MALTA INTERNATIONAL AIRPORT plc

04

# On the right track

05

Business Report and Financial Statements

# Contents




- Prime contributor to the Maltese economy
- Registered increase of just under 6% in passenger movements
- Efforts to attract new airlines to Malta
- Encouraging the operation of new routes

# On the right track

**It** would not be too presumptuous to state that the year 2004 / 2005 has been a further successful one for Malta International Airport as indeed the results which are featured in this Annual Report do reveal. The consolidation in the execution of our business plan is now a tangible reality which begins to bear its fruits as it discloses new horizons – challenges which are ready to be taken as opportunities to explore and exploit.

**Indeed** this year's performance does indicate that we are on the right track with a registered increase of just under 6% in passenger movements, mostly the direct effect of our efforts to attract new airlines to Malta and to encourage the operation of new routes. This scenario warrants well for the immediate future when we shall continue to pursue our long-term strategic objectives to take advantage of new business scenarios looming ahead in the aviation sector and in turn in the general tourism field where we increasingly remain a most significant and active stake holder as well as a prime contributor to the Maltese economy. No doubt the success achieved by the Company is not confined merely to a financial interpretation as indeed it is gratifying to note that moreover the productive output of our work force has enabled us to achieve official international recognition as the second best airport in Europe amongst those servicing under five million passengers per year. It is thanks to the concerted effort of all our team that together we are today on the right track.

Michael Hoeferer
*Chairman*

**If** tourism for Malta is known to be the pivotal factor for development, Malta International Airport may today be safely referred to as a milestone for this small country. Our results this year could be interpreted to indicate that we are performing somewhat ahead of the general trends of the national economy, this of course should be no reason for us to lie back but much rather to urge us to strive further to maintain this momentum. Undoubtedly the journey continues to be an uphill one as we persevere to overcome inevitable and extraneous obstacles that could hinder the implementation of our plans.

**OUR RESULTS THIS YEAR THAT WE ARE PERFORMI TRENDS OF THE NATION**

**The** records show that so far the route we have designed is leading to the right direction. We have invested wisely and our investment is gradually proving that far-sighted planning grafted at the grassroots eventually ensures a scene for success. The institution of the Quality Management concept coupled with the restructuring of our Human Resources sector is leading towards a more motivated ambience which we can see reflected on a more global spectrum. Suffice it to mention that today we may consider ourselves to be playing in the same league as some major European airports since some of our key financial ratios compare well with BAA plc, Copenhagen Airports A/S and VIE.

**Contributing** significantly to these positive results there are other salient features that crown our protagonist role in the industry; indeed our input around the table of the Malta Tourism Authority, our initiative to set up the Cargo Development Committee with all the other stakeholders, and equally our participation in VISET which is expected to flourish once the Valletta Waterfront Project is accomplished, bear witness to the dimension of our responsibilities.

**All** this is well-deserving of the trust shown by our shareholders and encourages our even more firm commitment for future development and achievements in the tourism industry.

Peter R. Bolech *Chief Executive Officer*

# A motivated organisation

COULD BE INTERPRETED TO INDICATE
NG SOMEWHAT AHEAD OF THE GENERAL
AL ECONOMY

Jean Depasquale *Deputy Chairman*

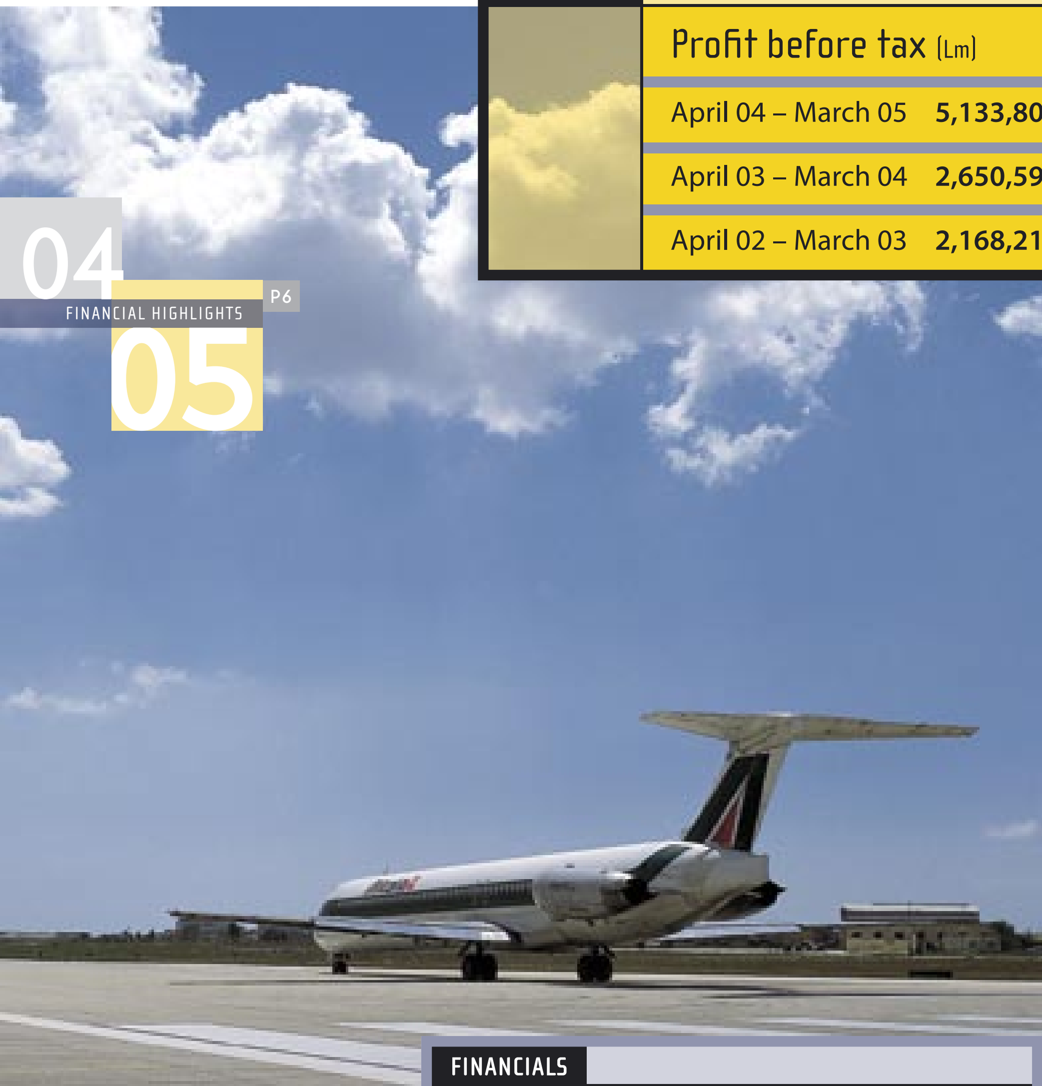
Austin Calleja *Chief Financial Officer*

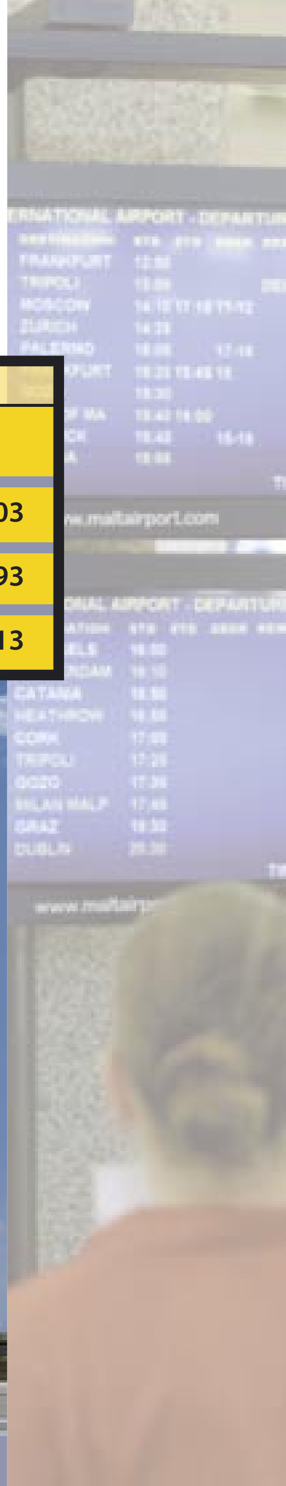
Louis-M. St-Maurice

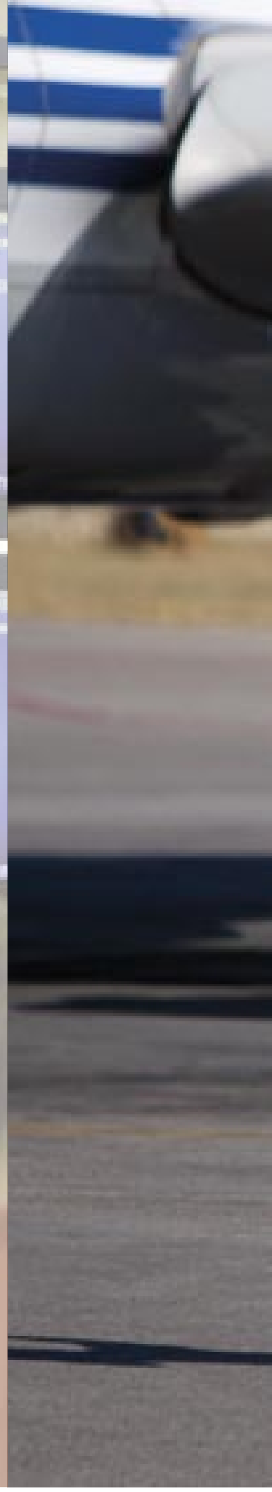
Winston J. Zahra

John Ellul Vincenti

Louis Degabriele *Company Secretary*





FINANCIALS

## Profit before tax (Lm)

| | |
|---|---|
| April 04 – March 05 | **5,133,803** |
| April 03 – March 04 | **2,650,593** |
| April 02 – March 03 | **2,168,213** |

FINANCIALS

## Capital Expenditure (Lm)

| | |
|---|---|
| April 04 – March 05 | **1,219,035** |
| April 03 – March 04 | **695,984** |
| April 02 – March 03 | **825,281** |

# Financial highlights

**FINANCIALS**

| Revenue | (%) |
|---|---|
| PSC | 54.4 |
| Concessions | 11.1 |
| Landing and parking | 9.5 |
| Other income | 6.7 |
| Security fees | 7.6 |
| Ground handling charge | 4.3 |
| Rent | 2.9 |
| Fuel throughput | 3.5 |

**FINANCIALS**

| Expenditure | (%) |
|---|---|
| Marketing | 4.6 |
| Financial | 8.8 |
| Depreciation | 11.2 |
| Staff | 28.3 |
| Operations | 47.1 |

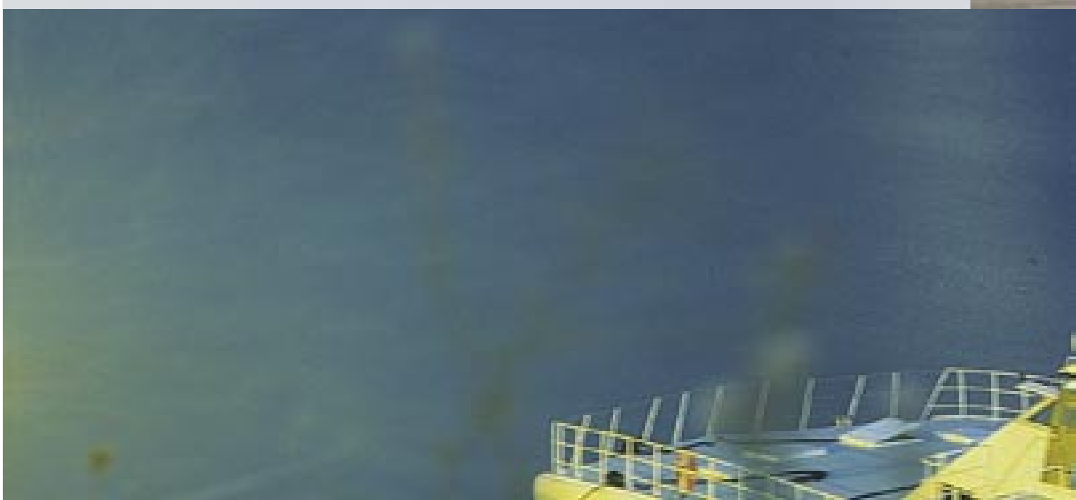
# OVERVIEW



**Redefining the Company's Strategy** In the course of the financial year the Board of Directors met to re-examine the strategic goals which MIA had set after privatisation and to explore any possible need to redefine policies and reflect on the current realities of the aviation industry.

**This** process was an affirmation of a positive attitude taken by the Board and reflected the dynamic approach with which MIA conducts its business. MIA is satisfied with the success derived from the strategic policies drawn up two years ago, however it describes as imperative the constant refinement of the actual policies in order to ascertain that these are in line with current market exigencies therefore ensuring even better results.

**MIA** had set its benchmarks in six areas of its core business which the Company identified to have adequate potential to increase activity not only for MIA but also for the country's economy. Indeed, the exercise of these policies is well underway and has become a tangible reality. Suffice it to mention that the **Cruise & Fly concept yielded a turnaround of 21,000 passengers at MIA.**





**The cargo strategy** which is being implemented continues to achieve positive results. However MIA is aware of the need to increase its efforts in cargo marketing as well as to venture into new markets so far not sufficiently tapped in order to maximise on all the existing potential. Cargo activities are now set to improve even further with the completion of a second cargo shed that has increased storage space by 50% through an additional 1500m². The introduction of a second ground handling service provider in April 2005 is also expected to attract additional business in this area and should enhance the development of MIA into a regional cargo centre.

**Moreover** MIA has concentrated its efforts on passenger hubbing directed towards making Malta a multi-modal transport hub within the Mediterranean.

**Following** the establishment of a stronger Marketing & Business Development set-up, the company's marketing efforts have proved successful as an increase of 154,961 (+5.79%) passenger movements have been registered. Of these, 113,000 passenger movements were generated by new destinations that were operated by six airlines. In the current financial year we are also expecting to have an increase of passengers as a direct result of the airline marketing already carried out.

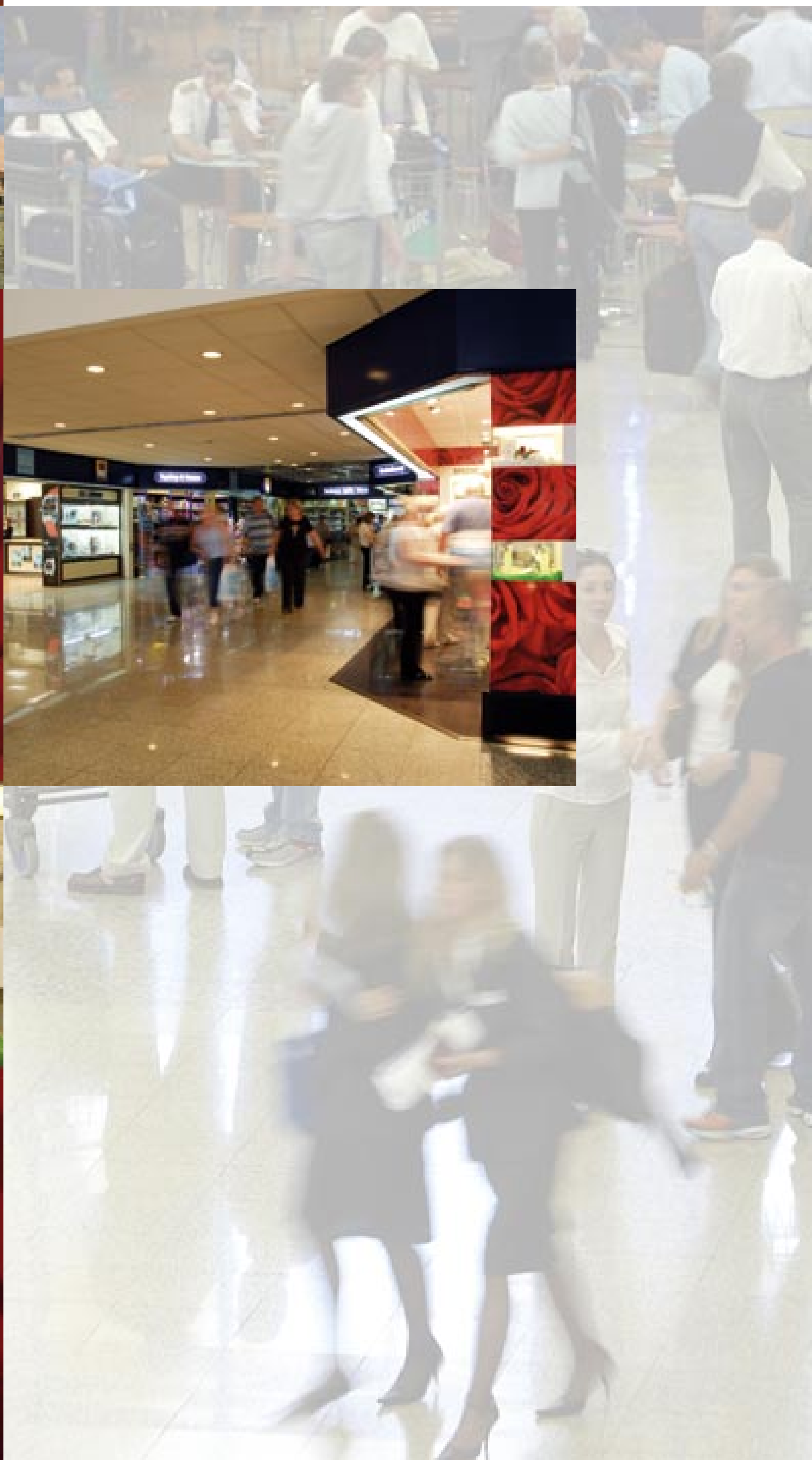

| STATISTICS | |
|---|---|
| | **Cargo** in metric tonnes |
| | April 04 – March 05 **16,558** |
| | April 03 – March 04 **16,625** |
| | April 02 – March 03 **13,792** |

**MIA's** contribution towards the tourism industry in Malta is not merely the significant grant which it affords MTA's annual budget but equally the service of its marketing expertise and ceaseless efforts to promote Malta jointly with other strategic partners as a tourist destination. Moreover, in order to affirm this role in more direct terms the CEO of Malta International Airport now sits on the Board of Directors of the Malta Tourism Authority.

**As** to the Mediterranean Business Park, MIA has already launched its plans both locally and abroad and these have attracted considerable interest from foreign investors, some of whom have already initiated talks with MIA in this regard.


**The** restructuring works on retail outlets at MIA were finalised during the financial year and the facilities for travellers were upgraded. As expected, the Company experienced a drop in revenue from the sale of alcohol and tobacco products following the abolition of tax free goods to EU destinations. This drop in sales is expected to be compensated in the long term by increases in the sales of other products and as a result of further expansion and upgrading of the existing facilities.



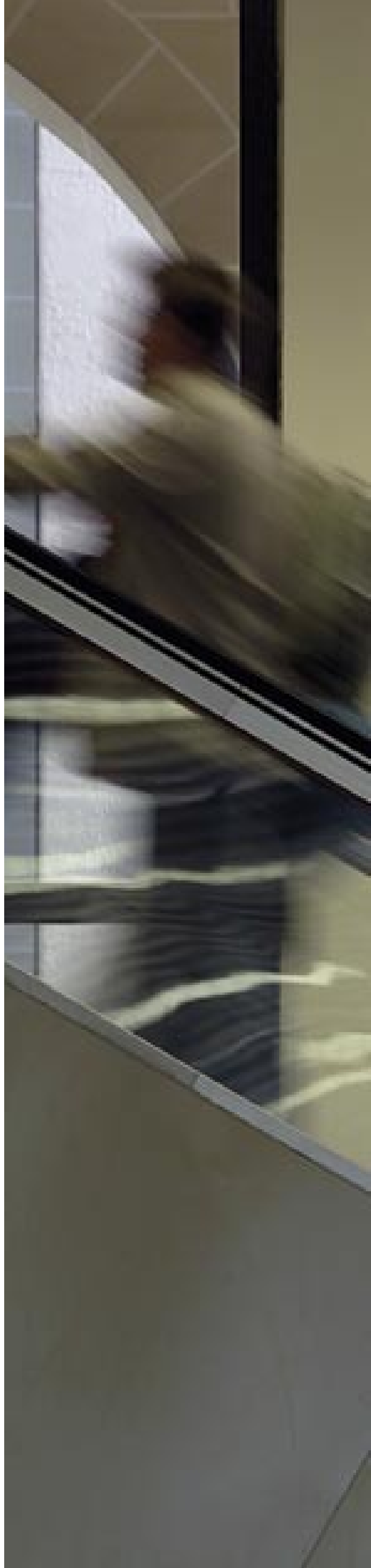



**A world-class airport** Malta International Airport has once again scored significant results in overall passenger satisfaction according to the AETRA Global Monitor Report for 2004. The survey, a joint airport research study by the International Air Transport Association (IATA) and Airports Council International (ACI), analyses the perceptions of over 84,000 international travellers and provides an up-to-date marketing index to measure the quality of service that the monitored airports provide.

**The** study covers key service elements of forty-nine airports of various sizes and ownership structures, from all five continents. Twenty four airports included in the report are from Europe, thirteen from the Americas, seven from Asia-Pacific, one from the Middle East and four African airports.

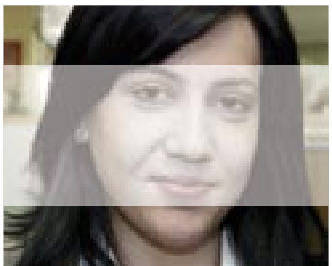
**MIA** ranked in fifth place overall among all European airports and second worldwide in the smaller airports' category (less than five million passengers per annum). This is the second time in three years that MIA has fared so well since its adherence to the monitor report. In the Overall Passenger Satisfaction survey for 2004, Malta International Airport has scored a total satisfaction rate of 75%.

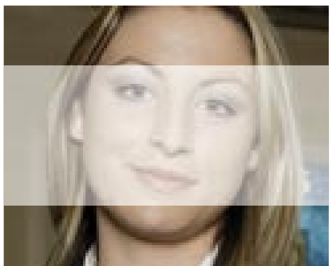
**This** commendable performance is attributed mainly to the employees' commitment and dedication that has once again proved to be a major driving force in MIA's efforts to excel in the service provided. The investment in refurbishments and upgrading and more importantly in the training programmes for all employees, particularly the 'Customer Enthusiasm' course, have contributed in no small measure to these positive results.



**MALTA INTERNATIONAL A AGAIN SCORED SIGNIFICA THE OVERALL PASSENGER SURVEY FOR 2004**

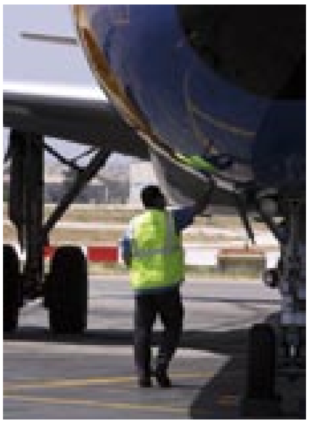
IRPORT HAS ONCE
NT RESULTS IN
SATISFACTION

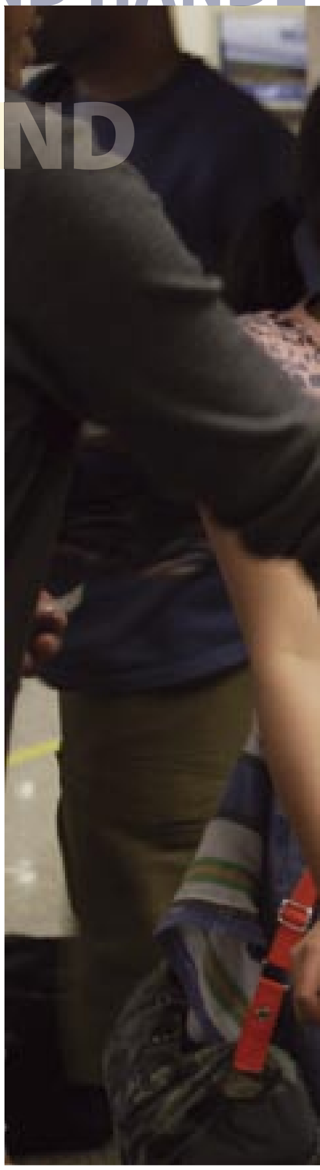




# GLOBEGROUND MALTA COMMENCED OPERATION SECOND GROUND HANDL

2ND





**Second ground handling service provider** In March 2005, GlobeGround Malta commenced operations as the second ground handling service provider at Malta International Airport. GGM Ltd is the local franchise of Serviceair GlobeGround, an international company operating in 150 airports worldwide.

**With** an initial investment of 2 million euros, and a further 2 million euros in the first five years, as well as the recruitment of forty five employees, GlobeGround Malta is set to add quality and service to the ground handling sector and equally, the expertise that the mother company has in major airports should also reflect in novel practices directed towards an improved efficiency in servicing passengers and airlines.

**To** this end the Aviation Services Department successfully completed the certification process for Servisair GlobeGround (GGM LTD) to commence its operations. Certification was issued within the parameters established by the International Civil Aviation Organisation (ICAO) as well as the Aerodrome Manual and the Technical Specifications for Ground Handling Services published by MIA plc.

**An** intensive training programme was conducted during which the new employees were trained on Airside Safety and Driving Code, Ramp Safety and Aerodrome Operational Safety. Airport Slot Allocation procedures were revised to reflect better coordination to oversee the capacity analysis and to give advice in a fair, transparent and indiscriminate manner.

# S AS THE
# ING SERVICE PROVIDER

STATISTICS

| Arrivals and Departures | |
|---|---|
| April 04 – March 05 | **2,832,480** |
| April 03 – March 04 | **2,677,519** |
| April 02 – March 03 | **2,661,214** |

Serviceair GlobeGround invest 2 million euros

Intensive training for the 45 new employees

Airport Slot Allocation procedures revised


# A REPUTATION OF BEING ONE OF THE SA

**A safe and secure airport** Security remains a top priority for MIA and the ongoing investment in this area has confirmed its reputation for being one amongst the safest airports in Europe.

**An** additional thirteen CCTV cameras were installed in various strategic parts of the airport and the system was converted from a conventional tape-recording system to a state-of-the-art digital recording one. Furthermore, a public call for tenders has been issued to replace three hand-luggage security-scanning machines with rigid specifications and equipped with innovative features that make the detection of prohibited articles easier, notwithstanding their concealment in luggage.

**Throughout** this year MIA has pursued its training and refresher courses also for its security staff. This has led to all the security staff complement obtaining the official EU certification in Aviation Security.

**Specialised** training was moreover conducted for all members of the Fire Services Department as well as for non MIA staff in order to ensure a wider knowledge base on fire fighting techniques and prompt intervention skills in case of accident.

**Upgrading and maintenance** The Technical Services Division embarked on a substantial number of projects representing a capital expenditure of more than Lm 1.2 million. These included the continuation of projects which were already commenced during the preceding year as well as other new projects.

**The** capital expenditure projects included new equipment and systems as well as the upgrading of the existing ones with the primary aim of improving operations, increasing the capacity, enhancing work conditions and improving the revenue streams of the Company.

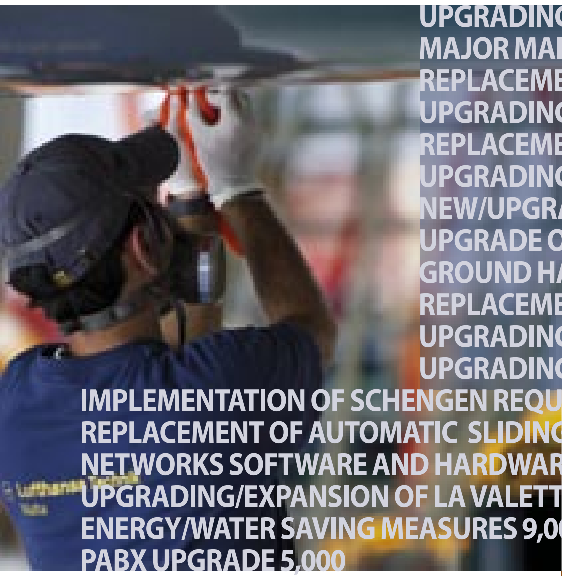
**The** Technical Services Division has also initiated preliminary works for the implementation of Schengen requirements. The entire project involves a Lm1.5 million investment expected to be completed by the first quarter of 2007. This comprises the eventual expansion of the air terminal on the Arrivals side, new retail outlets, the relocation of services and eventual segregation of Schengen and Non-Schengen areas.

**Improved facilities for the discerning passenger** A complete refurbishment was accomplished to enlarge and renovate the Executive Lounge in the Departures area. Applying a typical Mediterranean touch to the new décor, the lounge is now more spacious, offers new business facilities and office equipment, as well as additional comfort for the discerning travellers.

## FEST AIRPORTS IN EUROPE

**CAPITAL EXPENDITURE PROJECTS 2004-2005** (LM)

REPLACEMENT OF AIRCRAFT GROUND LIGHTING CONTROL SYSTEM & UPGRADING OF AGL 275,000
CONSTRUCTION OF NEW CARGO CENTRE FACILITIES 260,000
UPGRADING OF INFRASTRUCTURE 100,000
MAJOR MAINTENANCE WORK ON APRON 8 PAVEMENT 80,000
REPLACEMENT OF ILS 14 ANTENNA 75,000
UPGRADING OF PUBLIC WASHROOMS IN TERMINAL BUILDING 50,000
REPLACEMENT OF CCTV RECORDING SYSTEM & EXPANSION OF CCTV SYSTEM 45,000
UPGRADING OF TERMINAL ELECTRICAL POWER SUPPLY SYSTEM 40,000
NEW/UPGRADING OF CONCESSIONS 35,000
UPGRADE OF FIRE FIGHTING & ALARM SYSTEM 35,000
GROUND HANDLING EQUIPMENT STAGING AREA 30,000
REPLACEMENT OF AGRICULTURAL TRACTORS 30,000
UPGRADING OF TAXIWAYS 30,000
UPGRADING OF HV ELECTRICAL DISTRIBUTION SYSTEM 25,000
IMPLEMENTATION OF SCHENGEN REQUIREMENTS (COMPLETION OF PLANS) 20,000
REPLACEMENT OF AUTOMATIC SLIDING DOORS 20,000
NETWORKS SOFTWARE AND HARDWARE 16,000
UPGRADING/EXPANSION OF LA VALETTE EXECUTIVE LOUNGE 14,000
ENERGY/WATER SAVING MEASURES 9,000
PABX UPGRADE 5,000
**TOTAL LM1,203,000**



**Quality Management** Malta International Airport firmly believes in the development of its workforce and has invested heavily in training to improve the quality of service that clients expect. A positive step in this direction was the introduction of Quality Management, effectively enhancing the former Human Resources Department and specifically focusing on the needs and diligence of all employees in order to improve overall performance. Quality Management also incorporates Health & Safety and therefore a full-time officer to ensure the well-being of all airport users has been appointed, also to ascertain that the stringent safety procedures are adhered to.

**MIA**, a learning organisation, has emphasised the need for training across the board. All employees have completed a programme on customer enthusiasm and benefited from specialised courses. This investment translates into some 12,000 hours of training equivalent to an average of 32 hours per employee.

**Furthermore**, an unprecedented and welcome initiative has seen Malta International Airport and Air Malta team up on a series of language courses for their respective employees directed towards the ongoing improvement of customer service. The first series of courses was in the French and German languages conducted by NSTS. Around one hundred employees from both organisations have already attended this first series of language courses, grouped in different classes and alternating at both the MIA and Air Malta premises.

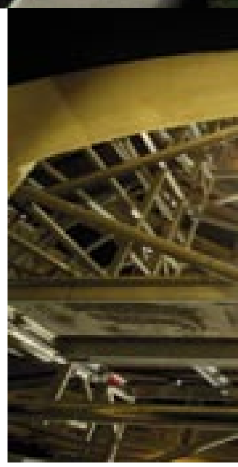
**MIA** encourages its employees in no small measure to instil a sense of belonging as part of a successful and motivated team. To this effect the company has introduced a series of Airport Awareness training programmes whereby each department presents a visual overview on their respective roles and functions to all employees.

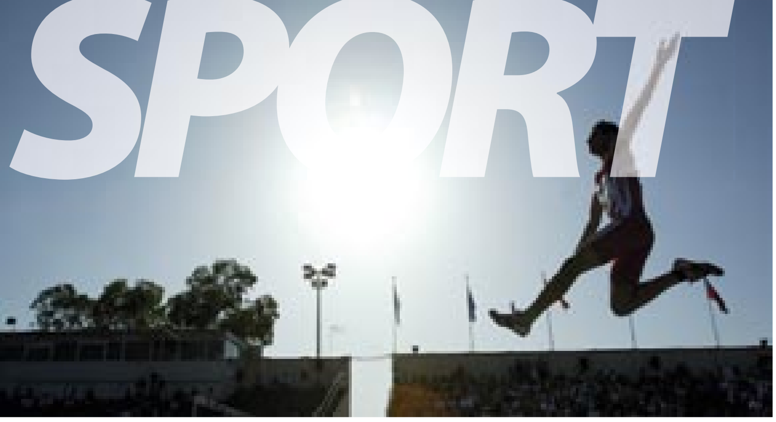
**Supporting Maltese Society** MIA has further emphasised its commitment towards Maltese society by consolidating its support in the three main areas identified to benefit the country in general. Indeed, MIA has now earned a deserved reputation of being a forerunner in the support of Culture, the Environment and Sport in Malta.

**Supporting Malta's Environment** MIA initiated a Waste Management policy at Malta International Airport with the aim of setting standards within its precincts according to international standards, as well as to create greater awareness for safeguarding the environment in general.

**Malta** International Airport has always been looked upon as an exemplary building, praised for its cleanliness and upkeep, and the policy has motivated other companies to follow suit. 'Environment islands' were placed in several areas of the air terminal, each consisting of four colour-coded units to separate plastic, glass, paper and other waste.

**MIA** has moreover pledged its support to Government in the national afforestation projects with particular emphasis on a stretch of land overlooking Mellieha Bay that has been ear-marked for development as a recreational park, and where the operation has already commenced.






**Supporting Malta's Sport** MIA has launched a revised policy regarding national sport that targets the development of young talented athletes who have the potential to excel in various sport disciplines. This new policy is a most worthwhile initiative that MIA has taken in collaboration with the *Kunsill Malti Għall-Isport* and the Ministry of Education.

**The** MIA Youth Development Sport Policy focuses on the most talented young athletes. It provides assistance to athletes to develop their skills further with an emphasis on training camps abroad. MIA is now providing young athletes with opportunities to develop their expertise auguring that in the years to come, it would have contributed to the formation of professional athletes that will make Malta proud in the international arena.

**Supporting Malta's Culture** The restoration of the Manoel Theatre has seen the completion of its second phase and MIA's role as main sponsors of the project is not simply limited to its financial contribution but also to a practical input throughout the process as well as coordination with the restoration team in order to ensure that the theatre eventually resumes its original splendour. As a result of this some new discoveries have come to light which are expected to shed a wider dimension on the history of the national theatre as documented to date.



CULTURE

04
OVERVIEW
05
P24

**Supporting Malta's Aviation** As protagonists intrinsically associated to Malta's aviation history, MIA has contributed to the local aviation scene by supporting the National Aviation Museum as well as donating a replica model of the first powered aircraft used by the Wright brothers a century ago. MIA's assistance in the logistics, provision of various services, equipment and related property has ensured that the Malta International Airshow and the International Air Rally of Malta continue to be major attractions both for local enthusiasts as well as foreigners who travel expressly to Malta to witness such events.

**Supporting Malta's Heritage** The preservation of Malta's national heritage is always considered a priority since it safeguards the authentic identity of the Maltese nation. MIA has collaborated closely with Heritage Malta on various grounds and has also supported *Din l-Art Helwa*, Malta's National Trust, in its conservation of national treasures.

MIA is a corporate sponsor of *Fondazzjoni Patrimonju Malti* and is also contributing towards the restoration project of Palazzo Falson in Mdina, or the Norman House as it is more commonly known. This prestigious monument in Medieval Mdina is being thoroughly restored to its pristine state to serve as a museum housing over 4000 exhibits that the *Fondazzjoni* has undertaken to assemble under one roof.


**Promoting local artists abroad** Maltese artists renowned for their outstanding talent are seldom given the opportunity to emerge beyond our shores. Fully aware of the importance of cross-cultural development, MIA has not stopped short of assisting in the promotion of Maltese culture abroad on the occasion of Europe's recent enlargement.

**A** most opportune initiative was taken by the town of Hainburg, a town at the easternmost point in Austria on the border with Slovakia, where the 'Wienertor', former gateway to the East, built in 1290, was in dire need of restoration. To celebrate the opening of borders and in order to generate the necessary funds to restore this historic gateway, a project was launched whereby the ten new acceding states to the EU were invited by the town of Hainburg to feature works of art by some of their most prominent artists on the scaffolding structure which shelters the restoration works in course.

**With** the support of MIA, renowned artists Luciano Micallef and Daniel Cilia exhibited their works of art, respectively 'Reflections of Europe' and 'Faces of Neolithic Europe' on this architectural monument in Hainburg and exhibited their works for a month at the main gallery of the town.

**Furthermore**, 'Cultural Year of Ten' was an initiative aimed at providing a cultural insight of the ten new EU member countries and offered several opportunities to experience deep and meaningful exchanges.

**Each** new EU member state was represented by a photographer using various venues in and around Berlin as exhibition sites. Photojournalist Darrin Zammit Lupi exhibited a collection of his works entitled 'A Touch of Malta' at the Representation of the State of Saarland in Berlin.

**Malta** International Airport supported this initiative in line with its policy to promote national talent abroad, and 'A Touch of Malta' not only reflected the artistic talent of the photographer but also promoted Malta as a prestigious destination.

**Malta** International Airport plc in collaboration with VIE organised a concert at the Palais Ferstel in Vienna on the occasion of an official visit to the Austrian capital by the Hon. Michael Frendo, Minister of Foreign Affairs. Maltese soprano Lydia Caruana starred alongside the Austrian Imperial Ensemble Quintet.

**Lending a helping hand** Sensitive to the numerous difficulties that society has to face and the realities of persons with special needs, MIA extended its help to support and bring back smiles on these faces by also financially assisting the Red Cross Society that worked relentlessly with the tsunami victims in Asia, and the *Razzett tal-Ħbiberija* in its noble mission amongst the less fortunate. At Christmas, gifts were presented to the children of refugees stationed in Malta and as is now customary MIA sponsored the Kerygma Volleyball Marathon in aid of *Dar tal-Providenza*.

**A** series of activities were held to celebrate Christmas with a varied programme featuring Maltese and Austrian traditions confirming MIA's interest in promoting cross-cultural exchanges and assisting charitable causes.

**MIA's participation in ACI** For the first time, the ACI WORLD Economics Committee and the ACI EUROPE Economics Committee held a joint meeting to discuss benchmarking of Airports. The meeting was held in Malta and attended by delegates from Europe as well as Sri Lanka, USA, Brazil, South Africa, Singapore and Canada.

**MIA** is also active in the ACI Europe Standing Committees. Austin Calleja, Chief Financial Officer and Executive Director of Malta International Airport plc has been a leading member of the ACI Economics Committee for the past eight years, was Vice-Chairman and is now Chairman of the Committee.


Daniel Cilia

Luciano Micallef


Darrin Zammit Lupi

04

05

FINANCIAL STATEMENTS

P28

# Financial Statements

# Directors, officers and other information

| | |
|---|---|
| Directors: | Michael Hoeferer *(Chairman)*<br>Jean Depasquale *(Deputy Chairman)*<br>Peter Bolech *(Chief Executive Officer)*<br>Austin Calleja *(Chief Financial Officer)*<br>John Ellul Vincenti<br>Louis-M. St-Maurice<br>Winston J. Zahra |
| Secretary: | Dr Louis De Gabriele |
| Registered office: | Malta International Airport<br>Luqa, Malta<br>Tel: (+356) 21 249 600 |
| Company registration number: | C 12663 |
| Auditors: | Deloitte & Touche<br>1 Col. Savona Street<br>Sliema, Malta |
| Principal bankers: | Bank of Valletta plc<br>Corporate Centre<br>High Street, Sliema, Malta |
| Legal advisors: | Camilleri Preziosi Advocates<br>Level 2, Valletta Buildings<br>South Street, Valletta, Malta |

# Directors' report

Year ended 31st March, 2005



The directors are hereby submitting their annual report together with the audited financial statements for the year ended 31st March, 2005.

## Principal activities

The Company's principal activities are the development, operation and management of Malta International Airport. The Company, through a 10.9% shareholding interest, is also involved in VISET Malta plc, a company set up to develop an area known as Valletta Waterfront and to operate a cruise liner terminal in Grand Harbour.

## Performance review

The directors consider the results of the Company for the financial year ended 31st March, 2005 as good.

The results of the Company for the financial year show a profit on ordinary activities before taxation of *Lm5,133,803* (2004 – *Lm2,650,593*). The operating income of the Company increased from *Lm14,302,327* to Lm16,578,001. The volume of passengers using Malta International Airport increased by 5.8% over last year. Revenue from aeronautical charges also increased because of changes in the rates applicable with effect from 1st April, 2004 following recommendations made by the Airport Charges Regulatory Board and in particular an increase in security fees (from *Lm0.55* to *Lm0.90* per departing passenger).

Notwithstanding an increase in security fees incurred by the Company of just over *Lm466,000* with effect from 1st April, 2004, the operating costs decreased by *Lm90,946*. This was mainly due to a reduction in the depreciation charge for the year by *Lm397,417* as compared to the previous year, as well as stringent control on the operating costs of the Company throughout the year.

During the year the total number of passengers making use of the Airport facilities amounted to 2.83 million compared to the 2.68 million of the previous year. The Company had significant increases in passenger traffic during the summer months, June to October 2004 with a peak increase of almost 14% over last year in the month of October 2004. However, traffic was rather weak during the winter months with an average increase of only 2% higher over last year for the months November 2004 to March 2005, giving an overall passenger increase for the year of 5.8% (2004 – 0.9%).

The Company continues to pursue its long-term strategic objectives and is actively looking for new business opportunities within the aviation sector. An airline marketing division was set up last year to attract new airlines to Malta and negotiations with various airlines interested to operate to and from Malta were conducted during the year. The increase in the volume of passenger traffic as outlined above is substantially the result of these efforts and we are committed to continue in this regard.

A new cargo shed was built in the third quarter of the financial year. This was handed over to the second ground handler company and another company engaged in self-handling in March 2005. The Company has continued with its efforts to encourage the carriers and the local air freight community stakeholders to explore the possibility of using the Airport as an air cargo hub. An Air Cargo Development Committee was created as one of the tools to help facilitate this initiative and in an effort to establish a customer and business development oriented environment for cargo business. The Company is also actively engaged in promoting the cargo hub concept abroad at various international air cargo industry events.

The Company remains actively involved in the development of the cruise and fly segment. The Company, in association with VISET Malta plc, participated once again in the Miami Sea Trade Fair to promote this business. The first operation involving a cruise liner home porting in Malta commenced in May 2004 and although the Company is not expecting to have the same volume of cruise and fly traffic in summer 2005, there are encouraging prospects for summer 2006.

The restructuring works on retail outlets at the Airport were finalised during the financial year and the facilities for the travelling public were upgraded. As expected, the Company experienced a drop in revenue from the sale of alcohol and tobacco products following the abolition of tax-free goods to EU destinations. The Company feels that this drop in sales will be compensated in the long term by increases in the sales of other products and from further expansion and upgrading of the existing facilities.

# Directors' report *continued*

Another area of interest to the Company is the development of its surrounding land. The development of a Mediterranean Business Park is still at a concept stage and the project is being presented to prospective investors with the aim of concluding a deal or separate deals with one or more interested parties.

## 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. The Company has, however, issued a public announcement stating that the Government of Malta, who currently owns 40% of the shareholding, has decided to make a secondary public offering for 20% of the total Company shares.

## Results and dividends

The financial results of the Company for the year ended 31st March, 2005 are shown in the profit and loss account on page 40. The profit for the year after taxation amounted to *Lm3,222,154* compared to *Lm1,610,671* 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 *2.2 cents* per share (gross *3.385 cents*) to be paid on the 30th July, 2005.

## 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 | *(appointed 15th July, 2004)* |
| Ivan Falzon | *(terminated 15th July, 2004)* |
| 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 21 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 re-appoint 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 24th May, 2005 and signed on its behalf by:**

Michael Hoeferer
*Chairman*

Peter Bolech
*Chief Executive Officer*

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

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Corporate Governance – Statement of Compliance



## 1. Introduction

Pursuant to Rule 8.26 of the Listing Rules issued by the Listing Authority, Malta International Airport plc ("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 Company's ordinary 'A' shares were listed on the Malta Stock Exchange on the 16th December, 2002. In this regard the Board of Directors of the Company ("the Board") has carried out a review of the Company's compliance with the Code from the 1st April, 2004 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 needs and ensures proper 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 manager. The Audit Committee was for the best part of the period under review composed of two non-executive directors and two former board members of the Company. During the financial year under review the board of directors revisited the composition and the terms of reference of the Audit Committee with a view to widen the scope of its functions and responsibilities as well as to strengthen its role within the Company.

The second feature is that the Board is composed of a balance of 5 Non-Executive Directors and 2 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. This is designed to ensure that all the members of the Board are provided with 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 and has in place 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.

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 *Lm132,068*.

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 33.

## 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 which 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 maintained its policy whereby at its first meeting, it schedules 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.

## 3. Committees

3.1 The Audit Committee has met eight times, and has as its principal role the monitoring of internal systems and controls. Mr Jean Depasquale chaired the Audit Committee and its other members are Mr Louis-M. St-Maurice, Mr Patrick Calleja and Mr Anton Chetcuti Ganado. Following new terms of reference adopted by the Board of Directors for the Audit Committee, the Committee's role and function within the Company's corporate structure has been strengthened and the scope of its powers widened. This is in line with the Company's philosophy to keep updated its structures designed to attain the best levels of Corporate Governance. As part of this exercise the composition of the Committee has been restricted to three (3) Non-Executive Directors namely, Jean Depasquale as the Committee's Chairman, Mr Louis-M. St-Maurice and John Ellul Vincenti. The Committee has retained the power to call upon such other resources of the Company as well as independent advisors as it may require to enable it to perform its duties and functions.

3.2 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.

## 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.

## 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.

# Auditors' report on Corporate Governance Matters

to the members of **Malta International Airport plc**

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 mis-statements 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 34 to 37 has been properly prepared in accordance with the requirements of Listing Rule 8.26.

Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants
1 Col. Savona Street
Sliema, Malta

24th May, 2005

# Auditors' report

to the members of **Malta International Airport plc**



We have audited the financial statements of Malta International Airport plc on pages 40 to 55 for the year ended 31st March, 2005. As described in the statement of directors' responsibilities on page 33, 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 31st March, 2005 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, 1995.

Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants
1 Col. Savona Street
Sliema, Malta

24th May, 2005

# Profit and loss account

Year ended 31st March, 2005

| | Note | 2005<br>Lm | 2004<br>Lm |
|---|---|---|---|
| **Operating income** | *3* | **16,578,001** | 14,302,327 |
| **Operating costs** | | **(10,653,184)** | (10,744,130) |
| **Operating profit** | | **5,924,817** | 3,558,197 |
| **Realised exchange loss** | | **(742)** | (4,129) |
| **Loss on disposal of tangible fixed assets** | | **(1,542)** | (1,164) |
| **Release of deferred income arising on the sale of the terminal building and fixtures** | | **123,720** | 123,720 |
| **Gain on disposal of current asset investment** | | **–** | 1,760 |
| **Interest receivable and similar income** | | **50,935** | 46,921 |
| **Income from financial assets** | | **58,692** | – |
| **Interest payable and similar charges** | *4* | **(1,022,077)** | (1,074,712) |
| **Profit on ordinary activities before taxation** | *5* | **5,133,803** | 2,650,593 |
| **Tax on profit on ordinary activities** | *8* | **(1,911,649)** | (1,039,922) |
| **Profit for the year** | | **3,222,154** | 1,610,671 |
| **Earnings per share** | *25* | **4.76 c** | 2.38 c |

# Balance sheet

31st March, 2005

| | Note | 2005<br>Lm | 2004<br>Lm |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | *10* | **40,447,672** | 40,929,914 |
| Financial assets | *11* | **366,800** | 124,666 |
| | | **40,814,472** | 41,054,580 |
| **Non-current asset** | | | |
| Deferred taxation | *12* | **2,322,017** | 2,423,831 |
| **Current assets** | | | |
| Stock | *13* | **417,127** | 403,508 |
| Debtors | *14* | **2,987,345** | 2,418,456 |
| Taxation | *8* | **124,300** | 1,327,074 |
| Treasury bills | *15* | **992,671** | - |
| Cash at bank and in hand | | **1,635,954** | 2,525,884 |
| | | **6,157,397** | 6,674,922 |
| **Creditors: amounts falling due within one year** | *16* | **(4,892,232)** | (3,536,824) |
| **Net current assets** | | **1,265,165** | 3,138,098 |
| **Total assets less current liabilities** | | **44,401,654** | 46,616,509 |
| **Creditors: amounts falling due after more than one year** | *17* | **(3,472,229)** | (3,595,949) |
| **Non-current interest bearing liabilities** | *18* | **(17,467,300)** | (20,000,000) |
| **Provisions for liabilities and charges** | *19* | **(1,776,994)** | (1,930,478) |
| | | **21,685,131** | 21,090,082 |
| **Capital and reserves** | | | |
| Called up issued share capital | *20* | **13,530,000** | 13,530,000 |
| Revaluation reserve | | **772,600** | 793,481 |
| Dividends payable reserve | *22* | **1,488,300** | 947,100 |
| Profit and loss account | | **5,894,231** | 5,819,501 |
| | | **21,685,131** | 21,090,082 |

**These financial statements were approved by the board of directors, authorised for issue on 24th May, 2005 and signed on its behalf by:**

Michael Hoeferer
*Chairman*

Peter Bolech
*Chief Executive Officer*

Austin Calleja
*Chief Financial Officer*

# Statement of changes in equity

Year ended 31st March, 2005

| | Share capital Lm | Revaluation reserve Lm | Dividends payable reserve Lm | Profit and loss account Lm | Total Lm |
|---|---|---|---|---|---|
| Balance at 1st April, 2003 | 13,530,000 | 814,362 | 1,353,000 | 6,070,904 | 21,768,266 |
| 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 gains and losses not recognised in the profit and loss account | – | (20,881) | – | 32,126 | 11,245 |
| Profit for the year | – | – | – | 1,610,671 | 1,610,671 |
| Dividends paid | – | – | (1,353,000) | (947,100) | (2,300,100) |
| Dividends proposed | – | – | 947,100 | (947,100) | – |
| | – | – | (405,900) | (283,529) | (689,429) |
| Balance at 31st March, 2004 | 13,530,000 | 793,481 | 947,100 | 5,819,501 | 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 gains and losses not recognised in the profit and loss account | – | (20,881) | – | 32,126 | 11,245 |
| Profit for the year | – | – | – | 3,222,154 | 3,222,154 |
| Dividends paid *(note 9)* | – | – | (947,100) | (1,691,250) | (2,638,350) |
| Dividends proposed *(note 9)* | – | – | 1,488,300 | (1,488,300) | – |
| | – | – | 541,200 | 42,604 | 583,804 |
| **Balance at 31st March, 2005** | **13,530,000** | **772,600** | **1,488,300** | **5,894,231** | **21,685,131** |

# Cash flow statement

Year ended 31st March, 2005

| | Note | 2005 Lm | 2004 Lm |
|---|---|---|---|
| Net cash flows from operating activities | *23* | **5,143,568** | 4,425,665 |
| **Cash flows from investing activities** | | | |
| Payments to acquire tangible fixed assets | | **(1,219,035)** | (643,805) |
| Payments to acquire financial fixed assets | | **(242,134)** | - |
| Proceeds from disposal of tangible fixed assets | | - | 6,060 |
| Investment income received | | **58,692** | – |
| Net cash flows from investing activities | | **(1,402,477)** | (637,745) |
| **Cash flows from financing activities** | | | |
| Interest paid | | **(1,000,000)** | (549,315) |
| Dividends paid | | **(2,638,350)** | (2,300,100) |
| Net cash flows from financing activities | | **(3,638,350)** | (2,849,415) |
| **Net movement in cash and cash equivalents** | | **102,741** | 938,505 |
| **Cash and cash equivalents at the beginning of the year** | | **2,525,884** | 1,587,379 |
| **Cash and cash equivalents at the end of the year** | *24* | **2,628,625** | 2,525,884 |

# Notes to the financial statements

31st March, 2005



## 1. Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of buildings.

The financial statements have been prepared in accordance with International Financial Reporting Standards. The more important accounting policies are set out below.

## 2. Principal accounting policies

### Tangible assets

*Buildings*
Buildings held for use in the supply of services or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the profit and loss account to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to accumulated profits.

*Temporary emphyteusis*
The temporary emphyteusis is being amortised to the profit and loss account in equal annual instalments over the term of the emphyteusis, being 65 years.

*Properties in the course of construction*
Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

*Other tangible assets*
Other tangible assets are stated at cost less accumulated depreciation.

*Depreciation*
Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, over their estimated useful lives, using the straight line method, on the following basis:

| | | |
|---|---|---|
| Buildings | - | 2% of cost/valuation |
| Navigation and airfield equipment | - | 10% of cost |
| Computer and communication equipment | - | 25% of cost |
| Fixtures and fittings | - | 10% of cost |
| Landscaping | - | $33^{1}/_{3}$% of cost |
| Office furniture and fittings | - | 15% of cost |
| Plant, equipment and tools | - | 10 - 20% of cost |

### Financial instruments

Financial assets and financial liabilities are recognised on the Company balance sheet when the Company has become party to the contractual provisions of the instrument.

*Trade debtors*
Trade debtors are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

*Financial assets and investments*
Financial assets and investments are initially measured at cost.

Available-for-sale investments are re-measured to fair value, unless this cannot be reliably measured.

Unrealised gains and losses from available-for-sale investments are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the year.

*Bank borrowings*
Interest-bearing bank loans are recorded at the proceeds received.

*Trade creditors*
Trade creditors are stated at their nominal value.

### Impairment

At each balance sheet date the Company reviews the carrying amount of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, as calculated. 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 losses/reversals are recognised in the profit and loss account immediately, unless the relevant asset is carried at a revalued amount in which case the impairment loss/reversal is treated as a revaluation movement.

### Stock

Stock is valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Revenue recognition

(i) Provision of services
Revenue from the provision of services is recognised in the period when the service provided is rendered.

(ii) Interest receivable
Interest is recognised on an accrual basis.

(iii) Investment income
Investment income is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the revenue can be measured reliably.

(iv) Deferred income
Deferred income arising from the gain on disposal of the terminal building and fix tures is transferred to the profit and loss account in equal annual instalments over the remaining useful economic life of such assets.

## 2. Principal accounting policies (continued)

### Taxation

The charge for current tax is based on the charge for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been 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 basis used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences 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. Deferred tax is charged or credited in the profit and loss account, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the Company intends to settle its current tax assets and liabilities on a net basis.

### Foreign currencies

Transactions denominated in other reporting currencies are translated at the exchange rate ruling on the date of transaction. Monetary assets and liabilities denominated in other reporting currencies are translated to Maltese Liri at the exchange rate ruling at year end. Translation gains and losses are dealt with in the profit and loss account.

### 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 profit and loss account over the term of each agreement and represents a constant proportion of the balance of capital repayments outstanding.

### 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.

### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand, less bank advances repayable within three months of the date of the advance and Treasury Bills with an original maturity of less than ninety-two days.

### Dividends payable

Dividends on ordinary shares are recognised as liabilities in the period in which they are declared.

## 3. Operating income

Operating income 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:

| | 2005<br>Lm | 2004<br>Lm |
|---|---|---|
| Aircraft landing and parking fees | **1,583,119** | 1,489,002 |
| Concessionaires' turnover charge | **1,834,102** | 2,142,932 |
| Handling and throughput charges | **1,285,747** | 596,432 |
| Other income | **1,109,378** | 1,082,588 |
| Passenger service charge | **9,021,510** | 7,812,822 |
| Rent | **478,731** | 447,932 |
| Security fees | **1,265,414** | 730,619 |
| | **16,578,001** | 14,302,327 |

Included in operating income is an amount of *Lm235,000* charged as compensation for increases in regulated fees forfeited in respect of passenger service charge and aircraft landing and parking fees in the period from 1st April, 2002 to 31st March, 2004.

## 4. Interest payable and similar charges

| | 2005<br>Lm | 2004<br>Lm |
|---|---|---|
| On bank loan | **1,000,000** | 1,051,370 |
| On bank current accounts | **8,966** | 18,628 |
| On hire purchase contracts | **13,111** | 4,714 |
| | **1,022,077** | 1,074,712 |

## 5. Profit before taxation

| | 2005<br>Lm | 2004<br>Lm |
|---|---|---|
| *This is stated after charging/(crediting):* | | |
| Auditors' remuneration | **5,750** | 5,750 |
| Bad debts | **26,243** | 26,684 |
| Depreciation and amortisation *(note 10)* | **1,620,623** | 2,018,040 |
| Directors' emoluments | **132,068** | 100,256 |
| Release of provision for bad debts | **100,204** | (10,692) |

## 6. Directors' emoluments

| | 2005<br>Lm | 2004<br>Lm |
|---|---|---|
| *Non-executive directors* | | |
| – Management remuneration | **33,360** | 2,875 |
| – Other fees | **–** | 750 |
| | **33,360** | 3,625 |
| *Executive directors* | | |
| – Salaries as full-time Company employees | **79,658** | 77,781 |
| – Other benefits | **19,050** | 18,850 |
| | **98,708** | 96,631 |
| | **132,068** | 100,256 |
| Professional indemnity liability insurance premiums | **28,796** | 23,223 |

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

## 7. Staff costs and employee information

| | 2005 Lm | 2004 Lm |
|---|---|---|
| *Staff costs:* | | |
| Wages and salaries | **2,841,015** | 3,085,595 |
| Social security costs | **208,364** | 223,378 |
| Directors' emoluments *(note 6)* | **132,068** | 100,256 |
| | **3,181,447** | 3,409,229 |

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

| | 2005 Number | 2004 Number |
|---|---|---|
| Business development, operations and marketing | **120** | 122 |
| Finance and human resources | **27** | 28 |
| Firemen | **49** | 69 |
| Meteorological office | **16** | 18 |
| Safety, security and administration | **86** | 93 |
| Technical and engineering | **103** | 99 |
| | **401** | 429 |

## 8. Tax on profit on ordinary activities

| | 2005 Lm | 2004 Lm |
|---|---|---|
| Balance brought forward | **(1,327,074)** | (843,718) |
| *Tax charge for the year:* | | |
| Malta tax at 35% | **1,802,915** | 958,877 |
| Final withholding tax at 15% | **6,920** | 7,335 |
| Additional tax | **–** | 21 |
| Deferred taxation | **101,814** | 73,689 |
| | **1,911,649** | 1,039,922 |
| Sub-total | **584,575** | 196,204 |
| *Tax refunded/(paid):* | | |
| Tax refunds | **843,446** | – |
| Settlement tax | **–** | (20) |
| Provisional tax | **(1,423,045)** | (1,442,234) |
| Tax at source on investment income | **(27,462)** | (7,335) |
| Transfer to deferred taxation *(note 12)* | **(101,814)** | (73,689) |
| Balance carried forward | **(124,300)** | (1,327,074) |

The Company is expected to receive a tax refund of *Lm483,357* by 30th September, 2005. The Company is entitled to earn 1% interest per month in the event that the refund is received at a later date.

The tax at the applicable rate of 35% and the tax charge for the year applying the statutory domestic income tax rate are reconciled as follows:

| | **2005** | 2004 |
|---|---|---|
| | **Lm** | Lm |
| Profit for the year | **5,133,803** | 2,650,593 |
| Tax at the applicable rate of 35% | **1,796,831** | 927,708 |
| *Tax effect of:* | | |
| Depreciation and amortisation charges not deductible by way of capital allowances in determining taxable income | **118,403** | 118,114 |
| Disallowed expenses in taxable income | **7,322** | 4,079 |
| Tax free investment income | **–** | (616) |
| Additional tax | **–** | 21 |
| Investment income subject to lower tax rates | **(10,907)** | (9,384) |
| Tax charge for the year | **1,911,649** | 1,039,922 |

## 9. Dividends

In respect of the prior year, the net dividend of *1.4 cents* per share (gross *2.154 cents*) proposed by the Directors was approved by shareholders at the Annual General Meeting and paid on 31st July, 2004.

In respect of the current year, on 24th December, 2004, an interim net dividend of *2.5 cents* per share (gross *3.846 cents*) was paid to the shareholders.

The Directors propose that a final net dividend of *2.2 cents* per share (gross *3.385 cents*) will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has been included in the dividends payable reserve.

## 10. Tangible assets

| | Temporary emphyteusis | Buildings | Fixtures, fittings, plant and equipment | Total |
|---|---|---|---|---|
| | Lm | Lm | Lm | Lm |
| **Cost/valuation** | | | | |
| 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 31.03.2005 | 18,044,970 | 23,917,456 | 19,467,263 | 61,429,689 |
| **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 |
| Released on disposal | – | – | (6,170) | (6,170) |
| Reversals | – | – | (309,453) | (309,453) |
| At 31.03.2005 | 740,307 | 4,898,703 | 15,343,007 | 20,982,017 |
| **Net book value** | | | | |
| At 31.03.2004 | 17,582,278 | 19,178,416 | 4,169,220 | 40,929,914 |
| **At 31.03.2005** | **17,304,663** | **19,018,753** | **4,124,256** | **40,447,672** |

## 10. Tangible assets (continued)

The last revaluation carried out was at 31st March, 2000 on the replacement cost basis. The carrying amount of buildings that would have been included in the financial statements had these assets been carried at cost less depreciation is Lm*17,830,134* (2004 – *Lm17,957,673*).

At 31st March, 2005, tangible assets totaling *Lm11,898,032* (2004 – *Lm10,517,489*) were fully written off but still in use by the Company.

The reversal arose from the final cost of a capital project having been definitely established during the year under review at an amount lower than originally capitalised.

## 11. Financial assets

*These are stated at cost and comprise:*

| | % *Holding* | **2005 Lm** | 2004 Lm |
|---|---|---|---|
| *Available-for-sale investments:* | | | |
| 32,700 Ordinary shares of Lm10 each 100% (2004 – 33.3%) paid up in Viset Malta plc | *10.9* | **366,800** | 124,666 |

## 12. Deferred taxation

| | 2004 Lm | Movement for the year Lm | **2005 Lm** |
|---|---|---|---|
| *Arising on:* | | | |
| Fixed assets | 581,215 | (43,080) | **538,135** |
| Provision for pension costs | 526,128 | (49,784) | **476,344** |
| Deferred income | 1,301,884 | (43,302) | **1,258,582** |
| Other timing differences | 14,604 | 34,352 | **48,956** |
| | 2,423,831 | (101,814) | **2,322,017** |

## 13. Stock

Stock comprises consumable spare parts and airfield equipment.

## 14. Debtors

| | **2005 Lm** | 2004 Lm |
|---|---|---|
| Trade debtors | **1,787,741** | 1,433,081 |
| Other debtors | **355,912** | 281,966 |
| Prepayments and accrued income | **843,692** | 703,409 |
| | **2,987,345** | 2,418,456 |

## 15. Treasury bills

| | **2005 Lm** | 2004 Lm |
|---|---|---|
| 91-day treasury bills issued by Government of Malta | **992,671** | – |

## 16. Creditors: amounts falling due within one year

| | 2005 Lm | 2004 Lm |
|---|---|---|
| Bank loan | **2,532,700** | – |
| Trade creditors | **609,597** | 1,038,407 |
| Amounts due to related party | **91,877** | 39,431 |
| Accruals and deferred income | **1,658,058** | 2,458,986 |
| | **4,892,232** | 3,536,824 |

## 17. Creditors: amounts falling due after more than one year

| | 2005 Lm | 2004 Lm |
|---|---|---|
| Deferred income | **3,595,949** | 3,719,668 |
| Less: amounts included in creditors falling due within one year | **(123,720)** | (123,719) |
| | **3,472,229** | 3,595,949 |

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.

## 18. Interest bearing liabilities

| | 2005 Lm | 2004 Lm |
|---|---|---|
| Bank loan (secured) | **20,000,000** | 20,000,000 |
| Less: amounts included in creditors falling due within one year *(note 16)* | **(2,532,700)** | – |
| | **17,467,300** | 20,000,000 |

The bank loan is secured by a general hypothec for *Lm20,000,000* and interest over all the Company's present and future assets, with the exception of the terminal buildings and other sites. The loan interest is charged at 2% per annum over the bank base rate, which at 31st March, 2005 stood at 3% (2004 – 3%).

*The maturity of the bank loan may be analysed as follows:*

| | 2005 Lm | 2004 Lm |
|---|---|---|
| In one year or less | **2,532,700** | – |
| Between one and two years | **2,665,667** | 2,582,700 |
| Between two and five years | **8,866,460** | 8,549,060 |
| Over five years | **5,935,173** | 8,868,240 |
| | **20,000,000** | 20,000,000 |

## 19. Provision for liabilities and charges

| | 2005 Lm | 2004 Lm |
|---|---|---|
| Deferred taxation | **416,011** | 427,256 |
| Provision for retirement benefit fund | **1,360,983** | 1,503,222 |
| | **1,776,994** | 1,930,478 |

*Deferred taxation*

| | 2004 Lm | Movement for the year Lm | 2005 Lm |
|---|---|---|---|
| *Arising on:* | | | |
| Revaluation reserve | 427,256 | (11,245) | **416,011** |

## 19. Provision for liabilities and charges (continued)

*Provision for retirement benefits*

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 15th 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:

| | **2005** | 2004 |
|---|---|---|
| | **Lm** | Lm |
| Balance at 1st April | **1,503,222** | 1,357,390 |
| Payments effected | **(203,440)** | – |
| Charge for the year | **61,201** | 145,832 |
| Balance at 31st March | **1,360,983** | 1,503,222 |

## 20. Share capital

| | **2005 and 2004** | |
|---|---|---|
| | **Authorised** | **Issued and 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 | **6,470,000** | **–** |
| | **20,000,000** | **13,530,000** |

*Shareholders*

The shareholders owning 5% or more of the Company's equity share capital at 31st March, 2005 were the following:

| | | |
|---|---|---|
| Malta Mediterranean Link Consortium Limited | 40% | 'B' shares |
| The Government of Malta | 40% | 'A' and 'C' shares |

The number of holders of each class of share at 31st March, 2005 was as follows:

| Number of ordinary shares held | **Number of accounts** | **Number of shares** | **% of shares** |
|---|---|---|---|
| *Ordinary 'A' shares* | | | |
| 1 – 1,000 | **1,555** | **1,212,240** | **1.79** |
| 1,001 – 5,000 | **2,334** | **5,372,209** | **7.94** |
| More than 5,000 | **474** | **34,005,546** | **50.27** |
| | **4,363** | **40,589,995** | **60.00** |
| *Ordinary 'B' shares* | **1** | **27,060,000** | **40.00** |
| *Ordinary 'C' shares* | **1** | **5** | **–** |
| | **4,365** | **67,650,000** | **100.00** |

The above number of holders did not differ significantly from 31st March, 2005 to 24th May, 2005.

*Voting rights attaching to the Company's shares*

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 26th July, 2002. Ordinary 'C' shares carry no voting rights and do not receive dividends.

## 21. 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 | **5,000** | – |
| Jean Depasquale | **6,900** | **1,300** |
| | **11,900** | **1,300** |

## 22. Dividends payable reserve

The dividends payable reserve emanates from dividends proposed before the financial statements were authorised for issue.

## 23. Net cash flows from operating activities

| | **2005 Lm** | 2004 Lm |
|---|---|---|
| Profit before taxation | **5,133,803** | 2,650,593 |
| *Adjustments for:* | | |
| Depreciation | **1,620,623** | 2,018,040 |
| Interest payable | **1,022,077** | 1,074,712 |
| Loss on disposal of tangible fixed assets | **1,542** | 1,164 |
| Release of deferred income arising on the sale of the terminal building and fixtures | **(123,720)** | (123,720) |
| Interest receivable | **(50,935)** | (46,921) |
| Income from financial assets | **(58,692)** | – |
| Provision for retirement benefits | **61,201** | 145,832 |
| Provision for bad debts | **(19,796)** | (10,692) |
| Operating profit before working capital movement | **7,586,103** | 5,709,008 |
| Movement in stock | **(13,619)** | 10,972 |
| Movement in debtors | **(549,093)** | (642,194) |
| Movement in creditors | **(1,301,620)** | 771,907 |
| Cash flows from operations | **5,721,771** | 5,849,693 |
| Interest paid | **(22,077)** | (23,342) |
| Taxation paid, net of refunds | **(607,061)** | (1,449,589) |
| Interest received | **50,935** | 48,903 |
| Net cash flows from operating activities | **5,143,568** | 4,425,665 |

## 24. Cash and cash equivalents

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

| | **2005 Lm** | 2004 Lm |
|---|---|---|
| Cash at bank and in hand | **1,635,954** | 2,525,884 |
| Treasury bills | **992,671** | – |
| | **2,628,625** | 2,525,884 |

## 25. 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.

## 26. Capital commitments

| | **2005** | 2004 |
|---|---|---|
| | **Lm** | Lm |
| Contracted but not provided for | **499,390** | 185,000 |
| Authorised but not contracted for | **282,400** | 561,500 |

## 27. 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; and

(ii) other claims by third parties and a former director.

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

## 28. Operating lease arrangements

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

| | **2005** | 2004 |
|---|---|---|
| | **Lm** | Lm |
| Within one year | **300,000** | 300,000 |
| In the second to fifth years inclusive | **1,335,000** | 1,290,000 |
| After five years | **49,527,900** | 49,872,900 |
| | **51,162,900** | 51,462,900 |

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 sixty-five years.

## 29. Related party transactions

A related party exists where one party has the ability to control or exercise significant influence over another party in making financial and operating decisions.

During the course of the year, the Company entered into transactions with the following related parties:
- Airport Value Marketing Association
- SNC-Lavalin Inc
- VIE (Malta) Limited

The related party transactions in question were:

| | | **2005** | | | 2004 | |
|---|---|---|---|---|---|---|
| | **Related party activity Lm** | **Total activity Lm** | **%** | Related party activity Lm | Total activity Lm | % |
| Marketing costs | **47,348** | **540,739** | **9** | 60,716 | 605,046 | 10 |
| Technical service fees and expenses | **403,047** | **403,047** | **100** | 356,512 | 356,512 | 100 |

## 30. 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 31st March, 2005 with its substantial shareholders and their related parties are the following:

*Malta Mediterranean Link Consortium Limited*

(i) The provision for Technical Services by the Company's strategic partners VIE (Malta) Limited and SNC-Lavalin Inc giving rise to an expense of *Lm403,047* (2004 – *Lm356,512*).

*The Government of Malta*

(i) The terminal land lease agreement with the Lands Department for *Lm300,000* (2004 – *Lm305,685*);
(ii) The contract for contribution to the Malta Tourism Authority for *Lm210,801* (2004 – *Lm206,763*);
(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* (2004 – *Lm800,000*);
(iv) The provision of Air Navigation Services and other services by Malta Air Traffic Services Limited for an expense of *Lm515,452* (2004 – *Lm509,467*);
(v) The provision of Meteorological Services and other services to Malta Air Traffic Services Limited for revenue of *Lm374,963* (2004 – *Lm365,797*);
(vi) The ground handling and concession agreements with Air Malta plc and its subsidiaries that generated income of *Lm1,284,111* (2004 – *Lm1,699,092*); and
(vii) The contract with Enemalta Corporation for fuel throughput charges generated the amount of *Lm573,905* (2004 – *Nil*) in revenue.

## 31. Parent company

For the purposes of IAS 27 – Consolidated Financial Statements and Accounting for Investments in Subsidiaries, 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.

## 32. Financial instruments

Financial assets of the Company include cash classified as current assets in the balance sheet, as well as debtors. Financial liabilities of the Company include, borrowings and creditors. The accounting policies for these assets and liabilities are set out in note 2 to the financial statements and those policies are directed towards the establishment of fair values for these assets and liabilities.

*Fair values*

At 31st March, 2005 and 2004 the carrying amounts of creditors, debtors and short term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities. The fair values of long-term borrowings are not materially different from their carrying amounts.

## 33. Financial risk management

*Credit risk*

Financial assets, which potentially subject the Company to concentrations of credit risk, consist principally of debtors and investments. Trade debtors are presented net of an allowance for doubtful debts. Credit risk, with respect to debtors, is limited due to credit control procedures in place and the large number of customers comprising the Company's debtor base. Investments are acquired after assessing the quality of the relevant investments.

*Interest rate risk*

The Company has taken out bank facilities to finance its operations as disclosed in note 18. The interest rates thereon and the terms of such borrowings are disclosed accordingly. Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates accordingly.