Contents

Malta Freeport Corporation Limited

Directors, officers and other information

Directors:	Mark Portelli (Chairman) Patrick Attard Reuben Bonello
Secretary:	Maria Karlsson
Registered office:	Freeport Centre, Kalafrana, Malta.
Company registration number:	C 9353
Auditors:	Deloitte & Touche, 1, Col. Savona Street, Sliema, Malta.
Bankers:	APS Bank Limited, APS House, St. Anne Street, Floriana, Malta.
	Bank of Valletta p.l.c., Corporate Centre, St. Venera, Malta.
	Deutsche Bank AG London, Global Investment Banking, Winchester House, 1, Great Winchester Street, London, England.
	HSBC Bank Malta p.l.c., Hexagon House, Spencer Gardens, Blata l-Bajda, Malta.
Legal advisers:	Dr. J. Zammit Maempel, Grech, Hyzler, Tortell & Co., 25, Strait Street, Valletta, Malta.

Malta Freeport Corporation Limited

Directors' report

Year ended 31 December 2005

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005.

Principal activities
Malta Freeport Corporation Limited fulfills the role of landlord and authority over the Freeport zone. The company also owns a 30% stake in Oiltanking (Malta) Limited.

Performance review
The company reports a profit before tax of *USD66,516,103* as compared to the restated loss of *USD28,715,283* in the prior year.

The turnaround in results is mainly attributable to the fair valuation of the cross-currency swap. In valuing the cross-currency swap the company reported a positive movement of *USD35,346,739*. In the prior year the company registered a negative movement of *USD23,912,814*.

In the year under review the company reported an increase in the fair value of its investment property of *USD26,206,617*. The company was however negatively affected by the provision of a deferred tax liability of *USD26,392,276* on its investment property as a result of the change in capital gains tax rules that were announced during the year.

The company also recognized a previously unaccounted for deferred tax asset of *USD5,207,336*. This was deemed appropriate as from a review of its future income and expenses, the company is expected to be chargeable to tax.

Following the disposal of its major subsidiary in 2004, group financial statements are no longer being prepared and therefore it was necessary to change the company's accounting policy on recognition of its share of profits from its associated company in accordance with IAS 28 – Accounting for Investments in Associates. This has been accounted for retrospectively.

The company's balance sheet position has improved from a deficiency of *USD21,054,032* to a net asset position of *USD23,456,378*.

Result and dividends
The result for the year ended 31 December 2005 is shown in the income statement on page five. The profit for the year after taxation was *USD44,510,410*. No dividend is being recommended as the company did not have any distributable reserves at the balance sheet date.

Directors
The directors who served during the period were:

Mark Portelli (Chairman)
Patrick Attard
Reuben Bonello

In accordance with paragraph 6 of the company's memorandum of association, all the directors retire and, being eligible, offer themselves for re-election.

Auditors
A resolution to re-appoint Deloitte & Touche as auditors of the company will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on its behalf on 28 June 2006 by:

Mark Portelli	***Reuben Bonello***
Chairman	***Director***

Malta Freeport Corporation Limited

Statement of directors' responsibilities

The directors are required to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of each financial year and of its profit or loss for the year then ended. In preparing these financial statements, the directors should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act (Chap.386). 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.

Malta Freeport Corporation Limited

Income statement

Year ended 31 December 2005

	Notes	**2005 USD**	(Restated) 2004 USD
Revenue	*6*	**3,946,865**	3,148,200
Administrative expenses		**(3,746,202)**	(2,565,335)
Operating profit		**200,663**	582,865
Differences on exchange		**1,935,977**	(2,899,137)
Fair value movement in investment property	*14*	**26,206,617**	-
Fair value movement in cross currency-swap	*19*	**35,346,739**	(23,912,814)
Amortisation of re-financing charge		**(1,060,443)**	(1,060,443)
		62,629,553	(27,289,529)
Interest income	*7*	**3,061,950**	794,603
Share of profits in associate undertaking		**1,672,421**	974,234
Impairment loss on financial asset		**-**	(2,754,253)
Finance costs	*8*	**(847,821)**	(440,338)
Profit/(loss) before tax	*9*	**66,516,103**	(28,715,283)
Income tax	*12*	**(22,005,693)**	(7,196)
Profit/(loss) for the year		**44,510,410**	(28,722,479)

Malta Freeport Corporation Limited

Balance sheet
31 December 2005

	Notes	2005 USD	(Restated) 2004 USD
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*13*	**445,059**	239,989
Investment property	*14*	**219,935,631**	196,289,344
Investments in subsidiaries	*15*	**-**	4,664,921
Investments in associates	*15*	**5,098,188**	3,425,767
Long-term receivables	*16*	**100,333,613**	111,089,839
Deferred tax asset	*17*	**4,397,877**	-
		330,210,368	315,709,860
Current assets			
Trade and other receivables	*18*	**14,794,890**	15,536,527
Derivative instrument at fair value	*19*	**11,433,926**	-
Cash and cash equivalents		**1,519,018**	11,287,039
		27,747,834	26,823,566
Total assets		**357,958,202**	342,533,426
Current liabilities			
Trade and other payables	*20*	**4,091,309**	11,984,624
Derivative instrument at fair value	*19*	**-**	23,912,814
Other financial liabilities	*22*	**480,000**	5,176,342
Bank overdraft and loans	*21*	**13,570,454**	16,331,181
		18,141,763	57,404,961
Non-current liabilities			
Other financial liabilities	*22*	**247,944,081**	247,351,657
Bank loans	*21*	**40,765,275**	58,617,538
Provision for liabilities and other charges	*23*	**1,258,429**	213,302
Deferred tax liability	*24*	**26,392,276**	**-**
		316,360,061	306,182,497
Total liabilities		**334,501,824**	363,587,458
Net assets/(liabilities)		**23,456,378**	(21,054,032)
EQUITY			
Share capital	*25*	**2,976,128**	2,976,128
Other reserves		**759,548**	759,548
Retained earnings		**19,720,702**	(24,789,708)
Total equity		**23,456,378**	(21,054,032)

These financial statements were approved by the board of directors, authorised for issue on 28 June 2006 and signed on its behalf by:

Mark Portelli
Chairman

Reuben Bonello
Director

The rate of exchange at 31 December 2005 was Lm1:USD2.7681 (2004 Lm1:USD3.140)

Malta Freeport Corporation Limited

Statement of changes in equity

Year ended 31 December 2005

	Share capital USD	Other reserve USD	Reporting currency conversion difference USD	Profit and loss account USD	Total USD
Balance at 1 January 2004	2,976,128	12,128,096	759,548	(10,443,029)	5,420,743
Effect of changes in accounting policy for associate undertaking (Note 5)	-	-	-	2,247,704	2,247,704
Reclassification of fair value of investment property	-	(12,128,096)	-	12,128,096	-
As restated	2,976,128	-	759,548	3,932,771	7,668,447
Loss for the year (restated)	-	-	-	(28,722,479)	(28,722,479)
Balance at 1 January 2005 (as restated)	2,976,128	-	759,548	(24,789,708)	(21,054,032)
Profit for the year	-	-	-	44,510,410	44,510,410
Balance at 31 December 2005	**2,976,128**	**-**	**759,548**	**19,720,702**	**23,456,378**

Reporting currency conversion difference

The reporting currency conversion difference emanated from the translation of assets and liabilities in 1999 when the company changed its reporting currency from Maltese Liri to US Dollars by applying the provisions of the Eighth Schedule of the Companies Act, (Chap. 386).

Profit and loss account

The profit and loss account consists of unrealised profits mainly emanating from the fair value movement of investment property and the cross-currency swap, the share of profits in the associate undertaking as well as the recognition of the deferred tax asset.

Malta Freeport Corporation Limited

Cash flow statement

Year ended 31 December 2005

	Note	2005 USD	(Restated) 2004 USD
Cash flows from operating activities			
Profit/(loss) on ordinary activities before tax		**66,516,103**	(28,715,283)
Adjustments for:			
Depreciation		**76,763**	124,728
Increase in provision on retirement benefits		**1,071,477**	26,172
Impairment in value of investments		**-**	2,754,253
Fair value movement in cross-currency swap		**(35,346,739)**	23,912,814
Fair value movement in investment property		**(26,206,617)**	-
Unrealised difference on exchange		**(1,935,977)**	2,899,137
Amortisation		**1,060,443**	1,060,443
Interest income		**75,293**	(794,603)
Share of profits in associate		**(1,672,421)**	(974,234)
Net interest expense		**847,821**	440,338
Operating profit before working capital movements		**4,486,146**	733,765
Movement in debtors		**107,304**	(820,151)
Movement in creditors		**(3,228,394)**	(8,957,556)
Cash flows from operations		**1,365,056**	(9,043,942)
Interest paid		**(847,821)**	(440,338)
Taxation paid		**(11,294)**	(7,196)
Retirement benefits paid		**(26,350)**	-
Net cash flows from operations		**479,591**	(9,491,476)
Cash flows from investing activities			
Payments to acquire tangible fixed assets		**(281,833)**	(14,327)
Receipts from reduction of capital in associated undertaking		**-**	933,156
Proceeds from sale of investment in group undertaking		**-**	3,982,487
Dividend received		**-**	1,005,137
Interest received		**(75,293)**	59,963
Net cash flows from investing activities		**(357,126)**	5,966,416
Cash flows from financing activities			
Repurchase of Global Registered Notes		**(467,620)**	(467,619)
Movement in bank loan		**(17,087,085)**	6,001,966
Movement in long-term receivables		**9,254,547**	6,766,704
Net cash flows from financing activities		**(8,300,158)**	12,301,051
Net movement in cash and cash equivalents		**(8,177,693)**	8,775,991
Cash and cash equivalents at the beginning of the year		**9,638,725**	862,734
Cash and cash equivalents at the end of the year	*26*	**1,461,032**	9,638,725

1. Basis of preparation

The financial statements have been prepared on a going concern basis which assumes that the company will continue to operate for the foreseeable future. The validity of this assumption is contingent upon the Government continuing to meet the interest obligation in respect of the company's debenture loan stock and that the company will continue to meet its obligations from the expected future cash flows derived from:

- the amount due from the disposal of the shareholding in Malta Freeport Terminals Limited;
- the lease of the terminal infrastructure; and,
- other ancillary income.

The financial statements do not include any adjustments that would result if the assumptions mentioned above were not to hold true. The financial statements of the company have been prepared in accordance with International Financial Reporting Standards.

2. Significant accounting policies

Property, plant and equipment

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment cost.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the period in which they arise.

2. Significant accounting policies (continued)

Depreciation

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on derecognition represent the difference between the net disposal proceeds and the carrying amount and are recognised in profit or loss in the period of derecognition.

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost /revalued amount, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Plant and machinery	-	5 - 25% per annum

The depreciation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when the company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

The terms of financial instruments that are issued, the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument are evaluated to determine whether the financial instruments are financial liabilities or equity instruments or whether they contain both a liability and an equity component, in which case such components are classified separately as financial liabilities and equity instruments.

2. Significant accounting policies (continued)

Financial instruments (continued)

Financial instruments issued by the company, or any component thereof, are classified with equity instruments if both the following conditions are met:

(a) The financial instruments include no contractual obligation:

- i) to deliver cash or another financial asset to another entity; or
- ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the company.

(b) If the financial instruments will or may be settled in the company's own equity instruments, they are:

- i) non-derivatives that include no contractual obligation for the company to deliver a variable number of its own equity instruments; or
- ii) derivatives that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments (excluding instruments that are themselves contracts for the future receipt or delivery of the company's own equity instruments).

Where any of these conditions is not satisfied, financial instruments issued by the company, or any component thereof, are classified with financial liabilities.

(i) Trade receivables

Trade receivables are classified with current assets and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

(ii) Investments

A subsidiary is an entity that is controlled by the company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

An associate is an entity over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

2. Significant accounting policies (continued)

Financial instruments (continued)

(ii) Investments (continued)

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, from the date that significant influence commences until the date that significant influence ceases. Under the equity method, investments in associates are initially recognised at cost and adjusted thereafter for the post-acquisition change in the company's share of net assets of the associates, less any impairment in the value of individual investments. The company's share of the post-acquisition profit or loss of the associates is recognised in profit or loss and the company's share of the post-acquisition movement in other reserves is recognised directly in equity. The company's share of losses of an associate in excess of its interest in that associate (which includes any long-term interests that, in substance, form part of the company's net investment in the associate) are not recognised, unless the company has incurred obligations or made payments on behalf of the associate.

Where necessary, in preparing these financial statements, appropriate adjustments are made to the financial statements of associates to bring their accounting policies in line with those used by the company.

(iii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised in profit or loss over the term of the borrowings.

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

(iv) Other borrowings

Subsequent to initial recognition, other borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial.

2. Significant accounting policies (continued)

Financial instruments (continued)

(v) Trade payables

Trade payables are classified with current liabilities and are stated at their nominal value.

(vi) Shares issued by the company

Ordinary shares issued by the company are classified as equity instruments.

(vii) Derivative financial instruments

Derivative financial instruments are initially measured in the balance sheet at cost, and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active market prices in active markets, and discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The company classifies its cross-currency swap at fair value through profit and loss and accordingly any changes in their value are included in the income statement.

Impairment

All assets are tested for impairment except for deferred tax assets and investment property measured at fair value. At each balance sheet date, the carrying amount of assets is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

The impairment loss on investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2. Significant accounting policies (continued)

Impairment (continued)

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value less costs to sell (which is the amount obtainable from sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal) and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for services provided in the normal course of business, net of value-added tax and discounts, where applicable. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

(i) Provision of services

Revenue from the provision of services is recognised in the period in which the services are rendered.

(ii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

(iii) Royalty income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

2. Significant accounting policies (continued)

Borrowing costs

Borrowing costs include the costs incurred in obtaining external financing. Borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

Taxation

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The charge for current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, including deferred tax assets for the carryforward of unused tax losses and unused tax credits, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences (or the unused tax losses and unused tax credits) can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to settle its current tax assets and liabilities on a net basis.

Retirement benefit costs

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with estimations being carried out at each balance sheet date. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. The amount recognised in the balance sheet represents the present value of the defined benefit obligation.

2. Significant accounting policies (continued)

Currency translation

The financial statements of the company are presented in its functional currency, the USD, being the currency of the primary economic environment in which the company operates. Transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the re-translation of monetary items are dealt with in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was determined. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not retranslated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement and are presented in current liabilities on the balance sheet.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In the process of applying the company's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements.

At the balance sheet date, except as described below, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

In the process of valuing the company's investment property, management has used discounted cash flow projections based on reliable estimates of future cash flows. These were supported by the terms of the existing lease and rental contracts and by using discount rates that reflect current market assessment of the uncertainty in the amount and timing of the cash flows. On the basis of these assessments, in the year under review, the company has reported an increase in the value of the investment property of *USD26,206,617* reflecting the movement throughout the year of both the discount rates and the net present value of future cash flows.

4. Adoption of new and revised International Financial Reporting Standards

In the current year, the company has applied all of the new and revised International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005.

The adoption of these new and revised International Financial Reporting Standards has resulted in the company changing its accounting policy with regards to accounting for its associated company as illustrated in note 5.

In the year under review the company has amended the presentation and classification of certain items in the financial statements in accordance with IAS 1 Presentation of Financial Statements (the revised IAS 1) which replaces IAS 1 Presentation of Financial Statements (revised in 1997) (the previous IAS 1). Comparative amounts were reclassified accordingly.

It is anticipated that certain new disclosures about financial instruments may be required upon the adoption of IFRS 7 *Financial Instruments: Disclosures*. This Standard is applicable for annual periods beginning on or after 1 January 2007, with earlier application encouraged. IFRS 7 replaces the disclosures required by IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

5. Change in accounting policy

In October 2004, the company disposed of its operating subsidiary with the consequence that consolidated financial statements do not need to be prepared as the company is no longer a parent of any operating companies or companies with material assets or liabilities. Consequently the company changed its accounting policy for accounting for investment in associates from the cost basis to the equity basis. The change has been accounted for retrospectively, and the comparative financial statements for 2004 have been restated. The effect of the change is tabulated below.

	USD
Effect on 2004	
Increase in investment gains	**974,234**
Decrease in dividends receivable	**(1,003,137)**
Decrease in profit	**(28,903)**
Effect on periods prior to 2004	
Increase in investment gains	**2,247,704**
Increase in investment gains and retained earnings at 31 December 2004	**2,218,801**

6. Revenue

Revenue represents the amount receivable for services rendered during the year, net of any indirect taxes.

The following disclosure is relevant in terms of indent (l) of paragraph 31 of Part III of the Third Schedule to the Companies Act (Chap 386):

The contribution of the various activities of the company to turnover which are in respect of continuing activities are set out below:

	2005	2004
	USD	USD
Licence fees	**1,027,157**	250,000
Other income	**483,376**	573,967
Rents receivable	**890,198**	913,023
Royalties	**507,967**	443,012
Security fees	**1,038,167**	968,198
	3,946,865	3,148,200

7. Interest income

	2005	2004
	USD	USD
This has arisen on:		
Interest on bank deposits	**75,293**	54,970
Interest on long term debtor	**2,986,657**	739,633
	3,061,950	794,603

8. Finance costs

	2005	2004
	USD	USD
Interest payable on debenture loan stock	**17,194,164**	17,308,194
Interest payable on bank loans and overdrafts	**847,821**	440,338
	18,041,985	17,748,532
Less: government subvention	**(17,194,164)**	(17,308,194)
Net interest payable	**847,821**	440,338

9. Profit/(loss) before tax

	2005	2004
	USD	USD
This is stated after charging:		
Auditors' remuneration	**16,849**	17,271
Directors' emoluments (note 10)	**63,191**	49,631

10. Key management personnel compensation

	2005	2004
	USD	USD
Directors' compensation:		
Short-term benefits:		
Fees	**8,597**	8,795
Management remuneration	**20,061**	20,523
	28,658	29,318
Indemnity insurance paid	**34,533**	20,313

11. Staff costs and employee information

	2005	2004
	USD	USD
Staff costs:		
Wages and salaries	**2,165,320**	1,963,497
Social security costs	**158,716**	148,453
	2,324,036	2,111,950

The average number of persons employed during the year, including executive directors, was made up as follows:

	2005	2004
	Number	Number
Administration and finance	**19**	20
Operational	**71**	71
	90	91

12. Income tax

	2005 USD	2004 USD
Tax charge for the year:		
Final withholding tax at 15%	**11,294**	7,196
Deferred taxation	**21,994,399**	-
	22,005,693	7,196
Tax at source on interest income	**(11,294)**	(7,196)
Transfer to deferred taxation	**(21,994,399)**	-
Balance carried forward	**-**	-

	2006 USD	2005 USD
Current tax expense	**11,294**	7,196
Deferred tax asset (note 17)	**(4,397,877)**	-
Deferred tax liability (note 24)	**26,392,276**	-
	22,005,693	7,196

Tax applying the statutory domestic income tax rate and the income tax expense for the year are reconciled as follows:

	2005 USD	2004 USD
Profit for the year	**66,516,103**	(28,715,283)
Tax at the applicable rate of 35%	**23,280,636**	(10,050,349)
Tax effect of:		
Interest income subject to 15% withholding tax	**(15,059)**	(9,595)
Profit and loss transactions not allowable for tax purposes	**(315,802)**	2,038,637
Share of profit in associated undertakings	**(585,347)**	(340,982)
Deferred tax not accounted for in previous years	**(5,207,336)**	-
Fair value movement in investment property	**(9,172,316)**	-
Fair value movement in cross-currency swap	**(12,371,359)**	8,369,485
Deferred tax on investment property	**26,392,276**	
	22,005,693	7,196

13. Property, plant and equipment

	Plant and machinery USD	Land and buildings USD	Quays, wharves and jetties USD	Motor vehicles USD	Total USD
Cost/valuation					
At 01.01.2004	10,308,597	542,213	181,789,852	212,418	192,853,080
Additions	17,238	-	-	-	17,238
Disposals	(8,674,561)	-	-	-	(8,674,561)
Transfer to investment property	-	(542,213)	(181,789,852)	-	(182,332,065)
At 01.01.2005	1,651,274	-	-	212,418	1,863,692
Additions	281,833	-	-	-	281,833
At 31.12.2005	1,933,107	-	-	212,418	2,145,525
Accumulated depreciation					
At 01.01.2004	9,967,766	38,200	-	212,418	10,218,384
Provision for the year	115,169	9,559	-	-	124,728
Transfer to investment property	(8,671,650)	(47,759)	-	-	(8,719,409)
At 01.01.2005	1,411,285	-	-	212,418	1,623,703
Provision for the year	76,763	-	-	-	76,763
At 31.12.2005	1,488,048	-	-	212,418	1,700,466
Carrying amount					
At 31.12.2004	239,989	-	-	-	239,989
At 31.12.2005	**445,059**	**-**	**-**	**-**	**445,059**

14. Investment property

	Investment properties USD
Fair value	
At 01.01.2004	14,005,038
Transferred from fixed assets	182,284,306
At 01.01.2005	196,289,344
Effect of liability taken over by Government	(2,560,330)
Increase in fair value of investment property	26,206,617
As at 31.12.2005	219,935,631
Carrying amount	
At 31.12.2004	196,289,344
At 31.12.2005	**219,935,631**

The fair value of the above investment property has been arrived at on the basis of discounted future cash flows of the lease agreements in place at the balance sheet date.

In October 2004 the company leased out the majority of its investment property for a 30-year period. At that date a concession to operate both terminals was granted for the same period. The consideration of this agreement amounts to *USD197,860,000*. Furthermore the company has other lease agreements with third parties for periods ranging from eleven to forty years that amount to a fixed consideration of *USD17,405,323* as well as other revenue streams based on volume through-put.

The income earned under the contracts described above amounted to *USD2,425,322* (2004 – *USD1,606,035*).

15. Financial assets

	%	2005 USD	2004 USD
Shares in subsidiary undertakings:			
1,500,000 (1999 : 1,500,000) "A" ordinary shares of Lm1 each, 440,000 (1999 : 440,000) "B" ordinary shares of Lm1 each and 60,000 (1999 : 60,000) "C" ordinary shares of Lm1 each in Freeport Terminal (Malta) p.l.c.	99.9	**14,709,666**	14,709,666
3,334 "A" ordinary shares of Lm1 each and 3,333 "C" ordinary shares of Lm1 each in Coastal Management Company Limited	66.7	**17,282**	17,282
Impairment on financial asset		**(14,726,948)**	(10,062,027)
		-	4,664,921

The increase in impairment on the financial asset has been offset against a grant, received to fund such losses from the Government in previous years.

Group undertakings

The registered office of the following subsidiaries is Freeport Centre, Kalafrana, Malta.

Freeport Terminal (Malta) p.l.c.
Coastal Management Company Limited

The above subsidiaries are non-operating and earmarked for liquidation in the near future.

	%	2005 USD	(Restated) 2004 USD
Shares in associated undertaking:			
1,260,000 "B" ordinary shares of Lm1 each in Oiltanking Malta Limited	30.0	**5,098,188**	3,425,767

The registered office of the above associate undertaking is, Port of Marsaxlokk, Kalafrana, Malta.

15. Financial assets (continued)

Summarised financial information in respect of the associated undertaking is set out below:

	2005 USD	(Restated) 2004 USD
Total assets	**30,699,058**	21,536,305
Total liabilities	**(13,705,098)**	(10,117,081)
	16,993,960	11,419,224
Company's share of the aggregate of share capital and reserves	**5,098,188**	3,425,767
Revenue	**12,144,446**	11,000,224
Profit for the year	**5,574,737**	3,247,447
Company's share of the profit for the year	**1,672,421**	974,234

16. Long-term receivables

This is made up of amounts due from government and a long-term receivable which represents the outstanding consideration for the entire equity sold in 2004 of Malta Freeport Terminals Limited, bearing interest at 4% per annum and repayable in 30 equal annual installments. The amounts due from government represent the long-term portion of expenditure incurred on infrastructural works and other equipment costs as well as borrowing costs paid by the company on behalf of Government. Interest is charged on the outstanding amount which is equal to the bank interest suffered on equivalent bank borrowings included in note 21. Amounts repayable within one year are shown under debtors.

	2005 USD	2004 USD
Amounts due from government	**38,663,337**	50,965,975
Long term receivable	**74,126,081**	73,214,002
	112,789,418	124,179,977
Less amounts due from government included in short-term debtors (note 18)	**(10,969,507)**	(13,090,138)
Less other long-term receivable included in short-term debtors (note 18)	**(1,486,298)**	-

	100,333,613	111,089,839

Notes to the financial statements
31 December 2005

17. Deferred tax asset

	2005
	USD
Arising on:	
Accelerated tax depreciation	**1,809,496**
Tax losses carried forward	**2,147,931**
Other temporary differences	**440,450**
	4,397,877

The deferred tax asset in the prior year which is estimated to have been *USD5,207,336* was prudently not accounted for. On the basis of the company's current forecast of chargeable income, the directors felt it appropriate to account for this asset in the year under review.

18. Trade and other receivables

	2005	2004
	USD	USD
Due from government (note 16)	**10,969,507**	13,090,138
Short-term portion of long-term receivable (note 16)	**1,486,298**	-
Trade receivables	**939,652**	417,139
Amounts owed by subsidiary undertakings	**-**	633,664
Amounts owed by associated undertaking	**569,007**	501,195
Other receivables	**177,854**	756
Refundable expenditure	**73,903**	3,056
Prepayments and accrued income	**578,669**	890,579
	14,794,890	15,536,527

The amounts owed by associated undertaking are unsecured and interest free.

19. Derivative instrument at fair value

	2005	2004
Fair value movement due to cross currency swap	**(32,090,449)**	(63,961,272)
Fair value of government guarantee	**43,524,375**	40,048,458
	11,433,926	(23,912,814)

In 2004 the company entered into a cross-currency swap converting its 7.25% *USD250,000,000* Debenture Loan Stock to 6.991% *Euro200,754,838.* As illustrated in note 9, the interest on this instrument is being borne by Government.

As the company reports in USD and the swap liability is in Euros, any exchange rate fluctuation exposure will crystallize on the maturity of the instrument in 2028.

The government has indemnified the company for any losses that could arise from the interest rate differential on the cross currency swap. Such a loss may only arise if the instrument is not held to maturity.

20. Trade and other payables

	2005	2004
	USD	USD
Trade payables	**703,609**	1,514,621
Other payables	**176,472**	6,969,672
Accruals and deferred income	**3,211,228**	3,500,331
	4,091,309	11,984,624

21. Bank overdrafts and loans

	2005	2004
	USD	USD
Bank overdrafts (secured)	**57,986**	1,648,314
Bank loans (secured)	**54,277,743**	73,300,405
	54,335,729	74,948,719

Bank overdrafts and loans are repayable as follows:

	2005	2004
	USD	USD
On demand or within one year	**13,570,454**	16,331,181
In the second year	**10,521,079**	11,056,195
In the third year	**9,454,023**	11,056,195
In the fourth year	**9,454,024**	11,056,195
In the fifth year	**9,454,024**	11,056,195
After five years	**1,882,125**	14,392,758
	54,335,729	74,948,719
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(13,570,454)**	(16,331,181)
	40,765,275	58,617,538

21. Bank overdrafts and loans (continued)

The carrying amounts of the company's borrowings are analysed as follows:

	Interest rate %	**2005 Principal**	Interest rate %	2004 Principal
Lm	**3.75**	**5,605,308**	3.5	6,503,131
	5.45	**201,068**	5.2	391,101
	5.20	**649,807**	4.95	1,030,832
	4.75	**217,911**	4.5	420,419
	4.25	**2,200,000**	4	2,200,000
	5.20	**460,128**	4.95	856,715
	6.25	**2,393,141**	6	2,393,141
	5.50	**944,117**	5.25	1,215,389
	5.60	**546,050**	5.60	609,312
	4.75	**-**	4.75	86,868
	7.25	**398,690**	7.25	650,000
		13,616,220		16,356,908
Euros	**4.12**	**6,433,350**	4.12	7,505,576
	5.00	**7,327,214**	5.00	8,549,436
		13,760,564		16,055,012

As illustrated in note 16, the interest cost on *USD39,668,896 (2004 – USD55,334,897)* of these bank borrowings is borne by Government. The bank loans and overdraft are secured by a general hypotec over the company's assets together with letters of guarantee issued by the Government of Malta.

22. Other financial liabilities

	2005 USD	2004 USD
7.5% Global Registered Notes 2009	**1,605,806**	2,073,426
7.25% Debenture Loan Stock 2028	**246,818,275**	245,758,231
Amounts owed to subsidiary undertakings	**-**	4,696,342
	248,424,081	252,527,999

Other financial liabilities are repayable as follows:

	2005 USD	2004 USD
On demand or within one year	**480,000**	5,176,342
In the second year	**480,000**	480,000
In the third year	**480,000**	480,000
In the fourth year	**165,806**	480,000
In the fifth year	**-**	153,026
After five years	**246,818,275**	245,758,631
	248,424,081	252,527,999
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(480,000)**	(5,176,342)
	247,944,081	247,351,657

The 7.25% Debenture Loan Stock 2028 is disclosed at the value of the proceeds less the net book amount of the issue costs as follows:

	2005 USD	2004 USD
7.25% Debenture Loan Stock 2028	**250,000,000**	250,000,000
Less:		
Refinancing costs	**10,604,431**	10,604,431
Accumulated amortisation	**(7,422,706)**	(6,362,662)
	3,181,725	4,241,769
Net proceeds	**246,818,275**	245,758,231

22. Other financial liabilities (continued)

Debenture loans

7.5% Global Registered Notes 2009

The Global Registered Notes are guaranteed by the Government of Malta and are repayable in equal semi-equal instalments, between March, 1999 and March, 2009. Interest is payable semi-annually in arrears at the rate of 7.50% per annum.

7.25% Debenture Loan Stock 2028

This bullet loan, together with interest thereon, is guaranteed by the Government of Malta and is repayable in 2028. Interest is paid semi-annually at the rate of 7.25%.

23. Provision for liabilities and other charges

The provision for retirement benefits represents the year-end provision for possible future liabilities relating to a gratuity the company is obliged to pay upon an employee's retirement. The provision has been computed in accordance with the accounting policy stated in note 2 and represents the Company's obligation discounted to the net present value after considering the average life expectancy of such employees and expected increases in salaries, where applicable.

	2005 USD	2004 USD
Balance at 1 January	**213,302**	187,130
Payments made during the year	**(26,350)**	-
Charge for the year	**1,071,477**	26,172
Balance at 31 December	**1,258,429**	213,302

24. Deferred tax liability

	2005 USD
Arising on:	
Fair value of investment property	**26,392,276**

25. Share capital

	2005 and 2004	
	Authorised	**Issued and called up**
	USD	**USD**
1,000,000 ordinary shares of Lm1 each	**2,976,128**	**2,976,128**

26. Cash and cash equivalents

	2005 USD	2004 USD
Cash at bank and in hand	**1,519,018**	11,287,039
Bank overdraft	**(57,986)**	(1,648,314)
Cash and cash equivalents in the cash flow statement	**1,461,032**	9,638,725

27. Contingent liabilities

At the balance sheet the company had the following contingent liabilities:

The holding company extended guarantees for no consideration to the bankers of its associated undertakings for the following facilities at year end:

	2005 USD	2004 USD
Oiltanking Malta Limited	**415,215**	471,030

28. Related party disclosures

During the course of the year, the company entered into the following transactions with its associate undertaking:

	2005			2004		
	Related party activity USD	**Total activity USD**	**%**	Related party activity USD	Total activity USD	%
Revenue:						
Associate	**1,115,976**	**3,946,865**	**28**	1,312,226	3,148,200	42

According to the revised IAS 24 – Related Parties, transactions with Government, as the sole shareholder, are now to be disclosed. In the year under review the company incurred interest of *USD19,800,959* (2004 – *USD20,885,327*) which, as illustrated in notes 8, 16 and 21, was borne by Government. The amount owed by government is disclosed in note 16.

29. Fair values of financial assets and financial liabilities

At 31 December 2004 and 2005 the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values due to the short-term maturities of these assets and liabilities. The carrying values of non-current financial assets and non-current financial liabilities approximate their fair values.

30. Financial risk management

Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of debtors and cash at bank. Debtors are presented net of an allowance for doubtful debts. Credit risk, with respect to debtors is limited due to credit control procedures in place. In the eventuality of default on the long-term receivable emanating from the sale of its subsidiary in 2004 the company will repossess plant and equipment located at Malta Freeport. Cash at bank is placed with reliable financial institutions.

Foreign currency risk

The company is exposed to foreign currency risk primarily on its monetary assets and liabilities, some of which are denominated in different currencies than the functional currency.

At the balance sheet date the company's main liability, the *USD250,000,000* Debenture Loan Stock had been converted to *Euro200,754,838* through a cross currency swap, whilst the company's main monetary assets consist of a long-term receivable of *USD74,126,081*. .

The majority of the company's future income streams are contracted for in USD whilst operating expenses are expected to be incurred in Lm.

Interest rate risk

The company has issued Global Registered Notes and Debenture Loan Stock and taken out bank facilities to finance its operations. The interest rates thereon and the terms of such borrowings are disclosed accordingly. Most of the company's borrowings are at a fixed rate of interest. As illustrated in notes 8, 16 and 21 a substantial amount of the interest suffered is borne by Government.

31. Comparative figures

Certain comparative figures have been reclassified in accordance with this year's presentation of the financial statements.

Malta Freeport Corporation Limited

Auditors' report
to the members of

Malta Freeport Corporation Limited

We have audited the financial statements of Malta Freeport Corporation Limited on pages five to thirty-four for the year ended 31 December 2005. As described in the statement of directors' responsibilities on page four, these financial statements are the responsibility of the company directors. Our responsibility is to express an opinion on the financial statements based on our audit.

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 from 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 financial position of the company as at 31 December 2005 and its profit, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Companies Act, (Chap. 386).

Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants

28 June 2006

Malta Freeport Corporation Limited

C 9353

Report and financial statements

31 December 2005