MALTAPOST PLC

Annual Report and Financial Statements
30 September 1999

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Directors' report

The directors present their report and the audited financial statements for the period ended 30 September 1999.

Date of incorporation and principal activities

Maltapost plc was incorporated on 17 April 1998 and commenced trading on 1 May 1998 in terms of a licence granted to it by the Government for the operation of postal services in Malta. These financial statements cover the period from incorporation of the company to 30 September 1999.

The company was initially set up as a subsidiary of Mid-Med Bank plc. Following a transfer of shares that occurred in June 1999 it is now 85% owned by the Government of Malta.

Review of the business

During its first seventeen months of operations the company generated a turnover of Lm8,050,053. The results for this period show that the company incurred a loss of Lm119,927 and shareholders' funds have been reduced to Lm380,073.

The directors believe that the current tariff and cost structures of the company will lead to the company incurring a further operating loss in the year ending 30 September 2000 and are currently looking to implement measures to reduce this loss.

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 period were:

Frank Dimech (Chairman) – appointed 4 March 1999
Anthony De Bono (Deputy Chairman) – appointed 4 March 1999
Joseph P. Farrugia – appointed 4 March 1999
Paula Ganado – appointed 4 March 1999
George Gatt – appointed 16 April 1998
Maurice Zarb Adami – appointed 24 September 1999

Alfred Sladden (Chairman) – appointed 16 April 1998; resigned 3 March 1999
Joseph Farrugia – appointed 16 April 1998; resigned 3 March 1999
Tony Mejlaq – appointed 16 April 1998; resigned 23 September 1999
John Melillo – appointed 16 April 1998; resigned 3 March 1999
John I. Pace – appointed 16 April 1998; resigned 3 March 1999

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

Anthony De Bono
Deputy Chairman

Registered office
305 Qormi Road
Marsa
Malta

25 February 2000

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 18. 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 1999 and of its loss, its changes in equity and its cash flows for the period then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the Companies Act, 1995.

PRICEWATERHOUSECOOPERS
167 Merchants Street
Valletta
Malta

25 February 2000

Profit and loss account

	Notes	1999 Lm
Turnover	2	**8,050,053**
Cost of sales		**(6,820,526)**
Gross profit		**1,229,527**
Administrative expenses		**(1,406,575)**
Operating loss	3	**(177,048)**
Interest receivable		**75,011**
Loss on ordinary activities before tax		**(102,037)**
Taxation	5	**(17,890)**
Loss for the financial period		**(119,927)**
Earnings per share	7	**(0.24)**

There are no recognised gains or losses other than the loss for the period.

Balance sheet

	Notes	1999 Lm
ASSETS		
Fixed assets		
Tangible assets	8	**506,163**
Intangible assets	9	**450,536**
		956,699
Current assets		
Stocks	10	**93,921**
Debtors	11	**608,706**
Cash at bank and in hand		**1,826,135**
		2,528,762
Total assets		**3,485,461**
EQUITY AND LIABILITIES		
Capital and reserves		
Called up issued share capital	13	**500,000**
Profit and loss account		**(119,927)**
Total shareholders' funds		**380,073**
Creditors: amounts falling due within one year		
Trade and other creditors	12	**3,089,778**
Current taxation		**15,610**
Total creditors		**3,105,388**
Total equity and liabilities		**3,485,461**

The financial statements on pages 5 to 18 were approved by the board on 25 February 2000 and were signed on its behalf by:

Frank Dimech
Chairman

Anthony De Bono
Deputy Chairman

Statement of changes in equity

	Note	**Share capital**	**Profit and loss account**	**Total**
		Lm	Lm	Lm
Issue of share capital	13	500,000	-	500,000
Loss for the financial period		-	(119,927)	(119,927)
Balance at 30 September 1999		**500,000**	**(119,927)**	**380,073**

Cash flow statement

	Notes	1999 Lm
Operating activities		
Cash generated from operations	14	**1,268,326**
Interest received		**75,011**
Tax paid		**(2,280)**
Net cash from operating activities		**1,341,057**
Investing activities		
Purchase of tangible assets	8	**(99,756)**
Reimbursement to Government of refurbishing costs		**(300,000)**
Assets taken over from the Office of the Postmaster General	9	**(1,000,000)**
Net cash used in investing activities		**(1,399,756)**
Financing activities		
Issue of ordinary shares	13	**500,000**
Amount due to Government in respect of assets taken over		**1,300,000**
Net cash from financing activities		**1,800,000**
Movement in cash and cash equivalents		**1,741,301**
Cash and cash equivalents taken over from Government		**84,834**
Cash and cash equivalents at end of period	15	**1,826,135**

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.

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 the sale of stamps is fully credited to the profit and loss account in the year of sale;

(b) Income from commissions earned on postal and non-postal transactions and terminal dues receivable from overseas postal administrations is recognised when the service is rendered. 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;

(c) 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.

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

6. Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of stamps and postal stationery is determined by the average 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.

7. 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.

8. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

9. Deferred taxation

Deferred income tax is provided using the liability method, for all 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 future taxable profit will be available such that realisation of the related tax benefit is probable.

10. Provisions

Provisions are recognised when the company 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.

11. Borrowing costs

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

Notes to the financial statements

1. Incorporation and operating agreement with the Government of Malta

The company was incorporated on 17 April 1998 to provide postal services in Malta. On 1 May 1998 the company took over these operations by virtue of a licence granted to it by the Government of Malta. This agreement provided for an initial annual licence fee of Lm100,000 which shall be increased annually by Lm50,000 until it reaches a maximum of Lm200,000 per annum.

In terms of a preliminary agreement signed on 7 May 1998 with the Office of the Postmaster General, the company agreed to purchase and acquire all the movable assets and stocks owned by the Department of Posts and used for or in connection with postal services in Malta, together with the goodwill of the postal services in Malta for a total consideration of Lm1 million. These assets comprise:-

	1999 Lm
Fixed assets	**214,083**
Goodwill	**497,524**
Stocks	**203,559**
Cash	**84,834**
	1,000,000

In addition, the company agreed to pay a further Lm300,000 in full settlement of expenses incurred by Government in refurbishing the premises from where the company is operating its Head Office. These premises are being leased from Government in terms of the same agreement.

Although the preliminary agreement referred to above has not yet been executed as a final contract the company has effectively already taken over the benefits and risks associated with the ownership of the assets in question. Accordingly, these assets and the corresponding liability to the Government of Malta have been included in these financial statements.

In terms of a Memorandum of Understanding dated 20 April 1998, all Government employees performing duties at Maltapost plc were given the option to take up full time employment with the company. This option was to be executed within a fifteen month period, and has now been extended to the end of February 2000.

1. Incorporation and operating agreement with the Government of Malta - continued

Certain of these employees will, upon exercising this option, continue to be entitled to pension rights which go beyond the National Insurance Scheme. No provision has been made in these financial statements for the cost of these pensions as the company expects that such costs will be borne by Government until such date that these employees formally exercise this option. Negotiations with Government on this matter have not yet been concluded.

2. Turnover

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

	1999 **Lm**
Stamps, parcel post and postal stationery including terminal dues receivable	**7,325,170**
Philatelic sales	**219,939**
Courier services	**151,396**
Other	**353,548**
	8,050,053

Services rendered by the company during the period for which income has not been recognised in terms of accounting policy 2(b) amounted to Lm257,964.

3. Operating loss

Operating loss is stated after charging/(crediting):

	1999 **Lm**
Staff costs (Note 4)	**5,958,072**
Provision for doubtful debts	**62,330**
Depreciation of tangible assets (Note 8)	**107,676**
Amortisation of goodwill (Note 9)	**46,988**
Auditors' remuneration	**6,325**
Gain on foreign exchange	**(909)**

4. Staff costs

	1999
	Lm
Wages and salaries	**5,477,170**
Social security costs	**480,902**
	5,958,072

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

	1999
Direct	**818**
Administration	**54**
	872

5. Tax on profit on ordinary activities

	1999
	Lm
Current tax expense	**17,890**

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

	1999
	Lm
Loss on ordinary activities before tax	**(102,037)**
Tax at 35%	**(35,713)**
Tax effect of:	
Permanent differences between accounting result and chargeable income	**26,711**
Investment income taxed at 15%	**(3,040)**
Deferred tax asset not recognised	**29,932**
Tax charge	**17,890**

At 30 September 1999 the company had a deferred tax asset amounting to Lm29,932 which has not been recognised in the financial statements due to the uncertainty of the tax benefit being realised in the foreseeable future.

6. Directors' emoluments

	1999 Lm
Fees	**9,583**
Salaries and other emoluments	**20,621**
	30,204

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

7. Earnings per share

Earnings per share is based on the results for the year divided by the weighted average number of ordinary shares in issue during the year.

	1999 Lm
Net loss attributable to shareholders	**(119,927)**
Weighted average number of ordinary shares in issue	**500,000**
Earnings per share	**(0.24)**

8. Tangible assets

	Improvements to premises	Furniture and fittings	Equipment	Motor Vehicles	Total
	Lm	Lm	Lm	Lm	Lm
Period ended 30 September 1999					
Assets taken over from the Office of the Postmaster General	300,000	44,440	8,457	161,186	514,083
Additions	29,634	25,141	44,250	731	99,756
Depreciation charge	(29,331)	(16,499)	(17,655)	(44,191)	(107,676)
Closing net book amount	**300,303**	**53,082**	**35,052**	**117,726**	**506,163**
At 30 September 1999					
Cost or valuation	329,634	69,581	52,707	161,917	613,839
Accumulated depreciation	(29,331)	(16,499)	(17,655)	(44,191)	(107,676)
Net book amount	300,303	53,082	35,052	117,726	506,163

9. Intangible assets

	1999 Lm
Goodwill at cost	497,524
Amortisation charge	(46,988)
Closing net book amount at 30 September 1999	450,536

10. Stocks

	1999 Lm
Stamps and postal stationery	38,843
Stocks for resale	21,117
Other stock items	33,961
	93,921

11. Debtors

	1999 Lm
Trade debtors	279,411
Less: provision for doubtful debts	(62,330)
	217,081
Other debtors	7,396
Prepayments and accrued income	384,229
	608,706

12. Trade and other creditors

	1999 Lm
Amounts falling due within one year	
Trade creditors	**581,414**
Amounts due to Government in respect of assets taken over (Note 1)	**1,300,000**
Amounts collected on behalf of third parties	**323,212**
Other creditors	**289,389**
Indirect taxes and social security	**153,890**
Accruals and deferred income	**441,873**
	3,089,778

13. Called up issued share capital

	1999 Lm
Authorised	
500,000 ordinary shares of Lm1each	**500,000**
Issued and fully paid	
500,000 ordinary shares of Lm1 each	**500,000**

14. Cash generated from operations

Reconciliation of operating loss to cash generated from operations:

	1999 Lm
Operating loss	**(177,048)**
Adjustments for:	
Depreciation of tangible assets (Note 8)	**107,676**
Amortisation of goodwill (Note 9)	**46,988**
Provision for doubtful debts (Note 11)	**62,330**
Changes in working capital:	
Debtors	**(671,036)**
Stocks	**109,638**
Creditors	**1,789,778**
Cash generated from operations	**1,268,326**

15. Cash and cash equivalents

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

	1999
	Lm
Cash at bank and in hand	**1,826,135**

16. Financial instruments

Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of cash at bank and debtors. The company's cash is placed with quality financial institutions. 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 1999 the carrying amounts of cash at bank, debtors, creditors and accrued expenses approximated their fair values.

17. Contingent liability

In terms of a Memorandum of Understanding dated 20 April 1998, all Government employees performing duties at Maltapost plc were given the option to take up full time employment with the company. This option was to be executed within a fifteen month period, and has now been extended to the end of February 2000.

Certain of these employees will, upon exercising this option, continue to be entitled to pension rights which go beyond the National Insurance Scheme. No provision has been made in these financial statements for the cost of these pensions as the company expects that such costs will be borne by Government until such date that these employees formally exercise this option. Negotiations with Government on this matter have not yet been concluded.

18. Statutory information

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