande Ruchesse, Charlotte, L-1331.

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