

## OFFERING MEMORANDUM



**Maltacom p.l.c.**

*(registered with limited liability in the Republic of Malta)*

### **Offering of 37,484,884 Shares (subject to the Managers' Overallotment Option and Mid-Med Bank plc's Option as described below)**

### **directly or in the form of Global Depositary Receipts**

The Republic of Malta ("Malta") acting through the Office of the Prime Minister (the "Government"), is offering hereby 37,484,884 Ordinary Shares, nominal value Lm0.25 each (the "Shares") of Maltacom p.l.c. ("Maltacom" or the "Company"), either directly or in the form of Global Depositary Receipts ("GDRs"). 15,196,575 Shares, together with any Shares not purchased in the Employee Offering (as defined below), are being offered to the public in Malta at a preliminary share offer price (the "Preliminary Share Offer Price") of Lm0.90 per Share (the "Maltese Offering"). Subscriptions for the Maltese Offering will be accepted at the Preliminary Share Offer Price which has been established as the maximum price for the Shares. Following the completion of the international book building process and pricing of the International Offering (as defined below), the Government in consultation with the Joint Global Coordinators will determine the price at which the Shares shall be allocated (the "Share Offer Price"). See "The Offering - Pricing" and "The Combined Offering". Additionally 3,039,315 Shares will be offered to a foundation (the "Employee Foundation") established on behalf and for the benefit of employees of the Company (as defined herein) at a discount of 10 per cent. to the Share Offer Price, and the Company's employees may purchase up to 2,026,210 Shares at a discount of five per cent. to the Share Offer Price (the "Employee Offering"). Of the 37,484,884 Shares offered, 17,222,784 Shares represented by 2,870,464 GDRs (each GDR representing six Shares), are being offered in an international offering (the "International Offering") to certain persons outside Malta that are not US persons as defined in and in reliance on Regulation S under the Securities Act of 1933, as amended, (the "Securities Act") and to qualified institutional buyers ("QIBs"), as defined in and in reliance on Rule 144A under the Securities Act, at an offering price to be determined by the Government in consultation with the Joint Global Coordinators following the international book building process. The Maltese Offering, the Employee Offering, and the International Offering are collectively referred to herein as the "Combined Offering". The net proceeds of the Combined Offering will be for the account of the Government. The Government is expected to grant to HSBC Investment Bank plc on behalf of the managers in the International Offering (the "Managers") an option (the "Overallotment Option"), exercisable within 30 calendar days from the date of the International Offering Memorandum, to purchase up to 3,039,312 Shares, represented by 506,552 GDRs, solely to cover overallotments in the International Offering. In addition, Mid-Med Bank plc will have an option (the "Mid-Med Option") to purchase any Shares subject to the Overallotment Option which are not purchased by HSBC Investment Bank plc. See "Underwriting".

After the Combined Offering the Government will own approximately 63 per cent. of the Shares (or 60 per cent. of the Shares if the Overallotment Option is exercised in full). See "Relationship with the Government".

GDRs are of a specialist nature and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See "Investment Considerations" beginning on page 12 for a discussion of certain factors that should be considered in connection with an investment in the securities offered hereby.

**THE SHARES AND GDRs HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAW AND, SUBJECT TO CERTAIN EXEMPTIONS, MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.**

Application has been made to the Malta Stock Exchange (the "Malta Stock Exchange" or "MSE") for the Shares to be admitted to its Official List (the "MSE Official List"). It is expected that admission of the Shares to the MSE Official List will become effective and dealings in the Shares are expected to commence on 24th June, 1998. Application is expected to be made to the London Stock Exchange Limited (the "London Stock Exchange" or "LSE") for the GDRs to be admitted to the Official List of the London Stock Exchange ("LSE Official List") as of 22nd June, 1998. Conditional dealings in the GDRs, subject to admission becoming effective, are expected to commence on the London Stock Exchange on 16th June, 1998. It is expected that admission of the GDRs to the LSE Official List will become effective and that unconditional dealings in the GDRs will commence on 23rd June, 1998. The GDRs offered in reliance on Rule 144A under the Securities Act (the "Rule 144A GDRs") have been designated for quotation and trading on the Private Offerings, Resales and Trading through Automated Linkages ("PORTAL") Market of the National Association of Securities Dealers, Inc. (the "NASD"). The GDRs will be eligible for quotation and trading through the Stock Exchange Automated Quotation System - International ("SEAI International") of the London Stock Exchange.

*Joint Global Coordinators*

**HSBC Investment Banking**

**Mid-Med Bank plc**

*Co-Lead Manager*

**Banque Nationale de Paris**

*Co-Manager*

**Daiwa Europe Limited**

The Shares are being offered by the Government and the GDRs are being offered through the Managers, directly or through their qualified affiliates, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. On or about 23rd June, 1998 (the "Closing Date") it is expected that the GDRs will be made available for delivery in New York, New York and the Shares will be registered in the register of shareholders at the Central Securities Depository of the MSE ("CSD") in Floriana, Malta. The GDRs will be accepted for delivery through the facilities of The Depository Trust Company ("DTC"), the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank") against payment in immediately available funds on the Closing Date.

The date of this Offering Memorandum is 8th June, 1998.

The Company accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of the Company (which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. In addition, the Government is responsible for the information contained in "Regulation" and "Relationship with the Government" in this Offering Memorandum and not for any other part. To the best of the knowledge and belief of the Government (which has taken all reasonable care to ensure that such is the case), the information contained in this document for which the Government accepts responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document includes particulars given in compliance with the Regulations of the Council of the Malta Stock Exchange for the purpose of giving information with regard to the Company. The members of the board of directors of the Company (collectively, the "Board of Directors", and each member a "Director") have taken all reasonable care to ensure that the facts stated in this Offering Memorandum are all true and accurate in all material respects and that there are no material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All of the members of the Board of Directors accept responsibility accordingly.

No action has been, or will be, taken by the Company, the Government, the Joint Global Coordinators or the Managers for the purposes of permitting a public offering of Shares or GDRs in any jurisdiction outside Malta or the circulation of this Offering Memorandum or any other material in relation to the Company, the Shares or the GDRs in any jurisdiction where action for that purpose is required. The distribution of this Offering Memorandum and the offering and sale of the Shares or the GDRs in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by the Company, the Government, the Joint Global Coordinators and the Managers to inform themselves about and to observe any such restrictions. This Offering Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any securities (i) in any jurisdiction in which such offer or solicitation is unlawful or not authorised or (ii) to any person to whom it is unlawful to make such offer or solicitation.

No person has been authorised to give any information or make any representations not contained in this document in connection with the Combined Offering. If given or made, such information or representations must not be relied upon as having been authorised. Neither the delivery of this document nor any sale made in the Combined Offering shall, under any circumstances, create an implication that there has not been any change in the facts set forth in this document or in the affairs of the Company since the date of this document. Investors should be informed that the value of investments can go up or down and past performance is not necessarily indicative of future performance.

The Shares and the GDRs offered hereby have not been and will not be registered under the Securities Act or the securities laws of any State of the United States and may not be offered or sold, except (i) to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act and (ii) to certain persons that are not US persons (as defined in Regulation S under the Securities Act) in reliance on Regulation S under the Securities Act and will, in each case, be subject to certain restrictions on transfer. See "Underwriting" and "Notice to Investors". Each purchaser of GDRs offered hereby in making its purchase will be deemed to have made certain acknowledgements, representations, warranties and agreements as set forth under "Notice to Investors". Prospective purchasers are hereby notified that the seller of the GDRs may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A thereunder.

A copy of the International Offering Memorandum (the "Offering Memorandum") comprising listing particulars relating to the Combined Offering in accordance with the Listing Rules under Section 142 of the Financial Services Act 1986 of the United Kingdom (the "Financial Services Act"), has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of the Financial Services Act.

This document may not be circulated or delivered in the United Kingdom other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public within the meaning of the Public Offer of Securities Regulations 1995 and may only be issued or passed on in the United Kingdom to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom this document may otherwise lawfully be issued or passed on.

A copy of the Offering Memorandum has been registered with (i) the Registrar of Companies in Malta in accordance with the Maltese Companies Act of 1995 and (ii) the Malta Stock Exchange in satisfaction of the listing particulars for the Shares.

The Malta Stock Exchange accepts no responsibility for the contents of this Offering Memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this Offering Memorandum.

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**IN CONNECTION WITH THE INTERNATIONAL OFFERING, HSBC INVESTMENT BANK PLC MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILISE OR MAINTAIN THE MARKET PRICES OF THE GDRs AT LEVELS THAT MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LONDON STOCK EXCHANGE OR OTHERWISE. SUCH STABILISATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED WITH THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B OF THE NEW HAMPSHIRE REVISED STATUTES IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## AVAILABLE INFORMATION

The Company will furnish The Bank of New York (the "Depository") with copies of its annual reports in English containing a description of operations and annual audited financial statements prepared in conformity with International Accounting Standards ("IAS"). The Company presently ends its financial year on 31st December although in 1997 and in previous years the Company's predecessor, Telemalta Corporation ("Telemalta") ended its financial year on 30th September. The Company intends to provide to the Depository unaudited financial statements for the year ended 30th September, 1998 in order to provide comparability to its historic annual financial statements (including the Audited Annual Financial Statements (as defined below)). Thereafter, the Company intends to provide to the Depository audited financial statements prepared in accordance with IAS for the year ended 31st December, 1998 and for the year ended 31st December in subsequent years. The Company also intends to furnish its shareholders with unaudited interim reports for the six months ending 30th June, 1998 and for the six months ending 30th June in subsequent years, which will include unaudited interim financial information prepared in accordance with IAS. In addition, the Company will arrange for the prompt transmittal to the Depository of sufficient copies in English, of any notices, reports or communications that are made generally available by the Company to holders of Shares. Such documents will be available for inspection while any of the GDRs are outstanding at the Corporate Trust Office of the Depository, which, as of the date of this document, is at 48 Wall Street, New York, New York 10286 and at The Bank of New York, 46 Berkley Street, London W1X 6AA. Upon receipt thereof, the Depository will make available such reports, notices and communications to all record holders of the GDRs. See "Terms and Conditions of the Global Depositary Receipts".

The Company is not required to file periodic reports under Section 13 or 15 of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company, however, intends to apply for exemption from the filing requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereunder and will furnish certain documents to the US Securities and Exchange Commission (the "Securities and Exchange Commission") pursuant to such rule. These documents consist primarily of regularly prepared financial statements and annual reports of the Company, which, pursuant to such rule, may be in the form prescribed by Maltese law or practice. In order to preserve the exemption for resales and transfers under Rule 144A of the Securities Act, the Company has agreed either to (a) maintain its qualification (if it has established its qualification) for exemption from Section 12(g) of the Exchange Act by furnishing to the Securities and Exchange Commission the information required by Rule 12g3-2(b) thereunder, (b) provide upon request information required by Rule 144A to facilitate resales pursuant to Rule 144A or (c) file periodic reports with the Securities and Exchange Commission in accordance with the Exchange Act.

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## ENFORCEMENT OF CIVIL LIABILITIES

The Company is a public limited liability company registered in Malta pursuant to the Maltese Companies Act of 1995. None of the Directors and executive officers of the Company are residents of the United States, and all or a substantial portion of the assets of the Company and such persons are located outside the United States. It may not be possible for investors to effect service of process within the United States upon the Company or such persons with respect to matters arising under the federal securities laws of the United States, or to enforce judgments against any of them obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States. The Company has been advised by Camilleri Preziosi & Associates, Maltese counsel to the Company in connection with the Combined Offering, that there is doubt as to the enforceability in Malta, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States. In particular, an enforcement proceeding will usually be necessary in order to enforce a judgment of a foreign court, including a United States court, in Malta and a Maltese court may refuse to enforce a foreign judgment if, among other things, (i) the foreign judgment is determined to be obtained fraudulently or contrary to the public policy or the internal public law of Malta, (ii) if the judgment sought to be enforced may be set aside on any of the grounds for a new trial under Maltese law, or (iii) in the case of a default judgment, if the defaulting party was not properly served with process.

## **PRESENTATION OF CERTAIN INFORMATION**

Maltacom was incorporated on 31st December, 1997 and became the successor of Telemalta on 2nd January, 1998 pursuant to Malta's Telecommunications (Regulation) Act 1997 (the "Telecommunications Act") and Malta's Legal Notice 238 of 1997 (collectively, with the Telecommunications Act, the "Succession Legislation"). Telemalta was a governmental entity which operated the telecommunications system in Malta since 1975. The Audited Annual Financial Statements and the Audited Interim Financial Statements (as defined below) presented elsewhere in this Offering Memorandum are based on the audited financial statements of Telemalta, adjusted as necessary to reflect the accounting policies of Maltacom and certain other factors.

The Company maintains its accounting records and prepares its statutory accounts in accordance with IAS. The audited financial statements of the Company as at and for the years ended 30th September, 1995, 1996 and 1997 (the "Audited Annual Financial Statements") and as at and for the six months ended 31st March, 1997 (the "Audited Interim Financial Statements") and the unaudited financial statements of the Company as at and for the six months ended 31st March, 1998 (the "Unaudited Interim Financial Statements" and together with the Audited Annual Financial Statements and the Audited Interim Financial Statements, the "Financial Statements") have also been prepared in accordance with IAS.

The Company's financial statements are expressed in Maltese Liri. References to "Maltese Lira", "Maltese Liri", "Maltese cents" or "Lm" are to Maltese currency, references to "\$", "US dollars" or "US\$" are to United States currency, references to "£" or "Pounds Sterling" are to the currency of the United Kingdom and references to "ECU" are to European Currency Units. Solely for convenience, this Offering Memorandum contains translations of certain Maltese Liri amounts into US dollars at specified rates. These translations should not be construed as representations that the Maltese Liri amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated or at any other rate. Unless otherwise indicated, the translations of Maltese Liri amounts into US dollars have been made at the rate of Lm1.00 per US\$2.5586, the exchange rate published by the Central Bank of Malta on 21st May, 1998 (the "Central Bank Exchange Rate"). The Central Bank Exchange Rate on 21st May, 1998 differs from the actual rates used in the preparation of the Financial Statements. On 26th May, 1998 the Central Bank Exchange Rate was Lm 1.00 per US\$2.5588. For historical information regarding rates of exchange between the Maltese Lira and the US dollar, the Pound Sterling and the ECU, see "Exchange Rates".

Certain numerical figures included in this Offering Memorandum have been subject to rounding adjustments; accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which preceded them.

The presentation of all Share and GDR data herein assumes, unless otherwise stated, no exercise of the Overallotment Option granted to HSBC Investment Bank plc in connection with the International Offering. All references herein to "Malta", and the "Republic", are to the Republic of Malta and all references herein to the "Government" are to the Government of the Republic of Malta. References in this Offering Memorandum to "revenues" of the Company include references to turnover of the Company, as such term is used in the Financial Statements.

## **FORWARD-LOOKING STATEMENTS**

This Offering Memorandum contains forward-looking statements that include, among others, statements concerning the Company's plans relating to its reorganisation plan, capital expenditure programme, tariff rebalancing, year 2000 compliance, dividend policy, growth in telephone traffic and other statements of expectation, belief, future plans and strategies, anticipated developments and other matters that are not historical facts and which may involve predictions of future circumstances. The Company cautions the reader that these forward looking statements are subject to risks and uncertainties that could cause actual events or results to differ from those expressed or implied by the statements and no assurance can be given that the future results will be achieved. Actual events or results may differ materially as a result of the risks and uncertainties facing the Company. Such risks and uncertainties include, but are not limited to, (i) actions taken by the regulator of the telecommunications industry in Malta (the "Regulator"), the Government, or labour unions of the Company, (ii) compliance by the Company's suppliers and contractors with contractual terms and (iii) general economic conditions in Malta. See "Investment Considerations".

## **NOTICE TO MALTESE INVESTORS**

This Offering Memorandum makes reference to an international underwriting agreement which is expected to be entered into by and between the Company, the Government and the Managers on or around the 16th June, 1998 and to an "International Offering Memorandum" which is expected to be dated the same date. Such international underwriting agreement has not, as at the date of this Offering Memorandum, been entered into, and its execution is made subject to a number of factors including the success of the book building process in connection with the International Offering of GDRs, and, only if such agreement is entered into, will there be an International Offering Memorandum. In this context all references in this Offering Memorandum to "International Underwriting Agreement", "Lock-up", "Overallotment Option" and "International Offering Memorandum" are to be interpreted and construed accordingly. See - "Underwriting".

## SUMMARY

*The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information and the Financial Statements and the notes to the Financial Statements appearing elsewhere in this Offering Memorandum. In particular, prospective investors should consider carefully the factors set out under "Investment Considerations". See "Glossary" for the definition of certain terms used in this Offering Memorandum.*

*As explained in more detail under "Business – History" Maltacom p.l.c. was recently formed to assume the operations of Telemalta Corporation ("Telemalta"). Except where otherwise indicated or unless the context otherwise requires, each of the "Company" and "Maltacom" refers to Maltacom p.l.c. or, as the context requires, its predecessor Telemalta and includes, as the context requires, its consolidated subsidiaries.*

### The Company

Maltacom is the monopoly provider of fixed line telephony services in Malta and is one of the largest companies in Malta measured in terms of revenue. Domestic and international telephony services are the Company's core businesses, and for the year ended 30th September, 1997, Maltacom generated 93.3 per cent. of its revenues from these businesses. At 30th September, 1997, the Company had 185,596 access lines in service representing a penetration rate of 49.4 per cent. of the population. In addition to its core fixed line telecommunications business, the Company has a 20 per cent. interest in Vodafone Malta Ltd. ("Vodafone Malta"), the exclusive provider of mobile telecommunications services in Malta; owns Terranet Limited ("Terranet"), a non-exclusive Internet service provider in Malta; and has a 20 per cent. interest in Elsacom Malta Limited ("Elsacom"), a company which routes through Malta international telecommunications traffic that originates and terminates overseas. For the year ended 30th September, 1997 the Company earned revenues of Lm33.1 million, and net income after tax of Lm1.7 million.

### Strategy

The Company's business objective is (i) to maintain its dominant position as a provider of telecommunications services in Malta through continuous improvement of both its network and the range of services offered to its customers and through competitive pricing of its services and (ii) to improve its profitability in order to provide shareholders with increased value. To reach these objectives, the Company (a) is commencing the implementation of a reorganisation plan designed to improve the Company's operating performance and reduce its overall payroll costs by, among other things, reducing the number of employees at the Company by approximately 100 per year (net of new hires) during the next five years; (b) is implementing projects in order to upgrade its national network to offer additional value added services, upgrade its backbone network to permit SDH operation, improve network maintenance and management, add access lines and increase network capacity; (c) will consider rebalancing of its current telephony tariffs and charges in order for such tariffs and charges to reflect the actual cost of services within the guidelines established by a rate mechanism (the "Rate Mechanism") established by the Regulator; and (d) is focusing on customer service through the establishment of a marketing and sales department in order to improve the level of services provided and through the Company's recent adoption of a customer charter which is a binding commitment by the Company to provide a guaranteed level of service to its customers.

### The Selling Shareholder

The Government currently owns directly and indirectly 100 per cent. of the issued and outstanding Shares. Following the Combined Offering, the Government will own 63,825,604 Shares, which represents 63 per cent. of the issued and outstanding Shares (or 60,786,292 Shares, which represents 60 per cent. of the issued and outstanding Shares, if the Overallotment Option is exercised in full). The Office of the Prime Minister oversees the Government's shareholding. After the Combined Offering, the Government will still be entitled to elect the Chairman and a total of five (including the Chairman) out of a maximum of nine members of the Board of Directors.

## Summary Financial Data

The summary financial information set out below has been derived from the Annual Audited Financial Statements as at and for the years ended 30th September, 1995, 1996 and 1997, the Audited Interim Financial Statements as at and for the six months ended 31st March, 1997, and the Unaudited Interim Financial Statements as at and for the six months ended 31st March, 1998. An Independent Accountants' Report from KPMG (Malta) and KPMG Audit Plc on the Annual Audited Financial Statements and the Audited Interim Financial Statements appears elsewhere in this Offering Memorandum. The financial information as at and for the six months ended 31st March, 1998 is unaudited but, in the opinion of the management of the Company, includes all adjustments necessary to present a fair statement of the Company's financial position and results of operations for such period. All such adjustments are of a normal, recurring nature. The results of operations for the six months ended 31st March, 1998 are not necessarily indicative of the results that may be expected for the year ending 30th September, 1998 or for the year ending 31st December, 1998.

The summary financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements appearing elsewhere in this Offering Memorandum.

|                                                                | Year ended 30th September, |         |         |                     | Six months ended 31st March, |                      |                       |
|----------------------------------------------------------------|----------------------------|---------|---------|---------------------|------------------------------|----------------------|-----------------------|
|                                                                | 1995                       | 1996    | 1997    | 1997 <sup>(1)</sup> | 1997                         | 1998                 | 1998 <sup>(1)</sup>   |
|                                                                | (Lm)                       | (Lm)    | (Lm)    | (US\$)              | (Lm)                         | (Lm)<br>(unaudited)  | (US\$)<br>(unaudited) |
| (in thousands, except per Share amounts)                       |                            |         |         |                     |                              |                      |                       |
| <b>Income Statement Data:</b>                                  |                            |         |         |                     |                              |                      |                       |
| Turnover . . . . .                                             | 29,601                     | 30,099  | 33,067  | 84,483              | 16,038                       | 17,444               | 44,060                |
| Cost of sales . . . . .                                        | 17,883                     | 20,068  | 19,455  | 49,706              | 9,200                        | 9,468                | 23,914                |
| Gross profit . . . . .                                         | 11,718                     | 10,031  | 13,612  | 34,777              | 6,838                        | 7,976                | 20,146                |
| Administrative and distribution expenses . . . . .             | 3,781                      | 4,213   | 3,827   | 9,778               | 2,356                        | 3,623                | 9,151                 |
| Other operating income . . . . .                               | 333                        | 1,436   | 549     | 1,403               | 372                          | 194                  | 490                   |
| Other operating charges . . . . .                              | 163                        | 657     | 296     | 756                 | 178                          | 132                  | 333                   |
| Licence fee . . . . .                                          | 400                        | 400     | 400     | 1,022               | 200                          | (183)                | (462)                 |
| Operating profit before exceptional charges . . . . .          | 7,707                      | 6,197   | 9,638   | 24,624              | 4,476                        | 4,598                | 11,614                |
| Exceptional charges . . . . .                                  | -                          | -       | 4,084   | 10,434              | -                            | 7,849 <sup>(2)</sup> | 19,825 <sup>(2)</sup> |
| Operating profit/(loss) . . . . .                              | 7,707                      | 6,197   | 5,554   | 14,190              | 4,476                        | (3,251)              | (8,211)               |
| Investments and similar income . . . . .                       | 200                        | 325     | 298     | 761                 | 104                          | 145                  | 366                   |
| Interest and similar charges . . . . .                         | 1,930                      | 2,145   | 2,038   | 5,207               | 992                          | 904                  | 2,283                 |
| Share of profits less losses of associated companies . . . . . | (9)                        | 438     | 343     | 876                 | 277                          | 256                  | 646                   |
| Profit/(loss) before taxation . . . . .                        | 5,968                      | 4,815   | 4,157   | 10,620              | 3,865                        | (3,754)              | (9,482)               |
| Taxation . . . . .                                             | 1,752                      | 1,627   | 2,477   | 6,328               | 1,019                        | 2,039                | 5,150                 |
| Net profit/(loss) . . . . .                                    | 4,216                      | 3,188   | 1,680   | 4,292               | 2,846                        | (5,793)              | (14,632)              |
| Pro forma net profit/(loss) per Share data <sup>(3)</sup>      | 0.042                      | 0.031   | 0.017   | 0.042               | 0.028                        | (0.057)              | (0.144)               |
| <b>Cash Flow Data:</b>                                         |                            |         |         |                     |                              |                      |                       |
| Net cash from operating activities . . . . .                   | 9,492                      | 6,933   | 12,433  | 31,765              | 2,945                        | 5,966                | 15,069                |
| Net cash used in investing activities . . . . .                | (5,842)                    | (7,281) | (4,380) | (11,190)            | (2,225)                      | (3,228)              | (8,153)               |
| Net cash used in financing activities . . . . .                | (5,165)                    | (3,971) | (4,459) | (11,392)            | (2,648)                      | (4,740)              | (11,972)              |

(footnotes on the following page)

|                                                 | As at 30th September, |        |        |                     | As at 31st March, |                      |                       |
|-------------------------------------------------|-----------------------|--------|--------|---------------------|-------------------|----------------------|-----------------------|
|                                                 | 1995                  | 1996   | 1997   | 1997 <sup>(1)</sup> | 1997              | 1998                 | 1998 <sup>(1)</sup>   |
|                                                 | (Lm)                  | (Lm)   | (Lm)   | (US\$)              | (Lm)              | (Lm)<br>(unaudited)  | (US\$)<br>(unaudited) |
|                                                 | (in thousands)        |        |        |                     |                   |                      |                       |
| <b>Balance Sheet Data:</b>                      |                       |        |        |                     |                   |                      |                       |
| Fixed assets . . . . .                          | 48,943                | 52,938 | 49,677 | 126,920             | 53,285            | 50,987               | 128,783               |
| Other long term assets . . . . .                | 555                   | —      | —      | —                   | —                 | —                    | —                     |
| Current assets . . . . .                        | 28,073                | 32,142 | 30,019 | 76,695              | 33,732            | 27,939               | 70,568                |
| Short term liabilities . . . . .                | 24,643                | 31,022 | 27,050 | 69,110              | 30,268            | 25,732               | 64,994                |
| Provision for liabilities and charges . . . . . | —                     | 106    | —      | —                   | 286               | 7,901 <sup>(2)</sup> | 19,956 <sup>(2)</sup> |
| Long term liabilities . . . . .                 | 21,477                | 21,313 | 20,327 | 51,933              | 20,978            | 18,696               | 47,222                |
| Share capital and reserves . . . . .            | 31,451                | 32,639 | 32,319 | 82,572              | 35,485            | 26,597               | 67,179                |

|                                                                                    | Year ended<br>30th September, |          |          | Six months ended<br>31st March, |         |
|------------------------------------------------------------------------------------|-------------------------------|----------|----------|---------------------------------|---------|
|                                                                                    | 1995                          | 1996     | 1997     | 1997                            | 1998    |
| <b>Operating Data:</b>                                                             |                               |          |          |                                 |         |
| Number of access lines in service at period end . . . . .                          | 169,186                       | 176,997  | 185,596  | 182,933                         | 188,240 |
| Access lines in service at period end per 100 inhabitants <sup>(4)</sup> . . . . . | 45.6                          | 47.4     | 49.4     | 48.8                            | 49.9    |
| Revenue per access line in service at period end (Lm) . . . . .                    | 175.0                         | 170.1    | 178.2    | 87.7                            | 92.7    |
| Average number of employees . . . . .                                              | 1,730                         | 1,825    | 1,837    | 1,855                           | 1,810   |
| Revenue per employee (Lm) . . . . .                                                | 17,110.4                      | 16,492.6 | 18,000.5 | 8,645.8                         | 9,637.6 |
| Access lines in service at period end per employee . . . . .                       | 97.8                          | 97.0     | 101.0    | 98.6                            | 104.0   |
| Capital expenditure (Lm thousands) . . . . .                                       | 6,960                         | 7,335    | 4,766    | 2,002                           | 3,985   |

- (1) For the convenience of the reader, Maltese Lira amounts as at and for the period ended 30th September, 1997 and 31st March, 1998 have been translated into US dollars at the rate of US\$2.5549 to Lm1.00 and US\$2.5258 to Lm1.00, respectively, the Central Bank Exchange Rate in effect on such dates. Such translations should not be construed as representations that the Maltese Lira amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated or at any other time.
- (2) Includes a Lm7.5 million charge relating to the estimated future costs associated with the implementation of the Company's reorganisation plan and a charge related to the Company's hosting of the World Telecommunications Development Conference.
- (3) For each period represents net profit/(loss) divided by 101,310,488 (the number of Shares issued and outstanding as of the date of this Offering Memorandum.)
- (4) Estimated.

## **The Offerings**

### **The Combined Offering:**

The Combined Offering by the Government consists of (i) the International Offering of 17,222,784 Shares represented by 2,870,464 GDRs to investors outside Malta; (ii) the Maltese Offering of 15,196,575 Shares, together with any Shares not purchased in the Employee Offering, to the public in Malta and (iii) the Employee Offering of 3,039,315 Shares to the Employee Foundation and 2,026,210 Shares to the Company's employees. See "The Offerings" and "Underwriting".

### **Shares Offered in the Combined Offering:**

37,484,884 Shares (or 40,524,196 Shares if the Overallotment Option described below is exercised in full by HSBC Investment Bank plc).

### **The International Offering:**

The International Offering consists of an offering of 17,222,784 Shares represented by 2,870,464 GDRs at the GDR Offer Price (i) to certain persons that are not US persons (as defined in Regulation S under the Securities Act), in reliance on Regulation S under the Securities Act, and (ii) to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder. See "The Offerings – The International Offering" and "Underwriting".

### **The Maltese Offering:**

The Maltese Offering consists of a public offering in Malta through a public subscription offer of 15,196,575 Shares, together with any Shares not purchased in the Employee Offering, to the public in Malta, at the Share Offer Price. Investors subscribing in the Maltese Offering will be required to subscribe for Shares at a price established at the commencement of the Maltese Offering (the "Preliminary Share Offer Price") which is expected to be on or about 11th June, 1998 and will receive a rebate if the Preliminary Share Offer Price is greater than the Share Offer Price. See "The Offerings – The Maltese Offering".

### **The Employee Offering:**

The Employee Offering consists of an offering (i) of 3,039,315 Shares, representing three per cent. of the Company's issued and outstanding Shares, to the Employee Foundation at a 10 per cent. discount to the Share Offer Price, and (ii) of 2,026,210 Shares, representing two per cent. of the Company's issued and outstanding Shares, to the Company's employees at a five per cent. discount to the Share Offer Price. Any Shares not sold in the Employee Offering will be allocated to the Maltese Offering. Employees of the Company subscribing in the Employee Offering will be required to subscribe for Shares at the Preliminary Share Offer Price and will receive a rebate if the Preliminary Share Offer Price is greater than the Share Offer Price and to take into account the five per cent. discount to the Share Offer Price offered to such employees. See "The Offerings – The Employee Offering".

### **Overallotment Option:**

The Government expects to grant, pursuant to an International Underwriting Agreement, to HSBC Investment Bank plc on behalf of the Managers an option (the "Overallotment Option"), exercisable within 30 calendar days from the date of the International Offering Memorandum, to purchase up to 3,039,312 Shares represented by 506,552 GDRs solely to cover overallotments in the International Offering. In addition, Mid-Med Bank plc will have an option (the "Mid-Med Option") to purchase any Shares subject to the Overallotment Option which are not purchased by HSBC Investment Bank plc. See "The Offerings – Overallotment and Stabilisation" and "Underwriting".

Share Offer Price and GDR Offer Price:

The GDR Offer Price is the price to be determined by the Government in consultation with the Joint Global Coordinators after completion of the book building process for the International Offering. The Share Offer Price shall be the Lm equivalent on a per Share basis of the GDR Offer Price calculated on the basis of 6 Shares per GDR. The Share Offer Price will be announced to the MSE and published in at least one daily newspaper in Malta. The Share Offer Price will not exceed the Preliminary Share Offer Price.

The Shares:

101,310,488 Shares are currently issued and outstanding. No Shares will be issued by the Company in connection with the Combined Offering. The holder of each Share is entitled to the rights described under "Description of Share Capital".

The GDRs:

Each GDR represents six Shares. The GDRs offered in reliance on Regulation S under the Securities Act (the "Regulation S GDRs") will be evidenced by a Regulation S Master GDR and the Rule 144A GDRs will be evidenced by a Rule 144A Master GDR, in each case registered in the name of Cede & Co., as nominee of DTC. Prior to the expiration of the Restricted Period (defined as the period ending 40 days after the latest of the commencement of the Combined Offering, the Closing Date and the closing date for any additional GDRs sold pursuant to the Overallotment Option) interests in the Regulation S GDRs may be held only through Cedel Bank or Euroclear. Interests in GDRs evidenced by the Regulation S Master GDR and the Rule 144A Master GDR will be shown on, and transfers thereof will be effective only through, records maintained by DTC and its direct or indirect participants, including Cedel Bank and Euroclear and transfers within or between DTC, Euroclear and Cedel Bank will be in accordance with the usual rules and operating procedures of the relevant system. Interests in the Regulation S Master GDR may be exchanged by the holder thereof for interests in a corresponding number of GDRs evidenced by the Rule 144A Master GDR, and vice versa, in the manner described under "Terms and Conditions of the Global Depositary Receipts - Transfer and Ownership" and "Notice to Investors".

The Selling Shareholder:

The Government is selling all of the Shares, including the Shares underlying the GDRs, that are being offered in the Combined Offering. After the Combined Offering, the Government will own approximately 63 per cent. of the Shares (or 60 per cent. of the Shares if the Overallotment Option is exercised in full). See "Relationship with the Government".

Use of Proceeds:

The Company will not receive any proceeds from the Combined Offering. All the proceeds from the Combined Offering will be for the account of the Government and the Government will bear all direct costs associated with the Combined Offering. See "Use of Proceeds".

Voting Rights and Restrictions:

The Company's Memorandum and Articles of Association (the "Articles") contain certain voting provisions which restrict the rights of shareholders. If at any time a shareholder (including a beneficial holder of GDRs representing Shares) holds in excess of five per cent. of the voting shares of the Company, such shareholder will not have the right to vote at meetings of shareholders of the Company in respect of that portion of its Shares which exceed the five per cent. ceiling. The Government, the Depositary and certain other persons are exempted from the voting limit requirement. See "Description of Share Capital - Voting Rights and Restrictions". Subject to the five per cent. limit described above and in the circumstances described in "Description of Share Capital - Voting Rights and Restrictions", holders of Shares are entitled to vote at meetings of the shareholders of the Company on the basis of one vote for each Share held.

Subject to the above, unless it is not permitted by applicable law, holders of the GDRs will be entitled to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the number of Shares represented by their respective GDRs. See "Terms and Conditions of the Global Depositary Receipts – Voting Rights".

**Dividends:**

Holders of the GDRs will be entitled to receive dividends to the same extent as holders of the Shares, subject to the fees of the Depositary. See "Terms and Conditions of the Global Depositary Receipts – Depositary's Fees, Costs and Expenses".

The first dividend to which holders of Shares and GDRs purchased in the Combined Offering may be entitled is the dividend, if any, in respect of the financial year of the Company ending 31st December, 1998. In the absence of unforeseen circumstances or developments in the Company's operations and taking into account the economic and financial circumstances of the Company, the Board of Directors expect to recommend a dividend equalling Lm0.023 (US\$0.059) per Share for such period. However, there can be no assurance that any such dividend will be recommended by the Board of Directors or, if recommended, approved by the Company's shareholders. See "Dividends – Dividend Policy".

The payment of dividends will be subject to applicable Maltese withholding tax. See "Taxation – Maltese Taxation".

**Listings:**

Application has been made to admit the Shares to the MSE Official List. Application has also been made for the GDRs to be admitted to the LSE Official List and the GDRs are expected to be eligible for quotation and trading through SEAQ International. The Rule 144A GDRs are expected to be designated for quotation and trading on the PORTAL market of the NASD.

**Payment and Settlement:**

On or about the Closing Date, it is expected that the GDRs will be made available for delivery in New York, New York and the Shares will be registered in the register of shareholders at the CSD in Floriana, Malta. Payment for the Shares is to be made during the subscription period for the Maltese Offering, which is between the 11th June, 1998 and the 15th June, 1998, although the Government reserves the right to close the subscription period before 15th June, 1998 in the event that the Maltese Offering and the Employee Offering are fully subscribed before that date. See "The Offerings – Pricing". The GDRs will be accepted for delivery through DTC, Euroclear or Cedel Bank against payment in immediately available funds on the Closing Date. None of DTC, Cedel Bank or Euroclear in any way undertakes to, and none of DTC, Cedel Bank or Euroclear shall have responsibility to, monitor or ascertain the compliance of any transactions in the GDRs or the Shares with any selling or ownership restriction.

**General Information:**

The identification numbers for the GDRs are as follows:

**Regulation S GDRs:**

|              |              |
|--------------|--------------|
| ISIN:        | US5613862029 |
| Common Code: | 8690693      |
| CUSIP:       | 561386202    |

**Rule 144A GDRs:**

|              |              |
|--------------|--------------|
| ISIN:        | US5613861039 |
| Common Code: | 8699178      |
| CUSIP:       | 561386103    |

## INVESTMENT CONSIDERATIONS

*Before investing in the Shares or GDRs offered hereby, prospective purchasers should carefully consider all the information contained in this Offering Memorandum, including the investment considerations set forth below.*

### **Considerations Relating to the Company**

#### ***Ability of the Company to Implement Cost Savings Strategies***

As described in more detail under "Business – Strategy", the Company intends to implement a reorganisation plan to improve its profitability. The reorganisation plan consists primarily of programmes to improve productivity combined with reductions in personnel which would reduce the number of employees by approximately 100 persons per year (net of new hires) over a five year period. The Company believes that the reductions in personnel can be achieved primarily through attrition, an early retirement programme and the transfer of employees to affiliated companies. If these methods are not effective, the Company may be required to take more aggressive actions to reduce employee numbers. Approximately 89 per cent. of the employees of the Company are members of labour unions. The General Workers Union, the union empowered to represent substantially all the unionised personnel at the Company, has agreed in principle to significant aspects of the Company's reorganisation plan and the Government has been informed of the significant details of this plan. However, the scale of the reductions in the number of employees being sought by Maltacom has not previously been attempted by a Government-owned company in Malta and it is not certain how interested parties will react if the number of employees in the Company declines significantly or measures designed to improve productivity of the employees are instituted. As a result, there can be no assurance that the Company will be able to effect the desired reduction in the number of employees, or that the productivity gains expected to be obtained through the Company's reorganisation plan can be realised. The failure of the Company to achieve these goals could materially and adversely impact the Company's results of operations and future prospects.

#### ***Relationship with the Government***

After the Combined Offering, approximately 63 per cent. (or 60 per cent. if the Overallotment Option is exercised in full) of the Shares will be retained by the Government. The Government will therefore continue to have the power to elect the Chairman of Maltacom and a majority of the members of the Board of Directors and the power to approve or prevent certain corporate transactions which require majority shareholder approval, including the payment of dividends. See "Management". In addition, under the Telecommunications Act, the Government appoints the Regulator and the Government's Minister responsible for telecommunications has the power to issue directives under the Telecommunications Act. These powers provide the Government with substantial influence over the regulation of the telecommunications industry in Malta. See "Regulation". Accordingly, through the exercise of its rights as a shareholder of the Company or the exercise of its powers under the Telecommunications Act, the Government has a substantial ability to affect the operations of the Company. Certain of the Company's strategies discussed under "Business – Strategy", and in particular the implementation of the proposed reorganisation plan and the proposed rebalancing of tariffs and other charges in the year 2000, could have adverse political consequences in Malta which may influence the Government's decisions regarding the Company. Any action by the Government which impedes or prevents the Company's ability to implement its strategies could materially and adversely affect the Company's results of operations and future prospects.

#### ***Financing and Implementation of Capital Expenditure Programme***

As discussed under "Business – Capital Expenditure Programme", the Company is engaged in a significant capital expenditure programme to upgrade its network. The estimated cost of this programme for 1998 through 2000 is Lm27.4 million (US\$70.1 million). The Company intends to finance this programme from operating cash flows. If operating cash flows are insufficient, the Company believes that it will be able to finance the remainder by accessing bank financing or the capital markets. There can be no assurance that the Company can obtain such financing at an acceptable cost. In addition, the successful implementation of the Company's capital expenditure programme depends on the Company's ability to select appropriate technology and network design to effectively implement its plans. In the past, a lack of suitability analysis from a business perspective and other problems resulted in the expected benefits from certain of the Company's capital expenditures not being fully realised and certain projects being delayed or subject to cost overruns. Any delay or cancellation of all or a significant portion of the Company's capital expenditure programme due to lack of financing, cost overruns or other factors could adversely affect the Company's competitive position when its monopoly over fixed line telecommunications services expires in 2010.

### ***Year 2000 Compliance***

The Company's existing computer systems are not all yet capable of operation beyond 1999 (the "year 2000 issue"). The Company believes that the most important computer systems which could be affected by the year 2000 issue are the systems controlling its national and international networks and its customer billing systems. The Company has signed a contract with the principal supplier of its switches to provide an upgrade of the switches and the related switching software which, when implemented, will resolve the year 2000 issue with regard to the Company's networks. The contract requires this project to be completed by November 1999. In addition, the Company is negotiating with the original provider of its billing software for the provision of upgraded software which resolves the year 2000 issue. The Company expects that the software will be available and installed by approximately mid-1999. The Company is also actively addressing the year 2000 issue with respect to its other computer systems and believes that all systems which are material to the Company's operations or financial condition or results will be year 2000 compliant prior to the end of 1999. The Company expects the total cost of resolving the year 2000 issue will be approximately Lm0.5 million (US\$1.3 million). Despite the actions described above which the Company is taking to address the year 2000 issue, there can be no assurance that the relevant software suppliers will be able to meet the required deadlines or to provide updated systems which completely resolve their year 2000 issues. In addition, the Company's operations could be adversely affected if any of the telecommunications networks to which the Company's networks are interconnected fail to resolve their year 2000 issues prior to the end of 1999. The Company is aware that the owners of such networks are taking action to resolve their year 2000 issues, but the Company is not in a position to ensure that such networks will be year 2000 compliant by the end of 1999. As a result there can be no assurance that the date change from 1999 to 2000 will not materially affect the Company's business, financial condition and results of operations.

### ***Effect of Currency Fluctuations on the Company's Results***

The Company's financial statements are denominated in Maltese Liri. However, a significant portion of the Company's revenues (principally payments from foreign operators) and of its operating costs (principally payments to foreign operators) and interest costs are denominated in US dollars. As a result, fluctuations between the Maltese Lira and the US dollar may affect the Maltese Lira equivalent of such amounts making period to period comparisons of the Company's results of operations difficult.

### ***Lack of Insurance Coverage***

While the Company has undertaken a review of its insurance coverage and is in the process of remedying certain gaps in its insurance, the Company presently does not insure significant portions of its telecommunications property, plant and equipment and does not insure against business interruptions due to natural disasters or other events. Business interruption due to political developments, as well as labour disputes and adverse weather conditions, among other factors, could result in a loss of revenues or the imposition on the Company of liabilities or increased costs.

### ***Considerations Relating to the Shares and the GDRs***

#### ***Restrictions on Acquisition of Shares***

The Company's Memorandum and Articles of Association (the "Articles") contain certain voting provisions which restrict the voting rights of large shareholders other than the Government and certain other persons. If at any time a shareholder holds in excess of five per cent. of the Shares, including Shares held in the form of GDRs, such shareholder will not have the right to vote at shareholders' general meetings in respect of that portion of its Shares which exceed the five per cent. ceiling. The Depositary is exempted from this voting limitation. See "Description of Share Capital - Voting Rights and Restrictions". Such restrictions could discourage potential acquisition proposals and could delay or prevent a change in control of the Company.

#### ***No Prior Market for GDRs; Limited Liquidity of the Malta Stock Exchange***

Prior to the Combined Offering, there has been no public market for the Shares or the GDRs within or outside Malta. The initial offering price has been determined by the Government after consultation with the Joint Global Coordinators. Due to the absence of any prior market for the Shares and GDRs, there can be no assurance that the initial offering price will correspond to the price at which the Shares and the GDRs will trade in the market subsequent to the Combined Offering. The market price of the Shares and the GDRs could be subject to significant fluctuations in response to many factors, including the operating results of telecommunications companies in other countries, the Company's operating results, developments in the Maltese economy or in the economies of other countries or other factors. The Shares will be listed on the MSE which is smaller and less liquid than the more developed stock markets in Europe and the United States. Until 6th May, 1998, the MSE was only open for trading once a week and from 1st January, 1997 through 15th May, 1998 average weekly volume was approximately Lm191,377 (US\$489,657). Since 18th May, 1998, the MSE has

been open for trading on a daily basis, although the level of trading activity has remained relatively low. Currently equity securities of only six Maltese companies are traded on the MSE and there are only eight floor traders. To control price volatility, the MSE requires that trading of the shares in a listed company be limited to a range, which is currently seven per cent. above or below the trade weighted average price of such shares at the previous trading session. However, the MSE has the discretion to increase or decrease the range, or remove such restriction in certain circumstances. In the case of new listings, the MSE normally allows greater movement in share prices. In the event that any proposed trade exceeds the said limit, such trade will not be allowed. See "The Malta Stock Exchange – Trading on the MSE". The limited liquidity of the market for the Shares in Malta could increase the price volatility of GDRs and may impair the ability of a holder of a GDR to sell Shares withdrawn from a depositary receipt facility in the Maltese market in the amount and at the price and time such holder wishes to do so.

#### ***Foreign Exchange Rate Risks***

The market price of Shares traded on the MSE will be denominated in Maltese Liri while the GDRs will trade in US dollars. Fluctuations in the exchange rate between the Maltese Lira and the US dollar will therefore affect the US dollar equivalent of the Maltese Lira denominated prices of the Shares and, as a result, will affect the market price of the GDRs. In addition, since cash dividends on the Shares will be payable in Maltese Liri, exchange rate fluctuations will affect the US dollar equivalent of cash dividends received by holders of GDRs.

#### ***Possible Unavailability of Pre-emptive Rights for United States Holders of GDRs***

In the case of an increase of the share capital of the Company, existing shareholders of the Company are entitled to pre-emptive rights pursuant to the Articles unless waived by a resolution of the shareholders at a general meeting or in certain circumstances stated in the Articles. To the extent that pre-emptive rights are granted, US holders of the GDRs may not be able to exercise pre-emptive rights for Shares underlying their GDRs unless a registration statement under the Securities Act is effective with respect to such rights, or an exemption from the registration requirements thereunder is available. The Company intends to evaluate at the time of any rights offering the costs and potential liabilities associated with any such registration statement, as well as the indirect benefits to it of thereby enabling the exercise by US holders of the GDRs of the pre-emptive rights for Shares underlying their GDRs and any other factors the Company considers appropriate at the time, and then to make a decision as to whether to file such a registration statement. No assurance can be given that any registration statement would be filed in lieu of a sale by the Depositary of such holders' pre-emptive rights and a distribution of the proceeds thereof. See "Terms and Conditions of the Global Depositary Receipts – Rights Issues".

## THE OFFERINGS

### General

The Government currently holds 100 per cent. of the Shares of the Company. Following the Combined Offering, the Government will hold approximately 63 per cent. of the Shares (or 60 per cent. of the Shares if the Overallotment Option is exercised in full).

### The Combined Offering

The Combined Offering by the Government of 37,484,884 Shares consists of:

- (i) the International Offering of 17,222,784 Shares represented by 2,870,464 GDRs to investors outside Malta;
- (ii) the Maltese Offering of 15,196,575 Shares, together with any Shares not purchased in the Employee Offering, to the public in Malta; and
- (iii) the Employee Offering of 3,039,315 Shares to a foundation established on behalf of the employees of the Company (the "Employee Foundation") and 2,026,210 Shares to the Company's employees.

The closing of the International Offering is conditional upon the closing of the Maltese Offering and the Employee Offering. See "Underwriting".

The net proceeds of the Combined Offering will be paid to the Government. The Company will not receive any proceeds from the Combined Offering. HSBC Investment Bank plc and Mid-Med Bank plc are acting as Joint Global Coordinators of the Combined Offering. Under the terms of the Global Coordinators' Agreement, the Company, the Government, and the Joint Global Coordinators have agreed that in certain circumstances Shares including the Shares subject to the Overallotment Option may be reallocated between the International Offering and the Maltese Offering. See "Underwriting - Global Coordinators' Agreement".

### Pricing

Bookbuilding for the International Offering commenced on 1st June, 1998 based on an indicative price range established by the Government in consultation with the Joint Global Coordinators. On 5th June, 1998 the Government, in consultation with the Joint Global Coordinators, established the Preliminary Share Offer Price for the Maltese Offering based on the results of the first week of bookbuilding from 1st June, 1998 to 5th June, 1998. Subscriptions by investors in Malta for the Maltese Offering and by employees of the Company for the Employee Offering will be accepted from 11th June, 1998 to 15th June, 1998 inclusive, at the Preliminary Share Offer Price. However, the Government, as offeror of the Shares, reserves the right to close the Maltese Offering and the Employee Offering before 15th June, 1998 in the event that such offerings are fully subscribed before that date. Bookbuilding for the International Offering will continue up to 15th June, 1998. On 16th June, 1998 the US dollar price for GDRs in the International Offering (the "GDR Offer Price") and the final price for Shares in the Maltese Offering (which is the Maltese Lira equivalent on a per Share basis of the GDR Offer Price on such date) (the "Share Offer Price") are expected to be established by the Government, in consultation with the Joint Global Coordinators. The Share Offer Price will not exceed the Preliminary Share Offer Price. The Share Offer Price will be announced to the Malta Stock Exchange and in at least one daily newspaper in Malta. If the Share Offer Price is less than the Preliminary Share Offer Price (the amount of such difference, the "Rebate Amount"), then by 30th June, 1998 investors in the Maltese Offering will receive a payment equalling the Rebate Amount multiplied by the number of Shares allocated to and purchased by such investors. Employees of the Company shall receive the Rebate Amount (if any) multiplied by the number of Shares allocated to and purchased by such employees plus an amount equalling five per cent. of the Share Offer Price multiplied by the number of Shares allocated to such investors in the Employee Offering. The Shares sold to the Employee Foundation will be sold at a 10 per cent. discount to the Share Offer Price.

### The International Offering

The International Offering consists of an offering of 17,222,784 Shares represented by 2,870,464 GDRs at the GDR Offer Price, (i) to certain persons who are not US persons (as defined in Regulation S under the Securities Act) in reliance on Regulation S under the Securities Act and (ii) to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act.

### **The Maltese Offering**

The Maltese Offering consists of a public offering in Malta through a public subscription of 15,196,575 Shares, together with any Shares not purchased in the Employee Offering. The subscription price will initially be the Preliminary Share Offer Price, but will be subject to adjustment (and payment of the Rebate Amount) to the Share Offer Price as described above. In order to participate in the Maltese Offering, each investor must subscribe for a minimum of 1,000 Shares and in multiples of 100 Shares in excess thereof. Mid-Med Bank plc has agreed, subject to the satisfaction of certain conditions, to purchase from the Government at the Share Offer Price the Shares, if any, being offered in the Maltese Offering and the Employee Shares (as defined below) being offered in the Employee Offering that are not subscribed for. See "Underwriting - Domestic Underwriting Agreement". The subscription period for the Maltese Offering commences on 11th June, 1998 and concludes on 15th June, 1998. It is expected that within three days from the end of the subscription period the Government shall, on the basis of applications received, determine the basis for allocation which is expected to reflect the Government's stated policy favouring wider share ownership in Malta. The Government, as offeror of the Shares, reserves the right to close the Maltese Offering and the Employee Offering before 15th June, 1998 in the event that such offerings are fully subscribed before that date.

### **The Employee Offering**

The Employee Offering consists of (i) an offering of 3,039,315 Shares (the "Employee Foundation Shares") which will be purchased by the Employee Foundation at a price which is a 10 per cent. discount to the Share Offer Price, and (ii) an offering of 2,026,210 Shares to employees of the Company (the "Employee Shares") at a price which is a five per cent. discount to the Share Offer Price (the "Employee Offer Price"). Any Employee Shares which are not sold in the Employee Offering will be allocated to the Maltese Offering and sold at the Share Offer Price.

The Employee Foundation has been established by the Government for the benefit of employees of the Company. The Government will lend the funds to the Employee Foundation to purchase the Employee Foundation Shares. Under its terms, the loan to the Employee Foundation is interest free and no payments under the loan are required for a period of 10 years. Following the 10 year period, the loan is expected to be repaid out of the dividends received by the Employee Foundation as a shareholder of the Company. The Company's employees will receive participation units in the Employee Foundation (the "Participation Units"). The Participation Units will not be tradeable but will be redeemed by the Employee Foundation based on the then current market price of the Shares upon the occurrence of specified events (e.g. death or retirement of the employee).

All full-time employees working at Maltacom or on its payroll on the 15th May, 1998 and the current members of the Board of Directors shall be entitled to subscribe for and purchase an aggregate of 2,026,210 Employee Shares at the Employee Offer Price. Subscribers in the Employee Offering will subscribe for Employee Shares at the Preliminary Share Offer Price and with respect to the Employee Shares purchased by such subscribers will receive the Rebate Amount (if any) plus an amount equalling five per cent. of the Share Offer Price multiplied by the number of Employee Shares allocated to and purchased by such subscribers. See "-Pricing". Subscriptions in the Employee Offering must be made for a minimum of 1,000 Employee Shares and in multiples of 100 Shares in excess thereof. Upon application, each employee will be given a preference allocation of up to 1,500 Employee Shares (depending on subscription levels) or for any lower amount over 1,000 Employee Shares for which such employee has subscribed for (the "Preference Allocation"). In the event that the total number of Shares subscribed for by the employees exceeds 2,026,210 Employee Shares, each employee's Preference Allocation shall first be satisfied and then each application for amounts of Employee Shares in excess of the Preference Allocation shall be satisfied in increments of 100 Employee Shares until the relevant subscription application is satisfied or the total amount of Employee Shares are allocated. Any Shares applied for but not allotted at the Employee Offer Price will (unless the employee otherwise requests) be treated as an application in the Maltese Offering and will, subject to allocation in the Maltese Offering, be purchased at the Share Offer Price.

### **Overallotment and Stabilisation**

In connection with the International Offering and subject to the execution of an International Underwriting Agreement, HSBC Investment Bank plc may overallot or effect transactions that stabilise or maintain the market prices of the GDRs at levels that might not otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange or otherwise. Such stabilisation, if commenced, may be discontinued at any time.

The Overallotment Option to be granted to HSBC Investment Bank plc on behalf of the Managers will be exercisable within 30 calendar days from the date of the International Offering Memorandum, will allow HSBC Investment Bank plc to purchase up to an additional 3,039,312 Shares represented by 506,552 GDRs solely to

cover overallocments in the International Offering. In addition, under the terms of the Mid-Med Option Mid-Med Bank plc will have an option to purchase any Shares subject to the Overallocment Option which are not purchased by HSBC Investment Bank plc. See "Underwriting".

### **Settlement and Delivery**

On the Closing Date it is expected that the GDRs will be made available for delivery in New York, New York and the Shares will be registered in the register of shareholders at the CSD in Floriana, Malta. The GDRs will be accepted for delivery through the facilities of DTC, Cedel Bank and Euroclear, against payment in immediately available funds on the Closing Date.

### **Lock-Up Agreement**

Subject to the execution of an International Underwriting Agreement, each of the Government and the Company shall agree that neither it nor any of its affiliates (as defined in Rule 501(b) under the Securities Act, hereinafter "affiliates") will, directly or indirectly, issue (in the case of the Company only), cause the issue, offer or sell any Shares (or securities convertible into any Shares), for a period of 12 months after the Closing Date without the prior written consent of HSBC Investment Bank plc. See "Underwriting - Lock-up". In addition, pursuant to the terms of the listing agreement with the MSE, for a period of 12 months after the Closing Date the Company may not issue any Shares without the approval of the MSE.

Under the terms of the Global Coordinators' Agreement (see Underwriting - Global Coordinators' Agreement) Mid-Med Bank plc has agreed that neither it nor any of its affiliates will, directly or indirectly, offer or sell any Shares (or securities convertible into any Shares), for a period of 12 months after any exercise or partial exercise of the Mid-Med Option.

## **DIVIDENDS**

The amount of any dividend is decided by shareholders at an annual general meeting of the Company, although it may not exceed the amount recommended by the Board of Directors. The Articles provide that meetings at which the proposal for the payment of dividends is submitted to a vote by shareholders must be convened no later than six months following each end of the financial year to which the dividend relates. The Board of Directors can also decide to pay an interim dividend, which does not require shareholders' approval. Dividends may only be paid by the Company out of profit after tax in the last fiscal year and out of retained earnings (collectively, "distributable reserves"). Due to the limited operating history of the Company, which commenced operations on 2nd January, 1998, the Company has a relatively low level of distributable reserves. The Company's ability to pay dividends in the future is subject to the availability of a sufficient level of distributable reserves.

Historically, as a Government owned company, the amount of dividends paid by the Company was determined after negotiation between the Government and the Company. The Company distributed dividends of Lm2.0 million for the year ended 30th September, 1997, Lm2.0 million for the year ended 30th September, 1996 and Lm1.5 million for the year ended 30th September, 1995, which represented 119.0 per cent. (or, if exceptional charges are excluded, 34.7 per cent.), 62.7 per cent. and 35.6 per cent. of annual profit after tax, respectively. Following the Combined Offering, the Board of Directors intends to follow the policy with respect to dividend recommendations described in "– Dividend Policy" below.

### **Dividend Policy**

In the absence of unforeseen circumstances or developments in the Company's operations and taking into account the economic and financial circumstances of the Company, the Board of Directors expects in the future to recommend to its shareholders an annual dividend which increases from a reference level of Lm0.041 (US\$0.105) per Share (the "Reference Dividend Amount"). The first dividend to which holders of Shares and GDRs purchased in the Combined Offering may be entitled is the dividend, if any, in respect of the financial year of the Company ending 31st December, 1998 (the "1998 Dividend"). Because the Shares (including Shares in the form of GDRs) purchased in the Combined Offering will only be held by investors for approximately seven months of 1998, the Board of Directors currently expect to recommend to shareholders a 1998 Dividend equalling Lm0.023 (US\$0.059) per Share, which represents seven-twelfths of the Reference Dividend Amount. However, there can be no assurance that any such a dividend will be recommended by the Board of Directors or that such a dividend will be approved by the Company's shareholders. In the absence of unforeseen circumstances, the payment date for the 1998 Dividend is expected to be not later than 31st May, 1999.

After the Combined Offering, the Government is likely to retain a significant degree of voting control over the Company, including the approval of dividends. See also "Investment Considerations – Considerations Relating to the Company – Relationship with the Government".

Owners of GDRs will be entitled to any dividends paid on the Shares represented thereby to the same extent as holders of the Shares, subject to the fees of the Depositary. See "Terms and Conditions of Global Depositary Receipts – Depositary's Fees, Costs and Expenses". See "Taxation" for a discussion of the tax consequences for owners of GDRs of the payment of dividends by the Company.

## **USE OF PROCEEDS**

The Company will not receive any of the proceeds from the Combined Offering. All the proceeds of the Combined Offering will be for the account of the Government. The direct costs and expenses of the Combined Offering which are estimated to be US\$4.2 million include, but are not limited to, a combined selling concession, underwriting commission and management fee for the Managers and Mid-Med Bank plc, HSBC Investment Bank plc's praecipuum, certain legal, consultancy and accounting fees, advertising and other publicity fees, and the costs of printing the preliminary and final Offering Memoranda.

## CAPITALISATION

The following table sets forth (i) the unaudited capitalisation of the Company as at 31st March, 1998 and (ii) such capitalisation as adjusted for the increase in share capital which became effective on 27th April, 1998 and is described under "Description of Share Capital". Because the Combined Offering does not involve the issuance of new Shares by the Company and the Company will receive no proceeds from the Combined Offering, the Combined Offering will have no effect on the capitalisation of the Company. The table set forth below should be read in conjunction with the Unaudited Interim Financial Statements, including the Notes thereto, included elsewhere in this Offering Memorandum.

| As at 31st March, 1998                           |               |                       |                            |                       |
|--------------------------------------------------|---------------|-----------------------|----------------------------|-----------------------|
|                                                  | Actual        |                       | As Adjusted <sup>(1)</sup> |                       |
|                                                  | (Lm)          | (US\$) <sup>(2)</sup> | (Lm)                       | (US\$) <sup>(2)</sup> |
| <i>(in thousands)</i>                            |               |                       |                            |                       |
| <b>Current Debt:</b>                             |               |                       |                            |                       |
| Bank overdrafts and short-term loans             | 6,369         | 16,087                | 6,369                      | 16,087                |
| Creditors . . . . .                              | 18,014        | 45,500                | 18,014                     | 45,500                |
| Other . . . . .                                  | 1,349         | 3,407                 | 1,349                      | 3,407                 |
| Total current debt . . . . .                     | <u>25,732</u> | <u>64,994</u>         | <u>25,732</u>              | <u>64,994</u>         |
| <b>Long-term Debt</b>                            |               |                       |                            |                       |
| Provisions for liabilities and charges . . . . . | 7,901         | 19,956                | 7,901                      | 19,956                |
| Long-term loans and creditors . . . . .          | 18,696        | 47,222                | 18,696                     | 47,222                |
| <b>Capital and Reserves</b>                      |               |                       |                            |                       |
| Share Capital . . . . .                          | 20            | 51                    | 25,328                     | 63,973                |
| Retained Earnings . . . . .                      | 21,409        | 54,075                | 1,269                      | 3,205                 |
| Other Reserves . . . . .                         | 5,168         | 13,053                | -                          | -                     |
| Total capital and reserves . . . . .             | <u>26,597</u> | <u>67,179</u>         | <u>26,597</u>              | <u>67,179</u>         |
| Total capitalisation . . . . .                   | <u>53,194</u> | <u>134,357</u>        | <u>53,194</u>              | <u>134,357</u>        |

(1) Adjusted to reflect the increase in share capital which became effective on 27th April, 1998.

(2) For the convenience of the reader, Maltese Lira amounts as at 31st March, 1998 have been translated into US dollars at the rate of US\$2.5258 to Lm1.00, the Central Bank Exchange Rate in effect on 31st March, 1998. Such translations should not be construed as representations that the Maltese Lira amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated or at any other rate.

Except for the increase in share capital referred to above, there has been no material change in the capitalisation of the Company since 31st March, 1998.

## EXCHANGE RATES

The movements of the Maltese Lira against other currencies reflect movements in the US dollar, the ECU and the Pound Sterling, which are the three components of the basket used to determine the Maltese Lira's exchange rate. The ECU component comprises approximately 66 per cent. of the basket while the US dollar and Pound Sterling components comprise approximately 22 per cent. and 12 per cent., respectively. Due to the relatively large ECU component in the basket, the movements of the Maltese Lira against the US dollar is greatly influenced by fluctuations of the ECU component currencies against the US dollar. The following table sets forth, for the years indicated, exchange rates between the Maltese Lira and a number of currencies, expressed as the relevant currency unit per Maltese Lira based on the exchange rate set by Central Bank of Malta for US dollars and for other currencies.

|                            | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 <sup>(1)</sup> |
|----------------------------|------|------|------|------|------|---------------------|
| <b>US dollar</b>           |      |      |      |      |      |                     |
| average . . . . .          | 2.62 | 2.65 | 2.84 | 2.77 | 2.59 | 2.53                |
| high . . . . .             | 2.74 | 2.81 | 2.92 | 2.84 | 2.80 | 2.58                |
| low . . . . .              | 2.49 | 2.51 | 2.70 | 2.72 | 2.46 | 2.50                |
| end of period . . .        | 2.53 | 2.72 | 2.84 | 2.78 | 2.55 | 2.56                |
| <b>Pound Sterling</b>      |      |      |      |      |      |                     |
| average . . . . .          | 1.74 | 1.73 | 1.80 | 1.78 | 1.58 | 1.54                |
| <b>ECU (average) . . .</b> | 2.23 | 2.23 | 2.17 | 2.19 | 2.29 | 2.32                |

(1) Through 21st May, 1998.

The Central Bank Exchange Rate on 26th May, 1998 was Lm1.00 per US\$2.5588.

Fluctuations in the exchange rate between the Maltese Lira and the US dollar will affect the US dollar equivalents of the Maltese Lira price of the Shares on the MSE and, as a result, will affect the market price of the GDRs. Such fluctuations will also affect the US dollar amounts received by owners of GDRs on conversion by the Depositary of cash dividends paid in Maltese Lira in respect of the underlying Shares. See "Investment Considerations – Considerations Relating to the Shares and the GDRs – Foreign Exchange Rate Risks".

## EXCHANGE CONTROLS

Generally, non-residents in Malta who purchase Shares in a Maltese company are required to seek exchange control approval. The Central Bank of Malta has by letter dated 19th May, 1998 granted exchange control approval in connection with the Combined Offering as set out in "– Non-Maltese Residents" below.

### Non-Maltese Residents

#### *Transactions involving GDRs*

Persons or entities that do not fall within the definition of Residents set forth below ("Non-Residents") may freely buy, sell and hold GDRs without Maltese exchange control approval.

#### *Transactions involving Shares (including conversion of GDRs into Shares)*

Non-Residents may purchase Shares (by conversion of the GDRs into Shares or otherwise) through a Maltese licensed stockbroker provided that the funds used in connection with such purchase originate from a foreign source. Non-Residents are permitted to repatriate their capital invested and any capital gains and dividends realised on the Shares out of Malta provided evidence of inward transfer of funds at the time of purchase can be provided.

Non-Residents will be free to convert their Shares into GDRs, without requiring any Maltese exchange control approval, provided that evidence that the original purchase of Shares was effected from foreign sourced funds is available.

### Maltese Residents

The Exchange Control Act (Cap.233) defines a Maltese Resident ("Residents") as (a) any natural person regardless of nationality, whose place of residence is Malta, (b) any body corporate organised under any law in Malta, (c) any person who in accordance with section 2(6) of the Exchange Control Act (Cap.233) may be

declared by the Minister of Finance to be treated as a Resident for the purposes of exchange controls; and (d) the personal representative of a deceased person, regardless of his residence, shall be treated as Resident of the country of the deceased's last residence for the purpose of matters in which the representative is concerned in his capacity as such.

#### *Purchase of GDRs*

For the purposes of Maltese exchange controls, GDRs are considered to be a foreign currency investment. Residents wishing to invest in GDRs do not require specific exchange control approval provided that investment is funded from either: (1) funds held abroad and/or in foreign currency accounts; or (2) purchases of foreign currency not exceeding the annual foreign investment allowance which is currently Lm5,000 per person per annum. This is a global limit that applies to all foreign currency investments made by Residents. It is the responsibility of each investor to ensure that such limit is not exceeded in any year. Residents are permitted to convert GDRs into Shares without the need for any exchange control approval. A Resident may purchase any amount of GDRs from another Resident provided that settlement of such transaction is effected in Maltese Liri.

#### *Conversion of Shares to GDRs*

Residents holding Shares may convert their Shares into GDRs without restriction provided that the GDRs are sold immediately and the foreign currency proceeds from such sale are repatriated to Malta. However, if a Resident has not in that year utilised his foreign investment allowance he may deduct from the amount of the sales proceeds to be repatriated, an amount equal to the foreign investment allowance or such balance thereof which has not been utilised during that year.

## BUSINESS

### Introduction

Maltacom is the monopoly provider of fixed line telephony services in Malta and is one of the largest companies in Malta measured in terms of revenue. Domestic and international telephony services are the Company's core businesses, and for the year ended 30th September, 1997, Maltacom generated 93.3 per cent. of its revenues from these businesses. At 30th September, 1997, the Company had 185,596 access lines in service representing a penetration rate of 49.4 per cent. of the population. In addition to its core fixed line telecommunications business, the Company has a 20 per cent. interest in Vodafone Malta Ltd. ("Vodafone Malta"), the exclusive provider of mobile telecommunications services in Malta; owns Terranet Limited ("Terranet"), a non-exclusive Internet service provider in Malta; and has a 20 per cent. interest in Elsacom Malta Limited ("Elsacom"), a company which routes through Malta international telecommunications traffic that originates and terminates overseas. For the year ended 30th September, 1997 the Company earned revenues of Lm33.1 million, and net income after tax of Lm1.7 million.

### History

Since World War II the telecommunications industry in Malta was developed by a private telephone service provider, Cable & Wireless (Malta) Ltd. ("C & W Malta"), and the Government's Post and Telephones Department, a government entity. In 1975, C & W Malta was nationalised and Telemalta was established as a statutory corporation to succeed to the operations of C & W Malta and the Government's Post and Telephones Department and to act as regulator of the industry. In 1973 a network development programme was introduced by the Government's Post and Telephones Department which was continued by Telemalta. This programme increased the number of access lines in service from approximately 26,000 in 1973 to approximately 124,000 access lines by 1990. In addition, a network digitalisation programme initiated in 1990 resulted in the Company having a largely digitalised national network by 1992.

Mr. Tony Mejlaq was appointed Chairman of Telemalta in February 1997. Prior to his appointment, Mr. Mejlaq, at the request of the Government, conducted a review of the Company's operations and management to identify areas for improvement. Since his appointment he has engaged a new management team in order to implement the objectives described in "Strategy" and to oversee the partial privatisation of Telemalta. In preparation for the privatisation, Maltacom was established as a public limited liability company and was registered in Malta on 31st December, 1997 with registration number C.22334 and, pursuant to the Succession Legislation, Maltacom became the successor entity to Telemalta on 2nd January, 1998. The Succession Legislation also created a new regulatory environment and framework for the Maltese telecommunications industry. The Company was granted a licence (the "Licence") under an agreement with the Regulator in accordance with the Telecommunications Act providing Maltacom with the exclusive right to provide voice and video telephony, as well as certain data, broad band and other telecommunications services, in Malta until 2010. See "Regulation."

The Company was registered under, and is regulated by, the Maltese Companies Act of 1995. The principal executive office and registered office of the Company is located at Spencer Hill, Marsa HMR12, Malta.

### Strategy

The Company's business objective is (i) to maintain its dominant position as a provider of telecommunications services in Malta through continuous improvement of both its network and the range of services offered to its customers and through competitive pricing of its services and (ii) to improve its profitability in order to provide shareholders with increased value. To reach these objectives, the Company is implementing the following principal strategies.

**Reorganisation Plan.** Maltacom is commencing the implementation of a reorganisation plan designed to improve the Company's operating performance and lower overall payroll costs in order to improve profitability over a five year period. The principal features of the plan are to (i) reduce the number of employees by approximately 100 per year (net of new hires discussed below) which would lower the total number of employees of the Company to approximately 1300 by the year 2003, through attrition, an early retirement programme (as envisaged by the existing collective agreement between the Company and the General Workers Union) and the transfer of employees to affiliated companies, (ii) improve the quality of the employee base through increased training and the hiring of highly skilled employees and (iii) increase operational flexibility through reducing hierarchy and simplifying departmental structures and reporting systems. See "Investment Considerations - Considerations Relating to the Company - Ability of the Company to Implement Cost Savings Strategies".

**Network Modernisation and Introduction of New Services.** In order to maintain its position as the dominant provider of telecommunications services in Malta, Maltacom intends to continue to invest in expanding and

upgrading its network. Maltacom has allocated approximately Lm27.4 million (US\$70.1 million) to its planned capital expenditure programme for the three-year period ending 31st December, 2000 in order to, among other things, fund network improvement projects, including:

- upgrading the national network to allow the Company to offer an increasing number of value added services to customers (such as caller line identification, call back on busy or no reply, distinctive alerting and remote control of certain value added services) and ISDN services. This upgrade is also expected to lower maintenance costs, increase line usage and to improve the quality of service;
- upgrading its backbone network through the introduction of software to permit SDH operation and the selective replacement of existing switches, microwave links and earth station facilities with more technologically advanced products;
- installing a computerised line testing system containing an early line fault detection system which will allow the Company to remedy faults on a more timely basis and establishing computer systems to monitor and improve network management in order to increase the capacity of the existing infrastructure;
- adding access lines and increasing network capacity; and
- installing underground fibre optic cables to rehabilitate and modernise the local network in Valletta, the capital city of Malta.

**Rebalancing of Tariffs and Other Charges.** The Company's rates charged for the provision of certain services do not reflect its actual costs. For instance, the charges per tariff unit for certain services, such as international telephony and domestic calls during peak daytime hours, have created high levels of revenues and subsidised other services, such as the system of providing 150 free tariff units per quarter to each residential customer for domestic calls at a cost (in terms of lost revenue) of Lm3.3 million in the year ended 30th September, 1997 and low charges for domestic telephone calls at night. The Company believes that the imbalance in telephone charges has led to over-use of services by customers when the tariffs and other charges for the services are low and underutilisation of services by customers when the tariffs and other charges for the services are high. Since 1993, the Company has been pursuing a gradual policy of rebalancing tariffs and revising its charges to reflect the actual cost of delivery of such services. On 24th April, 1998 the Regulator issued the Rate Mechanism which establishes a rate control mechanism for increases in tariffs and other charges by the Company for a six year period from 1st January, 2000. See "Regulation – Regulatory Framework in Malta – Price Control Regime". On an ongoing basis the Company intends to re-examine its pricing system within the limitations established by the Rate Mechanism and other Maltese regulations. For example, the Company expects to generally raise rates in instances where it is providing services at a loss and lower rates where it estimates that, even taking into account the revenue lost by lowering the rates, it will receive greater profits in the long term as a result of increased usage by customers. The ability of the Company to implement these changes may be influenced by factors beyond the control of the Company. See "Investment Considerations – Considerations Relating to the Company – Relationship with the Government".

**Focusing on Customer Service.** Maltacom believes that the provision of high quality customer services is essential in the competitive telecommunications market in Malta expected in the future. Maltacom intends therefore to become increasingly responsive to its customers, to improve customer satisfaction with its services and increase customer awareness of its existing and new services. One of the goals of the Company's national and international network upgrade is to improve the level and quality of services offered. Maltacom has recently revised its organisational structure and decentralised many of its activities to make its service staff more accessible to its customers and to respond more effectively to changes in client demands. In particular, the Company has recently established a marketing and sales department staffed with personnel focused on particular customer segments and clients in order to improve the level of services provided and increase customer awareness of the services available. In addition, the Company is implementing a programme to upgrade its branch payment centres in order to offer its customers an increased selection of telephone equipment and to more extensively market the Company's telecommunications services. The Company has also adopted and distributed to its customers a customer charter (the "Customer Charter") which is a binding commitment by the Company to provide a guaranteed level of service to customers. See "– Marketing and Customer Service".

#### **Network and Subscribers**

Pursuant to its Licence, Maltacom is required to provide every person in Malta with access to its network upon request, unless the Regulator determines otherwise. See "Regulation – Regulatory Framework in Malta – Maltacom's Licence – Obligations". The following table shows the development of the Company's telecommunications network since 30th September, 1993.

|                                                                      | As at 30th September, |         |         |         |         | As at 31st March, |         |
|----------------------------------------------------------------------|-----------------------|---------|---------|---------|---------|-------------------|---------|
|                                                                      | 1993                  | 1994    | 1995    | 1996    | 1997    | 1997              | 1998    |
| Access lines in service . . . . .                                    | 156,026               | 161,198 | 169,186 | 176,997 | 185,596 | 182,933           | 188,240 |
| Access lines capacity . . . . .                                      | 185,767               | 185,767 | 185,767 | 212,458 | 212,458 | 212,458           | 212,458 |
| Capacity utilisation (per cent.) . . . .                             | 84.0                  | 86.8    | 91.0    | 83.3    | 87.4    | 86.1              | 88.6    |
| Access line growth per year (per cent.)                              | 6.4                   | 3.3     | 5.0     | 4.6     | 4.9     | 6.0               | 2.9     |
| Access lines in service per 100 inhabitants <sup>(1)</sup> . . . . . | 42.6                  | 43.6    | 45.6    | 47.4    | 49.4    | 48.8              | 49.9    |
| Applications for new access lines and transfers . . . . .            | 10,182                | 9,580   | 11,707  | 15,606  | 17,236  | 8,833             | 8,210   |
| Line installations . . . . .                                         | 12,767                | 11,989  | 13,059  | 13,347  | 15,860  | 8,211             | 6,416   |
| Pending applications for new access lines and transfers . . . . .    | 6,275                 | 2,460   | 1,725   | 1,747   | 781     | 1,340             | 495     |
| Star services subscribers <sup>(2)</sup> . . . . .                   | 3,939                 | 5,619   | 7,424   | 8,514   | 10,835  | 9,741             | 11,657  |

(1) Estimated.

(2) Star services include call waiting and conferencing, automatic call transferring, call code control barring and debarring.

The number of access lines has grown from 156,026 lines in service at 30th September, 1993 to 188,240 access lines in service at 31st March, 1998. At 31st March, 1998 the Company's network had an exchange capacity of 212,458 lines. As at 31st March, 1998 Maltacom estimates that approximately 78 per cent. of access lines were for residential customers, 19 per cent. were for business customers (including state owned companies) and 3 per cent. were for the Government. Historically, line rental and tariff charges were low which contributed to an estimated line penetration rate of 49.9 lines per 100 inhabitants as at 31st March, 1998.

Prior to 1994, lengthy installation periods resulted in significant unsatisfied demand for telephone lines. The Company was unable to meet the high demand for new subscriber line installation which led to long waiting periods for line installation and a significant backlog of applications. In order to address this problem the Company began in 1994 to dedicate more personnel to line installation and commenced systematic installation of pair gain equipment, which allowed the Company to offer up to four access lines to customers on each existing copper wire line. At 30th September, 1997 the Company had a backlog of 781 orders for new lines, down from 1,725 at 30th September, 1995 and 2,460 at 30th September, 1994. At 31st March, 1998, the backlog was further reduced to 495 orders for new lines. In addition, by 30th September, 1997, the Company had reduced the average connection time for line installation to less than 20 working days from the signing of the subscriber agreement.

### Overview of Telephony Operations

The table below shows the operating revenues of the Company by category of service for the three years ended 30th September, 1997 and the six months ended 31st March, 1997 and 1998, respectively.

| Service Area                                     | Year ended 30th September, |        |        | Six months ended 31st March, |        |
|--------------------------------------------------|----------------------------|--------|--------|------------------------------|--------|
|                                                  | 1995                       | 1996   | 1997   | 1997                         | 1998   |
|                                                  | (Lm in thousands)          |        |        |                              |        |
| Domestic telephony <sup>(1)</sup> . . . . .      | 14,223                     | 13,562 | 16,270 | 8,058                        | 9,436  |
| International telephony <sup>(2)</sup> . . . . . | 12,064                     | 12,306 | 12,189 | 6,088                        | 6,038  |
| Telecards <sup>(3)</sup> . . . . .               | 2,136                      | 2,118  | 2,388  | 859                          | 1,046  |
| Other <sup>(4)</sup> . . . . .                   | 1,178                      | 2,113  | 2,220  | 1,033                        | 924    |
| Total revenue . . . . .                          | 29,601                     | 30,099 | 33,067 | 16,038                       | 17,444 |

(1) Includes revenues from telephone line rentals, local telephone charges and domestic interconnection with mobile telephony operators.

(2) Includes revenues from outgoing traffic (including international interconnection with mobile telephony operators) and excludes amounts charged by foreign telephone operators.

(3) Represents revenues from sales of telecards. Telecards may be used to make domestic or international calls but a breakdown of telecard revenues between international telephony and domestic telephony is not available.

(4) Includes revenues from leased lines, data communications, maritime communications, telex and telegraphy.

As a result of international tariff rebalancing in recent years, revenues from domestic telephony make up an increasingly large percentage of total revenue, while the percentage of total revenue from international telephony has declined. The Company expects the trend of greater growth in domestic telephony revenues compared to international telephony revenues to continue. See "Strategy – Rebalancing of Tariffs and Other Charges".

As of 1st January, 1995 the Government imposed a 15 per cent. value added tax ("VAT") on most revenues generated by telephony services provided in Malta, which the Company generally paid without seeking reimbursement from its customers. VAT was abolished by the Government on 1st July, 1997. For a discussion of the effect of VAT on the Company's results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Factors Influencing the Company's Results of Operations – VAT".

## Domestic Telephony

Domestic telephony services represent one of the Company's core business areas and accounted for 49.2 per cent. of total revenues for the year ended 30th September, 1997. For the year ended 30th September, 1997, 53.7 per cent. of domestic telephony revenues were derived from call charges, 27.7 per cent. from quarterly rental charges, 14.5 per cent. from cellular call charges and 4.1 per cent. from connection and installation charges.

The Company measures domestic traffic volume by number of tariff units or pulses, which is not necessarily an accurate indicator of call traffic. For instance, the Company currently charges one tariff unit for every five minutes for local calls made at peak daytime hours but charges only one tariff unit for local calls made during nighttime hours regardless of the length of the call. See "– Domestic Telephony Pricing". In addition, due to certain problems the Company has experienced from time to time in recording local traffic data and due to the 150 free units per quarter granted to each residential subscriber by the Company, free units granted to certain employees of the Company, the 20 per cent. discount granted to the Government and certain other discounts granted by the Company to certain customers or in connection with promotional schemes, the level of local call traffic is not necessarily indicative of the Company's revenue from local calls.

The following table shows the growth in local telephone traffic in tariff units (including free tariff units) for the three years ended 30th September, 1997 and the six months ended 31st March, 1997 and 1998, respectively.

|                                                              | Year ended 30th September, |         |         | Six months ended<br>31st March, |       |
|--------------------------------------------------------------|----------------------------|---------|---------|---------------------------------|-------|
|                                                              | 1995                       | 1996    | 1997    | 1997                            | 1998  |
| Local calls (millions of tariff units) <sup>(1)</sup>        | 267.4                      | 272.7   | 279.6   | 134.8                           | 135.2 |
| Change in local call traffic (per cent. per annum) . . . . . | (2)                        | 2.0     | 2.5     | 10.7                            | 0.3   |
| Tariff units/access lines in service at period end . . . . . | 1,580.5                    | 1,540.7 | 1,506.5 | 736.9                           | 718.2 |

(1) Includes free units used by residential customers. See "– Domestic Telephony Pricing."

(2) Not available.

The Company believes that growth in domestic traffic, as measured in tariff units, will continue, although at a slower rate than in prior years, primarily as a result of increases in the number of access lines in operation, increasing use by customers of the Internet and other technologies that require telecommunications services and value added services offered by the Company and increased marketing by the Company. In an effort to increase usage, the Company currently provides "star services", which are value added services such as call waiting and conferencing, automatic call transferring, call code control barring and debarring and other services. As part of its capital expenditure programme, Maltacom intends to upgrade its network which will permit it to offer a broader range of value added services. See "– Capital Expenditure Programme".

## Domestic Telephony Pricing

The following table shows the Company's current domestic telephony tariff structure.

|                                           | Local Tariffs<br>and Charges<br>from 1st<br>October, 1993 |
|-------------------------------------------|-----------------------------------------------------------|
| Charge per tariff unit <sup>(1) (2)</sup> | Lm0.05                                                    |
| Duration of a tariff unit (minutes)       |                                                           |
| Peak daytime hours <sup>(3)</sup>         | 5                                                         |
| Off-peak daytime hours <sup>(4)</sup>     | 10                                                        |
| Nighttime hours <sup>(5)</sup>            | unlimited                                                 |
| Connection charges                        |                                                           |
| residential                               | Lm20                                                      |
| business                                  | Lm40                                                      |
| government                                | Lm32                                                      |
| Quarterly rental charges                  |                                                           |
| residential                               | Lm6                                                       |
| business                                  | Lm13                                                      |
| government                                | Lm10.40                                                   |

(1) The Company provides each residential customer with 150 free tariff units each quarter.

(2) The Government is charged Lm0.04 per tariff unit.

(3) From 1st October, 1993 to 31st March, 1995, peak daytime hours were from 8 a.m. to 9 p.m. between Monday and Friday. From 1st April, 1995 peak daytime hours are from 8 a.m. to 6 p.m. between Monday and Friday.

(4) Off-peak daytime hours are from 6 a.m. to 8 a.m. between Monday and Friday and from 6 a.m. to 6 p.m. on Saturdays and Sundays.

(5) From 1st October, 1993 to 31st March, 1995, nighttime hours were from 9 p.m. to 6 a.m. between Monday and Fridays and from 6 p.m. to 6 a.m. on Saturdays and Sundays. From 1st April, 1995, nighttime hours are from 6 p.m. to 6 a.m. every day, including Saturdays and Sundays.

From 1st October, 1993 Maltacom has provided each residential customer with 150 free tariff units each quarter. The value of the free tariff units equalled (in lost revenue) Lm3.3 million in the year ended 30th September, 1997. No distinction is made between residential and business telephone call tariff rates but as indicated above, price distinctions are made between residential, business and government customers for connection and rental charges. The Government, which is the Company's largest customer by volume, is given a 20 per cent. discount on calling charges from the basic rate and, as indicated in the table above, a 20 per cent. discount from the business rate for connection charges and quarterly rental charges and a 20 per cent. discount on all other services. In addition, tariff rates, connection and rental charges for certain qualifying senior citizens and disabled persons are provided at reduced rates.

### **International Telephony**

International telephony services represent the Company's other core business area and accounted for 36.9 per cent. of total revenues for the year ended 30th September, 1997. International telephony services consists of incoming and outgoing international traffic as well as transit traffic via Malta. As at 30th September, 1997 the Company provided direct-dialled international services to all countries that are significant destinations for outgoing traffic from Malta, as well as many other countries. For destinations to which the Company does not provide direct-dialled international service, it generally provides operator-assisted international service. International telecommunications traffic experiences seasonal fluctuations in demand, with peak traffic occurring in the summertime coinciding with the peaks in the tourist season in Malta. Incoming traffic revenues include revenues from the Company's country direct schemes (the "Country Direct Schemes") whereby, pursuant to agreements with foreign telephone operators, overseas calls made by foreign tourists and other foreign visitors in Malta are charged at the home country's rate. Calls under Country Direct Schemes are billed by the home country's long distance telephone operators to the caller's home phone number with an agreed portion of the amount charged paid to Maltacom. The Company has implemented the Country Direct Schemes to stimulate telephone usage by foreign tourists and other foreign visitors to Malta. As at 31st March, 1998 the Company was a party to 18 Country Direct Schemes agreements including agreements with operators from the United Kingdom (BT and Mercury), the United States (AT&T and MCI), Germany, Italy and Canada.

Information regarding international traffic for the periods indicated is set out below.

|                                                                                            | Year ended 30th September, |        |        | Six months ended<br>31st March, |        |
|--------------------------------------------------------------------------------------------|----------------------------|--------|--------|---------------------------------|--------|
|                                                                                            | 1995                       | 1996   | 1997   | 1997                            | 1998   |
| Total outgoing traffic (thousands of chargeable minutes) <sup>(1)</sup> . . . . .          | 28,283                     | 30,783 | 34,416 | 16,074                          | 16,898 |
| Growth in outgoing traffic (per cent. per annum) <sup>(1)</sup> . . . . .                  | 7.8                        | 8.8    | 11.8   | 13.6                            | 5.1    |
| Minutes of outgoing traffic/access lines in service at period end <sup>(1)</sup> . . . . . | 167.2                      | 173.9  | 185.4  | 87.8                            | 89.8   |
| Total incoming traffic (thousands of chargeable minutes) . . . . .                         | 30,970                     | 33,450 | 36,590 | 16,950                          | 18,419 |
| Growth in incoming traffic (per cent. per annum) . . . . .                                 | 10.0                       | 8.0    | 9.4    | 8.0                             | 8.7    |
| Minutes of incoming traffic/access lines in service at period end. . . . .                 | 183.1                      | 189.0  | 197.1  | 92.6                            | 97.8   |

(1) Includes traffic from Country Direct Schemes.

Outgoing international telephone traffic is directed mainly to the United Kingdom, Italy, Germany, Libya, the United States and France which, together, represented 69 per cent. of outgoing traffic for the year ended 30th September, 1997. Of these countries, the United Kingdom was the most popular destination representing approximately 33 per cent. of the outgoing traffic in that year. Incoming international traffic came mainly from the United Kingdom, Italy, Australia, Germany, the United States and Libya which together represented 70 per cent. of incoming traffic for the year ended 30th September, 1997. Of these countries, the United Kingdom was the largest source representing approximately 29 per cent. of incoming traffic in that year. The following table shows the ten largest outgoing and incoming destinations.

**International Traffic for the year ended 30th September, 1997**  
(in thousands of minutes, except percentages)

| Outgoing                |               |                    | Incoming                |               |                    |
|-------------------------|---------------|--------------------|-------------------------|---------------|--------------------|
| Country                 |               | Per cent. of total | Country                 |               | Per cent. of total |
| U.K. . . . .            | 11,268        | 33                 | U.K. . . . .            | 10,792        | 30                 |
| Italy . . . . .         | 5,445         | 16                 | Italy . . . . .         | 5,712         | 16                 |
| Germany . . . . .       | 2,781         | 8                  | Australia . . . . .     | 2,693         | 7                  |
| Libya . . . . .         | 1,436         | 4                  | Germany . . . . .       | 2,585         | 7                  |
| United States . . . . . | 1,351         | 4                  | United States . . . . . | 2,285         | 6                  |
| France . . . . .        | 1,283         | 4                  | Libya . . . . .         | 1,492         | 4                  |
| Netherlands . . . . .   | 970           | 3                  | France . . . . .        | 1,243         | 4                  |
| Australia . . . . .     | 923           | 2                  | Switzerland . . . . .   | 1,172         | 3                  |
| Switzerland . . . . .   | 625           | 2                  | Netherlands . . . . .   | 1,048         | 3                  |
| Belgium . . . . .       | 534           | 1                  | Belgium . . . . .       | 451           | 1                  |
|                         | <u>26,616</u> | <u>77</u>          |                         | <u>29,473</u> | <u>81</u>          |

The Company is party to bilateral agreements to settle payments with other telecommunications companies made in accordance with the accounting and settlement framework established by the International Telecommunication Union ("ITU"). Revenues from international calls comprise payments by subscribers in Malta and payments received from other telecommunications suppliers for incoming and transit traffic as well as for calls placed from Malta under the Company's Country Direct Schemes. Revenues from outgoing traffic to each destination are netted against revenues from incoming traffic therefrom for the purpose of determining net settlement amounts with each foreign operator. To settle payments, net settlement amounts are calculated mostly on the basis of the SDRs although the payment currency is regulated by bilateral agreements (the most common currency being the US dollar). In recent years, revenues from outgoing traffic have exceeded revenues from incoming international traffic, resulting in unfavourable net settlements to the Company. However, incoming traffic exceeds outgoing traffic from Australia and the United States and Maltacom receives positive net settlements from these countries. Over the last few years, rates charged by Maltacom and foreign operators for interconnection of incoming and outgoing traffic have generally gone down and Maltacom is involved in ongoing negotiations with a number of countries, including Australia and the United States, to lower rates further. For the year ended 30th September, 1997 Maltacom incurred aggregate net expenditures in connection with settlements with foreign administrations of Lm1.1 million, compared to Lm1.7 million for the year ended 30th September, 1996 and Lm1.0 million for the year ended 30th September, 1995.

#### *International Telephony Pricing*

Outgoing international calls are charged based on duration (measured on a per second basis) and the country of destination. Since 1st October, 1993 Maltacom has divided its overseas calls into nine tariff zones according to the country being called and has established a distinction between peak hours, which are between 8 a.m. and 9 p.m. and off-peak hours, which are between 9 p.m. and 8 a.m. Historically the Company's international telephone charges have been high in comparison to local charges, and as a result, subscribers have viewed international calls as costly. Effective 1st June, 1996 Maltacom revised its tariffs by moving its off-peak rate to between 6.00 p.m. and midnight Monday to Friday and to between 8.00 a.m. and midnight on weekends. Maltacom also transferred the U.K., the destination with the highest volume of outgoing traffic, from a high cost to the lowest cost tariff zone and introduced a third tariff rate, the nighttime rate (covering the time between midnight and 8 a.m.), which is below the off-peak rate to certain destinations. Currently, off-peak hour charges are between 10 per cent. and 20 per cent. lower than peak hour charges (depending on the zone). The nighttime hour charges are up to 36 per cent. lower than peak hour charges (depending on the zone). In addition, the Government presently receives a 20 per cent. discount on all international telephone calls (regardless of the applicable rate) and the Company has provided discounts on international telephone calls to certain destinations from time to time in connection with promotional campaigns.

The following table shows the present international telephony tariff structure which has been in effect from 1st June, 1996.

| From 1st June, 1996   |                    |                     |           |
|-----------------------|--------------------|---------------------|-----------|
|                       | Peak               | Off-Peak<br>Daytime | Nighttime |
|                       | (in Lm per minute) |                     |           |
| Zone 1 <sup>(1)</sup> | 0.28               | 0.22                | 0.18      |
| Zone 2 <sup>(2)</sup> | 0.34               | 0.27                | 0.22      |
| Zone 3 <sup>(3)</sup> | 0.40               | 0.32                | 0.26      |
| Zone 4 <sup>(4)</sup> | 0.40               | 0.32                | 0.32      |
| Zone 5 <sup>(5)</sup> | 0.69               | 0.53                | 0.53      |
| Zone 6 <sup>(6)</sup> | 1.00               | 0.80                | 0.64      |
| Zone 7 <sup>(7)</sup> | 1.20               | 0.96                | 0.78      |
| Zone 8 <sup>(8)</sup> | 1.20               | 0.96                | 0.96      |
| Zone 9 <sup>(9)</sup> | 0.50               | 0.40                | 0.32      |

(1) Includes the United Kingdom, Italy and Libya.

(2) Includes France, Switzerland, certain other European countries and Tunisia.

(3) Includes Germany, The Netherlands, Belgium and other European and certain North African countries.

(4) Includes Eastern European countries and certain other countries.

(5) Includes certain Middle Eastern countries.

(6) Includes Hong Kong, Japan and Singapore.

(7) Includes a limited number of Asian, African, Central American and South American countries.

(8) Includes most countries in Asia, Africa, the South Pacific, Central America and South America.

(9) Includes Australia, the United States and Canada.

### Telecards

Telecards are prepaid cards which are used in public telephones instead of coins. Most of the Company's public telephones accept only telecards. Telecards are sold in shops, banks, Maltacom's payment centres and other locations in denominations of Lm2, Lm3, Lm4 and Lm5 throughout Malta and the sellers (excluding Maltacom) receive a commission on the cards sold. The tariffs charged for public telephones using telecards are the same as those for private residential phones, whereas for coin operated public telephone boxes (operated by an unaffiliated company) charges are at least twice Maltacom's tariff rates and charges for international calls are on a pulse basis rather than a per second basis. The most important customers for telecards are international tourists. The number of public payphones using telecards at 30th September, 1997 was 1,614 compared to 1,356 at 30th September, 1996 and 1,152 at 30th September, 1995. Revenues from telecard sales were Lm2.4 million for the year ended 30th September, 1997, compared to Lm2.1 million for the year ended 30 September, 1996, and Lm2.1 million for the year ended 30th September, 1995, respectively.

Distribution of fraudulently manufactured telecards and the unrestricted use thereof without payment to Maltacom has led to reduced telecard revenues and caused out of pocket expenses for the Company of approximately Lm220,000. The Company believes that most of the fraudulent cards were used during the year ended 30th September, 1997. Maltacom has upgraded its card reading system and management believes that the current system provides additional protections against fraud.

### Other Services

In addition to the basic telephony services described above Maltacom provides a number of other services such as leased lines, telex, telegraphy, maritime communications, telephone directory and information services, equipment sales and packet switching services, which are described in more detail below.

### Leased Lines

Leased lines are telecommunications circuit connections sold to customers seeking a dedicated link between two points which allows for the transmission of voice, data or images depending on user requirements. Business customers such as banks, airline and travel companies and Internet service providers make up the bulk of the Company's subscribers of leased lines. In total, as at 31st March, 1998 there were 1,602 national lines and 32 international lines which were being leased. Although the Company offers both terrestrial and satellite lines, customers generally prefer terrestrial links due to their superior quality and reliability.

### Telex and Telegraphy

Revenues from telex services for the year ended 30th September, 1997 amounted to Lm243,000, compared to Lm466,000, for the year ended 30th September, 1996 and Lm417,000 for the year ended 30th September, 1995. There were 275 telex subscribers at 30th September, 1997, which represented a 13.2 per cent. decrease from 30th September, 1996. The steady drop in subscriber numbers over recent years reflects the increasing use of

facsimile transmission and e-mail for uses formerly served by telex. Though limited demand for this service may continue in the future, the Company believes that demand is likely to continue to decline. In order to save costs in connection with provision of telex services, in 1997 Maltacom elected to lease capacity from Telecom Italia, an Italian telephone operator, and took out of service its outdated telex exchange which required significant maintenance.

Telegraphy, like telex, is one of the Company's services with declining demand due to the successful application of other methods of communication. Revenue from telegrams for the year ended 30th September, 1997 was Lm5,000, compared to Lm11,000 for the year ended 30th September, 1996 and Lm15,000 for the year ended 30th September, 1995.

### ***Maritime Communications***

Under an agreement with the Government, the Company provides maritime telecommunications services at reduced rates. Domestic and international communication between ships and land is carried out by means of coastal stations and the INMARSAT satellite network. The Company's revenues from maritime communications for the year ended 30th September, 1997 were Lm112,000, compared to Lm99,000 for the year ended 30th September, 1996 and Lm137,000 for the year ended 30th September, 1995. The Company believes that the cost of providing this service exceeds the revenue derived from provision of the service.

### ***Telephone Directories and Information Services***

The Company provides each residential and business customer with one free directory per access line every two years and provides a telex and fax directory annually. The directories cost the Company approximately Lm120,000 per year. Maltacom does not receive any advertising revenue in connection with its directories, but it does generate a nominal amount of revenue from sales of additional directories to certain customers. At present, the Company also provides free telephone directory enquiry services.

### ***Equipment Sales***

Maltacom sells telephone sets and accessories at certain of its branch payment centres. The Company is in the process of upgrading its branch payment centres in order to offer its customers an increased selection of telephone equipment which the Company believes will stimulate sales. See "Strategy - Focusing on Customer Service". Maltacom obtains such telecommunications equipment from third party suppliers. Revenues from sales of equipment for the year ended 30th September, 1997 amounted to Lm157,000, compared to Lm76,000 for the year ended 30th September, 1996 and Lm152,000 for the year ended 30th September, 1995.

### ***Packet Switching***

Maltacom operates packet switching services both on a dial-up basis and on a dedicated access basis. During 1997 packet switching services were upgraded to provide for frame relay services which allows for more efficient interlinking of local area computer networks. Currently, users of packet switching services include the Maltese police department and government agencies and Internet service providers.

### ***Infrastructure***

Maltacom's network consists of local access networks, national and international switching and transmission networks. The local access networks which connect customers to the local switch principally utilise twisted copper wire pairs (with analogue capacity only in most instances). The national transmission network, which interconnects the Company's local switches, is based on PDH transmission technology and is principally composed of approximately 100 km of fibre optic cable and 7 digital microwave radio links. The present breakdown of national transmission by capacity is 85 per cent. by optical fibre, 14 per cent. by digital radio, and 1 per cent. by digital cable.

The international transmission network consists of a 240 km fibre optic submarine cable connecting Malta to Sicily (the "submarine cable"), a 600 channel analogue microwave link between Malta and Sicily (the "analogue microwave link"), an INTELSAT "Standard B" earth station to transmit to the Atlantic Ocean region and an INTELSAT "Standard F3" earth station to transmit to the Indian Ocean region. For European and Mediterranean traffic Maltacom uses direct circuits routed either via the analogue microwave link or the submarine cable. For intercontinental traffic the earth stations are used. The earth stations are also used to provide additional capacity for high volume European routes. In addition, Maltacom has access to additional capacity because it owns indefeasible rights of use ("IRUs") on FLAG (Fibre Optic Link Around the Globe), the France/Italy cable and CANTAT 3 (a transatlantic cable), which in each case it can access from a landing point in Sicily. For certain low volume destinations which do not justify direct circuit transit switching, Maltacom has arrangements with other telecom administrations. At present the breakdown of international transmission by capacity is 32 per cent. by satellite, 57 per cent. by cable and 11 per cent. by microwave.

Maltacom has one E10A and 14 AXE 10 switches (five of which are configured as tandem and local switches), 2 AXE 10 international switches at B'kara and St. Georges and one packet switching/frame relay node, all of which are digital. SDH technology is deployed between the international switches and PDH technology is deployed between the local switches and between the international and the local switches. Signalling system No. 7 ISUP is being planned for introduction to the local switching network, which is required in order to introduce ISDN services.

As discussed in "Capital Expenditure Programme" Maltacom is embarking on a capital expenditure programme in order to modernise and increase the capacity of its network.

### **Capital Expenditure Programme**

In recent years the Company has been implementing a series of projects to modernise its telephone network. The Company's capital expenditure programme is currently being accelerated during the period from 1998 to 2000. The Company has budgeted approximately Lm10.4 million for the year ended 31st December, 1998 and expects to spend a total of Lm27.4 million (US\$70.1 million) over the three year period ended 31st December, 2000 for the projects. The Company expects the principal benefits of these investments will be to (i) increase the capacity of the network, (ii) reduce maintenance costs, (iii) improve the quality of service and (iv) provide a platform which will allow new services to be offered such as caller identification and ISDN. For a discussion of the Company's plans to finance these projects, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources." The principal projects that have been approved by the Board of Directors for the years 1998 to 2000 are described below.

#### ***SDH upgrade project***

The Company is expecting to complement the existing PDH technology in its national network with SDH technology by summer 1998 and ultimately to replace the PDH technology. The Company is complementing the PDH technology because it is expensive to maintain and has limited capacity to handle data communications. The implementation of SDH technology in the national network will enable Maltacom to provide additional links that are currently required to meet expected demand growth and will enable the Company to meet the increasing customer demand for leased line circuits which can no longer be sustained on the current network backbone. The estimated cost of this project is Lm650,000.

#### ***Value added services project***

Under the value added services project the Company is upgrading the functionality of its local switches and network software in order to enable Maltacom to provide additional value added services (such as caller line identification, call back on busy or no reply, distinctive alerting, voice mail and remote control of value added services) and allow Maltacom to offer ISDN services throughout the network. This upgrade is expected to lower maintenance costs and fault rates. In addition, an element of the project is to make the Company's switching network year 2000 compliant. See "Investment Considerations – Considerations Relating to the Company – Year 2000 Compliance." The costs of this project are estimated at Lm3.1 million.

#### ***International exchanges and links***

The Company expects to upgrade its international switch at B'kara to enable ISDN to run through the switch and thus increase the international network's ISDN capacity. The Company estimates that the cost of this project will be Lm350,000. The Company has also approved the creation of a digital SDH microwave link between Malta and Sicily which should bring higher quality transmission and cause a reduction in the number of faults that presently occur with the Company's analogue microwave link. The investment required for this project is expected to be Lm500,000. In addition the Company plans to modernise the coastal facilities the Company uses for providing maritime communications services for these facilities to meet IMO Global Maritime Distress & Safety at Sea (GMDSS) standards. This project is expected to cost approximately Lm600,000.

#### ***Information technology***

Maltacom intends to invest significantly in improving its computer hardware and software systems. Most significantly this expenditure will upgrade the current billing and accounting systems and significantly upgrade its computer network. Projects that are expected to be implemented include: the establishment of a new data warehousing and data recovery system; installation of a computerised line testing system which contains an early line fault detection system providing the Company with the capacity to remedy faults on a timely basis; installation of computer systems to monitor and improve network management in order to increase the capacity of the existing infrastructure; and a Company-wide intranet. Expenditure on information technology is planned to be approximately Lm3.7 million.

### *ew lines projects*

The Company plans to increase Malta's access line capacity by 10,000 during 1998 and to reconfigure its switching network to enable Maltacom to meet its current demand and capacity management requirements.

The Company estimates the cost of these improvements to be Lm825,000. During 1999 a further increase in capacity of 25,000 lines will be added to meet expected subscription growth and capacity planning requirements until 2002 and to replace 11,000 existing lines which are currently connected to the only remaining E10A switch in Maltacom's national network (which will be taken out of service). The cost of the additional 25,000 line capacity is estimated by the Company to be Lm750,000.

### *Valletta project*

The Company has designed the Valletta project in order to substantially improve the telecommunications network of Valletta, the capital city of Malta. Valletta's local access network will be upgraded by installing fibre optic cable to its six remote switching sites. In addition, fibre optic cable will also be installed from the switches directly to business customers which use at least 13 lines. In addition, the existing overhead local access network of copper cables will in many cases be replaced with underground connections or refurbished. Work is expected to start on the project in late 1998 and approximately Lm2.6 million has been budgeted for the project. The EU has agreed to provide Lm900,000 in grants to Maltacom in support of the project.

### *New Operator System*

The purpose of this project is to replace the current system which provides directory assistance and other services using local operators with a more advanced centralised call centre facility. The Company believes that this call centre facility will provide directory assistance and operator assisted calling more efficiently and should increase customer satisfaction by reducing customer waiting times for these services. This project is expected to cost approximately Lm150,000.

### *Strategic Investments*

#### *Vodafone Malta Ltd.*

Vodafone Malta is a private limited liability company registered in Malta on 3rd August, 1989 and has an issued share capital of Lm1,450,000. The Company owns a 20 per cent. stake in Vodafone Malta, which has an exclusive licence to provide mobile telecommunications services in Malta until 2010. The remaining 80 per cent. is owned by Vodafone plc ("Vodafone"). Following the introduction of cellular phones in 1990 by Vodafone Malta, mobile phone use has increased steadily in Malta. As of 31st March, 1997 there were 15,213 subscribers, while by 30th September, 1997 there were approximately 17,000 subscribers, which is approximately 5 per cent. of the Maltese population. Vodafone Malta offers both analogue and digital mobile services. The analogue service is based on the ETACS system which has been in operation since 1990 and covers all of Malta, and up to 16 kilometres of coastal waters surrounding Malta. The digital service is based on GSM technology and provides higher quality service than the analogue service. The GSM system also covers Malta and a limited range of coastal waters surrounding Malta. In addition, GSM customers may use their phones in a number of countries where Vodafone Malta has entered into roaming agreements, including the UK, Italy, Germany, Australia, France, Belgium and a number of other countries. Vodafone Malta's tariffs are relatively high compared to other mobile telephone operators in Western Europe. The maximum peak time rate charged by Vodafone Malta for local calls is Lm0.2625 (US\$0.6716) per minute and the off-peak rate is Lm0.1575 (US\$0.4030) per minute.

For the years ended 30th September, 1995, 1996 and 1997 Maltacom received net dividends of Lm56,550, Lm70,688, Lm88,361, respectively, from Vodafone Malta.

Maltacom has an option exercisable for a short period every three years to increase its shareholding in Vodafone Malta to up to 50.1 per cent. by the purchase from Vodafone of shares at a price agreed with Vodafone or set by independent valuation if no agreement can be reached. The Company's next opportunity to exercise the option will be in the latter part of 1998. The Company is currently considering exercising this option, but no decision has been made on the matter.

### *Other Strategic Investments*

Terranet is a private limited liability company registered in Malta on 21st November, 1995 and has an issued share capital of Lm230,000. The Company wholly owns Terranet, one of seven authorised Internet service providers in Malta. Maltacom and Terranet are in an advanced stage of discussions with the Government regarding the provision of Internet services to public schools in Malta. Under the proposal, Terranet would provide services to the schools at cost and the Government would agree to pay for the installation costs of the telecommunications network required for the provision of the services. As of 31st March, 1998 Terranet had

accumulated losses of Lm408,118 and the Company has guaranteed payments of approximately Lm150,000 in bank loans made to Terranet.

The Company also has a 20 per cent. interest in Elsacom, which is a private limited liability company registered in Malta on 24th November, 1995 and which has an issued share capital of US\$9,000,001. The other shareholders of Elsacom are Hyundai Electronics, Elsacom S.p.A. and Siemest S.p.A. which have 29 per cent., 36 per cent. and 15 per cent. interests in Elsacom respectively. Elsacom has a licence to provide transit traffic telecommunications whereby the company provides an international link for calls which do not originate or terminate in Malta. Maltacom has been notified of Hyundai Electronics' intention to sell its interest in Elsacom.

The Company owns 40 per cent. of Telepage Limited ("Telepage"), the exclusive licence holder for paging services in Malta until 2005. Telepage is a private limited company registered in Malta on 8th March, 1994 and has an issued share capital of Lm550,000. Telepage provides paging services which allow users to receive a tone only or message. The number of subscribers at 30th September, 1997 was 2,636, compared to 2,494 subscribers at 30th September, 1996. The Company has guaranteed repayment of approximately Lm217,500 in bank loans made to Telepage. In addition, the Company is in discussions with another shareholder regarding the purchase of an additional 40 per cent. stake in Telepage which the Company believes it will be able to purchase at nominal cost. The Company believes that control of Telepage may create synergies in telemarketing, call routing and other projects that the Company is considering, as well as ensuring that Telepage's monopoly is not controlled by any potential competitor of the Company.

Maltacom has recently acquired 29.67 per cent. of the voting shares, plus an interest in convertible and redeemable preferred shares, of Datatrak Systems Limited ("Datatrak"). Datatrak is a private limited liability company registered in Malta on 27th February, 1998 and has an issued share capital of Lm1,000,000. The acquisition cost was Lm271,081. In addition, in connection with the acquisition the Company guaranteed repayment of approximately Lm550,000 in bank loans made to Datatrak. Datatrak has formed an alliance with a subsidiary of Securicor plc to introduce vehicle and boat tracking security and site security services in Malta. In addition, Maltacom has negotiated the right to transfer its employees to Datatrak in certain circumstances. The Government has issued a letter of intent which states that a licence in respect of vehicle and boat tracking activities will be issued to Datatrak.

Maltacom has recently acquired from the Government a 15 per cent. shareholding in MaltaPost p.l.c., the Maltese postal company, at a cost of Lm75,000 of which 25 per cent. has been paid up. Maltacom plans to complement its existing branch network by using certain post office branches as payments and telecoms retail outlets.

As at 31st March, 1998 the Company also has a 0.08 per cent. interest in the International Telecommunications Satellite Organisation (INTELSAT), a 0.20 per cent. interest in INMARSAT and a 0.05 per cent. interest in ICO. These investments provide the Company with rights to capacity on the companies' international satellite networks and a right to proportionate shares of the profits of the organisations.

Maltacom has established Maltacom College International Limited (which has an issued share capital of Lm75,000), in order to train its employees and develop an international training centre with a regional focus.

### **Marketing and Customer Service**

Historically the Company had a business contact unit which was responsible for credit control and bill payment but also had sales personnel who were responsible for developing particular customer segments or key client relationships. In order to provide an improved service to its customers and more effectively develop its business the Company has recently established a marketing and sales department. This new department will be staffed by brand managers for existing services and for new services as they become available. Account executives will be responsible for particular clients and will work with the brand managers in selling products. The marketing and sales department will be supported by telephone operators and technical personnel who will provide technical assistance. Key customers will be given opportunities to access these services on a 24 hour basis. In addition, the key customers will be offered new products and services before they are made available to the general public.

As evidence of its increased commitment to customers, in October 1997 the Company issued a Customer Charter in which Maltacom provides a number of binding commitments to customers, including among other things, to review all applications within 10 working days, connect customer lines within 20 working days after the customer application is complete, repair faulty telephone lines within 4 working days and faulty cables within 10 working days.

### **Billing and Customer Management**

The Company's customers are currently billed on a quarterly basis. Customers may pay their bills at any post office, at certain bank branches in Malta, at a Maltacom payment centre or by post. Historically, the Company was slow in billing customers and there was no organised system of pursuing customer arrears. For the year ended 30th September, 1995 the Company's average telephone customer debtor days was 219. In 1996, the Company began to eliminate its billing backlog and established a system of pursuing arrears with customers in accordance with established procedures. These procedures include contacting late payers and where possible obtaining written acknowledgement of the debt and agreement to a schedule of repayments. By obtaining written acknowledgment of the debt through execution of a notarial deed, the Company acquires the right to proceed with enforcement action without the need of judicial proceedings if the agreed repayment schedule is not followed. In addition, the Company has established a large customer debtor department to track the payment behaviour of certain large debtors and to pursue and negotiate recoveries from such debtors. As a result of these actions the Company was able to lower the average debtor days to 128 for the year ended 30th September, 1997 and the Company believes that it will be able to obtain a further lowering of the average number of debtor days in the future. The Company also intends to accelerate its customer billing cycle from every three months to every two months from July 1998. Moreover, as soon as the modifications to its existing billing system to support the accelerated billing cycles are in place the Company intends to bill certain high volume customers on a monthly basis.

In the longer term, the Company intends to upgrade its existing billing system because, among other things, it does not allow the Company to efficiently use customer billing data for marketing and other informational purposes. See "–Capital Expenditure Programme." The Company is negotiating with the original provider of its billing software for the provision of upgraded software which will make the billing system year 2000 compliant. The Company expects the software to be available and installed by approximately mid-1999. See "Investment Considerations – Considerations Relating to the Company – Year 2000 Compliance".

### **Competition**

Following the expiry of the Company's exclusivity period in 2010 for the provision of fixed line telecommunications services, the Company may be subject to direct competition for these services. The Company is preparing for liberalisation and the introduction of competition in public telephony services by (i) implementing a reorganisation plan designed to improve the Company's operating performance and lower employment costs, (ii) pursuing a capital expenditure programme related to the modernisation and expansion of its infrastructure, (iii) regularly reviewing its domestic and international tariffs and charges and (iv) improving its customer service. See "– Strategy." Management believes that following the liberalisation of the Maltese telecommunications sector, competition in the provision of telecommunications infrastructure as well as in domestic and international telephony services may arise from a variety of new entrants. These entrants may include telecommunications services providers from Malta or overseas.

The exact identity of the new entrants, the scope of increased competition and any adverse effect of such competition on the Company's results of operations will depend on a variety of factors. Such factors include the level of success the Company has achieved in implementing its strategies to become more competitive, the business strategies, capabilities and financial resources of potential competitors, prevailing market conditions at the time competition is permitted and applicable Maltese regulations with respect to new entrants and the Company.

In addition, any requirement imposed on Malta to lift the exclusivity period granted to the Company as a result of the adoption by Malta of specific provisions of European Union law on telecommunications in accordance with any accession or other bilateral agreement prior to 2010 may adversely affect the Company's competitive position. See "Regulation – International Regulation – European Union" and Annex A – "The Republic of Malta". Although the Company believes that any such shortening of its exclusivity period will require Government compensation, the effect of any such action could adversely affect the Company's results of operations and further prospects.

### **Employees**

During the six months ending 31st March, 1998, Maltacom employed an average of 1,810 full time and part time individuals, of which approximately 89 per cent. of the full time workers are members of a union. The largest union is the General Workers Union ("GWU") which represents approximately 62 per cent. of the Company's full time employees, while approximately 25 per cent. of the full time employees are represented by the Union Haddiema Maghqudin ("UHM"). Certain employees of the Company with graduate degrees are separately represented by the Union Gradwati Maltacom ("UGM"). While the Company, along with other state owned companies, experienced a one day national strike in response to the Government's announcement of the introduction of VAT in 1994 and the Company was subject to a separate one day industrial action in 1994 by the UGM in connection with negotiations over its collective bargaining agreement, the Company has otherwise

experienced stable relations with its employees and their unions. Neither one day action caused any disruption to the Company's operations.

Collective bargaining agreements with the unions generally have a three year term and are negotiated by the Company with the UGM, on behalf of its members, and the GWU, on behalf of all other employees, to establish minimum wage increases that will be provided to employees and to delineate the terms and conditions of employment not otherwise covered under Maltese labour law. In addition, amendments to the collective bargaining agreements have been agreed between the unions and the Company periodically to address specific issues as they arise. The current collective bargaining agreements provide for an increase in each employee's salary by Lm130 per year in 1996, 1997 and 1998, plus a cost of living increase based on Government mandated figures (which provided for cost of living increases per employee of, Lm104, Lm78 (with an additional Lm13 provided from 1st April), and Lm78 in such years, respectively). The current collective agreements expire on 31st December, 1998.

In order to increase profitability by enhancing the Company's operating performance and lowering employment costs, the Company is commencing the implementation of a reorganisation plan. The reorganisation plan is designed to: (i) consolidate activities of the employees within the organisational structure and prevent duplication of tasks; (ii) increase operational flexibility by increasing the responsibilities of employees and provide training for employees to handle new tasks; and (iii) to incentivise employees by instituting a system of performance reviews, and for selected employees, performance related pay. In order to prepare the Company's employees for their responsibilities in the new organisational structure, the Company has established an in-house training programme whereby approximately 80 employees of the Company have been chosen to be in-house trainers. In addition, the Company plans to hire highly skilled employees in order to improve the overall quality of its employees. The Company believes the reorganisation of its business will improve the Company's operating performance so that it will be able to decrease its workforce without affecting its operations. Since 1st October, 1997, the average number of personnel at the Company has begun to decline, from 1837 for the year ended 30th September, 1997 to 1,810 for the six months ended 31st March, 1998. This decline was achieved mainly by natural attrition of employees. In order to accelerate the reduction in the number of employees the Company has recently approved a voluntary early retirement programme under which the Company provides economic incentives for certain employees to terminate their employment prior to the actual retirement age in Malta of 60 for women and 61 for men. In particular, the Company has identified certain employees eligible for government pensions to be targeted for inclusion in the programme. In addition, the Company intends to transfer certain employees to strategic affiliates of the Company to support the growth of the operations of these affiliates. As a result of the early retirement plan, attrition and the plan to transfer employees to affiliates, the Company expects the number of employees to decline by approximately 100 persons (net of new hires) in each of the next five years, which would lower the number of employees at the Company to approximately 1300 by the year 2003. If these methods are not effective, the Company may be required to take more aggressive action to reduce employee numbers. There can be no assurance, however, that the Company will be able to effect the desired reduction in the number of employees or that the productivity gains expected to be obtained from the Company's reorganisation plan and the hiring of new employees will be realised. See "Investment Considerations – Considerations Relating to the Company – Ability of the Company to Implement Cost Savings Strategies."

### **Property**

The principal properties of the Company consist of its head office in Marsa, its 17 switching stations located throughout Malta, including international exchanges at B'kara and St. Georges, and its payment centres and branch offices. The Company believes that its facilities are suitable for their present and intended purposes and are adequate for the Company's current levels of operations.

### **Legal Proceedings**

Although the Company is involved in various legal proceedings arising from its normal business operations, there are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had in the previous 12 months a material impact on the financial condition, results of operations or cash flows of the Company.

## MANAGEMENT

### Board of Directors

The Board of Directors is responsible for the appointment of all executive officers and other key members of management and establishes policy guidelines for the management of the Company. The Board of Directors has delegated operational management of the Company to an executive board which is described below under "Executive Board". The Articles provide that the Board of Directors may consist of no less than five and no more than nine Directors. There are currently six members of the Board of Directors. The composition of the Board of Directors is determined by the shareholders of the Company at an annual general meeting of shareholders, with the exception of one Director who is chosen separately by the Company's employees. The Chairman may be appointed by the single shareholder who holds the highest number of Shares, provided that such shareholder holds not less than 40 per cent. of the Shares. If no single shareholder holds at least 40 per cent. of the Shares, then the Chairman is elected by the shareholders at the annual general meeting as a whole. The Chairman can be appointed for a term of one to three years while the Directors, if appointed by the shareholders in an annual general meeting, are appointed for a one year term. Mr. Mejlaq, the present Chairman of the Company, has been appointed for a three year period ending in December 2000. Any shareholder who holds at least 12 per cent. of the Shares can appoint a Director for every 12 per cent. held but is not otherwise allowed to vote for the Directors. Shareholders who hold less than 12 per cent. of the Shares can aggregate their holdings to meet the 12 per cent. threshold and appoint a Director for any period up to three years. Shareholders holding less than 12 per cent. of the Shares, who do not aggregate their holdings as aforesaid, are entitled to participate and vote in an election of Directors at an annual general meeting.

The Government has appointed each member of the current Board of Directors (including the Chairman) and following the Combined Offering it will retain the right to appoint the Chairman and a total of five out of a maximum of nine members of the Board of Directors.

The following list sets out the members of the Board of Directors and the Company's Secretary at the date hereof.

|                     |                                      |
|---------------------|--------------------------------------|
| Tony Mejlaq         | Chairman and Chief Executive Officer |
| Saviour Zammit      | Deputy Chairman                      |
| Joseph Baldacchino  | Member <sup>(1)</sup>                |
| George Camenzuli    | Member                               |
| Mary Louise Coleiro | Member                               |
| Maurice Mizzi       | Member                               |
| Raymond Fava        | Secretary                            |

(1) Elected by the employees of the Company

**Tony Mejlaq.** Mr. Mejlaq is a graduate of the Malta College of Arts, Science and Technology and is a qualified certified public accountant and auditor. From 1975 to 1992, Mr. Mejlaq worked for Air Malta where he held a number of executive positions, including head of the finance department, general manager in charge of finance, deputy chief executive and deputy managing director. From 1992 to 1997 Mr. Mejlaq practised as an independent certified public accountant and auditor. He is a member of the Board of Directors of a number of companies, including Waj Limited, Ensign Limited, Vodafone Malta, Datatrak, Maltacom College International Limited, Terranet, MaltaPost p.l.c. and Elsacom. In February 1997 he was appointed as the Chairman and in February 1998 he was appointed as Chief Executive Officer of the Company.

**Saviour Zammit.** Dr. Zammit is a graduate of the University of Malta and he received a graduate degree and a Ph.D in telecom technology from the University of Aston in Birmingham, United Kingdom. He has been a lecturer in telecommunications and related subjects at the University of Malta since 1987 and in recent years has been a consultant advising on a number of computer network design projects for the University of Malta and the Government. In January 1997 he became a member of the Board of Directors and in 1998 he became technical director of the Company, Deputy Chairman of the Company and Deputy Chairman of Terranet Limited.

**Joseph Baldacchino.** Mr. Baldacchino has been employed by the Company since 1978. He has worked in several sections and branches of the Company including the personnel department and the transport division. Mr. Baldacchino was first elected by the Company's employees as their representative on the Board of Directors in 1996.

**George Camenzuli.** Mr. Camenzuli is a graduate of the University of Malta, and received an MBA from the University of Toronto in 1985. Since 1975 he has been working for Barclays Bank (International) Ltd. and Mid-Med Bank plc (upon its succession to Barclays Bank (International) Ltd.'s operations), where he has held a variety of positions, including manager and senior manager and, presently, executive manager in the technical infrastructure department. In January 1997, he became a member of the Board of Directors.

*Mary Louise Coleiro.* Ms. Coleiro graduated from the Malta College of Arts, Science and Technology in 1975. Throughout her career she held a number of governmental and political posts, including general secretary of the Malta Labour Party. She has been a member of the Board of Directors since January 1997.

*Maurice Mizzi.* Mr. Mizzi graduated from Royal University of Malta in 1957 where he received a diploma in law. Since 1994 he has been managing director of Titan International Limited and previously he was Chairman of Mediterranean Film Studios, a parastatal company. He is also a director of a number of companies, including Mizzi Organisation, General Soft Drinks Co. Ltd. and United Acceptances Finance Co. Ltd. and Chairman of the Malta Development Corporation. In January 1997, he became a member of the Board of Directors.

*Raymond Fava.* Mr. Fava graduated from the University of Malta where he received a diploma in labour and industry relations and sports education and organisation. Mr. Fava has been employed by the Company since 1977 holding positions in the accounts department and as a manager of the customs clearance office. In 1996 Mr. Fava was appointed secretary of the Company.

The Board of Directors' address is Spencer Hill, Marsa HMR12, Malta.

#### **Audit Committee**

In July 1996 the Board of Directors established an audit committee comprised of three non-executive directors which is responsible for monitoring the Company's accounting policies, internal controls and financial reporting practices. Initially, the audit committee was not active as Mr. Mejlaq was non-executive Chairman and fulfilled the audit committee's monitoring role. In February 1998 Mr. Mejlaq became the Chief Executive Officer of the Company. As a result, Mr. Mizzi, one of the non-executive Directors, was recently appointed chairman of the audit committee. In addition, Ms. Coleiro and Mr. Camenzuli, who are also non-executive directors, are members of the audit committee.

#### **Interests of the Directors**

Prior to the Combined Offering, none of the Directors had any interest in the Shares, although the Directors are eligible to purchase Shares in the Combined Offering. In addition, none of the Directors have any interest, direct or indirect, in the promotion of the Company or in any assets which have been, within the two years preceding the publication of the Offering Memorandum, acquired by, disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired by, disposed of by or leased to the Company or any of its subsidiaries.

The Company has no contract or other arrangement in which any of the Directors have a material interest and which is significant to the business of the Company and its subsidiaries taken as a whole. However, one of the Directors indirectly owns five per cent. of Datatrak, one of the Company's strategic investments.

There are no outstanding loans or guarantees given by the Company to or for the benefit of any of the Directors.

A Director may not vote at a Board of Directors' meeting in respect of any contract or arrangement in which he has a personal material interest.

#### **Details of Directors' Service Contracts**

Set forth below are details of the service contracts of Directors employed by the Company as officers or employees:-

##### *Tony Mejlaq*

Mr. Mejlaq has a three year fixed term service contract effective 31st December, 1997 and renewable for additional one year terms at the end of the fixed term. The agreement may be terminated before its stated maturity by either party giving at least 30 days notice. The agreement will also terminate in the event that Mr. Mejlaq ceases to be Chairman of the Company.

##### *Saviour Zammit*

Dr. Zammit was appointed by the Company as technical director with effect from the 16th February, 1998 for an indefinite term. His post as a member of the Board of Directors is independent of his contract of service.

##### *Joseph Baldacchino*

Mr. Baldacchino was appointed as a member of the Board of Directors by election of the employees of the Company. He is employed by the Company for an indefinite time period. His post as a member of the Board of Directors is independent of his service contract.

### Removal of Directors

A Director appointed by a shareholder pursuant to the 12 per cent. qualification described in "Board of Directors" above may be removed by his appointee or appointees at any time by letter addressed to the Company. A Director elected to office pursuant to an election of Directors shall, unless he resigns or is removed, remain in office until the next annual general meeting following the one at which he was appointed. According to the terms of the Maltese Companies Act 1995 a Director may be removed by an ordinary resolution of shareholders in a general meeting.

### Borrowing Powers of Directors

The borrowing powers of the Company are exercisable by the Directors, provided that the Directors may not borrow in excess of three times the capital and reserves of the Company. The shareholders in a general meeting may from time to time restrict, limit or change such powers.

### Executive Board

The Board of Directors has delegated to the Executive Board of the Company the operational management of the Company. The Executive Board of the Company is comprised of the following persons:

| Name             | Position                                |
|------------------|-----------------------------------------|
| Tony Mejlaq      | Chairman and Chief Executive Officer    |
| Joseph Azzopardi | General Manager                         |
| Saviour Zammit   | Technical Director                      |
| Alexander Grech  | Strategic Business Development Director |
| Edgar Borg       | Finance Director                        |

Set forth below is a brief biography of each member of the executive board who is not a Director.

*Joseph Azzopardi.* Mr. Azzopardi graduated from the University of Malta with honours in accountancy. Since 1985 he has held a number of accounting related positions at the Company, including acting financial controller and chief accountant. In January 1997 he was appointed General Manager of the Company. Concurrently, as a representative of Maltacom, he is the chairman of Telepage and a member of the Board of Directors of Terranet, Datatrak and Maltacom College International Limited.

*Alexander Grech.* Mr. Grech is a graduate of the London School of Accountancy and he is a Fellow of the Association of Chartered Certified Accountants of the UK. From 1987 to 1989 he was an assistant financial controller at IP Sharp Reuters European headquarters in London. From 1989 to 1994 Mr. Grech worked as a controller for European business operations at Hitachi Data Systems. From 1994 to 1998 he was a managing consultant at the Management Efficiency Unit in Malta, a government consultancy organisation attached to the Office of the Prime Minister. He was appointed as Strategic Business Development Director of the Company in April 1998.

*Edgar Borg.* Mr. Borg graduated from the Malta College of Art, Science and Technology with an ACCA and is a Fellow of the Association of Chartered Certified Accountants of the UK. From 1975 to 1979 he worked at the Central Bank of Malta in the accounts, bank inspection, audit, and administrative divisions. Since 1979 Mr. Borg has worked in the Company and occupied positions of an accountant, corporate secretary, financial controller and head of corporate strategic planning (finance). In April 1998, Mr. Borg was appointed the Finance Director.

The Company is actively recruiting personnel for the Executive Board positions of commercial director and human resources and administration director.

### Remunerations of the Board of Directors and Executive Officers

The maximum remuneration of the Board of Directors is decided by the shareholders at the annual general meeting. For the year ended 30th September, 1997, the Company paid the members of its Board of Directors aggregate remuneration of approximately Lm17,000 and paid its executive officers (including assistant general managers) aggregate remuneration of approximately Lm82,129. In addition, members of the Board of Directors and certain executive officers received free telephone services. Moreover, certain directors and high level executives of the Company received free use of Company cars and other benefits in kind. The Company estimates that for the year ending 31st December, 1998, aggregate remuneration for the Board of Directors (including all benefits) will be approximately Lm68,000.

## SELECTED FINANCIAL AND OPERATING DATA

The selected financial information set out below has been derived from the Annual Audited Financial Statements as at and for the years ended 30th September, 1995, 1996 and 1997, the Audited Interim Financial Statements as at and for the six months ended 31st March, 1997, and the Unaudited Interim Financial Statements as at and for the six months ended 31st March, 1998. An Independent Accountants' Report from KPMG (Malta) and KPMG Audit Plc on the Annual Audited Financial Statements and the Audited Interim Financial Statements appears elsewhere in this Offering Memorandum. The financial information as at and for the six months ended 31st March, 1998 is unaudited but, in the opinion of the management of the Company, includes all adjustments necessary to present a fair statement of the Company's financial position and results of operations for such period. All such adjustments are of a normal, recurring nature. The results of operations for the six months ended 31st March, 1998 are not necessarily indicative of the results that may be expected for the year ending 30th September, 1998 or for the year ending 31st December, 1998.

The selected financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements appearing elsewhere in this Offering Memorandum.

|                                                                     | Year ended 30th September, |         |         |                     | Six months ended 31st March, |                      |                       |
|---------------------------------------------------------------------|----------------------------|---------|---------|---------------------|------------------------------|----------------------|-----------------------|
|                                                                     | 1995                       | 1996    | 1997    | 1997 <sup>(1)</sup> | 1997                         | 1998                 | 1998 <sup>(1)</sup>   |
|                                                                     | (Lm)                       | (Lm)    | (Lm)    | (US\$)              | (Lm)                         | (Lm)                 | (US\$)                |
|                                                                     |                            |         |         |                     |                              | (unaudited)          | (unaudited)           |
| (in thousands, except per Share amounts)                            |                            |         |         |                     |                              |                      |                       |
| <b>Income Statement Data:</b>                                       |                            |         |         |                     |                              |                      |                       |
| Turnover . . . . .                                                  | 29,601                     | 30,099  | 33,067  | 84,483              | 16,038                       | 17,444               | 44,060                |
| Cost of sales . . . . .                                             | 17,883                     | 20,068  | 19,455  | 49,706              | 9,200                        | 9,468                | 23,914                |
| Gross profit . . . . .                                              | 11,718                     | 10,031  | 13,612  | 34,777              | 6,838                        | 7,976                | 20,146                |
| Administrative and distribution expenses . . . . .                  | 3,781                      | 4,213   | 3,827   | 9,778               | 2,356                        | 3,623                | 9,151                 |
| Other operating income . . . . .                                    | 333                        | 1,436   | 549     | 1,403               | 372                          | 194                  | 490                   |
| Other operating charges . . . . .                                   | 163                        | 657     | 296     | 756                 | 178                          | 132                  | 333                   |
| Licence fee . . . . .                                               | 400                        | 400     | 400     | 1,022               | 200                          | (183)                | (462)                 |
| Operating profit before exceptional charges . . . . .               | 7,707                      | 6,197   | 9,638   | 24,624              | 4,476                        | 4,598                | 11,614                |
| Exceptional charges . . . . .                                       | -                          | -       | 4,084   | 10,434              | -                            | 7,849 <sup>(2)</sup> | 19,825 <sup>(2)</sup> |
| Operating profit/(loss) . . . . .                                   | 7,707                      | 6,197   | 5,554   | 14,190              | 4,476                        | (3,251)              | (8,211)               |
| Investments and similar income . . . . .                            | 200                        | 325     | 298     | 761                 | 104                          | 145                  | 366                   |
| Interest and similar charges . . . . .                              | 1,930                      | 2,145   | 2,038   | 5,207               | 992                          | 904                  | 2,283                 |
| Share of profits less losses of associated companies . . . . .      | (9)                        | 438     | 343     | 876                 | 277                          | 256                  | 646                   |
| Profit/(loss) before taxation . . . . .                             | 5,968                      | 4,815   | 4,157   | 10,620              | 3,865                        | (3,754)              | (9,482)               |
| Taxation . . . . .                                                  | 1,752                      | 1,627   | 2,477   | 6,328               | 1,019                        | 2,039                | 5,150                 |
| Net profit/(loss) . . . . .                                         | 4,216                      | 3,188   | 1,680   | 4,292               | 2,846                        | (5,793)              | (14,632)              |
| Pro forma net profit/(loss) per Share data <sup>(3)</sup> . . . . . | 0.042                      | 0.031   | 0.017   | 0.042               | 0.028                        | (0.057)              | (0.144)               |
| <b>Cash Flow Data:</b>                                              |                            |         |         |                     |                              |                      |                       |
| Net cash from operating activities . . . . .                        | 9,492                      | 6,933   | 12,433  | 31,765              | 2,945                        | 5,966                | 15,069                |
| Net cash used in investing activities . . . . .                     | (5,842)                    | (7,281) | (4,380) | (11,190)            | (2,225)                      | (3,228)              | (8,153)               |
| Net cash used in financing activities . . . . .                     | (5,165)                    | (3,971) | (4,459) | (11,392)            | (2,648)                      | (4,740)              | (11,972)              |

(footnotes on the following page)

|                                                  | As at 30th September, |        |        |                     | As at 31st March, |                      |                       |
|--------------------------------------------------|-----------------------|--------|--------|---------------------|-------------------|----------------------|-----------------------|
|                                                  | 1995                  | 1996   | 1997   | 1997 <sup>(1)</sup> | 1997              | 1998                 | 1998 <sup>(1)</sup>   |
|                                                  | (Lm)                  | (Lm)   | (Lm)   | (US\$)              | (Lm)              | (Lm)                 | (US\$)                |
|                                                  |                       |        |        |                     |                   | (unaudited)          | (unaudited)           |
|                                                  | (in thousands)        |        |        |                     |                   |                      |                       |
| <b>Balance Sheet Data:</b>                       |                       |        |        |                     |                   |                      |                       |
| Fixed assets . . . . .                           | 48,943                | 52,938 | 49,677 | 126,920             | 53,285            | 50,987               | 128,783               |
| Other long term assets                           | 555                   | —      | —      | —                   | —                 | —                    | —                     |
| Current assets . . . . .                         | 28,073                | 32,142 | 30,019 | 76,695              | 33,732            | 27,939               | 70,568                |
| Short term liabilities . . . . .                 | 24,643                | 31,022 | 27,050 | 69,110              | 30,268            | 25,732               | 64,994                |
| Provisions for liabilities and charges . . . . . | —                     | 106    | —      | —                   | 286               | 7,901 <sup>(2)</sup> | 19,956 <sup>(2)</sup> |
| Long term liabilities . . . . .                  | 21,477                | 21,313 | 20,327 | 51,933              | 20,978            | 18,696               | 47,222                |
| Share capital and reserves . .                   | 31,451                | 32,639 | 32,319 | 82,572              | 35,485            | 26,597               | 67,179                |

|                                                                                    | Year ended 30th September, |          |          | Six months ended 31st March, |         |
|------------------------------------------------------------------------------------|----------------------------|----------|----------|------------------------------|---------|
|                                                                                    | 1995                       | 1996     | 1997     | 1997                         | 1998    |
| <b>Operating Data:</b>                                                             |                            |          |          |                              |         |
| Number of access lines in service at period end . . .                              | 169,186                    | 176,997  | 185,596  | 182,933                      | 188,240 |
| Access lines in service at period end per 100 inhabitants <sup>(4)</sup> . . . . . | 45.6                       | 47.4     | 49.4     | 48.8                         | 49.9    |
| Revenue per access line in service at period end (Lm)                              | 175.0                      | 170.1    | 178.2    | 87.7                         | 92.7    |
| Average number of employees . . . . .                                              | 1,730                      | 1,825    | 1,837    | 1,855                        | 1,810   |
| Revenue per employee (Lm) . . . . .                                                | 17,110.4                   | 16,492.6 | 18,000.5 | 8,645.8                      | 9,637.6 |
| Access lines in service at period end per employee .                               | 97.8                       | 97.0     | 101.0    | 98.6                         | 104.0   |
| Capital expenditure (Lm thousands) . . . . .                                       | 6,960                      | 7,335    | 4,766    | 2,002                        | 3,985   |

(1) For the convenience of the reader, Maltese Lira amounts as at and for the period ended 30th September, 1997 and 31st March, 1998 have been translated into US dollars at the rate of US\$2.5549 to Lm1.00 and US\$2.5258 to Lm1.00, respectively, the Central Bank Exchange Rate in effect on such dates. Such translations should not be construed as representations that the Maltese Lira amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated or at any other time.

(2) Includes a Lm7.5 million charge relating to the estimated future costs associated with the implementation of the Company's reorganisation plan and a charge related to the Company's hosting of the World Telecommunications Development Conference.

(3) For each period represents net profit/(loss) divided by 101,310,488 (the number of Shares issued and outstanding as of the date of this Offering Memorandum).

(4) Estimated.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with the Financial Statements, including the Notes thereto, included elsewhere in this Offering Memorandum. For ease of reference, the terms "fiscal 1995", "fiscal 1996", and "fiscal 1997" as used in this section refer to the Company's fiscal years ended 30th September, 1995, 1996 and 1997, respectively.*

### General

Maltacom was incorporated on 31st December, 1997 and became the successor to Telemalta pursuant to the Succession Legislation on 2nd January, 1998. The Financial Statements are based on the financial statements of Telemalta and have been adjusted as necessary to reflect the accounting policies of Maltacom and certain other factors. See footnote 1 to the Audited Annual Financial Statements. Substantially all of the Company's operations are conducted within, and the vast majority of its revenues and profit is derived from, Maltacom p.l.c.. Maltacom currently has one wholly owned subsidiary, Terranet, an Internet service provider, which became a subsidiary on 10th December, 1997. In addition, Maltacom holds several strategic stakes in telecommunications companies in Malta: a 20 per cent. interest in Vodafone Malta, an exclusive provider of cellular telephone services in Malta; a 20 per cent. interest in Elsacom, a company which routes through Malta international telecommunications traffic that originates and terminates overseas; and a 40 per cent. interest in Telepage, the monopoly provider of paging services in Malta. The Company accounts for each of these strategic investments utilising the equity method of accounting. With the exception of Vodafone Malta, none of the strategic investments has generated any operating profit. Accordingly, the net impact of the strategic investments on the Company's consolidated profit in each period represents the equity contribution of Vodafone Malta, offset in part by the Company's share in the net losses of the other strategic investments.

### Significant Factors Influencing the Company's Results of Operations

**VAT.** Effective 1st January, 1995, the Government introduced a value added tax ("VAT") of 15 per cent. on most revenues generated by telephony services provided in Malta, including subscribers' traffic and rentals. In accordance with the terms of the Value Added Tax Act, the Company was required to pay VAT on services provided to its customers but, with limited exceptions, it did not increase its charges to customers to reflect the tax. The Value Added Tax Act was repealed with effect from 1st July, 1997. During the periods VAT was in effect, the Company recorded revenue net of VAT which had the effect of substantially lowering revenues and operating profits during the relevant periods and making period to period comparisons of financial performance difficult. The negative effect on the Company's revenues and operating profit resulting from VAT (the "VAT Effect") was greater in fiscal 1996 compared to fiscal 1995 because VAT was in effect for the entire fiscal 1996, while VAT was only in effect for the last nine months of fiscal 1995. Similarly, the VAT Effect for fiscal 1997 was less than in fiscal 1996 because VAT was not in effect for the last three months of fiscal 1997. VAT was not in effect during the six months ended 31st March, 1998, but was in effect for the whole of the six month period ended 31st March, 1997.

**Tariffs.** Although the Company's local call tariffs and line rental and other charges have not materially changed since 1st October, 1993, the Company's tariff charges for international calls have decreased significantly in recent years. Historically, the Company's tariff charges for international calls were high by international standards. As part of its strategy to rebalance tariffs and align revenue streams with its actual costs, the Company lowered its international tariff rates on 1st June, 1996 up to 44 per cent. depending on the call destination and time of the call, and introduced per second billing. See "Business – Overview of Telephony Operations – International Telephony – International Telephony Pricing". The net effect of the lowering of international tariffs has been to stimulate outgoing international traffic while slowing the growth in revenues generated from outgoing international traffic. In addition, due to deregulation of the telecommunication industries in the countries comprising the EU and in other parts of the world and other competitive pressures, rates for interconnection of international telephone calls charged by foreign telephone operators for outgoing calls from Malta and by the Company for incoming calls from outside of Malta have also declined significantly during the period. The result of the lowering of rates is that in spite of the increase in outgoing and incoming international traffic, the amounts received by the Company from, and amounts paid by the Company to, international telephone operators for interconnection have generally decreased during the period under review.

**Seasonality.** The Company's revenues are affected by the number of tourists and other visitors to Malta. As a result, revenue and profits tend to be seasonal, with higher revenues during the summer tourist season (April to September) and lower revenues in the winter months of the year. The majority of tourists using Maltacom's network to make local or international calls use the Company's telecards which can be purchased in specified denominations and which can be used in any of the Company's public telephones. Accordingly revenues from telecard sales are highly seasonal and are a driver of the overall seasonality of the Company's results.

**Wages and Salaries and Social Security Costs.** Total wages and salaries and social security costs (collectively "wages and salaries") are a function of: (i) Government determined statutory cost of living increases and wage levels which have increased in each year due to additional increases agreed in the collective bargaining agreements between the Company and its unions (the "collective agreements"); (ii) the number of employees employed at the Company (net of capitalized wage expense); and (iii) the level of overtime work performed. The Government declares a fixed statutory increase in annual wages for all employees in Malta. The cost of living increase, which is usually implemented on 1st January of each year, amounted to Lm104, Lm78 (with an additional Lm13 provided from 1st April) and Lm78 per employee of the Company in calendar 1996, 1997 and 1998, respectively. In addition, pursuant to the collective agreement with its unions in effect since 1st January, 1996, the Company agreed to salary increases of Lm130 per employee per calendar year. The current collective agreements terminate on 31st December, 1998. See "Business - Employees". The Company's social security costs consist of its contribution to Malta's social security scheme, which requires the Company to contribute one-tenth of each employee's salary to the scheme. The following sets forth information concerning total wages and salaries, including the percentage change between periods.

|                           | Year ended 30th September, |       |        | Six months ended<br>31st March, |       | Year ended<br>30th September, |           | Six months<br>ended<br>31st March, |
|---------------------------|----------------------------|-------|--------|---------------------------------|-------|-------------------------------|-----------|------------------------------------|
|                           | 1995                       | 1996  | 1997   | 1997                            | 1998  | 1996/1995                     | 1997/1996 | 1998/1997                          |
|                           | (Lm in thousands)          |       |        |                                 |       | (% change)                    |           | <sup>e</sup>                       |
| Total wages and salaries. | 7,569                      | 9,083 | 10,101 | 4,528                           | 4,881 | 20.0                          | 11.2      | 7.8                                |

The increases in wages and salaries for these periods were caused in large part by the increases in average salaries described above. For the six months ended 31st March, 1998 this increase has been partially offset by a 2.4 per cent. decrease in the average number of employees from the previous period and declining overtime expense due to the Company's efforts to reduce overtime costs through more efficient allocation of resources. Wages and salaries costs in fiscal 1997 were also augmented slightly by an increase in the total number of employees during the year offset in part by a decrease in overtime expense due to the Company's efforts described above. The relatively high growth in wages and sales in fiscal 1996 compared to fiscal 1995 was also due to a 5.5 per cent. increase in the number of employees during the year and an increase in overtime expense.

Total wages and salaries are divided by the Company in its Financial Statements between operational wages and salaries (which is included in cost of sales) and administrative wages and salaries (which is included in administrative and distribution expenses) on a percentage basis that the Company selects based on its estimate of the number of employees working in each respective area during the relevant period. Over the periods reported, the Company has increased the percentage of total wages and salaries attributable to administrative wages and salaries as a result of (i) reclassification of certain groups of employees, such as Maltacom's payment centre officers and personnel in the customer service unit, from the operational divisions to the administrative divisions of the Company and (ii) during fiscal 1996, increased hiring of administrative personnel.

## Results of Operations

The following table sets forth for the three years ended 30th September, 1997 and for the six months periods ended 31st March, 1997 and 1998, respectively, selected income statement data of the Company and the percentage change between periods of each such amount.

|                                                 | Year ended 30th September, |        |        | Six months ended<br>31st March, |        | Year ended<br>30th September, |           | Six months<br>ended      |
|-------------------------------------------------|----------------------------|--------|--------|---------------------------------|--------|-------------------------------|-----------|--------------------------|
|                                                 | 1995                       | 1996   | 1997   | 1997                            | 1998   | 1996/1995                     | 1997/1996 | 31st March,<br>1998/1997 |
|                                                 | (Lm in thousands)          |        |        |                                 |        | (% change)                    |           |                          |
| Turnover:                                       |                            |        |        |                                 |        |                               |           |                          |
| Subscribers' traffic . . .                      | 19,300                     | 19,910 | 22,715 | 10,797                          | 12,102 | 3.2                           | 14.1      | 12.1                     |
| Subscribers' rentals . . .                      | 5,427                      | 5,737  | 6,100  | 2,990                           | 3,392  | 5.7                           | 6.3       | 13.4                     |
| Carriers' revenue and<br>other income . . . . . | 4,874                      | 4,452  | 4,252  | 2,251                           | 1,950  | (8.7)                         | (4.5)     | (13.4)                   |
| Total                                           | 29,601                     | 30,099 | 33,067 | 16,038                          | 17,444 | 1.7                           | 9.9       | 8.8                      |
| Cost of sales . . . . .                         | 17,883                     | 20,068 | 19,455 | 9,200                           | 9,468  | 12.2                          | (3.0)     | 2.9                      |
| Administrative and<br>distribution expenses . . | 3,781                      | 4,213  | 3,827  | 2,356                           | 3,623  | 11.4                          | (9.2)     | 53.8                     |
| Other operating income . .                      | 333                        | 1,436  | 549    | 372                             | 194    | 331.2                         | (61.8)    | (47.9)                   |
| Other operating charges . .                     | 163                        | 657    | 296    | 178                             | 132    | 303.1                         | (54.9)    | (25.8)                   |
| Licence fee . . . . .                           | 400                        | 400    | 400    | 200                             | (183)  | -                             | -         | N.A.                     |
| Operating profit before<br>exceptional charges  | 7,707                      | 6,197  | 9,638  | 4,476                           | 4,598  | (19.6)                        | 55.5      | 2.7                      |

### Turnover

The increase in turnover for the six months ended 31st March, 1998 can be principally attributed to the positive VAT Effect associated with the elimination of VAT with effect from 1st July, 1997 as well as increased subscribers' traffic principally resulting from an increase in traffic to and from Malta's cellular telephone network and increased subscribers' rentals resulting from an increased number of access lines in service which was offset in part by declining revenues from foreign telephone administrations. The increase in turnover in fiscal 1997 as compared to fiscal 1996 was caused by the same factors. The small increase in turnover in fiscal 1996 was principally a result of the negative VAT Effect in fiscal 1996 discussed above, declines in income from foreign administrations, and a small decrease in the sales of telecards which substantially offset increased subscribers' traffic revenue resulting from an increase in international traffic minutes and increased revenues from cellular telephone calls caused by increased traffic to and from Malta's cellular telephone network.

### Subscribers' Traffic

Revenues from subscribers' traffic is principally comprised of revenues from subscribers' local and overseas calls, revenues from the sale of telecards and revenues from cellular telephone calls. The following is a breakdown of revenues from subscribers' traffic for each period and the percentage change between periods in each revenue category:

|                             | Year ended 30th September, |        |        | Six months ended<br>31st March, |        | Year ended<br>30th September, |           | Six months<br>ended      |
|-----------------------------|----------------------------|--------|--------|---------------------------------|--------|-------------------------------|-----------|--------------------------|
|                             | 1995                       | 1996   | 1997   | 1997                            | 1998   | 1996/1995                     | 1997/1996 | 31st March,<br>1998/1997 |
|                             | (Lm in thousands)          |        |        |                                 |        | (% change)                    |           |                          |
| Local Calls . . . . .       | 7,580                      | 7,193  | 8,733  | 4,319                           | 4,886  | (5.1)                         | 21.4      | 13.1                     |
| Overseas Calls . . . . .    | 7,521                      | 8,341  | 8,596  | 4,189                           | 4,332  | 10.9                          | 3.1       | 3.4                      |
| Sale of Telecards . . . . . | 2,136                      | 2,118  | 2,388  | 859                             | 1,046  | (0.8)                         | 12.8      | 21.8                     |
| Cellular Telephone Calls .  | 1,589                      | 1,809  | 2,571  | 1,209                           | 1,642  | 13.9                          | 42.1      | 35.8                     |
| Other . . . . .             | 474                        | 449    | 427    | 221                             | 196    | (5.3)                         | (4.9)     | (11.3)                   |
| Total subscribers' traffic  | 19,300                     | 19,910 | 22,715 | 10,797                          | 12,102 | 3.2                           | 14.1      | 12.1                     |

**Local Calls.** Revenues from local calls are a function of local tariff rates and the amount of local traffic measured in tariff units, net of VAT in relevant periods and tariff units provided free of charge by the Company. The increase in revenues for the six months ended 31st March, 1998 is due to the positive VAT Effect during the period. The increase in revenues from local calls in fiscal 1997 was due to the positive VAT Effect in fiscal 1997 as compared to fiscal 1996 and an increase in local traffic. The decrease in local call revenue in fiscal 1996 was due principally to the negative VAT Effect in fiscal 1996 as compared to fiscal 1995 which was offset in part by the positive effect of an increase in total local traffic volumes. The increase in traffic in fiscal 1996 was caused in large part by an increase in the number of access lines in service by 7,811, or 4.6 per cent, over 1995.

**Overseas Calls.** Revenues from subscribers' international calls are a function of international tariff rates and the amount of outgoing international traffic, net of VAT in relevant periods. The increase in revenues for the six

months ended 31st March, 1998 is due to the positive VAT Effect for the period. Revenues from overseas calls in fiscal 1997 and fiscal 1996 were significantly affected by a reduction by the Company in its international rates on 1st June, 1996, making year to year comparisons of such revenues difficult. The small increase in revenues from international calls in fiscal 1997 was a result of the positive VAT Effect in 1997 and an 11.8 per cent. increase in international outgoing traffic that was in large part offset by the effect of the rate reduction which affected international call revenues for the whole of fiscal 1997 but only affected the last three months of fiscal 1996. The increase in revenues from international calls in fiscal 1996 as compared to fiscal 1995 principally resulted from an 8.8 per cent. increase in international outgoing traffic which was partially offset by the three month effect of the rate reduction discussed above and the negative VAT Effect in fiscal 1996.

**Telecards.** Revenues from the sales of telecards are significantly affected by the number of tourists visiting Malta who use telecards principally for international outgoing calls. As a result, sales of telecards tend to be seasonal, with significant increases during the height of the tourist season in the summer months of the year and significantly lower during the winter months. Another factor that has affected the use of telecards has been the use of country direct schemes ("Country Direct Schemes") through which tourists and other foreign visitors in Malta are able to make calls to their home country at their home country tariff rate, and have the cost of such calls billed to their home telephone number by the long distance telephone operator (who subsequently pays a portion of the billed amount to the Company). The Company believes that this scheme has reduced demand for telecards. Income from the foreign telecommunications operators resulting from Country Direct Schemes is included within carriers' revenue. The increase in telecard revenues for the six months ended 31st March, 1998 was principally due to the positive VAT Effect for the period, and increased usage caused by a small increase in the number of tourists and an increase in the number of company owned public telephones (which exclusively use telecards) during the period. The increase in revenue from the sale of telecards in fiscal 1997 was principally caused by the same factors, except that increased usage as a result of higher tourism levels was a more significant factor in fiscal 1997. Partially offsetting the increase in revenues from telecard sales in fiscal 1997 was the decrease in international tariff rates from 1st June, 1996 which adversely affected telecard revenues for the entire fiscal 1997 but only affected the last three months of fiscal 1996. In addition, the Company believes that the use of fraudulently manufactured telecards during the period (which permitted use of modified telecards in an unrestricted manner without payment) also reduced telecard sales during fiscal 1997. See "Business - Telecards". Finally increased use by tourists and other foreign visitors of Country Direct Schemes also had a negative impact on revenues from telecard sales for the six months ended 31st March, 1998 and in fiscal 1997. The decrease in revenues from telecard sales in fiscal 1996 was due to the negative VAT Effect in 1996, the three month effect of the introduction of reduced international tariff rates as at 1st July, 1996 discussed above, the increased use of Country Direct Schemes and decreased tourism levels in 1996 as compared to 1995.

**Cellular Telephone Calls.** The Company records cellular call revenue from the following sources: (i) calls from Maltacom subscribers to Vodafone Malta's cellular telephony network and (ii) calls from cellular telephones to Maltacom's local telephone network or to international destinations which transit through Maltacom's international switches. Rates for local calls to the cellular network have remained unchanged during the periods under review and interconnection rates for cellular calls were unchanged until 1st July, 1997 when interconnection rates were increased. A further increase in interconnection rates was implemented on 1st April, 1998. The increases in cellular call revenues in fiscal 1996 and fiscal 1997 and the six months ended 31st March, 1998 reflected increases in Vodafone Malta's cellular subscriber base during the respective periods. The significant increase in cellular call revenues in the six months ended 31st March, 1998 and fiscal 1997 also reflects the positive VAT Effect for those periods offset in part by the effect of reduced international rates described above. An additional factor increasing cellular call revenues for the six months ended 31st March, 1998 is the higher interconnection rates mentioned above. Partially offsetting the increase attributable to increased subscribers in fiscal 1996 is the negative VAT Effect, and the decline in revenues from international outgoing traffic originating from the cellular network in fiscal 1996.

### Subscribers' Rentals

Revenues from subscribers' rentals are principally comprised of fixed line rentals (which includes fees for value added services (such as "star" services)) and leased line rentals, but also includes revenues generated from the provision of packet switching and maritime telecommunications services. Set forth below are revenues from subscribers' rentals for each period and the percentage change between periods in such amounts.

|                            | Year ended 30th September, |       |       | Six months ended<br>31st March, |       | Year ended<br>30th September, |           | Six months<br>ended      |
|----------------------------|----------------------------|-------|-------|---------------------------------|-------|-------------------------------|-----------|--------------------------|
|                            | 1995                       | 1996  | 1997  | 1997                            | 1998  | 1996/1995                     | 1997/1996 | 31st March,<br>1998/1997 |
|                            | (Lm in thousands)          |       |       |                                 |       | (% change)                    |           |                          |
| Subscribers' rentals . . . | 5,427                      | 5,737 | 6,100 | 2,990                           | 3,392 | 5.7                           | 6.3       | 13.4                     |

The increases in each period principally reflect an increase in each period in the number of access lines in service. See "Business – Network and Subscribers". The increase in the six months ended 31st March, 1998 also reflects the positive VAT Effect during the period. Additional factors causing the increase in fiscal 1997 are a large increase in the number of leased circuit subscribers and the positive 1997 VAT Effect. The increase in fiscal 1996 was partially offset by the increased VAT Effect in fiscal 1996 as compared to fiscal 1995 and by the decrease in the rates the Company charged for both international and domestic leased circuits in fiscal 1996.

#### *Carriers' Revenue and Other Income*

Carriers' revenue is principally comprised of revenues from foreign administrations (for completion of incoming international calls) and revenues associated with access line installation. The following is a breakdown of carriers' revenue and other income and the percentage change between periods of each revenue category.

|                                                   | Year ended 30th September, |       |       | Six months ended<br>31st March, |       | Year ended<br>30th September, |           | Six months<br>ended      |
|---------------------------------------------------|----------------------------|-------|-------|---------------------------------|-------|-------------------------------|-----------|--------------------------|
|                                                   | 1995                       | 1996  | 1997  | 1997                            | 1998  | 1996/1995                     | 1997/1996 | 31st March,<br>1998/1997 |
|                                                   | (Lm in thousands)          |       |       |                                 |       |                               |           |                          |
|                                                   |                            |       |       | (% change)                      |       |                               |           |                          |
| Carriers' revenue . . . . .                       | 4,341                      | 3,760 | 3,388 | 1,821                           | 1,404 | (13.4)                        | (9.9)     | (22.9)                   |
| Installation charges and<br>extra works . . . . . | 354                        | 467   | 671   | 302                             | 359   | 31.9                          | 43.7      | 18.9                     |
| Licence fees and other<br>charges . . . . .       | 19                         | 19    | 20    | 9                               | 5     | —                             | 5.3       | (44.4)                   |
| Sundry income . . . . .                           | 160                        | 206   | 173   | 119                             | 182   | 28.8                          | (16.0)    | 52.9                     |
| Total carriers' revenue<br>and other income       | 4,874                      | 4,452 | 4,252 | 2,251                           | 1,950 | (8.7)                         | (4.5)     | (13.4)                   |

*Carriers' revenue.* Carriers' revenue is affected by the amount of international traffic incoming to Malta, the interconnection rates negotiated by the Company with foreign telephone operators and use of Country Direct Schemes by foreign tourists and other visitors to Malta. The decreases in revenues from foreign administrations for the six months ended 31st March, 1998 and in fiscal 1997 and 1996 were caused by declining interconnection rates paid by foreign telephone operators. The decline in rates in each period was partially offset by increases in incoming telephone traffic of 8.7 per cent. for the six months ended 31st March, 1998, 9.4 per cent. in fiscal 1997 and 8.0 per cent. in fiscal 1996 and increases in the use of Country Direct Schemes.

*Installation Charges and Extra Works.* Installation charges and extra works are affected principally by the number of new installations and line transfers requested by customers. The increase in revenue for the six months ended 31st March, 1998 and fiscal 1997 as compared to the respective comparable prior periods was the result of an increased level of installations associated with an increase in the number of subscribers requesting new installations and Maltacom's initiative to decrease waiting lists. The increase in revenue in fiscal 1996 was principally due to an increase in the level of installations resulting from a large increase in the number of applications for new access lines and transfers. See "Business – Network and Subscribers".

#### *Cost of Sales*

Cost of sales consists primarily of operational wages and salaries, external traffic charges, cellular traffic charges and depreciation. Cost of sales also includes other items such as repairs and maintenance, transportation and other miscellaneous items. The following is a breakdown of the Company's cost of sales and the percentage changes between periods of such expenses.

|                                             | Year ended 30th September, |        |        | Six months ended<br>31st March, |       | Year ended<br>30th September, |           | Six months<br>ended      |
|---------------------------------------------|----------------------------|--------|--------|---------------------------------|-------|-------------------------------|-----------|--------------------------|
|                                             | 1995                       | 1996   | 1997   | 1997                            | 1998  | 1996/1995                     | 1997/1996 | 31st March,<br>1998/1997 |
|                                             | (Lm in thousands)          |        |        |                                 |       |                               |           |                          |
|                                             |                            |        |        | (% change)                      |       |                               |           |                          |
| Operational wages and<br>salaries . . . . . | 6,021                      | 6,753  | 6,737  | 2,890                           | 3,114 | 12.2                          | (0.2)     | 7.8                      |
| External traffic charges . .                | 5,368                      | 5,444  | 4,454  | 1,992                           | 1,541 | 1.4                           | (18.2)    | (22.6)                   |
| Cellular traffic charges . .                | 1,183                      | 1,857  | 2,115  | 974                             | 971   | 57.0                          | 13.9      | (0.3)                    |
| Depreciation . . . . .                      | 2,980                      | 3,360  | 3,869  | 1,765                           | 2,267 | 12.8                          | 15.1      | 28.4                     |
| Other . . . . .                             | 2,331                      | 2,654  | 2,281  | 1,579                           | 1,575 | 13.9                          | (14.1)    | (0.3)                    |
| Total cost of sales                         | 17,883                     | 20,068 | 19,455 | 9,200                           | 9,468 | 12.2                          | (3.1)     | 2.9                      |

The small increase in cost of sales for the six months ended 31st March, 1998 as compared to the comparable period in 1997 resulted from a large increase in depreciation expense as well as an increase in operational wages and

salaries which was largely offset by decreased external traffic charges. Cellular traffic charges during the six months ended 31st March, 1998 remained relatively unchanged as compared to the prior period. The decrease in cost of sales in fiscal 1997 resulted from a large decrease in external traffic charges which was largely offset by increases in cellular traffic charges and depreciation. Operational wages and salaries in fiscal 1997 remained relatively unchanged from the fiscal 1996 level. The increase in cost of sales in fiscal 1996 resulted primarily from increases in operational wages and salaries and cellular traffic charges as well as an increase in depreciation expense.

*Operational Wages and Salaries.* As discussed in “–Significant Factors Influencing the Company’s Results of Operations – Wages and Salaries and Social Security Costs”, operational wages and salaries are a function of the aggregate increase in the Company’s total wage and salary expense and the Company’s allocation of those expenses between operational wages and salaries and administrative wages and salaries. The increase in operational wages and salaries in the six months ended 31st March 1998 as compared to the six months ended 31st March, 1997 is attributable to a 7.8 per cent. increase in total wages and salary expense during the period. The percentage allocation attributable to operational wages and salaries was the same in each period. In fiscal 1997 operational wages and salaries declined by 0.2 per cent. as the 11.2 per cent. increase in total wages and salaries was more than offset by a decreased percentage allocation attributed to operational wages and salaries as compared to fiscal 1996. In fiscal 1996 the increase in operational wages and salaries was primarily due to a 20 per cent. increase in total wage and salary costs which was partly offset by the decrease in the percentage allocation of the total wages and salaries attributable to operational wages.

*External Traffic Charges.* External traffic charges are payments to foreign telephone operators in respect of outgoing international traffic and are a function of the level of outgoing international traffic and the interconnection rates Maltacom is charged by foreign operators. One factor which has partially offset the overall growth in international outgoing call charges in each period has been the increasing use of Country Direct Schemes by tourists and other foreign visitors, which reduces external traffic charges and telecard revenues while increasing, to a lesser extent, revenues from foreign administrations. See discussion of Country Direct Schemes under “– Turnover – Subscribers’ Traffic – Telecards” above. The significant decreases in external traffic charges for the six months ended 31st March, 1998 and in fiscal 1997 were principally the result of a significant decrease in the accounting rates charged by foreign telephone operators which was offset in part by increases in outgoing international traffic (excluding outgoing calls utilising Country Direct Schemes). The relatively small increase in external traffic charges in fiscal 1996 resulted from increased outgoing call volumes (net of Country Direct Schemes) which were largely offset by declines in accounting rates charged by foreign telephone operators.

*Cellular traffic charges.* Cellular traffic charges represent reimbursement payments by the Company to Vodafone Malta, the operator of Malta’s cellular network, for traffic originating from Maltacom’s domestic network to the cellular network or for incoming international calls accessing the cellular network via Maltacom’s international switches. The slight decrease in cellular traffic charges for the six months ended 31st March, 1998 was due to the lowering of interconnection rates with Vodafone Malta which was effective from 1st July, 1997 which was substantially offset by increases in cellular traffic reflecting the increases in Vodafone Malta’s subscriber base. The increases in cellular charges in fiscal 1997 and fiscal 1996 were largely a result of increased traffic reflecting the substantial increases in cellular subscribers and traffic in each year described above under “– Turnover – Subscribers’ Traffic – Cellular Telephone Calls”.

*Depreciation.* The level of depreciation expense is a function of the book value of the Company’s capital assets and the depreciation rate applied. The primary factor which increased depreciation expense for the six months ended 31st March, 1998 was an increase in the rates of depreciation applied to certain capital assets, such as cables, exchange equipment and subscribers equipment which the Company implemented with effect from 1st October, 1997. The depreciation rates of such assets were revised to reflect management’s view that their useful lives were previously too long. The increase in depreciation expense for the six months ended 31st March, 1998 was also due, and the increases in depreciation expense in fiscal 1997 and fiscal 1996 were primarily due, to increases in each period in the book value of the Company’s capital assets (net of disposals) due to the Company’s ongoing capital expenditure programme. As discussed under “Business – Strategy – Network Modernisation and Introduction of New Services” and “– Capital Expenditure Programme”, the Company intends to continue to invest substantially in its network over the next few years. Accordingly, depreciation expense will continue to increase significantly in future periods reflecting the increase in capital assets subject to depreciation and the increase in depreciation rates implemented with effect from 1st October, 1997.

#### ***Administrative and Distribution Expenses***

Administrative and distribution expenses primarily consists of administrative wages and salaries, provisions for doubtful debts, bad debt expense and promotional costs. The following is a breakdown of administrative, selling and distribution expenses in each period and the percentage change between periods of such amounts.

|                                                  | Year ended 30th September, |              |              | Six months ended<br>31st March, |              | Year ended<br>30th September, |           | Six months<br>ended<br>31st March, |
|--------------------------------------------------|----------------------------|--------------|--------------|---------------------------------|--------------|-------------------------------|-----------|------------------------------------|
|                                                  | 1995                       | 1996         | 1997         | 1997                            | 1998         | 1996/1995                     | 1997/1996 | 1998/1997                          |
|                                                  | (Lm in thousands)          |              |              |                                 |              | (% change)                    |           |                                    |
| Administrative wages and salaries . . . . .      | 1,548                      | 2,330        | 3,364        | 1,638                           | 1,767        | 50.5                          | 44.4      | 7.9                                |
| Provisions for bad debts and bad debts . . . . . | 1,225                      | 532          | (629)        | 313                             | 941          | (56.6)                        | *         | 200.6                              |
| Other . . . . .                                  | 1,008                      | 1,351        | 1,092        | 405                             | 915          | 34.0                          | (19.2)    | 125.9                              |
| Total administrative and distribution expenses   | <u>3,781</u>               | <u>4,213</u> | <u>3,827</u> | <u>2,356</u>                    | <u>3,623</u> | 11.4                          | (9.2)     | 53.8                               |

\*Not meaningful.

The large increase in total administration and distribution expenses in the six months ended 31st March, 1998 as compared to the comparable period in 1997 principally resulted from the large increase in provisions for bad debts and doubtful accounts as well as an increase in administrative wages and salaries. The decrease in total administration and distribution expenses in fiscal 1997 resulted from the reversal of certain bad debt provisions which more than offset the substantial increase in administrative wages and salaries during the period. The increase in administration and distribution expenses in fiscal 1996 resulted from a large increase in administrative wages and salaries offset substantially by a decline in provisions for bad debts and bad debt expense.

**Administrative Wages and Salaries.** As discussed in "Significant Factors Influencing the Company's Results of Operations - Wages and Salaries and Social Security Costs", administrative wages and salaries are a function of the aggregate increase in the Company's total wage and salary expense and the Company's allocation of these expenses between operational wages and salaries and administrative wages and salaries. The increase in administrative wages and salaries in the six months ended 31st March, 1998 as compared to the comparable period in 1997 is attributable to the 7.9 per cent. increase in total wages and salary expense during the period. The percentage allocation attributable to administrative wages and salaries was the same in each period. The very large increases in administrative wages and salaries in fiscal 1997 and fiscal 1996 resulted from increases in the percentage allocation of total wages and salaries to administrative wages and increases of 11.2 per cent. and 20.0 per cent. respectively in the Company's total wages and salaries.

**Provision for Bad Debts and Bad Debts.** The Company establishes provisions for bad debts when a subscriber receivable is outstanding for more than one year and no repayment agreement with the debtor has been signed or the subscriber is violating such agreement. A 50 per cent. provision is taken on the outstanding amount if the subscriber retains access to telephone services but the provision is increased to 100 per cent. if the subscriber's access to services is removed. If a subscriber receivable has been outstanding for less than one year or if a subscriber has entered into a repayment agreement no provision is made. When it is clear that a debt is not recoverable, it is written off by the Company. Increases in provisions for bad debt and bad debt expense reflect the net increase in provisioning levels and the write off of bad debts not previously provided for. The increase in provisions for bad debts and bad debts expense in the six months ended 31st March, 1998 was due to reassessments by the Company of certain customers' ability to repay their debts which caused the Company to terminate the access of certain non-paying customers to its services resulting in an increase in provisioning with respect to such customers from 50 to 100 per cent. of the payment receivable in accordance with the policy described above. In the first quarter of 1997 the Company implemented a programme to substantially strengthen its credit control department, adding seven employees and focusing its efforts on obtaining repayment agreements from subscribers with receivables outstanding over one year. This programme resulted in significant increases in repayment agreements, which permitted the reversal of provisions taken against the relevant receivables. These reversals in provisions more than offset increases in provision levels for other receivables, resulting in a net credit of Lm629,000 in fiscal 1997. In fiscal 1996 the Company began to selectively pursue customers with the largest overdue balances more aggressively, which resulted in a decline in the provision for bad debts and bad debts expense, as in certain cases the Company was able to procure repayment of the debt or the debtor's consent to enter into a repayment agreement. In addition, the decrease in fiscal 1996 as compared to fiscal 1995 also reflected a relatively high level of debt write offs in fiscal 1995 when a substantial amount of long overdue debts were written off.

#### **Other Operating Income**

Other operating income is comprised primarily of gains on foreign exchange related to the Company's operations (arising principally from payments to and from foreign telephone operators denominated in foreign currencies), but also includes penalties charged to suppliers, profits on disposals of assets and other items. The increase in fiscal 1996 was due to a reversal of a provision for foreign exchange losses net of realised losses caused by the repayment of a loan in 1996 to the European Investment Bank.

### ***Operating Profit Before Exceptional Charges***

Operating profit before exceptional charges for the six months ended 31st March, 1998 increased slightly as compared to the comparable period in 1997 as the increase in turnover was largely offset by the increase in cost of sales and the large increase in administrative and distribution expense. Operating profit before exceptional charges increased substantially in fiscal 1997 principally due to the increased turnover and decreased cost of sales and administrative and distribution expenses described above. Operating profit decreased in fiscal 1996 as compared to the prior year as costs of sales and administrative and distribution expenses increased at a faster rate than turnover. The Company's operating margins (before exceptional charges) reflected these trends.

### ***Exceptional Charges***

In the six months ended 31st March, 1998 the Company recognised an exceptional charge of Lm7.849 million reflecting a Lm7.5 million charge relating to the estimated future costs associated with implementation of the Company's reorganisation plan, with the remaining charge relating to costs associated with the Company's hosting of the World Telecommunication Development Conference in March 1998. The exceptional charge in fiscal 1997 of Lm4.084 million relates to the writedown in value of certain of the Company's telecommunications assets. The writedown resulted from a strategic review of the Company's operations which identified certain existing assets which would be replaced prior to the end of the useful lives of such assets assumed for depreciation purposes. In order to adjust the value of such assets to reflect their reduced useful lives, a one time adjustment was made and the related cost has been presented as an exceptional charge.

### ***Interest and Similar Charges***

Interest and similar charges primarily consist of interest on bank loans and overdraft facilities. The level of bank interest payable is a function of the outstanding loan and overdraft balances and interest rates. Prior to 1997, interest rates on the Company's loans and overdraft facilities remained relatively stable. However, in preparation for the privatisation of Maltacom, new terms to existing credit and overdraft facilities have been negotiated with Maltese banks. The interest rates on these facilities as amended are lower than the Company's previously existing facilities.

Interest and similar charges increased by 11.1 per cent. from Lm1.930 million in fiscal 1995 to Lm2.145 million in fiscal 1996 followed by a decrease of 5.0 per cent. to Lm2.038 million in fiscal 1997. The increase in fiscal 1996 reflected the increase in borrowings by the Company during the year principally to fund its ongoing capital expenditure programme. The decrease in fiscal 1997 reflected a decrease in borrowings during the period. The lower debt levels resulted primarily from the Company's increased focus on bill collection by the credit control department which lowered outstanding subscriber receivables in fiscal 1997 and from improved operating cash flows reflecting the Company's improved operating performance during the year. Interest and similar charges decreased by 8.9 per cent. for the six months ended 31st March, 1998 compared to the six months ended 31st March, 1997 resulting from a continuing decrease in borrowings due to improved operating performance and improved debt collection as well as from lower interest rates on the Company's borrowings (as described above).

### ***Share of Profits less Losses of Associated Companies***

The Company's share of profits less losses of associated companies improved from a net loss of Lm9,000 in fiscal 1995 to a net gain of Lm438,000 in fiscal 1996 but decreased to a net gain of Lm343,000 in fiscal 1997. The Company's share of profits less losses of associated companies decreased by 7.6 per cent. to Lm256,000 for the six months ended 31st March, 1998 compared to Lm277,000 for the six months ended 31st March, 1997. As discussed above under "General", the only associated company which generated an operating profit during the periods under review was Vodafone Malta. The increase in the Company's share of profits less losses of associated companies in fiscal 1996 primarily resulted from a significant improvement in Vodafone Malta's profitability reflecting substantial increases in cellular subscribers and cellular traffic. The improved profitability of Vodafone Malta continued in fiscal 1997 and for the six months ended 31st March, 1998. However, the increase in the Company's share in the profit in Vodafone Malta was more than offset by an increase in its share of losses of the Company's other associated companies resulting in the decreases in fiscal 1997 and for the six months ended 31st March, 1998 discussed above.

### ***Taxation***

Corporate tax rates in Malta remained at 35 per cent. during all periods under review. As discussed above, for periods prior to 2nd January, 1998 (the date Maltacom became the successor of Telemalta) the Financial Statements have been based on the Financial Statements of Telemalta, adjusted to reflect the accounting policies of Maltacom and certain other factors. Because Telemalta ceased to exist following the succession by Maltacom Telemalta's deferred tax provisions were not taken into Maltacom's balance sheet (as these liabilities could never crystallise). As a result, for purposes of preparing Maltacom's income statements, Telemalta's deferred tax provisionary costs have been eliminated to the extent that such deferred taxes did not crystallise prior to 2nd January, 1998. As a result, Maltacom's taxation expenses for fiscal 1995, fiscal 1996 and fiscal 1997 and the six months ended 31st March, 1997 are lower than would have been the case if Maltacom

had been in existence during such periods. Taxation expense decreased by 7.1 per cent. from Lm1.752 million in fiscal 1995 to Lm1.627 million in fiscal 1996 and then increased by 52.2 per cent. in fiscal 1997 to Lm2.477 million. The decline in taxation expenses in fiscal 1996 reflected the decline in profitability in that year as compared to fiscal 1995. The substantial increase in taxation expense in fiscal 1997 reflects the significant improvement in the Company's profitability (excluding the exceptional charge). The large effective tax rate in fiscal 1997 (60 per cent.) results from the lack of deductibility of the Lm4.084 million exceptional charge for tax purposes. Excluding the effect of the exceptional charge, the tax rate in fiscal 1997 would have been in line with fiscal 1996 at approximately 31 per cent. The effective tax rate (excluding the exceptional charge) in these periods is below the actual corporate tax rate principally due to the lack of deferred tax provisioning described above. Taxation expense increased by 100.0 per cent. for the six months ended 31st March, 1998 as compared to the six months ended 31st March, 1997 reflecting the slight improvement in operating profit before exceptional charges (which are not tax deductible) and a significant increase in the Company's effective tax rate to 49.8 per cent. (excluding the exceptional charge) in the six months ending 31st March, 1998. The increase in the effective tax rate results from the inclusion of deferred tax provisions with effect from 2nd January, 1998 which is compounded by permanent differences in the book value of the Company's assets for financial reporting and tax reporting purposes which arose in connection with the succession by Maltacom of Telemalta. The effect of these permanent differences is expected to decline over time, but in the near term will have the effect of increasing the Company's effective tax rate for financial reporting purposes.

However, pursuant to the Malta Stock Exchange Act, 1990, following the listing on the MSE, the Company will be eligible for a reduced statutory rate of tax for a three year period commencing the year of listing. The reduction in the statutory rate will depend upon whether the Overallotment Option is exercised in full. If the Government sells in the Combined Offering less than 40 per cent. of the Company's outstanding Shares (i.e., the Overallotment Option is not exercised in full), the reduction in the statutory rate will be 3.5 per cent. However, if the Government sells pursuant to the Combined Offering 40 per cent. or more of the Company's outstanding Shares (i.e., the Overallotment Option is exercised in full), the reduction will be five per cent. This reduction in statutory rate will offset in part the increased effective tax rate attributable to the permanent asset value differences discussed above.

#### **Net Profit**

Net profit decreased 24.4 per cent. from Lm4.216 million in fiscal 1995 to Lm3.188 million in fiscal 1996. The decrease in 1996 resulted principally from the decrease in operating profit and the substantial increase in interest expense in fiscal 1996 discussed above. Net profit decreased 47.3 per cent. to Lm1.680 million in fiscal 1997 principally due to the large exceptional charge (Lm4.084 million) discussed above which more than offset the increase in operating profit before exceptional charges and the decrease in interest expense described above. For the six months ended 31st March, 1998 the Company recognised a net loss of Lm5.793 million as compared to a net profit of Lm2.846 million for the six months ended 31st March, 1997. The loss for the six months ended 31st March, 1998 was largely a result of the large exceptional charge (Lm7.849 million) and the increase in taxation discussed above.

#### **Liquidity and Capital Resources**

The Company's cash flows from operating activities were Lm9.492 million, Lm6.933 million, Lm12.433 million and Lm5.966 million in fiscal 1995, fiscal 1996, fiscal 1997 and six months ended 31st March, 1998, respectively. In fiscal 1996, the high level of capital expenditure associated with the Company's network improvement programme in that year significantly exceeded cash flow from operations and the excess costs were funded principally through increased long term borrowings and increased borrowings from bank overdraft facilities. In fiscal 1997, capital expenditure levels dropped substantially while cash flow from operations almost doubled. As a result, the excess cash flow from operations, after funding capital investments, was principally used to reduce short term indebtedness.

As discussed under "Business-Strategy", the Company is continuing to implement a capital investment programme to improve its network. During the next three year period ending 31st December, 2000, the Company intends to invest approximately Lm27.4 million US\$70.1 million in connection with this programme. The Company expects that the bulk of these capital expenditures will be financed by cash generated from operating activities (after payment of dividends to shareholders). See "Dividends - Dividend Policy". The Company expects to finance the remainder of its capital expenditure through bank borrowings or debt offerings. The Company has recently entered into a Lm15 million credit facility with Midland Bank plc. The proceeds of loans under the facility can be used, among other purposes, to fund the Company's capital expenditure programme. As of the date hereof the Company has not drawn any amount under this facility. In addition to the Midland Bank facility, given its relatively low debt levels the Company does not expect any material difficulty in finding additional sources for debt financing if additional borrowings were to become necessary.

The Board of Directors is satisfied that, taking into account availability of existing bank facilities, Maltacom has sufficient working capital for its present requirements to enable it to carry on its business for at least the next twelve months.

## REGULATION

### Overview

Prior to the enactment of Malta's Telecommunications (Regulation) Act 1997 (the "Telecommunications Act"), Telemalta had the exclusive right to provide telecommunications services in Malta and also acted as the regulator of the Maltese telecommunications sector (e.g. Telemalta issued licences for mobile telephony and paging services). Pursuant to the Telecommunications Act and Malta's Legal Notice 238 of 1997 (collectively, the "Succession Legislation"), on 2nd January, 1998 Maltacom succeeded to the business operations of Telemalta and a new regulatory environment and framework for the Maltese telecommunications industry was established. In particular, in order to regulate the telecommunications industry, including Maltacom, an independent telecommunications regulator (the "Regulator") has been established in accordance with the Telecommunications Act. The Regulator and Maltacom have entered into a licence agreement on 2nd January, 1998 (the "Licence"), which grants to Maltacom the exclusive right to provide, *inter alia*, fixed line national and international voice telephony until 31st December, 2010.

### Regulatory Framework in Malta

#### *Telecommunications Law*

The Telecommunications Act was enacted on 30th December, 1997 and is the principal legislation governing the telecommunications sector in Malta. The Telecommunications Act provides for the establishment of the Regulator and delineates his powers and obligations, the procedures for granting and refusing the grant of a licence to provide telecommunications services or to operate telecommunications networks and basic regulation in relation to radio frequency management, a numbering plan and interconnection disputes. The Telecommunications Act contains provisions regulating the protection of subscribers' interests, the establishment of a Telecommunications Appeals Board to which appeals against certain decisions of the Regulator can be submitted (e.g. against the decision of the Regulator in an interconnection dispute between licenced operators of telecommunications systems (such persons are referred to in the Telecommunications Act and hereinafter as "authorised providers")).

#### *The Regulator and the Minister*

Under the Telecommunications Act, the Regulator is appointed by the Prime Minister of Malta. The Regulator is a public officer, assisted by such staff as he may appoint. His staff are civil servants. The present Regulator is Mr. Joseph Bartolo.

The Regulator's main responsibilities include: the granting, refusal and revocation of licences and other authorisations for the provision of telecommunication services with the approval of the Government's Minister responsible for telecommunications ("the Minister"); the approval of tariffs and other charges for telephone services; the establishment of the numbering plan for telecommunications services and allocation of numbers to authorised providers; dispute resolution in the case of interconnection negotiations or disputes; and making recommendations for the Minister to issue regulations (e.g. in relation to universal service obligation).

Except where otherwise specified in the Telecommunications Act, the Regulator has the power to issue directives, and the Minister has the power to issue regulations, in each case to ensure compliance with the provisions of the Telecommunications Act and other relevant laws.

#### *Licensing*

In order to install or operate a public telecommunications infrastructure or to provide a public telecommunications service in Malta a licence must be obtained from the Regulator. An application for a licence or permit (hereinafter an "authorisation") has to be submitted to the Regulator together with all necessary information required by the Regulator. The application has to be published in the Malta Government Gazette, so as to facilitate public comment on the application. The Regulator thereafter considers both the application and any comments or objections submitted and forwards a report with his recommendation to the Minister.

If the Regulator recommends granting of the authorisation and the Minister agrees, the Regulator approves the application and grants the authorisation. If there is a difference between the Regulator's recommendation and the Minister's opinion with respect to the application, the Minister's decision prevails. An authorisation can be granted with such exclusive rights as the Regulator, with the concurrence of the Minister, may specify in the authorisation. However, the Telecommunications Act provides that no exclusivity can be granted, or would have effect, beyond 2010.

For services other than public telecommunications services, registration is required. The registration procedure involves a simple notification in writing to the Regulator with the necessary information enclosed.

In instances where radio frequency allocations are necessary, such as for mobile telephony or paging services, radio frequency licences are issued by the Minister under the Wireless Telegraphy Ordinance (Cap. 49).

### ***Interconnection***

Under the Telecommunications Act, the terms under which interconnection is provided is a matter for commercial agreement between the parties. If an agreement cannot be reached on a particular matter, the authorised provider who requested interconnection may, within ninety days from the date of the request, refer the matter to the Regulator. The Regulator can impose the terms for interconnection on the operators, applying a number of guidelines set out in the Telecommunications Act, such as recovery by the authorised provider providing the interconnection of its fully allocated costs on a historical basis plus a return on capital employed.

### ***Price Control Regime***

Under the Rate Mechanism issued by the Regulator on 24th April, 1998 (the "Rate Mechanism"), the Regulator established a rate control mechanism for charges for specified services which has the effect of limiting tariff increases to the level of inflation as indicated by the retail price index in Malta, less a factor designed to measure the productivity of the Company. This index has been established as having a value of two so that in practice, price increases are limited to the percentage increase in the retail price index less two per cent. The specified services covered by the Rate Mechanism include usage charges, standing charges, the initial one-off charge (such as installation charges) and charges made for the provision of national and international leased lines. The Rate Mechanism applies for a six year period from 1st January, 2000. Maltacom is not required to obtain the Regulator's approval for changes in tariffs for specified services made during this period so long as the change does not result in the overall level of charges for specified services exceeding the level set by the Rate Mechanism. However, any tariff change must be notified to the Regulator. The Licence is expected to be amended to take into account the Rate Mechanism by incorporating its terms.

The Telecommunications Act specifically prohibits cross subsidisation with respect to telecommunications services provided in competition with other authorised providers.

### ***Universal Service Obligation***

The Telecommunications Act defines the universal service obligation (the "USO") as any obligation to provide telecommunications services designated by the Regulator. The Minister may issue regulations concerning USO, which may address the obligations to provide services designated by the Regulator as USO and the funding mechanism established by the Regulator to share the burden of meeting any USO imposed on more than one authorised provider between the authorised providers. At present, Maltacom does not have a defined USO but it does have similar obligations under the Licence. See "– Maltacom's Licence – Obligations".

### ***Proposed changes to Telecommunications Law***

The Regulator has recommended to the Minister certain amendments (the "Proposed Amendments") to the Telecommunications Act described below.

#### ***Prohibitions on service provision by non-licensed entities***

The Proposed Amendments expressly prohibit the provision of callback services. Under existing law, it is however an offence to provide telecommunications services without an authorisation granted by the Regulator. See "– Regulatory Framework in Malta – Licencing".

#### ***Interconnection***

The Proposed Amendments would grant the Regulator the ability to resolve any dispute under any interconnection agreement that was in existence at the time when the Telecommunications Act came into force using the same guidelines established under "– Regulatory Framework in Malta – Interconnection". Under present law the Regulator may only resolve disputes under interconnection agreements entered into after the promulgation of the Telecommunications Act.

#### ***Universal Service Obligations***

The Proposed Amendments provide that the Regulator will be able to establish a funding mechanism where one or more authorised providers is required to meet a specified USO. At present a USO funding mechanism may only be established when more than one provider is required to provide USO. See "– Regulatory Framework in Malta – Universal Service Obligation".

In addition, the Proposed Amendments would place a specific USO on Maltacom in addition to its general obligation under its Licence to provide voice telephony services on request. See "– Maltacom's Licence –

Obligations". The specific USO requires Maltacom to provide emergency services, fault repair services and services for disadvantaged users (the "Required Services").

The Proposed Amendments will also establish a fund for the sharing, between specified authorised providers, of the burden on Maltacom of meeting its USO (the "Fund"). Authorised providers providing voice telephony services will be required to pay into the Fund an amount representing a specified amount of voice telephony revenues as a proportion to the total revenues derived from these services. Maltacom's contribution to the Fund will be deducted from the amount paid out from the Fund. This amount will be calculated on the basis of the additional cost to Maltacom of providing the Required Services.

If the Proposed Amendments are enacted, the Company expects Maltacom's Licence will be amended by agreement with the Regulator by incorporation of the terms of the Proposed Amendments.

## **Maltacom's Licence**

### ***Services***

Under the Licence, Maltacom has the exclusive right until 31st December, 2010 to provide national and international voice telephony and related value added services; national and international non-voice services; resale of telecommunications services; public and private phonecard services; ISDN; broadband telecommunications services over a public network; and services rendered through all types of public cordless terminal mobility technology and wireless local loop technology including DECT. Such services can be provided over fixed lines or by any other non-mobile means.

Maltacom also has the right to provide, on a non-exclusive basis, private network services, Internet services and interconnectivity, trunked radio services, information services and other services.

### ***Obligations***

Maltacom is obliged under its Licence to provide voice telephony services, within a reasonable time, to every person in Malta who requests it, except to the extent that the Regulator is satisfied that any reasonable demand is or is to be met by other means.

Maltacom is required to send its annual audited financial statements to the Regulator. The Regulator is entitled to request additional information in relation to the services provided by Maltacom on an exclusive basis and the Regulator has the right to access Maltacom's plant during normal business hours for the purposes of supervision.

Maltacom is obliged to provide interconnection to its network to other authorised providers in accordance with the Telecommunications Act, and any regulations issued under the Telecommunications Act. When calculating its interconnection charges Maltacom may include the following charges: (i) a connection charge to recover the full allocated costs for the provision of interconnection on an historical basis plus return on capital employed; (ii) a connection charge to recover the one-time costs incurred in providing the required interconnection; (iii) usage charges related to the utilisation of the network and other network elements and resources requested; and (iv) other charges reflecting a fair share of costs as may reasonably be incurred by Maltacom. Maltacom is required to keep quarterly data which identifies or apportions the cost it incurs regarding interconnection.

### ***Term***

The initial term of the Licence expires on 2nd January, 2023, and will be automatically renewed for an additional ten years unless the Regulator notifies Maltacom of his intention to terminate the Licence two years before the end of the initial term. The term of Maltacom's exclusivity for the provision of national and international fixed line voice telephony and other services expires on 31st December, 2010.

### ***Licence Fee***

Maltacom is obliged to pay the Regulator an annual licence fee of Lm470,000, a quarter of which is due every three months in arrears.

### ***Assignment***

Maltacom may not assign or transfer all or part of its rights or obligations under the Licence, or effect a change in control of Maltacom without the prior written authorisation of the Regulator, which authorisation cannot be unreasonably withheld.

### ***Tariffs***

From 1st January, 2000, Maltacom will be subject to a rate control mechanism. See “– Regulatory Framework in Malta – Price Control Regime”. Until that date, Maltacom is limited to the tariffs presently in effect and is required to obtain the Regulator’s approval for changes to such tariffs.

### ***Termination***

Maltacom’s exclusivity may be terminated prior to 31st December, 2010 if the Regulator determines Maltacom is not in substantial compliance with the terms of the Licence described above. See “– Obligations”.

In addition, before the expiration of its term, the Licence can be terminated in part or in whole for reasons specified in the Licence. The principal reasons for termination are: (i) renunciation by Maltacom; (ii) insolvency, liquidation or bankruptcy of Maltacom; or (iii) with the approval of the Minister if (A) the authorisation was granted on the basis of incomplete or inaccurate information; (B) Maltacom fails to act on the authorisation within a specified period or suspends any activity for a specified period from the date of grant of the authorisation; or (C) Maltacom is in breach of an obligation imposed under the Telecommunications Act or in the authorisation which, in the Regulator’s opinion, is sufficient to justify revocation of the authorisation and Maltacom, within the time granted by the Regulator, has failed to remedy such breach.

On termination of the Licence, if the Government is still the majority shareholder of Maltacom, it is entitled to purchase all the real estate, equipment, structures, and facilities belonging to Maltacom and used in connection with the Licence at a market price determined by a professional valuation acceptable to both parties.

If the Licence is terminated for reasons other than those outlined above and the termination is due to a cause attributable to the Government, the Government is required to indemnify Maltacom for any loss which Maltacom demonstrates it has suffered as a direct consequence of the termination.

### ***International Regulation***

#### ***International Telecommunication Union***

Malta is a member of the International Telecommunication Union (“ITU”). The ITU comprises three sectors: the Radiocommunication Sector, the Standardisation Sector and the Development Sector. The ITU Telecommunication Standardisation Sector studies technical, operating and tariff questions and adopts recommendations on them with a view to standardising telecommunications on a worldwide basis. Study Group 3 within this Sector is responsible for studies relating to tariff and accounting principles for international telecommunication services and studies of related telecommunications, economic and policy issues. The members of this Sector are currently working on how best to secure implementation of ITU-T Recommendation D.140 which calls for carriers to adopt non-discriminatory, cost-oriented and transparent accounting rates. Until a multilateral solution to the accounting and settlements regime is found, certain member countries are pursuing unilateral changes, including the United States.

#### ***World Trade Organisation***

On 15th February, 1997, 69 WTO member countries (the “signatories”) agreed to open their markets to competition in basic telecommunications services from dates specified with respect to each signatory. Since then the number of signatories has increased by three to a present total of 72. This agreement, which the signatories were required to ratify by 30th November, 1997 and which has come into effect on 5th February, 1998 requires that the signatories allow foreign telecommunications service providers to offer their services in the signatories’ countries, as well as to purchase shares in telecommunications companies operating in that country, in accordance with specific commitments to be implemented within the agreed timetable. Although Malta is not a signatory to this agreement, as a WTO member it has the right to participate in future rounds of negotiations regarding trade liberalisation in this sector, which negotiations are stipulated in the WTO Agreement to start by 1st January, 2000.

#### ***US Federal Communications Commission***

The US Federal Communications Commission (“FCC”), the telecommunications regulator in the United States, adopted the Benchmarking Order (“Order”) on 7th August, 1997. The categorisation of the countries in the Order was based on ITU and World Bank classification schemes. The three benchmark rates adopted by the FCC are as follows: (i) \$0.15 per minute for upper income countries; (ii) \$0.19 per minute for upper middle income and lower middle income countries; and (iii) \$0.23 per minute for lower income countries.

According to the Schedule attached to the Order, Malta belongs to the upper-middle income category. The Order requires US carriers to negotiate with their foreign correspondents settlement rates at, or below, the appropriate benchmark. In the case of upper middle income countries, the time frame for negotiation is within two years from 1st January, 1998, the effective date of the Order. The Order, however, is not expected to be

enforced if a multilateral solution to the accounting rates issue is found. See “- International Telecommunication Union”. If Maltacom were required to comply with the Order it would not have a material effect on its operations.

### ***European Union***

On 1st January, 1998, the European telecommunications market was largely opened to competition as a result of the successive adoption by the European Union (“EU”) of legal measures requiring the 15 European member countries progressively to open up their national telecommunications markets to competition. Competition covers all telecommunications market sectors, with specific measures being adopted for value-added services, satellite services, mobile services and cable television services, culminating with the requirement on the European member countries to remove any exclusive rights granted for voice telephony services by 1st January, 1998. In addition, regulatory rules on areas such as interconnection, licencing and customer-related issues such as contracts and billing have also been adopted. Certain countries were permitted to apply to the European Commission for a derogation for a specified time for certain of the market-opening requirements.

Accession to the EU would require applicant countries to adopt all EU rules, including those on telecommunications, prior to or within a specified time from legal accession to the EU. In addition, closer relations can be sought which do not constitute accession. Malta may choose to negotiate an accession or other bilateral agreement with the EU under which it may be required to adopt certain EU rules such as those in relation to telecommunications. In either case, the maintenance of Maltacom’s exclusivity may be called into question. See “Business – Competition”.

## RELATIONSHIP WITH THE GOVERNMENT

### **Government as Shareholder**

The Government currently owns 100 per cent. of the Shares. Following the Combined Offering, the Government will own 63,825,604 Shares, which represents 63 per cent. of the Shares (or 60,786,292 Shares, which represents 60 per cent. of the Shares, if the Overallotment Option is exercised in full). Based on discussions with the Government, the Company is not aware of any plans of the Government to further reduce its shareholding in the Company. However, there can be no assurance that the present Government, or any future Government, will not decide to reduce its stake in the future. The Government has agreed that, for the period of 12 months after the Closing Date, neither it nor its affiliates will offer, sell or otherwise dispose of any Shares or cause the Company to issue any Shares (or issue any securities convertible or exchangeable into Shares), other than in connection with the Combined Offering, unless the prior approval of HSBC Investment Bank plc is received. See "Underwriting – Lock-Up Agreement".

In accordance with the Articles and the Maltese Companies Act of 1995, the Government has the power to exercise its rights as a shareholder of the Company. The Government has elected the Chairman and all of the current members of the Board of Directors of the Company. After the Combined Offering, the Government will be entitled to elect the Chairman of the Board of Directors and a total of five (including the Chairman) out of a maximum of nine members of the Board of Directors and will have the power to determine the outcome of most matters to be decided by the shareholders of the Company, including the approval of dividends. See "Investment Considerations – Considerations Relating to the Company – Relationship with the Government" and "Management – Board of Directors".

### **Government as Customer**

The Government is the Company's largest customer for telecommunications services. The Company estimates that revenues from the Government were approximately Lm1.0 million for telecommunications services in the year ended 30th September, 1997. Currently, the Company provides telecommunications services to the Government at a 20 per cent. discount.

### **Government as Sovereign**

Under the Telecommunications Act the Government appoints the Regulator and the Government's Minister responsible for telecommunications has the power to issue regulations under the Telecommunications Act. These powers provide the Government with substantial influence over the regulation of the telecommunications industry in Malta. See "Regulation" and "Investment Considerations – Considerations Relating to the Company – Relationship with the Government".

## MALTA STOCK EXCHANGE

*The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified in connection with the Combined Offering. The information is included for the convenience of investors and is not intended to be a complete description of all information about the Maltese securities market that may be material to investors.*

### General

The MSE was established on 24th January, 1991 when the Malta Stock Exchange Act was promulgated and the Council of the MSE (the "Council") was appointed. Trading on the MSE began on 8th January, 1992 when 37 Government bond issues were listed. As at 15th May, 1998, six companies' shares (including preferred shares) were listed on the Malta Stock Exchange with an aggregate market capitalisation of Lm173 million (US\$443 million) and 47 Government bonds and three corporate bonds were also listed with an aggregate market capitalisation of Lm560 million (US\$1,433 million).

All securities admitted for trading on the Malta Stock Exchange are required to be registered with the Central Securities Depository of the MSE (the "CSD") and are traded in book-entry form only. Shareholders are supplied with the statement of holdings from the CSD once a year or every time there is a change in its shareholdings.

### Governance of the MSE

The Council (the "Council") is the body responsible for the management and regulation of the MSE. The Council's responsibilities include the public representation of the MSE, the admission of companies' listing applications and the approval of prospectuses published pursuant to applications to list securities on the MSE. The Council consists of five members, four of whom (including the Chairman) are appointed by the Minister of Finance of Malta from the private sector, with the fifth being appointed by the Central Bank of Malta. Each member is appointed for a term not exceeding three years. The Council is advised on trading procedures and on the brokerage business by the Malta Stock Exchange Committee (the "Committee"), a statutory body comprising four representatives of the stockbroking community, each of whom is elected for a one year term, and one representative of the Council.

Day to day operations are managed by the general manager of the MSE (the "General Manager") and his staff. The General Manager reports to the Council regularly and his responsibilities include: compliance with the listing requirements and disclosure obligations of listed companies, administration and conduct of trading on the MSE floor, settlement of any disputes between MSE members, administration of the CSD and administrative support to the Council.

### Membership of the MSE

All transactions effected through the MSE must be carried out by its members. Membership of the MSE comprises individual stockbrokers operating through stockbroking firms. As at 15th May, 1998 the MSE had 10 members operating through eight stockbroking firms. Each stockbroking firm may engage one or more accredited representatives during trading sessions on the floor of the MSE.

Stockbrokers are required to be licenced by the Council. Stockbroking firms are involved in brokerage of securities listed on the MSE, arrangement and support of initial listing of securities, advising clients on their investments, management of securities portfolios, the issuing of research reports on listed companies and advising on corporate finance matters.

Investors can also trade on the MSE through financial intermediaries who must be separately licenced by the Council in order to receive a portion of the brokers' commission.

Members of the MSE are subject to a code of conduct in performing their stockbroking activities and must promote standards of integrity and fair dealing. In addition, the Maltese Insider Trading Act of 1994 prohibits insider trading, which is defined as the trading by officers, directors, major stockbrokers and certain other persons who hold private information allowing them to benefit from buying or selling shares and provides for criminal penalties and fines for violations thereof.

### Stock Market Indices

In December 1995 the Malta Stock Exchange established the Malta Stock Exchange Share Index, which tracks the price movement of all shares listed on the MSE. The Malta Stock Exchange Index was initially set at 1,000. The table below sets out certain information with respect to the Malta Stock Exchange Share Index.

| Year                               | High     | Low      | Close    |
|------------------------------------|----------|----------|----------|
| 1996 . . . . .                     | 1,020.53 | 915.00   | 991.39   |
| 1997 . . . . .                     | 1,097.41 | 970.48   | 1,057.39 |
| 1998 (to 15th May, 1998) . . . . . | 1,124.16 | 1,054.10 | 1,114.59 |

Source: Malta Stock Exchange

#### Trading on the MSE

From the commencement of trading on the MSE until 6th May, 1998 listed securities were traded on the MSE on a weekly basis. After a short period of bi-weekly trading, from 18th May, 1998 daily trading of listed securities began. On each trading day, trading commences at 9.30 a.m. and finishes at 11.00 a.m. Each such trading session includes a one hour pre-opening session during which the members of the MSE may input orders and cancel or amend existing orders. During this pre-opening period, no matches may take place.

Trades of shares cannot be matched outside of a range which at present is plus or minus seven per cent. of the latest trade weighted average in the particular security. However, the Council may amend this range for a particular security or for all securities in the light of market conditions.

Prices of all securities listed on the MSE are published in the MSE official price bulletin.

#### Settlement and Clearance

Settlement on the MSE is conducted on the third business day after a trade of securities. Notwithstanding a T+3 settlement system, securities acquired on a trading day may be disposed of on the next trading day following the day of acquisition.

The function of the CSD is to settle and clear transactions on the MSE and to maintain the registers of the holders of listed securities and the accounts of holders of listed securities. The CSD makes use of a computerised data collection system in undertaking its clearing and settlement functions.

## DESCRIPTION OF SHARE CAPITAL

*Set out below is a summary of certain information concerning the Shares and certain provisions of the Articles, the Maltese Companies Act of 1995 and the Malta Stock Exchange Act of 1990 in effect as at the date hereof. This summary contains information which the Company considers to be material regarding the Shares, but does not purport to be complete.*

### Share Capital

The Company has an authorised share capital of Lm150 million. At a Board of Directors' meeting held on 27th April, 1998, the Directors passed a resolution to issue and distribute 25,307,622 shares of the Company, of a nominal value of Lm1 each, to the Government in consideration for the transfer of assets from Telemalta to the Company pursuant to the Telecommunications Act. Accordingly, the number of shares of the Company in issue increased from 20,000 shares to 25,327,622 shares of Lm1 each. By a resolution of all shareholders of the Company dated 14th May, 1998, the shareholders approved and ratified the issue of shares by the Directors. By another resolution of the same date the shareholders approved a 4 for 1 share split which had the effect of increasing the number of issued and outstanding shares of the Company to 101,310,488 and lowering the nominal value of each share to Lm0.25 per share. These resolutions were registered with Malta's Registry of Companies on 19th May, 1998.

Shareholders' rights in Maltese companies are governed by the Articles, the Maltese Companies Act of 1995 (the "Companies Act") and after the Shares are admitted to the MSE Official List, the Malta Stock Exchange Act of 1990 (the "MSE Act") and MSE bye-laws (the "MSE Bye-Laws").

### Form and Transfer of Shares

The Shares are issued in registered form and after the Shares are admitted to the MSE Official List, such Shares are subject to the rules, regulations and bye-laws established by the MSE. Pursuant to the MSE Act and the MSE Bye-Laws, the shares of each listed company are in uncertificated form and are recorded at the CSD, which in turn issues on an annual basis, and upon request, statements of holdings. Upon any transactions in the shares a registration advice is issued by the CSD in the name of each registered owner of the shares evidencing each such shareholder's entry in the register of shareholders of the company. The entry in the register of shareholders of the company is conclusive evidence of the shareholding of the shareholder and the statement of holdings is a confirmation of the entry in the register.

At close of trading on each trading day, the CSD updates the register of each company listed on the MSE by reducing or cancelling the holdings of each transferring shareholder and increasing the holdings of the transferee or entering a new shareholder in the register of shareholders, as the case may be. Both the transferor and the transferee will receive a contract note evidencing the trade.

Subject to certain conditions specified under the Maltese Companies Act, a listed company may acquire its own shares. Any Shares acquired by the Company shall not have any voting rights while so held.

### Voting Rights and Restrictions

All shareholders are entitled to attend and vote at general meetings of shareholders. However, the Articles provide that if at any time a shareholder holds in excess of five per cent. of the voting shares of the Company, such shareholder may not have the right to attend and vote at a general shareholders' meeting for the portion of his or her Shares which exceed the five per cent. ceiling. The voting restrictions are not applicable to the Government, the Depositary and certain other persons including underwriters and persons licenced as custodians under Maltese law.

### Dividends

Dividends may only be paid by the Company out of profits and retained earnings available for distribution. Before the payment of dividends the Company may at the discretion of the Board of Directors allocate any portion of its net profits for capital reserves. The dividends may not exceed the amount recommended by the Board of Directors. The Board of Directors has the authority to decide to pay interim dividends when it considers it justified. The amount approved for distribution must be paid to shareholders within six months from the resolution approving the annual financial statements of the Company. For a description of the Company's dividend policy, see "Dividends – Dividend Policy".

### Issue of Shares and Pre-emptive Rights

Subject to the pre-emption rights of existing shareholders, and unless the shareholders in a general meeting approve otherwise, until 31st December, 2002 the Board of Directors may in their discretion issue Shares, award options or otherwise dispose of Shares up to the authorised share capital of the Company. The Board must obtain specific approval of shareholders at a general meeting to issue shares which may have an effect of transferring a controlling interest in the Company. The power of the Board of Directors to issue Shares from

the authorised share capital of the Company is subject to review by the shareholders in the general meeting at least once in every five years. At the time of review, the power may be renewed or extended by an ordinary resolution establishing a limit up to which the Board of Directors is authorised to issue the Shares of the Company.

Increases and decreases in the authorised share capital or changes in the nominal value per Share must be approved by the majority of votes cast at a general meeting of shareholders at which such vote is taken.

Unless the shareholders at a general meeting decide otherwise, where Shares are being issued for cash the Company's shareholders have pre-emptive rights, proportional to the number of Shares owned by each such holder, to subscribe for additional Shares issued by the Company. A shareholder who has preemptive rights may assign the right in favour of a third party. If any shareholders (or their assignees) do not exercise their preemptive rights, the Shares may be sold to the public under the same or less favourable terms.

### **Shareholders Meetings**

An annual general meeting of shareholders shall be held each year within six months after the end of the Company's financial year in order to approve the annual accounts, balance sheets and reports of the Board of Directors and the auditors, declare dividends, elect the Board of Directors, appoint the auditors and fix remuneration of the Board of Directors and the auditors ("ordinary business"). All general meetings of shareholders other than annual general meetings are called extraordinary general meetings. All matters which are not ordinary business are not dealt with in annual general meetings but may be dealt with either in an extraordinary meeting or as extraordinary business in an annual general meeting. In the latter case the notice convening the meeting must specify the extraordinary business to be discussed at the meeting. General meetings can only be convened with at least 14 clear days notice to shareholders. The Directors may convene an extraordinary general meeting at any time.

The Directors shall convene an extraordinary general meeting of shareholders if requested to do so by a shareholder or shareholders holding not less than 10 per cent. of the paid-up share capital of the Company. If the Directors fail to convene the meeting so requested within 21 days of such request the requesting shareholders may call an extraordinary general meeting themselves.

Shareholders may participate in annual or extraordinary general meetings by proxy. In order for a shareholder's participation by proxy to be valid, the power of attorney granted to the proxy holder must be in writing and deposited at the registered office of the Company or any other place in Malta specified in the notice of the meeting not less than 48 hours from the time appointed for the meeting.

Resolutions adopted in accordance with provisions described herein are binding on shareholders, provided that the shareholders' general meeting has been duly called in accordance with the requirements for notice convening the meeting. A quorum requirement at a general meeting whether annual or extraordinary is met when shareholders representing at least 51 per cent. of the issued share capital are present. If this requirement is not met, the meeting is adjourned to the same day in the following week where the shareholders present in person or by proxy will constitute a quorum. Voting at general meetings can take place either by a show of hands or by poll. On a show of hands each shareholder shall have one vote irrespective of the number of Shares held. On a poll each shareholder shall have one vote for each Share held. Generally, voting is effected by a show of hands. However a poll may be demanded, either before or on the declaration of the result of a show of hands, by (i) the chairman of the meeting, (ii) any three shareholders present at the meeting (including proxies) or (iii) any shareholder or shareholders holding in aggregate 10 per cent. of the Company's issued share capital having voting rights.

An extraordinary resolution is passed at a general meeting when shareholders voting in favour represent 75 per cent. in nominal value of the Shares present at the meeting and 51 per cent. in nominal value of the issued and outstanding share capital of the Company. If one, but not both, of the requirements are met a second meeting shall be scheduled within 30 days of the first meeting. During the second meeting the extraordinary resolution is passed if shareholders voting in favour represent at least 75 per cent. in nominal value of the Shares present at the meeting or if the shareholders voting in favour represent more than 50 per cent. of the share capital of the Company present at the meeting and more than 50 per cent. of issued and outstanding share capital of the Company is present at the meeting.

### **Rights on Liquidation**

All Shares rank *pari passu* as regards distribution of dividends and returns on a distribution of capital upon a winding-up or otherwise.

### **Variation of Class Rights**

There is currently only one class of Shares in the Company. The Articles provide that in the event there is more than one class, the rights attaching to any class of Shares may be varied by an extraordinary resolution of the shareholders, provided that the holders in aggregate of at least 15 per cent. of the issued shares of that class so effected, being persons who did not consent or vote in favour of the resolution for the variation, may by writ of summons filed with a Maltese court within 21 days of the consent or the resolution demand that the variation shall have no effect.

## TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

*The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:*

The Global Depositary Receipts ("GDRs") corresponding to this certificate are to be issued in respect of six ordinary shares of nominal value Lm0.25 each (the "Shares") of Maltacom p.l.c. (the "Company") subject to the execution of an agreement to be dated on or around the 23rd June, 1998, and to be made between the Company and The Bank of New York in its capacity as depositary (the "Depositary") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "Deposit Agreement"). Pursuant to the provisions of the Deposit Agreement, the Depositary shall appoint Mid-Med Bank plc as Custodian (the "Custodian") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "Deposited Shares") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "Deposited Property"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "Conditions"), references to the "Depositary" are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to Mid-Med Bank plc or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in Malta or such other location of the head office of the Custodian in Malta as may be designated by the Custodian with the approval of the Depositary (if outside Malta) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

*The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). See "Summary of Provisions Relating to the GDRs While in Master Form" and "Notice to Investors".*

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "Register") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which shall include the forms of the certificates in respect of the GDRs, and shall be subject to all applicable laws and regulations, including laws and regulations of Malta. Copies of the Deposit Agreement will be available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings to be ascribed to them in the Deposit Agreement. *Holders and beneficial owners of GDRs will not be parties to the provisions of the Deposit Agreement and thus, under English law, shall have no contractual rights against, or obligations to, the Company. However, the Deed Poll to be executed in favour of the Holders provides that, if the Company fails to perform the obligations imposed upon it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and as if it were the "Depositary", in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder or beneficial owner of GDRs. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement applicable to them.*

### 1. Withdrawal of Deposited Property and Further Issues of GDRs

- (A) Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property corresponding to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
- (i) a duly executed order (in a form reasonably approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Malta of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
  - (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
  - (iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable; and

- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the period ending 40 days after the latest of the commencement of the Combined Offering, the Closing Date for Shares or the GDRs in the Combined Offering and the closing date for any additional GDRs sold pursuant to the over-allotment option) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.
- (B) Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian, by airmail letter or by tested telex, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:
- (i) a certificate for, or other appropriate instrument of title to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
  - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

Provided further that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs (B)(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Malta of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

- (C) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- (D) The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs (*certifying, among other things, to the effect that such person is not a US person (as defined in Regulation S under the US Securities Act of 1933, as amended (the "Securities Act")), is located outside the United States and will comply with the restrictions on transfer set forth under "Notice to Investors – Regulation S GDRs"*) or (b) Schedule 4, Part A of the Deposit Agreement by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs (*certifying, among other things, to the effect that such person is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("QIB")) or is acting for another account and such account is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Notice to Investors – Rule 144A GDRs"*) from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

- (E) Any further GDRs issued pursuant to Condition 1 (D) which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR or a Master Rule 144A GDR, as applicable (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR or the Master Rule 144A GDR by the number of such further GDRs, as applicable).
- (F) The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in paragraph (G) of this Condition 1.
- (G) Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of paragraph (D) of this Condition 1, the Depositary may issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, or execute and deliver GDRs, prior to the receipt of Shares (a "Pre-Release"). The Depositary may, pursuant to paragraph (A) of this Condition 1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Release") that such person, or its customer (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be); (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of Holders; and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release; (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security; (c) terminable by the Depositary on not more than five business days' notice; and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems reasonably appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Release hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Release obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDR's or Rule 144A Shares is to be made pursuant to this paragraph (G) of Condition 1 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4, Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3, Part A of the Deposit Agreement.

## **2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property**

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so and it determines that it may be necessary, the Depositary will refuse to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a US Securities Exchange or quoted in a US automated inter-dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the register of shareholders of the Company is closed generally or in one or more localities, or if the Depositary in good faith deems such action to be necessary, desirable or advisable, in each case in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict

the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's Memorandum and Articles of Association (the "Articles") or would otherwise violate any applicable laws.

### **3. Transfer and Ownership**

The GDRs are in registered form, each corresponding to six Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs subsequently corresponds to the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Prior to expiration of the Restricted Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the Securities Act (each a "QIB") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3(E) of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate substantially in the form set out in Schedule 4, Part A of the Deposit Agreement.

### **4. Cash Distributions**

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the reasonable opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

- (i) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (ii) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16(A)(iv).

### **5. Distributions of Shares**

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the

Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

#### **6. Distributions other than in Cash or Shares**

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

#### **7. Rights Issues**

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:-

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Maltese Liri or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by (in the case of Shares) an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other

property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary and the Company that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

#### **8. Conversion of Foreign Currency**

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the reasonable opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

#### **9. Distribution of any Payments**

- (A) Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the reasonable opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Cedel Bank, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.
- (B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

## 10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

## 11. Withholding Taxes and Applicable Laws

- (A) Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Maltese and other withholding taxes, if any, at the applicable rates.

*For description of Maltese withholding taxes with respect to dividends on Deposited Shares and capital gains received on sales of Deposited Shares, see "Taxation – Maltese Taxation".*

- (B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Malta in order for the Depositary to receive from the Company, Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities corresponding to such rights relevant to any Deposited Shares, the Company (or, if applicable, in the case of Condition 7, the relevant subscriber of the Company) will apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent or permit, or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without unreasonable burden or expense.
- (C) The Depositary will use reasonable efforts to follow the procedures established by the Maltese tax authorities to enable eligible owners of GDRs who are not resident in Malta to benefit from any available reduced withholding tax rate respecting payments of any dividend and to recover payment of any tax credit payment.

## 12. Voting Rights

The Articles provide that if any shareholder of the Company holds in excess of five per cent. of the issued and outstanding share capital of the Company, such shareholder may not have the right to attend and vote at the general meeting of shareholders for the portion of his or her Shares which exceeds the five per cent. ceiling. There is an exception to the five per cent. limit for the Depositary, the Government and certain other persons. See *"Description of Share Capital – Voting Rights and Restrictions"*. Individual Holders of GDRs are subject to the five per cent. limitation on voting.

- (A) Voting rights with respect to the Deposited Shares shall be solely as set out in paragraphs 12(B) and 12(C) below. The Company shall provide to the Depositary notices for meetings of the shareholders of the Company and the agendas therefor. The Depositary shall, as soon as practicable thereafter, mail to the Holders a notice, the form of which notice shall be in the sole discretion of the Depositary, which shall contain (a) such information as is contained in such notice of meeting; and (b) a statement that the Holders as at the close of business on a specified record date will be entitled, subject to any applicable provision of Maltese law and of the Articles, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the number of Shares represented by their respective GDRs. Upon the written request of the Holder on such record date, received on or before the date established by the Depositary for such purpose, the Depositary shall endeavour, in so far as practicable, to vote or cause to be voted the amount of Shares represented by the GDRs in accordance with the instructions set forth in such request.
- (B) In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder and returned to the Depositary by such record date as specified by the Depositary. If a Holder holding GDR or GDRs outstanding at the relevant record date instructs the Depositary to vote in respect of one or more resolutions to be proposed at the meeting, the Depositary shall notify such instruction to the Chairman of the Company or such other person as he may designate and appoint the Chairman of the Company or that other person designated by him as the representative

of the Depositary and the Holders to attend such meeting and vote the Deposited Share or Deposited Shares represented by the GDR or GDRs held by each Holder in the direction so instructed by such Holder in relation to such resolution or resolutions.

- (C) If, for whatever reason, the Depositary has not by the record date specified by it received instructions from any Holder to vote in respect of any resolution, or if the Depositary determines that it is not permitted by applicable law to vote the Deposited Share or Deposited Shares represented by the GDR or GDRs of the respective Holder at the relevant shareholders' meeting in the manner provided for in this Condition, the Depositary shall promptly advise the Company of the same and the Depositary shall not vote in respect of such Deposited Share or Deposited Shares at the relevant meeting.
- (D) By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Maltese law.
- (E) The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

### **13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges**

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may for the account of the Holder discharge the same out of the proceeds of sale on any Stock Exchange on which the Shares may from time to time be listed, and subject to all applicable laws and regulations, of any appropriate number of Deposited Shares or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

### **14. Liability**

- (A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- (B) Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person if, by reason of any provision of any present or future law or regulation of Malta or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the Articles, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of negligence, wilful default or bad faith) shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDR by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- (C) Neither the Depositary nor any Agent shall be liable (except for its own negligence, wilful default or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or (except as provided in (Q) below) for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- (D) The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for

business transacted and acts done by it as a bank, and not in the capacity of the Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

- (E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own negligence (save in the case of its own negligence, wilful default or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- (F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- (G) The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- (I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- (J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any reputable (in the reasonable opinion of the Depositary) lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.
- (K) Any such advice, opinion, certificate or information (as discussed in (J) above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- (L) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company or by a person duly authorised by the Board of Directors of the Company or such other certificate from persons specified in (J) above which the Depositary in its reasonable opinion considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- (M) The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without negligence or bad faith.
- (N) The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it

shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any negligence, misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action the Depositary may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

- (O) The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- (P) The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- (Q) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the negligence, wilful default or bad faith of the Depositary or that of its agents, officers, directors or employees.
- (R) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- (S) For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Maltese law as the same may be amended from time to time. Notwithstanding the generality of Conditions 1 and 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth in Condition 12.

#### **15. Issue and Delivery of Replacement GDRs and Exchange of GDRs**

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

#### **16. Depositary's Fees, Costs and Expenses**

- (A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
  - (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the International Offering, and including any GDRs issued pursuant to the over-allotment option related thereto) or the cancellation of GDRs upon withdrawal of Deposited Property: US\$ 0.05 or less per GDR issued or cancelled;
  - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of up to US\$0.02 or less per outstanding GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not corresponding to GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US\$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution; and
- (vi) for transferring interests from and between the Master Regulation S GDR and the Master Rule 144A GDR: a fee of US\$0.05 or less per GDR,

together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian in connection with any of the above.

- (B) The Depositary is entitled to receive from the Company the fees, taxes, duties, charges, costs and expenses as specified in a separate agreement with the Depositary, including but not limited to, such customary expenses as are incurred by the Depositary in the conversion of currencies (other than US dollars) into US dollars.

#### 17. Agents

- (A) The Depositary shall be entitled to appoint one or more agents (the "Agents") for the purpose, *inter alia*, of making distributions to the Holders.
- (B) Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

#### 18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the London Stock Exchange in connection with such listings. In the event that the listing on the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and maintain a listing of the GDRs on any other stock exchange in Europe designated by the Securities and Investments Board Limited as a "recognised investment exchange".

#### 19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will act as custodian with respect to (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. Upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved by the Company), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved by the Company, such approval not to be unreasonably withheld or delayed), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. Such successor shall be an accredited intermediary acting through a specified office located in Malta. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the

Depository shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

## **20. Resignation and Termination of Appointment of the Depository**

- (A) The Company may terminate the appointment of the Depository under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depository and the Custodian, and the Depository may resign as Depository by giving at least 90 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of such notice, notice thereof shall be duly given by the Depository to the Holders.

The termination of the appointment or the resignation of the Depository shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depository under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depository. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depository with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depository to the Holders in accordance with Condition 23 and to the London Stock Exchange.

- (B) Upon the termination of appointment or resignation of the Depository and against payment of all fees and expenses due to the Depository from the Company under the Deposit Agreement, the Depository shall deliver to its successor as depository sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depository all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depository and shall hold the Deposited Property for such successor depository.

## **21. Termination of Deposit Agreement**

- (A) Either the Company or the Depository but, in the case of the Depository, only if the Company has failed to appoint a replacement Depository within 90 days of the date on which the Depository has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depository to Holders of all GDRs then outstanding in accordance with Condition 23.
- (B) During the period beginning on the date of the giving of such notice by the Depository to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property corresponding to each GDR held by it, subject to the provisions of paragraph (C) of Condition 1 and upon compliance with Condition 1, free of the charge specified in paragraph (A)(i) of Condition 16 for such delivery and surrender, but upon payment by the Holder of any sums payable by the Depository to the Custodian in connection with such delivery and otherwise in accordance with the Deposit Agreement.
- (C) If any GDRs remain outstanding after the date of termination, the Depository shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which corresponds to the GDRs of which they are the Holders. After making such sale, the Depository shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

## **22. Amendment of Deposit Agreement and Conditions**

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depository in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depository, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the reasonable opinion of the Depository, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice

shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, free of the charge specified in paragraph (A)(i) of Condition 16 for such delivery and surrender but otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

### 23. Notices

- (A) Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- (B) Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after receipt, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.
- (C) So long as GDRs are listed on the London Stock Exchange and the rules of the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in London, which is expected to be the *Financial Times*.

### 24. Reports and Information on the Company

- (A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-
  - (i) in respect of the financial year ending on 31st December, 1998 and in respect of each financial year thereafter, the consolidated (and, if published for holders of Shares, non-consolidated) balance sheets as at the end of such financial year and the consolidated (and, if published for holders of Shares, non-consolidated) statements of income and cashflows for such financial year in respect of the Company, prepared in conformity with International Accounting Standards and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;
  - (ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements, as soon as practicable, after the same are published and in any event no later than 90 days after the end of the period to which they relate;
  - (iii) if the Company publishes quarterly statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than one month after the end of the period to which they relate; and
  - (vi) the Company's unaudited financial statements for the year ended 30th September, 1998;
- (B) The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- (C) For so long as any of the GDRs remains outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in

compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any holder or beneficial owner of GDRs or a prospective purchaser designated by such holder or beneficial owner pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A thereunder in connection with resales of GDRs. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

## **25. Copies of Company Notices**

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary in English (and Maltese as the Company may deem appropriate) on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

## **26. Moneys held by the Depositary**

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

## **27. Severability**

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

## **28. Governing Law**

- (A) The Deposit Agreement and the GDRs are governed by and shall be construed in accordance with English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Maltese law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in New York City and has appointed an agent for service of process in London and New York City.
- (B) The Company irrevocably appoints Legibus Secretaries Limited, 200 Aldersgate Street, London EC1A 4JJ, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appoints CT Corporation System, 1633 Broadway, New York NY 10019 as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- (C) The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("Proceedings") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or

United States Federal Court sitting in New York City. The Company and the Depositary each irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

- (D) These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- (E) In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company shall fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- (F) The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 46 Berkeley Street, London W1X 6AA as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## SUMMARY OF PROVISIONS RELATING TO THE GDRs WHILE IN MASTER FORM

*The GDRs will be initially evidenced by (i) a single Regulation S Master GDR in registered form and (ii) a single Rule 144A Master GDR in registered form. The Regulation S Master GDR will be deposited with The Bank of New York, as custodian for The Depository Trust Company ("DTC") and registered in the name of Cede & Co., as nominee of DTC, for the respective accounts of Euroclear and Cedel Bank. The Rule 144A Master GDR will be deposited with The Bank of New York as custodian for DTC and registered in the name of Cede & Co. as nominee of DTC. The Regulation S Master GDR and the Rule 144A Master GDR contain provisions which apply to the GDRs while they are in Master form, some of which modify the effect of the Terms and Conditions of the GDRs set out in "Terms and Conditions of the Global Depositary Receipts". The following is a summary of certain of those provisions. Unless otherwise defined herein, terms defined in the "Terms and Conditions of the Global Depositary Receipts" shall have the same meanings herein.*

### Exchange

The Regulation S Master GDR and the Rule 144A Master GDR will only be exchanged for certificates in definitive registered form evidencing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below, in whole but not, except in the case of (iv) below, in part. The Depository will irrevocably undertake in the Deposit Agreement and the Regulation S Master GDR and the Rule 144A Master GDR to deliver certificates evidencing GDRs in definitive registered form in exchange for either the Regulation S Master GDR or the Rule 144A Master GDR to Holders within 60 days in the event that:

- (i) the Holder of the Regulation S Master GDR or the Rule 144A Master GDR or any successor entity or entities is unwilling or unable to continue as depositary (or as nominee thereof), as the case may be, and a successor depositary (or successor nominee thereof), as the case may be, is not appointed within 90 calendar days or, DTC or any successor entity ceases to be a "clearing agency" registered under the Exchange Act; or
- (ii) either DTC (in the case of the Rule 144A Master GDR) or DTC, Euroclear or Cedel Bank (in the case of the Regulation S Master GDR) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Depository is available within 45 days; or
- (iii) the Depository has determined that, on the occasion of the next payment in respect of the GDRs, the Company, the Depository or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs evidenced by certificates in definitive registered form; or
- (iv) the Holder gives notice to the Depository of its desire to exchange a part or a whole of the Regulation S Master GDR or Rule 144A Master GDR for certificates evidencing GDRs in definitive registered form.

Within 60 days of the occurrence in any event in (i) to (iv) above, any affected person appearing in the records maintained by DTC, Cedel Bank or Euroclear as entitled to any interest in the Regulation S Master GDR or the Rule 144A Master GDR shall be entitled to require the Holder to procure the exchange of the whole or, as applicable in the case of (iv) above, a part of the Regulation S Master GDR or the Rule 144A Master GDR, as the case may be, for a certificate evidencing a GDR in definitive registered form. In relation to (iv) above, any affected person appearing in the records maintained by DTC, Cedel Bank or Euroclear as entitled to any interest in the Regulation S Master GDR or Rule 144A Master GDR shall be entitled to require the Holder to procure the exchange of an appropriate part of the Regulation S Master GDR or the Rule 144A Master GDR, as the case may be, for an interest held by such person in the Regulation S Master GDR or the Rule 144A Master GDR upon written notice to the Holder. Any such exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Cedel Bank or DTC.

The GDRs in definitive registered form will be required to bear the legends with respect to restrictions on transfers as set forth under "Notice to Investors".

Upon any exchange of a part of the Regulation S Master GDR or the Rule 144A Master GDR for certificates evidencing GDRs in definitive registered form or any exchange of interests between the Regulation S Master GDR and Rule 144A Master GDR (or vice versa) pursuant to clause 4 of the Deposit Agreement or Condition 3, any reduction in the number of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR following any withdrawal of Deposited Property pursuant to Condition 1, any distribution of GDRs pursuant to Conditions 5, 7 or 10, or any increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details will be entered by the Depository on the register

maintained by the Depositary, whereupon the number of Shares represented by the Regulation S Master GDR or the Rule 144A Master GDR will be reduced or increased (as the case may be) accordingly.

#### **Payments and Distributions**

Payments of cash dividends, if any, and other amounts (including cash distributions) will, in the case of GDRs represented by Regulation S Master GDR or the Rule 144A Master GDR, be made by the Depositary through DTC on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of Holders will result in the records of the Depositary being adjusted to reflect the enlarged number of GDRs represented by the Regulation S Master GDR and/or the Rule 144A Master GDR.

#### **Surrender of GDRs**

Any requirement in the Conditions or the Deposit Agreement relating to the surrender of a GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by DTC. The delivery or production of any such evidence will be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

#### **Notices**

For so long as a Master GDR is registered in the name of DTC (or its nominee) notices to Holders may be given by the Depositary by delivery of the relevant notice to DTC for communication to Holders in substitution for the notification requirements stated in the Conditions and the Deposit Agreement, except that so long as the GDRs are listed on the London Stock Exchange and that Exchange so requires, notices will be published in a leading newspaper having general circulation in the United Kingdom, which is expected to be the *Financial Times*.

### **INFORMATION RELATING TO THE DEPOSITARY**

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Company, Inc., a New York corporation. The principal office of the Depositary is located at 48 Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York, 10286. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Offices of the Depositary, located at 48 Wall Street, New York, New York 10286 and at The Bank of New York, 46 Berkeley Street, London W1X 6AA.

## NOTICE TO INVESTORS

### Rule 144A GDRs

Each purchaser of Rule 144A GDRs will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

- (1) The purchaser (A) is a qualified institutional buyer; (B) is aware that the sale to it is being made in reliance on Rule 144A; and (C) is acquiring such Rule 144A GDRs for its own account or for the account of a qualified institutional buyer, as the case may be.
- (2) The purchaser understands that the Rule 144A GDRs have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A) to a person whom the seller and any person acting on its behalf reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States and any other jurisdiction.
- (3) The purchaser understands that the Rule 144A GDRs will bear a legend to the following effect (unless the Company determines otherwise in compliance with applicable law):

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT, AND THE ORDINARY SHARES OF MALTACOM P.L.C. REPRESENTED THEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. THE BENEFICIAL OWNER OF ANY SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, UNLESS AND UNTIL SUCH TIME AS SUCH SHARES ARE NO LONGER RESTRICTED SECURITIES WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS. EACH HOLDER, BY ITS ACCEPTANCE OF THIS RULE 144A GLOBAL DEPOSITARY RECEIPT, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

- (4) Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Company or the Depositary in respect of the Rule 144A GDRs or the Shares represented thereby.

### Regulation S GDRs

Each purchaser acquiring a beneficial interest in the Regulation S GDRs will be deemed to have represented, agreed and acknowledged as follows (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

- (1) It is outside the United States and it is purchasing such security in an offshore transaction in accordance with Regulation S under the Securities Act.
- (2) It understands that the Regulation S GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and, prior to the expiration of the Restricted Period (as defined below), may not be reoffered, resold, pledged or otherwise transferred except (A) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act; or (B) to a

person whom the seller and any person acting on its behalf reasonably believe is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States and any other jurisdiction; provided that in connection with any transfer under (B) above, prior to the expiration of the Restricted Period (as defined below), the transferor shall, prior to the settlement of such sale, withdraw the Shares from the Regulation S Facility (as defined in the Deposit Agreement) in accordance with the terms and conditions of the Deposit Agreement and instruct that such Shares be delivered to the Custodian under the Rule 144A Facility (as defined in the Deposit Agreement) for deposit thereunder and that Rule 144A GDRs be issued, in accordance with the terms and conditions of the Deposit Agreement, to or for the account of such qualified institutional buyer.

- (3) It understands that the Regulation S Master GDR will bear a legend substantially to the following effect (unless the Company determines otherwise in compliance with applicable law):

THIS REGULATION S GLOBAL DEPOSITARY RECEIPT, AND THE ORDINARY SHARES OF MALTACOM P.L.C. REPRESENTED THEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION. PRIOR TO THE EXPIRATION OF A RESTRICTED PERIOD (DEFINED AS THE PERIOD ENDING 40 DAYS AFTER THE LATEST OF THE COMMENCEMENT OF THE COMBINED OFFERING, THE CLOSING DATE FOR THE SHARES OR THE GDRS IN THE COMBINED OFFERING AND THE CLOSING DATE FOR ANY ADDITIONAL GDRS SOLD PURSUANT TO THE OVERALLOTMENT OPTION) SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (2) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION, PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER CLAUSE (2) ABOVE THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM THE REGULATION S FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) FOR DEPOSIT THEREUNDER AND THAT RULE 144A GLOBAL DEPOSITARY RECEIPTS BE ISSUED, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT, TO OR FOR THE ACCOUNT OF SUCH QIB.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD (AS DEFINED ABOVE), THIS REGULATION S GLOBAL DEPOSITARY RECEIPT, AND THE SHARES REPRESENTED THEREBY, SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS PROVIDED IN THIS LEGEND PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER OR SALE OF REGULATION S GLOBAL DEPOSITARY RECEIPTS OR THE SHARES REPRESENTED THEREBY BY THE HOLDER IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES.

- (4) Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Company or the Depositary in respect of the Regulation S GDRs or the Shares represented thereby.

## **TAXATION**

*The following summary describes certain of the tax consequences of the purchase, ownership and disposition of Shares and GDRs. It is not a complete description of all the possible tax consequences of such purchase, ownership and disposition. Prospective purchasers of the Shares and GDRs should consult their own tax advisers concerning the tax consequences applicable to their particular circumstances.*

### **Maltese Taxation**

The information contained herein does not constitute Maltese legal or tax advice, and is based on Maltese tax law and practice applicable at the date of this Offering Memorandum and on the assumption that no single shareholder of the Company (other than the Government or the Depositary) will own more than five per cent. of the Shares and the Shares are listed on the MSE. Investors are reminded that Maltese tax law may change from time to time, and that they should consult their own tax advisers in order to obtain Maltese tax advice.

### **Taxation of Dividends**

Malta operates a full imputation system. Under this system, the tax paid by the Company is imputed as a tax credit to both resident and non-resident shareholders receiving the dividends. The tax system distinguishes between taxed income and untaxed income.

Under current tax legislation, tax is charged on the Company's profits, other than untaxed income and certain investment income, at the rate of 35 per cent., and is accounted for to Malta's Commissioner of Inland Revenue. On distribution of dividends from the Company's profits which have been taxed at 35 per cent., a tax credit voucher at an equivalent rate is sent to all shareholders and the voucher is accepted by Malta's Commissioner of Inland Revenue as evidence of payment of tax, of which shareholders may be entitled to claim payment or relief (in whole or in part). For the year of listing of the Shares on the MSE and for the following two years, the rate applicable to the Company's profits will be reduced to 30 per cent. in the event that the Overallotment Option is exercised in full and 40 per cent. of the issued share capital of the Company is sold by the Government or 31.5 per cent. in the event that the Overallotment Option is not exercised in full.

Dividends from untaxed profits of the Company to resident individual shareholders, are subject to a final withholding tax at the rate of 15 per cent.. Similar distributions to certain corporate bodies are free of tax until re-distributed to the ultimate resident individual shareholders. Dividends to non-resident shareholders from untaxed profits of the Company are not subject to any withholding taxes.

Non-resident shareholders of the Company may be entitled to claim from the relevant tax authorities in their jurisdiction a proportion of the tax paid on their behalf by the Company but such entitlement will depend generally upon the provisions of any double tax treaty which exists between Malta and the relevant tax jurisdiction. Double taxation treaties are in force, with amongst others, France, the U.K., Germany, Italy and Canada. There is no double tax treaty covering investment income between the United States and Malta or Switzerland and Malta.

### **Taxation of Capital Gains**

Upon listing of the Shares on the MSE, any gain arising on disposal of Shares shall not be chargeable to Maltese income tax.

### **Stamp Duty on Documents and Transfers**

Upon listing of the Shares on the MSE, no stamp duty or other tax is chargeable on the transfer of Shares.

### **United States Tax**

The following is a summary of the principal US federal income tax consequences to US Holders (as defined below) in respect of the purchase, ownership and disposition of Shares or GDRs. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Shares (including the GDRs). In particular, this summary does not deal with special classes of investors, such as banks, insurance companies, dealers or traders in securities or currencies, tax-exempt institutions, individuals resident in a territory or possession of the United States, persons holding GDRs or Shares as part of a "straddle" or as part of a hedging transaction or a "conversion transaction" for US federal income tax purposes, investors that enter into a "constructive sale" of GDRs or Shares for US federal income tax purposes and investors whose "functional currency" is not the US dollar. In addition, the summary only addresses the consequences to US Persons that hold Shares as capital assets and who do not own, actually or constructively, 10.0 per cent. or more of the outstanding Shares of the Company.

The following summary is based on (i) the US Internal Revenue Code of 1986, as amended (the "Code"), and judicial and administrative interpretations thereof as in effect on the date hereof, all of which are subject to change, potentially retroactively and (ii) representations of the Depositary. In addition, this summary assumes that each obligation in the Deposit Agreement and any related agreements is performed in accordance with its terms. Prospective investors should consult their own tax advisers to determine the US federal, state, local and foreign tax consequences to them of the purchase, ownership and disposition of Shares. For US federal income tax purposes, holders of GDRs are generally treated as the owners of the Shares represented by the GDRs. For the purposes of the following discussion, references to "Shares" include both Shares and GDRs.

As used in this section, the term "US Holder" means a beneficial owner of Shares who or that is for US federal income tax purposes (i) an individual citizen or resident of the United States; (ii) a corporation created or organised under the laws of the United States or any state or political subdivision thereof; (iii) an estate the income of which is subject to United States federal income taxation regardless of its source; (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust; or (v) a partnership to the extent the interests therein are owned by a person described in clause (i), (ii), (iii) or (iv) of this paragraph. The term "Non-US Holder" means a beneficial owner of Shares who or that is not a US Holder.

### ***Dividends***

In general, and subject to the passive foreign investment company ("PFIC") rules discussed below, distributions paid on the Shares will be treated as dividends for US federal income tax purposes to the extent that they are paid out of the Company's current or accumulated earnings and profits as determined for US federal income tax purposes, but will not be eligible for the dividends received deduction generally allowed to corporations under the Code. Any distribution that exceeds the Company's current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the US Holder's tax basis in the Shares and thereafter as capital gain. The Company does not maintain calculations of its earnings and profits under US federal income tax principles. A US Holder must include in gross income the gross amount of such dividends, including any Maltese tax withheld therefrom, without regard to whether any portion of such tax may be refunded to such US Holder by the Maltese tax authorities. The amount of such gross income for any dividend paid by the Company in Maltese Liri will equal the US dollar value of the Maltese Liri paid, calculated by reference to the exchange rate in effect on the date the dividend is includible in the income of the US Holder, regardless of whether the Maltese Liri are converted into US dollars. Any currency gains or losses resulting from the actual conversion of the Maltese Liri into US dollars at a rate different from the rate used to determine the US Holder's basis in the Shares will be treated as US source ordinary income or loss.

Subject to certain conditions and limitations, the Maltese tax withheld on dividends paid to a US Holder may be deducted from taxable income or credited against a US Holder's US federal income tax liability. However, the Maltese tax may be deducted only if the US Holder does not claim a credit for any Maltese or other foreign taxes paid or accrued in that year. For purposes of computing the US foreign tax credit, dividends paid on the Shares will be treated as foreign source "passive" income or, in certain circumstances, "financial services" income. The calculation of foreign tax credits involves the application of rules that depend on a US Holder's particular circumstances. US Holders should consult their own tax advisors regarding the application of the foreign tax credit rules to distributions made on the Shares.

Distributions of additional shares to a US Holder that are made as part of a pro rata distribution to all shareholders of the Company generally will not be subject to US federal income tax.

A Non-US Holder generally will not be subject to US federal income tax on dividends received on Shares, unless such income is effectively connected with the conduct by such Non-US Holder of a trade or business in the United States.

### ***Sale or Exchange of Shares***

In general and subject to the PFIC rules discussed below, a US Holder will recognise gain or loss for US federal income tax purposes on the sale or exchange of Shares equal to the difference between the US dollar tax basis in the Shares sold and the amount realised on the sale or exchange (or its US dollar equivalent, determined at the spot rate on the date of sale, if the amount is determined in a foreign currency). Generally, such gain or loss will be treated as a capital gain or loss. In the case of a non-corporate US Holder, the maximum marginal US tax rate applicable to such gain will be lower than the maximum marginal US tax rate applicable to ordinary income if the US Holder's holding period in the Shares sold exceeds one year and will be further reduced if such Shares are held for more than 18 months. Capital gains of corporations currently are taxed at the same rates as ordinary income. Limitations apply to the deductibility of capital losses by corporate and non-corporate US Holders. Any gain recognised by a US Holder generally will be treated as US source income for

foreign tax credit limitation purposes, although a loss so realised may be required to be allocated against foreign source income.

A Non-US Holder will not generally be subject to US federal income tax on gain realised on the sale of Shares, unless (i) such gain is effectively connected with the conduct by the Non-US Holder of a trade or business in the United States or (ii) in the case of a non-resident alien individual, such individual is physically present in the United States for 183 days or more in the taxable year of such sale and certain other conditions are met.

#### ***Passive Foreign Investment Company Rules***

In general, the Company will be a PFIC with respect to a US Holder for US federal income tax purposes if, for any taxable year in which the US Holder owns Shares and after applying certain look-through rules (i) at least 75 per cent. of the gross income of the Company for the taxable year is passive income; or (ii) at least 50 per cent. of the Company's assets (measured by value on a quarterly average basis) produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities, gains from assets that produce passive income, net income from notional principal contracts and certain payments with respect to securities loans.

Based on the nature of the Company's income, assets and activities, the Company believes that it is not currently a PFIC and does not expect to become a PFIC. However, because the PFIC tests are applied on an annual basis, this conclusion could be subject to change in the future. US holders are advised to consult with their own tax advisors regarding the tax consequences that would arise if the Company were treated as a PFIC.

#### ***Information Reporting and Backup Withholding***

In general, information reporting requirements will apply to dividends distributed to noncorporate or otherwise non exempt US Holders with respect to GDRs. Information reporting requirements generally will also apply to payments to US Holders of the proceeds of a sale, redemption or other disposition of Shares through a US branch of a US or foreign broker, and a 31 per cent. "backup withholding" tax may apply to such proceeds if the US Holder fails to provide a correct taxpayer identification number or certification of exempt status. The proceeds of a sale, redemption, or other disposition of Shares through a foreign branch of a US broker or US-related broker generally will be subject to information reporting, but are not currently subject to backup withholding. For purposes of these rules, a "US-related broker" is a broker or other intermediary that is a controlled foreign corporation for US tax purposes or that is a non-US person 50 per cent. or more of the gross income of which, over a specified three-year period, is effectively connected with a US trade or business.

Non-US Holders are generally exempt from the information reporting and backup withholding rules but may be required to comply with certification and identification requirements to prove their exemption.

Any amounts withheld under the backup withholding rules will be refunded (or credited against the beneficial owner's US federal income tax liability, if any) provided the required information is furnished to the US Internal Revenue Service.

Recently issued Treasury regulations modify certain of the rules discussed above with respect to payments on Shares made after 31st December, 1999. In particular, a payor within the United States will be required to withhold 31 per cent. of any payments of dividends on or proceeds from the sale of Shares within the United States to a Non-US Holder if such holder fails to provide appropriate certification. In the case of such dividends or sales proceeds payments by a payor within the United States to a foreign partnership (other than one that qualifies as a "withholding foreign partnership" within the meaning of the Treasury regulations), the partners of such partnership will be required to provide the certification as discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. Moreover, a payor may only rely on a certification provided by a Non-US Holder if such payor does not have actual knowledge or a reason to know that any information or certification so provided is unreliable.

#### ***United Kingdom Taxation***

The comments below are of a general nature and are based on current United Kingdom ("UK") law and practice at the date of this Offering Memorandum and the provisions of the double taxation agreement between the UK and Malta. The summary only covers the principal UK tax consequences for holders of Shares or GDRs (i) who are resident or ordinarily resident in the UK for tax purposes; (ii) who are not resident in Malta; and (iii) who do not have a permanent establishment or fixed base in Malta with which the holding of Shares or GDRs is connected ("UK Holders"). In addition, the summary (i) only addresses the tax consequences for UK Holders who hold the Shares or GDRs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK Holders, for example, dealers and (ii) assumes that the UK Holder is not interested in or deemed to be interested in 10 per cent. or more of the share

capital or the voting power of the Company (for accounting periods ending on or after 1st July, 1999 a 25 per cent. limit applies).

**The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and practice, of acquisition, ownership and disposition of Shares or GDRs in their own particular circumstances, by consulting their own tax advisers.**

### ***Taxation of Dividends***

Where a UK Holder is entitled to a dividend from the Company the dividend will, in general, be taxable in the UK. A credit for any Maltese withholding tax should be given against any UK tax liability in respect of the dividend.

Where a dividend payable to a person in the UK in respect of Shares or GDRs is entrusted for payment or distribution to a person in the UK, that person shall deduct income tax at the lower rate (currently 20 per cent.) unless there is an applicable exemption. For example, there are exemptions (i) for dividends in respect of shares and GDRs held in a recognised clearing system (such as Euroclear or Cedel Bank) and (ii) if the person beneficially owning the Shares or GDRs and beneficially entitled to the dividend is not resident in the UK and, in both cases, certain administrative and procedural requirements are satisfied, including the making of declarations as to status and eligibility.

A person in the UK who in the course of a trade or profession:

- (i) acts as a custodian of the Shares or GDRs and receives dividends on such Shares or GDRs or directs that such dividends be paid to another person or consents to such payment; or
- (ii) by means of coupons, warrants or bills of exchange, collects or secures payment of or receives dividends on Shares or GDRs for another person; or
- (iii) arranges to collect or secure payment of dividends on Shares or GDRs for another person

will be required to withhold UK income tax at the lower rate, currently 20 per cent., subject to certain exceptions, including the following:

- (a) the person beneficially owning the Shares or GDRs and beneficially entitled to the dividend is not resident in the UK and certain administrative and procedural requirements are satisfied including the making of declarations as to status and eligibility. For the purposes of these requirements, based on the treatment agreed by the Inland Revenue in the past in relation to similar transactions it is understood that the Inland Revenue will treat the GDRs and the Shares as a single security; and
- (b) the Shares or GDRs are held in a recognised clearing system and either:
  - (i) the collecting agent pays or accounts for the dividend directly or indirectly to the recognised clearing system and certain administrative and procedural requirements are satisfied including the making of declarations; or
  - (ii) the collecting agent is acting as depositary for the recognised clearing system in respect of the Shares or GDRs.

### ***Taxation of Capital Gains***

The disposal or deemed disposal of Shares or GDRs by a UK Holder or, in certain circumstances by a holder who is carrying on a trade, profession or vocation in the UK through a branch or agency in connection with which the Shares or GDRs are held, may give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of capital gains. Indexation allowance for UK Holders within the charge to UK corporation tax may reduce a chargeable gain but not create or increase any allowable loss.

### ***Stamp Duty and Stamp Duty Reserve Tax***

No liability to UK stamp duty will arise on a transfer of Shares or GDRs provided that the instrument of transfer is executed outside the UK unless it relates to something done or to be done in the UK and the instrument of transfer is brought into the UK.

No UK stamp duty reserve tax will be payable on an agreement to transfer GDRs or Shares. For the purposes of these paragraphs it is assumed that the GDRs and Shares are not registered in a register kept in the United Kingdom.

## UNDERWRITING

### **International Underwriting Agreement**

Subject to a number of factors, including the success of the book building process in connection with the International Offering, HSBC Investment Bank plc, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ, United Kingdom, Banque Nationale de Paris, 8-13 King William Street, London EC4P 4H8, United Kingdom and Daiwa Europe Limited, 5 King William Street, London EC4N 7AA, United Kingdom (collectively the "Managers") are expected to enter into an International Underwriting Agreement (the "International Underwriting Agreement") with the Government and the Company, in terms of which subject to the satisfaction of certain conditions, they will severally and not jointly purchase or procure purchasers for 17,222,784 Shares represented by 2,870,464 GDRs at the GDR Offer Price. A combined selling concession, management fee and underwriting commission will be paid to the Managers. The GDR Offer Price will be established by the Government in consultation with the Joint Global Coordinators. See "The Offerings – Pricing". In addition, the Government has agreed to reimburse HSBC Investment Bank plc for certain of its expenses up to a maximum of US\$250,000 in connection with the Combined Offering. The Managers will be entitled in certain circumstances to be released and discharged from their obligations under the International Underwriting Agreement prior to the closing of the sale of the GDRs in the International Offering. In particular, the closing of the International Offering is conditional upon the closing of the Maltese Offering and the Employee Offering. The Company and the Government have agreed to indemnify the Managers and certain other persons against certain liabilities, including liabilities under the Securities Act.

The International Underwriting Agreement is to contain the terms under which the Government grants to HSBC Investment Bank plc on behalf of the Managers the Overallotment Option, which is exercisable within 30 calendar days from the date of the International Offering Memorandum, to purchase up to 3,039,312 Shares represented by 506,552 GDRs solely to cover overallotments in the International Offering. In addition, in connection with the International Offering, and subject to the execution of the International Underwriting Agreement, HSBC Investment Bank plc may overallocate or effect transactions that stabilise or maintain the market prices of the GDRs at levels that might not otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange or otherwise. Such stabilisation, if commenced, may be discontinued at any time.

### **Lock-Up Agreement**

Subject to the International Underwriting Agreement becoming effective each of the Government and the Company shall agree that, for a period beginning on the date of the International Underwriting Agreement and ending on the date falling 12 months after the Closing Date neither it nor any of its affiliates (nor any person acting on behalf of the Company, the Government or their respective affiliates, directly or indirectly) will, without the prior written consent of HSBC Investment Bank plc, offer, pledge, sell, contract to sell or grant, or sell any option or contracts to purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, either directly or indirectly, or issue or authorise the issue of, any Shares, any securities which are substantially similar to the Shares, or any securities which are convertible into or exercisable for or exchangeable for, or which carry any rights to acquire any Shares, or such securities (or any interest in Shares or such securities) or publicly announce any intention to do any of the foregoing; or enter any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Shares, whether any such transaction is settled by delivery of Shares or such other securities, in cash or otherwise.

### **Selling Restrictions**

No action has been or will be taken in any jurisdiction for the purposes of permitting a public offering of the GDRs or Shares, or the possession, circulation or distribution of this document or any other material relating to the Company, the GDRs or the Shares, in any jurisdiction outside Malta. Accordingly, neither the GDRs nor any Shares may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the GDRs or the Shares may be distributed or published in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

### **United States**

Neither the Shares nor the GDRs have been or will be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The International Underwriting Agreement provides that HSBC Investment Bank plc may arrange, through its broker-dealer affiliate registered under the Exchange Act, for the offer and sale of GDRs in the United States to qualified institutional buyers in accordance with Rule 144A under the Securities Act.

Each Manager has severally agreed that, except as permitted by the International Underwriting Agreement, it will not offer or sell GDRs or the Shares: (i) as part of the distribution thereof at any time; or (ii) otherwise until 40 days after the latest of the commencement of the Combined Offering, the Closing Date and the closing date for any additional GDRs issued pursuant to the Overallotment Option, within the United States or to, or for the account or benefit of, a US person (as defined in Regulation S under the Securities Act) and it will have sent to each dealer to which it sells Shares or GDRs during such period a confirmation or other notice setting forth the restrictions on offers and sales of Shares and GDRs.

In addition, until 40 days after the commencement of the Combined Offering, an offer or sale of GDRs or Shares within the United States by any dealer, whether or not it is participating in the Combined Offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

#### *United Kingdom*

Each Manager has severally represented and agreed that: (i) it has not offered or sold and will not offer or sell any GDRs to persons in the United Kingdom prior to admission of the GDRs to listing in accordance with Part IV of the Financial Services Act 1986 except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Financial Services Act 1986, (ii) it has not offered or sold and, during the period of six months from the Closing Date, will not offer or sell, Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Financial Services Act 1986, (iii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the GDRs or Shares in, from or otherwise involving the United Kingdom, and (iv) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the Combined Offering (other than any document which consists of any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Financial Services Act 1986) to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

#### *Japan*

Each Manager has confirmed and undertaken that, except for the solicitation referred to below, it has not directly or indirectly made, and shall not directly or indirectly make, offers to sell or solicitations of an offer to purchase any GDRs or Shares to any resident of Japan or in Japan up to the date of delivery of the GDRs. The total number of investors in Japan to whom solicitations of an offer to purchase GDRs or Shares may be made shall in no case exceed 49.

#### **Domestic Underwriting Agreement**

Mid-Med Bank plc, 233 Republic Street, Valletta VLT 05, Malta, has, pursuant to a Domestic Underwriting Agreement, dated 5th June, 1998, (the "Domestic Underwriting Agreement"), agreed with the Government and the Company, subject to the satisfaction of certain conditions, to purchase such number of Shares as have not been subscribed for under the Maltese Offering and the Employee Offering, at a price equal to the Share Offer Price. A combined selling concession, management fee and underwriting commission will be paid to Mid-Med Bank plc. Under the Domestic Underwriting Agreement, the Company and Government have agreed to indemnify Mid-Med Bank plc against certain liabilities.

#### **Global Coordinators' Agreement**

HSBC Investment Bank plc, Mid-Med Bank plc, the Government and the Company have, pursuant to the Global Co-ordinators' Agreement dated 5th June, 1998 (the "Global Coordinators' Agreement") agreed, subject to the satisfaction of certain conditions, a mechanism for allocation of Shares (including the Shares subject to the Overallotment Options) between the Maltese Offering and the International Offering. Under the Global Coordinators' Agreement, HSBC Investment Bank plc will be paid a praecipuum. In addition, Mid-Med Bank plc will have an option to purchase any Shares subject to the Overallotment Option which are not purchased by HSBC Investment Bank plc.

## LEGAL MATTERS

Certain legal matters will be passed upon for the Company by Camilleri Preziosi & Associates, Maltese counsel for the Company and by Clifford Chance, English and U.S. counsel for the Company. Certain legal matters will be passed upon for the Managers by Muscat Azzopardi, Spiteri & Associates, Maltese Counsel for the Managers and Allen & Overy, English counsel for the Managers.

## INDEPENDENT ACCOUNTANTS

The Audited Annual Financial Statements and Audited Interim Financial Statements have been audited and the Unaudited Interim Financial Statements have been reviewed by KPMG (Malta), who until March 1998 practised under the name of Joseph Tabone & Co. An Independent Accountants' Report from KPMG (Malta) and KPMG Audit Plc on the Annual Audited Financial Statements and the Audited Interim Financial Statements appears elsewhere in this Offering Memorandum.

## ADDITIONAL INFORMATION

1. Maltacom p.l.c. is a corporation incorporated as a limited liability company (Registration Number C.22334) in the Republic of Malta on 2nd January, 1998. According to Article 3 of Maltacom's Memorandum of Association the principal activities of the Company include the provision of telecommunications services as described in "Business-Introduction".
2. Each of KPMG (Malta) and KPMG Audit plc has given and not withdrawn its written consent to the inclusion in this document of their report and the references to them in the form and context in which they appear and has authorised the contents of their report for the purposes of Section 152(1)(e) of the Financial Services Act 1986 and the requirements of the MSE's bye-laws and Malta's Companies Act of 1995.
3. The following contracts have been or will be entered into by the Company in connection with the International Offering, the Maltese Offering and the Employee Offering:
  - (i) the Domestic Underwriting Agreement;
  - (ii) the International Underwriting Agreement;
  - (iii) the Global Coordinators' Agreement; and
  - (iv) the Deposit Agreement.
4. Except as indicated below, for a period of 14 days from the date of this Offering Memorandum copies of the following documents, in English, will be available for inspection during normal business hours at the offices of Clifford Chance, 200 Aldersgate Street, London, EC1A 4JJ and at the Registered Office of the Company.
  - (i) Maltacom's Memorandum and Articles of Association;
  - (ii) this Offering Memorandum;
  - (iii) the audited financial statements of the Company for the years ended 30th September, 1995, 1996, 1997 and for the six months ended 31st March, 1997 and the unaudited financial statements of the Company for the six months ended 31st March, 1998;
  - (iv) Contracts referred to in paragraph 3 above (except the Deposit Agreement and the International Underwriting Agreement, which will be available from the Closing Date) and the agreement referred to in paragraph 11 below.
5. Except as otherwise disclosed in the Offering Memorandum, there has been no material change in the financial or trading position of Maltacom, nor has there been a material adverse change in the prospects of Maltacom, since 30th September, 1997.
6. The CUSIP number for the Rule 144A GDRs is 561386103, the Common Code is 8699178, the ISIN number is US5613861039. The CUSIP number for the Regulation S GDRs is 561386202 the Common Code is 8690693 and ISIN number US5613862029.
7. Within the next 12 months the Company shall not issue any new Shares, nor shall the Government offer for sale any further Shares in the Company without the approval of the MSE. See "Underwriting-Lock-up Agreement".

8. There is more than 10 per cent. of the Company's authorised share capital which is unissued. However, the Company's Articles of Association provides that no capital may be issued in such a way as would effectively alter the control of the Company or nature of its business without the prior approval of shareholders at a general meeting.
9. There is no capital of the Company which has been issued to the public during the two years immediately preceding the publication of this Offering Memorandum.
10. There is no capital of the Company which is currently under option, nor is there any agreement by virtue of which any part of the capital of the Company is to be put under option.
11. The Company has on the 27th April, 1998 entered into a promise of sale agreement with the Government, under which the Company promised to sell and the Government has promised to purchase land owned by the Company in Paceville, St. Julians, Malta for the price of Lm4.5 million payable by the Government out of dividends payable to the Government by the Company. There are no other material contracts signed by the Company which are not contracts in the Company's ordinary course of business.
12. The Company has not paid any commissions, discounts or brokerage fees, nor has it granted any other special terms within the two years immediately preceding the publication of this Offering Memorandum in connection with the issue or sale of any capital of the Company or any of its subsidiaries.

## GLOSSARY

"analogue" means a signal, whether voice, video or data, which is transmitted in similar or analogous signals. It is commonly used to describe telephone transmission and/or switching services that are not digital.

"backbone" means a primary shared communication path that serves multiple networks and may facilitate communications between different transmission systems.

"broadband services" are characterised by a transmission speed of 2 Mbit/s or more. According to international standards, these services are divided into two categories: (i) interactive services, including videotelephone/videoconferencing (both point-to-point and multipoint); videomonitoring; interconnection of local networks; file transfer; highspeed fax; e-mail for moving images or mixed documents; broadband videotex; video on demand; retrieval of sound programmes or fixed and moving images; and (ii) broadcast services, such as sound programmes, television programmes (including high-definition TV and pay TV) and selective document acquisition.

"CANTAT 3" means a transatlantic fibre optic submarine cable, which is a large capacity, high speed link between North America and Europe.

"cellular" is a technique used in mobile radio and technology to use the same spectrum several times in one network. Low power radio transmitters are used to cover a "cell" (i.e. a limited area) so that the frequencies in use can be reused without interference from other parts of the network.

"circuit" means the physical connection (or path) of channels, conductors and equipment between two given points through which an electrical current may be established and includes both sending and receiving capabilities.

"co-axial cable" or "symmetrical cable" means a widely used type of cable that consists of a central metal conductor surrounded by insulating material that is in turn wrapped by a second conductor, the whole encased in an insulating and protective sheath.

"data communications" means the movement of data by means of an electromagnetic or electro-optical transmission system.

"DCS 1800" means Digital Cellular System, a European standard for digital cellular telecommunications operating in the 1800 MHz band.

"DECT" means Digital Enhanced Cordless Telecommunications, a radio technology, using a frequency of 1900 MHz, for access to a private or public telecommunications network enabling subscribers in urban areas to utilise cordless equipment, with the same telephone number as their fixed line telephone, both inside and, within a limited range, outside their home.

"digital" means a mode of representing a physical variable such as speech using digits 0 and 1 only which vary in relation to the variable being represented. The digits are transmitted in binary form as a series of pulses. Digital networks are replacing the older analogue systems around the world. They allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection for external interference.

"digital switching" means a connection in which binary encoded information is routed between an input or an output port by means of time-division multiplexing rather than by a dedicated circuit.

"exchange" means a switch.

"fibre optic cable" means cables using fibre optic and laser technology, whereby modulating light beams representing data are transmitted through thin filaments of glass.

"frame relay" means data transmission service using fast protocols based on direct use of transmission lines.

"gateway" is a point of entrance and exit into a country's communications network.

"GSM" means Global Systems for Mobile telephones, a European standard for digital cellular telephones.

"ICO" means International Communications Organisation, an independent global private company owned by 59 telecom operators and technology partners, which is in the business of providing satellite-based fixed and mobile communications.

"INMARSAT" means the International Mobile Satellite Organisation (formerly the International Maritime Satellite Organisation), which provides mobile communications to ships at sea, aircraft in flight and land users and which owns and operates a number of telecommunications and distress satellites.

"INTELSAT" means the International Telecommunications Satellite Organisation, a worldwide consortium of global international satellite communications organisations which owns and operates a number of telecommunications satellites.

"ISDN" means an Integrated Services Digital Network, allowing simultaneous transmission of voice, data, video and still images. Digital communication throughout the network assures high quality communication and many additional services. Videoconferencing and file transmission are the most important ISDN applications.

"ITU" means the International Telecommunication Union which is a worldwide policy, spectrum regulation and standardisation body in telecommunications operating under the auspices of the United Nations.

"microwave system" means a system for the transmission of voice or data using microwave radio frequencies (generally above 1 GHz).

"nodes" means a topological network junction, commonly a switching centre or station.

"optical fibre" means transmission medium which permits extremely high capacities that consists of a thin strand of glass that provides a pathway along which waves of light can travel for telecommunications purposes.

"PABX exchange" means Private Automatic Branch Exchange.

"packet-switched services" means data services based on parcelling or breaking the data stream into packets and switching the individual packets. Information transmitted (whether voice or data) is segmented into cells of a standardised length, which are then transmitted independently of one another, allowing maximisation of available capacity and usage of a single transmission path for multiple communications. The cells are then reassembled upon reaching their destination.

"PDH" means Plesiochronous Digital Hierarchy. It is a method of providing transmission capabilities in a large network.

"PSDN" or "packet switched data network" means a network using a switch device and sending packets of data through the network to some remote location.

"roaming" is a function that enables wireless subscribers to use the service on networks of operators other than the one with which they signed their initial contract.

"satellite earth station" means an antenna and associated equipment to send and receive signals to and from a satellite. Among the antenna standards recognised by INTELSAT are Standard A for antennas with a diameter of a minimum of 18 metres, Standard B for antennas with a diameter of less than 18 metres and Standard F for antennas with a diameter of nine metres. Smaller antennas have less capacity.

"SDH" or "synchronous digital hierarchy" means a transmission standard for synchronous transmission networks, allowing direct access to particular band spectra, even when these are included in a comparatively high level of the organisational hierarchy.

"SDR" means Special Drawing Rights, a currency unit representing part of a nation's reserve assets in the international monetary system. SDRs are designed to supplement the reserves of gold and convertible currencies, or hard currencies, used to maintain stability in the foreign exchange market.

"switch" means a device used to set up and route telephone calls either to the number called or to the next switch among the path. They may also record information for billing and control purposes.

"tariff rebalancing" means the Company's restructuring of tariff rates to better reflect the actual costs of services provided.

"value added services" means those services which provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its terminals, which include wired or wireless switched-circuit analogue voice communications; direct "unrestricted" digital point-to-point service at 9,600 bit/s; packet switching; direct broadband analogue transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding; and identification of number called. Value added services performed by the network, the terminals or the specialised centres include message handling services (MHS) (which can be used, among other things, for commercial documents in predetermined formats); electronic directories listing users, network addresses and terminals; e-mail; fax; teletex; videotex and videotelephone.

"wireless local loop" means systems within which transmission at the local loop level is by radio signal rather than through cable, such as systems employing DECT.

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**DIRECTORS' STATEMENT IN RESPECT OF THE ANNUAL AUDITED FINANCIAL STATEMENTS  
AND THE AUDITED INTERIM FINANCIAL STATEMENTS**

Audited financial statements were prepared for Telemalta Corporation (the Corporation) for the three years ended 30 September 1997 and for the six month period ended 31 March 1997. These financial statements were prepared on the basis of the accounting policies of the Corporation and the information available to the directors of the Corporation at the time. The preparation of these financial statements necessarily required significant estimates and judgements to be made. The audit opinions on these financial statements were unqualified.

Under section 40(1) of the Telecommunications (Regulation) Act and Legal Notice 238 of 1997, Maltacom p.l.c. is the successor of the Corporation.

As directors of Maltacom p.l.c., we are responsible for the financial statements in the Offering Memorandum set out on pages F-5 to F-27 and the Appendix thereto. These financial statements are based on the audited financial statements of the Corporation for the three years ended 30 September 1997 and for the six month period ended 31 March 1997, adjusted as we considered necessary for the purpose of the Offering Memorandum. The adjustments we have made restate the audited financial statements of the Corporation in accordance with the accounting policies which have been adopted by Maltacom p.l.c. and with information now available.

We confirm that in our opinion only such adjustments as are necessary have been made to the audited financial statements, and that no other adjustments thereto were necessary.

Approved by the board of directors on 25 May 1998 and signed on its behalf by:

Mr T M Mejlaq, CPAA, MBIM  
*Chairman*

Dr Ing S Zammit, B (Elec. Eng.) (Hons.), MSC, PhD  
*Deputy Chairman*

## INDEPENDENT ACCOUNTANTS' REPORT



KPMG Audit Plc  
8 Salisbury Square  
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EC4Y 8BB  
United Kingdom

and

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3 Vincenzo Dimech Street  
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The Directors  
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Spencer Hill  
Marsa HMR 12  
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Curmi & Mallia (Stockbrokers) Ltd  
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Europa Centre  
Floriana VLT 15  
Malta

Calamatta Stockbrokers Ltd  
Third Floor  
Valletta Buildings  
South Street  
Valletta VLT 11  
Malta

Dear Sirs

**Maltacom p.l.c.**

We report on the financial statements set out on pages F-5 to F-27.

These financial statements are based on the audited financial statements of Telemalta Corporation (the Corporation) for the three years ended 30 September 1997 and for the six month period ended 31 March 1997, adjusted as considered necessary by the directors of Maltacom p.l.c. for the purposes of the Offering Memorandum. The financial statements for the year ended 30 September 1997 represent the latest financial statements covering a full financial year which have been audited.

Under section 40(1) of the Telecommunications (Regulation) Act and Legal Notice 238 of 1997, Maltacom p.l.c. is the successor of the Corporation.

The directors of Maltacom p.l.c. are responsible for the contents of the Offering Memorandum in which this report is included. Furthermore, as stated on page F-2, the financial statements set out on pages F-5 to F-27 are the responsibility of the directors of Maltacom p.l.c.

We have examined these financial statements in order to form an opinion thereon and to report our opinion to you.

We conducted our work in accordance with International Standards on Auditing. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial statements. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error.

The auditors of the Corporation and its associated companies during the three years ended 30 September 1997 were as follows:

Telemalta Corporation

**Auditors**

KPMG

*(formerly practising as Joseph Tabone & Co.)*

**Associated Companies**

Terranet Limited

Price Waterhouse

Vodafone Malta Limited (formerly  
Telecell Limited)

Deloitte & Touche

Telepage Limited

Coopers & Lybrand

Elsacom Malta Limited

KPMG

*(formerly practising as Joseph Tabone & co.)*

For the purposes of this report and the financial statements set out on pages F-5 to F-27, the Corporation and Maltacom p.l.c. are together considered to be a single continuing undertaking, referred to as the Company.

In our opinion the financial statements give, for the purpose of the Offering Memorandum, a true and fair view of the state of affairs of the Company as at the dates stated and of its results and cash flows for the periods then ended and have been properly prepared in accordance with International Accounting Standards.

KPMG

*Certified Public Accountants and Auditors*

KPMG Audit plc

*Chartered Accountants*

Malta

London

8 June, 1998

# **PROFIT AND LOSS ACCOUNT**

|                                                                                           |       | Years ended 30 September |               |               | 6 Months<br>ended<br>31 March<br>1997 |
|-------------------------------------------------------------------------------------------|-------|--------------------------|---------------|---------------|---------------------------------------|
|                                                                                           | Notes | 1997<br>Lm000            | 1996<br>Lm000 | 1995<br>Lm000 | Lm000                                 |
| Turnover . . . . .                                                                        | 3     | 33,067                   | 30,099        | 29,601        | 16,038                                |
| Cost of Sales . . . . .                                                                   |       | 19,455                   | 20,068        | 17,883        | 9,200                                 |
| <b>Gross Profit</b>                                                                       |       | 13,612                   | 10,031        | 11,718        | 6,838                                 |
| Administrative and Distribution<br>Expenses . . . . .                                     |       | 3,827                    | 4,213         | 3,781         | 2,356                                 |
|                                                                                           |       | 9,785                    | 5,818         | 7,937         | 4,482                                 |
| Other Operating Income. . . . .                                                           |       | 549                      | 1,436         | 333           | 372                                   |
| Other Operating Charges . . . . .                                                         |       | 296                      | 657           | 163           | 178                                   |
| Licence Fee in terms of Section 24<br>Telemalta Corporation Act . . . .                   |       | 400                      | 400           | 400           | 200                                   |
|                                                                                           |       | (147)                    | 379           | (230)         | (6)                                   |
| <b>Operating Profit before Exceptional<br/>Charges. . . . .</b>                           |       | 9,638                    | 6,197         | 7,707         | 4,476                                 |
| Exceptional Charges. . . . .                                                              | 4(d)  | 4,084                    | —             | —             | —                                     |
| <b>Operating Profit. . . . .</b>                                                          | 4     | 5,554                    | 6,197         | 7,707         | 4,476                                 |
| Investment and Similar Income . .                                                         | 5     | 298                      | 325           | 200           | 104                                   |
| Interest and Similar Charges . . . .                                                      | 6     | 2,038                    | 2,145         | 1,930         | 992                                   |
|                                                                                           |       | (1,740)                  | (1,820)       | (1,730)       | (888)                                 |
| Share of Profits less Losses of<br>Associated Companies. . . . .                          |       | 343                      | 438           | (9)           | 277                                   |
| <b>Profit before Taxation. . . . .</b>                                                    |       | 4,157                    | 4,815         | 5,968         | 3,865                                 |
| Taxation . . . . .                                                                        | 7     | 2,477                    | 1,627         | 1,752         | 1,019                                 |
| <b>Profit after Taxation. . . . .</b>                                                     |       | 1,680                    | 3,188         | 4,216         | 2,846                                 |
| Retained Earnings at Beginning of<br>Years/Period . . . . .                               |       | 22,971                   | 21,783        | 19,067        | 22,971                                |
|                                                                                           |       | 24,651                   | 24,971        | 23,283        | 25,817                                |
| Payment to Government in terms of<br>Section 17(2) Telemalta<br>Corporation Act . . . . . |       | 2,000                    | 2,000         | 1,500         | —                                     |
| <b>Retained Earnings at End of<br/>Years/Period . . . . .</b>                             |       | 22,651                   | 22,971        | 21,783        | 25,817                                |

The notes on pages F-8 to F-27 form part of these financial statements.

# BALANCE SHEET

|                                                                |       | As at 30 September |               |               | As at         |
|----------------------------------------------------------------|-------|--------------------|---------------|---------------|---------------|
|                                                                | Notes | 1997               | 1996          | 1995          | 31 March      |
|                                                                |       | Lm000              | Lm000         | Lm000         | 1997          |
|                                                                |       |                    |               |               | Lm000         |
| <b>Fixed Assets</b>                                            |       |                    |               |               |               |
| Intangible Assets . . . . .                                    | 8     | 662                | 392           | 64            | 376           |
| Tangible Assets . . . . .                                      | 9     | 45,900             | 50,394        | 47,394        | 50,188        |
| Financial Assets . . . . .                                     | 10    | 3,115              | 2,152         | 1,485         | 2,721         |
|                                                                |       | <u>49,677</u>      | <u>52,938</u> | <u>48,943</u> | <u>53,285</u> |
| <b>Other Long Term Assets</b>                                  |       |                    |               |               |               |
| Deferred Taxation. . . . .                                     | 7     | —                  | —             | 555           | —             |
| <b>Current Assets</b>                                          |       |                    |               |               |               |
| Stocks . . . . .                                               | 11    | 431                | 510           | 652           | 465           |
| Debtors. . . . .                                               | 12    | 28,759             | 30,812        | 26,018        | 32,659        |
| Cash in Hand and at Banks . . . . .                            |       | 829                | 820           | 1,403         | 608           |
|                                                                |       | <u>30,019</u>      | <u>32,142</u> | <u>28,073</u> | <u>33,732</u> |
| <b>Creditors: Amounts falling due within One Year</b>          |       |                    |               |               |               |
| Creditors . . . . .                                            | 13    | 21,823             | 22,267        | 18,559        | 19,514        |
| Bank Overdrafts . . . . .                                      | 14    | 1,676              | 5,251         | 1,515         | 6,967         |
| Loans. . . . .                                                 | 15    | 2,752              | 2,579         | 3,208         | 3,060         |
| Taxation . . . . .                                             |       | 799                | 925           | 1,361         | 727           |
|                                                                |       | <u>27,050</u>      | <u>31,022</u> | <u>24,643</u> | <u>30,268</u> |
| <b>Net Current Assets</b> . . . . .                            |       | <u>2,969</u>       | <u>1,120</u>  | <u>3,430</u>  | <u>3,464</u>  |
| <b>Total Assets less Current Liabilities</b>                   |       | <u>52,646</u>      | <u>54,058</u> | <u>52,928</u> | <u>56,749</u> |
| <b>Creditors: Amounts falling due after more than One Year</b> |       |                    |               |               |               |
| Loans. . . . .                                                 | 15    | 20,327             | 21,313        | 21,477        | 20,978        |
| <b>Provisions for Liabilities and Charges</b>                  |       |                    |               |               |               |
| Deferred Taxation. . . . .                                     | 7     | —                  | 106           | —             | 286           |
|                                                                |       | <u>32,319</u>      | <u>32,639</u> | <u>31,451</u> | <u>35,485</u> |
| <b>Capital and Reserves</b>                                    |       |                    |               |               |               |
| Capital Reserve . . . . .                                      | 16    | 5,168              | 5,168         | 5,168         | 5,168         |
| Revaluation Reserve . . . . .                                  | 17    | 4,500              | 4,500         | 4,500         | 4,500         |
| Retained Earnings. . . . .                                     |       | 22,651             | 22,971        | 21,783        | 25,817        |
|                                                                |       | <u>32,319</u>      | <u>32,639</u> | <u>31,451</u> | <u>35,485</u> |

The notes on pages F-8 to F-27 form part of these financial statements.

# CASH FLOW STATEMENT

| Notes                                                                     | Years ended 30 September |                |                | 6 Months ended            |
|---------------------------------------------------------------------------|--------------------------|----------------|----------------|---------------------------|
|                                                                           | 1997<br>Lm000            | 1996<br>Lm000  | 1995<br>Lm000  | 31 March<br>1997<br>Lm000 |
| <b>Cash Flows from Operating Activities</b>                               |                          |                |                |                           |
| Profit before Taxation . . . . .                                          | 4,157                    | 4,815          | 5,968          | 3,865                     |
| Adjustments for:                                                          |                          |                |                |                           |
| Depreciation . . . . .                                                    | 3,867                    | 3,360          | 2,980          | 1,765                     |
| Amortisation . . . . .                                                    | 124                      | 23             | 5              | 60                        |
| Provision for Doubtful Debts . . . . .                                    | (733)                    | 394            | 215            | 252                       |
| Investment Income . . . . .                                               | (259)                    | (283)          | (164)          | (88)                      |
| Interest Expense . . . . .                                                | 1,849                    | 2,066          | 1,772          | 940                       |
| Profit on Decommissioning of Tangible<br>Fixed Assets . . . . .           | (90)                     | (20)           | 96             | -                         |
| Interest Receivable . . . . .                                             | (39)                     | (38)           | (36)           | (16)                      |
| Share of Associated Companies' Results . . . . .                          | (343)                    | (438)          | 9              | (277)                     |
| Provision for Exchange Fluctuations . . . . .                             | 227                      | (337)          | 6              | 159                       |
| Provision for Slow Moving Stocks . . . . .                                | 72                       | (99)           | (193)          | 20                        |
| Provision for Impairment of Tangible<br>Fixed Assets . . . . .            | 4,084                    | -              | -              | -                         |
| <b>Operating Profit before Working Capital<br/>Changes . . . . .</b>      | <b>12,916</b>            | <b>9,443</b>   | <b>10,658</b>  | <b>6,680</b>              |
| Decrease in Stocks . . . . .                                              | 258                      | 313            | 48             | 275                       |
| Decrease/(Increase) in Debtors . . . . .                                  | 2,035                    | (5,326)        | (2,773)        | (3,096)                   |
| Increase in Creditors . . . . .                                           | 376                      | 3,245          | 4,759          | 368                       |
| Movement in Related Companies' Balances . . . . .                         | (1,254)                  | 766            | 66             | (1,174)                   |
| <b>Cash Generated from Operations . . . . .</b>                           | <b>14,331</b>            | <b>8,441</b>   | <b>12,758</b>  | <b>3,053</b>              |
| Taxation Paid . . . . .                                                   | (1,649)                  | (1,400)        | (1,526)        | -                         |
| Interest Paid on Bank Overdraft . . . . .                                 | (283)                    | (144)          | (1,817)        | (123)                     |
| Bank Interest Received . . . . .                                          | 34                       | 36             | 77             | 15                        |
| <b>Net Cash from Operating Activities . . . . .</b>                       | <b>12,433</b>            | <b>6,933</b>   | <b>9,492</b>   | <b>2,945</b>              |
| <b>Cash Flows from Investing Activities</b>                               |                          |                |                |                           |
| Payments to Acquire Intangible Fixed<br>Assets . . . . .                  | (393)                    | (351)          | -              | (44)                      |
| Payments to Acquire Tangible Fixed Assets . . . . .                       | (3,649)                  | (7,172)        | (5,045)        | (2,023)                   |
| Payments to Acquire Other Financial Fixed<br>Assets . . . . .             | (756)                    | (337)          | (1,017)        | (362)                     |
| Income from Investments . . . . .                                         | 418                      | 393            | 220            | 204                       |
| Proceeds from Sale of Tangible Fixed<br>Assets . . . . .                  | -                        | 186            | -              | -                         |
| <b>Net Cash used in Investing Activities . . . . .</b>                    | <b>(4,380)</b>           | <b>(7,281)</b> | <b>(5,842)</b> | <b>(2,225)</b>            |
| <b>Cash Flows from Financing Activities</b>                               |                          |                |                |                           |
| Loan Interest Paid . . . . .                                              | (1,591)                  | (1,839)        | -              | (787)                     |
| Repayment of Loans . . . . .                                              | (1,873)                  | (7,765)        | (5,072)        | (611)                     |
| Distributions to Government . . . . .                                     | (2,000)                  | (1,500)        | (1,500)        | (2,000)                   |
| Loans Advanced . . . . .                                                  | 1,005                    | 7,133          | 1,407          | 750                       |
| <b>Net Cash used in Financing Activities . . . . .</b>                    | <b>(4,459)</b>           | <b>(3,971)</b> | <b>(5,165)</b> | <b>(2,648)</b>            |
| <b>Net Increase/(Decrease) in Cash and<br/>Cash Equivalents . . . . .</b> | <b>3,594</b>             | <b>(4,319)</b> | <b>(1,515)</b> | <b>(1,928)</b>            |
| Cash and Cash Equivalents at Beginning of<br>Years/Period . . . . .       | 18 (4,431)               | (112)          | 1,403          | (4,431)                   |
| <b>Cash and Cash Equivalents at End of<br/>  Years/Period . . . . .</b>   | <b>18 (837)</b>          | <b>(4,431)</b> | <b>(112)</b>   | <b>(6,359)</b>            |

The notes on pages F-8 to F-27 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Basis of Preparation

Maltacom p.l.c. is the monopoly provider of fixed line telecommunications service in Malta. It is the successor company to Telemalta Corporation which was incorporated by statute in 1975 by the Telemalta Corporation Act, on the nationalisation of the two private telecommunications operators in Malta.

On 2 January 1998, the Telemalta Corporation Act was repealed and the Corporation ceased to exist. On that same date, in accordance with Section 40(1) of the Telecommunications (Regulation) Act, 1997 and Legal Notice 238 of 1997, the Corporation transferred its assets and liabilities and its rights and duties, except for those arising from its regulatory role, to Maltacom p.l.c.

These financial statements have been compiled in accordance with International Accounting Standards and the accounting requirements formerly contained in the Telemalta Corporation Act. They have been prepared under the historical cost convention except as modified by the revaluation of certain immovable property. These financial statements have been based on the audited financial statements of Telemalta Corporation, adjusted to reflect the accounting policies adopted by Maltacom p.l.c. These financial statements assume that Maltacom p.l.c. has been in existence throughout the period, and take into account the financial and fiscal effects of the Telecommunications (Regulation) Act.

Unless explicitly stated otherwise, all references to the company in these financial statements are to either or both the Corporation and Maltacom p.l.c.

### 2 Significant Accounting Policies

The significant accounting policies which have been consistently applied in the preparation of the financial statements, are set out below.

#### a) *Tangible Fixed Assets*

Tangible fixed assets are stated at cost or, in the case of property held for development, revalued amounts, less accumulated depreciation. Depreciation is calculated to write down the value of tangible fixed assets, less any anticipated residual value, by equal annual instalments over their estimated useful lives. A charge equivalent to half a year's depreciation is provided for during the year in which the asset is first brought into use, and half a year's depreciation is charged during the year in which the asset is disposed of or scrapped. In cases of assets brought into use during the first six months of the year, depreciation for that period is charged at 25% of the normal rate, while the remaining 25% is charged during the second six month period.

Additions to tangible fixed assets include direct material and direct labour costs on capital works undertaken by the Company.

The carrying amounts of tangible fixed assets are reviewed to determine whether they are in excess of their recoverable amounts at the balance sheet date. If the carrying amount is in excess of the recoverable amount, the value of the assets in question is written down accordingly. In determining recoverable amounts, expected future cash flows are not discounted to their present values.

Revaluations of property held for development are carried out by qualified, independent valuers on the basis of existing use, and carrying amounts are adjusted accordingly. Any excess of the revalued amount over the carrying amount of the asset is transferred to a Revaluation Reserve, whereas any shortfall is immediately written off to the profit and loss account or, to the extent that the asset had previously been revalued, to the Revaluation Reserve.

Expenditure on repairs or maintenance of tangible fixed assets, made to restore or maintain future economic benefits expected from the asset, is recognised as an expense when incurred.

## 2 Significant Accounting Policies (continued)

### a) *Tangible Fixed Assets (continued)*

The rates of depreciation used are the following:

|                                       | %           |
|---------------------------------------|-------------|
| Land and Buildings                    | 1 to 2      |
| Plant Cable and Network               | 2 to 5      |
| Subscribers' Equipment and Line       | 7 to 14.33  |
| Exchange and Junction Equipment       | 5 to 10     |
| Radio Plant and Equipment             | 2.5 to 6.67 |
| External Telecommunications Equipment | 7.5         |
| Plant and Machinery                   | 10          |
| Office Furniture and Equipment        | 10 to 33.33 |
| Motor Vehicles                        | 20          |
| Air Conditioning Equipment            | 10 to 15    |
| Earth Station                         | 6.67        |

### b) *Materials Awaiting Installation*

Materials awaiting installation are stated at cost less a provision for excess and obsolete items. The majority of the items are used in the construction of new plant, and the remainder for maintenance. When issued, these materials are charged either to the cost of specific plant or to the profit and loss account.

### c) *Intangible Assets*

The rights in connection with the Indivisible Rights of Use (IRUs) and Droit de Passage (DDPs) are being amortised by equal annual instalments over the period of the agreements.

The cost associated with the printing and distribution of the 1996 telephone directory is being deferred over a period of two years commencing on 1 September 1996. Amortisation is charged to reflect the consumption of this deferred cost over the period of its deferral on a monthly basis.

### d) *Investments*

Investments in associated undertakings are recognised on the equity basis. An associated undertaking is one where the Company controls, directly or indirectly, 20% or more, but less than 50% of the voting power of the undertaking, or exercises significant influence over, but does not control, the financial and operating policies of the investee.

Other investments classified as financial fixed assets are carried at cost, less amounts written off to recognise other than temporary declines in the value of the investment. Other investments are stated at the lower of cost and market value as estimated by the directors.

On disposal of an investment the difference between the net proceeds and the carrying amount is charged or credited to the profit and loss account.

Income from investments is accounted for when received.

A list of the Company's associated undertakings is set out in note 10(b).

### e) *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and includes expenditure incurred in acquiring the stocks and bringing them to their existing condition and location.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Items for which no transaction (purchase or consumption) is recorded for a period of three years are fully provided for. Provision is reversed in the event of transactions during subsequent accounting periods.

## 2 Significant Accounting Policies (continued)

### f) *Foreign Currencies*

Monetary assets and liabilities in foreign currencies are translated into Maltese Liri at the rates of exchange ruling on the balance sheet date. Foreign exchange forward contracts are accounted for as a hedge when the contracts are entered into with the intention to hedge other transactions. Transactions during the period are translated into Maltese Liri at the rates of exchange ruling on the date of the transaction. All profits and losses on exchange are dealt with through the profit and loss account.

### g) *Taxation*

The tax expense is calculated on net income, adjusted for non-temporary differences between taxable and accounting income. The tax effect of temporary differences, arising from items being brought to account in different periods for income tax and accounting purposes, is carried in the balance sheet as deferred tax debits or credits. Such deferred tax balances are calculated on the liability method taking into account the estimated tax that will be paid or recovered when the temporary differences reverse.

Deferred tax debits are only carried forward if there is a reasonable expectation of realisation. Deferred tax debits, arising from tax losses yet to be recovered, are only carried forward if there is assurance beyond any reasonable doubt, and to the extent, that future taxable income will be sufficient to allow the benefit of the tax loss to be realised or to the extent of the net credits in the deferred tax balance.

### h) *Amounts Receivable*

Specific provision is made for amounts receivable, the recovery of which is considered to be doubtful. General provision is made at the rate of 50% on balances due for over one year, net of repayment programmes entered into by the debtors.

### i) *Revenue Recognition*

In relation to the rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The method used is the completed transaction method. Revenue is recognised when no significant uncertainties remain concerning the derivation of consideration or associated costs.

In relation to the sale of goods, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods.

Interest and royalties arising from the use by others of the Company's resources are recognised on the accruals basis. Dividends are recognised when the right to receive the dividend is established.

Licence fees receivable as a result of the delegation of the Company's authority to third parties are recognised on the accruals basis.

### j) *Borrowing Costs*

Borrowing costs are recognised as an expense in the period in which they are incurred.

### k) *Cash and Cash Equivalents*

Cash and cash equivalents comprise cash in hand and demand deposits, less overdrawn bank balances and any short term liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

### l) *Retirement Benefit Plan*

The Company contributes towards the state pension in accordance with legislation, and do not provide for other contributions or retirement benefit plans. This cost, as well as any other costs which may arise in connection with pensions paid or payable to former employees, is recognised as an expense during the period in which it is incurred.

### 3 Turnover

Turnover represents the value of goods sold and services provided, together with rental income and sundry income receivable, and is made up as follows:

|                                                | Years ended 30 September |               |               | 6 Months ended 31 March 1997 |
|------------------------------------------------|--------------------------|---------------|---------------|------------------------------|
|                                                | 1997<br>Lm000            | 1996<br>Lm000 | 1995<br>Lm000 | 1997<br>Lm000                |
| Subscribers' Traffic:                          |                          |               |               |                              |
| Local Calls . . . . .                          | 8,733                    | 7,193         | 7,580         | 4,319                        |
| Overseas Calls . . . . .                       | 8,596                    | 8,341         | 7,521         | 4,189                        |
| Sale of Telecards . . . . .                    | 2,388                    | 2,118         | 2,136         | 859                          |
| Cellular Telephone Calls . . . . .             | 2,571                    | 1,809         | 1,589         | 1,209                        |
| Other Subscribers' Traffic . . . . .           | 427                      | 449           | 474           | 221                          |
| Subscribers' Rentals . . . . .                 | 6,100                    | 5,737         | 5,427         | 2,990                        |
| Carriers' Revenue . . . . .                    | 3,388                    | 3,760         | 4,341         | 1,821                        |
| Installation Charges and Extra Works . . . . . | 671                      | 467           | 354           | 302                          |
| Licence Fees Receivable . . . . .              | 20                       | 19            | 19            | 9                            |
| Sundry Income . . . . .                        | 173                      | 206           | 160           | 119                          |
|                                                | <u>33,067</u>            | <u>30,099</u> | <u>29,601</u> | <u>16,038</u>                |

### 4 Operating Profit

a) Operating profit is stated after crediting and charging the following:

|                                                 | Years ended 30 September |               |               | 6 Months ended 31 March 1997 |
|-------------------------------------------------|--------------------------|---------------|---------------|------------------------------|
|                                                 | 1997<br>Lm000            | 1996<br>Lm000 | 1995<br>Lm000 | 1997<br>Lm000                |
| <b>After Crediting</b>                          |                          |               |               |                              |
| Bad Debts written off or provided for . . . . . | 629                      | —             | —             | —                            |
| Gains on Exchange . . . . .                     | <u>146</u>               | <u>634</u>    | <u>49</u>     | <u>138</u>                   |
| <b>After Charging</b>                           |                          |               |               |                              |
| Directors' Remuneration . . . . .               | 17                       | 16            | 17            | 8                            |
| Labour Cost . . . . .                           | 10,101                   | 9,083         | 7,569         | 4,528                        |
| Auditors' Remuneration . . . . .                | 18                       | 17            | 17            | 9                            |
| Losses on Exchange . . . . .                    | 227                      | —             | —             | 178                          |
| Bad Debts written off or provided for . . . . . | —                        | 532           | 1,225         | 313                          |
| External Traffic Charges . . . . .              | 4,454                    | 5,444         | 5,368         | 1,992                        |
| Cellular Traffic Charges . . . . .              | 2,115                    | 1,857         | 1,183         | 974                          |
| Cost of Telecards . . . . .                     | <u>176</u>               | <u>248</u>    | <u>247</u>    | <u>81</u>                    |

b) The labour cost incurred during the years/period is analysed as follows:

|                                 | Years ended 30 September |               |               | 6 Months ended 31 March 1997 |
|---------------------------------|--------------------------|---------------|---------------|------------------------------|
|                                 | 1997<br>Lm000            | 1996<br>Lm000 | 1995<br>Lm000 | 1997<br>Lm000                |
| Wages and Salaries . . . . .    | 9,318                    | 8,372         | 6,874         | 4,144                        |
| Social Security Costs . . . . . | <u>783</u>               | <u>711</u>    | <u>695</u>    | <u>384</u>                   |
|                                 | <u>10,101</u>            | <u>9,083</u>  | <u>7,569</u>  | <u>4,528</u>                 |

**4 Operating Profit (continued)**

b) continued

Wages and salaries and social security costs, other than those relating to capital works, are allocated between operational expenses (which is a part of cost of sales) and administrative and distribution expenses as follows:

|                                                    | 1997<br>% | Years ended 30 September |           | 6 Months<br>ended<br>31 March<br>1997<br>% |
|----------------------------------------------------|-----------|--------------------------|-----------|--------------------------------------------|
|                                                    |           | 1996<br>%                | 1995<br>% |                                            |
| Operational Expenses . . . . .                     | 67        | 74                       | 80        | 64                                         |
| Administrative and Distribution Expenses . . . . . | 33        | 26                       | 20        | 36                                         |
|                                                    | 100       | 100                      | 100       | 100                                        |

c) The average number of the Company's employees during the years/period is analysed as follows:

|                                           | 1997  | Years ended 30 September |       | 6 Months<br>ended<br>31 March<br>1997 |
|-------------------------------------------|-------|--------------------------|-------|---------------------------------------|
|                                           |       | 1996                     | 1995  |                                       |
| Administration and Distribution . . . . . | 599   | 439                      | 312   | 626                                   |
| Operational . . . . .                     | 1,137 | 1,121                    | 1,243 | 1,120                                 |
| Capital Works . . . . .                   | 101   | 265                      | 175   | 109                                   |
|                                           | 1,837 | 1,825                    | 1,730 | 1,855                                 |

d) The exceptional charge of Lm4.1 million relates to a write down of certain cable plant, subscribers' equipment and the E10 exchange, following the Company's decision to expand its fibre optic network. The charge represents the difference between the estimated recoverable amount of these assets over their remaining useful lives and their carrying amount as at 30 September 1997.

**5 Investment and Similar Income**

|                                        | 1997<br>Lm000 | Years ended 30 September |               | 6 Months<br>ended<br>31 March<br>1997<br>Lm000 |
|----------------------------------------|---------------|--------------------------|---------------|------------------------------------------------|
|                                        |               | 1996<br>Lm000            | 1995<br>Lm000 |                                                |
| Other Financial Fixed Assets . . . . . | 259           | 283                      | 164           | 88                                             |
| Bank Interest Receivable . . . . .     | 39            | 38                       | 36            | 16                                             |
| Gains on Exchange . . . . .            | —             | 4                        | —             | —                                              |
|                                        | 298           | 325                      | 200           | 104                                            |

**6 Interest and Similar Charges**

|                              | 1997<br>Lm000 | Years ended 30 September |               | 6 Months<br>ended<br>31 March<br>1997<br>Lm000 |
|------------------------------|---------------|--------------------------|---------------|------------------------------------------------|
|                              |               | 1996<br>Lm000            | 1995<br>Lm000 |                                                |
| Loan Interest . . . . .      | 1,528         | 1,893                    | 1,763         | 766                                            |
| Other Interest . . . . .     | 321           | 173                      | 9             | 174                                            |
| Commissions . . . . .        | 104           | 79                       | 86            | 45                                             |
| Losses on Exchange . . . . . | 85            | —                        | 72            | 7                                              |
|                              | 2,038         | 2,145                    | 1,930         | 992                                            |

## 7 Taxation

a)

|                                                   | Years ended 30 September |               |               | 6 Months ended<br>31 March<br>1997 |
|---------------------------------------------------|--------------------------|---------------|---------------|------------------------------------|
|                                                   | 1997<br>Lm000            | 1996<br>Lm000 | 1995<br>Lm000 | 1997<br>Lm000                      |
| <b>Current Taxation</b>                           |                          |               |               |                                    |
| Income Tax at 35% on the Taxable                  |                          |               |               |                                    |
| Income for the Period/Years . . . . .             | 2,583                    | 966           | 2,018         | 840                                |
| <b>Deferred Taxation</b>                          |                          |               |               |                                    |
| Transfer (from)/to Deferred Tax Account . . . . . | (106)                    | 661           | (266)         | 179                                |
|                                                   | <u>2,477</u>             | <u>1,627</u>  | <u>1,752</u>  | <u>1,019</u>                       |

b) The accounting profit and the tax expense for the years/period are reconciled as follows:

|                                                   | Years ended 30 September |               |               | 6 Months ended<br>31 March<br>1997 |
|---------------------------------------------------|--------------------------|---------------|---------------|------------------------------------|
|                                                   | 1997<br>Lm000            | 1996<br>Lm000 | 1995<br>Lm000 | 1997<br>Lm000                      |
| Profit for the Years/Period. . . . .              | 4,157                    | 4,815         | 5,968         | 3,865                              |
| Tax at the applicable rate of 35% . . . . .       | 1,455                    | 1,685         | 2,089         | 1,353                              |
| Tax effect of non-temporary differences . . . . . | 1,022                    | (58)          | (337)         | (334)                              |
| Tax Expense for the Years/Period . . . . .        | <u>2,477</u>             | <u>1,627</u>  | <u>1,752</u>  | <u>1,019</u>                       |

c) The liability/(asset) for deferred taxation is analysed as follows:

|                                                                                                          | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|----------------------------------------------------------------------------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Excess of Capital Allowances over<br>Depreciation and Amortisation . . . . .                             | —             | 131                                 | (187)         | 468                                |
| Effect of Accruals Basis<br>Accounting and Cash Basis<br>Taxation on Bank Interest<br>Received . . . . . | —             | 8                                   | —             | —                                  |
| Effect of Provision for<br>Exchange Fluctuations. . . . .                                                | —             | 96                                  | (343)         | 42                                 |
| Effect of Provision for<br>Doubtful Debts . . . . .                                                      | —             | (257)                               | (119)         | (345)                              |
| Effect of Provision for<br>Slow Moving Stocks . . . . .                                                  | —             | 25                                  | 83            | 18                                 |
| Effect of Provision for<br>Pensions and Wages . . . . .                                                  | —             | 103                                 | 11            | 103                                |
|                                                                                                          | <u>—</u>      | <u>106</u>                          | <u>(555)</u>  | <u>286</u>                         |

## 8 Intangible Fixed Assets

|                             | Total<br>Lm000 | IRUs and DDPs<br>Lm000 | Directory Costs<br>Lm000 | Payments in<br>Advance<br>Lm000 |
|-----------------------------|----------------|------------------------|--------------------------|---------------------------------|
| <b>Cost</b>                 |                |                        |                          |                                 |
| At 30.09.94 . . . . .       | 99             | 99                     | —                        | —                               |
| At 30.09.95 . . . . .       | 99             | 99                     | —                        | —                               |
| At 30.09.96 . . . . .       | 450            | 255                    | 195                      | —                               |
| At 31.03.97 . . . . .       | 494            | 299                    | 195                      | —                               |
| At 30.09.97 . . . . .       | 843            | 392                    | 195                      | 256                             |
| <b>Amortisation</b>         |                |                        |                          |                                 |
| At 30.09.94 . . . . .       | 30             | 30                     | —                        | —                               |
| Charge for Year. . . . .    | 5              | 5                      | —                        | —                               |
| At 30.09.95 . . . . .       | 35             | 35                     | —                        | —                               |
| Charge for Year. . . . .    | 23             | 15                     | 8                        | —                               |
| At 30.09.96 . . . . .       | 58             | 50                     | 8                        | —                               |
| Charge for Period . . . . . | 60             | 11                     | 49                       | —                               |
| At 31.03.97 . . . . .       | 118            | 61                     | 57                       | —                               |
| Charge for Period . . . . . | 63             | 15                     | 48                       | —                               |
| At 30.09.97 . . . . .       | 181            | 76                     | 105                      | —                               |
| <b>Net Book Amount</b>      |                |                        |                          |                                 |
| At 30.09.97 . . . . .       | 662            | 316                    | 90                       | 256                             |
| At 31.03.97 . . . . .       | 376            | 238                    | 138                      | —                               |
| At 30.09.96 . . . . .       | 392            | 205                    | 187                      | —                               |
| At 30.09.95 . . . . .       | 64             | 64                     | —                        | —                               |
| At 30.09.94 . . . . .       | 69             | 69                     | —                        | —                               |

## 9 Tangible Fixed Assets

| a)                                 | Total<br>Lm000 | Land and<br>Buildings<br>Lm000 | Plant and<br>Equipment<br>Lm000 | Motor<br>Vehicles<br>Lm000 | Payments on<br>Account and<br>assets in<br>course of<br>Construction<br>Lm000 | Materials<br>Awaiting<br>Installation<br>Lm000 |
|------------------------------------|----------------|--------------------------------|---------------------------------|----------------------------|-------------------------------------------------------------------------------|------------------------------------------------|
| <b>Cost</b>                        |                |                                |                                 |                            |                                                                               |                                                |
| At 01.10.94 . . . . .              | 61,716         | 2,898                          | 55,130                          | 378                        | 507                                                                           | 2,803                                          |
| Additions . . . . .                | 6,981          | 167                            | 5,938                           | 165                        | 711                                                                           | -                                              |
| Surplus on Revaluation . . . . .   | 4,500          | 4,500                          | -                               | -                          | -                                                                             | -                                              |
| Disposals . . . . .                | (222)          | -                              | (222)                           | -                          | -                                                                             | -                                              |
| Net Transfers . . . . .            | (1,038)        | -                              | -                               | -                          | (1,028)                                                                       | (10)                                           |
| At 30.09.95 . . . . .              | 71,937         | 7,565                          | 60,846                          | 543                        | 190                                                                           | 2,793                                          |
| Additions . . . . .                | 6,906          | 218                            | 6,321                           | 361                        | 6                                                                             | -                                              |
| Disposals . . . . .                | (306)          | -                              | (306)                           | -                          | -                                                                             | -                                              |
| Net Transfers . . . . .            | (260)          | -                              | -                               | -                          | (187)                                                                         | (73)                                           |
| At 01.10.96 . . . . .              | 78,277         | 7,783                          | 66,861                          | 904                        | 9                                                                             | 2,720                                          |
| Additions . . . . .                | 1,852          | 37                             | 1,811                           | 4                          | -                                                                             | -                                              |
| Disposals . . . . .                | (53)           | -                              | (53)                            | -                          | -                                                                             | -                                              |
| Net Transfers . . . . .            | (256)          | -                              | -                               | -                          | (5)                                                                           | (251)                                          |
| At 31.03.97 . . . . .              | 79,820         | 7,820                          | 68,619                          | 908                        | 4                                                                             | 2,469                                          |
| Additions . . . . .                | 1,945          | 75                             | 1,781                           | 14                         | 75                                                                            | -                                              |
| Disposals . . . . .                | (361)          | -                              | (346)                           | (11)                       | (4)                                                                           | -                                              |
| Net Transfers . . . . .            | 76             | -                              | -                               | -                          | -                                                                             | 76                                             |
| At 30.09.97 . . . . .              | 81,480         | 7,895                          | 70,054                          | 911                        | 75                                                                            | 2,545                                          |
| <b>Depreciation</b>                |                |                                |                                 |                            |                                                                               |                                                |
| At 01.10.94 . . . . .              | 21,689         | 279                            | 21,091                          | 319                        | -                                                                             | -                                              |
| Charge for Year . . . . .          | 2,980          | 46                             | 2,887                           | 47                         | -                                                                             | -                                              |
| Disposals . . . . .                | (126)          | -                              | (126)                           | -                          | -                                                                             | -                                              |
| At 30.09.95 . . . . .              | 24,543         | 325                            | 23,852                          | 366                        | -                                                                             | -                                              |
| Charge for Year . . . . .          | 3,360          | 50                             | 3,226                           | 84                         | -                                                                             | -                                              |
| Disposals . . . . .                | (20)           | -                              | (20)                            | -                          | -                                                                             | -                                              |
| At 30.09.96 . . . . .              | 27,883         | 375                            | 27,058                          | 450                        | -                                                                             | -                                              |
| Charge for Period . . . . .        | 1,765          | 25                             | 1,685                           | 55                         | -                                                                             | -                                              |
| Disposals . . . . .                | (16)           | -                              | (16)                            | -                          | -                                                                             | -                                              |
| At 31.03.97 . . . . .              | 29,632         | 400                            | 28,727                          | 505                        | -                                                                             | -                                              |
| Charge for Period . . . . .        | 2,103          | 28                             | 2,019                           | 56                         | -                                                                             | -                                              |
| Provision for Impairment . . . . . | 4,084          | -                              | 4,084                           | -                          | -                                                                             | -                                              |
| Disposals . . . . .                | (239)          | -                              | (235)                           | (4)                        | -                                                                             | -                                              |
| At 30.09.97 . . . . .              | 35,580         | 428                            | 34,595                          | 557                        | -                                                                             | -                                              |
| <b>Net Book Amount</b>             |                |                                |                                 |                            |                                                                               |                                                |
| At 30.09.97 . . . . .              | 45,900         | 7,467                          | 35,459                          | 354                        | 75                                                                            | 2,545                                          |
| At 31.03.97 . . . . .              | 50,188         | 7,420                          | 39,892                          | 403                        | 4                                                                             | 2,469                                          |
| At 30.09.96 . . . . .              | 50,394         | 7,408                          | 39,803                          | 454                        | 9                                                                             | 2,720                                          |
| At 30.09.95 . . . . .              | 47,394         | 7,240                          | 36,994                          | 177                        | 190                                                                           | 2,793                                          |
| At 30.09.94 . . . . .              | 40,027         | 2,619                          | 34,039                          | 59                         | 507                                                                           | 2,803                                          |

b) Materials awaiting installation comprise uninstalled tangible fixed assets.

c) The Company carried property held for development in its balance sheet at revalued amounts. These revalued amounts are consistent with the values at which, subsequent to the balance sheet date, the company entered into an agreement to transfer the property to the Government of Malta (Note 24). The carrying amount of these assets had these not been revalued would have amounted to Lm Nil.

**10 Financial Fixed Assets**

a) The amounts stated in the balance sheet are analysed as follows:

|                                             | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|---------------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Shares in Associated Undertakings . . . . . | 1,409         | 864                                 | 375           | 1,071                              |
| Other Equity Investments . . . . .          | 1,706         | 1,288                               | 1,110         | 1,650                              |
|                                             | <u>3,115</u>  | <u>2,152</u>                        | <u>1,485</u>  | <u>2,721</u>                       |

b) Equity Investments

The associated undertakings below have their registered offices as follows:

- Terranet Limited – Dolphin Centre, Main Centre, Balzan
- Telepage Limited – 52, Old Theatre Street, Valletta
- Vodafone Malta Limited (formerly Telecell Limited) – 1, Col. Savona Street, Valletta
- Elsacom Malta Limited – 53, St. Dominic Street, Valletta

10 Financial Fixed Assets (continued)

b) Equity Investments (continued)

| As at 30 September 1997                                                                |                    |              |                                         |               |
|----------------------------------------------------------------------------------------|--------------------|--------------|-----------------------------------------|---------------|
|                                                                                        | Incorporated<br>in | Paid-up<br>% | Foreign<br>Currency<br>Value<br>US\$000 | Cost<br>Lm000 |
| <b>Associated Undertakings</b>                                                         |                    |              |                                         |               |
| Terranet Limited . . . . .                                                             | Malta              |              |                                         |               |
| 212,499 Ordinary Shares of Lm1 each . . .                                              |                    | 100          | —                                       | 40            |
| 17,500 Ordinary Shares of Lm1 each . . .                                               |                    | 61           | —                                       | 11            |
| Share of Losses . . . . .                                                              |                    |              |                                         | (51)          |
|                                                                                        |                    |              |                                         | —             |
| Vodafone Malta Limited (formerly Telecell<br>Limited) . . . . .                        | Malta              |              |                                         |               |
| 290,000 Ordinary Shares of Lm1 each . . .                                              |                    | 100          | —                                       | 290           |
| Share of Profits . . . . .                                                             |                    |              |                                         | 855           |
|                                                                                        |                    |              |                                         | 1,145         |
| Telepage Limited . . . . .                                                             | Malta              |              |                                         |               |
| 220,000 'A' Ordinary Shares of Lm1 each .                                              |                    | 100          | —                                       | 220           |
| Shares of Losses. . . . .                                                              |                    |              |                                         | (220)         |
|                                                                                        |                    |              |                                         | —             |
| Elsacom Malta Limited . . . . .                                                        | Malta              |              |                                         |               |
| 1,800,001 'B' Ordinary Shares of US\$1 each                                            |                    | 44.44        | —                                       | 327           |
| Share of Losses . . . . .                                                              |                    |              |                                         | (63)          |
|                                                                                        |                    |              |                                         | 264           |
| <b>Other Investments</b>                                                               |                    |              |                                         |               |
| ICO Global Communications (Holdings)<br>Limited (INMARSAT-P) . . . . .                 | Cayman<br>Islands  | —            | 1,000                                   | 369           |
| <i>Initial Shares</i>                                                                  |                    |              |                                         |               |
| 100 Ordinary Shares of US\$0.01 each,<br>acquired at a premium of US\$99.99 each . .   |                    | 100          |                                         |               |
| <i>Secondary Shares</i>                                                                |                    |              |                                         |               |
| 9,900 Ordinary Shares of US\$0.01 each,<br>acquired at a premium of US\$99.99 each . . |                    | 100          |                                         |               |
| International Mobile Satellite Organisation<br>(INMARSAT) . . . . .                    | England            | —            | 1,170                                   | 425           |
| International Telecommunications Satellite<br>Organisation (INTELSAT) . . . . .        | New York<br>— USA  | —            | 2,485                                   | 912           |
|                                                                                        |                    |              |                                         | 3,115         |

**10 Financial Fixed Assets (continued)**

**(b) Equity Investments (continued)**

| As at 30 September 1996                                                                |                    |              |                                         |               |
|----------------------------------------------------------------------------------------|--------------------|--------------|-----------------------------------------|---------------|
|                                                                                        | Incorporated<br>in | Paid-up<br>% | Foreign<br>Currency<br>Value<br>US\$000 | Cost<br>Lm000 |
| <b>Associated Undertakings</b>                                                         |                    |              |                                         |               |
| Terranet Limited . . . . .                                                             | Malta              |              |                                         |               |
| 212,499 Ordinary Shares of Lm1 each . . .                                              |                    | 100          | —                                       | 40            |
| Share of Losses . . . . .                                                              |                    |              |                                         | (40)          |
|                                                                                        |                    |              |                                         | —             |
| Vodafone Malta Limited (formerly Telecell<br>Limited) . . . . .                        | Malta              |              |                                         |               |
| 290,000 Ordinary Shares of Lm1 each . . .                                              |                    | 100          | —                                       | 290           |
| Share of Profits . . . . .                                                             |                    |              |                                         | 574           |
|                                                                                        |                    |              |                                         | 864           |
| Telepage Limited . . . . .                                                             | Malta              |              |                                         |               |
| 220,000 'A' Ordinary Shares of Lm1 each .                                              |                    | 100          | —                                       | 220           |
| Shares of Losses. . . . .                                                              |                    |              |                                         | (220)         |
|                                                                                        |                    |              |                                         | —             |
| <b>Other Investments</b>                                                               |                    |              |                                         |               |
| ICO Global Communications (Holdings)<br>Limited (INMARSAT-P) . . . . .                 | Cayman<br>Islands  | —            | 1,000                                   | 369           |
| <i>Initial Shares</i>                                                                  |                    |              |                                         |               |
| 100 Ordinary Shares of US\$0.01 each,<br>acquired at a premium of US\$99.99 each . .   |                    | 100          |                                         |               |
| <i>Secondary Shares</i>                                                                |                    |              |                                         |               |
| 9,900 Ordinary Shares of US\$0.01 each,<br>acquired at a premium of US\$99.99 each . . |                    | 100          |                                         |               |
| International Mobile Satellite Organisation<br>(INMARSAT) . . . . .                    | England            | —            | 695                                     | 248           |
| International Telecommunications Satellite<br>Organisation (INTELSAT) . . . . .        | New York<br>— USA  | —            | 1,854                                   | 671           |
|                                                                                        |                    |              |                                         | 2,152         |

**10 Financial Fixed Assets (continued)**

**b) Equity Investments (continued)**

| As at 30 September 1995                                                             |                    |              |                                         |               |
|-------------------------------------------------------------------------------------|--------------------|--------------|-----------------------------------------|---------------|
|                                                                                     | Incorporated<br>in | Paid-up<br>% | Foreign<br>Currency<br>Value<br>US\$000 | Cost<br>Lm000 |
| <b>Associated Undertakings</b>                                                      |                    |              |                                         |               |
| Vodafone Malta Limited (formerly Telecell Limited) . . . . .                        | Malta              |              |                                         |               |
| 290,000 Ordinary Shares of Lm1 each . . .                                           |                    | 100          | —                                       | 290           |
| Share of Profits . . . . .                                                          |                    |              |                                         | 85            |
|                                                                                     |                    |              |                                         | 375           |
| Telepage Limited . . . . .                                                          | Malta              |              |                                         |               |
| 220,000 'A' Ordinary Shares of Lm1 each .                                           |                    | 100          | —                                       | 100           |
| Shares of Losses. . . . .                                                           |                    |              |                                         | (100)         |
|                                                                                     |                    |              |                                         | —             |
| <b>Other Investments</b>                                                            |                    |              |                                         |               |
| ICO Global Communications (Holdings) Limited (INMARSAT-P) . . . . .                 | Cayman Islands     | —            | 1,000                                   | 369           |
| <i>Initial Shares</i>                                                               |                    |              |                                         |               |
| 100 Ordinary Shares of US\$0.01 each, acquired at a premium of US\$99.99 each . .   |                    | 100          |                                         |               |
| <i>Secondary Shares</i>                                                             |                    |              |                                         |               |
| 9,900 Ordinary Shares of US\$0.01 each, acquired at a premium of US\$99.99 each . . |                    | 100          |                                         |               |
| International Mobile Satellite Organisation (INMARSAT) . . . . .                    | England            | —            | 483                                     | 172           |
| International Telecommunications Satellite Organisation (INTELSAT) . . . . .        | New York — USA     | —            | 1,572                                   | 569           |
|                                                                                     |                    |              |                                         | 1,485         |

10 **Financial Fixed Assets (continued)**

b) **Equity Investments (continued)**

| As at 31 March 1997                                                                    |                    |              |                                         |               |
|----------------------------------------------------------------------------------------|--------------------|--------------|-----------------------------------------|---------------|
|                                                                                        | Incorporated<br>in | Paid-up<br>% | Foreign<br>Currency<br>Value<br>US\$000 | Cost<br>Lm000 |
| <b>Associated Undertakings</b>                                                         |                    |              |                                         |               |
| Terranet Limited . . . . .                                                             | Malta              |              |                                         |               |
| 212,499 Ordinary Shares of Lm1 each . . . .                                            |                    | 100          | —                                       | 40            |
| Share of Losses . . . . .                                                              |                    |              |                                         | (40)          |
|                                                                                        |                    |              |                                         | —             |
| Vodafone Malta Limited (formerly Telecell<br>Limited) . . . . .                        | Malta              |              |                                         |               |
| 290,000 Ordinary Shares of Lm1 each . . . .                                            |                    | 100          | —                                       | 290           |
| Share of Profits . . . . .                                                             |                    |              |                                         | 781           |
|                                                                                        |                    |              |                                         | 1,071         |
| Telepage Limited . . . . .                                                             | Malta              |              |                                         |               |
| 220,000 'A' Ordinary Shares of Lm1 each . .                                            |                    | 100          | —                                       | 220           |
| Shares of Losses. . . . .                                                              |                    |              |                                         | (220)         |
|                                                                                        |                    |              |                                         | —             |
| <b>Other Investments</b>                                                               |                    |              |                                         |               |
| ICO Global Communications (Holdings)<br>Limited (INMARSAT-P) . . . . .                 | Cayman<br>Islands  | —            | 1,000                                   | 369           |
| <i>Initial Shares</i>                                                                  |                    |              |                                         |               |
| 100 Ordinary Shares of US\$0.01 each,<br>acquired at a premium of US\$99.99 each . .   |                    | 100          |                                         |               |
| <i>Secondary Shares</i>                                                                |                    |              |                                         |               |
| 9,900 Ordinary Shares of US\$0.01 each,<br>acquired at a premium of US\$99.99 each . . |                    | 100          |                                         |               |
| International Mobile Satellite Organisation<br>(INMARSAT) . . . . .                    | England            | —            | 1,208                                   | 440           |
| International Telecommunications Satellite<br>Organisation (INTELSAT) . . . . .        | New York<br>— USA  | —            | 2,034                                   | 841           |
|                                                                                        |                    |              |                                         | 2,721         |

## 11 Stocks

- a) Stocks comprise the following:

|                                   | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|-----------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Maintenance and General . . . . . | 262           | 219                                 | 161           | 244                                |
| Tools and Instruments . . . . .   | 56            | 64                                  | 92            | 53                                 |
| Stationery . . . . .              | 79            | 126                                 | 88            | 100                                |
| Goods held for Resale . . . . .   | 34            | 101                                 | 311           | 68                                 |
|                                   | <u>431</u>    | <u>510</u>                          | <u>652</u>    | <u>465</u>                         |

- b) The value of stocks fully written down during the year/period to net realisable value, where net realisable value is less than cost, was as follows:

|                | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|----------------|---------------|-------------------------------------|---------------|------------------------------------|
| Cost . . . . . | <u>24</u>     | <u>12</u>                           | <u>17</u>     | <u>18</u>                          |

## 12 Debtors

- a) Debtors comprise:

|                                                | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|------------------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| <b>Falling due within One Year</b>             |               |                                     |               |                                    |
| Trade Debtors . . . . .                        | 21,232        | 20,093                              | 19,136        | 22,568                             |
| Other Debtors . . . . .                        | 19            | 69                                  | 4             | 34                                 |
| Prepayments and Accrued Income . . . . .       | 6,758         | 9,896                               | 5,554         | 9,209                              |
| Amounts Owed by Related Undertakings . . . . . | 182           | 41                                  | 302           | 135                                |
|                                                | <u>28,191</u> | <u>30,099</u>                       | <u>24,996</u> | <u>31,946</u>                      |
| <b>Falling due after more than One Year</b>    |               |                                     |               |                                    |
| Other Debtors . . . . .                        | 568           | 713                                 | 1,022         | 713                                |
|                                                | <u>28,759</u> | <u>30,812</u>                       | <u>26,018</u> | <u>32,659</u>                      |

- b) Other debtors comprise an amount owing by Public Broadcasting Services Limited in respect of the transfer of the assets and liabilities of the Xandir Malta Division. This amount is repayable by instalments within 8 years from April 1995.
- c) Debtors are stated after provision for doubtful debts as follows:

|                         | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|-------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Trade Debtors . . . . . | 4,108         | 4,833                               | 4,456         | 5,093                              |
| Other Debtors . . . . . | 9             | 18                                  | -             | 9                                  |
|                         | <u>4,117</u>  | <u>4,851</u>                        | <u>4,456</u>  | <u>5,102</u>                       |

### 13 Creditors

Creditors are analysed as follows:

|                                                 | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|-------------------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| <b>Amounts falling due within One Year</b>      |               |                                     |               |                                    |
| Trade and Capital Creditors . . . . .           | 16,862        | 14,508                              | 12,599        | 15,601                             |
| Accruals and Prepaid Income . . . . .           | 2,961         | 4,679                               | 3,885         | 3,913                              |
| Payment to Government in Terms of Section 17(2) |               |                                     |               |                                    |
| Telemalta Corporation Act . . . . .             | 2,000         | 2,000                               | 1,500         | -                                  |
| Amounts Owed to Related Undertakings. . . . .   | -             | 1,080                               | 575           | -                                  |
|                                                 | <u>21,823</u> | <u>22,267</u>                       | <u>18,559</u> | <u>19,514</u>                      |

### 14 Bank Overdrafts

a) The Company enjoyed overdraft facilities from the following financial institutions as follows:

|                                 | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|---------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| APS Bank Limited . . . . .      | 3,000         | 3,000                               | 3,000         | 3,000                              |
| Bank of Valletta p.l.c. . . . . | 2,000         | 2,000                               | 2,000         | 2,000                              |
| Mid-Med Bank p.l.c.. . . . .    | 2,000         | 2,000                               | -             | 2,000                              |
| Midland Bank plc . . . . .      | 2,000         | -                                   | -             | 2,000                              |
|                                 | <u>9,000</u>  | <u>7,000</u>                        | <u>5,000</u>  | <u>9,000</u>                       |

b) These overdraft facilities bear interest at the following rates:

|                                 | 1997  | As at 30 September<br>1996 | 1995  | As at<br>31 March<br>1997 |
|---------------------------------|-------|----------------------------|-------|---------------------------|
| APS Bank Limited . . . . .      | 6.25% | 6.25%                      | 6.25% | 6.25%                     |
| Bank of Valletta p.l.c. . . . . | 6.50% | 6.50%                      | 6.50% | 6.50%                     |
| Mid-Med Bank p.l.c.. . . . .    | 6.50% | 6.50%                      | -     | 6.50%                     |
| Midland Bank plc . . . . .      | 6.50% | -                          | -     | 6.50%                     |

c) Up to 30 September 1997, the above facilities were secured by a guarantee from the Government of Malta except for the facility from Midland Bank plc which was unsecured. The guarantees from the Government of Malta in respect of the facilities granted by Bank of Valletta p.l.c. and Mid-Med Bank p.l.c. have subsequently been withdrawn.

## 15 Loans

a)

|                                                | Notes  | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|------------------------------------------------|--------|---------------|-------------------------------------|---------------|------------------------------------|
| Malta Government                               |        |               |                                     |               |                                    |
| Consolidated Fund . . . . .                    | (i)    | 304           | 555                                 | 806           | 555                                |
| Mid-Med Bank p.l.c. . . . .                    | (ii)   | 9,123         | 9,123                               | 10,207        | 9,123                              |
| Bank of Valletta p.l.c. . . . .                | (iii)  | 438           | 1,300                               | 2,167         | 1,067                              |
| Valletta Investment Bank<br>Limited. . . . .   | (iv)   | 5,553         | 6,308                               | 6,163         | 5,930                              |
| APS Bank Limited . . . . .                     | (v)    | 750           | -                                   | -             | 750                                |
| Bank of Tokyo - Mitsubishi<br>Limited. . . . . | (vi)   | 6,911         | 6,606                               | -             | 6,613                              |
| European Investment Bank . . .                 | (vii)  | -             | -                                   | 4,550         | -                                  |
| Lombard Bank (Malta) Limited .                 | (viii) | -             | -                                   | 792           | -                                  |
|                                                |        | 23,079        | 23,892                              | 24,685        | 24,038                             |

b) These loans are analysed as follows:

|                                       | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|---------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Falling due within One Year. . . . .  | 2,752         | 2,579                               | 3,208         | 3,060                              |
| Falling due after more than One Year: |               |                                     |               |                                    |
| Within Five Years. . . . .            | 15,212        | 14,695                              | 12,281        | 14,979                             |
| After more than Five Years . . . . .  | 5,115         | 6,618                               | 9,196         | 5,999                              |
|                                       | 20,327        | 21,313                              | 21,477        | 20,978                             |
|                                       | 23,079        | 23,892                              | 24,685        | 24,038                             |

### i) Malta Government Consolidated Fund

The loan was secured by a general hypothec on the Company's assets, bore interest at 6% per annum and was repayable within 15 years as from 1 May 1986, with a three year moratorium.

### ii) Mid-Med Bank p.l.c.

The balances due to Mid-Med Bank p.l.c. were made up as follows:

- a) Drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm8,000,000.

Up to the 30 September 1997, the loan bore interest at 1% over the fixed deposit rate and was secured by a guarantee by the Government of Malta for Lm8,000,000. Subsequent to that date, it bore interest at 0.75% over the fixed deposit rate and fell to be unsecured. It was repayable within 15 years from 1 August 1989, with a three year moratorium.

- b) Drawdowns less repayments as at the balance sheet date from a loan facility granted by the Investment Finance Bank amounting to Lm3,000,000. The loan had been taken over by Mid-Med Bank p.l.c. following the merger of the two banks.

Up to 30 September 1997, the loan bore interest at 1% over the fixed deposit rate and was secured by a guarantee by the Government of Malta for Lm8,000,000. Subsequent to that date, it bore interest at 0.75% over the fixed deposit rate and fell to be unsecured. It was repayable within 15 years as from 20 July 1991, with a three year moratorium.

- c) Drawdowns less repayments as at the balance sheet date from a loan facility granted by the Investment Finance Bank amounting to Lm2,000,000. The loan had been taken over by Mid-Med Bank p.l.c. following the merger of the two banks.

**15 Loans (continued)**

ii) *Mid-Med Bank p.l.c. (continued)*

c) *(continued)*

Up to 30 September 1997, the loan bore interest at 1% over the fixed deposit rate and was secured by a guarantee by the Government of Malta for Lm2,000,000. Subsequent to that date, it bore interest at 0.75% over the fixed deposit rate and fell to be unsecured. It was repayable within 15 years as from 31 July 1992, with a three year moratorium.

iii) *Bank of Valletta p.l.c.*

The balances due to Bank of Valletta p.l.c. were made up as follows:

- a) Drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm1,600,000. The loan was guaranteed by the Government of Malta for up to Lm1,600,000, bore interest at 1% over the fixed deposit rate and was repayable within four years as from 30 June 1994.
- b) Drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm1,400,000. This loan was guaranteed by the Government of Malta for Lm1,400,000, bore interest at 1% over the fixed deposit rate, and was repayable within four years as from 25 November 1994.

iv) *Valletta Investment Bank Limited*

The balances due to Valletta Investment Bank Limited were made up as follows:

- a) Drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm4,000,000.

Up to 30 September 1997, the loan bore interest at 1% over the fixed deposit rate and was secured by a guarantee by the Government of Malta for Lm4,000,000. Subsequent to this date, the loan bore interest at 0.75% over the fixed deposit rate and fell to be unsecured. It was repayable within 15 years as from 9 August 1992 with a three year moratorium.

- b) Drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm2,000,000.

Up to 30 September 1997, the loan bore interest at 1% over the fixed deposit rate and was secured by a guarantee by the Government of Malta for Lm2,000,000. Subsequent to this date, the loan bore interest at 0.75% over the fixed deposit rate and fell to be unsecured. It was repayable within 13 years from August 1995 with a three year moratorium.

- c) Drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm2,150,000.

Up to 30 September 1997, the loan bore interest at 1% over the fixed deposit rate and was secured by a guarantee by the Government of Malta for Lm2,150,000. Subsequent to this date, the loan bore interest at 0.75% over the fixed deposit rate and fell to be unsecured. It was repayable within 10 years.

v) *APS Bank Limited*

The balances represent the amount of drawdowns as at the balance sheet date from a loan facility granted by the bank.

During the periods under review, the loan bore interest at 6.5%, was guaranteed by the Government of Malta for Lm750,000 and was repayable within eight years as from 1 November 1998.

vi) *Bank of Tokyo – Mitsubishi Limited*

These balances were made up of two loan facilities:

- a) Under the first loan agreement, the Company had been granted by the bank a loan facility amounting to US\$3,000,000 equivalent to Lm1,098,335 at the rate of exchange ruling on the date of drawdown. The interest rate of this loan stood at 0.35% over LIBOR, payable in arrears every six months. The loan was repayable after five years from the date of drawdown.

## 15 Loans (continued)

### vi) *Bank of Tokyo – Mitsubishi Limited – continued*

- b) Under the second loan agreement, a loan facility amounting to US\$15,000,000 had been granted by the bank to the Company, consisting of two portions amounting to US\$5,000,000, equivalent to Lm1,837,509 and ECU8,703,197 equivalent to Lm3,930,039 at the rates ruling on the date of drawdown. This loan bore interest at 0.25% over LIBOR, payable in arrears every six months. The loan was repayable after five years from the date of signing of the agreement.

### vii) *European Investment Bank*

On 4 December 1986 the Company signed an agreement to withdraw ECU13,000,000, equivalent to Lm5,460,000 at rates ruling on that date. The loan bore interest at 7.55% per annum (payable half-yearly) and was repaid in full during the financial year ending 30 September 1996.

### viii) *Lombard Bank (Malta) Limited*

The balance represented the amount of drawdowns less repayments as at balance sheet date from a loan facility granted by the bank amounting to Lm1,000,000. The loan bore interest at 1% over the fixed deposit rate and was repaid in full during the financial year ending 30 September 1996.

## 16 Capital Reserve

The capital reserve represents the excess of fair value of the net assets acquired by Telemalta Corporation on its establishment in 1975 over the consideration paid and the effect of the acquisition of 290,000 ordinary shares in Vodafone Malta Limited (formerly Telecell Limited), having a nominal value of Lm1 each. The shares were allotted to the Company for no consideration under the terms of the joint venture and shareholding agreement entered into by Vodafone Malta Limited and the Company.

## 17 Revaluation Reserve

This reserve, which is not distributable except in so far as on realisation of assets on which the revaluation surplus has been created, is composed as follows:

|                                                                                                | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|------------------------------------------------------------------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Excess of Revaluation amounts over Net Book<br>Value of Property held for Development. . . . . | 4,500         | 4,500                               | 4,500         | 4,500                              |

## 18 Cash and Cash Equivalents

Cash and cash equivalents included in the cash flow statement comprise:

|                                           | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|-------------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Cash at Bank and in Hand. . . . .         | 829           | 820                                 | 1,403         | 608                                |
| Bank Overdrafts . . . . .                 | (1,676)       | (5,251)                             | (1,515)       | (6,967)                            |
|                                           | (847)         | (4,431)                             | (112)         | (6,359)                            |
| Effect of Exchange Rate Changes . . . . . | 10            | –                                   | –             | –                                  |
| Cash and Cash Equivalents . . . . .       | (837)         | (4,431)                             | (112)         | (6,359)                            |

## 19 Capital Commitments

|                                                                                                            | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|------------------------------------------------------------------------------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Capital expenditure that has been contracted for but has not been provided for in the financial statements |               |                                     |               |                                    |
| - Intangible Fixed Assets . . . . .                                                                        | 151           | -                                   | 5,182         | -                                  |
| - Tangible Fixed Assets . . . . .                                                                          | 356           | 3,540                               | 40            | 3,753                              |
|                                                                                                            | <u>507</u>    | <u>3,540</u>                        | <u>5,222</u>  | <u>3,753</u>                       |
| Capital expenditure that has been authorised by the directors but has not yet been contracted for          |               |                                     |               |                                    |
| - Intangible Fixed Assets . . . . .                                                                        | -             | 435                                 | -             | -                                  |
| - Tangible Fixed Assets . . . . .                                                                          | 16,862        | 14,508                              | 8,083         | 5,382                              |
| - Financial Assets . . . . .                                                                               | 539           | 221                                 | -             | -                                  |
|                                                                                                            | <u>17,401</u> | <u>15,164</u>                       | <u>8,083</u>  | <u>5,382</u>                       |

## 20 Pensions

In view of the provisions of the National Insurance Pension Scheme, whereby all employees will receive a pension on retirement, the Company considers unnecessary the establishment of a separate pension scheme as previously contemplated in Section 29 of the Telemalta Corporation Act.

## 21 Contingent Liabilities

The contingent liabilities of the Company as at 30 September 1997 are listed below:

- a) Guarantees and performance bonds arising in the ordinary course of the Company's business on which no material losses are anticipated. In addition, the Company has guaranteed an amount of Lm217,500 in support of banking facilities granted to Telepage Limited.
- b) Outstanding liabilities under documentary credits amounting to Lm135,620.
- c) Limited cover for risks on property and claims in connection with legal liabilities arising in the course of its operations.
- d) Claims for damages submitted by the Company's employees which cannot be quantified.
- e) An associated company is claiming CET on interconnection charges estimated at Lm30,000. The Company is disputing liability.
- f) Claims arising under the terms of the Customer Charter and the Consumer Protection Act which came into force on 1 October 1997. The Company's contingency relates to claims as yet unnotified to the Company and which therefore cannot be quantified.
- g) The Company's investment in Elsacom Malta Limited amounting to 44.6% of the share capital and share premium, not yet called up, amounting to Lm391,605 and Lm140,966, respectively.
- h) Litigation against the Company by a number of persons. The Company's exposure in this regard is estimated at Lm16,378.
- i) The Company is currently evaluating its systems to ensure that they will operate satisfactorily with the change of date from 31 December 1999 to 1 January 2000. The cost of this evaluation and of any systems modifications that are subsequently required can only be quantified once the necessary modifications have been identified and implemented and upon system suppliers ensuring compliance of systems supplied to the Company. Such costs being in the nature of maintenance will be expensed. Certain capital expenditure commitments have already been approved by the Board of Directors in this regard.

## 22 Segmental Information

|                                   | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|-----------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| Revenue:                          |               |                                     |               |                                    |
| Traffic . . . . .                 | 20,099        | 18,065                              | 17,687        | 9,567                              |
| Services . . . . .                | 6,791         | 6,223                               | 5,800         | 3,301                              |
| Sale of Goods . . . . .           | 173           | 206                                 | 160           | 119                                |
| Interconnection Traffic . . . . . | 6,004         | 5,605                               | 5,954         | 3,051                              |
|                                   | <u>33,067</u> | <u>30,099</u>                       | <u>29,601</u> | <u>16,038</u>                      |

The Company's information systems do not allow for the ready disclosure of results and assets employed by industry segment, or the disclosure of revenue, results and assets employed by geographical segments as required by International Accounting Standard 14.

The activities of the Company include the following:

|                          |                                                                                                                                                                                                                               |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Traffic:                 | Terrestrial and satellite communication facilities. Facilities provided comprise voice, images and data traffic.                                                                                                              |
| Services:                | Services provided by the Company include the rental or installation of telecommunications equipment and the licensing of other telecommunication services providers resulting from the Company's regulatory responsibilities. |
| Sale of Goods:           | Goods sold mainly comprise telecommunications equipment and consumables.                                                                                                                                                      |
| Interconnection Traffic: | International outgoing traffic, traffic between the packet switching transfer node, the cellular network and paging network.                                                                                                  |

## 23 Financial Instruments

Financial assets of the Company include cash, equity and other investments, and debtors. Financial liabilities of the company include loans, bank overdrafts and creditors. The accounting policies for these assets and liabilities are set out in note 2 to these financial statements.

### a) Interest Rate Risk

The interest rates and terms of repayment of loans of the Company are disclosed in the notes to these financial statements.

### b) Credit Risk

Cash is placed with banks with high credit ratings. Credit risk on amounts received is limited since these assets are stated net of provision for doubtful recovery.

### c) Fair Values

The fair values of financial assets and liabilities are not materially different from their carrying amounts.

## 24 Subsequent Events

Following 30 September 1997 the Company committed itself to undertake the restructuring of its workforce. The cost of this is expected to amount to approximately Lm7,500,000.

Also subsequent to that date, the Company entered into a promise of sale agreement in connection with the transfer of property held for development to the Government of Malta for Lm4,500,000, which represents the revalued amount of such property. Therefore there will be no gain or loss on the sale of property.

## 25 General

Section 31 of the Telemalta Corporation Act has given rise to some doubt on whether the Company may be liable to the Government of Malta in connection with pensions. The Company has obtained legal advice to the effect that the maximum potential exposure, which has been fully provided for in these financial statements, relates, and is restricted, to the four year period between 1975 and 1979.

# APPENDIX

## STATEMENT OF ADJUSTMENTS

### PROFIT AND LOSS ACCOUNT - YEAR ENDED 30 SEPTEMBER 1997

|                                                                                        | As per<br>Accountants'<br>Report<br>Lm000 | ADJUSTMENTS |           | As per<br>Audited<br>Accounts<br>Lm000 |
|----------------------------------------------------------------------------------------|-------------------------------------------|-------------|-----------|----------------------------------------|
|                                                                                        |                                           | Lm000       | Reference |                                        |
| Turnover . . . . .                                                                     | 33,067                                    | (724)       | (i)       | 32,343                                 |
| Cost of Sales . . . . .                                                                | 19,455                                    | 136         | (i)       | 19,591                                 |
| <b>Gross Profit</b> . . . . .                                                          | 13,612                                    |             |           | 12,752                                 |
| Administrative and Distribution Expenses . . . . .                                     | 3,827                                     |             |           | 3,827                                  |
|                                                                                        | 9,785                                     |             |           | 8,925                                  |
| Other Operating Income . . . . .                                                       | 549                                       |             |           | 549                                    |
| Other Operating Charges . . . . .                                                      | 296                                       |             |           | 296                                    |
| Licence Fee in terms of Section 24 Telemalta<br>Corporation Act. . . . .               | 400                                       |             |           | 400                                    |
|                                                                                        | (147)                                     |             |           | (147)                                  |
| <b>Operating Profit before Exceptional Charges</b> . . . . .                           | 9,638                                     |             |           | 8,778                                  |
| Exceptional Charges . . . . .                                                          | 4,084                                     | (4,084)     | (v)       | -                                      |
| <b>Operating Profit</b> . . . . .                                                      | 5,554                                     |             |           | 8,778                                  |
| Investment and Similar Income . . . . .                                                | 298                                       | 136         | (iv)      | 434                                    |
| Interest and Similar Charges . . . . .                                                 | 2,038                                     |             |           | 2,038                                  |
|                                                                                        | (1,740)                                   |             |           | (1,604)                                |
| Share of Profits less Losses of Associated<br>Companies . . . . .                      | 343                                       | (354)       | (iv)      | (11)                                   |
| <b>Profit before Taxation</b> . . . . .                                                | 4,157                                     |             |           | 7,163                                  |
| Taxation . . . . .                                                                     | 2,477                                     |             |           | 2,477                                  |
| <b>Profit after Taxation</b> . . . . .                                                 | 1,680                                     |             |           | 4,686                                  |
| Retained Earnings at Beginning of Year . . . . .                                       | 22,971                                    |             |           | 21,420                                 |
|                                                                                        | 24,651                                    |             |           | 26,106                                 |
| Payment to Government in terms of Section 17(2)<br>Telemalta Corporation Act . . . . . | 2,000                                     |             |           | 2,000                                  |
| <b>Retained Earnings at End of Year</b> . . . . .                                      | 22,651                                    |             |           | 24,106                                 |

**STATEMENT OF ADJUSTMENTS (continued)**

**BALANCE SHEET - AT 30 SEPTEMBER 1997**

|                                                                | As per<br>Accountants'<br>Report<br>Lm000 | ADJUSTMENTS |           | As per<br>Audited<br>Accounts<br>Lm000 |
|----------------------------------------------------------------|-------------------------------------------|-------------|-----------|----------------------------------------|
|                                                                |                                           | Lm000       | Reference |                                        |
| <b>Fixed Assets</b>                                            |                                           |             |           |                                        |
| Intangible Assets . . . . .                                    | 662                                       |             |           | 662                                    |
| Tangible Assets . . . . .                                      | 45,900                                    | (4,500)     | (iii)     | 45,484                                 |
|                                                                |                                           | 4,084       | (v)       |                                        |
| Financial Assets . . . . .                                     | 3,115                                     | (792)       | (iv)      | 2,323                                  |
|                                                                | <u>49,677</u>                             |             |           | <u>48,469</u>                          |
| <b>Current Assets</b>                                          |                                           |             |           |                                        |
| Stocks . . . . .                                               | 431                                       |             |           | 431                                    |
| Debtors . . . . .                                              | 28,759                                    | (67)        | (i)       | 28,692                                 |
| Cash in Hand and at Banks . . . . .                            | 829                                       |             |           | 829                                    |
|                                                                | <u>30,019</u>                             |             |           | <u>29,952</u>                          |
| <b>Creditors: Amounts falling due within One Year</b>          |                                           |             |           |                                        |
| Creditors . . . . .                                            | 21,823                                    | 136         | (i)       | 21,959                                 |
| Bank Overdrafts . . . . .                                      | 1,676                                     |             |           | 1,676                                  |
| Loans . . . . .                                                | 2,752                                     |             |           | 2,752                                  |
| Taxation . . . . .                                             | 799                                       |             |           | 799                                    |
|                                                                | <u>27,050</u>                             |             |           | <u>27,186</u>                          |
| <b>Net Current Assets</b> . . . . .                            | <u>2,969</u>                              |             |           | <u>2,766</u>                           |
| <b>Total Assets less Current Liabilities</b> . . . . .         | 52,646                                    |             |           | 51,235                                 |
| <b>Creditors: Amounts falling due after more than One Year</b> |                                           |             |           |                                        |
| Loans . . . . .                                                | 20,327                                    |             |           | 20,327                                 |
| <b>Provisions for Liabilities and Charges</b>                  |                                           |             |           |                                        |
| Deferred Taxation . . . . .                                    | —                                         | 1,634       | (ii)      | 1,634                                  |
|                                                                | <u>32,319</u>                             |             |           | <u>29,274</u>                          |
| <b>Capital and Reserves</b>                                    |                                           |             |           |                                        |
| Capital Reserve . . . . .                                      | 5,168                                     |             |           | 5,168                                  |
| Revaluation Reserve . . . . .                                  | 4,500                                     | (4,500)     | (iii)     | —                                      |
| Retained Earnings . . . . .                                    | 22,651                                    |             |           | 24,106                                 |
|                                                                | <u>32,319</u>                             |             |           | <u>29,274</u>                          |

**STATEMENT OF ADJUSTMENTS (continued)**

**PROFIT AND LOSS ACCOUNT - YEAR ENDED 30 SEPTEMBER 1996**

|                                                                                        | ADJUSTMENTS                               |         |           | As per<br>Audited<br>Accounts<br>Lm000 |
|----------------------------------------------------------------------------------------|-------------------------------------------|---------|-----------|----------------------------------------|
|                                                                                        | As per<br>Accountants'<br>Report<br>Lm000 | Lm000   | Reference |                                        |
| Turnover . . . . .                                                                     | 30,099                                    | 158     | (i)       | 30,257                                 |
| Cost of Sales . . . . .                                                                | 20,068                                    |         |           | 20,068                                 |
| <b>Gross Profit</b> . . . . .                                                          | <u>10,031</u>                             |         |           | <u>10,189</u>                          |
| Administrative and Distribution Expenses . . . . .                                     | 4,213                                     |         |           | 4,213                                  |
|                                                                                        | <u>5,818</u>                              |         |           | <u>5,976</u>                           |
| Other Operating Income . . . . .                                                       | 1,436                                     |         |           | 1,436                                  |
| Other Operating Charges . . . . .                                                      | 657                                       |         |           | 657                                    |
| Licence Fee in terms of Section 24 Telemalta<br>Corporation Act . . . . .              | 400                                       |         |           | 400                                    |
|                                                                                        | <u>379</u>                                |         |           | <u>379</u>                             |
| <b>Operating Profit</b> . . . . .                                                      | <u>6,197</u>                              |         |           | <u>6,355</u>                           |
| Investment and Similar Income . . . . .                                                | 325                                       | 109     | (iv)      | 434                                    |
| Interest and Similar Charges . . . . .                                                 | 2,145                                     |         |           | 2,145                                  |
|                                                                                        | <u>(1,820)</u>                            |         |           | <u>(1,711)</u>                         |
| Share of Profits less Losses of Associated<br>Companies . . . . .                      | 438                                       | (598)   | (iv)      | (160)                                  |
| <b>Profit before Taxation</b> . . . . .                                                | <u>4,815</u>                              |         |           | <u>4,484</u>                           |
| Taxation . . . . .                                                                     | 1,627                                     | (1,271) | (ii)      | 356                                    |
| <b>Profit after Taxation</b> . . . . .                                                 | <u>3,188</u>                              |         |           | <u>4,128</u>                           |
| Retained Earnings at Beginning of Year . . . . .                                       | 21,783                                    |         |           | 19,292                                 |
|                                                                                        | <u>24,971</u>                             |         |           | <u>23,420</u>                          |
| Payment to Government in terms of Section 17(2)<br>Telemalta Corporation Act . . . . . | 2,000                                     |         |           | 2,000                                  |
| <b>Retained Earnings at End of Year</b> . . . . .                                      | <u><u>22,971</u></u>                      |         |           | <u><u>21,420</u></u>                   |

**STATEMENT OF ADJUSTMENTS (continued)**  
**BALANCE SHEET - AT 30 SEPTEMBER 1996**

|                                                                | ADJUSTMENTS                               |         |           | As per<br>Audited<br>Accounts<br>Lm000 |
|----------------------------------------------------------------|-------------------------------------------|---------|-----------|----------------------------------------|
|                                                                | As per<br>Accountants'<br>Report<br>Lm000 | Lm000   | Reference |                                        |
| <b>Fixed Assets</b>                                            |                                           |         |           |                                        |
| Intangible Assets . . . . .                                    | 392                                       |         |           | 392                                    |
| Tangible Assets . . . . .                                      | 50,394                                    | (4,500) | (iii)     | 45,894                                 |
| Financial Assets . . . . .                                     | 2,152                                     | (574)   | (iv)      | 1,578                                  |
|                                                                | <u>52,938</u>                             |         |           | <u>47,864</u>                          |
| <b>Current Assets</b>                                          |                                           |         |           |                                        |
| Stocks . . . . .                                               | 510                                       |         |           | 510                                    |
| Debtors . . . . .                                              | 30,812                                    | 657     | (i)       | 31,469                                 |
| Cash in Hand and at Banks . . . . .                            | 820                                       |         |           | 820                                    |
|                                                                | <u>32,142</u>                             |         |           | <u>32,799</u>                          |
| <b>Creditors: Amounts falling due within One Year</b>          |                                           |         |           |                                        |
| Creditors . . . . .                                            | 22,267                                    |         |           | 22,267                                 |
| Bank Overdrafts . . . . .                                      | 5,251                                     |         |           | 5,251                                  |
| Loans . . . . .                                                | 2,579                                     |         |           | 2,579                                  |
| Taxation . . . . .                                             | 925                                       |         |           | 925                                    |
|                                                                | <u>31,022</u>                             |         |           | <u>31,022</u>                          |
| <b>Net Current Assets</b> . . . . .                            | <u>1,120</u>                              |         |           | <u>1,777</u>                           |
| <b>Total Assets less Current Liabilities</b> . . . . .         | 54,058                                    |         |           | 49,641                                 |
| <b>Creditors: Amounts falling due after more than One Year</b> |                                           |         |           |                                        |
| Loans . . . . .                                                | 21,313                                    |         |           | 21,313                                 |
| <b>Provisions for Liabilities and Charges</b>                  |                                           |         |           |                                        |
| Deferred Taxation . . . . .                                    | 106                                       | 1,634   | (ii)      | 1,740                                  |
|                                                                | <u>32,639</u>                             |         |           | <u>26,588</u>                          |
| <b>Capital and Reserves</b>                                    |                                           |         |           |                                        |
| Capital Reserve . . . . .                                      | 5,168                                     |         |           | 5,168                                  |
| Revaluation Reserve . . . . .                                  | 4,500                                     | (4,500) | (iii)     | -                                      |
| Retained Earnings . . . . .                                    | 22,971                                    |         |           | 21,420                                 |
|                                                                | <u>32,639</u>                             |         |           | <u>26,588</u>                          |

**STATEMENT OF ADJUSTMENTS (continued)**  
**PROFIT AND LOSS ACCOUNT - YEAR ENDED 30 SEPTEMBER 1995**

|                                                                                        | ADJUSTMENTS                               |                 |              | As per<br>Audited<br>Accounts<br>Lm000 |
|----------------------------------------------------------------------------------------|-------------------------------------------|-----------------|--------------|----------------------------------------|
|                                                                                        | As per<br>Accountants'<br>Report<br>Lm000 | Lm000           | Reference    |                                        |
| Turnover . . . . .                                                                     | 29,601                                    | 499             | (i)          | 30,100                                 |
| Cost of Sales . . . . .                                                                | 17,883                                    |                 |              | 17,883                                 |
| <b>Gross Profit</b> . . . . .                                                          | 11,718                                    |                 |              | 12,217                                 |
| Administrative and Distribution Expenses . . . . .                                     | 3,781                                     |                 |              | 3,781                                  |
|                                                                                        | 7,937                                     |                 |              | 8,436                                  |
| Other Operating Income . . . . .                                                       | 333                                       |                 |              | 333                                    |
| Other Operating Charges . . . . .                                                      | 163                                       |                 |              | 163                                    |
| Licence Fee in Terms of Section 24 Telemalta<br>Corporation Act . . . . .              | 400                                       |                 |              | 400                                    |
|                                                                                        | (230)                                     |                 |              | (230)                                  |
| <b>Operating Profit</b> . . . . .                                                      | 7,707                                     |                 |              | 8,206                                  |
| Investment and Similar Income . . . . .                                                | 200                                       | 87              | (iv)         | 287                                    |
| Interest and Similar Charges . . . . .                                                 | 1,930                                     |                 |              | 1,930                                  |
|                                                                                        | (1,730)                                   |                 |              | (1,643)                                |
| Share of Profits less Losses of Associated<br>Companies . . . . .                      | (9)                                       | (91)            | (iv)         | (100)                                  |
| <b>Profit before Taxation</b> . . . . .                                                | 5,968                                     |                 |              | 6,463                                  |
| Taxation . . . . .                                                                     | 1,752                                     |                 |              | 1,752                                  |
| <b>Profit after Taxation</b> . . . . .                                                 | 4,216                                     |                 |              | 4,711                                  |
| Retained Earnings at the Beginning of<br>Year . . . . .                                | 19,067                                    | (2,905)<br>(81) | (ii)<br>(iv) | 16,081                                 |
|                                                                                        | 23,283                                    |                 |              | 20,792                                 |
| Payment to Government in terms of Section 17(2)<br>Telemalta Corporation Act . . . . . | 1,500                                     |                 |              | 1,500                                  |
| <b>Retained Earnings at the End of Year</b> . . . . .                                  | 21,783                                    |                 |              | 19,292                                 |

**STATEMENT OF ADJUSTMENTS (continued)**

**BALANCE SHEET - AT 30 SEPTEMBER 1995**

|                                                                | ADJUSTMENTS                               |         |           | As per<br>Audited<br>Accounts<br>Lm000 |
|----------------------------------------------------------------|-------------------------------------------|---------|-----------|----------------------------------------|
|                                                                | As per<br>Accountants'<br>Report<br>Lm000 | Lm000   | Reference |                                        |
| <b>Fixed Assets</b>                                            |                                           |         |           |                                        |
| Intangible Assets . . . . .                                    | 64                                        |         |           | 64                                     |
| Tangible Assets . . . . .                                      | 47,394                                    | (4,500) | (iii)     | 42,894                                 |
| Financial Assets . . . . .                                     | 1,485                                     | (85)    | (iv)      | 1,400                                  |
|                                                                | <u>48,943</u>                             |         |           | <u>44,358</u>                          |
| <b>Other Long Term Assets</b>                                  |                                           |         |           |                                        |
| Deferred Taxation. . . . .                                     | 555                                       | (555)   | (ii)      | -                                      |
| <b>Current Assets</b>                                          |                                           |         |           |                                        |
| Stocks . . . . .                                               | 652                                       |         |           | 652                                    |
| Debtors. . . . .                                               | 26,018                                    | 499     | (i)       | 26,517                                 |
| Cash in Hand and at Banks . . . . .                            | 1,403                                     |         |           | 1,403                                  |
|                                                                | <u>28,073</u>                             |         |           | <u>28,572</u>                          |
| <b>Creditors: Amounts falling due within One Year</b>          |                                           |         |           |                                        |
| Creditors . . . . .                                            | 18,559                                    |         |           | 18,559                                 |
| Bank Overdrafts . . . . .                                      | 1,515                                     |         |           | 1,515                                  |
| Loans. . . . .                                                 | 3,208                                     |         |           | 3,208                                  |
| Taxation . . . . .                                             | 1,361                                     |         |           | 1,361                                  |
|                                                                | <u>24,643</u>                             |         |           | <u>24,643</u>                          |
| <b>Net Current Assets</b> . . . . .                            | <u>3,430</u>                              |         |           | <u>3,929</u>                           |
| <b>Total Assets less Current Liabilities</b> . . . . .         | 52,928                                    |         |           | 48,287                                 |
| <b>Creditors: Amounts falling due after more than One Year</b> |                                           |         |           |                                        |
| Loans. . . . .                                                 | 21,477                                    |         |           | 21,477                                 |
| <b>Provisions for Liabilities and Charges</b>                  |                                           |         |           |                                        |
| Deferred Taxation. . . . .                                     | -                                         | 2,350   | (ii)      | 2,350                                  |
|                                                                | <u>31,451</u>                             |         |           | <u>24,460</u>                          |
| <b>Capital and Reserves</b>                                    |                                           |         |           |                                        |
| Capital Reserve . . . . .                                      | 5,168                                     |         |           | 5,168                                  |
| Revaluation Reserve . . . . .                                  | 4,500                                     | (4,500) | (iii)     | -                                      |
| Retained Earnings. . . . .                                     | 21,783                                    |         |           | 19,292                                 |
|                                                                | <u>31,451</u>                             |         |           | <u>24,460</u>                          |

**STATEMENT OF ADJUSTMENTS (continued)**

**PROFIT AND LOSS ACCOUNT - SIX MONTHS ENDED 31 MARCH 1997**

|                                                                           | ADJUSTMENTS                               |       |           | As per<br>Audited<br>Accounts<br>Lm000 |
|---------------------------------------------------------------------------|-------------------------------------------|-------|-----------|----------------------------------------|
|                                                                           | As per<br>Accountants'<br>Report<br>Lm000 | Lm000 | Reference |                                        |
| Turnover . . . . .                                                        | 16,038                                    | (679) | (i)       | 15,359                                 |
| Cost of Sales . . . . .                                                   | 9,200                                     |       |           | 9,200                                  |
| <b>Gross Profit</b> . . . . .                                             | <b>6,838</b>                              |       |           | <b>6,159</b>                           |
| Administrative and Distribution Expenses . . . . .                        | 2,356                                     |       |           | 2,356                                  |
|                                                                           | 4,482                                     |       |           | 3,803                                  |
| Other Operating Income . . . . .                                          | 372                                       |       |           | 372                                    |
| Other Operating Charges . . . . .                                         | 178                                       |       |           | 178                                    |
| Licence Fee in Terms of Section 24 Telemalta<br>Corporation Act . . . . . | 200                                       |       |           | 200                                    |
|                                                                           | (6)                                       |       |           | (6)                                    |
| <b>Operating Profit</b> . . . . .                                         | <b>4,476</b>                              |       |           | <b>3,797</b>                           |
| Investment and Similar Income . . . . .                                   | 104                                       | 70    | (iv)      | 174                                    |
| Interest and Similar Charges . . . . .                                    | 992                                       |       |           | 992                                    |
|                                                                           | (888)                                     |       |           | (818)                                  |
| Share of Profits less Losses of Associated<br>Companies . . . . .         | 277                                       | (277) | (iv)      | -                                      |
| <b>Profit before Taxation</b> . . . . .                                   | <b>3,865</b>                              |       |           | <b>2,979</b>                           |
| Taxation . . . . .                                                        | 1,019                                     |       |           | 1,019                                  |
| <b>Profit after Taxation</b> . . . . .                                    | <b>2,846</b>                              |       |           | <b>1,960</b>                           |
| Retained Earnings at the Beginning of Period . . . . .                    | 22,971                                    |       |           | 21,420                                 |
| Retained Earnings at the End of Period . . . . .                          | 25,817                                    |       |           | 23,380                                 |

**STATEMENT OF ADJUSTMENTS (continued)**

**BALANCE SHEET - AT 31 MARCH 1997**

|                                                                | ADJUSTMENTS                               |         |           | As per<br>Audited<br>Accounts<br>Lm000 |
|----------------------------------------------------------------|-------------------------------------------|---------|-----------|----------------------------------------|
|                                                                | As per<br>Accountants'<br>Report<br>Lm000 | Lm000   | Reference |                                        |
| <b>Fixed Assets</b>                                            |                                           |         |           |                                        |
| Intangible Assets . . . . .                                    | 376                                       |         |           | 376                                    |
| Tangible Assets . . . . .                                      | 50,188                                    | (4,500) | (iii)     | 45,688                                 |
| Financial Assets . . . . .                                     | 2,721                                     | (781)   | (iv)      | 1,940                                  |
|                                                                | <u>53,285</u>                             |         |           | <u>48,004</u>                          |
| <b>Current Assets</b>                                          |                                           |         |           |                                        |
| Stocks . . . . .                                               | 465                                       |         |           | 465                                    |
| Debtors . . . . .                                              | 32,659                                    | (22)    | (i)       | 32,637                                 |
| Cash in Hand and at Banks . . . . .                            | 608                                       |         |           | 608                                    |
|                                                                | <u>33,732</u>                             |         |           | <u>33,710</u>                          |
| <b>Creditors: Amounts falling due within One Year</b>          |                                           |         |           |                                        |
| Creditors . . . . .                                            | 19,514                                    |         |           | 19,514                                 |
| Bank Overdrafts . . . . .                                      | 6,967                                     |         |           | 6,967                                  |
| Loans . . . . .                                                | 3,060                                     |         |           | 3,060                                  |
| Taxation . . . . .                                             | 727                                       |         |           | 727                                    |
|                                                                | <u>30,268</u>                             |         |           | <u>30,268</u>                          |
| <b>Net Current Assets</b> . . . . .                            | <u>3,464</u>                              |         |           | <u>3,442</u>                           |
| <b>Total Assets less Current Liabilities</b> . . . . .         | <u>56,749</u>                             |         |           | <u>51,446</u>                          |
| <b>Creditors: Amounts falling due after more than One Year</b> |                                           |         |           |                                        |
| Loans . . . . .                                                | 20,978                                    |         |           | 20,978                                 |
| <b>Provisions for Liabilities and Charges</b>                  |                                           |         |           |                                        |
| Deferred Taxation . . . . .                                    | 286                                       | 1,634   | (ii)      | 1,920                                  |
|                                                                | <u>35,485</u>                             |         |           | <u>28,548</u>                          |
| <b>Capital and Reserves</b>                                    |                                           |         |           |                                        |
| Capital Reserve . . . . .                                      | 5,168                                     |         |           | 5,168                                  |
| Revaluation Reserve . . . . .                                  | 4,500                                     | (4,500) | (iii)     | -                                      |
| Retained Earnings . . . . .                                    | 25,817                                    |         |           | 23,380                                 |
|                                                                | <u>35,485</u>                             |         |           | <u>28,548</u>                          |

## NOTES TO THE STATEMENT OF ADJUSTMENTS

### Revision of Accounting Estimates

- i) As a result of the delays which are inherent in the nature of accounting for telecommunications traffic, it had been necessary to estimate certain traffic income and expenditure. These estimated values have now been restated to actual receivable or payable.

### Changes in Accounting Policies

- ii) During the financial year ended 30 September 1996, the Company had changed its accounting policy with respect to the treatment of deferred taxation to the liability method. The revised policy has been applied to the state of affairs at, and the results for the year ended 30 September 1995 and the balance of retained earnings at 1 October 1994.

In addition, an adjustment has been made to reverse deferred taxation charges and provisions made by the Company for timing differences in respect of capital allowances. As a result of exemptions granted to the Company in the Telecommunications (Regulation) Act these differences will not give rise to any tax liability.

The net adjustment is analysed as follows:

|                                                            | 1997<br>Lm000 | As at 30 September<br>1996<br>Lm000 | 1995<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|------------------------------------------------------------|---------------|-------------------------------------|---------------|------------------------------------|
| <b>Retained Earnings</b>                                   |               |                                     |               |                                    |
| Effective of Change in Accounting Policy . . .             | —             | (1,271)                             | 1,271         | —                                  |
| Effect of Non-Reversing Temporary<br>Differences . . . . . | —             | —                                   | 1,634         | —                                  |
| Net Increase/(Decrease) in Retained Earnings               | —             | (1,271)                             | 2,905         | —                                  |
| <b>Deferred Tax Provision</b>                              |               |                                     |               |                                    |
| Effect of Change in Accounting Policy . . .                | —             | —                                   | (1,271)       | —                                  |
| Effect of Non-Reversing Temporary<br>Differences . . . . . | (1,634)       | (1,634)                             | (1,634)       | (1,634)                            |
|                                                            | (1,634)       | (1,634)                             | (2,905)       | (1,634)                            |

- iii) During the financial period ended 2 January 1998, the Company changed its accounting policy with respect to the valuation of properties held for development and restated these to market values. The effect of this change in accounting policy has been applied to the Company's state of affairs as at the end of each of the financial periods presented in this report.
- iv) During the financial period ended 2 January 1998, the Company changed its accounting policy relating to the basis of valuation of investments in associated undertakings and adopted the equity accounting method. The effect of this change in policy has been reflected in the Company's results for, and state of affairs at the end of each of the financial periods presented in this report.
- v) During the financial period ended 2 January 1998, the Company recognised a charge amounting to Lm4,084,000 in connection with the impairment of future economic benefits to be derived from certain tangible fixed assets. This charge has now been reflected in the Company's results for the year ended, and state of affairs at, 30 September 1997.

**DIRECTORS' STATEMENT IN RESPECT OF THE  
UNAUDITED INTERIM FINANCIAL STATEMENTS**

As directors of Maltacom p.l.c. we are responsible for the audited financial statements for the six months ended 31 March 1997 and the unaudited financial statements for the six months ended 31 March 1998 set out on pages F-38 to F-57.

The financial statements for the six months ended 31 March 1997 are based on the audited financial statements of the Corporation for the six months ended 31 March 1997 adjusted as we considered necessary to present a fair statement of the Company's financial position and to enable comparison with the financial statements for the six months ended 31 March 1998. In addition the financial statements for the six months ended 31 March 1998 contain all adjustments necessary to present a fair statement of the Company's financial position and results of operations for such period.

Approved by the board of directors on 27 April 1998 and signed on its behalf by:

Mr T M Mejlaq, CPAA, MBIM  
*Chairman*

Dr Ing S Zammit, B (Elec. Eng.) (Hons.), MSC, PhD  
*Deputy Chairman*

**PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD ENDED 31 MARCH 1998**

|                                                                                | Notes | 1 October<br>1997<br>to 31 March 1998<br>Lm000 | 1 October<br>1996<br>to 31 March 1997<br>Lm000 |
|--------------------------------------------------------------------------------|-------|------------------------------------------------|------------------------------------------------|
| <b>Turnover</b> . . . . .                                                      | 3     | 17,444                                         | 16,038                                         |
| <b>Cost of Sales</b> . . . . .                                                 |       | 9,468                                          | 9,200                                          |
| <b>Gross Profit</b> . . . . .                                                  |       | 7,976                                          | 6,838                                          |
| <b>Administrative and Distribution Expenses</b> . . . . .                      |       | 3,623                                          | 2,356                                          |
| <b>Other Operating Income</b> . . . . .                                        |       | 194                                            | 372                                            |
| <b>Other Operating Charges</b> . . . . .                                       |       | (132)                                          | (178)                                          |
| <b>Licence Fee</b> . . . . .                                                   |       | 183                                            | (200)                                          |
|                                                                                |       | 245                                            | (6)                                            |
| <b>Operating Profit before Exceptional Charges</b> . . . . .                   |       | 4,598                                          | 4,476                                          |
| <b>Exceptional Charges:</b> . . . . .                                          | 4(d)  |                                                |                                                |
| Provision for Restructuring . . . . .                                          |       | (7,500)                                        | —                                              |
| WTDC Net Costs . . . . .                                                       |       | (349)                                          | —                                              |
|                                                                                |       | (7,849)                                        | —                                              |
| <b>Operating (Loss)/Profit</b> . . . . .                                       |       | (3,251)                                        | 4,476                                          |
| <b>Investment and Similar Income</b> . . . . .                                 | 5     | 145                                            | 104                                            |
| <b>Share of Associated Companies' Results</b> . . . . .                        |       | 256                                            | 277                                            |
| <b>Interest and Similar Charges</b> . . . . .                                  | 6     | 904                                            | 992                                            |
|                                                                                |       | (503)                                          | (611)                                          |
| <b>(Loss)/Profit before Taxation</b> . . . . .                                 |       | (3,754)                                        | 3,865                                          |
| <b>Taxation</b> . . . . .                                                      | 7     | 2,039                                          | 1,019                                          |
| <b>(Loss)/Profit for the Period</b> . . . . .                                  |       | (5,793)                                        | 2,846                                          |
| <b>Retained Earnings at Beginning of Period as Originally Stated</b> . . . . . |       | 22,478                                         | 22,971                                         |
| <b>Prior Year Adjustment</b> . . . . .                                         | 8     | 224                                            | —                                              |
| <b>Retained Earnings at End of Period as Restated</b> . . . . .                |       | 22,702                                         | 22,971                                         |
| <b>Transfers from Reserves</b> . . . . .                                       | 18    | 4,500                                          | —                                              |
| <b>Retained Earnings at End of Period</b> . . . . .                            |       | 21,409                                         | 25,817                                         |

The notes on pages F-41 to F-57 form part of these financial statements.

# BALANCE SHEET

AT 31 MARCH 1998

|                                                                | Notes | 31 March 1998<br>Lm000 | 31 March 1997<br>Lm000 |
|----------------------------------------------------------------|-------|------------------------|------------------------|
| <b>Fixed Assets</b>                                            |       |                        |                        |
| Intangible Assets . . . . .                                    | 9     | 1,047                  | 376                    |
| Tangible Assets . . . . .                                      | 10    | 46,176                 | 50,188                 |
| Financial Assets . . . . .                                     | 11    | 3,764                  | 2,721                  |
|                                                                |       | <u>50,987</u>          | <u>53,285</u>          |
| <b>Current Assets</b>                                          |       |                        |                        |
| Stocks . . . . .                                               | 12    | 503                    | 465                    |
| Debtors. . . . .                                               | 13    | 26,355                 | 32,659                 |
| Cash in Hand and at Banks . . . . .                            |       | 1,081                  | 608                    |
|                                                                |       | <u>27,939</u>          | <u>33,732</u>          |
| <b>Creditors: Amounts falling due within One Year</b>          |       |                        |                        |
| Loans. . . . .                                                 | 16    | 2,318                  | 3,060                  |
| Bank Overdrafts . . . . .                                      | 15    | 4,051                  | 6,967                  |
| Creditors . . . . .                                            | 14    | 18,014                 | 19,514                 |
| Taxation . . . . .                                             | 7     | 1,349                  | 727                    |
|                                                                |       | <u>25,732</u>          | <u>30,268</u>          |
| <b>Net Current Assets</b> . . . . .                            |       | <u>2,207</u>           | <u>3,464</u>           |
| <b>Total Assets less Current Liabilities</b> . . . . .         |       | <u>53,194</u>          | <u>56,749</u>          |
| <b>Creditors: Amounts falling due after more than One Year</b> |       |                        |                        |
| Loans. . . . .                                                 | 16    | 18,667                 | 20,978                 |
| Creditors . . . . .                                            | 14    | 29                     | -                      |
|                                                                |       | <u>18,696</u>          | <u>20,978</u>          |
| <b>Provisions for Liabilities and Charges</b>                  |       |                        |                        |
| Provision for Restructuring . . . . .                          |       | 7,500                  | -                      |
| Deferred Taxation. . . . .                                     | 7     | 401                    | 286                    |
|                                                                |       | <u>7,901</u>           | <u>286</u>             |
|                                                                |       | <u>26,597</u>          | <u>35,485</u>          |
| <b>Capital and Reserves</b>                                    |       |                        |                        |
| Share Capital . . . . .                                        | 17    | 20                     | -                      |
| Retained Earnings. . . . .                                     |       | 21,409                 | 25,817                 |
| Other Reserves . . . . .                                       | 18    | 5,168                  | 9,668                  |
|                                                                |       | <u>26,597</u>          | <u>35,485</u>          |

The notes on pages F-41 to F-57 form part of these financial statements.

**CASH FLOW STATEMENT**  
**FOR THE PERIOD ENDED 31 MARCH 1998**

| Notes                                                            | 1 October 1997<br>to<br>31 March 1998<br>Lm000 | 1 October 1996<br>to<br>31 March 1997<br>Lm000 |
|------------------------------------------------------------------|------------------------------------------------|------------------------------------------------|
| <b>Cash Flows from Operating Activities</b>                      |                                                |                                                |
| (Loss)/Profit before Taxation . . . . .                          | (3,754)                                        | 3,865                                          |
| Adjustments for:                                                 |                                                |                                                |
| Depreciation . . . . .                                           | 2,267                                          | 1,765                                          |
| Amortisation . . . . .                                           | 148                                            | 60                                             |
| Provision for Doubtful Debts . . . . .                           | 929                                            | 252                                            |
| Investment Income . . . . .                                      | (119)                                          | (88)                                           |
| Interest Expense . . . . .                                       | 764                                            | 940                                            |
| Profit on Decommissioning of Tangible Fixed Assets . . . . .     | (55)                                           | -                                              |
| Interest Receivable . . . . .                                    | (14)                                           | (16)                                           |
| Provision for Tangible Fixed Assets Awaiting Repair . . . . .    | 54                                             | -                                              |
| Share of Associated Companies' Results . . . . .                 | (256)                                          | (277)                                          |
| Provision for Exchange Fluctuations . . . . .                    | 8                                              | 159                                            |
| Provision for Slow Moving Stocks . . . . .                       | 29                                             | 20                                             |
| Provision for Restructuring . . . . .                            | 7,500                                          | -                                              |
| <b>Operating Profit before Working Capital Changes</b> . . . . . | 7,501                                          | 6,680                                          |
| (Increase)/Decrease in Stocks . . . . .                          | (42)                                           | 275                                            |
| Decrease/(Increase) in Debtors . . . . .                         | 1,425                                          | (3,096)                                        |
| (Decrease)/Increase in Creditors . . . . .                       | (1,970)                                        | 368                                            |
| Movement in Related Companies' Balances . . . . .                | 35                                             | (1,174)                                        |
| <b>Cash Generated from Operations</b> . . . . .                  | 6,949                                          | 3,053                                          |
| Taxation Paid . . . . .                                          | (926)                                          | -                                              |
| Interest Paid on Bank Overdrafts . . . . .                       | (99)                                           | (123)                                          |
| Bank Interest Received . . . . .                                 | 42                                             | 15                                             |
| <b>Net Cash from Operating Activities</b> . . . . .              | 5,966                                          | 2,945                                          |
| <b>Cash Flows from Investing Activities</b>                      |                                                |                                                |
| Acquisition of Terranet Limited net of Cash Acquired . . . . .   | (164)                                          | -                                              |
| Payments to Acquire Intangible Fixed Assets . . . . .            | (184)                                          | (44)                                           |
| Payments to Acquire Tangible Fixed Assets . . . . .              | (2,445)                                        | (2,023)                                        |
| Payments to Acquire Other Financial Fixed Assets . . . . .       | (834)                                          | (362)                                          |
| Amounts Advanced to Other Related Parties . . . . .              | (20)                                           | -                                              |
| Income from Investments . . . . .                                | 419                                            | 204                                            |
| <b>Net Cash used in Investing Activities</b> . . . . .           | (3,228)                                        | (2,225)                                        |
| <b>Cash Flows from Financing Activities</b>                      |                                                |                                                |
| Proceeds from Issue of Shares to Other Parties . . . . .         | 44                                             | -                                              |
| Proceeds from Long Term Borrowings . . . . .                     | -                                              | 750                                            |
| Repayments of Long Term Borrowings . . . . .                     | (2,087)                                        | (611)                                          |
| Dividends Paid . . . . .                                         | (2,000)                                        | (2,000)                                        |
| Loan Interest Paid . . . . .                                     | (697)                                          | (787)                                          |
| <b>Net Cash used in Financing Activities</b> . . . . .           | (4,740)                                        | (2,648)                                        |
| <b>Net Decrease in Cash and Cash Equivalents</b> . . . . .       | (2,002)                                        | (1,928)                                        |
| Cash and Cash Equivalents at Beginning of Period . . . . .       | (968)                                          | (4,431)                                        |
| <b>Cash and Cash Equivalents at End of Period</b> . . . . .      | 19 (2,970)                                     | (6,359)                                        |

The notes on pages F-41 to F-57 form part of these financial statements.

## **MALTACOM p.l.c.**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 1998**

#### **1 Basis of Preparation**

Maltacom p.l.c., which was incorporated under the Companies Act on the 31 December 1997, is the monopoly provider of fixed line telecommunications service in Malta. It is the successor company to Telemalta Corporation which was incorporated by statute in 1975 by the Telemalta Corporation Act, on the nationalisation of the two private telecommunications operators in Malta.

On the 2nd January 1998, the Telemalta Corporation Act was repealed and the Corporation ceased to exist. On that same date, in accordance with Section 40(1) of the Telecommunications (Regulation) Act, 1997 and Legal Notice 238 of 1997, the Corporation transferred its assets and liabilities and, its rights and duties, except for those arising from its regulatory role, to Maltacom p.l.c.

These financial statements have been compiled in accordance with International Accounting Standards and under the historical cost convention. They represent the aggregation of the financial statements of Telemalta Corporation for the period between 1 October 1997 and 2 January 1998 and those of Maltacom p.l.c. for the period between 31 December 1997 and 31 March 1998, assuming that Maltacom p.l.c. has been in existence throughout the period, and taking into account the financial and fiscal effects of the Telecommunications (Regulation) Act. In addition, these financial statements take into account, and are adjusted for, the effect of restatements to the financial statements for the three years to 30 September 1997 and the six months period ended 31 March 1997.

Unless explicitly stated otherwise, all references to the company in these financial statements are to either or both the Corporation and Maltacom p.l.c.

#### **2 Significant Accounting Policies**

The significant accounting policies adopted in the preparation of the Company's financial statements are set out below. These accounting policies have been consistently applied by the Company and its subsidiary undertakings and are consistent with those adopted during comparative years.

##### **a) Basis of Consolidation**

The financial statements include all the subsidiary undertakings that are controlled by the Company.

Control is presumed to exist where either more than one half of an undertaking's voting power is controlled, directly or indirectly, by the Company, or the Company is able to govern the financial and operating policies of the undertaking, or, alternatively, determines the removal or appointment of a majority of the undertaking's board of directors while holding a participating interest in the undertaking.

All intra-group balances, transactions and unrealised profits or losses, where costs cannot be recovered, have been eliminated on consolidation.

##### **b) Goodwill**

Goodwill on consolidation represents the excess of the cost of acquisition over the fair value of the net identifiable assets of the controlled undertaking. Goodwill is recognised as an asset in the consolidated financial statements and amortised on a straight line basis. The period of amortisation, which stands at five financial years, represents the period of time during which benefits are expected to arise.

##### **c) Tangible Fixed Assets**

Tangible fixed assets are stated at cost or, in the case of property held for development, revalued amounts, less accumulated depreciation. Depreciation is calculated to write down the value of tangible fixed assets, less any anticipated residual value, by equal annual instalments over their estimated useful lives. In the case of assets taken over by Maltacom p.l.c. from Telemalta Corporation, a full year's charge is provided for during the year of acquisition and none during the year in which the asset is disposed of or scrapped. In all other cases, a charge equivalent to half a year's depreciation is provided for during the year in which the asset is first brought into use, and half a year's depreciation is charged during the year in which the asset is disposed of or scrapped.

## 2 Significant Accounting Policies (continued)

### c) *Tangible Fixed Assets (continued)*

Additions to tangible fixed assets include direct material and direct labour costs on capital works undertaken by the Company or its subsidiary undertaking.

The carrying amounts of tangible fixed assets are reviewed to determine whether they are in excess of their recoverable amounts at the balance sheet date. If the carrying amount is in excess of the recoverable amount, the value of the assets in question is written down accordingly. In determining recoverable amounts, expected future cash flows are not discounted to their present values.

Expenditure on repairs or maintenance of tangible fixed assets, made to restore or maintain future economic benefits expected from the asset, is recognised as an expense when incurred.

The rates of depreciation used are the following:

|                                       |      | %     |
|---------------------------------------|------|-------|
| Land and Buildings                    |      | 2     |
| Plant Cable and Network               | 4    | to 6  |
| Subscribers Equipment and Line        | 8    | to 15 |
| Exchange and Junction Equipment       | 7    | to 15 |
| Radio Plant and Equipment             | 6.7  | to 7  |
| External Telecommunications Equipment | 7.5  | to 14 |
| Plant and Machinery                   | 10   | to 30 |
| Office Furniture and Equipment        | 10   | to 30 |
| Motor Vehicles                        | 20   | to 35 |
| Air Conditioning Equipment            | 10   | to 20 |
| Earth Station                         | 6.67 | to 7  |

### d) *Materials Awaiting Installation*

Materials awaiting installation are stated at cost less a provision for excess and obsolete items. The majority of the items are used in the construction of new plant, and the remainder for maintenance. When issued, these materials are charged either to the cost of specific plant or to the profit and loss account.

### e) *Intangible Assets*

The rights in connection with the Indivisible Right of Use (IRUs) and Droit de Passage (DDPs) are being amortised by equal annual instalments over the period of the agreements.

The cost associated with the printing and distribution of the 1996 telephone directory is being deferred over a period of two years commencing on 1 September 1996. Amortisation is charged to reflect the consumption of this deferred cost over the period of its deferral on a monthly basis.

### f) *Investments*

Investments in associated undertakings are recognised on the equity basis. An associated undertaking is one where the Company controls, directly or indirectly, 20% or more, but less than 50%, of the voting power of the undertaking, or exercises significant influence over, but does not control, the financial and operating policies of the investee.

Other investments classified as financial fixed assets are carried at cost, less amounts written off to recognise other than temporary declines in the value of the investment. Other investments are stated at the lower of cost and market value as estimated by the directors.

On disposal of an investment the difference between the net proceeds and the carrying amount is charged or credited to the profit and loss account.

Income from investments is accounted for when received.

A list of the Company's subsidiary and associated undertakings is set out in note 11(b).

### g) *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and includes expenditure incurred in acquiring the stocks and bringing them to their existing condition and location.

## 2 Significant Accounting Policies (continued)

### g) *Stocks*

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Items for which no transaction (purchase or consumption) is recorded for a period of three years are fully provided for. Provision is reversed in the event of transactions during subsequent accounting periods.

### h) *Foreign Currencies*

Monetary assets and liabilities in foreign currencies are translated into Maltese Liri at the rates of exchange ruling on the balance sheet date. Foreign exchange forward contracts are accounted for as a hedge when the contracts are entered into with the intention to hedge other transactions. Transactions during the period are translated into Maltese Liri at the rates of exchange ruling on the date of the transaction. All profits and losses on exchange are dealt with through the profit and loss account.

### i) *Taxation*

The tax expense is calculated on net income, adjusted for non-temporary differences between taxable and accounting income. The tax effect of temporary differences, arising from items being brought to account in different periods for income tax and accounting purposes, is carried in the balance sheet as deferred tax debits or credits. Such deferred tax balances are calculated on the liability method taking into account the estimated tax that will be paid or recovered when the temporary differences reverse.

Deferred tax debits are only carried forward if there is a reasonable expectation of realisation. Deferred tax debits, arising from tax losses yet to be recovered, are only carried forward if there is assurance beyond any reasonable doubt, and to the extent, that future taxable income will be sufficient to allow the benefit of the tax loss to be realised or to the extent of the net credits in the deferred tax balance.

### j) *Amounts Receivable*

Specific provision is made for amounts receivable, the recovery of which is considered to be doubtful. General provision is made at the rate of 50% on balances due for over one year, net of repayment programmes entered into by the debtors.

### k) *Revenue Recognition*

In relation to the rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The method used is the completed transaction method. Revenue is recognised when no significant uncertainties remain concerning the derivation of consideration or associated costs.

In relation to the sale of goods, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods.

Interest and royalties arising from the use by others of the Company's resources are recognised on the accruals basis. Dividends are recognised when the right to receive the dividend is established.

Licence fees receivable as a result of the delegation of the Company's authority to third parties are recognised on the accruals basis.

### l) *Borrowing Costs*

Borrowing costs are recognised as an expense in the period in which they are incurred.

### m) *Cash and Cash Equivalents*

Cash and cash equivalents comprise cash in hand and demand deposits, less overdrawn bank balances and any short term liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

### n) *Retirement Benefit Plan*

The Company and its subsidiary undertaking contribute towards the state pension in accordance with legislation, and do not provide for other contributions or retirement benefit plans. This cost, as well as any other costs which may arise in connection with pensions paid or payable to former employees, is recognised as an expense during the period in which it is incurred.

### 3 Turnover

Turnover represents the value of goods sold and services provided, together with rental income and sundry income receivable, and is made up as follows:

|                                                | 1 October 1997<br>to 31 March 1998<br>Lm000 | 1 October 1996<br>to 31 March 1997<br>Lm000 |
|------------------------------------------------|---------------------------------------------|---------------------------------------------|
| Subscribers' Traffic:                          |                                             |                                             |
| Local Calls . . . . .                          | 4,886                                       | 4,319                                       |
| Overseas Calls . . . . .                       | 4,332                                       | 4,189                                       |
| Sale of Telecards . . . . .                    | 1,046                                       | 859                                         |
| Cellular Telephone Calls . . . . .             | 1,642                                       | 1,209                                       |
| Other Subscribers' Traffic . . . . .           | 196                                         | 221                                         |
| Subscribers' Rental . . . . .                  | 3,392                                       | 2,990                                       |
| Carriers' Revenue . . . . .                    | 1,404                                       | 1,821                                       |
| Installation Charges and Extra Works . . . . . | 359                                         | 302                                         |
| Licence Fees Receivable . . . . .              | 5                                           | 9                                           |
| Sundry Income . . . . .                        | 182                                         | 119                                         |
|                                                | <u>17,444</u>                               | <u>16,038</u>                               |

### 4 Operating (Loss)/Profit

a) Operating (loss)/profit is stated after crediting and charging the following:

|                                                 | 1 October 1997<br>to 31 March 1998<br>Lm000 | 1 October 1996<br>to 31 March 1997<br>Lm000 |
|-------------------------------------------------|---------------------------------------------|---------------------------------------------|
| <b>After Crediting</b>                          |                                             |                                             |
| Gains on Exchange . . . . .                     | -                                           | 138                                         |
| <b>After Charging</b>                           |                                             |                                             |
| Directors' Remuneration . . . . .               | 13                                          | 8                                           |
| Labour Cost . . . . .                           | 4,881                                       | 4,528                                       |
| Auditors' Remuneration . . . . .                | 13                                          | 9                                           |
| Losses on Exchange . . . . .                    | 42                                          | 178                                         |
| Bad Debts written off or provided for . . . . . | 941                                         | 313                                         |
| External Traffic Charges . . . . .              | 1,541                                       | 1,992                                       |
| Cellular Traffic Charges . . . . .              | 971                                         | 974                                         |
| Cost of Telecards . . . . .                     | 101                                         | 81                                          |
| Exceptional Items . . . . .                     | 7,849                                       | -                                           |

b) The labour cost incurred during the periods is analysed as follows:

|                                 | 1 October 1997<br>to 31 March 1998<br>Lm000 | 1 October 1996<br>to 31 March 1997<br>Lm000 |
|---------------------------------|---------------------------------------------|---------------------------------------------|
| Wages and Salaries . . . . .    | 4,484                                       | 4,144                                       |
| Social Security Costs . . . . . | 397                                         | 384                                         |
|                                 | <u>4,881</u>                                | <u>4,528</u>                                |

Wages and salaries and social security costs, other than those relating to capital works, are allocated between operational expenses (which is a part of cost of sales) and administrative and distribution expenses as follows:

**4 Operating (Loss)/Profit (continued)**

|                                                    | <b>1 October 1997<br/>to 31 March 1998<br/>%</b> | <b>1 October 1996<br/>to 31 March 1997<br/>%</b> |
|----------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| Operational Expenses . . . . .                     | 64                                               | 64                                               |
| Administrative and Distribution Expenses . . . . . | 36                                               | 36                                               |
|                                                    | <u>100</u>                                       | <u>100</u>                                       |

c) The average number of the Company's employees during the periods is analysed as follows:

|                                           | <b>1 October 1997<br/>to 31 March 1998</b> | <b>1 October 1996<br/>to 31 March 1997</b> |
|-------------------------------------------|--------------------------------------------|--------------------------------------------|
| Administration and Distribution . . . . . | 595                                        | 626                                        |
| Operational . . . . .                     | 1,119                                      | 1,120                                      |
| Capital Works. . . . .                    | 96                                         | 109                                        |
|                                           | <u>1,810</u>                               | <u>1,855</u>                               |

d) The exceptional charges represent a provision amounting to Lm7,500,000 in connection with a commitment to restructure the Company's labour force over the next five years and the excess of costs incurred by the Company in connection with the World Telecommunication Development Conference over sponsorships obtained.

**5 Investment and Similar Income**

|                                        | <b>1 October 1997<br/>to 31 March 1998<br/>Lm000</b> | <b>1 October 1996<br/>to 31 March 1997<br/>Lm000</b> |
|----------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Other Financial Fixed Assets . . . . . | 119                                                  | 88                                                   |
| Bank Interest Receivable . . . . .     | 14                                                   | 16                                                   |
| Gains on Exchange . . . . .            | 12                                                   | —                                                    |
|                                        | <u>145</u>                                           | <u>104</u>                                           |

**6 Interest and Similar Charges**

|                                    | <b>1 October 1997<br/>to 31 March 1998<br/>Lm000</b> | <b>1 October 1996<br/>to 31 March 1997<br/>Lm000</b> |
|------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Loan Interest . . . . .            | 696                                                  | 766                                                  |
| Other Interest. . . . .            | 68                                                   | 174                                                  |
| Commissions . . . . .              | 44                                                   | 45                                                   |
| Losses on Exchange . . . . .       | 9                                                    | 7                                                    |
| Amortisation of Goodwill . . . . . | 87                                                   | —                                                    |
|                                    | <u>904</u>                                           | <u>992</u>                                           |

## 7 Taxation

a)

|                                                            | 1 October 1997<br>to 31 March 1998<br>Lm000 | 1 October 1996<br>to 31 March 1997<br>Lm000 |
|------------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| <b>Current Taxation</b>                                    |                                             |                                             |
| Income Tax on the Taxable Income for the Periods . . . . . | 1,638                                       | 840                                         |
| <b>Deferred Taxation</b>                                   |                                             |                                             |
| Transfer to Deferred Tax Account . . . . .                 | 401                                         | 179                                         |
|                                                            | <u>2,039</u>                                | <u>1,019</u>                                |

b) The accounting profit and the tax expense for the periods are reconciled as follows:

|                                                                                                     | 1 October 1997<br>to 31 March 1998<br>Lm000 | 1 October 1996<br>to 31 March 1997<br>Lm000 |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| (Loss)/Profit for the Periods . . . . .                                                             | (3,754)                                     | 3,865                                       |
| Tax at the applicable rate of 31.5% (1997: 35%) . . . . .                                           | (1,183)                                     | 1,353                                       |
| Tax effect of non-temporary differences . . . . .                                                   | 1,588                                       | (334)                                       |
| Tax effect of reversal of differences previously falling to be considered<br>as temporary . . . . . | 1,634                                       | -                                           |
| Tax Expense for the Periods . . . . .                                                               | <u>2,039</u>                                | <u>1,019</u>                                |

c) The liability for deferred taxation is analysed as follows:

|                                                          | As at 31 March<br>1998<br>Lm000 | As at 31 March<br>1997<br>Lm000 |
|----------------------------------------------------------|---------------------------------|---------------------------------|
| Excess of Capital Allowances over Depreciation . . . . . | 589                             | 468                             |
| Effect of Provision for Exchange Fluctuations . . . . .  | 1                               | 42                              |
| Effect of Provision for Doubtful Debts . . . . .         | (105)                           | (345)                           |
| Effect of Provision for Slow Moving Stocks . . . . .     | (6)                             | 18                              |
| Effect of Provision for Pensions and Wages . . . . .     | -                               | 103                             |
| Effect of Capital Allowances carried forward . . . . .   | (78)                            | -                               |
|                                                          | <u>401</u>                      | <u>286</u>                      |

## 7 Taxation (continued)

d) The liability for current taxation is made up as follows:

| Year of Assessment |               | Lm000   | Lm000 |
|--------------------|---------------|---------|-------|
| 1995 . . . . .     | Provision     | 2,675   |       |
|                    | Tax Paid      | (2,772) |       |
|                    | Tax at Source | (2)     |       |
|                    |               |         | (99)  |
| 1996 . . . . .     | Provision     | 2,018   |       |
|                    | Tax Paid      | (526)   |       |
|                    | Tax at Source | (32)    |       |
|                    |               |         | 1,460 |
| 1997 . . . . .     | Provision     | 963     |       |
|                    | Tax Paid      | (1,361) |       |
|                    | Tax at Source | (38)    |       |
|                    |               |         | (436) |
| 1998 . . . . .     | Provision     | 2,583   |       |
|                    | Tax Paid      | (2,661) |       |
|                    | Tax at Source | (48)    |       |
|                    |               |         | (126) |
| 1999 . . . . .     | Provision     | 1,638   |       |
|                    | Tax Paid      | (926)   |       |
|                    | Tax at Source | (162)   |       |
|                    |               |         | 550   |
|                    |               |         | 1,349 |

## 8 Prior Year Adjustment

During the period, the Company changed its accounting policy relating to the recognition of investments in subsidiary and associated undertakings in its individual financial statements and has adopted the equity accounting system whereby the Company's share of post acquisition profits and losses are applied to the cost of the investment. Dividends received are deducted so that the carrying value of the investment reflects cost, incremented by the post-acquisition retained earnings of the investee.

The effects of this change in accounting policy have been adjusted for retrospectively and are as follows:

|                                                 | 1 October 1997<br>to 31 March 1998<br>Lm000 | 1 October 1996<br>to 31 March 1997<br>Lm000 |
|-------------------------------------------------|---------------------------------------------|---------------------------------------------|
| Share of Associated Company's Profits . . . . . | 224                                         | -                                           |

## 9 Intangible Fixed Assets

|                                | Total<br>Lm000 | IRUs<br>and<br>DDPs<br>Lm000 | Directory<br>Costs<br>Lm000 | Goodwill<br>Lm000 | Payments<br>in<br>Advance<br>Lm000 |
|--------------------------------|----------------|------------------------------|-----------------------------|-------------------|------------------------------------|
| <b>Cost</b>                    |                |                              |                             |                   |                                    |
| At 30 September 1997 . . . . . | 843            | 392                          | 195                         | -                 | 256                                |
| At 31 March 1998 . . . . .     | 1,376          | 443                          | 195                         | 349               | 389                                |
| <b>Amortisation</b>            |                |                              |                             |                   |                                    |
| At 30 September 1997 . . . . . | 181            | 76                           | 105                         | -                 | -                                  |
| Charge for Period . . . . .    | 148            | 13                           | 48                          | 87                | -                                  |
| At 31 March 1998 . . . . .     | 329            | 89                           | 153                         | 87                | -                                  |
| <b>Net Book Amount</b>         |                |                              |                             |                   |                                    |
| At 31 March 1998               | 1,047          | 354                          | 42                          | 262               | 389                                |
| At 31 March 1997 . . . . .     | 376            | 238                          | 138                         | -                 | -                                  |

## 10 Tangible Fixed Assets

a)

|                                | Total<br>Lm000 | Land and<br>Buildings<br>Lm000 | Plant and<br>Equipment<br>Lm000 | Motor<br>Vehicles<br>Lm000 | Payments on<br>Account and<br>Assets in<br>course of<br>Construction<br>Lm000 | Materials<br>Awaiting<br>Installation<br>Lm000 |
|--------------------------------|----------------|--------------------------------|---------------------------------|----------------------------|-------------------------------------------------------------------------------|------------------------------------------------|
| <b>Cost</b>                    |                |                                |                                 |                            |                                                                               |                                                |
| At 30 September 1997 . . . . . | 81,775         | 7,895                          | 70,349                          | 911                        | 75                                                                            | 2,545                                          |
| Additions . . . . .            | 2,489          | 31                             | 2,334                           | -                          | 124                                                                           | -                                              |
| Disposals . . . . .            | (127)          | -                              | (127)                           | -                          | -                                                                             | -                                              |
| Net Transfers . . . . .        | (61)           | -                              | -                               | -                          | -                                                                             | (61)                                           |
| At 31 March 1998 . . . . .     | 84,076         | 7,926                          | 72,556                          | 911                        | 199                                                                           | 2,484                                          |
| <b>Depreciation</b>            |                |                                |                                 |                            |                                                                               |                                                |
| At 30 September 1997 . . . . . | 35,688         | 428                            | 34,703                          | 557                        | -                                                                             | -                                              |
| Charge for Period . . . . .    | 2,267          | 29                             | 2,180                           | 58                         | -                                                                             | -                                              |
| Disposals . . . . .            | (55)           | -                              | (55)                            | -                          | -                                                                             | -                                              |
| At 31 March 1998 . . . . .     | 37,900         | 457                            | 36,828                          | 615                        | -                                                                             | -                                              |
| <b>Net Book Amount</b>         |                |                                |                                 |                            |                                                                               |                                                |
| At 31 March 1998 . . . . .     | 46,176         | 7,469                          | 35,728                          | 296                        | 199                                                                           | 2,484                                          |
| At 31 March 1997 . . . . .     | 50,188         | 7,420                          | 39,892                          | 403                        | 4                                                                             | 2,469                                          |

b) Materials awaiting installation comprise uninstalled tangible fixed assets.

# 11 Financial Fixed Assets

a) The amounts stated in the balance sheet are analysed as follows:

|                                             | As at<br>31 March 1998<br>Lm000 | As at<br>31 March 1997<br>Lm000 |
|---------------------------------------------|---------------------------------|---------------------------------|
| Shares in Subsidiary Undertaking . . . . .  | —                               | —                               |
| Shares in Associated Undertakings . . . . . | 1,896                           | 1,071                           |
| Other Equity Investments . . . . .          | 1,868                           | 1,650                           |
|                                             | <u>3,764</u>                    | <u>2,721</u>                    |

## b) Equity Investments

The Group Companies listed below have their registered offices as follows:

- Terranet Limited - Dolphin Centre, Main Street, Balzan
- Telepage Limited - 52, Old Theatre Street, Valletta
- Vodafone Malta Limited (formerly Telecell Limited) - 1, Col. Savona Street, Sliema
- Elsacom Malta Limited - 53, St. Dominic Street, Valletta
- Datatrak Systems Limited - 26/6, Merchants Street, Valletta

|                                                                 |                    |                                 | 31 March 1998 |                                         |               |
|-----------------------------------------------------------------|--------------------|---------------------------------|---------------|-----------------------------------------|---------------|
|                                                                 | Incorporated<br>in | Interest of<br>the Company<br>% | Paid-Up<br>%  | Foreign<br>Currency<br>Value<br>US\$000 | Cost<br>Lm000 |
| <b>Subsidiary Undertakings</b>                                  |                    |                                 |               |                                         |               |
| Terranet Limited . . . . .                                      | Malta              | 99.99                           |               |                                         |               |
| 212,499 Ordinary Shares of Lm1 each                             |                    |                                 | 100           | —                                       | 204           |
| 17,500 Ordinary Shares of Lm1 each                              |                    |                                 | 100           | —                                       | 18            |
| Share of Losses . . . . .                                       |                    |                                 |               |                                         | (222)         |
|                                                                 |                    |                                 |               |                                         | <u>—</u>      |
| <b>Associated Undertakings</b>                                  |                    |                                 |               |                                         |               |
| Vodafone Malta Limited (formerly<br>Telecell Limited) . . . . . | Malta              | 20                              |               |                                         |               |
| 290,000 Ordinary Shares of Lm1 each                             |                    |                                 | 100           | —                                       | 290           |
| Share of Profits . . . . .                                      |                    |                                 |               |                                         | 732           |
|                                                                 |                    |                                 |               |                                         | <u>1,022</u>  |
| Telepage Limited . . . . .                                      | Malta              | 40                              |               |                                         |               |
| 220,000 'A' Ordinary Shares of Lm1<br>each . . . . .            |                    |                                 | 100           | —                                       | 220           |
| Shares of Losses . . . . .                                      |                    |                                 |               |                                         | (220)         |
|                                                                 |                    |                                 |               |                                         | <u>—</u>      |
| Elsacom Malta Limited . . . . .                                 | Malta              | 20                              |               |                                         |               |
| 1,800,001 'B' Ordinary Shares of<br>US\$1 each . . . . .        |                    |                                 | 86.66         | —                                       | 747           |
| Share of Losses . . . . .                                       |                    |                                 |               |                                         | (240)         |
|                                                                 |                    |                                 |               |                                         | <u>507</u>    |
| carried forward . . . . .                                       |                    |                                 |               |                                         | <u>1,529</u>  |

**11 Financial Fixed Assets (continued)**

**b) Equity Investments (continued)**

| 31 March 1998                                                                                 |                    |                                 |              |                                         |               |
|-----------------------------------------------------------------------------------------------|--------------------|---------------------------------|--------------|-----------------------------------------|---------------|
|                                                                                               | Incorporated<br>In | Interest of<br>the Company<br>% | Paid-Up<br>% | Foreign<br>Currency<br>Value<br>US\$000 | Cost<br>Lm000 |
| brought forward . . . . .                                                                     |                    |                                 |              |                                         | 1,529         |
| Datatrak Systems Limited . . . .                                                              | Malta              | 29.67                           |              |                                         |               |
| 150,000, 'A' Ordinary Shares of<br>Lm1 each . . . . .                                         |                    |                                 | 100          | —                                       | 96            |
| 117,000 'D' Ordinary Shares of<br>Lm1 each . . . . .                                          |                    |                                 | 100          |                                         | 75            |
| 100,000 Cumulative Redeemable<br>Preference Shares<br>of Lm1 each . . . . .                   |                    |                                 | 100          |                                         | 100           |
| Share of Net Assets . . . . .                                                                 |                    |                                 |              |                                         | 96            |
|                                                                                               |                    |                                 |              |                                         | 367           |
| <b>Other Investments</b>                                                                      |                    |                                 |              |                                         |               |
| ICO Global Communications<br>(Holdings) Limited (INMARSAT-P)                                  | Cayman<br>Islands  | 0.05                            |              | 1,000                                   | 369           |
| <i>Initial Shares</i>                                                                         |                    |                                 |              |                                         |               |
| 100 Ordinary Shares of US\$0.01<br>each, acquired at a premium<br>of US\$99.99 each . . . . . |                    |                                 | 100          |                                         |               |
| <i>Secondary Shares</i>                                                                       |                    |                                 |              |                                         |               |
| 9,900 Ordinary Shares of<br>US\$0.01 each, acquired at a<br>premium of US\$99.99 each . .     |                    |                                 | 100          |                                         |               |
| International Mobile Satellite<br>Organisation (INMARSAT)                                     | England            | 0.20                            | —            | 1,383                                   | 510           |
| International Telecommunications<br>Satellite Organisation<br>(INTELSAT)                      | New York<br>- USA  | 0.08                            | —            | 2,684                                   | 989           |
|                                                                                               |                    |                                 |              |                                         | 3,764         |

# 11 Financial Fixed Assets (continued)

## b) Equity Investments (continued)

| 31 March 1997                                                                        |                    |              |                                         |               |
|--------------------------------------------------------------------------------------|--------------------|--------------|-----------------------------------------|---------------|
|                                                                                      | Incorporated<br>In | Paid-Up<br>% | Foreign<br>Currency<br>Value<br>US\$000 | Cost<br>Lm000 |
| <b>Subsidiary Undertakings</b>                                                       |                    |              |                                         |               |
| Terranet Limited . . . . .                                                           | Malta              | 100          | —                                       | 40            |
| 212,499 Ordinary Shares of Lm1 each . . .                                            |                    |              |                                         | (40)          |
| Share of Losses . . . . .                                                            |                    |              |                                         | —             |
| <b>Associated Undertakings</b>                                                       |                    |              |                                         |               |
| Vodafone Malta Limited (formerly Telecell<br>Limited) . . . . .                      | Malta              | 100          | —                                       | 290           |
| 290,000 Ordinary Shares of Lm1 each . . .                                            |                    |              |                                         | 781           |
| Share of Profits . . . . .                                                           |                    |              |                                         | 1,071         |
| Telepage Limited . . . . .                                                           | Malta              | 100          | —                                       | 220           |
| 220,000 'A' Ordinary Shares of Lm1 each .                                            |                    |              |                                         | (220)         |
| Shares of Losses. . . . .                                                            |                    |              |                                         | —             |
| <b>Other Investments</b>                                                             |                    |              |                                         |               |
| ICO Global Communications (Holdings)<br>Limited (INMARSAT-P) . . . . .               | Cayman<br>Islands  | —            | 1,000                                   | 369           |
| <i>Initial Shares</i>                                                                |                    |              |                                         |               |
| 100 Ordinary Shares of US\$0.01 each,<br>acquired at a premium of US\$99.99 each .   |                    | 100          |                                         |               |
| <i>Secondary Shares</i>                                                              |                    |              |                                         |               |
| 9,900 Ordinary Shares of US\$0.01 each,<br>acquired at a premium of US\$99.99 each . |                    | 100          |                                         |               |
| International Mobile Satellite Organisation<br>(INMARSAT) . . . . .                  | England            | —            | 1,208                                   | 440           |
| International Telecommunications Satellite<br>Organisation (INTELSAT) . . . . .      | New York<br>- USA  | —            | 2,034                                   | 841           |
|                                                                                      |                    |              |                                         | 2,721         |

## 12 Stocks

a) Stocks comprise the following:

|                                   | As at 31<br>March 1998<br>Lm000 | As at 31<br>March 1997<br>Lm000 |
|-----------------------------------|---------------------------------|---------------------------------|
| Maintenance and General . . . . . | 281                             | 244                             |
| Tools and Instruments . . . . .   | 69                              | 53                              |
| Stationery . . . . .              | 76                              | 100                             |
| Goods held for Resale . . . . .   | 77                              | 68                              |
|                                   | <u>503</u>                      | <u>465</u>                      |

b) Stocks fully written down to net realisable value were as follows:

|                | As at 31<br>March 1998<br>Lm000 | As at 31<br>March 1997<br>Lm000 |
|----------------|---------------------------------|---------------------------------|
| Cost . . . . . | 25                              | 18                              |

## 13 Debtors

a) Debtors comprise:

|                                                | As at 31<br>March 1998<br>Lm000 | As at 31<br>March 1997<br>Lm000 |
|------------------------------------------------|---------------------------------|---------------------------------|
| <b>Falling due within One Year</b>             |                                 |                                 |
| Trade Debtors . . . . .                        | 18,686                          | 22,568                          |
| Other Debtors . . . . .                        | 108                             | 34                              |
| Prepayments and Accrued Income . . . . .       | 6,929                           | 9,209                           |
| Amounts Owed by Related Undertakings . . . . . | 64                              | 135                             |
|                                                | <u>25,787</u>                   | <u>31,946</u>                   |
| <b>Falling due after more than One Year</b>    |                                 |                                 |
| Other Debtors . . . . .                        | 568                             | 713                             |
|                                                | <u>26,355</u>                   | <u>32,659</u>                   |

b) Other long term debtors comprise an amount owing by Public Broadcasting Services Limited in respect of the transfer of the assets and liabilities of the Xandir Malta Division. This amount is repayable by instalments within eight years from April 1995.

c) Debtors are stated after provision for doubtful debts as follows:

|                         | As at 31<br>March 1998<br>Lm000 | As at 31<br>March 1997<br>Lm000 |
|-------------------------|---------------------------------|---------------------------------|
| Trade Debtors . . . . . | 5,039                           | 5,093                           |
| Other Debtors . . . . . | 9                               | 9                               |
|                         | <u>5,048</u>                    | <u>5,102</u>                    |

#### 14 Creditors

Creditors are analysed as follows:

|                                                       | As at 31<br>March 1998<br>Lm000 | As at 31<br>March 1997<br>Lm000 |
|-------------------------------------------------------|---------------------------------|---------------------------------|
| <b>Amounts falling due within One Year</b>            |                                 |                                 |
| Trade and Capital Creditors . . . . .                 | 13,774                          | 15,601                          |
| Accruals and Prepaid Income . . . . .                 | 4,240                           | 3,913                           |
|                                                       | <u>18,014</u>                   | <u>19,514</u>                   |
| <b>Amounts falling due between two and five years</b> |                                 |                                 |
| Trade Creditors . . . . .                             | 29                              | —                               |
|                                                       | <u>18,043</u>                   | <u>19,514</u>                   |

#### 15 Bank Overdrafts

The Company currently enjoys overdraft facilities from the following financial institutions as follows:

- Lm1,000,000 from APS Bank Limited
- Lm2,000,000 from Bank of Valletta p.l.c.
- Lm7,299,500 from Mid-Med Bank p.l.c.
- Lm7,000,000 from Midland Bank plc

All the above bear interest at the rate of 6.25% and are unsecured.

#### 16 Loans

a)

|                                              | Notes | As at 31<br>March 1998<br>Lm000 | As at 31<br>March 1997<br>Lm000 |
|----------------------------------------------|-------|---------------------------------|---------------------------------|
| Mid-Med Bank p.l.c.. . . . .                 | (i)   | 8,530                           | 9,123                           |
| Valletta Investment Bank Limited . . . . .   | (ii)  | 5,553                           | 5,930                           |
| Bank of Tokyo-Mitsubishi Limited . . . . .   | (iii) | 6,902                           | 6,613                           |
| Malta Government Consolidated Fund . . . . . |       | —                               | 555                             |
| Bank of Valletta p.l.c. . . . .              |       | —                               | 1,067                           |
| APS Bank Limited . . . . .                   |       | —                               | 750                             |
|                                              |       | <u>20,985</u>                   | <u>24,038</u>                   |

b) These loans are analysed as follows:

|                                       | As at 31<br>March 1998<br>Lm000 | As at 31<br>March 1997<br>Lm000 |
|---------------------------------------|---------------------------------|---------------------------------|
| Falling due within One Year. . . . .  | 2,318                           | 3,060                           |
| Falling due after more than One Year: |                                 |                                 |
| Within Five Years. . . . .            | 14,666                          | 14,979                          |
| After more than Five Years . . . . .  | 4,001                           | 5,999                           |
|                                       | <u>18,667</u>                   | <u>20,978</u>                   |
|                                       | <u>20,985</u>                   | <u>24,038</u>                   |

**16 Loans (continued)**

**i) Mid-Med Bank p.l.c.**

The loan is made up as follows:

- a) The amount of drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm8,000,000.

The loan bears interest at 0.75% over the fixed deposit rate which is currently 5.5%, is unsecured and is repayable within 15 years from 1 August 1989, with a three year moratorium.

- b) The amount of drawdowns less repayments as at the balance sheet date from a loan facility granted by the Investment Finance Bank amounting to Lm3,000,000. The loan had been taken over by Mid-Med Bank p.l.c. following the merger of the two banks. This loan bears interest at 0.75% over the fixed deposit rate which is currently 5.5%, is unsecured and is repayable within 15 years as from 20 July 1991, with a three year moratorium.

- c) The amount of drawdowns less repayments as at the balance sheet date from a loan facility granted by the Investment Finance Bank amounting to Lm2,000,000. The loan had been taken over by Mid-Med Bank p.l.c. following the merger of the two banks.

This loan bears interest at 0.75% over the fixed deposit rate, which is currently 5.5%, is unsecured and is repayable within 15 years as from 31 July 1992, with a three year moratorium.

**ii) Bank of Valletta p.l.c.**

The loan taken over from Valletta Investment Bank Limited during the period is made up as follows:

- a) The amount of drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm4,000,000.

The loan bears interest at 0.75% over the fixed deposit rate, which is currently 5.5%, is unsecured and is repayable within 15 years as from 9 August 1992 with a three year moratorium.

- b) The amount of drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm2,000,000.

The loan bears interest at 0.75% over the fixed deposit rate, which is currently 5.5%, is unsecured and is repayable within 13 years from August 1995 with a three year moratorium.

- c) The amount of drawdowns less repayments as at the balance sheet date from a loan facility granted by the bank amounting to Lm2,150,000.

The loan bears interest at 0.75% over the fixed deposit rate, which is currently 5.5%, is unsecured and is repayable within 10 years.

**iii) Bank of Tokyo - Mitsubishi Limited**

This balance is made up of two loan facilities:

- a) Under the first loan agreement, the Company had been granted by the bank a loan facility amounting to US\$3,000,000 equivalent to Lm1,098,335 at the rate of exchange ruling on the date of drawdown. The interest rate of this loan stands at 0.35% over LIBOR, payable in arrears every six months. The loan is repayable after five years from the date of drawdown.

- b) Under the second loan agreement, a loan facility amounting to US\$15,000,000 had been granted by the bank to the Company, consisting of two portions amounting to US\$5,000,000, equivalent to Lm1,837,509 and ECU8,703,197 equivalent to Lm3,930,039 at the rates ruling on the date of drawdown. This loan bears interest at 0.25% over LIBOR, payable in arrears every six months. The loan is repayable after five years from the date of signing of the agreement.

## 17 Share Capital

|                                                            | As at<br>31 March<br>1998<br>Lm000 | As at<br>31 March<br>1997<br>Lm000 |
|------------------------------------------------------------|------------------------------------|------------------------------------|
| <b>Authorised Share Capital</b>                            |                                    |                                    |
| 150,000,000 Ordinary Shares of Lm1 each . . . . .          | 150,000                            | —                                  |
| <b>Issued Share Capital</b>                                |                                    |                                    |
| 20,000 Ordinary Shares of Lm1 each Fully Paid Up . . . . . | 20                                 | —                                  |

## 18 Other Reserves

Non-distributable reserves of the Company are analysed as follows:

|                                         | Revaluation<br>Reserve<br>Lm000 | Capital<br>Reserve<br>Lm000 | Total<br>Lm000 |
|-----------------------------------------|---------------------------------|-----------------------------|----------------|
| At 31 March 1997 . . . . .              | 4,500                           | 5,168                       | 9,668          |
| Transfer to Retained Earnings . . . . . | (4,500)                         | —                           | (4,500)        |
| At 31 March 1998 . . . . .              | —                               | 5,168                       | 5,168          |

The balance on the Revaluation Reserve was realised on the transfer of the revalued immovable property to Maltacom p.l.c. from Telemalta Corporation on 2 January 1998.

The capital reserve represents the excess of fair value of the net assets acquired by Telemalta Corporation on its establishment in 1975 over the consideration paid and the effect of the acquisition of 290,000 ordinary shares in Vodafone Malta Limited (formerly Telecell Limited), having a nominal value of Lm1 each. The shares were allotted to the Company for no consideration under the terms of the joint venture and shareholding agreement entered into by Vodafone Malta Limited and the Company.

## 19 Cash and Cash Equivalents

Cash and cash equivalents included in the cash flow statement comprise:

|                                     | As at<br>31 March 1998<br>Lm000 | As at<br>31 March 1997<br>Lm000 |
|-------------------------------------|---------------------------------|---------------------------------|
| Cash in Hand and at Bank . . . . .  | 1,081                           | 608                             |
| Bank Overdrafts . . . . .           | (4,051)                         | (6,967)                         |
| Cash and Cash Equivalents . . . . . | (2,970)                         | (6,359)                         |

## 20 Capital Commitments

|                                                                                                            | As at 31<br>March 1998<br>Lm000 | As at 31<br>March 1997<br>Lm000 |
|------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| Capital expenditure that has been contracted for but has not been provided for in the financial statements |                                 |                                 |
| - Tangible Fixed Assets . . . . .                                                                          | 4,659                           | 3,753                           |
| Capital expenditure that has been authorised by the directors but has not yet been contracted for          |                                 |                                 |
| - Tangible Fixed Assets . . . . .                                                                          | 7,669                           | 5,382                           |
| - Financial Fixed Assets . . . . .                                                                         | 205                             | -                               |
|                                                                                                            | <u>7,874</u>                    | <u>5,382</u>                    |

## 21 Contingent Liabilities

The contingent liabilities of the Company and its subsidiary undertaking are listed below:

- Guarantees and performance bonds arising in the ordinary course of the Company's business on which no material losses are anticipated. In addition, the Company has guaranteed banking facilities granted to Terranet Limited, Telepage Limited and Datatrak Systems Limited amounting to Lm115,000, Lm217,500 and Lm550,000 respectively.
- Outstanding liabilities under documentary credits.
- Limited cover for risks on property and claims in connection with legal liabilities arising in the course of its operations.
- Claims for damages submitted by the Company's employees which cannot be quantified.
- An associated company is claiming CET on interconnection charges.
- Claims arising under the terms of the Customer Charter and the Consumer Protection Act which came into force on 1 October 1997. The Company's contingency relates to claims as yet unnotified to the Company and which therefore cannot be quantified.
- The Company's investment in Elsacom Malta Limited amounting to 13.34% of the share capital and share premium, not yet called up, amounting to Lm94,935 and Lm18,987 respectively.
- Litigation against the Company by a number of persons. The Company's exposure in this regard is estimated at Lm42,180.
- The Company is currently evaluating its systems to ensure that they will operate satisfactorily with the change of date from 31 December 1999 to 1 January 2000. The cost of this evaluation and of any systems modifications that are subsequently required can only be quantified once the necessary modifications have been identified and implemented and upon system suppliers ensuring compliance of systems supplied to the Company. Such costs, being in the nature of maintenance, will be expensed. Certain capital expenditure commitments have already been approved by the Board of Directors in this regard.

## 22 Segmental Information

|                                   | 1 October<br>1997 to 31<br>March 1998<br>Lm000 | 1 October<br>1996 to 31<br>March 1997<br>Lm000 |
|-----------------------------------|------------------------------------------------|------------------------------------------------|
| Revenue:                          |                                                |                                                |
| Traffic . . . . .                 | 10,496                                         | 9,567                                          |
| Services . . . . .                | 3,799                                          | 3,301                                          |
| Sale of Goods . . . . .           | 182                                            | 119                                            |
| Interconnection Traffic . . . . . | 2,967                                          | 3,051                                          |
|                                   | <u>17,444</u>                                  | <u>16,038</u>                                  |

## 22 Segmental Information (*continued*)

The Company's information systems do not allow for the ready disclosure of results and assets employed by industry segment, or the disclosure of revenue, results and assets employed by geographical segments as required by International Accounting Standard 14.

The activities of the Company include the following:

|                          |                                                                                                                                                                                                                                                      |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Traffic:                 | Terrestrial and satellite communication facilities. Facilities provided comprise voice, images and data traffic.                                                                                                                                     |
| Services:                | Services provided by the company include the rental or installation of telecommunications equipment and, up to 2 January 1998, the licencing of other telecommunication services providers resulting from the company's regulatory responsibilities. |
| Sale of Goods:           | Goods sold mainly comprise telecommunications equipment and consumables.                                                                                                                                                                             |
| Interconnection Traffic: | International outgoing traffic, traffic between the packet switching transfer node, the cellular network and paging network.                                                                                                                         |

## 23 Financial Instruments

Financial assets of the Company include cash, equity and other investments, and debtors. Financial liabilities of the Company include loans, bank overdrafts and creditors. The accounting policies for these assets and liabilities are set out in note 2 to these financial statements.

### a) *Interest Rate Risk*

The interest rates and terms of repayment of loans of the Company are disclosed in the notes to these financial statements.

### b) *Credit Risk*

Cash is placed with banks with high credit ratings. Credit risk on amounts received is limited since these assets are stated net of provision for doubtful recovery.

### c) *Fair Values*

The fair values of financial assets and liabilities are not materially different from their carrying amounts.

## 24 General

Section 31 of the Telemalta Corporation Act has given rise to some doubt on whether the Company may be liable to the Government of Malta in connection with pensions. The Company has obtained legal advice to the effect that the maximum potential exposure, which has been fully provided for in these financial statements, relates, and is restricted, to the four year period between 1975 and 1979.

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### TERMS AND CONDITIONS OF APPLICATION

1. The contract created by the acceptance of an Application shall be subject to the terms and conditions set out herein. If any Application is not accepted, or if any Application is accepted for fewer Shares than those applied for, the Application monies or the balance of the amount paid on Application will be returned without interest by mail at the risk of the Applicant or in such other manner as may indicated in the Application Form.

2. Subject to all other terms and conditions set out in the Offering Memorandum the Company and/or the Government (the "Offeror") reserve the right to reject in whole or in part, or to scale down any Application, including multiple or suspected multiple Applications and to present any cheques and or drafts for payment upon receipt. The right is also reserved to refuse any Application which in the opinion of the Offeror is not properly completed in all respects in accordance with the instructions or is not accompanied by the required documents. Only original Application forms will be accepted and photocopies/facsimile copies will not be accepted.

In the case of joint Applications, reference to the Applicant in these Terms and Conditions is a reference to each Applicant, and liability therefor is joint and several. Furthermore, as joint applicants (except in the case of husband and wife) each warrant that he/she has only submitted one Application in his/her name.

3. By completing and delivering an Application Form you (as the Applicant (s)):

a. *irrevocably* offer to purchase the number of Shares specified in your Application Form (or any smaller number for which the Application is accepted) at the Preliminary Share Offer Price subject to the Offering Memorandum, these terms and conditions and the memorandum and articles of association of the Company;

b. authorise the Registrar and the Directors to include your name, or in the case of joint applicants the first named applicant in the register of Members of the Company in respect of the Shares allocated to you.<sup>6</sup>

Unless otherwise indicated in the Application Form, a refund of unallocated Application monies will be sent to you by cheque, without interest, and mailed to your address (or that of the first named Applicant) as set out in your Application Form, at your own risk. In the event that the Share Offer Price is less than the Preliminary Share Offer Price, a refund equal to the Rebate Amount multiplied by the number of Shares allocated to shall be mailed to your address together with refunds of unallocated application monies.

c. warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive a registration advice, or to be registered in the register of Members or to enjoy or receive any rights or distributions in respect of such Shares unless and until you make payment in cleared funds for such Shares and such payment is accepted by the Company/Offeror (which acceptance shall be made in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that, at any time prior to unconditional acceptance by the Company/Offeror of such late payment in respect of such Shares, the Company/Offeror may (without prejudice to other rights) treat the agreement to allocate such Shares as void and may allocate such Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Shares (other than return of such late payment);

d. agree that the registration advice and other documents and any monies returnable to you may be retained pending clearance of your remittance and any verification of identity as required by the Prevention of Money Laundering Act 1994 (and regulations made thereunder) and that such monies will not bear interest;

e. agree that all Applications, acceptances of Applications and contracts resulting therefrom will be governed by, and construed in accordance with Maltese law and that you submit to the jurisdiction of the Maltese Courts and agree that nothing shall limit the right of the Company/Offeror to bring any action, suit or proceeding arising out of or in connection with any such Applications, acceptances of Applications and contracts in any other manner permitted by law in any court of competent jurisdiction;

f. warrant that, if you sign the Application Form on behalf of another party or on behalf of a corporation or corporate entity or association of persons, you have due authority to do so and such person, corporation, corporate entity, or association of persons will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these Terms and Conditions and undertake to submit your power of attorney or a copy thereof duly certified by a lawyer or notary public if so required by the Registrar.

g. agree that all documents in connection with the Offer of the Shares and any returned monies will be sent at your risk and may be sent by post at your address (or, in the case of joint applications, the address of the first-named Applicant) as set out in the Application Form;

- h. agree that, having had the opportunity to read the Offering Memorandum you shall be deemed to have had notice of all information and representations concerning the Company and the Offer of the Shares contained therein;
  - i. confirm that in making such Application you are not relying on any information or representation in relation to the Company or the offer of the Shares other than those contained in the Offering Memorandum and you accordingly agree that no person responsible solely or jointly for the Offering Memorandum or any part thereof will have any liability for any such other information or representation;
  - j. confirm that you have reviewed and you will comply with the restriction contained in paragraph 4 and the warning in paragraph 5 below;
  - k. warrant that you are not under the age of 18 years or if you are lodging an Application in the name and for the benefit of a minor, warrant that you are the parents or legal guardian/s of the minor;
  - l. agree that such Application Form is addressed to the Offeror and that in respect of those Shares for which your Application has been accepted, you shall receive a registration advice confirming such acceptance.
  - m. confirm that in the case of a joint Application the first named Applicant shall be deemed the holder of the Shares.
  - n. agree to provide the Registrar, Offeror and /or Company as the case may be, with any information which it may request in connection with your Application(s);
  - o. agree that both Curmi & Mallia (Stockbrokers) Ltd. and Calamatta Stockbrokers Ltd. will not in their capacity as sponsoring stockbrokers treat you as their customer by virtue of your making an application for Shares or by virtue of your Application to subscribe for Shares being accepted and that neither of Curmi & Mallia (Stockbrokers) Ltd. and Calamatta Stockbrokers Ltd will owe you any duties or responsibilities concerning the price of the Shares or their suitability for you;
  - p. warrant that, in connection with your Application, you have observed all applicable laws, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your Application in any territory and that you have not taken any action which will or may result in the Offeror or the Registrar acting in breach of the regulatory or legal requirements of any territory in connection with the Maltese Offering, or your Application; and
  - q. warrant that if you are a non-resident any funds accompanying your Application emanate from a foreign source or foreign currency account held in Malta;
  - r. represent that you are not a U.S. person (as such term is defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act") and that you are not accepting the invitation comprised in the Offer from within the United States of America, its territories or its possessions, any State of the United States of America or the District of Columbia (the "United States") or on behalf or for the account of anyone within the United States or anyone who is a U.S. person, unless you indicate otherwise on the Application Form in accordance with the instructions of the Application Form.
4. The Shares have not been and will not be registered under the Securities Act and accordingly may not be offered or sold within the United States or to or for the account or benefit of a U.S. person.
5. No person receiving a copy of the Offering Memorandum or an Application Form in any territory other than Malta may treat the same as constituting an invitation or offer to him nor should he in any event use such Application Form, unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside Malta wishing to make any Application to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other formalities required to be observed in such territory and paying any issues, transfer or other taxes required to be paid in such territory.
6. Upon closing of the subscription lists, the Offeror either directly or through the Company shall announce the basis of acceptance of applications and allocation policy to be adopted, on or around the 19th June, 1998.
- In the absence of unforeseen circumstances, and in line with the Offeror's policy to encourage widespread share ownership, it is expected that the following policy be adopted:
- a. All Applications of Employees and Directors ("Employees") will be allocated up to a maximum limit of 2,026,210 Shares (the "Employee Shares") at a 5 per cent. discount to the Share Offer Price. In the event that the Applications from Employees exceed the Employee Shares, then each Employee will be allocated the first 1,500 Shares applied for or such lesser amount if the Application is for less than 1,500 Shares provided that the aggregate demand for Employee Shares does not exceed the number of Employee Shares. In the event that

after having allocated such Shares the Employee Shares are not fully subscribed, then the remaining Employee Shares shall be applied to balances left unallocated on Employee Applications in increments of 100 Employee Shares until the relevant Application is satisfied or the total amount of Employee Shares is allocated. If after full allocation of the Employee Shares there remain unsatisfied balances of Employee Applications, then, unless Employees indicate otherwise in their Application, each such unallocated balance shall be treated as an application in the Maltese Offering and will, subject to allocation in the Maltese Offering, be allocated at the Share Offer Price;

b. After allocation of the Employee Shares as stated in paragraph (a) above, it is expected that within three days from the close of subscription lists, the Government shall, on the basis of Applications received, determine the basis for allocation which shall reflect Government's policy favouring a wider share ownership in Malta.

7. Save where the context requires otherwise, terms defined in the Offering Memorandum bear the same meaning when used in these Terms and Conditions of Application, in the Application Form and in any other document issued pursuant to this Offering Memorandum.

8. The Application lists will open at 08.30 hours on the 11th June, 1998 and will close as soon thereafter as may be determined by the Company and Offeror, as the case may be, but not later than 15.00 hours on the 15th June, 1998.

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