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Palmali Holding Company Limited

C 34440

Report and financial statements

31 December 2007

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Palmali Holding Company Limited

Director, officers and other information

Director:	Mubariz Mansimov
Registered office:	Level 12 Portomaso Business Tower St. Julians Malta
Country of incorporation:	Malta
Company registration number:	C 34440
Auditors:	Deloitte & Touche 1, Col. Savona Street Sliema Malta

Palmali Holding Company Limited

Director's report
Year ended 31 December 2007

The director presents his report and the audited separate financial statements of the company for the year ended 31 December 2007. Consolidated financial statements for public use are also prepared separately by the company.

Principal activities
Palmali Holding Company Limited directly owns and controls 3 operating subsidiaries and 3 holding companies. At 31 December 2007 the latter holding companies in turn owned and controlled between them a further 11 intermediate holding companies, which in turn owned and controlled 74 ship owning & operating subsidiaries.

Performance review
During the year under review the holding company did not receive any dividend income and an operating loss ensued for the year representing the company's administrative and finance expenses.

Results and dividend
The results for the year ended 31 December 2007 are shown in the income statement on page four. The director reports a loss for the year of *USD188,341* for the holding company, which is being carried forward to be deducted from the retained earnings.

The director does not recommend the payment of a dividend.

Director
Mr. Mubariz Mansimov served on the board throughout the year under review.

A resolution to retain Mr. Mubariz Mansimov as director of the company will be proposed at the forthcoming annual general meeting.

Auditors
A resolution to re-appoint Deloitte & Touche as auditor of the company will be proposed at the forthcoming annual general meeting.

Approved by the director and signed on 31 May 2008 by:

Mubariz Mansimov
Director

Palmali Holding Company Limited

Statement of director's responsibilities

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The director is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and which enable the director to ensure that the financial statements comply with the Companies Act (Chap.386). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The director is also responsible for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Palmali Holding Company Limited

Income statement

Year ended 31 December 2007

	Notes	**2007 USD**	2006 USD
Rental income		**29,633**	22,611
Administrative expenses		**(201,515)**	(88,692)
Operating loss		**(171,882)**	(66,081)
Finance costs	7	**(8,162)**	(81,324)
Loss before tax	8	**(180,044)**	(147,405)
Income tax expense	9	**(8,297)**	(2,508)
Loss for the year		**(188,341)**	(149,913)

Palmali Holding Company Limited

Balance sheet

31 December 2007

	Notes	2007 USD	2006 USD
ASSETS AND LIABILITIES			
Non-current assets			
Investment property	10	1,731,714	1,749,385
Investment in subsidiaries	11	125,010,293	6,000
Loans and receivables	11	66,242,760	-
		192,984,767	1,755,385
Current assets			
Trade and other receivables	12	20,004,563	22,611
Amount receivable from related parties	13	64,084,929	103,361,659
Amount receivable from ultimate equity holder	14	-	12,254,465
Cash and cash equivalents	20	6,531,479	164,611
		90,620,971	115,803,346
Total assets		283,605,738	117,558,731
Current Liabilities			
Trade and other payables	15	850,404	464,121
Amount due to related parties	16	131,331,391	56,003,411
Amount owed to ultimate equity holder	14	37,542,978	-
Other financial liabilities	17	7,004,293	6,893
Bank loans	18	28,978,571	25,859,123
Current tax liability	9	10,805	2,508
		205,718,442	82,336,056
Non- Current Liabilities			
Bank loans	18	75,821,429	32,968,467
Total liabilities		281,539,871	115,304,523
Net assets		2,065,867	2,254,208
EQUITY			
Share capital	19	1,500	1,500
Retained earnings		2,064,367	2,252,708
Total equity		2,065,867	2,254,208

These financial statements were approved by the director, authorized for issue on 31 May 2008 and signed by:

Mubariz Mansimov
Director

Rate of exchange as at 31 December 2007: Lml = USD3.4347

Palmali Holding Company Limited

Statement of changes in equity

31 December 2007

	Share capital USD	Retained earnings USD	Total USD
At 1 January 2006	1,500	2,402,621	2,404,121
Loss for the year	-	(149,913)	(149,913)
At 1 January 2007	1,500	2,252,708	2,254,208
Loss for the year	-	(188,341)	(188,341)
At 31 December 2007	**1,500**	**2,064,367**	**2,065,867**

Palmali Holding Company Limited

Cash flow statement

Year ended 31 December 2007

	Note	2007 USD	2006 USD
Cash flows from operating activities			
Loss for the year		**(180,044)**	(147,405)
Adjustments			
Depreciation		**17,671**	17,671
Changes in working capital:			
Movement in trade and other payables		**7,390,576**	332,208
Movement in trade and other receivables		**(19,981,952)**	-
Net cash flows from operating activities		**(12,753,749)**	202,474
Cash flows from investing activities			
Purchase of property, plant and equipment		**-**	(1,767,056)
Payment to acquire shares in subsidiaries		**(4,293)**	-
Loans to subsidiaries		**(66,242,760)**	-
Net cash flows from investing activities		**(66,247,053)**	(1,767,056)
Cash flows from financing activities			
Proceeds from/ (Payments to) related companies		**114,604,710**	(28,036,813)
Payments to ultimate equity holder		**(75,202,557)**	(3,029,921)
(Repayments of)/ Proceeds from other borrowings		**(6,893)**	6,893
Net proceeds from bank loans		**45,972,410**	33,940,651
Net cash flows from financing activities		**85,367,670**	2,880,810
Net movement in cash and cash equivalents		**6,366,868**	1,316,228
Cash and cash equivalents at the beginning of the year		**164,611**	(1,151,617)
Cash and cash equivalents at the end of the year	22	**6,531,479**	164,611

1. The Group

At 31 December 2007, the company was the parent of a group of 90 companies registered in Malta and one subsidiary registered in Turkey. The company in turn forms part of a larger group of companies, commonly referred to as the "Palmali Group of Companies" substantially owned and controlled by the same ultimate beneficial owner and operating mainly from Istanbul, Turkey.

The policy of the Palmali Group of Companies is that all original documentation relating to the group of companies and their vessels are maintained at the company's headquarters in Istanbul, Turkey.

2. Basis of preparation

The company's financial statements have been prepared under the historical cost convention, and in accordance with International Financial Reporting Standards. The more important accounting policies are set out below:

3. Significant accounting policies

Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount and are recognised in profit or loss in the period of derecognition.

Depreciation

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Investment property	-	Office buildings	-	1% per annum

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

3. Significant accounting policies (continued)

Investments in subsidiaries

A subsidiary is an entity that is controlled by the company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Financial instruments

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

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

The principal assets of the company consists of cash in hand and at bank, accounts receivable and other amounts receivable from related parties. The principal financial liabilities of the company consist of bank borrowings, amounts payable to related parties and accounts payable due to suppliers of other goods and services paid directly by the company.

(i) Trade receivables

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

3. Significant accounting policies (continued)

Financial instruments (continued)

(ii) Loans and receivables

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

After initial recognition, loans and receivables are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the financial asset is derecognized or impaired and through the amortization process.

When applying the effective interest method, the annual amortization of any discount or premium is aggregated with other investment income receivable over the term of the instrument, if any, so that the revenue recognized in each year represents a constant yield on the investment.

(iii) Bank borrowings

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

(iv) Trade payables

Trade payables are classified with current liabilities and are stated at their nominal value, unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

(v) Other borrowings

Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial.

(vi) Shares issued by the company

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

3. Significant accounting policies (continued)

Impairment

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

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

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

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value less costs to sell (which is the amount obtainable from sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal) and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset).

Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

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

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

In the case of other assets tested for impairment, an impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

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

3. Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for services provided in the normal course of business, net of discounts, where applicable. Revenue is recognized to the extent that it is probable that future economic benefits will flow to the company and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

(i) Rental income

Rental income is recognised on the accrual basis in accordance with the substance of the relevant agreement.

(ii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Borrowing costs

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

Taxation

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

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to settle its current tax assets and liabilities on a net basis.

Currency translation

The financial statements of the company are presented in its functional currency, the United States Dollars, being the currency of the primary economic environment in which the company operates. Transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the re-translation of monetary items are dealt with in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was determined. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not retranslated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the year, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

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

In the process of applying the company's accounting policies, management has made no judgements which can significantly affect the amounts recognized in the financial statements. At the balance sheet date, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year other than the matter discussed below:

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

Key source of estimation uncertainty:-

Carrying value of investment in subsidiary

At the end of the year under review, management reconsidered the recoverability of the carrying value of the investment made in its subsidiary Palmali International Holding Company Limited of USD 125,000,000. The underlying asset of the subsidiary comprises a ten-year exclusive cargo transportation service contract and the related customer relationship, arising from contractual rights acquired by the subsidiary in May 2007. The contract continues to progress in a very satisfactory manner, and management remains convinced of their estimates of anticipated revenues from the contract which support the subsidiary's carrying value.

Detailed analysis has been carried out and management is confident that the carrying amount of the asset will be recovered in full. The carrying value will be closely monitored and ajustments made in future period if there are indicators that such adjustments are appropriate.

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

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

6. Initial application of International Financial Reporting Standards

In the current year, the company has applied the following:

International Financial Reporting Standard 7, *Financial Instruments: Disclosures* (IFRS 7). IFRS 7 supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and the disclosure requirements of IAS 32 *Financial Instruments: Disclosure and Presentation.* This Standard is applicable for annual periods beginning on or after 1 January 2007. The impact of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the company's financial instruments.

International Accounting Standard 1 Amendment, *Capital Disclosures* (IAS 1 Amendment). This Amendment is applicable for annual periods beginning on or after 1 January 2007. These financial statements present information regarding the company's objectives, policies and processes for managing capital as required by this Amendment.

Palmali Holding Company Limited

Notes to the financial statements

31 December 2007

7. Finance costs

	2007 USD	2006 USD
Interest on bank borrowings	1,360	81,324
Other financial expenses	6,802	-
	8,162	81,324

8. Loss for the year

	2007 USD	2006 USD
This is stated after charging:		
Auditors' remuneration	14,178	13,935
Depreciation of property, plant and equipment	17,671	17,671
Net exchange differences	16	8

9. Taxation

The company did not receive any dividends subject to tax during the year however the company had net rental income, on which Maltese Tax arises.

	2007 USD	2006 USD
Balance brought forward	2,508	-
Tax charge for the year:		
Malta tax at 35%	8,297	2,508
Balance carried forward	10,805	2,508

10. Investment Property

	OfficeBuildings USD
Cost	
At 31.12.2006 / 31.12.2007	1,767,056
Accumulated depreciation	
At 01.01.2006	-
Provision for the year	17,671
At 01.01.2007	17,671
Provision for the year	17,671
At 31.12.2007	35,342
Carrying amount	
At 31.12.2006	1,749,385
At 31.12.2007	**1,731,714**

10. Investment Property (continued)

In the opinion of the director the fair value of the investment property remains the same as its carrying value.

Rental income earned under operating lease amounted to USD *29,633* (2006 – USD *22,611*).

11. Financial assets

(i) Shares in group undertakings

	USD
At 01.01.2006	6,000
Additions	-
At 01.01.2007	6,000
Additions – Subscription of shares in Palmali Emlak Gelistirme ve Gayrimenkul AS	4,293
– Purchase of shares in Palmali International Holding	125,000,000
At 31.12.2007	**125,010,293**

Shares in group undertakings are accounted for at cost since these financial statements represent separate financial statements of the holding company.

The amount set out above comprises investments by the parent company in the following subsidiary companies. All the subsidiaries hereunder are companies registered in Malta which have their registered office at Level 12, Portomaso Business Tower, St. Julians, Malta. The only exception is the subsidiary Palmali Emlak Gelistirme ve Gayrimenkul AS which is incorporated in Turkey and has its registered office at 1, Ebulula Cad. Maya Sitesi, Akatlar Besiktas, Istanbul Turkey.

Palocean Shipping Limited	*(100% of equity capital owned)*
Palriver Shipping Limited	*(100% of equity capital owned)*
Palsea Shipping Limited	*(100% of equity capital owned)*
Palmali Shipmanagement Limited	*(100% of equity capital owned)*
Palmali International Holding Company Limited	*(100% of equity capital owned)*
Palmali Emlak Gelistirme ve Gayrimenkul AS	*(96% of equity capital owned)*

Acquisition of Palmali International Holding Company Limited

On the 3 May 2007 the company continued to strengthen its group strategic business interests through the acquisition from third parties of all the shares in Palmali International Holding Company Limited ('Palmali International').

Palmali International was a company originally incorporated by the group's ultimate beneficial owner on 28 February 2007, subsequently transferred to third parties on 13 March 2007, and which was awarded a ten year crude oil Transportation Service Contract with SOCAR, the State Oil Company of Azerbaijan on the 2 May 2007.

11. Financial assets (continued)

Acquisition of Palmali International Holding Company Limited (continued)

The consideration of this purchase amounted to USD125 million, which the board considers fair to reflect the fair value of the intangible contractual right at the date of acquisition. The consideration for the group's purchase of the shares in Palmali International was settled directly by the group's ultimate beneficial owner and a corresponding amount was credited to his account with the group.

Under the transportation contract awarded to Palmali International it was agreed that SOCAR shall provide Palmali International, on an exclusive basis, throughout each calendar year of the contract period, with minimum quantities of crude oil cargo from Caspian, Baltic, Black and Mediterranean sea ports. These quantities range from 5 million to 50 million Mts per annum. Under this contract it is anticipated that Palmali International will arrange to transport from the port of Ceyhan in Turkey, on an exclusive basis, all the crude oil flowing through the Baku-Tbilisi-Ceyhan pipeline for a period of 10 years from May, 2007.

The carrying amount of the investment in the subsidiary has been reviewed by the board at the year end and there is no indication or objective evidence that the carrying value of this asset has been impaired.

(II) Loans and receivables

Loans to subsidiaries consist of the following:

	2007 USD	2006 USD
Brothers Eleven Company Limited	201,953	-
Brothers Twelve Company Limited	201,953	-
Caspian Stream Navigation Company Limited	204,028	-
Expanded Sea World Shipping Limited	11,965	-
Ocean Navigation 1 Company Limited	20,987,621	-
Ocean Navigation 2 Company Limited	20,112,006	-
Pal Shipping Trader One Company Limited	23,529,450	-
Palmali Trading Company Limited	19,710,891	-
Palmali Voyager Five Shipping Company Limited	1,043,056	-
Palmali Voyager Four Shipping Company Limited	1,099,480	-
Palmali Voyager One Shipping Company Limited	1,337,023	-
Palmali Voyager Shipping Company Limited	5,508,027	-
Palmali Voyager Three Shipping Company Limited	1,273,878	-
	95,221,331	-
Less: Amounts due for settlement within 12 months (shown under current liabilities - note 13)	(28,978,571)	-
Amount due for settlement after 12 months	66,242,760	-

The terms and conditions of the loans to subsidiaries are disclosed in note 21. These loans have no fixed date of repayment and are not expected to be realised within twelve months after the balance sheet date.

12. Trade and other receivables

	2007 USD	2006 USD
ISR Investment Limited – short term advance	19,999,500	-
Prepayments and accrued income	5,063	22,611
	20,004,563	22,611

The short term advance to ISR Investments Limited was made on 4 December 2007 and repayment was received subsequent to the balance sheet date on 10 January 2008.

13. Amount receivable from related parties

	2007 USD	2006 USD
Amount due from subsidiary companies-		
Armada Navigation Company Limited	30,113	32,885
Armada Trading 1 Company Limited	264,826	267,766
Armada Trading 2 Company Limited	57,755	60,694
Armada Trading 3 Company Limited	75,482	80,351
Armada Trading 4 Company Limited	123,682	126,490
Armada Trading 5 Company Limited	218,850	221,658
Armada Trading 6 Company Limited	171,371	174,722
Armada Trading 7 Company Limited	65,999	69,186
Armada Trading 8 Company Limited	10,814	14,854
Armada Trading 9 Company Limited	2,317	-
Armada Trading 10 Company Limited	2,317	-
Armada Trading 11 Company Limited	2,317	-
Armada Trading 12 Company Limited	2,317	-
Armada Trading 14 Company Limited	2,317	-
Brothers 11 Company Limited	-	120,938
Brothers 12 Company Limited	-	120,938
Caspian Holding Company Limited	34,971	8,976
IGM Holding Company Limited	-	4,120,150
Kama Navigation Company Limited	150,364	102,132
Kazym Shipping Company Limited	30,005	32,228
Khazar Holding Company Limited	-	7,837,500
Khazar Star 2 Shipping Company Limited	445,253	417,751
Khazar Star 1 Shipping Company Limited	96,076	73,539
Khazar Star Shipping Company Limited	385,607	363,114
Pal Holding Company Limited	2,950,192	15,252,505
Palmali Holding International Limited	10,035	-
Palmali Dry Cargo Holding Company Limited	7,451,475	1,980,011
Palmali Shipmanagement Limited	1,602,727	938,674
Palmali Trading Company Limited	-	18,980,500
Palmali Voyager 1 Shipping Company Limited	-	612,037
Palmali Voyager 2 Shipping Company Limited	75,644	47,552
Palmali Voyager 3 Shipping Company Limited	-	522,058
Palmali Voyager 4 Shipping Company Limited	-	342,985
Palmali Voyager 5 Shipping Company Limited	-	264,780
Sub-total c/f	14,262,826	53,186,974

Palmali Holding Company Limited

Notes to the financial statements
31 December 2007

13. Amount receivable from related parties (continued)

	2007 USD	2006 USD
Sub-total b/f	**14,262,826**	53,186,974
Palmali Voyager Shipping Company Limited	**-**	5,030,926
Palmarine Holding Company Limited	**28,684**	1,494
Palriver Shipping Limited	**37,787**	-
Palocean Shipping Limited	**35,845**	-
Palsea Shipping Limited	**35,857**	-
Pechora Shipping Company Limited	**130,294**	82,148
Pal Shipping 1 Company Limited	**27,311**	-
Pal Shipping 2 Company Limited	**27,792**	-
Pal Shipping 3 Company Limited	**27,175**	-
Pal Shipping 4 Company Limited	**27,895**	-
Pal Shipping 5 Company Limited	**25,111**	-
Pal Shipping 6 Company Limited	**1,606**	-
Pal Shipping 7 Company Limited	**1,606**	-
Pal Shipping 8 Company Limited	**13,936**	-
Pal Shipping 9 Company Limited	**17,287**	-
Pal Shipping 10 Company Limited	**17,136**	-
Pal Trader Holding Company Limited	**14,078**	-
Pal Shipping Trader Two Company Limited	**5,786,047**	-
Pal Shipping Trader Three Company Limited	**510**	-
Pal Shipping Trader Four Company Limited	**2,310**	-
Pal Shipping Trader Five Company Limited	**2,310**	-
Ocean Holding Company Limited	**6,523**	-
Ukhta Shipping Company Limited	**114,529**	116,353
Usa River Shipping Company Limited	**106,065**	108,289
Current portion of long term balances receivable from subsidiary companies (note 11)	**28,978,571**	-
Amounts due from related companies -		
Caspian International Company Limited	**13,240**	-
Palmed Saglik Hizmetleri TIC. Ltd. Sti	**-**	115,496
Palmali Shipping SA	**14,233,438**	43,491,279
Proven Chartering SA [note a]	**-**	1,228,700
Palmali Gemi Hizmetleri ve Acentelik Ltd Sti	**96,023**	-
Palmali Holding Two Limited	**13,137**	-
	64,084,929	103,361,659

Note 1: Proven Chartering SA ceased to be a related party entity in March 2007.

The terms and conditions of the amount from group and related companies are disclosed in note 22. Though these amounts due have no fixed date of repayment, they are expected to be realised in the company's normal operating cycle. The effect of discounting was considered to be immaterial.

14. Amount receivable from ultimate equity holder

	2007 USD	2006 USD
Classified with current assets		
Amount due from ultimate equity holder	-	12,254,465
Classified with current liabilities		
Amount owed to ultimate equity holder	**(37,542,978)**	-
	(37,542,978)	12,254,465

The amounts due to/from the ultimate equity holder, Mr. Mubariz Mansimov are unsecured and interest free and have no fixed date for repayment. The amount due at 31 December 2007 is repayable as the finances of the company permit.

15. Trade and other payables

	2007 USD	2006 USD
Accruals	**850,128**	464,121
Other payables	**276**	-
	850,404	464,121

No interest is charged on trade and other payables.

16. Amount due to related parties

	2007 USD	2006 USD
Amount due to subsidiary companies -		
Armada Holding Company Limited	**14,529,936**	27,673,080
Armada Trading Company Limited	**15,195**	10,536
Caspian Leader Navigation Company Limited	**167,483**	164,823
Caspian Sprinter Navigation Company Limited	**80,949**	78,330
Caspian Stream Navigation Company Limited	**-**	228,358
Expanded Sea World Shipping Limited	**-**	203,215
IGM Holding Company Limited	**2,768,723**	-
IR Shipping Five Company Limited	**475,257**	352,346
IR Shipping Four Company Limited	**250,525**	250,137
IR Shipping One Company Limited	**327,745**	327,188
IR Shipping Three Company Limited	**255,092**	255,219
IR Shipping Two Company Limited	**267,508**	-
Khazar Holding Company Limited	**41,122,363**	-
Khazar Star 3 Shipping Company Limited	**79,041**	81,754
Khazar Star 4 Shipping Company Limited	**1,543,626**	1,546,491
Lenkaran Trading Company Limited	**311,823**	314,499
Marine Holding Company Limited	**18,463,452**	1,496
Oil Barge Trading Company Limited	**5,089,974**	3,827,426
Pal Shipping 1 Company Limited	**6,302,207**	-
Pal Shipping 2 Company Limited	**6,136,214**	-
Pal Shipping 3 Company Limited	**5,855,942**	-
Pal Shipping 4 Company Limited	**5,471,142**	-
Pal Shipping 5 Company Limited	**5,454,309**	-
Pal Shipping 8 Company Limited	**-**	3,220
Palmali Holding International Company Limited	**-**	267,120
Palmali Voyager Holding Company Limited	**2,972,838**	2,998,512
Palmali Barge Company Limited	**757,993**	17,061
Palmali Maritime Shipping Company Limited	**454,490**	451,258
Palmali Navigation Company Limited	**4,034,630**	4,461,385
Palocean Shipping Company Limited	**-**	1,507
Palriver Shipping Limited	**-**	757
Palsea Shipping Limited	**-**	1,507
Plaster Trading Company Limited	**1,478,119**	1,500,970
Radix One Shipping Company Limited	**4,093,497**	2,291,376
Radix Two Shipping Company Limited	**2,558,541**	2,562,481
United Sea World Shipping Limited	**12,777**	228,109
Amount due to related parties -		
Palmali Hava Tasimaciligi AS	**-**	1,000
Mr. Marif Mansimov	**-**	9,250
Palavia One Company Limited	**-**	1,899,500
Palmali Holding Co. Ltd., Nevis	**-**	3,992,000
BNT Aviation Company Limited	**-**	1,500
	131,331,391	56,003,411

The terms and conditions of the amount due to group and related companies are disclosed in note 22. Though these amounts due have no fixed date for repayment, the company has no unconditional right to defer settlement of these loans for at least twelve months after the balance sheet date. The effect of discounting was considered to be immaterial.

17. Other financial liabilities

	2007 USD	2006 USD
Deposit received from Som Petrol Ticaret AS on potential sale of subsidiary company	**7,000,000**	-
Amounts due to –		
Brothers Four Shipping Company Limited	-	1,501
Irtysh One Shipping Company Limited	-	1,500
Irtysh Two Shipping Company Limited	-	1,500
Tara Navigation Company Limited	-	891
Masalli Navigation Company Limited	-	1,501
Other short term liabilities	**4,293**	-
	7,004,293	6,893

The company has no unconditional right to defer settlement of these balances for at least twelve months after the balance sheet date. The effect of discounting was considered to be immaterial.

18. Bank loans

The company had the following bank loans outstanding at the end of the year under review:

The bank loans are repayable as follows:

	2007 USD	2006 USD
Bank loan	**104,800,000**	58,827,591
Within one year	**28,978,571**	25,859,123
In the second year	**13,228,571**	8,987,305
In the third year	**13,228,571**	8,063,767
In the fourth year	**13,228,571**	7,163,767
In the fifth year	**10,078,571**	4,463,767
After five years	**26,057,145**	4,289,862
	104,800,000	58,827,591
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(28,978,571)**	(25,859,123)
Amount due for settlement after 12 months	**75,821,429**	32,968,468

During the year under review the company had a number of loan and credit agreements a number of which were repaid or refinanced. At 31 December 2007 there remained eight outstanding loan/credit agreements with three banks as set out below:

18. Bank loans (continued)

Loan agreements between Palmali Holding Company Limited and Credit Europe Bank (formerly Finansbank (Holland) N.V).:

(i) LOAN - Credit Europe Bank – USD1,200,000

On 15 May 2007, Palmali Holding entered into a loan agreement with Credit Europe Bank for a commitment amounting to USD1.2million. The credit facility is subject to interest rate at LIBOR plus 1.7% margin. The loan was to be repaid by 8 May 2008. The Loan was settled subsequent to the balance sheet date.

(ii) LOAN – Credit Europe Bank – USD6,250,000 (originally USD12m)

On 27 June 2007, the company entered into a loan agreement with Credit Europe Bank (formerly Finansbank), Belgium for a commitment amounting to USD12,000,000. The purpose of the loan was originally to provide the company with working capital finance and was originally designated to be repaid in full on 29 October 2007. On 1 October 2007 the company entered into a supplemental agreement which contemplated a repayment of USD2,000,000 as of 1 October 2007 with the remaining portion of USD10,000,000 to be repaid in 8 equal monthly instalments starting from 29 October 2007. The last instalment is repayable on the 29 May 2008. This loan was settled subsequent to the balance sheet date.

The amount of loan drawn is subject to interest at London Inter-Bank Offered Rate (LIBOR) plus 1.7% margin.

The loan is secured inter alia as follows:

a. By means of a first priority mortgage on the vessel "Brothers 5";
b. By means of a second priority mortgage on the vessels "Caspian Leader" and "Caspian Sprinter",
c. By means of collateral guarantees provided to the bank by Palmali Maritime Company Limited, Caspian Leader Navigation Company Limited and Caspian Sprinter Navigation Company Limited.

(iii) LOAN - Credit Europe Bank – USD1,200,000

On 9 July 2007, Palmali Holding entered into a loan agreement with Credit Europe Bank for a commitment amounting to USD1.2million. The credit facility is subject to interest rate at LIBOR plus 1.7% margin. The loan is to be repaid by 27 June 2008.

18. Bank loans (continued)

(iv) LOAN – Credit Europe Bank – USD17,850,000 (originally 21m)

On 23 February 2007, the company entered into a loan agreement with Credit Europe Bank for a commitment amounting to USD21,000,000. The purpose of the loan was (i) to make funds available by way of inter-company loans to Caspian Stream Navigation Company Limited, Palmali Navigation Company Limited, United Sea World Shipping Ltd, and Expanded Sea World Limited and (ii) to provide the company with working capital finance. The loan is repayable in 20 equal quarterly instalments amounting to USD1,050,000 each, commencing 3 months after date of drawdown. The amount of loan drawn was subject to interest at London Inter-Bank Offered Rate (LIBOR) plus 1.7% margin.

The loan is secured inter alia as follows:

a. By means of a first priority mortgage on the vessels "Caspian Stream", "Brothers 7", "Brothers8".
b. By means of a second priority mortgage on the vessels "Brothers 1", "Brothers 2".
c. By means of collateral guarantees provided to the bank by Caspian Stream Navigation Company Limited, Palmali Navigation Company Limitd, United Sea World Shipping Limited, Expanded Sea World Limited.

(v) LOAN – Credit Europe Bank – USD52,800,000 (originally 57.6m)

On 23 February 2007, the company entered into a loan agreement with Credit Europe Bank for a commitment amounting to USD57,600,000. The purpose of the loan is (i) to make funds available by way of inter-company loans to Palmali Voyager One Shipping Company Limited, Palmali Voyager Three Shipping Company Limited, Palmali Voyager Four Shipping Company Limited, Palmali Voyager Five Shipping Company Limited, Palmali Voyager Shipping Company Limited, and Palmali Trading Company Limited [and used by these companies to acquire vessels/refinance borrowings] and (ii) to provide the company with working capital finance. The loan is repayable in 36 equal quarterly instalments amounting to USD1.6m each, commencing 3 months after date of drawdown. The amount of loan drawn was subject to interest at London Inter-Bank Offered Rate (LIBOR) plus 1.7% margin.

The loan is secured inter alia as follows:

a. By means of a first priority mortgage on the vessels "Palmali Voyager", "Zeynalabdin Tagiyev", "Mir Jalal Pashayev", "Palmali Confidence *formerly* Zarifa Aliyeva", "Palmali Discovery *formerly* Heydar Aliyev", "Ilyas Efendiyev".
b. By means of collateral guarantees provided to the bank by Palmali Voyager One Shipping Company Limited, Palmali Voyager Three Shipping Company Limited, Palmali Voyager Four Shipping Company Limited, Palmali Voyager Five Shipping Company Limited, Palmali Voyager Shipping Company Limited and Palmali Trading Company Limited
c. By means of a personal guarantee of the company's beneficial owner.

18. Bank loans (continued)

(vi) LOAN – DenizBank – USD4,100,000 (originally 7.5m)

On 2 February 2006, the company entered into a loan agreement with DenizBank AS, Bahrain for a commitment amounting to USD7,500,000. The purpose of the loan was to finance the acquisition of "Brothers 11", "Brothers 12" and "Omskiy108" and to provide working capital finance to the company. The facility was originally designated to be repaid in full by 2 February 2007 and at the balance sheet date was repayable by 30 January, 2008. Further to a supplemental agreement, made subsequent to the balance sheet date on 1 February 2008, the loan was rolled over and is now repayable on 30 January 2009.

The amount of Loan drawn is subject to at an interest rate of 7.5% payable on a quarterly basis. This loan is secured, inter-alia by mortgages on the vessels owned by the Palmarine group namely "Brothers 9" and "Brothers 10" and on vessels owned by the Caspian group namely "Brothers 11" and "Brothers 12".

(vii) LOAN – DenizBank – USD3,000,000 (originally 3m)

On 17 October 2006, the company entered into a loan agreement with DenizBank AS., Bahrain for a commitment amounting to USD3,000,000. The purpose of the loan is to provide working capital finance to the company. The facility was originally designated to be repaid in full by 17 October, 2007 and at the balance sheet date was repayable during 2008. Further to a supplemental agreement, made subsequent to the balance sheet date on 1 February 2008, the loan was rolled over and is now repayable on 30 January 2009.

The amount of Loan drawn is subject to at an interest rate of 8% payable on a quarterly basis. This loan is secured, inter-alia by mortgages on the vessels owned by the Palmarine group namely "Brothers 9" and "Brothers 10" and on vessels owned by the Caspian group namely "Brothers 11" and "Brothers 12".

(viii) LOAN – Parex Banka – USD18,400,000

On 22 October 2007, the company entered into a loan agreement with Parex Banka, for a commitment amounting to USD18,400,000. The purpose of the loan is to acquire the vessel "Agdash". The loan is repayable in 28 equal quarterly instalments amounting to USD657,143 each, commencing 3 months after date of drawdown. The amount of loan drawn was subject to interest at London Inter-Bank Offered Rate (LIBOR) plus 3% margin.

18. **Bank loans (continued)**

(viii) LOAN – Parex Banka – USD18,400,000 (continued)

The loan is secured inter alia as follows:

a. By means of a first guarantee of Pal Shipping Trader One Company Limited supported by a mortgage on the vessel "Agdash".
b. By means of second guarantee of Palmali Shipping S.A.
c. By means of a pledge on the shares of Pal Shipping Trader One Company Limited
d. By means of a personal guarantee given to the bank by Mr. Mubariz Mansimov

19. **Share capital**

	2007 Authorised, issued and called up USD	2006 Authorised, issued and called up USD
500 ordinary shares of USD3 each	**1,500**	1,500

20. **Cash and cash equivalents**

Cash and cash equivalents included in the cash flow statement represent the following balance sheet amount:

	2007 USD	2006 USD
Cash and cash equivalents	**6,531,479**	164,611

21. **Significant non-cash transactions**

A significant non-cash transaction was carried out by the company during 2007 as follows:

Purchase of Palmali International Company Limited
On 3 May 2007, Palmali Holding Company Limited purchased the entire entity holding in Palmali International Holding Company Limited, a company registered in Malta [C40887], for a purchase consideration of USD125 million (see note 11). The purchase consideration was settled entirely by the company's ultimate beneficial owner and a corresponding amount was credited to his account with the company.

22. Related party transactions

Palmali Holding Company Limited is the parent of the undertakings highlighted in note 11.

The ultimate controlling party is Mr Mubariz Mansimov who owns 100% of the issued share capital of Palmali Holding Company Limited. Mr. Mubariz Mansimov and the fellow group companies have committed to provide financial support to the company, as and when necessary, to enable it to meet its commitments as they arise in the foreseeable future.

During the course of the year under review the company entered into contracts and/or transactions with several of its subsidiary and related companies, which are related through common shareholders.

The amounts to/from group companies and related parties at year-end are disclosed in notes 13 and 16. The terms and conditions do not specify the nature of the consideration to be provided in settlement. No guarantees have been given or received. These amounts are unsecured and interest-free

The group companies and related party transactions in question were as follows:

	2007			2006		
	Related party activity USD	Total activity USD	%	Related party activity USD	Total activity USD	%
Revenue:						
Related party transactions with:						
Subsidiary company	29,633	29,633	100	22,611	22,611	100
Administrative expenses:						
Related party transactions with:						
Other related companies	11,343	201,515	6	45,491	88,692	51

No expense has been recognized in the year for bad and doubtful debts in respect of amounts due by related parties.

Significant related party transactions during 2007, other than those already disclosed in the notes were as follows:

During the year under review Palmali Holding Company Limited pledged two bank deposits of USD1.2million each to provide a guarantee in favour of a related party Palmali Gemi Hizmetleri ve Acentelik A.S. of TRY1,422,250 via Credit Europe Bank NV. An amount of USD96,023 of interest was recharged by the company to Palmali Gemi Hizmetleri ve Acentelik A.S.

23. Fair values of financial assets and financial liabilities

At 31 December 2007 and 2006 the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities are not materially different from their carrying amounts.

24. Financial risk management

Risk management is a fundamental part of the company's business activity and an essential component of its planning process. This is achieved by keeping risk management at the centre of the executive agenda and by building a culture on which risk management is embedded in the everyday management of the business. The company ensures that it has the functional capability to manage the risk in new and existing business, and that business plans are consistent with risk appetite.

The carrying amount of financial assets and liabilities are included in the following categories:

	2007 USD	2006 USD
Loans and receivables	**84,084,429**	115,616,124
Financial liabilities at amortised cost	**(273,674,369)**	(114,837,895)

The principal risk categories (set out below) are the subject of approved risk control requirements and are as follows:

- Credit
- Liquidity

Credit risk

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

Credit risk with respect to receivables is limited due to credit control procedures and the fact that a substanstial amount of the company's receivables are from reputable parties. Credit risk with respect to receivables from related parties is contained within the group.

Cash at bank is placed with reliable financial institutions.

23. Financial risk management (continued)

Credit risk (continued)

The carrying amount of financial assets recorded in the financial statements, represents the company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Market risk

Market risk is the risk that the company's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, commodity prices and foreign exchange rates.

The company's exposure to market risk is in respect of interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in interest rates.

The company has taken out bank facilities to finance its operations as disclosed in note 18. The interest rates thereon and the terms of such borrowings are disclosed accordingly.

The majority of these bank borrowings bear a floating rate of interest and therefore expose the company to cash flow interest rate risk.

Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by adjusting its selling prices or by restructuring its financing structure or capital expenditure.

Liquidity risk

The company monitors and manages its risk to a shortage of funds by monitoring forecast and actual flows as well as by monitoring the availability of raising funds to meet commitments associated with financial instruments and by maintaining adequate banking facilities.

In addition, as disclosed in note 22, Mr Mubariz Mansimov has continued to provide financial support to the company, as and when necessary, to enable it to meet its commitments as they arise in the foreseeable future.

23. Financial risk management (continued)

Liquidity risk (continued)

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

	2008 USD	2009 USD	2010 USD	2011 USD	2012 USD	2013 and after USD
31.12.07						
Bank loans (including interest)	34,926,629	17,444,581	16,541,141	15,823,093	12,527,365	28,029,123

	2007 USD	2008 USD	2009 USD	2010 USD	2011 USD	2012 and after USD
31.12.06						
Bank loans (including interest)	29,784,325	11,123,797	9,542,963	8,035,393	4,899,798	4,395,355

Sensitivity analysis

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

The methods and assumptions used are the same as those applied for the previous reporting period.

The estimated change in cash flows for changes in market interest rates are based on an instantaneous increase or decrease of 50 basis points at the reporting date, with all other variables remaining constant.

The sensitivity of the relevant risk variables is as follows:

	Profit and loss sensitivity	
	2007 USD +/- million	2006 USD +/- million
Market interest rates - cash flow	0.52	0.29

23. Financial risk management (continued)

Sensitivity analysis(continued)

The sensitivity on profit or loss in respect of market interest rates is attributable to bank loans. The cash flow interest rate sensitivity in profit during the current year has remained fairly stable, when compared to the prior year.

Capital risk management

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

The primary objective of the company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The capital structure of the company consists of debt, which includes the borrowings in notes 16, 17 and 18, cash and cash equivalents and items presented within equity in the Balance Sheet.

The company's vice-presidents manage the company's capital structure and make adjustments to it, in light of changes in economic conditions and the exigencies of the group. The capital structure is reviewed on an ongoing basis.

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

24. Contingent liabilities

During the year under review Palmali Holding Company Limited pledged two bank deposit accounts of USD1.2million each to provide a guarantee in favour of Palmali Gemi Hizmetleri ve Acentelik A.S of TRY1,422,250 via Credit Europe bank NV.

The company has also provided a number of corporate guarantees to cover borrowings made by the subsidiary company both under the year under review and subsequent to the balance sheet date. Total group bank borrowings at 31 December 2007 totalled USD490,041,267.

25. Events after balance sheet date

In a general assembly of the company Palmali Emlak Gelistirme ve Gayrimenkul A.S held on 21 March 2008, the shareholders decided to increase the share capital to TRY30,000,000 (USD25.7million). The additional capital was registered and increased on 4 April 2008.

Deloitte.

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Independent auditor's report
to the members of

Palmali Holding Company Limited

Report on the financial statements

We have audited the accompanying financial statements of Palmali Holding Company Limited set out on pages four to thirty-one, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Deloitte.

Independent auditor's report (continued)
to the members of

Palmali Holding Company Limited

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31 December 2007 and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our report, as stated in note 1 the company operates entirely within the ambit of a larger group of companies. In view of the significance of the group and related party transactions on the company's operations and financial statements, we draw your attention to this matter.

Report on other legal and regulatory requirements

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

Steve K. Cachia
DELOITTE & TOUCHE
Certified Public Accountant

31 May 2008