 • M I A Business Report and Financial Statements 2005/06

FINANCIAL STATEMENTS

Malta International Airport p.l.c.

Directors, officers and other information

Directors:	Michael Hoeferer	(Chairman)
	Jean Depasquale	(Deputy Chairman)
	Peter Bolech	(Chief Executive Officer)
	Austin Calleja	(Chief Financial Officer)
	John Ellul Vincenti	
	Louis-M. St-Maurice	
	Winston J. Zahra	
Secretary:	Dr. Louis de Gabriele LL.D.	
Registered office:	Malta International Airport, Luqa, Malta. Tel. (+356) 21 249 600	
Country of incorporation:	Malta	
Company registration number:	C 12663	
Auditors:	Deloitte & Touche, 1, Col. Savona Street, Sliema, Malta.	
Principal bankers:	Bank of Valletta p.l.c., Corporate Centre, Canon Road, Santa Venera, Malta.	
Legal advisors:	Camilleri Preziosi Advocates, Level 2 - Valletta Buildings, South Street, Valletta, Malta.	

Malta International Airport p.l.c.

Directors' report

Year ended 31 March 2006

The directors are hereby submitting their annual report together with the audited financial statements for the year ended 31 March 2006.

Principal activities

The Company's principal activities are the development, operation and management of Malta International Airport. Upon privatisation, the company was granted a 65 year concession to operate Malta's only airport, this concession commenced in July 2002. The Company is also involved through a 10% shareholding interest in VISET Malta p.l.c., a Company set up to develop the Valletta Waterfront and operate a cruise liner terminal in Grand Harbour.

Performance review

The financial year April 2005 to March 2006 was a particular difficult year where the Company experienced a reduction in passenger throughput when compared to the previous year as well as some significant increases in certain operating costs. The directors however note that the profit after tax of the Company for the financial year ended 31 March 2006 is only marginally less than that of last year.

The results of the Company for the financial year show a profit on ordinary activities before taxation of *Lm4,896,850* (2005 – *Lm5,133,803*). As stated above, the volume of passengers using Malta International Airport decreased by 2.65% over last year. However, the revenue of the Company increased from *Lm16,578,001* to *Lm16,686,758* mainly because of the increase in the aeronautical charges applicable with effect from 1 April 2005 as well as some increases in revenues related to passenger facilitation and other services.

The Company maintained a constant tight control over its key operating costs throughout the year and managed to contain the total operating costs of the Company at the same level as those of last year. There were some increases in staff costs in line with agreed collective agreements with the Unions but there was a decrease in other operating expenses notwithstanding unforeseen increases in utility charges and in insurance costs.

The number of passengers making use of the airport facilities during the financial year 2005/2006 decreased from 2.83 to 2.76 million. This was largely due to the absence of passenger traffic coming from the cruise business during summer 2005 compared to last year, the weak performance of the tourism industry and a reduction in travel from local residents as a result of an increase in taxation on air travel. Any gains made by the Company's marketing division to attract new airlines to fly to Malta during the year was offset by these factors, with a net loss of about 39,000 international passenger movements throughout the financial year.

Nevertheless, the Company continued to pursue its long-term strategy to take active part in promoting travel to Malta especially from underserved destinations and together with Government agreed on an incentive scheme open to all airlines for specific European routes. The Company remains committed in its effort to continue on this regard for the foreseeable future.

Malta International Airport p.l.c.

Directors' report

Year ended 31 March 2006

Performance review (continued)

The Company has also continued with its efforts to encourage carriers and the local air freight community stakeholders to explore the possibility of using the Airport as an air cargo hub. Discussions are in hand on the possibility to enlarge the cargo facilities areas opened last year and there are good prospects that the development of cargo and courier services in and out of Malta will pick up in the coming years.

The Company remains actively involved in the development of the cruise and fly segment. The Company, in association with VISET Malta p.l.c., participated once again in various promotional activities to encourage this sector. A cruise liner will be operating out of Malta for most of summer 2006 with good prospects that it will continue operation also for autumn 2006. There is also the possibility that a second ship will also operate out of Malta next year.

The Company has once again experienced a drop in revenue from retail outlets. In line with international trends, the sale of alcohol and tobacco products has remained largely disappointing. However, we still feel that this drop in sales will in the long term be compensated by increases in the sales of other products and the Company will continue to explore new possibilities and opportunities together with the concessionaires operating in the terminal to achieve this aim. Early in 2007, it is envisaged that new areas in the departure lounge will be open for the traveling public and this gives the Company the opportunity to enhance and enlarge the shopping facilities in this area.

The Company also continues in its endeavors to seek prospective investors to develop the land opposite the Air Terminal. The Company maintains that the concept it is proposing, the Mediterranean Business Park, is viable to the prospective investor and at the same time, also adds value to the core business of the airport. The Company therefore will increase its efforts to seek to conclude a deal or separate deals with one or more interested parties in the best interest of the Company.

Refinancing of bank loan

During the financial year the Company refinanced the *Lm20,000,000* loan with Bank of Valletta. The original facilities were for a period of ten years which had to expire in 2012. With the new facility, the Company obtained higher borrowing limits to cater for future capex requirements *(Lm26 million)* and more favorable terms and conditions.

Share capital

The Company did not modify the structure of its share capital during the year. No further issues were made nor did the Company acquire ownership of, or any rights over, any portion of its own share capital.

Results and dividends

The financial results of the Company for the year ended 31 March 2006 are shown in the income statement on page 43. The profit for the year after taxation amounted to *Lm3,076,413* compared to *Lm3,222,154* in the prior financial year.

The policy of the Company is to distribute all the profits available for distribution in each year, subject to the Company retaining adequate levels of working capital. Further to the interim dividends paid of *Lm1,691,250* (gross *Lm2,601,923*), the Board of directors is recommending the payment of a final net dividend of 2.2cents per share (gross 3.38 cents) on all shares settled as at close of business on Friday 21st July 2006 which dividend shall be paid not later than the 31 August 2006.

Malta International Airport p.l.c.

Directors' report

Year ended 31 March 2006

Directors

The directors who served during the period were:

Michael Hoeferer	Chairman
Jean Depasquale	Deputy Chairman
Peter Bolech	Chief Executive Officer
Austin Calleja	Chief Financial Officer
John Ellul Vincenti	
Louis-M. St-Maurice	
Winston J. Zahra	

In accordance with paragraph 56.1 of the Company's articles of association all the present directors are to retire at the forthcoming annual general meeting. The appointment of the new directors will take place in accordance with paragraphs 55 and 56 of the same articles of association at the annual general meeting.

Directors' interests

The interests of the directors holding office at the end of the year in the ordinary shares of the Company are shown in note 23 to the financial statements. None of the current directors had a material interest in any contract of significance to which the Company was a party during the financial year.

Auditors

A resolution to reappoint Deloitte & Touche as auditors of the Company will be proposed at the forthcoming annual general meeting.

Going concern

After reviewing the Company's budget for the next financial year, and other longer term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

Approved by the Board of directors on 1 June 2006 and signed on its behalf by:

Michael Hoeferer
Chairman

Peter Bolech
Chief Executive Officer

Malta International Airport p.l.c.

Statement of directors' responsibilities

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

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

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act (Chap. 386). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance – Statement of Compliance

1. Introduction

Pursuant to Rule 8.26 of the Listing Rules issued by the Listing Authority, Malta International Airport p.l.c. ("the Company") is hereby reporting on the extent of its adoption of the "Code of the Principles of Good Corporate Governance" (hereinafter "the Code") appended to the said Listing Rules.

The Company acknowledges that the Code does not dictate or prescribe mandatory rules but recommends principles of good practice. However, the directors strongly believe that such practices are in the best interests of the Company and its shareholders and that compliance with principles of good corporate governance is not only expected by investors but also evidences the directors' and the Company's commitment to a high standard of governance.

The Board of directors of the Company ("the Board") has carried out a review of the Company's compliance with the Code from 1 April 2005 up to the end of the financial period being reported upon.

The Company has a corporate decision-making and supervisory structure that is tailored to suit the Company's requirements and designed to ensure the existence of adequate checks and balances within the Company, whilst retaining an element of flexibility. This structure is characterised by the structure of the Company's Board, which is composed of five non-executive directors and two executive directors, and by two further features as follows:

The first feature is the Board's delegation of specific responsibilities to a number of committees, notably the executive committee and the audit committee each of which operates under formal terms of reference. The executive committee is headed by the chief executive officer and consists of each department head. The audit committee is composed of three non-executive directors of the Company.

The second feature is that the Board is composed of a balance of five non-executive directors and two executive directors, a balance that is entrenched in the Company's Memorandum and Articles, which requires that the CEO is an *ex ufficio* director together with another senior executive of the Company. The presence of top executives on the Board is designed to ensure that all the members of the Board, including non-executive directors, have direct access at meetings of directors to the individuals having the prime responsibility for day to day operations of the Company and the implementation of polices that allows effective discussion and the availability of all the information necessary to carry out their functions in the best possible manner. This is also in line with the wording of the provisions laid down in paragraph 2.3 of the Code in terms of having a mix of executive and non-executive directors.

In general the directors believe that the Company has adopted appropriate structures to achieve an adequate level of good corporate governance, together with an adequate system of checks and balances in line with the Company's requirements.

Corporate Governance – Statement of Compliance

1. Introduction (continued)

On the other hand the directors believe that certain other committees or boards that are suggested in the Code are not required at this stage by the Company. For example it is the Board, rather than a remuneration committee, that determines the remuneration packages of the Company's executive directors and other executives. The Board believes that due to the fact that the Board is composed mainly of non-executive directors, the need to set up a separate remuneration committee does not exist. This belief is founded on the premise that the justification to establish a remuneration committee is to avoid a situation where executive directors participate in the determination of their own remuneration packages. Executive directors do not participate in discussions setting out their remuneration. To comply with the requirements of the Code as regards the disclosure of directors' remuneration, the Board has opted to disclose an aggregate figure. For the financial year under review the aggregate remuneration of the directors of the Company, including remuneration paid to the two executive directors, amounted to *Lm110,516*. Notwithstanding the above during the financial year under review the Board, in its 180th meeting appointed an *ad hoc* remuneration committee consisting of John Ellul Vincenti, Louis St-Maurice, Winston J. Zahra and Peter Bolech, together with an outside consultant to devise a strategy and policy on executive remuneration within the Company, including any performance linked remuneration and to make its recommendations to the Board of directors about the policies to be adopted in this respect. The term executive remuneration includes the remuneration of the CEO and the CFO.

The Company's current organisational structure already contemplates the role of a chief executive officer, a position which is occupied by Mr Peter Bolech whose role is to head the executive team of the Company and ensure the implementation of Board policies.

The Board considers that the Company has complied with the Code throughout the period under review in this report.

The statement of directors' responsibilities for preparing the financial statements is set out on page 38.

2. Board of directors

Pursuant to generally accepted practices, as well as the Company's articles of association, the appointment of directors to the Board is reserved exclusively to the Company's shareholders, except in so far as an appointment is made to fill a vacancy on the Board and the appointment of the second executive director (not the CEO).

As stated above, the Board of directors currently comprises five non-executive directors two of whom are appointed by the Government of Malta, another two by Malta Mediterranean Link Consortium Limited and one by public investors. The Board normally meets every six weeks. During the financial year under review the Board established a guideline whereby at its first meeting, it scheduled meetings for the full year. Board meetings concentrate mainly on strategy, operational performance and financial performance. The Board also delegates specific responsibilities to the CEO and the committees, notably the executive and the audit committees which operate under their respective formal terms of reference. Directors have access to the advice and services of the Company secretary who is also the legal counsel to the Board and the Company. Directors may, in the furtherance of their duties, take independent professional advice on any matter at the Company's expense.

Corporate Governance – Statement of Compliance

3. Committees

3.1 The executive committee meets once a week and concentrates on policy execution, business development, finance, security, administrative and personnel matters, and makes recommendations to the Board on matters which are beyond its remit. Mr Peter Bolech chairs the executive committee and its other members include the CFO and other executive officers of the Company.

3.2 The audit committee has met eight times, and has as its principal role the monitoring of internal systems and controls. During the course of this financial year the Board adopted new terms of reference for the audit committee designed both to strengthen this function within the Company and to widen the scope of the duties and responsibilities of this committee. The composition of the committee was also revisited and whilst the committee has the authority to summon any person to assist it in the performance of its duties its permanent members are now three non-executive directors. Mr. Jean Depasquale has chaired the audit committee and its other members are Mr. Louis-M. St-Maurice and Mr. John Ellul Vincenti.

4. Senior executive management

Senior executive management is presently entrusted to seven executive officers who are also members of the executive committee. The link between the executive committee and the Board is attained through the presence in the Board of the CEO and CFO as executive directors with full rights to attend and vote at such meetings. The executive officers also form part of Board-appointed committees as described in this document where they carry full voting rights.

The Company’s senior executive management is appointed by the chief executive officer who also determines their terms of appointment and remuneration, within parameters established by the Board.

The Company has in place a number of measures intended to ensure training of senior executives and other members of management.

5. Annual general meeting

Business at the Company's annual general meeting (AGM) will cover the approval of the annual report and audited financial statements, the declaration of a dividend, the election of directors, the determination of the maximum aggregate emoluments that may be paid to directors, the appointment of auditors and the authorisation of the directors to set the auditors' remuneration.

Apart from the AGM, the Company communicates with its shareholders by way of the annual report and financial statements, by publishing its results on a six-monthly basis during the year, through a quarterly newsletter for shareholders, and by Company announcements to the market in general. The Company recognises the importance of maintaining a dialogue with its shareholders to ensure that its strategies and performance are well understood. The Company's website (www.maltairport.com) also contains a corporate information section.

Malta International Airport p.l.c.

Corporate Governance – Statement of Compliance

6. Internal control

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk to achieve business objectives, and can provide only reasonable, and not absolute, assurance against normal business risks or loss. In an attempt to strengthen this function the Board has re-designed the function of the internal auditors with reporting duties also to the CEO and to function more closely to management. This is designed to ensure that any shortcomings detected by the internal auditors are reported in a more timely and expeditious manner directly to management so that prompt action can be taken.

Through the audit committee, the Board reviews the effectiveness of the Company's system of internal controls, which are monitored by the internal auditors on a regular basis.

The key features of the Company’s system of internal control are as follows:

6.1 Organisation

The Company operates through the CEO and executive committee with clear reporting lines and delegation of powers.

6.2 Control environment

The Company is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Company policies and employee procedures are in place for the reporting and resolution of improper activities.

The Company has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Company objectives.

6.3 Risk identification

Company management is responsible for the identification and evaluation of key risks applicable to their respective areas of business.

7. Information and communication

Company executives participate in periodic strategic reviews, which include consideration of long-term projections and the evaluation of business alternatives. Regular budgets and strategic plans are prepared, which are incorporated into a Company strategic plan. Performance against these plans is actively monitored and reported to the Board.

The directors consider that during the financial year under review the Company has put in place appropriate structures to comply with the principles and underlying spirit of the Code. However they shall keep the situation under regular review as appropriate.

Malta International Airport p.l.c.

Income statement

Year ended 31 March 2006

	Notes	2006 Lm	2005 Lm
Revenue	*5*	**16,686,758**	16,578,001
Staff costs	*10*	**(3,278,465)**	(3,181,447)
Depreciation		**(1,588,822)**	(1,311,170)
Other operating expenses		**(6,071,791)**	(6,162,851)
Investment gains	*6*	**61,174**	109,627
Release of deferred income arising on the sale of terminal buildings and fixtures		**123,720**	123,720
Finance costs	*7*	**(1,035,724)**	(1,022,077)
Profit before tax	*8*	**4,896,850**	5,133,803
Income tax expense	*11*	**(1,820,437)**	(1,911,649)
Profit for the year		**3,076,413**	3,222,154
Earnings per share	*27*	**4.55 c**	4.76 c

Malta International Airport p.l.c.

Balance sheet

31 March 2006

	Notes	2006 Lm	2005 Lm
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*13*	**40,989,696**	40,447,672
Available-for-sale investments	*14*	**373,300**	366,800
Deferred tax assets	*15*	**1,821,289**	1,906,006
		43,184,285	42,720,478
Current assets			
Inventories	*16*	**438,503**	417,127
Trade and other receivables	*17*	**2,628,445**	2,987,345
Current tax assets	*11*	**-**	124,300
Treasury bills	*26*	**-**	992,671
Cash and cash equivalents	*26*	**3,787,834**	1,635,954
		6,854,782	6,157,397
Total assets		**50,039,067**	48,877,875
Current liabilities			
Trade and other payables	*18*	**2,547,179**	2,359,532
Bank loan	*19*	**-**	2,532,700
Current tax liabilities	*11*	**1,116,102**	-
		3,663,281	4,892,232
Non-current liabilities			
Bank loan	*19*	**20,000,000**	17,467,300
Deferred income	*20*	**3,348,509**	3,472,229
Provision for retirement benefit fund	*21*	**1,434,038**	1,360,983
		24,782,547	22,300,512
Total liabilities		**28,445,828**	27,192,744
Net assets		**21,593,239**	21,685,131
EQUITY			
Share capital	*22*	**13,530,000**	13,530,000
Revaluation reserve	*24*	**751,719**	772,600
Retained earnings		**7,311,520**	7,382,531
Total equity		**21,593,239**	21,685,131

These financial statements were approved by the Board of directors, authorised for issue on 1 June 2006 and signed on its behalf by:

Michael Hoeferer	***Peter Bolech***	***Austin Calleja***
Chairman	***Chief Executive Officer***	***Chief Financial Officer***

Malta International Airport p.l.c.

Statement of changes in equity

Year ended 31 March 2006

	Share capital Lm	Revaluation reserve Lm	Retained earnings Lm	Total Lm
Balance at 1 April 2004	13,530,000	793,481	6,766,601	21,090,082
Difference between historical depreciation charge and actual depreciation for the year calculated on the revalued amount	-	(32,126)	32,126	-
Deferred tax liability on revaluation	-	11,245	-	11,245
Net income recognised directly in equity	-	(20,881)	32,126	11,245
Profit for the year	-	-	3,222,154	3,222,154
Total recognised income and expense for the year	-	(20,881)	3,254,280	3,233,399
Dividends paid (note 12)	-	-	(2,638,350)	(2,638,350)
Balance at 31 March 2005	13,530,000	772,600	7,382,531	21,685,131
Difference between historical depreciation charge and actual depreciation for the year calculated on the revalued amount	-	(32,126)	32,126	-
Deferred tax liability on revaluation	-	11,245	-	11,245
Net income recognised directly in equity	-	(20,881)	32,126	11,245
Profit for the year	-	-	3,076,413	3,076,413
Total recognised income and expense for the year	-	(20,881)	3,108,539	3,087,658
Dividends paid (note 12)	-	-	(3,179,550)	(3,179,550)
Balance at 31 March 2006	**13,530,000**	**751,719**	**7,311,520**	**21,593,239**

Malta International Airport p.l.c.

Cash flow statement

Year ended 31 March 2006

	Notes	2006 Lm	2005 Lm
Net cash flows from operating activities	*25*	**6,410,311**	4,092,633
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,132,226)**	(1,219,035)
Purchase of financial assets		**(6,500)**	(242,134)
Proceeds from sale of property, plant and equipment		**6,000**	-
Dividends received		**-**	58,692
Interest received		**61,174**	50,935
Net cash flows from investing activities		**(2,071,552)**	(1,351,542)
Cash flows from financing activities			
Dividends paid		**(3,179,550)**	(2,638,350)
Net movement in cash and cash equivalents		**1,159,209**	102,741
Cash and cash equivalents at the beginning of the year		**2,628,625**	2,525,884
Cash and cash equivalents at the end of the year	*26*	**3,787,834**	**2,628,625**

Notes to the financial statements

31 March 2006

1. Basis of preparation

The financial statements have been prepared on the historical cost basis 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 – land held as temporary emphyteusis, buildings, furniture, fixtures, plant and equipment.

Property, plant and equipment are initially measured at cost. In the case of buildings, cost represents the fair value at July 2002, being the date of change in title of the underlying land from freehold to land held as temporary emphyteusis. 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.

Subsequent to initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Every year, the difference between depreciation of buildings based on the fair value at the date of change in title of the underlying land and depreciation based on the asset's original cost prior to the original revaluation is transferred from the revaluation reserve to retained earnings. When the asset is derecognised, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

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.

Notes to the financial statements

31 March 2006

2. Significant accounting policies (continued)

Properties in the course of construction

Properties in the course of construction for production, rental, capital appreciation or administrative purposes are classified as property, plant and equipment and are carried at cost, less any identified impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are available for use.

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:

Temporary emphyteusis	-	equal annual instalments over the term of the emphyteusis being 65 years
Buildings	-	2% per annum
Furniture, fixtures, plant and equipment	-	10% - 33 1/3% per annum

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

Financial instruments

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

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

Notes to the financial statements

31 March 2006

2. Significant accounting policies (continued)

Financial instruments (continued)

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.

(i) Trade receivables

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

(ii) Investments

Available-for-sale financial assets are those non-derivative financial assets that are either designated in this category by the Company or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at their fair value except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Gains and losses arising from a change in fair value are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest calculated using the effective interest method is recognised in the profit or loss.

(iii) Bank borrowings

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

Malta International Airport p.l.c.

Notes to the financial statements

31 March 2006

2. Significant accounting policies (continued)

Financial instruments (continued)

(iv) Trade payables

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

(v) Shares issued by the Company

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method and comprises expenditure incurred in acquiring the inventories and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion.

Impairment

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

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

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

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.

Notes to the financial statements

31 March 2006

2. Significant accounting policies (continued)

Impairment (continued)

Impairment losses are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case, the impairment loss is recognised directly against the asset's revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset.

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.

The impairment loss on investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is not reversed in a subsequent period.

Hire purchase transactions

Assets acquired under hire purchase agreements are capitalised and depreciated in accordance with the Company's normal policy. The outstanding liabilities under such agreements, less interest not yet due, are included in creditors. Interest on such agreements is charged to the income statement over the term of each agreement and represents a constant proportion of the balance of capital repayments outstanding.

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:

Malta International Airport p.l.c.

Notes to the financial statements

31 March 2006

2. Significant accounting policies (continued)

Revenue recognition (continued)

(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) Deferred income

Deferred income arising from the gain on disposal of the terminal building and fixtures is transferred to the profit and loss account in equal annual installments over the remaining useful life of the assets.

(iv) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

Borrowing costs

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

Taxation

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

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

Notes to the financial statements

31 March 2006

2. Significant accounting policies (continued)

Taxation (continued)

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.

Employee benefits

The Company contributes towards the state pension in accordance with local legislation. The only obligation of the Company is to make the required contributions. Costs are expensed in the period in which they are incurred.

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.

Currency translation

The financial statements of the Company are presented in its functional currency, the Maltese Lira, 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.

Malta International Airport p.l.c.

Notes to the financial statements
31 March 2006

2. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Dividends

Dividends to holders of equity instruments are recognised as liabilities in the period in which they are declared.

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

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

At the balance sheet date, 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. Adoption of new and revised International Financial Reporting Standards

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

The adoption of these new and revised International Financial Reporting Standards has not resulted in material changes to the Company's accounting policies.

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

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

Notes to the financial statements

31 March 2006

5. Revenue

Revenue represents the amount receivable for services rendered during the year, net of any indirect taxes. The following disclosure is relevant in terms of indent (l) of paragraph 31 of Part III of the Third Schedule to the Companies Act (Chap. 386).

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

	2006	2005
	Lm	Lm
By activity:		
Aircraft landing and parking fees	**1,612,429**	1,583,119
Concessionaires' turnover charge	**1,793,678**	1,834,102
Handling and throughput charges	**1,182,890**	1,285,747
Other income	**1,282,354**	1,109,378
Passenger service charge	**9,091,155**	9,021,510
Rent	**446,509**	478,731
Security fees	**1,277,743**	1,265,414
	16,686,758	16,578,001

6. Investment gains

	2006	2005
	Lm	Lm
Interest income on bank deposits	**61,174**	50,935
Dividends from equity investments	**-**	58,692
	61,174	109,627

7. Finance costs

	2006	2005
	Lm	Lm
Interest on bank borrowings	**1,035,669**	1,008,966
Interest on obligations under hire purchase agreements	**-**	13,111
Loss on disposal of treasury bills	**55**	-
	1,035,724	1,022,077

Notes to the financial statements

31 March 2006

8. Profit before tax

	2006	2005
	Lm	Lm
This is stated after charging/(crediting):		
Auditors' remuneration	**7,500**	6,250
Net exchange differences	**(950)**	742

9. Key management personnel compensation

	2006	2005
	Lm	Lm
Directors' compensation:		
Short-term benefits:		
Fees	**24,083**	33,360
Management remuneration	**91,466**	79,658
Other benefits	**19,050**	19,050
Social security costs	**1,374**	1,355
	135,973	133,423
Indemnity insurance paid	**26,633**	28,786

Mr. Louis-M. St-Maurice agreed to waive any director's emoluments payable to him for the year under review.

10. Staff costs and employee information

	2006	2005
	Lm	Lm
Staff costs:		
Wages and salaries	**2,910,548**	2,841,015
Directors' emoluments	**134,599**	132,068
Social security costs	**233,318**	208,364
	3,278,465	3,181,447

Malta International Airport p.l.c.

Notes to the financial statements

31 March 2006

10. Staff costs and employee information (continued)

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

	2006 Number	2005 Number
Business development, operations and marketing	**112**	120
Finance and human resources	**27**	27
Firemen	**45**	49
Meteorological office	**16**	16
Safety, security and administration	**86**	86
Technical and engineering	**101**	103
	387	401

11. Income tax expense

	2006 Lm	2005 Lm
Balance brought forward	**(124,300)**	(1,327,074)
Tax charge for the year:		
Malta tax at 35%	**1,715,170**	1,802,915
Final withholding tax at 15%	**9,305**	6,920
Deferred taxation (note 15)	**95,962**	101,814
	1,820,437	1,911,649
Sub-total	**1,696,137**	584,575
Tax refunded/(paid):		
Tax refunds	**483,347**	843,446
Settlement tax	**(359,328)**	-
Provisional tax	**(598,787)**	(1,423,045)
Tax at source on investment income	**(9,305)**	(27,462)
Transfer to deferred taxation (note 15)	**(95,962)**	(101,814)
Balance carried forward	**1,116,102**	(124,300)

Malta International Airport p.l.c.

Notes to the financial statements

31 March 2006

11. Income tax expense (continued)

	2006	2005
	Lm	Lm
Current tax expense	**1,724,475**	1,809,835
Deferred tax expense (note 15)	**95,962**	101,814
	1,820,437	1,911,649

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

	2006	2005
	Lm	Lm
Profit before tax	**4,896,850**	5,133,803
Tax at the applicable rate of 35%	**1,713,897**	1,796,831
Tax effect of:		
Depreciation charges not deductible by way of capital allowances in determining taxable income	**112,196**	118,403
Disallowed expenses in taxable income	**6,449**	7,322
Investment income subject to lower tax rates	**(12,105)**	(10,907)
Income tax expense for the year	**1,820,437**	1,911,649

12. Dividends

In respect of the prior year, the net dividend of 2.2 cents per share (total dividend *Lm1,488,300)* proposed by the directors was declared by the shareholders at the Annual General Meeting and was paid on 30 July 2005.

In respect of the current year, on 30 December 2005 a net dividend of 2.5 cents per share (total dividend *Lm1,691,250*) (2004 – 2.5 cents per share) (total dividend *Lm1,691,250*) was paid to shareholders.

The directors propose that a net dividend of 2.2 cents per share will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total proposed dividend to be paid is *Lm1,488,300.*

Malta International Airport p.l.c.

Notes to the financial statements

31 March 2006

13. Property, plant and equipment

	Land held as temporary emphyteusis Lm	Buildings Lm	Furniture, fixtures, plant and equipment Lm	Total Lm
Cost				
At 01.04.2004	18,044,970	23,599,326	18,962,635	60,606,931
Additions	-	47,086	1,171,949	1,219,035
Disposals	-	-	(7,712)	(7,712)
Reversals	-	-	(388,565)	(388,565)
Transfers	-	271,044	(271,044)	-
At 01.04.2005	18,044,970	23,917,456	19,467,263	61,429,689
Additions	-	37,866	2,094,360	2,132,226
Disposals	-	-	(21,474)	(21,474)
Transfers	-	143,335	(143,335)	-
At 31.03.2006	18,044,970	24,098,657	21,396,814	63,540,441
Accumulated depreciation				
At 01.04.2004	462,692	4,420,910	14,793,415	19,677,017
Provision for the year	277,615	477,793	865,215	1,620,623
Eliminated on disposals	-	-	(6,170)	(6,170)
Reversals	-	-	(309,453)	(309,453)
At 01.04.2005	740,307	4,898,703	15,343,007	20,982,017
Provision for the year	277,615	478,205	833,002	1,588,822
Eliminated on disposals	-	-	(20,094)	(20,094)
Transfers	-	13,729	(13,729)	-
At 31.03.2006	1,017,922	5,390,637	16,142,186	22,550,745
Carrying amount				
At 31.03.2005	17,304,663	19,018,753	4,124,256	40,447,672
At 31.03.2006	**17,027,048**	**18,708,020**	**5,254,628**	**40,989,696**

Malta International Airport p.l.c.

Notes to the financial statements
31 March 2006

14. Financial assets

Available-for-sale investments

	Local unlisted Lm
Cost	
At 01.04.2005	366,800
Additions	6,500
At 31.03.2006	**373,300**

These financial assets represent investments in unlisted securities which present the Company with opportunity for return through dividend. Unlisted investments are stated at cost as fair value cannot be measured reliably since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. It is not possible to disclose the range of estimates within which fair value is highly likely to lie.

15. Deferred taxation

	2005 Lm	Movement for the year Lm	**2006 Lm**
Arising on:			
Accelerated tax depreciation	538,135	(36,419)	**501,716**
Provision for pension costs	476,344	25,569	**501,913**
Deferred income	1,258,582	(43,302)	**1,215,280**
Other temporary differences	48,956	(41,810)	**7,146**
	2,322,017	(95,962)	**2,226,055**
Revaluation of properties prior to change in title of the underlying land	(416,011)	11,245	**(404,766)**
	1,906,006	(84,717)	**1,821,289**

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Notes to the financial statements

31 March 2006

16. Inventories

	2006	2005
	Lm	Lm
Consumables	**438,503**	417,127

Included in the above amount are consumables that are expected to be consumed more than twelve months after the balance sheet date.

17. Trade and other receivables

	2006	2005
	Lm	Lm
Trade receivables	**1,562,518**	1,787,741
Other receivables	**181,029**	355,912
Amounts due from related parties	**60,286**	-
Prepayments and accrued income	**824,612**	843,692
	2,628,445	2,987,345

No interest is charged on trade and other receivables. The amounts due from related parties are unsecured, interest-free and are expected to be realised in the Company's normal operating cycle.

Reversal of estimated irrecoverable amounts

During the year a write-off has been made for estimated irrecoverable amounts from the provision of services of *Lm115,047* (2005 – *Lm26,243*). In addition, it was considered necessary to reverse provision for bad and doubtful debts amounting to *Lm119,830* (2005 - increase in provision for bad debts of *Lm100,204*) as determined by reference to past default experience, adjusted on the basis of current observable data. The write off and reversal of provision for bad and doubtful debts are included with operating expenses.

18. Trade and other payables

	2006	2005
	Lm	Lm
Trade payables	**764,949**	609,597
Amounts due to related parties	**75,546**	91,877
Accruals and deferred income	**1,706,684**	1,658,058
	2,547,179	2,359,532

No interest is payable on trade and other payables. The amounts due to related parties are unsecured, interest-free and are expected to be settled in the Company's normal operating cycle. No guarantees have been given.

Notes to the financial statements

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19. Bank loans

	2006 Lm	2005 Lm
Bank loans	**20,000,000**	20,000,000
Bank loans are repayable as follows:		
On demand or within one year	**-**	2,532,700
In second year	**500,000**	-
In third year	**500,000**	-
In fourth year	**500,000**	-
In fifth year	**500,000**	-
After five years	**18,000,000**	17,467,300
Less: amount due for settlement within 12 months (shown as current liabilities)	**-**	(2,532,700)
Amount due for settlement after 12 months	**20,000,000**	17,467,300

The bank loan, which will expire in 2026, is secured by a general hypothec for *Lm26,000,000* over all the Company's present and future assets, with the exception of terminal buildings and other sites. At the balance sheet date the loan interest is charged at 4.05% (2005 – 5%) per annum.

20. Deferred income

	2006 Lm	2005 Lm
Deferred income	**3,472,229**	3,595,949
Less: amounts due shown as current liabilities	**(123,720)**	(123,720)
	3,348,509	3,472,229

The deferred income arising from the gain on disposal of the terminal building that took place prior to privatisation in 2002 is being taken to income in accordance with the accounting policy stated in note 2.

Notes to the financial statements

31 March 2006

21. Provision for retirement benefits

	2006	2005
	Lm	Lm
Provision for retirement benefits	**1,434,038**	1,360,983

The provision for retirement benefits represents the year-end provision for possible future liabilities relating to pensions of employees who joined the public service before the 15 January 1979 and were transferred to the Company. 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 at the rate of 6% 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	2005
	Lm	Lm
Balance at 1 April	**1,360,983**	1,503,222
Payments effected	**-**	(203,440)
Charge for the year	**73,055**	61,201
Balance at 31 March	**1,434,038**	1,360,983

22. Share capital

	2006	**and 2005**
		Issued and
	Authorised	**called up**
	Lm	**Lm**
40,589,995 'A' ordinary shares of Lm0.20 each(all of which have been issued, called up and fully paid)	**8,117,999**	**8,117,999**
27,060,000 'B' ordinary shares of Lm0.20 each(all of which have been issued, called up and fully paid)	**5,412,000**	**5,412,000**
5 'C' ordinary shares of Lm0.20 each(all of which have been issued, called up and fully paid)	**1**	**1**
32,350,000 unissued ordinary shares of Lm0.20 each (none of which have been issued and called up)	**6,470,000**	**-**
	20,000,000	**13,530,000**

The ordinary 'A' and 'B' shares have the same rights, benefits and powers in the Company save for the transferability thereof. Ordinary 'A' shares are freely transferred while the 'B' shares shall be non-transferrable for a period of 15 years from the 26 July 2002. Ordinary 'C' shares carry no voting rights and do not receive dividends.

Malta International Airport p.l.c.

Notes to the financial statements

31 March 2006

22. Share capital (continued)

Shareholders

The shareholders owning 5% or more of the Company's equity share capital at 31 March 2006 were the following:

Malta Mediterranean Link Consortium Limited	40.0%	'B' shares
Government of Malta	20.0%	'A' and 'C' shares
VIE (Malta) Limited	10.1%	'A' shares

The number of holders of each class of share at 31 March 2006 was as follows:

Number of ordinary shares held	**Number of accounts**	**Number of shares**	**% of shares**
Ordinary 'A' shares			
1 - 1,000	**2,945**	**2,177,371**	**3.22**
1,001 - 5,000	**3,422**	**8,083,762**	**11.95**
> 5,000	**685**	**30,328,862**	**44.83**
	7,052	**40,589,995**	**60.00**
Ordinary 'B' shares	**1**	**27,060,000**	**40.00**
Ordinary 'C' shares	**1**	**5**	**0.00**
	7,054	**67,650,000**	**100.00**

The above number of holders did not differ significantly from 31 March 2006 to 1 June 2006.

23. Directors' interests

The beneficial and non-beneficial interests of the directors who held shares in the Company at the end of the year are set out below:

	Beneficial shares	**Non-beneficial shares**
Austin Calleja	**6,000**	**-**
Jean Depasquale	**9,900**	**1,300**
	15,900	**1,300**

The above holdings have not changed from 31 March 2006 to 1 June 2006.

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Notes to the financial statements

31 March 2006

24. Revaluation reserve

The revaluation reserve emanates from the revaluation of the Company's buildings and is not available for distribution to the Company's shareholders.

25. Net cash flows from operating activities

	2006 Lm	2005 Lm
Profit before taxation	**4,896,795**	5,133,803
Adjustments for:		
Depreciation	**1,588,823**	1,620,623
Interest expense	**1,035,669**	1,022,077
(Gain)/loss on disposal of property plant and equipment	**(4,620)**	1,542
Release of deferred income arising on the sale of the terminal building and fixtures	**(123,720)**	(123,720)
Interest income	**(61,174)**	(50,935)
Income from financial assets	**-**	(58,692)
Provision for retirement benefits	**73,055**	61,201
Provision for bad debts	**(119,830)**	(19,796)
Operating profit before working capital movements	**7,284,998**	7,586,103
Movement in inventories	**(21,376)**	(13,619)
Movement in trade and other receivables	**478,730**	(549,093)
Movement in trade and other payables	**187,701**	(1,301,620)
Cash flows from operations	**7,930,053**	5,721,771
Interest paid	**(1,035,669)**	(1,022,077)
Taxation paid, net of refunds	**(484,073)**	(607,061)
Net cash flows from operating activities	**6,410,311**	4,092,633

26. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2006 Lm	2005 Lm
Cash at bank and on hand	**3,787,834**	1,635,954
Treasury bills	-	992,671
Cash and cash equivalents in the cash flow statement	**3,787,834**	2,628,625

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Notes to the financial statements

31 March 2006

27. Earnings per share

Earnings per ordinary share have been calculated by dividing the profit for the year after taxation by the average number of ordinary shares in issue during the year.

	2006	2005
Weighted average number of shares in issue	**67,650,000**	67,650,000
Earnings per share (Lm)	**4.55**	4.76

28. Capital commitments

	2006 Lm	2005 Lm
Contracted but not provided for	**475,400**	499,390
Authorised but not contracted for	**540,000**	282,400

29. Contingent liabilities

At the balance sheet date there existed:

(i) five claims filed by employees of the Company with the Tribunal for the Investigation of Injustices for unfair promotions and dismissals;

(ii) a claim by the Government of Malta for pensions of ex Armed Forces of Malta employees; and

(iii) other claims by third parties.

In the opinion of the directors, all the above claims are unfounded.

30. Operating lease arrangements

	2006 Lm	2005 Lm
Minimum lease payments under operating leases recognised as an expense for the year	**300,000**	300,000

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Notes to the financial statements

31 March 2006

30. Operating lease arrangements (continued)

At the balance sheet date, the Company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2006 Lm	2005 Lm
Within one year	**300,000**	300,000
In the second to fifth years inclusive	**1,380,000**	1,335,000
After five years	**49,182,900**	49,527,900
	50,862,900	51,162,900

Operating lease payments represent ground rent payable by the Company on the temporary emphyteusis. Leases are determined up to the term of the lease, being 65 years.

31. Related party disclosures

During the course of the year, the Company entered into transactions with related parties which are related through common shareholders and/or directors. The related parties in question are:

Malta Mediterranean Link Consortium Limited
SNC-Lavalin Inc.
VIE (Malta) Limited
Airport Investments Limited
Nuance (Malta) Limited

The amounts due to/from related parties at year-end are disclosed in notes 17 and 18.

The related party transactions in question were:

	2006			2005		
	Related party activity Lm	**Total activity Lm**	**%**	Related party activity Lm	Total activity Lm	%
Revenue:						
Related party transactions with:						
Other related parties	**182,547**	**16,686,758**	**1**	-	-	0
Other operating costs:						
Related party transactions with:						
Other related parties	**451,104**	**6,071,790**	**7**	450,395	6,162,851	7

Notes to the financial statements

31 March 2006

32. Contracts of significance

Pursuant to Listing Rules 9.51.14 and 9.51.15 issued by the Listing Authority of the Malta Financial Services Authority, the contracts of significance entered into by the Company in the year ended 31 March 2006 with its substantial shareholders and their related parties are the following:

Malta Mediterranean Link Consortium Limited

The provision for Technical Services by the Company's strategic partners VIE (Malta) Limited and SNC-Lavalin Inc. giving rise to an expense of *Lm412,057 (2005 – Lm403,047*).

The Government of Malta

(i) The terminal land lease agreement with the Lands Department for *Lm300,000* (2005 – *Lm300,000*);
(ii) The contract for contribution to the Malta Tourism Authority for *Lm100,000* (2005 – *Lm210,801*);
(iii) The contract with the Armed Forces of Malta for the security of the restricted areas at the Airport for an expense of *Lm1,236,300* (2005 – *Lm1,236,300*);
(iv) The provision of Air Navigation Services and other services by Malta Air Traffic Services Limited for an expense of *Lm527,544* (2005 – *Lm515,452*);
(v) The provision of Meteorological Services and other services to Malta Air Traffic Services Limited for revenue of *Lm378,775* (2005 – *Lm374,963*);
(vi) The ground handling and concession agreements with Air Malta p.l.c. and its subsidiaries that generated income of *Lm1,160,630* (2005 – *Lm1,284,111*); and
(vii) The contract with Enemalta Corporation for fuel throughput charges generated the amount of *Lm589,948* (2005 – *Lm573,905*) in revenue.

33. Parent Company

For the purposes of IAS 27 – Consolidated and Separate Financial Statements, it is considered that Articles 58.2 and 58.7 of the Company's Articles of Association combine so as to give Malta Mediterranean Link Consortium Limited, which has its registered office at Palazzo Pietro Stiges, 60 St. Christopher Street, Valletta, Malta, the power to govern the financial and operating policies of the Company so as to obtain benefits from its activities. The individual financial statements are incorporated in the group financial statements of Malta Mediterranean Link Consortium Limited.

Notes to the financial statements

31 March 2006

34. Fair values of financial assets and financial liabilities

At 31 March 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, other than unlisted investments that cannot be reliably measured and that are carried at cost, are not materially different from their carrying amounts.

35. Financial risk management

Credit risk

Financial assets which potentially subject the Company to concentrations of credit risk, consist principally of receivables, investments 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 debtors is limited due to credit control procedures and the number of customers comprising the Company's debtor base. Investments are acquired after assessing the quality of the relevant investments. Cash at bank is placed with reliable financial institutions.

Currency risk

The Company has limited currency risk as virtually all transactions are denominated in Maltese Lira.

Interest rate risk

The Company has taken out bank facilities to finance its operations as disclosed in note 20. The interest rates thereon and the terms of such borrowings are disclosed accordingly. Investments in equity instruments are not exposed to interest rate risk. Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by adjusting its selling prices.

36. Comparative figures

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

Malta International Airport p.l.c.

Auditors' report on Corporate Governance Matters

to the members of
Malta International Airport p.l.c.

Pursuant to Listing Rule 8.26 issued by the Listing Authority of the Malta Financial Services Authority, the directors are required to include in their annual report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance with these principles.

Our responsibility is laid down by Listing Rule 8.28, which requires us to include a report on the Statement of Compliance.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We are not required to perform additional work necessary to, and we do not, express an opinion on the effectiveness of either the Company's system of internal control or its corporate governance procedures.

In our opinion, the Statement of Compliance set out on pages 39 - 42 has been properly prepared in accordance with the requirements of Listing Rule 8.26.

Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants

1 June 2006

Malta International Airport p.l.c.

Auditors' report

to the members of
Malta International Airport p.l.c.

We have audited the financial statements of Malta International Airport p.l.c. on pages 43 - 69 for the year ended 31 March 2006. As described in the statement of directors' responsibilities on page 38, these financial statements are the responsibility of the Company's directors. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 March 2006 and of its profit, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and in compliance with the Companies Act (Chap. 386).

Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants

1 June 2006

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