Malta Freeport Corporation Limited

Report and financial statements

31 December 2008

Contents

Malta Freeport Corporation Limited

Directors, officer and other information

Directors:	Mark Portelli (Chairman) Alfred E. Aquilina Chris Grech
Secretary:	Reynold Portelli
Registered office:	Freeport Centre, Kalafrana, Malta.
Country of incorporation	Malta
Company registration number:	C 9353
Auditor:	Deloitte, Deloitte Place, Mriehel Bypass, Mriehel, Malta.
Bankers:	APS Bank Limited, APS House, St. Anne Street, Floriana, Malta.
	Bank of Valletta p.l.c., Corporate Centre, St. Venera, Malta.

Bankers (continued):	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 advisors:	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 2008

The directors present their report and the audited financial statements of the company for the year ended 31 December 2008.

Principal activities

Malta Freeport Corporation Limited fulfills the role of landlord and authority over the Freeport zone.

Financial and operational review

The company reports a profit before tax of *USD53,419,406* compared to *USD25,180,912* registered in the prior year.

The change in results is mainly attributable to the fair value gain on the cross currency interest rate swap of *USD48,908,818* as opposed to the loss of *USD31,388,230* reported in the prior year arising from the narrowing of the long-term Euro and USD interest rate spread. In fact, by the balance sheet date the company recovered all of its unrealised losses that had been previously incurred on this instrument.

In addition, the fair value of the investment property increased by *USD4,961,541* as compared to the *USD37,359,853* increase in the prior year. Furthermore, as a result of the disposal of its associated undertaking towards the end of 2007, the share of profits generated by the associated undertaking and the profit on disposal of associate reported last year of *USD3,970,110* and *USD14,660,759* respectively, were not repeated.

Furthermore, whereas in previous years the entire interest incurred on the *USD250,000,000* Debenture Loan Stock was recovered by the Government subvention, this was not the case in 2008 as the company absorbed *USD5,566,800* of interest itself.

Lastly, operating profit has increased by *USD901,550*.

Net assets at the balance sheet date amounted to *USD58,961,203* compared to *USD6,147,059* at the end of 2007.

During the year under review, the lease agreement of the company's investment property was amended and extended from 30 to 35 years. Furthermore, the lessee now has the option to extend the lease by an additional period of 30 years at rates already determined, at any time on/or before the date falling four years prior to expiry of the thirty-fifth year.

The valuation of the company's investment property has taken into consideration the revised agreement.

Result and dividends

The result for the year ended 31 December 2008 is shown in the income statement on page six. The profit for the year after taxation was *USD52,814,144*. The directors do not propose the distribution of a dividend.

Malta Freeport Corporation Limited

Directors' report (continued)
Year ended 31 December 2008

Directors
The directors who served during the period were:

Mark Portelli	(Chairman)
Alfred E. Aquilina	(appointed 24 April 2008)
Chris Grech	(appointed 24 April 2008)
Patrick Attard	(resigned 24 April 2008)
Reuben Bonello	(resigned 24 April 2008)

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

Auditor
A resolution to reappoint Deloitte as auditor of the company will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on its behalf on 24 June 2009 by:

Mark Portelli
Chairman

Chris Grech
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 as adopted by the EU 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 2008

	Notes	2008 USD	2008 USD	2007 USD	2007 USD
Revenue	5		**6,363,997**		5,336,331
Administrative expenses			**(3,175,997)**		(3,049,881)
Operating profit			**3,188,000**		2,286,450
Gain/(loss) on financial obligations of subsidiary undertaking	6	**819,041**		(3,078,505)	
Disposal of investment in associate		**-**		14,660,759	
Fair value movement in investment property	14	**4,961,541**		37,359,853	
Gain/(loss) on the cross currency interest rate swap	20	**48,908,818**		(31,388,230)	
Other gains/(losses)			**54,689,400**		17,553,877
			57,877,400		19,840,327
Investment income	7		**3,724,488**		3,480,959
Share of profits in associate undertaking	15		**-**		3,970,110
Finance costs	8		**(8,182,482)**		(2,110,484)
Profit before tax	9		**53,419,406**		25,180,912
Income tax expense	12		**(605,262)**		(14,510,580)
Profit for the year			**52,814,144**		10,670,332

Malta Freeport Corporation Limited

Balance sheet

31 December 2008

	Notes	2008 USD	2007 USD
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*13*	**224,279**	315,558
Investment property	*14*	**251,838,000**	246,734,105
Loans and receivables	*16*	**106,021,220**	106,302,675
Deferred tax asset	*17*	**1,631,084**	1,486,820
Derivative instrument at fair value	*19*	**2,892,456**	-
		362,607,039	354,839,158
Current assets			
Trade and other receivables	*18*	**13,796,314**	14,121,489
Current tax asset	*12*	**701,415**	-
Cash and cash equivalents	*26*	**11,993,550**	31,027,230
		26,491,279	45,148,719
Total assets		**389,098,318**	399,987,877
Current liabilities			
Trade and other payables	*20*	**4,873,039**	5,524,536
Other financial liabilities	*22*	**233,810**	701,429
Bank overdraft and loans	*21*	**10,123,745**	11,454,260
Provision for liabilities and other charges	*23*	**319,495**	4,725,426
Current tax liability	*12*	-	5,395,854
		15,550,089	27,801,505
Non-current liabilities			
Other financial liabilities	*22*	**250,000,000**	248,939,557
Derivative instrument at fair value	*19*	-	46,016,362
Bank loans	*21*	**32,403,478**	38,853,023
Provision for liabilities and other charges	*23*	**1,962,988**	2,622,278
Deferred tax liability	*24*	**30,220,560**	29,608,093
		314,587,026	366,039,313
Total liabilities		**330,137,115**	393,840,818
Net assets		**58,961,203**	6,147,059

Malta Freeport Corporation Limited

Balance sheet
31 December 2008

	Notes	2008 USD	2007 USD
EQUITY			
Share capital	25	**2,976,128**	2,976,128
Reporting currency conversion difference		**759,548**	759,548
Retained earnings		**55,225,527**	2,411,383
Total equity		**58,961,203**	6,147,059

These financial statements were approved by the board of directors, authorised for issue on 24 June 2009 and signed on its behalf by:

Mark Portelli
Chairman

Chris Grech
Director

The rate of exchange at 31 December 2008 was EUR1:USD1.3917

Malta Freeport Corporation Limited

Statement of changes in equity

Year ended 31 December 2008

	Share capital USD	Reporting currency conversion difference USD	Exchange reserve USD	Retained earnings USD	Total USD
Balance at 1 January 2007	2,976,128	759,548	1,455,458	(9,714,407)	(4,523,273)
Transfer of share of re-translation of investment in associate	-	-	(1,455,458)	1,455,458	-
Profit for the year	-	-	-	10,670,332	10,670,332
Balance at 31 December 2007	2,976,128	759,548	-	2,411,383	6,147,059
Profit for the year	-	-	-	52,814,144	52,814,144
Balance at 31 December 2008	**2,976,128**	**759,548**	**-**	**55,225,527**	**58,961,203**

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 2008

	2008 USD	2007 USD
Cash flows from operating activities		
Profit before tax	**53,419,406**	25,180,912
Adjustments for:		
Depreciation	**98,116**	105,372
Fair value movement on derivative instrument	**(48,908,818)**	31,388,230
Fair value movement in investment property	**(4,961,541)**	(37,359,853)
Profit on disposal of investment in associate	**-**	(14,660,759)
Share of profits in associate	**-**	(3,970,110)
Unrealised difference on exchange	**463,563**	141,618
Decrease in provisions	**(5,009,372)**	(522,247)
Amortisation	**1,060,443**	1,060,839
Interest income	**(913,727)**	(486,120)
Net interest expense	**8,182,482**	2,110,484
Operating profit before working capital movements	**3,430,552**	2,988,366
Movement in trade and other receivables	**(97,030)**	(1,120,230)
Movement in trade and other payables	**(603,613)**	616,977
Cash flows from operations	**2,729,909**	2,485,113
Interest paid	**(8,182,482)**	(2,110,484)
Taxation paid	**(6,234,328)**	(2,893,946)
Retirement benefits paid	**(103,733)**	(107,994)
Net cash flows from operating activities	**(11,790,634)**	(2,627,311)
Cash flows from investing activities		
Payments to acquire property, plant and equipment	**(6,837)**	(14,985)
Payments for additions to investment property	**(142,354)**	(520,935)
Net proceeds from sale of investment in associate	**-**	39,896,820
Interest received	**913,727**	486,120
Net cash flows from investing activities	**764,536**	39,847,020
Cash flows from financing activities		
Repurchase of Global Registered Notes	**(467,619)**	(436,658)
Movement in bank loan	**(8,608,805)**	616,487
Movement in long-term receivables	**703,660**	(10,366,255)
Net cash flows from financing activities	**(8,372,764)**	(10,186,426)
Net movement in cash and cash equivalents	**(19,398,862)**	27,033,283
Cash and cash equivalents at the beginning of the year	**30,306,347**	3,273,064
Cash and cash equivalents at the end of the year (note 26)	**10,907,485**	30,306,347

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 parent (the Government of Malta) 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.

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 as adopted by the EU. 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

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.

Investments in subsidiaries 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.

2. Significant accounting policies (continued)

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.

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).

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

Other financial instruments (continued)

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) Loans and 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 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.

2. Significant accounting policies (continued)

Other 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 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.

2. Significant accounting policies (continued)

Impairment (continued)

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

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.

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.

(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.

(iv) Rental income

Rental income is recognised in the period when the service is provided.

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.

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

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.

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

The key assumptions concerning the future, and other key sources of estimation uncertainty, at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Fair value of investment property

The determination of the fair value of investment property at the balance sheet date requires the use of significant management estimates. Details of key assumptions are disclosed in note 14 to the financial statements.

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

Other than as disclosed above, 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 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.

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

It is anticipated that the revisions to IAS 1, *Presentation of Financial Statements* will not have a material impact on these financial statements in the period of initial application. These revisions are applicable for financial periods beginning on or after 1 January 2009, with earlier application permitted.

The directors also anticipate that the adoption of the other International Financial Reporting Standards as adopted by the EU that were in issue at the date of authorisation of these financial statements, but not yet effective will also have no material impact on the financial statements of the company in the period of initial application.

5. Revenue

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

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

	2008 USD	2007 USD
Licence fees	**2,122,278**	1,616,339
Other income	**534,531**	417,490
Rents receivable	**1,291,677**	1,144,674
Royalties	**840,958**	799,654
Security fees	**1,574,553**	1,358,174
	6,363,997	5,336,331

6. Gain/(loss) incurred on financial obligations of subsidiary undertaking

In the year under review the company recovered certain amounts previously incurred in relation to an investment held by one of its subsidiaries, as described further in note 23.

7. Investment income

	2008 USD	2007 USD
Interest income on bank deposits	**913,727**	486,120
Interest on long-term debtor	**2,810,761**	2,994,839
	3,724,488	3,480,959

8. Net finance costs

	2008 USD	2007 USD
Finance costs:		
Interest payable on debenture loan stock	**19,532,196**	20,694,517
Interest on bank overdrafts and loans	**1,091,676**	908,027
Differences on exchange	**463,563**	141,618
Amortisation of re-financing charge	**1,060,443**	1,060,839
	22,147,878	22,805,001
Less: government subvention	**(13,965,396)**	(20,694,517)
Net interest payable	**8,182,482**	2,110,484

9. Profit before tax

	2008 USD	2007 USD
This is stated after charging:		
Amortisation	**1,060,443**	1,060,839
Depreciation of property, plant and equipment	**98,116**	105,372

The analysis of the amounts that are payable to the company's auditors is as follows:

	2008 USD	2007 USD
- Total remuneration payable to the company's auditors for the audit of the company's financial statements	**11,040**	12,049
- Total fees payable to the company's auditors for non-audit services other than tax advisory services	**15,458**	17,030
- Total fees payable to the company's auditors for tax advisory services	**1,000**	500

10. Key management personnel compensation

	2008 USD	2007 USD
Directors' compensation:		
Short-term benefits:		
Fees	**3,090**	9,647
Management remuneration	**22,693**	22,509
Fringe benefits:		
Indemnity insurance paid	**-**	27,000
	25,783	59,156

11. Staff costs and employee information

	2008 USD	2007 USD
Staff costs:		
Wages and salaries	**2,400,038**	2,237,118
Social security costs	**189,853**	182,964
	2,589,891	2,420,082

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

	2008 Number	2007 Number
Administration and finance	**7**	18
Operational	**76**	73
	83	91

12. Income tax expense

	2008 USD	2007 USD
Balance brought forward	**5,395,854**	-
Tax charge for the year:		
Malta tax at 35%	-	8,216,882
Final withholding tax at 15%	**137,059**	72,918
Deferred taxation	**468,203**	6,220,780
	605,262	14,510,580
Sub-total	**6,001,116**	14,510,580
Tax paid:		
Tax at source on interest income	**(137,059)**	(72,918)
Settlement tax	**(5,395,854)**	-
Provisional capital gains tax	-	(2,821,028)
Provisional tax	**(701,415)**	-
Transfer to deferred taxation (note 18, 25)	**(468,203)**	(6,220,780)
Balance carried forward	**(701,415)**	5,395,854

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

	2008 USD	2007 USD
Profit before tax	**53,419,406**	25,180,912
Tax at the applicable rate of 35%	**18,696,792**	8,813,319
Tax effect of:		
Interest income subject to 15% withholding tax	**(182,745)**	(97,224)
Profit and loss transactions not allowable for tax purposes	**569,910**	374,737
Tax difference arising on disposal of investment in associate	-	8,474,379
Utilised capital losses	-	(5,198,196)
Share of profit in associated undertakings	-	(1,389,539)
Net (receipts)/payments on financial obligations of subsidiary undertaking	**(286,664)**	1,077,477
Fair value movement in investment property	**(1,736,539)**	(13,075,949)
Fair value movement on derivative instrument	**(17,118,086)**	10,985,881
Deferred tax on investment property	**612,467**	4,545,695
Permanent difference for termination benefits	**50,127**	-
Income tax expense for the year	**605,262**	14,510,580

13. Property, plant and equipment

	Plant and machinery USD	Motor vehicles USD	Total USD
Cost			
At 01.01.2007	1,942,718	254,926	2,197,644
Additions	14,985	-	14,985
At 01.01.2008	1,957,703	254,926	2,212,629
Additions	6,837	-	6,837
At 31.12.2008	1,964,540	254,926	2,219,466
Accumulated depreciation			
At 01.01.2007	1,568,654	223,045	1,791,699
Provision for the year	93,484	11,888	105,372
At 01.01.2008	1,662,138	234,933	1,897,071
Provision for the year	86,896	11,220	98,116
At 31.12.2008	1,749,034	246,153	1,995,187
Carrying amount			
At 31.12.2007	295,565	19,993	315,558
At 31.12.2008	**215,506**	**8,773**	**224,279**

14. Investment property

	USD
Cost	
At 01.01.2007	208,853,317
Additions	520,935
Increase in fair value	37,359,853
At 01.01.2008	246,734,105
Additions	142,354
Increase in fair value	4,961,541
As at 31.12.2008	251,838,000
Carrying amount	
At 31.12.2007	246,734,105
At 31.12.2008	**251,838,000**

14. Investment property (continued)

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 amounted to *USD197,860,000*. On 4 February 2008, the above agreement was amended and the lease was subsequently extended to 35 years. Furthermore, subject to certain irrevocable obligations, the lessee has the option to extend the lease by an additional period of 30 years, at rates already determined, at any time on/or before the date falling four years prior to expiry of the thirty-fifth year.

The company has other lease agreements with third parties for periods ranging from eleven to forty years that amount to a fixed consideration of *USD45,730,000* as well as other revenue streams based on volume through-put.

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 the long-term cost of funds and assessments of the uncertainty in the amount and timing of the cash flows. On the basis of these assessments, and after having taken account of the implications of the amendments to the agreements described above on the future cash flows, the company reported an increase in the value of the investment property of *USD4,961,541* in 2008 (2007 – *USD37,359,853*). A key assumption underlying the valuation is the determination of an appropriate discount rate. A rate of 5% has been used in the valuation - a movement of 10%, to 5.50%, in this discount rate, with all other variables remaining constant, would result in a fluctuation of *USD33M* in the value of the company's investment property.

The income earned under the contracts described above amounted to *USD4,254,913* (2007 – *USD3,711,009*).

15. Financial assets

Subsidiaries

	2008 USD	2007 USD
Shares in subsidiary undertakings: 5,180,000 (2007 : 5,180,000) "A" ordinary shares of Eur2.329373 each, 440,000 (2007 : 440,000) "B" ordinary shares of Eur2.329373 each and 60,000 (2007 : 60,000) "C" ordinary shares of Eur2.329373 each in Freeport Terminal (Malta) p.l.c.	**14,709,666**	14,709,666
104,411 (2007 : 104,411) "A" ordinary shares of Eur2.329373 each and 104,410 (2007 : 104,410) "C" ordinary shares of Eur2.329373 each in Coastal Management Company Limited (in liquidation)	**717,237**	717,237
Provision for diminution in value	**(15,426,903)**	(15,426,903)
	-	-

The registered office of the following subsidiaries is Freeport Centre, Kalafrana, Malta. Due to the immateriality of these subsidiaries, consolidated financial statements have not been prepared.

	Proportion of ownership interest %
Freeport Terminal (Malta) p.l.c.	99.99 (2007 – 99.99)
Coastal Management Company Limited (in liquidation)	81 (2007 – 81)

The above subsidiaries are non-operating. Freeport Terminal (Malta) Limited is earmarked for liquidation in the near future.

Associate

During 2007, the company sold its 30% stake in Oiltanking (Malta) Limited, making a profit of *USD14,660,759.* As an associated undertaking this was previously accounted for on the equity basis and therefore the profit being accounted for reflects the difference between the company's proceeds received and the share of net assets as at August 2007, being the date of disposal.

16. Long-term receivables

This is made up as follows:

- the 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; and

- amounts due from the Government of Malta representing 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 together with other advances. 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.

	2008 USD	2007 USD
Recoverable development expenditure and other advances	**45,700,235**	44,807,721
Long-term receivable	**69,504,674**	71,100,848
	115,204,909	115,908,569
Less: recoverable development expenditure included in short-term debtors (note 18)	**(7,515,876)**	(8,009,720)
Less: long-term receivable included in short-term debtors (note 18)	**(1,667,813)**	(1,596,174)
	106,021,220	106,302,675

17. Deferred tax asset

	2007 USD	Movement for the year USD	**2008** **USD**
Arising on:			
Accelerated tax depreciation	920,844	(825,743)	**95,101**
Other temporary differences	565,976	970,007	**1,535,983**
	1,486,820	144,264	**1,631,084**

18. Trade and other receivables

	2008 **USD**	2007 USD
Recoverable development expenditure (note 16)	**7,515,876**	8,009,720
Short-term portion of long-term receivable (note 16)	**1,667,813**	1,596,174
Trade receivables	**1,841,225**	1,930,498
Other receivables	**1,180,390**	1,041,071
Prepayments and accrued income	**1,591,010**	1,544,026
	13,796,314	14,121,489

19. Derivative instrument at fair value

	2008 **USD**	2007 USD
Fair value movement on cross currency interest rate swap	**2,892,456**	(54,196,882)
Fair value of government guarantee	-	8,180,520
	2,892,456	(46,016,362)

The fair value movement in the derivative instrument of *USD48,908,818* represents the movement for the year from a liability of *USD46,016,362* to an asset of *USD2,892,456.*

In 2004 the company entered into a cross currency interest rate swap converting its 7.25% *USD250,000,000* Debenture Loan Stock to 6.991% *EUR200,754,838.* As illustrated in note 8, the interest on this instrument is being borne by Government. However this was not the case in the year under review as the company incurred *USD5,566,800* of interest on the instrument itself.

19. Derivative instrument at fair value (continued)

As the company reports in USD and the swap liability is in Euros, any exchange rate fluctuation exposure will crystallise 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 interest rate swap. Such a loss may only arise if the instrument is not held to maturity.

20. Trade and other payables

	2008 USD	2007 USD
Trade payables	262,794	905,386
Other payables	237,566	260,861
Accruals and deferred income	4,372,679	4,358,289
	4,873,039	5,524,536

21. Bank overdrafts and loans

	2008 USD	2007 USD
Bank overdrafts (secured)	1,086,065	720,883
Bank loans (secured)	41,441,158	49,586,400
	42,527,223	50,307,283

Bank overdrafts and loans are repayable as follows:

	2008 USD	2007 USD
On demand or within one year	10,123,745	11,454,260
In the second year	9,044,000	9,817,620
In the third year	9,184,859	9,830,577
In the fourth year	5,035,617	9,989,904
In the fifth year	3,300,870	4,641,170
After five years	5,838,132	4,573,752
	42,527,223	50,307,283
Less: amount due for settlement within 12 months (shown under current liabilities)	(10,123,745)	(11,454,260)
	32,403,478	38,853,023

21. Bank overdrafts and loans (continued)

The carrying amounts of the company's borrowings denominated in Euro are as follows:

	2008 USD	2007 USD
Bank overdrafts denominated in EUR	**1,086,065**	720,883
Bank loans denominated in EUR	**41,441,158**	49,586,400
	42,527,223	50,307,283

As illustrated in note 16, the interest cost on *USD20,538,496* (2007 – *USD30,845,918*) of these bank borrowings is borne by Government. The bank loans and overdrafts are secured by a general hypothec over the company's assets together with letters of guarantee issued by the Government of Malta.

The bank loans and overdrafts bear interest between 3.35% and 5.75% per annum (2007 – between 3.75% and 5.6% 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.

22. Other financial liabilities

	2008 USD	2007 USD
7.5% Global Registered Notes 2009	**233,810**	701,429
7.25% Debenture Loan Stock 2028	**250,000,000**	248,939,557
	250,233,810	249,640,986

Other financial liabilities are repayable as follows:

	2008 USD	2007 USD
On demand or within one year	**233,810**	480,000
In the second year	**-**	221,429
After five years	**250,000,000**	248,939,557
	250,233,810	249,640,986
Less: amount due for settlement within 12 months (shown under current liabilities)	**(233,810)**	(480,000)
	250,000,000	249,160,986

22. Other financial liabilities (continued)

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:

	2008 USD	2007 USD
7.25% Debenture Loan Stock 2028	**250,000,000**	250,000,000
Less:		
Refinancing costs	**10,604,431**	10,604,431
Accumulated amortisation	**(10,604,431)**	(9,543,988)
	-	1,060,443
Net proceeds	**250,000,000**	248,939,557

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-annual 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. Provisions for liabilities and other charges

This comprises the following:

- Provision for retirement benefits - This provision 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 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% after considering the average life expectancy of such employees and expected increases based on inflation rates and past salary increases, where applicable.

23. Provisions for liabilities and other charges (continued)

- Provision for financial obligations of subsidiary undertaking - At the balance sheet date the company had undertaken to finance certain outstanding financial obligations entered into by one of its subsidiaries, all of which have been accrued for in these financial statements.

The movement in the provision for liabilities and other charges may be analysed as follows:

	2008 USD	2007 USD
Provision for retirement benefits:		
Balance at 1 January	**1,473,856**	1,297,310
Settlements	**(103,733)**	(107,994)
Effect of translation to USD	**(82,779)**	153,877
Charge for the year	**135,938**	130,663
Balance at 31 December	**1,423,282**	1,473,856
Provision for financial obligations of subsidiary undertaking:		
Balance at 1 January	**5,873,848**	6,522,144
Net payments made during the year	**(4,144,487)**	(4,660,615)
Effect of translation to USD	**(51,119)**	933,814
(Credit)/charge for the year	**(819,041)**	3,078,505
Balance at 31 December	**859,201**	5,873,848
Total provisions for liabilities and other charges	**2,282,483**	7,347,704
Amounts due for settlement within 12 months	**319,495**	4,725,426
Amounts due for settlement more than 12 months	**1,962,988**	2,622,278

24. Deferred tax liability

	2007 USD	Movement for the year USD	**2008 USD**
Arising on:			
Investment property	29,608,093	612,467	**30,220,560**

25. Share capital

	2008 and 2007 Authorised USD	2008 and 2007 Issued and called up USD
2,976,128 ordinary shares of USD1 each	**2,976,128**	**2,976,128**

26. Cash and cash equivalents

	2008 USD	2007 USD
Cash at bank and on hand	**11,993,550**	31,027,230
Bank overdrafts	**(1,086,065)**	(720,883)
Cash and cash equivalents in the cash flow statement	**10,907,485**	30,306,347

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2008 was 4.49% per annum (2007 – 3.05%). The interest rate on the bank overdraft is disclosed in note 21.

27. Related party disclosures

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

	2008 Related party activity USD	2008 Total activity USD	2008 %	2007 Related party activity USD	2007 Total activity USD	2007 %
Revenue:						
Associates	-	-	-	444,990	5,336,331	8
Administrative expenses:						
Key management personnel	27,185	3,175,997	1	59,156	3,049,881	2

As highlighted in note 1 to the financial statements, the Government of Malta is the parent company of Malta Freeport Corporation Limited.

27. Related party disclosures (continued)

According to the revised IAS 24 – *Related Parties*, transactions with the Government of Malta, as the sole shareholder, are now to be disclosed. In the year under review the company incurred interest of *USD15,134,132* (2007–*USD22,371,255*) which, as illustrated in notes 8, 16 and 21, was borne by the Government of Malta. The amounts owed by the Government of Malta are disclosed in notes 16 and 17.

28. Fair values of financial assets and financial liabilities

At 31 December 2008 and 2007 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 value of the cross currency interest rate swap represents the present value arising from interest rate differentials between the currencies on the respective nominal values.

The valuation technique makes use of forward exchange rates at the balance sheet date together with appropriate discount rates based on yield curves at the balance sheet date plus adequate credit spreads.

The fair value of investment property is calculated in accordance with the methodology and assumptions detailed in note 14.

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.

29. Financial risk management

Credit risk

Financial assets which potentially subject the company to concentrations of credit risk consist principally of loans and receivables, derivative instruments and cash at bank.

Credit risk with respect to trade receivables is limited due to credit control procedures in place. 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. The company assesses the credit quality of its trade receivables by taking into account their financial standing and past experience. Management considers the credit quality of its financial assets as being acceptable.

29. Financial risk management (continued)

Credit risk (continued)

These financial assets do not include any material balances with past default experience. Included in the company's trade receivables balance are debtors amounting to *USD4,186* which are past due at the reporting date for which the company has not provided as the amounts are still considered recoverable.

Credit risk with respect to long term receivables is limited as in the eventuality of default the company will repossess plant and equipment located at the Malta Freeport. The remaining long-term receivable is due from the Government of Malta.

Cash at bank is placed with reliable financial institutions.

Derivative instruments are entered into with reliable financial institutions.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk.

Foreign currency risk

Foreign currency transactions arise when the company buys or sells goods or services the price of which are 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 Euro.

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 *EUR200,754,838* through a cross currency interest rate swap, whilst the company's main monetary assets consist of loans and receivables of *USD51,980,673* denominated in *EUR*. In addition the company's bank loans and overdraft and the majority of bank deposits are denominated in Euro.

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

The company's exposure to currency fluctuations is detailed below.

29. Financial risk management (continued)

Interest rate risk

The company has taken out bank facilities and has issued debenture loans to finance its operations as disclosed in notes 21 and 22 respectively. The interest rates thereon are disclosed accordingly. The company has also entered into a cross currency interest rate swap converting its USD fixed interest on its debenture loans to fixed interest denominated in EUR as disclosed in note 19.

The company earns interest on its long-term receivables and on its bank deposits as disclosed in note 16 and 26 respectively.

As detailed elsewhere in these financial statements, the interest on part of the bank loans is recharged to the Government of Malta. In addition, the interest payable on the 7.25% debenture loans and the net interest rate differential on the cross currency interest rate swap is borne by the Government of Malta; thus the effect on the company's income statement is nil in respect thereof. However this was not the case in the year under review as the company incurred *USD5,566,800* of interest on the instrument itself. As disclosed in note 19, the Government of Malta has indemnified the company for any losses that could arise from the interest rate differential on the cross currency interest rate swap. Such a loss may only arise if the instrument is not held to maturity. The company is not exposed to fair value risk on other financial instruments carrying a fixed rate of interest since these are carried at amortised cost. The company is exposed to cash flow interest rate risk on financial instruments carrying a floating rate of interest.

Sensitivity analysis

For financial instruments held or issued, the company has used a sensitivity analysis technique that measures the change in the fair value and cash flows of the company's financial instruments at the reporting date for hypothetical changes in the relevant market risk variables. The sensitivity of profit or loss due to changes in the relevant risk variables is set out below. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

The estimated change in cash flows for changes in market interest rates are based on an instantaneous increase or decrease of 100 basis points at the reporting date, with all other variables remaining constant.

The estimated change in cash flows for changes in functional currency exchange rate is based on an instantaneous increase or decrease of 10 per cent in EUR, with all other variables remaining constant.

29. Financial risk management (continued)

Sensitivity analysis (continued)

The sensitivity of the relevant risk variables, on an after tax basis is as follows:

	Profit and loss sensitivity	
	2008	2007
	USD	USD
Market interest rates - cash flows	**+/- 204K**	+/- 66K
EUR/USD exchange rates	**+/- 24,930K**	+/- 18,647K

Liquidity risk

The company monitors and manages its risk to a shortage of funds by monitoring forecast and actual cash flows.

As detailed above, the interest payable on the 7.25% debenture loans is borne by the Government of Malta. Furthermore, as disclosed in note 19, in 2004 the company entered into a cross currency interest rate swap converting its 7.25% *USD250,000,000* Debenture Loan Stock to 6.991% *EUR200,754,838.* In addition, the Government of Malta bears the net interest cost on this derivative, however this was not recovered in full by the company in the year under review and *USD5,566,800* was charged to the income statement.

The following maturity analysis for financial liabilities shows the remaining contractual maturities using the contractual undiscounted cash flows on the basis of the earliest date on which the company can be required to pay. The analysis includes both interest and principal cash flows.

	Within 1 year USD	Between 1-5 years USD	Over 5 years USD	Total USD
2008				
Non-derivative financial liabilities				
Non-interest bearing	**4,919,389**	**346,319**	**9,918,490**	**15,184,198**
Variable rate instruments	**12,576,852**	**38,204,415**	**3,348,811**	**54,130,078**
Fixed rate instruments	**553,323**	**339,714**	**250,000,000**	**250,893,038**
2007				
Non-derivative financial liabilities				
Non-interest bearing	10,067,902	-	-	10,067,902
Variable rate instruments	12,211,670	38,204,415	3,348,811	53,764,896
Fixed rate instruments	939,976	1,240,566	250,000,000	252,180,542
Derivative financial liabilities	-	-	46,016,362	46,016,362

30. Capital risk management

The company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of debt, which includes the borrowings disclosed in notes 21 and 22, cash and cash equivalents as disclosed in note 26 and items presented within equity in the balance sheet.

The company's directors manage the company's capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the directors, the company balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The company's overall strategy remains unchanged from the prior year.

Deloitte.

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Independent auditor's 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 Limited set out on pages six to thirty-eight, which comprise the balance sheet as at 31 December 2008, 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 five, the directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. 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 auditor's 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 2008 and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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
Partner, for and on behalf of,

DELOITTE
Certified Public Accountants

24 June 2009