REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Promoting Transparency and Accountability

KNAO

For the Parliament and the People of Kiribati

Telecom Services Kiribati Limited
For the Year Ended 31st March 2008

KIRIBATI NATIONAL AUDIT OFFICE

August 2012

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KIRIBATI NATIONAL AUDIT OFFICE

Promoting Transparency and accountability for the Parliament and the People of Kiribati

Audit Report

To the readers of Telecom Services Kiribati Limited's financial statements for the year ended 31 March 2008

The Auditor-General, Mrs Matereta B Raiman, is the auditor of the Telecom Services Kiribati Limited (TSKL).

The audit covered the Company's compliance with the requirements of Part VII of the Public Finances (Control and Audit) 1981 and Company Act 1979 that apply to the financial statements of the TSKL for the year ended 31 March 2008.

Qualification

In our opinion, there was a limitation of scope from lack of documentation and explanations to support the following balances in the financial statements.

Specifically the limitation of scope was due to the following matters:

- No third party confirmation from Telstra and Telecom on the debit and credit balances on the balance sheet and the corresponding inpayment/outpayment values in the profit and loss statement.
- Contigencies could not be confirmed due to no legal confirmation letter being responded to by TSKL's lawyer.
- Insufficient contract management to allow us to determine an accurate and complete level of commitments.
- Unable to verify internet revenue of $596,462 due to insufficient information provided for audit.

- The corresponding reconciliation of the cashflow statement on the net surplus/(deficit) was not available.

Qualification - Adverse Opinion

In my opinion, *except for* the effects on the financial statements of matters referred to in the qualification paragraph, the financial statements of the Telecom Services of Kiribati for the year ended 31 March 2008:

- Comply with generally accepted accounting practice as they apply in Kiribati;
- Fairly reflect the results of its operations and cash flows for year ended 31 March 2008;
- Fairly reflect the company's financial position for year ended 31 March 2008.

Based on our examination the company has not kept proper accounting records for the year ended 31 December 2008.

The audit was completed on 16 August 2012, and was the date at which our opinion was expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the International Organisation of Supreme Audit Institution's (INTOSAI) Auditing Standards, which incorporate the International Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;

- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice. The financial statements must give a true and fair view of the financial position of the company as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Public Finance (Control and Audit) Act 1981 and Company Act 1979.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from the Public Finance (Control and Audit) Act 1981.

Independence

When carrying out the audit we followed the independence requirements of the Kiribati National Audit Office, which incorporate the independence requ rements of the International Standards of Auditing.

Other than the audit, we have no relationship with or interests in the Company.

Mrs Matereta. Raiman
Auditor General
Kiribati National Audit Office

TELECOM SERVICES KIRIBATI Limited
INCOME STATEMENT
For the year ended 31 March 2008

	Note	2008 A$	2007 A$
Income			
Telephone revenue	3.1	7,740,025.33	8,234,640.18
Other operating income	3.2	(9,297.74)	447,721.65
		7,730,727.59	8,682,361.83
Less: Expenses			
Personnel expenses	4.1	1,855,185.06	2,035,521.43
Depreciation expense	4.2	1,483,414.00	1,328,132.00
Other operating expenses	4.3	2,450,334.83	3,884,516.53
		5,788,933.89	7,248,169.96
Profit from operations		1,941,793.70	1,434,191.87
Net financing costs	5	30,896.55	53,694.44
Profit before tax expense		1,972,690.25	1,487,886.31
Less: Income tax expense	6	685,441.59	515,760.21
Operating profit after income tax		1,287,248.66	972,126.10

Telecom Services Kiribati Limited
Balance Sheet
As at 31 March 2008

	Note	2008	2007
		A$	A$
Current Assets			
Cash	7.1	88,188.72	1,258,498.34
Receivables	7.2	4,055,200.62	4,852,708.59
Inventories	7.3	1,119,659.98	1,000,747.47
Total current assests		5,263,049.32	7,111,954.40
Non-current assests			
Plant and equipment	8.1	11,098,318.30	10,165,426.71
Deferred tax	8.2	109,385.00	109,385.00
		11,207,703.30	10,274,811.71
Total Assets		16,470,752.62	17,386,766.11
Current Liabilities			
Clearing accounts	9.1	(75,371.76)	(45,602.29)
Creditors & accruals	9.2	1,276,646.78	2,174,559.89
Provisions	9.3	3,336,669.91	3,657,742.20
		4,537,944.93	5,786,699.80
Long Term Liabilities			
Borrowing	9.4	3,458,464.59	4,296,254.87
Net Assests		**8,474,343.10**	**7,303,811.44**
Shareholder's equity			
Retained profits	10.1	4,899,810.10	3,729,278.44
Share capital	10.2	3,574,533.00	3,574,533.00
		8,474,343.10	**7,303,811.44**

Telecom Services Kiribati Limited
Directors' Report

The directors present their report together with the financial statements of the Telecom Services Kiribati Limite ("the company") for the year ended 31 March 2008 and the auditors' report thereon.

Directors

The directors of the company in office at the date of this report are:

Mr Elliot Ali (Chairman)
Mrs Tarsu Murdoch
Mr Inatoa Teebania
Mr Uera Rabaua
Mr Ieronimo Kienene

The above Directors were appointed in March 2008.

State of affairs

In the opinion of the directors the accompanying balance sheet gives a true and fair view of the state of affairs c the Company as at 31 March 2008 and the accompanying profit and loss account gives a true and fair view of th results of the Company and statement of cash flows for the year then ended.

Principal activities

The principal activities of the company are to develop, expand and operate and manage on commercial principles the domestic and international telecommunications services and systems of Kiribati.

Operating results for the period

The operating profit after income tax for the year ended 31 March 2008 was $1,287,249 (2007: $972,126).

Dividends

The directors recommend that no dividends be paid for the year ended 31 March 2008 (2007: $nil).

Reserves

The directors recommend that no amounts be transferred to or from reserves.

Telecom Services Kiribati Limited
Directors' Report (Continued)

Events subsequent to year end

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Dated at Tarawa this 31 st day of March 2011

Signed in accordance with a resolution of the directors:

Director

Director

Telecom Services Kiribati Limited
Statement of cash flows
For the year ended 31 March 2008

	Note	2008	2007
		A$	A$
Cash flows from operating activities			
Cash was provided from:			
Domestic billings		5,807,247.11	6,678,424.27
Inpayments		814,222.50	314,838.18
Interest received		30,896.55	53,694.44
Government Grant			720,184.42
Other income		2,430,399.92	1,826,602.28
		9,082,766.08	9,593,743.59
Payments were made for			
Direct costs		15,685.58	201,995.77
Income taxes paid		250,000.00	680,000.00
Interest paid		382,950.08	563,221.60
Network costs		689,790.68	498,224.81
Operating costs		4,202,210.36	4,811,553.51
		5,540,636.70	6,754,995.69
Net cash provided by operating activities		3,542,129.38	2,838,747.90
Cash Flows from investing activities			
Payment for plant and equipment		-3,376,369.00	-1,672,189.00
Proceeds from sale of non-current assets		4,397.00	4,220.00
Net cash used in investing activities		-3,371,972.00	-1,667,969.00
Cash Flows from financing activities			
Proceeds from borrowing		0.00	0.00
Repayment of borrowings		-1,223,750.00	-1,157,000.00
Payment for dividend		-116,717.00	-500,000.00
Net cash used in financing activities		-1,340,467.00	-1,657,000.00
Net increase/(decrease) in cash held		-1,170,309.62	-486,221.10
Cash at the beginning of the financial year		1,258,498.34	1,744,719.44
Cash at the end of the financial year	7.1	88,188.72	1,258,498.34

Telecom Services Kiribati Limited

Notes to and forming part of the financial statements

For the year ended 31 March 2008

1. **Significant accounting policies**

Telecom Services Kiribati Limited is an entity domiciled in the Republic of Kiribati.

(a) **Statement of compliance**

The financial statements have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee ("IASC"), interpretations issued by the Standing Interpretations Committee of the IASC and the requirements of the Kiribati Law.

(b) **Basis of preparation**

The financial statements are presented in Australian dollars. They are prepared on the historical cost basis.

(c) **Foreign currencies**

Foreign currency transactions are translated to Australian dollars at the rate of exchange ruling at the date of the transaction.

Amounts receivable and payable in foreign currency are translated at the rate of exchange ruling at balance date. Gains and losses on revaluation have been included in the profit and loss statement as part of the operating profit.

(d) **Plant and Equipment**

(i) *Owned assets*

Items of plant and equipment are stated at cost less accumulated depreciation.

(ii) *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of plant and equipment. The estimated useful lives are as follows:

Building	5%
Plant and Equipment	10-20%
Motor vehicle	20%
Furniture and fittings	10%
Office and training equipment	10%
Air conditioners	33.3%

(iii) *Subsequent expenditure*

Subsequent expenditure on assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

1. Significant accounting policies (continued)

(e) Trade and other receivables

Trade, traffic and other receivables are stated at their cost less impairment losses. The carrying amount of these assets is reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each balance date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

(f) Inventories

Inventories comprise communication plant spare components, phonecards, mobiles and other supplies held principally for the maintenance of plant and equipment and resale. Obsolete inventories are written off against revenue. Inventories are stated at the lower of cost and net realisable value. A provision for obsolescence based on the following rates are created:

4 years or older	100%
3 years	75%
2 years	50%
1 year	25%

(g) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. For the purpose of statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(h) Capital

(i) Date of incorporation

Telecom Services Kiribati Limited was incorporated on 1 November 1990.

The Government of the Republic of Kiribati owns 100% of the capital of the company.

(ii) Dividends

Dividends are recognised as a liability on an accrual basis in the period in which they are declared.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time.

1. Significant accounting policies (continued)

(i) Employee Benefits

(i) Annual leave

Provision for annual leave is calculated at balance date based on the current rate of remuneration. Addition to provision for annual leave is recognised in the income statement.

(ii) Superannuation

Contributions to superannuation plan are recognised as an expense in the income statement.

(j) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Employee Entitlement

Refer to note i (i).

(ii) Doubtful debts

The collectability of debts is assessed at year-end and specific provision is made for any doubtful accounts. A general provision for doubtful debts of 5 per cent (net of specific provisions) is also brought to account for accounts receivable.

(k) Trade and other payables

Trade, traffic and other payables are stated at their cost.

(l) Revenue

(i) Domestic Billing

Revenue from domestic billing includes telephone, internet, telegram, phone rental and installation income. Other revenue streams are sale of phone cards, mobile phones, recharge cards, services and maintenance charges. Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the customer. For calls made and unbilled, revenue is accrued and recognised in the income statement. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

(ii) In-payments

In-payments income arising from incoming traffic is recognised as earned.

1. **Significant accounting policies (continued)**

(m) **Expenses**

Out-payments

Out-payments arising from outgoing traffic is recognised as incurred.

(n) **Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The company adopts the income statement liability method of tax effect accounting.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) **Comparative information**

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosure.

2. Segment reporting

The company's business segment is providing, developing and maintaining telecommunications services. The company only operates in the Republic of Kiribati Telecom Services Kiribati Limited

Telecom Services Kiribati Limited
Notes forming part of financial statement for the year 31st March 2008

	Note	2008 A$	2007 A$
Revenue			
Domestic billing	3.1		
Telephone		2,744,668.74	3,492,001.37
Telegram		135,613.86	131,377.38
TSKL Fixed Wireless		22,058.60	
Rental		868,831.58	1,073,061.12
Directory sales		11,552.00	22,597.00
Installation fees		4,290.00	26,950.00
Equipment sales		349,984.29	177,946.93
International DOT KI		-	(108,605.00)
Audio text		-	-
Recharge Card-CPDI (Prepaid)		63,405.61	
Reconnection fees		5,680.60	16,419.15
Maintenance service fees			-
Telegraph stationery		48,239.85	50,032.29
Phone card sales		94,858.35	130,184.20
Telephone inpayment		837,688.62	896,585.11
Internet		596,462.04	589,574.78
Mobile calls		1,956,691.19	1,736,515.85
		7,740,025.33	**8,234,640.18**
Other operating income	3.2		
Other income		(9,297.74)	770,920.37
Rent		-	11,712.28
Sales Adjustment			(334,911.00)
		(9,297.74)	**447,721.65**
		7,730,727.59	**8,682,361.83**
Expenses:			
Personnel expenses	4.1		
Salaries & wages		1,754,370.44	1,849,129.22
Annual leave		8,325.77	93,533.70
Provident fund contribution		92,488.85	92,858.51
		1,855,185.06	**2,035,521.43**
Depreciation expense	4.2	**1,483,414.00**	**1,328,132.00**
Other operating expense	4.3		
Telephone Outpayment		15,599.27	201,995.77
Cost of Sales		364,502.83	170,387.42
Write off Redundant Stock		-	3,163.44
Audit Fees and Expenses		-	47,820.78
Asset Expenses		29.10	
Bad & Doubtful Debt		(382,351.36)	247,376.48
Bank Charges & Commission		45,722.31	38,966.92
Advertisement		25,357.25	49,656.15
Board Expenses		16,810.38	21,098.15
Consultancy Fee\Expenses		2,102.64	2,265.54
Cleaning		6,934.30	4,884.98

Cleaning			6,934.30	4,884.98
Exchange Rate Variation			(23,134.93)	3,386.14
Computer Support			28,845.25	57,112.04
Directory Expenses			122.27	14,515.09
Disposal of fixed asset			4,397.00	2,643.00
Entertainment			(3,004.15)	7,019.90
Freight			14,621.51	44,019.74
Freight paid by suppliers			231.40	3,239.52
General Expenses			2,909.95	3,261.25
Hire of Transport			41,439.01	43,916.20
Insurance			29,444.22	113,159.18
Internet Lease			171,288.84	142,071.17
Loan interest			382,950.08	404,897.00
Legal Expenses			8,968.50	18,771.00
Land Lease			749.80	749.80
Lease Fees (space tower rental)			13,200.00	13,200.00
Licence Fees			11,700.00	12,450.00
Loss on disposal			-	
Maint - Building			29,620.20	27,491.22
Maint-Office Equip/Machinery			3,239.80	17,881.12
New Recruitment			900.00	
Maint - Plant			333,980.52	554,348.05
Maint - VHF and HF			19,858.77	40,017.04
Management Fee			-	-
Maritime Traffic			6,548.49	6,136.61
On cost expenses			(5,858.72)	(20,403.52)
Other expenses paid by supp.			0.01	
Payroll Loss			-	-
Postage			2,586.15	3,418.80
Power - Electricity			383,299.24	348,928.46
Power - Fuel			(58.00)	2,225.80
Promotion			48,346.08	27,049.33
Redundancy Expenses			-	15,156.60
Relocation Expenses			8,191.50	9,965.81
Rent Expenses			-	1,160.00
Retirement/Death Benefit			8,167.65	10,463.01
Reward and Recognition			17,398.65	180.00
Satellite Rental			295,426.71	350,017.03
Stationery and Office Supplies			64,041.75	106,798.98
Stock			(12,203.13)	73,490.30
Subscription and Publication			2,855.73	28,461.48
Subsidised House Rent			12,948.00	13,455.00
Training Expenses			121,160.45	234,036.18
Travel Expenses			180,413.33	345,326.62
Vehicle Expenses - Fuel			58,602.57	79,447.33
Vehicle Expenses-Maintenance			48,118.97	48,923.67
Water			121.20	39.12
Outerisland study				(132,698.73)
Uniform			2,794.00	171.80
CEO Expenses			40,399.44	21,002.77
Suspense Account			-	-

		2,450,334.83	3,884,516.54
Financing	5		
Interest received		30,896.55	53,694.44
Income tax expense	6	685,441.59	515,760.21
Reconciliation of effective tax rate			
Profit before tax - $1756752.24			
Income tax using the company tax rate			
Current assets			
Cash	7.1		
BOK - Current (A/C 260048)		(666,247.52)	424,449.62
BOK-Project (A/C 617411)		10,569.17	56,951.50
BOK - Credit Card - A/C 502501		11,500.86	7,326.98
BOK-Xmas Current A/C		11,006.38	4,422.70
BOK-ARF Current A/C		10,000.00	10,000.00
Petty Cash		223.90	205.20
Cash In Hand		155.17	155.17
Cash in transit		-	-
Interest Bearing Deposits		710,980.76	754,987.17
		88,188.72	1,258,498.34
Receivables	7.2		
Miscellaneous Debtors		3,293,200.64	4,301,969.66
Debtors from last year		(242,997.24)	(1,086,631.31)
Telstra debit		677,532.91	402,481.70
Telecom New Zealand debit			563,121.57
Salary Advances		21,596.18	17,767.37
Travel Advances		(420.00)	(200.00)
Sundry Debtors		168,805.00	150,505.00
Prepayments		119,235.53	483,722.00
TSKL Staff-mobile h/purchase		(1,725.00)	
Internal Affairs Lan		19,972.60	19,972.60
		4,055,200.62	4,852,708.59
Inventories	7.3		
Stock on Hand		723,358.98	689,311.98
Goods in Transit		309,104.33	309,104.33
Stocktake Variance		87,196.67	2,331.16
		1,119,659.98	1,000,747.47
Non-current assets			
Plant & Equipment	8.1		
Land & Building			
TSKL Building		186,357.92	186,357.92
provision for depreciation		(15,868.00)	(6,550.00)
Air conditioners		254,791.95	237,190.95
provision for depreciation		(224,553.00)	(208,818.00)
Furn & Fittings		59,276.82	56,856.82
provision for depreciation		(43,444.00)	(39,915.00)
Vehicle		569,169.99	481,921.29
provision for depreciation		(298,339.00)	(283,335.00)
Office and Training Equipment		2,168,091.53	2,049,317.58
Prov for deprn - office traning equip		(1,845,212.00)	(1,711,500.00)
Earth Station Plant		2,657,372.87	2,524,086.37

Prov for deprn - earth station plant		(1,409,378.00)	(966,068.00)
Exchange Plant\Microwave Tower		613,823.77	493,504.13
Prov for deprn - exchange plant\microwave		(412,144.00)	(355,430.00)
Radio Plant		184,673.99	171,532.30
Prov for deprn - radio plant		(143,523.00)	(131,996.00)
Subscriber Equipment		7,244,545.61	6,289,907.49
Prov for deprn - subscriber equipment		(2,844,451.00)	(2,225,703.00)
External Plant		15,865.72	
Prov for deprn - External Plant		(107,199.00)	
Work In Progress		4,488,459.13	3,604,066.86
		11,098,318.30	**10,165,426.71**
Future income tax benefit	8.2	**109,385.00**	**109,385.00**
Current Liabilities			
Clearing accounts:	9.1		
Payroll		(15,655.61)	(15,758.01)
PAYE		(7,591.96)	727.67
TAX ARREARS		(54,882.95)	(48,047.45)
KPF		(5,633.67)	281.70
Housing Rents		(124.25)	193.98
Town Council Rates		10.69	8.84
Staff Bank Loan		50.00	50.00
Staff DBK Loan		(927.11)	(601.41)
Ministry of Finance-W/hold Tax		(984.49)	(424.25)
TKL		-	
Staff Life insurance		(908.34)	(2,082.90)
Staff Club		(2,223.23)	79.06
Incorrect postings (to fix)		15,965.29	22,901.36
Contra A/C		1,663.61	1,480.96
Debtors to Transfer		602.94	572.94
Non Stock Control account		(4,732.68)	(4,984.78)
		(75,371.76)	**(45,602.29)**
Creditors:	9.2		
Trade Creditors		(567,733.45)	128,319.33
Creditors not posted last year		(65,476.31)	(107,735.07)
Bank of Kiribati Curr act O/D		-	-
Purchase Order Liability		356,778.34	356,778.34
Goods Received Liability		1,292,311.15	1,141,527.90
Telstra Credit (not included in the hard copy)		-	
Telecom New-Zealand		(317,566.01)	-
Accrued Expenses		97,913.18	179,974.71
Telephone Special Deposits		410,176.72	404,901.52
Internet Special Deposit		49,226.99	49,426.99
Mobile Special Deposit		20,874.17	21,224.17
Inmarsat Special Deposit		400.00	400.00
Deferred Income tax Expense		(258.00)	(258.00)
Government Grant\Aid		-	-
		1,276,646.78	**2,174,559.89**

Provisions:	9.3		
Recreation Leave		111,068.01	102,742.24
Tax		981,219.57	555,777.98
Leave Grant		14,000.00	17,387.50
Obsolete Stock		212,396.20	224,599.33
Dividends		-	-
Provision for Doubtful Debts		2,017,986.13	2,757,235.15
		3,336,669.91	3,657,742.20
Long Term Liabilities	9.4		
Bank Loan (A\C 260059)		3,458,464.59	4,296,254.87
Total Liabilities		7,996,409.52	10,082,954.67
Net Assets		8,474,343.10	7,303,811.44
Shareholder's equity:			
Retained profits		3,612,561.44	3,257,152.34
Profit		1,287,248.66	972,126.10
Reversal of Capital contribution			(500,000.00)
Total Retained earnings	10.1	4,899,810.10	3,729,278.44
Share capital	10.2	3,574,533.00	3,574,533.00
		8,474,343.10	7,303,811.44

Notes to and forming part of the financial statements
For the year ended 31 March 2008

10. (a)Shareholders equity

Reconciliation of movement in shareholders' equity

	Share Capital A$	Retained Profits A$	Total A$
Balance at 1 April 2006	3,574,533	3,257,152	6,831,685
Total recognised gains and losses		972,126	972,126
Retained earnings transfer to share capital			
Reduction in retained earnings		(500,000)	(500,000)
Balance at 31 March 2007	3,574,533	3,729,278	7,303,811
Balance at 1 April 2007	3,574,533	3,729,278	7,303,811
Total recognised gains and losses	-	1,287,249	1,287,249
Reversal of capital contribution		(116,717)	(116,717)
Balance at 31 March 2008	3,574,533	4,899,810	8,474,343

(b)Statement of movement in equity for the

Year ended 31 March 2008	**2008**	**2007**
Opening Equity	7,303,811	6,831,685
Surplus/(deficit) for the year	1,287,249	972,126
Reversal of capital contribution	(116,717)	(500,000)
Closing Equity	8,474,343	7,303,811

11.Earnings per share

	2008 A$	2007 A$
Net profit	1,287,249	972,126
Weighted average number of issues ordinary shares used in the calculation of basic and diluted earnings per share	3,574,533	3,574,533
Basic earnings per share	0.36	0.27
Diluted earnings per share	0.36	0.27

Telecom Services Kiribati Limited
Notes to and forming part of the financial statements
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12 Contingencies

There are no contingencies for the year. (2007:nil)

13. Related parties

TSKL is 100% owned by the Kiribati Government. While TSKL has a Board of Directors as its governing body, the government is the ultimate controlling party of the company. The following transactions were carried out with related parties during the year.

Purchase of goods and services from TSKL i.e Telephone calls, hire and purchase of equipment by government $460k (2007:$2.2m) on normal commercial terms. The amount outstanding at balance date was $2.2m (2007:$2.6m)

The total amount of dividend paid out during the year is $116,717 (2007: $500k). There were no outstanding balances at balance date. The total profit for 2005 was $116,717 of which $116,717 was paid out.

The total amount of operating grants received from government was nil (2007: $720,184).

14. Commitments

Operating Leases

TSKL leases land, property, plant & equipment in the normal course of business. All contracts have a renewal date and a contract review date. Our disclosure has taken the amount for which ever date arrives first. Commitments relating to these contracts are as follows:

	2008	2007
Within 1 year	438,363	185,082
1 to 2 years	190,710	750
2 to 5 years	2,250	2,250
Greater than 5years	3,750	3,750
TOTAL	635,073	191,832

Capital

TSKL have agreed with the Government of Kiribati to develop outer island telecommunications of which $1,839,533 has been set aside as a reserve in 2007. There is work in progress of $4,488,459 (2007: $3,6k) whic reflects TSKL's commitment to develop outer island telecommunications.

15 Principal activities

The principal activities of the company are to develop, expand and operate and manage on commercial principles, the domestic and international telecommunications services and systems of Kiribati.

16. Registered office

The Company's registered office and head office is located at Bairiki, Tarawa.

17. Segment information

(a) Industry segment

The group operates predominantly in the telecommunications industry and revenue from other industry segments is not material.

(b) Geographical segment

The Company operates in Kiribati and is therefore one geographical area for reporting purposes.