MALTAPOST PLC

Annual Report and Financial Statements
30 September 2001

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2001.

Principal activities

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

Review of the business

The company's turnover increased by 4.3% when compared to the same period in 2000, while the company's costs increased by 10.3%. The main reason for this cost increase was the 12% average increase awarded to Government employees in the Collective Agreement signed by Government and the Unions with effect from 1998. This increase has been reflected in this year's salaries cost. The problem that the company is facing is that costs are growing at a much higher rate than the increase in turnover which indicates very clearly the urgency of increasing our tariffs which have been static for the last five years. Another aspect that affected the profitability of the company this year was the pension provision of Lm593,427 that had to be made in relation to ex-Government employees that have now opted to become Maltapost employees. Excluding this one–off provision the profitability of the company would have been marginal at Lm199,320.

It is to be reported that negotiations with Transend Worldwide Limited have been finalised at the end of January 2002. Transend Worldwide Limited will purchase 35% of the company's equity at a price of Lm1.25 which includes a premium of 25% on the nominal value of the shares. The Government of Malta and Government Investments Limited will hold the other 65% of the shares.

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' report - continued

Directors

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

Frank Dimech (Chairman)
Mario Mizzi (Deputy Chairman)
Joseph P. Farrugia
Paula Ganado
George Gatt
Harold Walls – appointed on 6 April 2001
Maurice Zarb Adami – resigned on 21 March 2001

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

28 January 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 20. 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 2001 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

28 January 2002

Profit and loss account

	Notes	**2001 Lm**	2000 Lm
Turnover	1	**6,765,354**	6,487,596
Cost of sales		**(5,610,238)**	(5,112,034)
Gross profit		**1,155,116**	1,375,562
Administrative expenses		**(1,042,316)**	(916,915)
Pension costs	3	**(593,427)**	-
Operating (loss)/profit	2	**(480,627)**	458,647
Interest receivable		**86,520**	72,457
(Loss)/profit on ordinary activities before tax		**(394,107)**	531,104
Taxation	5	**167,883**	(197,331)
(Loss)/profit for the financial year		**(226,224)**	333,773

There are no recognised gains or losses other than the (loss)/profit for the year.

Balance sheet

	Notes	**2001 Lm**	2000 Lm
ASSETS			
Fixed assets			
Tangible assets	7	**713,132**	510,788
Intangible assets	8	**384,200**	417,368
		1,097,332	928,156
Deferred taxation	12	**223,895**	-
Current assets			
Stocks	9	**138,038**	132,813
Debtors	10	**1,390,934**	1,025,346
Investments	11	**494,767**	-
Cash at bank and in hand		**1,734,584**	2,021,020
		3,758,323	3,179,179
Total assets		**5,079,550**	4,107,335
EQUITY AND LIABILITIES			
Capital and reserves			
Called up issued share capital	15	**1,800,000**	500,000
Profit and loss account		**(12,378)**	213,846
Total shareholders' funds		**1,787,622**	713,846
Provision for liabilities and charges			
Deferred taxation	12	**-**	24,688
Other provisions	14	**593,427**	-
		593,427	24,688
Creditors: amounts falling due within one year			
Trade and other creditors	13	**2,658,681**	3,221,066
Current taxation		**39,820**	147,735
Total creditors		**2,698,501**	3,368,801
Total equity and liabilities		**5,079,550**	4,107,335

The financial statements on pages 5 to 20 were authorised for issue by the board on 28 January 2002 and were signed on its behalf by:

Frank Dimech
Chairman

Mario Mizzi
Deputy Chairman

Statement of changes in equity

	Called up issued share capital Lm	**Profit and loss account** Lm	**Total** Lm
Balance at 1 October 1999	500,000	(119,927)	380,073
Profit for the financial year	-	333,773	333,773
Balance at 30 September 2000	**500,000**	**213,846**	**713,846**
Balance at 1 October 2000	500,000	213,846	713,846
Issue of share capital	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)**	**1,787,627**

Cash flow statement

	Notes	**2001 Lm**	2000 Lm
Operating activities			
Cash generated from operations	16	**607,361**	283,087
Interest received		**77,695**	72,457
Tax paid		**(188,615)**	(40,518)
Net cash from operating activities		**496,441**	315,026
Investing activities			
Purchase of current asset investments		**(494,767)**	-
Purchase of tangible assets		**(288,110)**	(167,436)
Disposal of tangible assets		**-**	47,295
Net cash used in investing activities		**(782,877)**	(120,141)
Financing activities			
Issue of ordinary shares		**1,300,000**	-
Amount due to Government in respect of assets taken over		**(1,300,000)**	-
Net cash from financing activities		**-**	-
Movement in cash and cash equivalents		**(286,436)**	194,885
Cash and cash equivalents at beginning of year		**2,021,020**	1,826,135
Cash and cash equivalents at end of year	17	**1,734,584**	2,021,020

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

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

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 scheme.

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 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.

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:

	2001	2000
	Lm	Lm
Stamps, parcel post and postal stationery including terminal dues receivable	**5,833,430**	5,763,938
Philatelic sales	**212,975**	206,459
Courier services	**116,592**	99,694
Other	**602,357**	417,505
	6,765,354	6,487,596

2. Operating (loss)/profit

Operating (loss)/profit is stated after (crediting)/charging:

	2001	2000
	Lm	Lm
Staff costs (Note 4)	**4,640,963**	4,443,076
Pension obligation	**593,427**	-
Provision for doubtful debts	**12,665**	(24,648)
Depreciation of tangible assets (Note 7)	**81,120**	87,108
Amortisation of goodwill (Note 8)	**33,168**	33,168
Auditors' remuneration	**6,457**	6,325
Exchange gain	**(6,009)**	(28,459)

3. Pension costs

The pension obligation has 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

	2001	2000
	Lm	Lm
Wages and salaries (excluding directors' emoluments)	**4,263,559**	4,097,569
Social security costs	**377,404**	345,507
	4,640,963	4,443,076

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

	2001	2000
	Lm	Lm
Direct	**741**	799
Administration	**95**	68
	836	867

5. Tax on profit on ordinary activities

	2001	2000
	Lm	Lm
Current tax charge	**80,700**	172,643
Deferred tax (credit)/charge (Note 12)	**(248,583)**	24,688
	(167,883)	197,331

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

	2001	2000
	Lm	Lm
(Loss)/profit on ordinary activities before tax	**(394,107)**	531,104
Tax at 35%	**(137,937)**	185,886
Tax effect of:		
Non temporary differences	**25,027**	19,350
Investment income taxed at 15%	**(17,327)**	(7,905)
Over provision of deferred tax in previous years	**(37,646)**	-
Tax (credit)/charge	**(167,883)**	197,331

6. Directors' emoluments

	2001	2000
	Lm	Lm
Fees	**12,790**	11,338
Salaries and other emoluments	**15,168**	10,779
	27,958	22,117

The company has paid insurance premiums of Lm1,320 (2000: 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 2001						
Opening net book amount	317,827	-	126,807	59,698	6,456	510,788
Transfer	15,681	-	(15,681)	-	-	-
Additions	83,004	56,507	31,703	116,896	-	288,110
Disposals	-	-	(4,691)	(8,749)	(9,840)	(23,280)
Depreciation charge	(27,388)	-	(23,954)	(27,345)	(2,433)	(81,120)
Depreciation released on disposal	-	-	3,340	8,288	7,006	18,634
Closing net book amount	**389,124**	**56,507**	**117,524**	**148,788**	**1,189**	**713,132**
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
At 30 September 2000						
Cost	369,278	-	157,954	88,285	13,825	629,342
Accumulated depreciation	(51,451)	-	(31,147)	(28,587)	(7,369)	(118,554)
Net book amount	317,827	-	126,807	59,698	6,456	510,788

8. Intangible assets

Goodwill	**2001 Lm**	2000 Lm
Cost as at 30 September	**497,524**	497,524
Amortisation		
At 1 October	**80,156**	46,988
Amortisation charge for the year	**33,168**	33,168
At 30 September	**113,324**	80,156
Net book amount at 30 September	**384,200**	417,368

9. Stocks

	2001 Lm	2000 Lm
Stamps and postal stationery	**36,541**	35,047
Stocks for resale	**63,723**	57,526
Other stock items	**37,774**	40,240
	138,038	132,813

10. Debtors

	2001 Lm	2000 Lm
Trade debtors	**1,065,686**	639,447
Other debtors	**11,788**	47,954
Prepayments and accrued income	**313,460**	337,945
	1,390,934	1,025,346

11. Investments

	2001 Lm	2000 Lm
5.035% Treasury Bills (30 November 2001)	**99,173**	-
4.963% Treasury Bills (21 December 2001)	**395,594**	-
	494,767	-

12. Deferred taxation

	2001 Lm	2000 Lm
At beginning of year	**(24,688)**	-
Credited/(charged) to profit and loss account (Note 5)	**248,583**	(24,688)
At end of year	**223,895**	(24,688)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35%.

The balance at 31 December represents:

	2001 Lm	2000 Lm
Temporary differences on fixed assets	**(1,425)**	(25,911)
Temporary differences on provisions	**225,320**	1,223
At end of year	**223,895**	(24,688)

13. Trade and other creditors

	2001 Lm	2000 Lm
Amounts falling due within one year		
Trade creditors	**131,901**	366,175
Amounts due to Government in respect of assets taken over	**-**	1,300,000
Amounts collected on behalf of Government	**347,555**	360,811
Amounts collected on behalf of third parties	**976,767**	217,477
Other creditors	**225,211**	259,640
Indirect taxes and social security	**96,200**	84,314
Accruals and deferred income	**881,047**	632,649
	2,658,681	3,221,066

14. Other provisions

	2001 Lm	2000 Lm
Pension obligations	**593,427**	-

14. Other provisions - continued

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:

	2001	2000
	Lm	Lm
Present value of unfunded obligations	**593,427**	-

The amount recognised in the income statement is as follows:

	2001	2000
	Lm	Lm
Current service cost	**10,140**	-
Past service cost	**583,287**	-
Total	**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

	2001	2000
	Lm	Lm
Authorised		
5,000,000 (2000: 500,000) ordinary shares of Lm1 each	**5,000,000**	500,000
Issued and fully paid		
1,800,000 (2000: 500,000) ordinary shares of Lm1 each	**1,800,000**	500,000

15. Called up issued share capital - continued

By virtue of an extraordinary resolution dated 3 August 2001, the company's shareholders approved the increase of 4,500,000 ordinary shares of Lm1 each for an aggregate nominal value of Lm4,500,000. By virtue of an extraordinary resolution dated 3 August 2001, the company's shareholders approved the allotment of 1,300,000 fully paid up ordinary shares of Lm1 each for an aggregate nominal value of Lm1,300,000.

16. Cash generated from operations

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

	2001 **Lm**	2001 Lm
Operating (loss)/profit	**(480,627)**	458,647
Adjustments for:		
Depreciation of tangible assets (Note 7)	**81,120**	87,108
Loss on disposal	**4,646**	28,408
Amortisation of goodwill (Note 8)	**33,168**	33,168
Provision for doubtful debts (Note 10)	**12,665**	(24,648)
Provision for pension obligations (Note 14)	**593,427**	-
Changes in working capital:		
Debtors	**(369,428)**	(391,992)
Stocks	**(5,225)**	(38,892)
Creditors	**737,615**	131,288
Cash generated from operations	**607,361**	283,087

17. Cash and cash equivalents

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

	2001 **Lm**	2000 Lm
Cash at bank and in hand	**1,734,584**	2,021,020

18. Commitments

Operating lease commitments

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

	2001	2000
	Lm	Lm
Within 1 year	**290,103**	284,688
Between 2 and 5 years	**1,071,282**	1,161,211
After 5 years	**1,400,000**	1,600,000
	2,761,385	3,045,899

19. 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 current asset investments 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 2001 and 2000 the carrying amounts of cash at bank, current asset investments, debtors, creditors and accrued expenses approximated their fair values.

20. Statutory information

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