MALTAPOST plc

Annual Report and Financial Statements
30 September 2002

Company Registration Number: C22796

Directors’ report

The directors present their report and the audited financial statements for the year ended 30 September 2002.

Principal activities

The company operates the postal services in Malta under licence granted to it by the Government of Malta.

Review of business

The company’s turnover increased by 0.7 % when compared to the same period in 2001, while the company’s costs increased by 4%.

The company registered a significant increase in income from postal and non-postal transactions but had a 1.6% fall in stamp sales. The year was characterised by an irregular sales pattern of stamp sales which led the company to discover that old pre-Maltapost issues stamps, originally sold for philatelic purposes, were being off loaded, at a discount, into the market. Consequently the company called in all pre-1998 stamp issues and exchanged them on a one for one basis.

The cost increase was mainly due the Technical Services and Support Agreement with Transend Worldwide Limited which became effective as at the 1 February 2002. This accounts for 3.8% of the company’s total costs.

During the latter part of the year the company had a five-year business plan approved which included a detailed plan to develop and transform Maltapost plc into a modern commercially successful internationally oriented postal business enterprise.

Results and dividends

The profit and loss account is set out on page 5. The directors do not recommend the payment of a dividend.

Directors

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

Frank Dimech (Chairman)
Mario Mizzi (Deputy Chairman)
Antoinette Borg – appointed on 6 February 2002
Mohammed Nazir Awan – appointed on 6 June 2002
John Richard Allen – appointed on 7 June 2002
Alan George Lodge – appointed on 6 February 2002, resigned on 7 June 2002
Robert Drew Stein – appointed on 6 February 2002, resigned on 6 June 2002
George Gatt – resigned on 6 February 2002
Harold Walls – resigned on 6 February 2002
Joseph P. Farrugia – resigned on 6 February 2002
Paula Ganado – resigned on 6 February 2002

In accordance with company's Articles of Association the directors retire and being eligible offer themselves for re-election.

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.

On behalf of the board

Frank Dimech
Chairman

Mario Mizzi
Deputy Chairman

Registered office
305 Qormi Road
Marsa
Malta

16 December 2002

Statement of directors' responsibilities

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 financial period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates;
- the financial statements have been drawn up in accordance with International Accounting Standards;
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements 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.

Report of the auditors

To the Members of Maltapost plc

We have audited the financial statements on pages 5 to 21. As described in the statement of directors' responsibilities on page 3, these financial statements are the responsibility of the company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 September 2002 and of its loss, its changes in equity and its cash flows for the year then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the Maltese Companies Act, 1995.

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

16 December 2002

Profit and loss account

	Notes	**2002 Lm**	2001 Lm
Turnover	1	**6,813,345**	6,765,354
Cost of sales		**(5,582,198)**	(5,610,238)
Gross profit		**1,231,147**	1,155,116
Administrative expenses		**(1,338,845)**	(1,042,316)
Pension costs	3	**(24,050)**	(593,427)
Other income		**4,431**	-
Operating loss	2	**(127,317)**	(480,627)
Interest receivable		**63,991**	86,520
Loss on ordinary activities before tax		**(63,326)**	(394,107)
Taxation	5	**(10,505)**	167,883
Loss for the financial year		**(73,831)**	(226,224)

Statement of recognised gains and losses

	Note	**2002 Lm**	2001 Lm
Cash flow hedge net of tax	16	**33,471**	-
Net loss not recognised in profit and loss account		**33,471**	-
Loss for the financial year		**73,831**	226,224
Total recognised losses		**107,302**	226,224

Balance sheet

	Notes	2002 Lm	2001 Lm
ASSETS			
Fixed assets			
Tangible assets	7	**813,503**	713,132
Intangible assets	8	**351,017**	384,200
		1,164,520	1,097,332
Deferred taxation	12	**161,499**	223,895
Current assets			
Stocks	9	**111,297**	138,038
Debtors	10	**1,216,981**	1,390,934
Investments	11	**-**	494,767
Taxation recoverable		**40,880**	-
Cash at bank and in hand		**2,378,439**	1,734,584
		3,747,597	3,758,323
Total assets		**5,073,616**	5,079,550
EQUITY AND LIABILITIES			
Capital and reserves			
Called up issued share capital	15	**2,292,570**	1,800,000
Other reserves	16	**211,529**	-
Profit and loss account		**(86,209)**	(12,378)
Total shareholders' funds		**2,417,890**	1,787,622
Provision for liabilities and charges			
Other provisions	14	**617,477**	593,427
		617,477	593,427
Creditors: amounts falling due within one year			
Trade and other creditors	13	**2,038,249**	2,658,681
Current taxation		**-**	39,820
Total creditors		**2,038,249**	2,698,501
Total equity and liabilities		**5,073,616**	5,079,550

The financial statements on pages 5 to 21 were authorised for issue by the board on 16 December 2002 and were signed on its behalf by:

Frank Dimech Chairman	Mario Mizzi Deputy Chairman

Statement of changes in equity

	Notes	**Called up issued share capital** Lm	**Other reserves** Lm	**Profit and loss account** Lm	**Total** Lm
Balance at 1 October 2000		500,000	-	213,846	713,846
Issue of share capital	15	1,300,000	-	-	1,300,000
Loss for the financial year		-	-	(226,224)	(226,224)
Balance at 30 September 2001		**1,800,000**	**-**	**(12,378)**	**1,787,622**
Balance at 1 October 2001		1,800,000	-	(12,378)	1,787,622
Issue of share capital	15, 16	492,570	245,000	-	737,570
Cash flow hedge - net of tax	16	-	(33,471)	-	(33,471)
Loss for the financial year		-	-	(73,831)	(73,831)
Balance at 30 September 2002		**2,292,570**	**211,529**	**(86,209)**	**2,417,890**

Cash flow statement

	Notes	2002 Lm	2001 Lm
Operating activities			
Cash (used in)/generated from operations	17	**(437,543)**	607,361
Interest received		**71,732**	77,695
Tax paid		**(10,787)**	(188,615)
Net cash (used in)/generated from operating activities		**(376,598)**	496,441
Investing activities			
Purchase of current asset investments	11	**-**	(494,767)
Disposal of current asset investments	11	**494,767**	-
Purchase of tangible assets	7	**(212,505)**	(288,110)
Disposal of tangible assets	7	**621**	-
Net cash generated from/(used in) investing activities		**282,883**	(782,877)
Financing activities			
Issue of ordinary shares	15	**737,570**	1,300,000
Amount due to Government in respect of assets taken over		**-**	(1,300,000)
Net cash from financing activities		**737,570**	-
Movement in cash and cash equivalents		**643,855**	(286,436)
Cash and cash equivalents at beginning of year		**1,734,584**	2,021,020
Cash and cash equivalents at end of year	18	**2,378,439**	1,734,584

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1. Basis of preparation

These financial statements are prepared in accordance with International Accounting Standards and comply with the Companies Act, 1995. The financial statements are prepared under the historical cost convention.

As from 1 October 2001, the company adopted IAS 39 – Financial Instruments: Recognition and Measurement. The effect of adopting this standard is summarised in the statement of changes in equity (page 7) and further information is disclosed in Note 16.

2. Revenue recognition

Turnover is the value of all services provided, excluding indirect taxes and comprises revenue directly received from customers, commissions earned on postal and non-postal transactions and terminal dues receivable from overseas postal administrations. Turnover is recognised in the financial statements as follows:

(a) Income from sale of stamps, commissions earned on postal and non-postal transactions and terminal dues receivable from overseas postal administrations is recognised when the service is rendered. Allowance is made for the assessed amount of revenue from prepaid product sales at balance sheet date for which the service has not yet been provided. In the case of services rendered to postal administrations in countries subject to severe exchange control restrictions and undue delays in settlement, revenue is not recognised until the company is in a position to ensure that the economic benefits associated with the transaction will flow to it, which is often upon or shortly before actual receipt.

(b) Interest income is accounted for as it accrues, unless collectibility is in doubt.

3. Foreign currencies

Transactions in foreign currencies have been converted into Maltese Liri at the rates of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into Maltese Liri at the rates of exchange ruling at the balance sheet date. All resulting differences are taken to the profit and loss account.

3. Foreign currencies - continued

The company earmarks, from time to time, foreign currency balances as a cash flow hedge against exposure to foreign exchange risk on forecast transactions or commitments in the same currency. The hedging reserve is transferred to the profit and loss account when the forecast expenditure occurs, at various dates up to one year from the balance sheet date.

4. Goodwill

Goodwill is stated at cost and is amortised using the straight-line method over the period of the company's operating licence of fifteen years.

5. Tangible fixed assets

Tangible fixed assets, comprising improvements to buildings, fixtures and fittings, equipment and motor vehicles, are initially recorded at cost. 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:

Improvements to premises	Over the period of the licence agreement
	%
Furniture and fittings	15
Equipment	20-25
Motor vehicles	25

Assets in the course of construction are not depreciated.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of tangible assets are determined by reference to their carrying amount and are taken into account in determining operating profit.

6. Leased assets

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

7. Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of stamps and postal stationery is determined by the standard cost method, stocks for resale at actual cost, and other stock items on a first-in first-out method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

8. Trade debtors

Trade debtors are carried at anticipated realisable value. An estimate is made for doubtful debtors based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.

9. Current asset investments

Current asset investments are stated at the lower of cost and market value and consist of quoted government securities, which are readily realisable.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

10. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

11. Pension obligations

The company operates a defined benefit pension plan.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the years of service giving rise to entitlement to benefits in accordance with actuarial techniques. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long term government bonds which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are spread forward over the average remaining service lives of employees.

12. Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

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.

13. Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

14. Borrowing costs

Interest costs are charged against income without restriction. No borrowing costs have been capitalised.

Notes to the financial statements

1. Turnover

All turnover arises in Malta and is analysed, by activity, as follows:

	2002 Lm	2001 Lm
Stamps, parcel post and postal stationery including terminal dues receivable	**5,767,530**	5,833,430
Philatelic sales	**201,957**	212,975
Courier services	**120,682**	116,592
Other	**723,176**	602,357
	6,813,345	6,765,354

2. Operating loss

Operating loss is stated after (crediting)/charging:

	2002 Lm	2001 Lm
Staff costs (Note 4)	**4,782,035**	4,640,963
Pension obligation	**24,050**	593,427
Provision for doubtful debts	**(2,552)**	12,665
Depreciation of tangible assets (Note 7)	**111,398**	81,120
Amortisation of goodwill (Note 8)	**33,183**	33,168
Auditors' remuneration	**8,096**	6,457
Exchange loss/(gain)	**25,534**	(6,009)

3. Pension costs

The pension obligations have arisen due the option taken up by ex-Government employees to become full time employees of the company. Upon exercising this option, certain of these employees continued to be entitled to pension rights which go beyond the National Insurance Scheme. The difference between the cost of pensions payable at the time of an employee's expected retirement from Maltapost plc and that cost of the pension computed at the time of that employee's termination of service with the Government, is to be borne by Maltapost plc (Note 14).

4. Staff costs

	2002 Lm	2001 Lm
Wages and salaries	**4,381,820**	4,263,559
Social security costs	**400,215**	377,404
	4,782,035	4,640,963

Average number of persons employed by the company during the year:

	2002 Lm	2001 Lm
Direct	**745**	741
Administration	**85**	95
	830	836

5. Tax on loss on ordinary activities

	2002 Lm	2001 Lm
Current tax charge	**10,787**	80,700
Deferred tax credit (Note 12)	**(17,609)**	(248,583)
Under provision in previous years	**17,327**	-
	10,505	(167,883)

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

	2002 Lm	2001 Lm
Loss on ordinary activities before tax	**(63,326)**	(394,107)
Tax at 35%	**(22,163)**	(137,937)
Tax effect of:		
Non temporary differences	**29,723**	25,027
Investment income taxed at 15%	**(14,382)**	(17,327)
Under/(over) provision in previous years	**17,327**	(37,646)
Tax charge/(credit)	**10,505**	(167,883)

6. Directors' emoluments

	2002	2001
	Lm	Lm
Fees	**13,601**	12,790
Salaries	**9,502**	15,168
	23,103	27,958

The company has paid insurance premiums of Lm1,540 (2001: Lm1,320) during the year, in respect of professional indemnity in favour of its directors.

7. Tangible assets

	Improvements to premises Lm	Assets under construction Lm	Furniture and fittings Lm	Equipment Lm	Motor vehicles Lm	Total Lm
Year ended 30 September 2002						
Opening net book amount	389,124	56,507	117,524	148,788	1,189	713,132
Transfer	53,434	(53,434)	-	-	-	-
Additions	34,260	81,148	28,700	68,397	-	212,505
Disposals	-	-	(7,194)	(730)	(300)	(8,224)
Depreciation charge	(33,936)	-	(26,949)	(49,777)	(736)	(111,398)
Depreciation released on disposal	-	-	6,582	631	275	7,488
Closing net book amount	**442,882**	**84,221**	**118,663**	**167,309**	**428**	**813,503**
At 30 September 2002						
Cost	555,657	84,221	190,791	264,099	3,685	1,098,453
Accumulated depreciation	(112,775)	-	(72,128)	(96,790)	(3,257)	(284,950)
Net book amount	442,882	84,221	118,663	167,309	428	813,503
At 30 September 2001						
Cost	467,963	56,507	169,285	196,432	3,985	894,172
Accumulated depreciation	(78,839)	-	(51,761)	(47,644)	(2,796)	(181,040)
Net book amount	389,124	56,507	117,524	148,788	1,189	713,132

8. Intangible assets

Goodwill	**2002 Lm**	2001 Lm
Cost as at 30 September	**497,524**	497,524
Amortisation		
At 1 October	**113,324**	80,156
Amortisation charge for the year	**33,183**	33,168
At 30 September	**146,507**	113,324
Net book amount at 30 September	**351,017**	384,200

9. Stocks

	2002 Lm	2001 Lm
Stamps and postal stationery	**25,696**	36,541
Stocks for resale	**44,499**	63,723
Other stock items	**41,102**	37,774
	111,297	138,038

10. Debtors

	2002 Lm	2001 Lm
Trade debtors	**938,407**	1,116,033
Provision for bad debts	**(47,795)**	(50,347)
	890,612	1,065,686
Other debtors	**5,915**	11,788
Prepayments and accrued income	**320,454**	313,460
	1,216,981	1,390,934

11. Investments

	2002 Lm	2001 Lm
5.035% Treasury Bills (30 November 2001)	**-**	99,173
4.963% Treasury Bills (21 December 2001)	-	395,594
	-	494,767

12. Deferred taxation

	2002 Lm	2001 Lm
At beginning of year	**223,895**	(24,688)
(Charged)/credited to profit and loss account (Note 5)	**17,609**	248,583
Over provision of deferred tax in previous years	**(98,027)**	-
Credited to equity (Note 16)	**18,022**	-
At end of year	**161,499**	223,895

The deferred tax credited to equity during the year relates to the hedging reserve included with other reserves (Note 16). Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35%.

The balance at 30 September represents:

	2002 Lm	2001 Lm
Temporary differences on fixed assets	**123**	(1,425)
Temporary differences on provisions	**16,728**	225,320
Temporary differences on unabsorbed tax losses and capital allowances	**126,626**	-
Temporary differences on hedging reserve	**18,022**	-
At end of year	**161,499**	223,895

13. Trade and other creditors

	2002 Lm	2001 Lm
Amounts falling due within one year		
Trade creditors	**161,428**	131,901
Amounts collected on behalf of third parties	**835,977**	976,767
Other creditors	**38,633**	225,211
Indirect taxes and social security	**14,039**	96,200
Unearned revenue	**211,720**	347,555
Accruals and deferred income	**776,452**	881,047
	2,038,249	2,658,681

Included in other creditors is amount of Lm34,520 which is due from a related party.

14. Other provisions

	2002	2001
	Lm	Lm
Pension obligations	**617,477**	593,427

The company established a pension scheme covering those ex-Government employees who opted to become full time employees with the company and who were entitled to pension rights which go beyond the National Insurance Scheme. The pension schemes are final salary defined benefit plans and are unfunded.

The amount recognised in the balance sheet is as follows:

	2002	2001
	Lm	Lm
Present value of unfunded obligations	**819,231**	791,009
Fair value of obligations to be reimbursed by Government	**(201,754)**	(197,582)
Present value of unfunded obligations	**617,477**	593,427

The amount recognised in the income statement is as follows:

	2002	2001
	Lm	Lm
Current service cost	**15,038**	10,140
Interest cost, net	**40,753**	-
Net actuarial gains recognised during the year	**(31,741)**	-
Past service cost	**593,427**	583,287
Total	**617,477**	593,427

In computing the pension obligation, the company used a discount rate of 6.6%, whereas the future salary increases were based on inflation rates and past salary increases.

15. Called up issued share capital

	2002	2001
	Lm	Lm
Authorised		
5,000,000 ordinary shares of Lm1 each	**5,000,000**	5,000,000
Issued		
1,820,000 (2001: 1,800,000) ordinary shares of Lm1 each, fully paid up	**1,820,000**	1,800,000
980,000 ordinary shares of Lm1 each, 48% paid up	**472,570**	-
	2,292,570	1,800,000

By virtue of an extraordinary resolution dated 28 January 2002, the company's directors approved the allotment of 20,000 fully paid up ordinary shares of Lm1 each at par and 980,000 48% paid up ordinary shares of Lm1 each at a premium of 25c each.

16. Other reserve

	Share premium Lm	Hedging reserve Lm	Total Lm
Issue of share capital	245,000	-	245,000
Cash flow hedge			
Amounts arising during the year	-	(51,493)	(51,493)
Deferred taxation thereon	-	18,022	18,022
At end of year	**245,000**	**(33,471)**	**211,529**

The hedging reserve arose during the year when the company earmarked a foreign currency bank balance for the purpose of settling transactions occurring in the same currency. The hedging reserve will be transferred to the profit and loss account when the forecast expenditure occurs, at various dates up to one year from the balance sheet date.

17. Cash (used in)/generated from operations

Reconciliation of operating loss to cash (used in)/generated from operations:

	2002	2001
	Lm	Lm
Operating loss	**(127,317)**	(480,627)
Adjustments for:		
Depreciation on tangible assets (Note 7)	**111,398**	81,120
Loss on disposal of tangible assets	**115**	4,646
Amortisation of goodwill (Note 8)	**33,183**	33,168
Provision for doubtful debts (Note 10)	**(2,552)**	12,665
Provision for pension obligations (Note 14)	**24,050**	593,427
Cash flow hedge (Note 16)	**(51,493)**	-
Changes in working capital:		
Debtors	**168,764**	(369,428)
Stocks	**26,741**	(5,225)
Creditors	**(620,432)**	737,615
Cash (used in)/generated from operations	**(437,543)**	607,361

18. Cash and cash equivalents

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following:

	2002	2001
	Lm	Lm
Cash at bank and in hand	**2,378,439**	1,734,584

19. Commitments

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2002	2001
	Lm	Lm
Within 1 year	**294,195**	290,103
Between 2 and 5 years	**993,857**	1,071,282
After 5 years	**1,200,000**	1,400,000
	2,488,052	2,761,385

20. Related party transactions

Due to their shareholding in the company, the Government of Malta and Transend (Worldwide) Limited are considered to be related parties of Maltapost plc. Transactions with Transend (Worldwide) Limited comprised technical support and services charges amounting to Lm218,327 (2000: Nil). The company carries out a number of transactions with the Government of Malta and Government-controlled companies in the normal course of its activities on an arm’s length basis. Amounts due to related parties, other then those due to the Government of Malta and Government-controlled companies, are disclosed accordingly in note 13 to the accounts.

21. Financial instruments

Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of cash at bank, current asset investments and debtors. The company's cash is placed with quality financial institutions. Credit risk with respect to current asset investment is insignificant in view of the fact that they consist of local money market instruments issued by the Government of Malta. Debtors are presented net of an allowance for doubtful debts. Credit risk with respect to debts is limited due to the large number of customers comprising the company's debtor base and the company has no significant concentration of credit risk.

Fair values

At 30 September 2002 and 2001 the carrying amounts of cash at bank, current asset investments, debtors, creditors and accrued expenses approximated their fair values.

Foreign exchange risk

The company is exposed to foreign exchange risk in view of the nature of its operations, particularly with respect to the payment and receipt of terminal dues. These transactions are mainly denominated in US Dollars and EURO; accordingly the directors do not deem currency risk to be significant in this respect.

The company earmarks, from time to time, foreign currency balances as a cash flow hedge against exposure to foreign exchange risk on forecast transactions or commitments in the same currency.

22. Statutory information

Maltapost plc is a limited liability company and is incorporated in Malta.