Malta Freeport Corporation Limited

Report and financial statements

31 December 2006

Contents

Malta Freeport Corporation Limited

Directors, officer and other information

Directors:	Mark Portelli (Chairman) Patrick Attard Reuben Bonello
Secretary:	Reynold Portelli
Registered office:	Freeport Centre, Kalafrana, Malta.
Country of incorporation	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 LL.D., Grech, Hyzler, Tortell & Co., 25, Strait Street, Valletta, Malta.

Malta Freeport Corporation Limited

Directors' report

Year ended 31 December 2006

The directors present their report and the audited financial statements of the company for the year ended 31 December 2006.

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 loss before tax of *USD35,866,220* as compared to the restated profit of *USD69,361,788* in the prior year.

The change in results is mainly attributable to the fair valuation of the cross-currency swap. Due to the weakening of the dollar, in valuing the cross-currency swap the company reported a negative movement of *USD26,062,058*. In the prior year the strengthening of the dollar had enabled the company to register a positive movement of *USD35,346,739*.

In the year under review the company reported a decrease in the fair value of its investment property of *USD11,082,314* as opposed to an increase in fair value of *USD26,206,617* in the prior year. The decrease is attributable to an increase in the discount rate applied on future cash flows expected to be earned from the asset as a result of the changes in appropriate underlying US Dollar long term interest rate used as a reference point in our estimation of fair value. This change in interest rate is a result of external international money market trends which are clearly outside the company's control.

The company's balance sheet position has deteriorated from a net asset position of *USD29,592,541* to a net liability position of *USD4,523,273*. The position is financed by bank borrowings guaranteed by the Government of Malta.

Result and dividends

The result for the year ended 31 December 2006 is shown in the income statement on page five. The loss for the year after taxation was *USD35,783,758*. 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 the company's memorandum of association, all the directors retire and, being eligible, offer themselves for re-election.

Auditors
A resolution to reappoint 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 2007 by:

Mark Portelli
Chairman

Patrick Attard
Director

Malta Freeport Corporation Limited

Statement of directors' responsibilities

The directors are required by the Companies Act (Chap. 386) to prepare financial statements in accordance with International Financial Reporting Standards which give a true and fair view of the state of affairs of the company at the end of each financial year and of profit or loss of the company for the year then ended. In preparing the financial statements, the directors should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 the directors to ensure that the financial statements comply with the Companies Act (Chap. 386).This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The directors 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 2006

	Notes	2006 USD	(Restated) 2005 USD
Revenue	*6*	**4,084,756**	3,946,865
Administrative expenses		**(2,570,512)**	(3,746,202)
Operating profit		**1,514,244**	200,663
Other (losses)/gains		**(45,339,543)**	61,553,356
This is analysed as:			
Loss incurred on financial obligations of subsidiary undertaking	*7*	**(8,195,171)**	-
Fair value movement in investment property	*15*	**(11,082,314)**	26,206,617
(Loss)/gain on interest rate swap	*20*	**(26,062,058)**	35,346,739
		(43,825,299)	61,754,019
Investment income	*8*	**3,040,430**	3,061,950
Share of profits in associate undertaking	*16*	**8,916,346**	4,518,106
Net finance (costs)/revenue	*9*	**(3,997,697)**	27,713
This is analysed as:			
Finance costs		**(3,997,697)**	(1,908,264)
Finance revenue		**-**	1,935,977
(Loss)/profit before tax	*10*	**(35,866,220)**	69,361,788
Income tax	*13*	**82,462**	(22,005,693)
(Loss)/profit for the year		**(35,783,758)**	47,356,095

Malta Freeport Corporation Limited

Balance sheet

31 December 2006

	Notes	2006 USD	(Restated) 2005 USD
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**405,945**	445,059
Investment property	15	**208,853,317**	219,935,631
Investments in associates	16	**21,265,951**	11,234,351
Derivative instrument at fair value	20	**-**	11,433,926
Long-term receivables	17	**93,490,347**	100,333,613
Deferred tax asset	18	**3,161,905**	4,397,877
		327,177,465	347,780,457
Current assets			
Trade and other receivables	19	**15,447,332**	15,069,898
Cash and cash equivalents		**4,179,027**	1,519,018
		19,626,359	16,588,916
Total assets		**346,803,824**	364,369,373
Current liabilities			
Trade and other payables	21	**5,066,050**	4,366,317
Other financial liabilities	23	**480,000**	480,000
Bank overdraft and loans	22	**13,315,832**	13,570,454
Provision for liabilities and other charges	24	**832,740**	-
		19,694,622	18,416,771
Non-current liabilities			
Other financial liabilities	23	**248,536,805**	247,944,081
Derivative instrument at fair value	20	**14,628,132**	-
Bank loans	22	**36,418,426**	40,765,275
Provision for liabilities and other charges	24	**6,986,714**	1,258,429
Deferred tax liability	25	**25,062,398**	26,392,276
		331,632,475	316,360,061
Total liabilities		**351,327,097**	334,776,832
Net (liabilities)/assets		**(4,523,273)**	29,592,541
EQUITY			
Share capital	26	**2,976,128**	2,976,128
Reporting currency conversion difference		**759,548**	759,548
Exchange reserve		**1,455,458**	(212,486)
Retained earnings		**(9,714,407)**	26,069,351
Total equity		**(4,523,273)**	29,592,541

These financial statements were approved by the board of directors, authorised for issue on 28 June 2007 and signed on its behalf by:

Mark Portelli
Chairman

Patrick Attard
Director

The rate of exchange at 31 December 2006 was Lm1:USD3.0705 (2005 Lm1: 2.7681)

Malta Freeport Corporation Limited

Statement of changes in equity

Year ended 31 December 2006

	Share capital USD	Reporting currency conversion difference USD	Exchange reserve USD	(Restated) Retained earnings USD	Total USD
Balance at 1 January 2005	2,976,128	759,548	-	(24,789,708)	(21,054,032)
Effect of increase in share of profit of associate	-	-	-	3,502,964	3,502,964
Retranslation of investment in associate	-	-	916,035	-	916,035
Balance at 1 January 2005 (restated)	2,976,128	759,548	916,035	(21,286,744)	(16,635,033)
Retranslation of investment in associate	-	-	(1,128,521)	-	(1,128,521)
Profit for the year	-	-	-	47,356,095	47,356,095
Balance at 31 December 2005	2,976,128	759,548	(212,486)	26,069,351	29,592,541
Retranslation of investment in associate	-	-	1,667,944	-	1,667,944
Loss for the year	-	-	-	(35,783,758)	(35,783,758)
Balance at 31 December 2006	**2,976,128**	**759,548**	**1,455,458**	**(9,714,407)**	**(4,523,273)**

Reporting currency conversion difference

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

Malta Freeport Corporation Limited

Cash flow statement

Year ended 31 December 2006

	Notes	2006 USD	(Restated) 2005 USD
Cash flows from operating activities			
(Loss)/profit on ordinary activities before tax		(35,866,220)	69,361,788
Adjustments for:			
Depreciation		91,233	76,763
Loss incurred on financial obligations of subsidiary undertaking		8,195,171	-
Fair value movement in cross-currency swap		26,062,058	(35,346,739)
Fair value movement in investment property		11,082,314	(26,206,617)
Unrealised difference on exchange		2,141,347	(1,935,977)
Increase in provisions		6,517,530	1,004,077
Amortisation		1,060,443	1,060,443
Interest income		107,670	75,293
Share of profits in associate		(8,916,346)	(4,518,106)
Net interest expense		3,997,697	847,821
Operating profit before working capital movements		14,472,897	4,418,746
Movement in trade and other receivables		(781,272)	107,304
Movement in trade and other payables		(4,978,571)	(3,160,994)
Cash flows from operations		4,213,054	1,365,056
Interest paid		(3,997,697)	(847,821)
Taxation paid		(11,444)	(11,294)
Retirement benefits paid		(114,719)	(26,350)
Net cash flows from operating activities		89,194	479,591
Cash flows from investing activities			
Payments to acquire tangible fixed assets		(52,119)	(281,833)
Dividends received		552,690	-
Interest received		(107,670)	(75,293)
Net cash flows from investing activities		392,901	(357,126)
Cash flows from financing activities			
Repurchase of Global Registered Notes		(467,719)	(467,620)
Movement in bank loan		(5,449,448)	(17,087,085)
Movement in long-term receivables		7,247,104	9,254,547
Net cash flows from financing activities		1,329,937	(8,300,158)
Net movement in cash and cash equivalents		1,812,032	(8,177,693)
Cash and cash equivalents at the beginning of the year		1,461,032	9,638,725
Cash and cash equivalents at the end of the year	27	3,273,064	1,461,032

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, which, together with other borrowings, are secured by the Government.

Although the company is reporting a loss for the year of *USD35,783,758*, the losses incurred due to valuation differences exceed this amount. Such valuation differences will not have an impact on the company's cash flow position for the foreseeable future as these relate to assets/instruments that mature in 2028 and beyond.

At the balance sheet date the company reported a net liability position of *USD4,523,273* and a net current liability position of *USD68,263* which mainly consist of short-term bank obligations which as described above are Government guaranteed.

Due to the above therefore, at the balance sheet date, the directors consider that there is no material uncertainty that the company is not a going concern.

The financial statements have been prepared on the historical cost basis, except for investment property and certain financial instruments, which are stated at their fair values, and in accordance with International Financial Reporting Standards. The significant accounting policies adopted are set out below.

2. Significant accounting policies

Property, plant and equipment

The company's property plant and equipment are classified into the following classes – plant and machinery and motor vehicles.

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.

2. **Significant accounting policies (continued)**

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.

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, if any, and the carrying amount and are recognised in profit and loss in the period of derecognition.

Depreciation

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost, 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
Motor vehicles	-	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.

Investments in subsidiaries and associate

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)

Investments in subsidiaries and associate (continued)

Investments in subsidiaries and associates are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses. Income from the investment is recognised only to the extent of distributions received by the company from post-acquisition profits. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

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 associate is recognised in profit or loss and the company's share of the post-acquisition reserves is recognised directly in equity. The company's share of losses of an associate entity 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.

Any excess of the cost of acquisition over the company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is excluded from the carrying amount of the investment and recognised immediately in profit or loss.

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.

Other 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.

2. Significant accounting policies (continued)

Other financial instruments (continued)

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.

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.

2. Significant accounting policies (continued)

Other financial instruments (continued)

(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) Long-term receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the company may not recover substantially all of its initial investment other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

(iii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Bank loans are carried at face value due to their market rate of interest.

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. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of other borrowings is recognised in profit or loss over the term of the borrowings, unless the interest on such borrowings is capitalised in accordance with the company's accounting policy on borrowing costs.

(v) Trade payables

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

2. **Significant accounting policies (continued)**

Other financial instruments (continued)

(vi) Shares issued by the company

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

(vii) Derivative financial instruments

Derivative financial assets and derivative financial liabilities are classified as held for trading unless they are designated and effective hedging instruments. During the year under review and during the prior year, the company did not designate any of its derivative financial instruments in a hedging relationship for accounting purposes. After initial recognition, derivative financial instruments are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

Impairment

All assets are tested for impairment except for deferred tax assets, derivative instruments 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.

2. Significant accounting policies (continued)

Impairment (continued)

For loans and receivables, if there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced directly.

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.

Impairment losses are recognised immediately in profit or loss.

For loans and receivables, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly.

In the case of other assets tested for impairment, 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.

Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case, the impairment reversal is recognised directly in equity, unless an impairment loss on the same asset was previously recognised in profit or loss.

2. **Significant accounting policies (continued)**

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, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion.

(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.

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 current and deferred tax is also dealt with in equity.

2. Significant accounting policies (continued)

Taxation (continued)

The credit 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 re-translated. 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 re-translation 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 and 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, except as described below, management has made no judgements which can significantly affect the amounts recognised in the financial statements and, at the balance sheet date, 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.

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

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 a decrease in the value of the investment property of *USD11,082,314* reflecting the movement throughout the year of both the discount rate and the net present value of future cash flows.

4. International Financial Reporting Standards in issue but not yet effective

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. Restatement

In the year under review, Oiltanking Malta Limited, an associated undertaking of Malta Freeport Corporation Limited, restated its financial statements to reflect the revision of the useful lives of its plant and machinery and the related deferred tax charge and to restate the deferred tax asset on investment credits.

Furthermore the financial statements of Malta Freeport Corporation Limited are being adjusted in order to account for the difference on exchange pertaining to the re-translation of the investment in the associated undertaking directly in equity.

5. Restatement (continued)

The effect in the books of the company is as follows:

	USD
Effects on periods prior to 2005	
Increase in share of profit of associate	**3,502,963**
Movement in retranslation of investment in associate	**916,035**
Increase in reserves	**4,418,998**
Effect on 2005	
Increase in share of profit of associate	**2,845,685**
Movement in retranslation of investment in associate	**(1,128,521)**
Increase in 2005 profit	**1,717,164**
Total increase in revenue reserves as a result of restatements	**6,136,162**

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 (1) 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:

	2006 USD	2005 USD
By activity:		
Licence fees	**1,187,527**	1,027,157
Other income	**277,465**	483,376
Rents receivable	**905,563**	890,198
Royalties	**537,771**	507,967
Security fees	**1,176,430**	1,038,167
	4,084,756	3,946,865

7. Loss incurred on financial obligations of subsidiary undertaking

In the year under review the company has incurred expenses in relation to an investment held by one of its subsidiaries. The company has also undertaken to finance certain outstanding financial obligations entered into by its subsidiary.

8. Investment income

	2006 USD	2005 USD
Interest income on bank deposits	**107,670**	75,293
Interest on long term debtor	**2,932,760**	2,986,657
	3,040,430	3,061,950

9. Net finance costs/(revenue)

	2006 USD	2005 USD
Finance costs:		
Interest payable on debenture loan stock	**18,063,032**	17,194,164
Interest on bank overdrafts and loans	**795,907**	847,821
Differences on exchange	**2,141,347**	-
Amortisation of re-financing charge	**1,060,443**	1,060,443
	22,060,729	19,102,428
Less: government subvention	**(18,063,032)**	(17,194,164)
	3,997,697	1,908,264
Finance revenue:		
Differences on exchange	**-**	(1,935,977)
	3,997,697	(27,713)

10. (Loss)/profit before tax

	2006 USD	2005 USD
This is stated after charging:		
Auditors' remuneration	**10,468**	10,136
Amortisation	**1,060,443**	1,060,443
Depreciation of property, plant and equipment	**91,233**	76,763

11. Key management personnel compensation

	2006 USD	2005 USD
Directors' compensation:		
Short-term benefits:		
Fees	**8,943**	8,597
Management remuneration	**20,481**	20,061
Fringe benefits:		
Indemnity insurance paid	**36,754**	34,533
	66,178	63,191

12. Staff costs and employee information

	2006 USD	2005 USD
Staff costs:		
Wages and salaries	**2,012,917**	2,144,951
Social security costs	**158,783**	158,716
	2,171,700	2,303,667

The average number of persons employed during the year was made up as follows:

	2006 Number	2005 Number
Administration and finance	**18**	19
Operational	**76**	71
	94	90

13. Income tax

	2006 USD	2005 USD
Tax charge for the year:		
Final withholding tax at 15%	**11,444**	11,294
Deferred taxation	**(93,906)**	21,994,399
	(82,462)	22,005,693
Tax paid:		
Tax at source on interest income	**(11,444)**	(11,294)
Transfer to deferred taxation	**93,906**	(21,994,399)
	-	-

13. Income tax (continued)

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

	2006 USD	(Restated) 2005 USD
(Loss)/profit before tax	**(35,866,220)**	69,361,788
Tax at the applicable rate of 35%	**(12,553,177)**	24,276,626
Tax effect of:		
Interest income subject to 15% withholding tax	**(15,259)**	(15,059)
Profit and loss transactions not allowable for tax purposes	**3,936,046**	(315,802)
Share of profit in associated undertakings	**(3,120,721)**	(1,581,337)
Tax effect of deferred tax not accounted for in previous years	**-**	(5,207,336)
Fair value movement in investment property	**3,878,810**	(9,172,316)
Fair value movement in cross-currency swap	**9,121,720**	(12,371,359)
Deferred tax on investment property	**(1,329,881)**	26,392,276
Income tax (credit)/expense for the year	**(82,462)**	22,005,693

14. Property, plant and equipment

	Plant and machinery USD	Motor vehicles USD	Total USD
Cost			
At 01.01.2005	1,651,274	212,418	1,863,692
Additions	281,833	-	281,833
At 01.01.2006	1,933,107	212,418	2,145,525
Additions	9,611	42,508	52,119
At 31.12.2006	1,942,718	254,926	2,197,644
Accumulated depreciation			
At 01.01.2005	1,411,285	212,418	1,623,703
Provision for the year	76,763	-	76,763
At 01.01.2006	1,488,048	212,418	1,700,466
Provision for the year	80,606	10,627	91,233
At 31.12.2006	1,568,654	223,045	1,791,699
Carrying amount			
At 31.12.2005	445,059	-	445,059
At 31.12.2006	**374,064**	**31,881**	**405,945**

15. Investment property

	USD
Cost	
At 01.01.2005	196,289,344
Effect of liability taken over by Government	(2,560,330)
Increase in fair value	26,206,617
At 01.01.2006	219,935,631
Decrease in fair value	(11,082,314)
At 31.12.2006	208,853,317
Carrying amount	
At 31.12.2005	219,935,631
At 31.12.2006	**208,853,317**

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 *USD2,630,861* (2005 – *USD2,425,322*).

16. Financial assets

Subsidiaries

	2006 USD	2005 USD
Shares in subsidiary undertakings: 1,500,000 (2005 : 1,500,000) "A" ordinary shares of Lm1 each, 440,000 (2005 : 440,000) "B" ordinary shares of Lm1 each and 60,000 (2005 : 60,000) "C" ordinary shares of Lm1 each in Freeport Terminal (Malta) p.l.c.	**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	**17,282**	17,282
Provision for diminution in value	**(14,726,948)**	(14,726,948)
	-	-

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

	Proportion of ownership interest %
Freeport Terminal (Malta) p.l.c.	99.99 (2005 – 99.99)
Coastal Management Company Limited	66.67 (2005 – 66.67)

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

Associate

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

	Proportion of ownership interest %
Oiltanking Malta Limited	30 (2005 – 30)

16. Financial assets (continued)

Associate (continued)

	Investment in associate USD
Equity method	
Share of net assets at 01.01.2005 (as previously reported)	3,425,767
Effect of changes in accounting policy of associate	4,418,998
Share of net assets at 01.01.2005 (restated)	7,844,765
Share of profit	4,518,106
Share of retranslation of investment in USD	(1,128,520)
Share of net assets at 01.01.2006 (restated)	11,234,351
Share of profit	8,916,346
Distributions received	(552,690)
Share of retranslation of investment in USD	1,667,944
Share of net assets at 31.12.2006	**21,265,951**

Summarised financial information in respect of associates is set out below:

	As previously reported 2005 USD	Restated 2005 USD	**2006 USD**
Total assets	30,699,058	54,010,735	**101,749,400**
Total liabilities	(13,705,098)	(16,562,899)	**(30,862,897)**
	16,993,960	37,447,837	**70,886,503**
Company's share of the aggregate of share capital and reserves	5,098,188	11,234,351	**21,265,951**
Revenue	12,144,446	12,122,956	**14,098,619**
Profit for the year	5,575,737	15,060,354	**29,721,152**
Company's share of the profit for the year	1,672,721	4,518,106	**8,916,346**

17. 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 instalments. 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 22. Amounts repayable within one year are shown under debtors.

	2006 USD	2005 USD
Recoverable development expenditure	**32,899,191**	38,663,337
Long-term receivable	**72,643,123**	74,126,081
	105,542,314	112,789,418
Less: recoverable development expenditure included in short-term debtors (note 19)	**(10,509,692)**	(10,969,507)
Less: long-term receivable included in short-term debtors (note 19)	**(1,542,275)**	(1,486,298)
	93,490,347	100,333,613

18. Deferred tax asset

	2006 USD	2005 USD
Arising on:		
Accelerated tax depreciation	**1,456,889**	1,809,496
Tax losses carried forward	**1,200,830**	2,147,931
Other temporary differences	**504,186**	440,450
	3,161,905	4,397,877

19. Trade and other receivables

	2006 USD	(Restated) 2005 USD
Recoverable development expenditure (note 17)	**10,509,692**	10,969,507
Short-term portion of long-term receivable (note 17)	**1,542,275**	1,486,298
Trade receivables	**1,445,977**	939,652
Amounts owed by associated undertaking	**641,290**	569,007
Other receivables	**468,740**	177,854
Refundable expenditure	**-**	73,903
Prepayments and accrued income	**839,358**	853,677
	15,447,332	15,069,898

The amounts owed by associated undertaking are unsecured and interest-free. Though these amounts have no fixed date for repayment, they are expected to be realised within twelve months after the balance sheet date

20. Derivative instrument at fair value

	2006 USD	2005 USD
Fair value movement due to cross currency swap	**(53,132,151)**	(32,090,449)
Fair value of government guarantee	**38,504,019**	43,524,375
	(14,628,132)	11,433,926

The fair value movement in the derivative instrument of *USD26,062,058* represents the movement for the year from an asset position of *USD11,433,926* to a liability position *USD14,628,132.*

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.

21. Trade and other payables

	2006 USD	2005 USD
Trade payables	**911,889**	703,609
Other payables	**349,844**	176,472
Accruals and deferred income	**3,804,317**	3,486,236
	5,066,050	4,366,317

22. Bank overdrafts and loans

	2006 USD	2005 USD
Bank overdrafts (secured)	**905,963**	57,986
Bank loans (secured)	**48,828,295**	54,277,743
	49,734,258	54,335,729

Bank overdrafts and loans are repayable as follows:

	2006 USD	2005 USD
On demand or within one year	**13,315,832**	13,570,454
In the second year	**11,173,943**	10,521,079
In the third year	**9,562,555**	9,454,023
In the fourth year	**5,275,930**	9,454,024
In the fifth year	**5,371,955**	9,454,024
After five years	**5,034,043**	1,882,125
	49,734,258	54,335,729
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(13,315,832)**	(13,570,454)
	36,418,426	40,765,275

22. Bank overdrafts and loans (continued)

The carrying amounts of the company's borrowings are denominated:

2006	**In Lm USD**	**In EUR USD**	**Total USD**
Bank overdrafts	**905,963**	**-**	**905,963**
Bank loans	**33,714,053**	**15,114,242**	**48,828,295**
	34,620,016	**15,114,242**	**49,734,258**

2005	In Lm USD	In EUR USD	Total USD
Bank overdrafts	57,986	-	57,986
Bank loans	37,925,441	16,352,302	54,277,743
	37,983,427	16,352,302	54,335,729

As illustrated in note 17, the interest cost on *USD35,389,198 (2005 – USD39,668,896)* 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.

The bank loans and overdrafts bear interest between 3.75% and 5.6% per annum (2005 – between 3.75% and 7.25% per annum) respectively and are secured by a first special hypothec over the company's assets together with guarantees given by the Government of Malta.

23. Other financial liabilities

	2006 USD	2005 USD
7.5% Global Registered Notes 2009	**1,138,087**	1,605,806
7.25% Debenture Loan Stock 2028	**247,878,718**	246,818,275
	249,016,805	248,424,081

23. Other financial liabilities (continued)

Other financial liabilities are repayable as follows:

	2006 USD	2005 USD
On demand or within one year	**480,000**	480,000
In the second year	**480,000**	480,000
In the third year	**178,087**	480,000
In the fourth year	**-**	165,806
In the fifth year	**-**	-
After five years	**247,878,718**	246,818,275
	249,016,805	248,424,081
Less: amount due for settlement within 12 months (shown under current liabilities)	**(480,000)**	(480,000)
	248,536,805	247,944,081

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:

	2006 USD	2005 USD
7.25% Debenture Loan Stock 2028	**250,000,000**	250,000,000
Less:		
Refinancing costs	**10,604,431**	10,604,431
Accumulated amortisation	**(8,483,149)**	(7,422,706)
	2,121,282	3,181,725
Net proceeds	**247,878,718**	246,818,275

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%.

24. Provisions 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.

The provision for retirement benefits is unfunded. It 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 at the rate of 5.5% after considering the average life expectancy of such employees and expected increases in salaries, where applicable. The movement in the provision for retirement benefits may be analysed as follows:

	2006 USD	2005 USD
Provision for retirement benefits:		
Balance at 1 January	**1,258,429**	213,302
Settlements	**(114,719)**	(26,350)
Effect of translation to USD	**158,214**	67,400
Charge for the year	**(4,614)**	1,004,077
	1,297,310	1,258,429
Provision for financial obligations of subsidiary undertaking:	**6,522,144**	-
	7,819,454	-
Less: amounts due for settlement within 12 months	**(832,740)**	-
Balance at 31 December	**6,986,714**	1,258,429

25. Deferred tax liability

	2006 USD	2005 USD
Arising on:		
Investment property	**25,062,398**	26,392,276

26. Share capital

	2006 and 2005 Authorised USD	2006 and 2005 Issued and called up USD
1,000,000 ordinary shares of Lm1 each	**2,976,128**	**2,976,128**

27. Cash and cash equivalents

	2006 USD	2005 USD
Cash at bank and in hand	**4,179,027**	1,519,018
Bank overdraft	**(905,963)**	(57,986)
Cash and cash equivalents in the cash flow statement	**3,273,064**	1,461,032

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2006 was 4% per annum (2005 – 2%). The interest rate on the bank overdraft is disclosed in note 22.

28. Related party disclosures

During the course of the year, the company entered into the following transactions:

	2006 Related party activity USD	2006 Total activity USD	2006 %	2005 Related party activity USD	2005 Total activity USD	2005 %
Revenue:						
Associates	1,210,843	4,084,756	30	1,115,976	3,946,865	28
Administrative:						
Key management personnel	66,013			63,191		
Other related parties	3,255			1,836		
	69,268	2,427,293	3	65,027	3,746,202	2

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 *USD20,027,935* (2005 – *USD19,800,959*) which, as illustrated in notes 9, 17 and 22, was borne by Government. The amount owed by government is disclosed in note 17.

29. Fair values of financial assets and financial liabilities

At 31 December 2006 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 fair values of non-current financial assets and non-current financial liabilities that are not measured at fair value are not materially different from their carrying amounts.

30. Financial risk management

Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of receivables, derivative instruments and cash at bank. Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Credit risk with respect to receivables 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. Derivative instruments are entered into with reliable financial institutions.

Foreign currency risk

Foreign currency transactions arise when the company buys or sells goods or services whose price is denominated in a foreign currency, borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency or acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency. Foreign currency transactions comprise mainly transactions in Lm, Euro and GBP.

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 *USD71,100,848*.

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

30. Financial risk management

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 9, 17 and 22 a substantial amount of the interest suffered is borne by Government.

31. Comparative figures

During the year under review, the company changed its accounting policy for presenting derivative financial instruments that are classified as held for trading. In May 2007, the International Financial Reporting Interpretations Committee (IFRIC) was asked to provide guidance on whether derivatives that are classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* should be presented as current or non-current in the balance sheet.

The IFRIC decided not to take the issue on to its agenda. However, it noted that some believe that paragraph 62 of IAS 1 *Presentation of Financial Statements* could be read as implying that financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current. Therefore,the IFRIC directed the staff to recommend to the International Accounting Standards Board an amendment to paragraph 62 of IAS 1 to remove that implication.

This change in accounting policy has been accounted for retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the comparative statements for 2005 have been restated accordingly. The total current assets as at the end of the prior year have been reduced by *USD11,433,926* and the total non-current assets as at the end of that year have been increased by the same amount.

As at 31 December 2006, the carrying amount of derivative financial liabilities that are classified as held for trading, and that are included with non-current liabilities in line with the above change in accounting policy, amounted to *USD14,628,132*.

Deloitte.

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Independent auditors' report
to the members of

Malta Freeport Corporation Limited

Report on the financial statements

We have audited the accompanying financial statements of Malta Freeport Corporation set out on pages five to thirty-five, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As also described in the statement of directors' responsibilities on page four, the directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the company. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Independent auditors' report (continued)

to the members of

Malta Freeport Corporation Limited

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31 December 2006 and of the company's financial performance and cash flows for the year then-ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the financial statements have been properly prepared in accordance with the Companies Act (Chap. 386).

Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants

28 June 2007