MALTAPOST plc

Annual Report and Financial Statements
30 September 2003

Company Registration Number: C22796

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2003.

Principal activities

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

Review of business

Turnover for the period increased by 7.7% while costs increased by 0.7%.

The increase in turnover was mainly due to the domestic postal tariff being increased from 6c to 7c and additional volumes as a result of the European Union referendum in March and the General Election in April. A contribution to growth was registered in the philatelic area where the number of issues, the value of issues and the number of customers were increased. Turnover resulting from more bills being paid across the Post Office counters was also a feature in the positive growth for the year as was the increase in unaddressed mail.

Foreign incoming mail continues to decline in line with trends being experienced internationally. Decreases also occurred in the censorship and registered mail areas.

Salary costs decreased by 5%. This was the result of a reduction in staff numbers following the reversion of some employees to Government employment, partly countered by collective agreement awards. Increases occurred in terminal dues payments, commissions paid and in transport costs.

Administrative expenses increased by 16.4% mainly due to an increase in technical support and service fees where the full year's costs were incurred for the first time, and an exchange loss as a result of the weakening US dollar.

Key features of the year were the agreement on the collective employment contract in July, the beginning of major operational reforms in August and the positive operating performance for the year.

The directors are confident that the current level of business will be sustained in the foreseeable future.

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:

Joseph C. Grioli – appointed on 16 December 2003
Paul Dalton – appointed on 5 August 2003
Bruce Heesterman – appointed on 31 July 2003
Ian Pellicano – appointed on 30 July 2003
Philip Tabone – appointed on 30 July 2003
Frank Dimech (Chairman) – resigned on 30 November 2003
John Richard Allen – resigned on 5 August 2003
Mohammed Nazir Awan – resigned on 31 July 2003
Antoinette Borg – resigned on 30 July 2003
Mario Mizzi (Deputy Chairman) – resigned on 30 July 2003

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

Joseph C. Grioli	Bruce Heesterman
Chairman	Director

Registered office
305 Qormi Road
Marsa
Malta

30 April 2004

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 Financial Reporting 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 23. 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 2003 and of its profit, 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

30 April 2004

Profit and loss account

	Notes	**2003 Lm**	2002 Lm
Turnover	1	**7,337,969**	6,813,345
Cost of sales		**(5,619,329)**	(5,582,198)
Gross profit		**1,718,640**	1,231,147
Administrative expenses		**(1,558,489)**	(1,338,845)
Pension obligation	3	**68,771**	5,474
Other income		**11,493**	4,431
Operating profit/(loss)	4	**240,415**	(97,793)
Interest receivable		**35,007**	34,467
Profit/(loss) on ordinary activities before tax		**275,422**	(63,326)
Tax on profit/(loss) on ordinary activities	6	**(127,305)**	(10,505)
Profit/(loss) for the financial year		**148,117**	(73,831)

Balance sheet

	Notes	2003 Lm	Restated 2002 Lm
ASSETS			
Fixed assets			
Tangible assets	8	**1,179,182**	813,503
Intangible assets	9	**317,849**	351,017
Held-to-maturity investments	10	**204,120**	-
		1,701,151	1,164,520
Deferred taxation	13	**73,434**	198,502
Current assets			
Stocks	11	**141,299**	111,297
Debtors	12	**1,857,092**	1,111,259
Taxation recoverable		**101,868**	40,880
Cash at bank and in hand		**2,597,773**	2,378,439
		4,698,032	3,641,875
Total assets		**6,472,617**	5,004,897
EQUITY AND LIABILITIES			
Capital and reserves			
Called up issued share capital	16	**2,672,541**	2,292,570
Other reserves	17	**205,170**	211,529
Profit and loss account		**(6,811)**	(154,928)
Total shareholders' funds		**2,870,900**	2,349,171
Provision for liabilities and charges			
Other provisions	15	**576,005**	617,477
		576,005	617,477
Creditors: amounts falling due within one year			
Trade and other creditors	14	**3,025,712**	2,038,249
Total creditors		**3,025,712**	2,038,249
Total equity and liabilities		**6,472,617**	5,004,897

The financial statements on pages 5 to 23 were authorised for issue by the board on 30 April 2004 and were signed on its behalf by:

Joseph C. Grioli
Chairman

Bruce Heesterman
Director

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 2001					
- as previously reported		1,800,000	-	(12,378)	1,787,622
- effect of overstated philatelic sales relating to prior year	2	-	-	(68,719)	(68,719)
- as restated		1,800,000	-	(81,097)	1,718,903
Issue of share capital	16	492,570	245,000	-	737,570
Cash flow hedge - net of tax	17	-	(33,471)	-	(33,471)
Loss for the financial year		-	-	(73,831)	(73,831)
Balance at 30 September 2002		**2,292,570**	**211,529**	**(154,928)**	**2,349,171**
Balance at 30 September 2002		2,292,570	211,529	(154,928)	2,349,171
Share capital called up	16	379,971	-	-	379,971
Cash flow hedge - net of tax	17	-	(6,359)	-	(6,359)
Profit for the financial year		-	-	148,117	148,117
Balance at 30 September 2003		**2,672,541**	**205,170**	**(6,811)**	**2,870,900**

Cash flow statement

	Notes	**2003 Lm**	2002 Lm
Operating activities			
Cash generated from/(used in) operations	18	**565,452**	(437,543)
Interest received		**58,973**	71,732
Tax paid		**(59,800)**	(10,787)
Net cash generated from/(used in) operating activities		**564,625**	(376,598)
Investing activities			
Purchase of held-to-maturity investments	10	**(204,120)**	-
Disposal of current asset investments		**-**	494,767
Purchase of tangible assets	8	**(521,142)**	(212,505)
Disposal of tangible assets	8	**-**	621
Net cash (used in)/generated from investing activities		**(725,262)**	282,883
Financing activities			
Ordinary shares called up	16,17	**379,971**	737,570
Net cash from financing activities		**379,971**	737,570
Movement in cash and cash equivalents		**219,334**	643,855
Cash and cash equivalents at beginning of year		**2,378,439**	1,734,584
Cash and cash equivalents at end of year	19	**2,597,773**	2,378,439

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 Financial Reporting 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 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.

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. Held-to-maturity investments

The company classifies its investments as held-to-maturity. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in fixed assets. Held-to-maturity investments are carried at amortised cost using the effective yield method.

All purchases and sales of investments are recognised at trade date which is the date that the company commits to purchase or sell the asset.

6. Tangible fixed assets

Tangible fixed assets, comprising improvements to buildings, furniture 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.

7. 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.

8. 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.

9. 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.

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 against which the temporary differences can be utilised will be available.

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:

	2003	2002
	Lm	Lm
Stamps, parcel post and postal stationery including terminal dues receivable	**6,230,845**	5,767,530
Philatelic sales	**344,690**	201,957
Courier services	**125,034**	120,682
Other	**637,400**	723,176
	7,337,969	6,813,345

2. Prior year adjustment

During the year the company discovered an error in its accounting for philatelic sales that had been recurring for a number of years. This error is unlikely to have had a significant impact on the results of any one year in particular but over the years has resulted in a cumulative charge of Lm68,719 (Lm105,722, less deferred tax of Lm37,003) against the company's retained earnings. This has been accounted for as a prior year adjustment in accordance with International Financial Reporting Standard 8.

3. Pension costs

The pension obligations have arisen due to 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, will be borne by Maltapost plc (Note 15), as long as the said employees are employed with Maltapost plc up to their retirement date.

4. Operating profit/(loss)

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

	2003 **Lm**	2002 Lm
Staff costs (Note 5)	**4,534,696**	4,782,035
Pension obligation (Note 15)	**(68,771)**	(5,474)
Provision for doubtful debts	**2,650**	(2,552)
Depreciation of tangible assets (Note 8)	**155,463**	111,398
Amortisation of goodwill (Note 9)	**33,168**	33,183
Auditors' remuneration	**6,450**	6,450
Exchange loss	**129,052**	25,534

5. Staff costs

	2003 **Lm**	2002 Lm
Wages and salaries, excluding the cost of employees reverting to Government	**4,139,106**	4,381,820
Social security costs	**395,590**	400,215
	4,534,696	4,782,035

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

	2003 **Lm**	2002 Lm
Direct	**739**	745
Administration	**78**	85
	817	830

6. Tax on profit/(loss) on ordinary activities

	2003 Lm	2002 Lm
Current tax charge	**-**	10,787
Deferred tax charge/(credit) (Note 13)	**127,606**	(17,609)
(Over)/under provision in previous years	**(301)**	17,327
Tax charge	**127,305**	10,505

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

	2003 Lm	2002 Lm
Profit/(loss) on ordinary activities before tax	**275,422**	(63,326)
Tax at 35%	**96,398**	(22,163)
Tax effect of:		
Non temporary differences	**31,208**	29,723
Investment income taxed at 15%	**-**	(14,382)
(Over)/under provision in previous years	**(301)**	17,327
Tax charge	**127,305**	10,505

7. Directors' emoluments

	2003 Lm	2002 Lm
Fees	**16,750**	13,601
Salaries	**-**	9,502
	16,750	23,103

The company has paid insurance premia of Lm1,980 (2002: Lm1,540) during the year, in respect of professional indemnity in favour of its directors.

8. 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 2003						
Opening net book amount	442,882	84,221	118,663	167,309	428	813,503
Additions	127,964	27,215	61,026	286,077	-	502,282
Exchange differences (Note 17)	-	-	-	18,860	-	18,860
Depreciation charge	(38,192)	-	(29,640)	(87,227)	(404)	(155,463)
Closing net book amount	**532,654**	**111,436**	**150,049**	**385,019**	**24**	**1,179,182**
At 30 September 2003						
Cost	683,621	111,436	251,817	569,036	3,685	1,619,595
Accumulated depreciation	(150,967)	-	(101,768)	(184,017)	(3,661)	(440,413)
Net book amount	532,654	111,436	150,049	385,019	24	1,179,182
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

9. Intangible assets

Goodwill	**2003 Lm**	2002 Lm
Cost at 30 September	**497,524**	497,524
Amortisation		
At 1 October	**146,507**	113,324
Amortisation charge for the year	**33,168**	33,183
At 30 September	**179,675**	146,507
Net book amount at 30 September	**317,849**	351,017

10. Held-to-maturity investments

	Lm
Year ended 30 September 2003	
Additions	
2,700 6.6% Farsons Bonds 2010 - 2012	2,700
1,200 6.25% Farsons Bonds 2006 - 2008	1,200
120,000 6.2% - 8% (EUR) IHI Bonds 2013	50,220
50,000 6.3% IHI Bonds 2013	50,000
50,000 5.5% MGS 2023	50,000
50,000 5.1% MGS 2014	50,000
Closing net book amount	**204,120**
At 30 September 2003	
Cost and closing net book amount	**204,120**

The market value of the investments at 30 September 2003 was Lm211,902.

11. Stocks

	2003 **Lm**	2002 Lm
Stamps and postal stationery	**38,230**	25,696
Stocks for resale	**61,815**	44,499
Other stock items	**41,254**	41,102
	141,299	111,297

12. Debtors

	2003 **Lm**	Restated 2002 Lm
Trade debtors	**1,107,462**	832,685
Provision for bad debts	**(50,445)**	(47,795)
	1,057,017	784,890
Other debtors	**446,225**	5,915
Prepayments and accrued income	**353,850**	320,454
	1,857,092	1,111,259

Included in trade debtors is an amount of Lm3,705 (2002: nil) which is due from a related party.

13. Deferred taxation

	2003 Lm	Restated 2002 Lm
At beginning of year	**198,502**	260,898
(Charged)/credited to profit and loss account (Note 6)	**(127,606)**	17,609
Over provision of deferred tax in previous years	**(887)**	(98,027)
Credited to equity (Note 17)	**3,425**	18,022
At end of year	**73,434**	198,502

The deferred tax credited to equity during the year relates to the hedging reserve included with other reserves (Note 17). 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:

	2003 Lm	Restated 2002 Lm
Temporary differences on fixed assets	**(7,450)**	123
Temporary differences on provisions	**17,656**	16,728
Temporary differences on unabsorbed tax losses and capital allowances	**41,781**	163,629
Temporary differences on hedging reserve	**21,447**	18,022
At end of year	**73,434**	198,502

14. Trade and other creditors

	2003 Lm	2002 Lm
Amounts falling due within one year		
Trade creditors	**304,289**	161,428
Amounts collected on behalf of third parties	**1,658,833**	835,977
Other creditors	**14,434**	38,633
Indirect taxes and social security	**157,124**	14,039
Unearned revenue	**65,472**	211,720
Accruals and deferred income	**825,560**	776,452
	3,025,712	2,038,249

In 2002, included in other creditors is an amount of Lm34,520 which is due to a related party.

15. Other provisions

	2003	2002
	Lm	Lm
Pension obligations	**576,005**	617,477

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:

	2003	2002
	Lm	Lm
Present value of unfunded obligations	**797,191**	819,231
Fair value of obligations to be reimbursed by Government	**(221,186)**	(201,754)
Present value of unfunded obligations	**576,005**	617,477

The amount recognised in the income statement is as follows:

	2003	2002
	Lm	Lm
Current service adjustment	**12,893**	15,038
Interest	**10,717**	11,229
Net actuarial gains/(losses) recognised during the year	**45,161**	(20,793)
Total amount credited to income	**68,771**	5,474

Made up of:

	2003	2002
	Lm	Lm
Movement in present value of unfunded obligations	**41,472**	(24,050)
Interest received	**27,299**	29,524
Total amount credited to income	**68,771**	5,474

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.

16. Called up issued share capital

	2003 Lm	2002 Lm
Authorised		
5,000,000 ordinary shares of Lm1 each	**5,000,000**	5,000,000
Issued		
1,820,000 ordinary shares of Lm1 each, fully paid up	**1,820,000**	1,820,000
980,000 ordinary shares of Lm1 each, 87% (2002: 48%) paid up	**852,541**	472,570
	2,672,541	2,292,570

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 ordinary shares of Lm1 each at a premium of 25c each. In 2002, 48% of the 980,000 ordinary share capital issued was paid up, whereas in 2003 a further call was made and the 980,000 ordinary shares are 87% paid up at 30 September 2003.

17. Other reserve

	Share premium Lm	Hedging reserve Lm	Total Lm
At 30 September 2003			
At beginning of year	245,000	(33,471)	211,529
Cash flow hedge			
Amounts arising during the year	-	(68,151)	(68,151)
Deferred taxation thereon	-	23,853	23,853
Transfer to tangible assets	-	18,860	18,860
Deferred taxation thereon	-	(6,601)	(6,601)
Transfer to profit and loss account	-	39,507	39,507
Deferred taxation thereon	-	(13,827)	(13,827)
At end of year	**245,000**	**(39,830)**	**205,170**
At 30 September 2002			
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**

17. Other reserve - continued

The hedging reserve arose when the company earmarked foreign currency bank balances 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.

18. Cash generated from/(used in) operations

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

	2003	2002
	Lm	Lm
Operating profit/(loss)	**240,415**	(97,793)
Adjustments for:		
Depreciation on tangible assets (Note 8)	**155,463**	111,398
Loss on disposal of tangible assets	**-**	115
Amortisation of goodwill (Note 9)	**33,168**	33,183
Provision for doubtful debts (Note 12)	**2,650**	(2,552)
Provision for pension obligations (Note 15)	**(68,771)**	(5,474)
Cash flow hedge (Note 17)	**(9,784)**	(51,493)
Changes in working capital:		
Debtors	**(745,150)**	168,764
Stocks	**(30,002)**	26,741
Creditors	**987,463**	(620,432)
Cash generated from/(used in) operations	**565,452**	(437,543)

19. Cash and cash equivalents

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

	2003	2002
	Lm	Lm
Cash at bank and in hand	**2,597,773**	2,378,439

20. Commitments

Operating lease commitments

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

	2003	2002
	Lm	Lm
Within 1 year	**294,195**	294,195
Between 2 and 5 years	**894,584**	993,857
After 5 years	**1,000,000**	1,200,000
	2,188,779	2,488,052

21. Contingent liabilities

As stated in note 15 to the accounts, the company established a pension scheme concerning those ex-Government employees who opted to become full-time employees with Maltapost plc and who were entitled to pension rights which go beyond the National Insurance Scheme. In computing its liability under this scheme, Maltapost plc has assumed a cut-off date of 31 October 2000 as the date when any eventual pension liability started to accrue. This represents the date by which ex-Government employees had to opt to become Maltapost plc employees or return to Government employment.

The company has recently received a letter from the Ministry of Finance and Economic Affairs contending that the cut-off date should be set at 1 May 1998 i.e. the date when Maltapost plc was formed. The company is refuting this claim and continues to contend that what had been agreed with Government is that the cut-off date should be set at 31 October 2000. Legal advice taken by the company in this respect supports the company's position. The company has accordingly informed Government of this position and is in the process of meeting officials from the Ministry of Finance and Economic Affairs to address the issue.

If the cut-off date had to be set at 1 May 1998, certain assumptions used in the computation of the company's pension obligations would have to be revised and these obligations would increase materially. The directors are of the opinion that this increased provision will not materialise.

22. 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 Lm298,799 (2002: Lm218,327). The company carries out a number of transactions with the Government of Malta and Government-controlled companies in the normal course of its activities. Amounts due to related parties, other than those due to and due from the Government of Malta and Government-controlled companies, are disclosed accordingly in notes 12 and 14 to the accounts.

23. 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 2003 and 2002 the carrying amounts of cash at bank, 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.

24. Statutory information

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