

**Malta Freeport Corporation  
Limited**

**Report and financial statements**

31 December 2013

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# Malta Freeport Corporation Limited

## Directors, officer and other information

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*Directors:* Robert Sarsero (Chairman)  
Michael Callus  
Ronnie Pellegrini

*Secretary:* Dr. Byron Camilleri LL.D.

*Registered office:* Freeport Centre  
Kalafrana  
Malta

*Country of incorporation* Malta

*Company registration number:* C 9353

*Auditor:* Deloitte Audit Limited  
Deloitte Place  
Mriehel Bypass  
Mriehel  
Malta

*Bankers:* APS Bank Limited  
APS Centre  
Tower Street  
B'kara  
Malta

Bank of Valletta p.l.c.  
Corporate Centre  
St. Venera  
Malta

HSBC Bank Malta p.l.c.  
Mill Street  
Qormi  
Malta

# Malta Freeport Corporation Limited

## Directors, officer and other information (continued)

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*Bankers (continued):*

Banif Bank (Malta) p.l.c  
6, Hompesch Road  
Fgura  
Malta

Central Bank of Malta  
Pjazza Kastilja  
Valletta  
Malta

*Legal advisors:*

Dr. J. Zammit Maempel LL.D.  
Grech, Hyzler, Tortell & Co.  
192, Old Bakery Street  
Valletta  
Malta

# Malta Freeport Corporation Limited

## Directors' report

Year ended 31 December 2013

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The directors present their report and the audited financial statements of the company for the year ended 31 December 2013.

### Principal activities

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

### Financial and operational review

During the year under review the company reported an increase in revenue of *USD151,128* from *USD12,945,412* reported in 2012 to *USD13,096,540* reported in 2013. The increase in the fair value of the company's investment property amounted to *USD5,359,009* during the year ended 31 December 2013 compared to an increase of *USD13,388,539* reported last year. In the year under review the company reported a loss on its cross currency interest rate swap agreement of *USD11,985,064* whilst in 2012 this amounted to *USD5,119,248*. The profit before tax for the year amounted to *USD6,284,387* compared to *USD21,045,196* reported last year.

The company's net assets at the end of the reporting period amounted to *USD87,948,931* (2012 – *USD88,708,521*).

### Result and dividends

The result for the year ended 31 December 2013 is shown in the statement of comprehensive income on page 6. The loss for the year after taxation was *USD759,590*. The directors do not propose the distribution of a dividend.

### Likely future developments

The directors consider that the year-end financial position was satisfactory and that the company is well placed to sustain the present level of activity in the foreseeable future.

### Directors

The directors who served during the period were:

Robert Sarsero	(Chairman - appointed 13 May 2013)
Ronnie Pellegrini	(appointed 13 May 2013)
Mario Grima	(appointed 13 May 2013 and resigned 27 December 2013)
Michael Callus	(appointed 28 December 2013)
Mark Portelli	(resigned 13 May 2013)
Carmel Vassallo	(resigned 13 May 2013)
Francesca Grech	(resigned 13 May 2013)

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

# Malta Freeport Corporation Limited

## Directors' report (continued)

Year ended 31 December 2013

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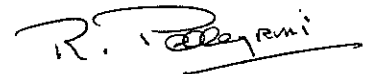
### Auditor

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

Approved by the board of directors and signed on its behalf on 31 October 2014  
by:



*Robert Sarsero*  
Chairman



*Ronnie Pellegrini*  
Director

# Malta Freeport Corporation Limited

## Statement of directors' responsibilities

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

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

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

# Malta Freeport Corporation Limited

## Statement of comprehensive income

Year ended 31 December 2013

	Notes	2013 USD	Restated 2012 USD
Revenue	6	13,096,540	12,945,412
Staff costs	11	(2,191,673)	(1,995,562)
Other administrative expenses		(416,196)	(623,615)
Gains on exchange		(253,443)	34,294
Fair value movement in investment property	14	5,359,009	13,388,539
Loss on cross currency interest rate swap	18	(11,985,064)	(5,119,248)
Investment income	7	2,826,730	2,668,901
Finance costs	8	(151,516)	(253,525)
Profit before tax	9	6,284,387	21,045,196
Income tax expense	12	(7,043,977)	(5,951,221)
<b>(Loss)/ profit and total comprehensive (expense)/ income for the year</b>		<b>(759,590)</b>	<b>15,093,975</b>



# Malta Freeport Corporation Limited

## Statement of financial position

Year ended 31 December 2013

	Notes	2013 USD	Restated 2012 USD
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	848,595	269,213
Investment property	14	340,368,000	317,062,000
Loans and receivables	16	58,432,251	60,461,780
		<u>399,648,846</u>	<u>377,792,993</u>
<b>Current assets</b>			
Loans and receivables	16	2,029,529	1,951,471
Trade and other receivables	17	4,222,362	4,625,806
Current tax asset	12	-	1,523,415
Cash and cash equivalents	25	38,447,908	28,108,065
		<u>44,699,799</u>	<u>36,208,757</u>
<b>Total assets</b>		<u>444,348,645</u>	<u>414,001,750</u>
<b>Current liabilities</b>			
Trade and other payables	19	22,028,446	7,088,925
Derivative instrument at fair value	18	26,860,996	-
Bank overdraft and loans	20	1,196,011	1,968,866
Current tax liabilities	12	1,957,623	-
Post-employment benefits	22	49,310	60,521
		<u>52,092,386</u>	<u>9,118,312</u>
<b>Non-current liabilities</b>			
Other financial liabilities	21	250,000,000	250,000,000
Derivative instrument at fair value	18	-	14,875,932
Bank loans	20	488,352	2,516,019
Post-employment benefits	22	997,205	1,031,577
Deferred tax liability	23	52,821,771	47,751,389
		<u>304,307,328</u>	<u>316,174,917</u>
<b>Total liabilities</b>		<u>356,399,714</u>	<u>325,293,229</u>
<b>Net assets</b>		<u>87,948,931</u>	<u>88,708,521</u>

# Malta Freeport Corporation Limited

## Statement of financial position (continued)

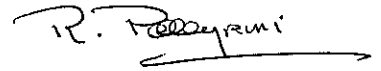
Year ended 31 December 2013

	Notes	2013 USD	Restated 2012 USD
<b>EQUITY</b>			
Share capital	24	2,976,128	2,976,128
Reporting currency conversion difference		759,548	759,548
Retained earnings		84,213,255	84,972,845
<b>Total equity</b>		<b>87,948,931</b>	<b>88,708,521</b>

These financial statements were approved by the board of directors, authorised for issue on 31 October 2014 and signed on its behalf by:



*Robert Sarsero*  
Chairman



*Ronnie Pellegrini*  
Director

Rate of exchange as at 31 December 2013: EUR1 = USD1.3791 (31 December 2012: EUR1:USD1.3194)

# Malta Freeport Corporation Limited

## Statement of changes in equity

Year ended 31 December 2013

	Share capital USD	Reporting currency conversion difference USD	(restated) Retained earnings USD	(restated) Total USD
<b>Balance at 1 January 2012</b>				
As previously reported	2,976,128	759,548	80,716,191	84,451,867
Effect of restatement	-	-	(10,837,321)	(10,837,321)
As restated	2,976,128	759,548	69,878,870	73,614,546
Profit and total comprehensive income for the year (restated)	-	-	15,093,975	15,093,975
<b>Balance at 31 December 2012</b>	2,976,128	759,548	84,972,845	88,708,521
Loss and total comprehensive expense for the year	-	-	(759,590)	(759,590)
<b>Balance at 31 December 2013</b>	<u>2,976,128</u>	<u>759,548</u>	<u>84,213,255</u>	<u>87,948,931</u>

### *Reporting currency conversion difference*

The reporting currency conversion difference emanated from the translation of assets and liabilities in 1999 when the company changed the denomination of its share capital from Maltese Liri to US Dollars by applying the provisions of the Eighth Schedule of the Companies Act (Chap. 386).

# Malta Freeport Corporation Limited

## Statement of cash flows

Year ended 31 December 2013

	<i>Note</i>	2013 USD	Restated 2012 USD
<b>Cash flows from operating activities</b>			
Profit before tax		6,284,387	21,045,196
<i>Adjustments for:</i>			
Depreciation		125,786	84,017
Fair value movement in cross-currency swap		11,985,064	5,119,248
Fair value movement in investment property		(5,359,009)	(13,388,539)
Unrealised difference on exchange		253,443	(34,294)
Increase in provisions		(20,327)	(275,966)
Interest income		(2,826,730)	(2,668,901)
Net interest expense		151,516	253,525
Operating profit before working capital movements		10,594,130	10,134,286
Movement in trade and other receivables		403,444	3,957,567
Movement in trade and other payables		(91,841)	(1,022,606)
Cash flows from operations		10,905,733	13,069,247
Interest paid		(151,516)	(253,525)
Taxation paid		(15,972)	(14,642)
Taxation refunds		1,523,415	-
Retirement benefits paid		(25,256)	(22,903)
<i>Net cash flows from operating activities</i>		<u>12,236,404</u>	<u>12,778,177</u>
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment		(705,168)	(3,787)
Movement in long-term receivables		(995,520)	(1,175,520)
Interest received		2,858,092	2,258,931
<i>Net cash flows from investing activities</i>		<u>1,157,404</u>	<u>1,079,624</u>
<b>Cash flows from financing activities</b>			
Movement in bank loan		(2,983,868)	(4,629,251)
<b>Net movement in cash and cash equivalents</b>		<b>10,409,940</b>	<b>9,228,550</b>
Cash and cash equivalents at the beginning of the year		27,954,528	18,725,978
Cash and cash equivalents at the end of the year	25	<u><u>38,364,468</u></u>	<u><u>27,954,528</u></u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 1. Basis of preparation

The financial statements have been prepared on a going concern basis which assumes that the company will continue to operate for the foreseeable future. The validity of this assumption is contingent upon the parent (the Government of Malta) continuing to meet the interest obligation in respect of the company's debenture loan stock, which, together with certain other borrowings, are secured by the Government of Malta. The Government of Malta has also indemnified the company for any losses that could arise from the interest rate differential on the cross currency interest rate swap.

In addition as at 31 December 2013 the company's current liabilities exceeded current assets by *USD7,392,587*. However subsequent to the year end the company renegotiated the terms governing the options of the settlement of its cross currency interest rate swap. Had the agreement been entered into before the end of the reporting period, the derivative instrument which amounted to *USD26,860,996* would have been classified as a non-current liability and the company would have reported current assets in excess of current liabilities by *USD19,468,409*.

As a result of the above the directors consider that there is no material uncertainty that the company cannot continue in operation as a going concern.

The financial statements have been prepared on the historical cost basis, except for investment property and certain financial instruments, which are stated at their fair values, and in accordance with International Financial Reporting Standards as adopted by the EU. The significant accounting policies adopted are set out below.

### 2. Significant accounting policies

#### *Property, plant and equipment*

The company's property plant and equipment are classified into the following classes – plant and machinery and motor vehicles.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Property, plant and equipment (continued)*

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

#### *Investment property*

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the period in which they arise.

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

#### *Depreciation*

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

Plant and machinery	-	5% - 25% per annum
Motor vehicles	-	25% per annum

The depreciation method applied, the residual value and the useful life, are reviewed and adjusted if appropriate, at the end of each reporting period.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. 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. Dividends from the investment are recognised in profit or loss.

#### *Other financial instruments*

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

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position 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.

#### (i) Trade receivables

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

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Other financial instruments (continued)*

##### (ii) Loans and receivables

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

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

##### (iii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Bank loans are carried at face value due to their market rate of interest.

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

##### (iv) Other borrowings

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

##### (v) Trade payables

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

##### (vi) Shares issued by the company

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



# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Other financial instruments (continued)*

##### (vii) Derivative financial instruments

Derivative financial assets and derivative financial liabilities are classified as held for trading unless they are designated and effective hedging instruments. During the year under review and during the prior year, the company did not designate any of its derivative financial instruments in a hedging relationship for accounting purposes. After initial recognition, derivative financial instruments are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

#### *Provisions*

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of each reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

#### *Impairment*

At the end of each reporting period, 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.

In the case of financial assets that are carried at amortised cost, objective evidence of impairment includes observable data about the following loss events – significant financial difficulty of the issuer (or counterparty), a breach of contract or/and it becoming probable that the borrower will enter bankruptcy or other financial re-organisation.

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

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Impairment (continued)*

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 (which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) less costs of disposal and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Impairment losses are recognised immediately in profit or loss.

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

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

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

Impairment reversals are recognised immediately in profit or loss.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Revenue recognition*

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

(i) Provision of services

Revenue from the provision of services is recognised in the period in which the services are rendered.

(ii) Interest income

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

(iii) Royalty income

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

(iv) Rental income

Rental income is recognised in accordance with the company's accounting policy for leases.

#### *Borrowing costs*

Borrowing costs include the costs incurred in obtaining external financing.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

Leased assets are presented in the statement of financial position according to their nature and, where applicable, are tested for impairment in accordance with the company's accounting policy on impairment. Where applicable, depreciable leased assets are depreciated in accordance with the company's accounting policy. The company's leased assets are classified with investment property and are subsequently measured at fair value. Rental income from operating leases, less the aggregate cost of incentives given to the lessee, is recognised as income in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense in profit or loss on a straight-line basis over the lease term.

#### *Taxation*

Current and deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also dealt with in other comprehensive income or in equity, as appropriate.

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

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

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Taxation (continued)*

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, including deferred tax assets for the carry forward of unused tax losses and unused tax credits, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences (or the unused tax losses and unused tax credits) can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to set off its current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### *Employee benefits*

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

#### *Post-employment benefits*

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with estimations being carried out at the end of each reporting period. Past service cost is recognised as an expense at the earlier of the following dates (a) when the plan amendment or curtailment occurs and (b) when the entity recognises relating restructuring costs or termination benefits. The amount recognised in the Statement of Financial Position represents the present value of the expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The service cost and the net interest on the net defined benefit liability are recognised in profit or loss. Re-measurements of the net defined liability, comprising actuarial gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss in a subsequent period.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Post-employment benefits (continued)*

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from experience adjustments and the effects of changes in actuarial assumptions. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Due to the nature of the actuarial assumptions, in accordance with the provisions of IAS 19, the Company did not involve a qualified actuary in the measurement of its post-employment benefit obligations.

#### *Currency translation*

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

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented in current liabilities on the statement of financial position.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 2. Significant accounting policies (continued)

#### *Fair values*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

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

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

#### *Fair value of investment property*

The determination of the fair value of investment property at the end of each reporting period requires the use of significant management estimates. Details of key assumptions are disclosed in note 14 to the financial statements.

Other than as disclosed above, in the process of applying the company's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements and, at the end of each reporting period, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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#### 4. Initial Application of an International Financial Reporting Standard and International Financial Reporting Standards in issue but not yet effective

##### *Initial Application of an International Financial Reporting Standard*

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

##### *IFRS 13 – Fair Value Measurements*

IFRS 13 *Fair Value Measurement*, applicable for annual periods beginning on or after 1 January 2013 (with earlier application being permitted). IFRS 13 defines fair value, establishes a single source of guidance for fair value measurements and requires disclosures about fair value measurements. IFRS 13 requires prospective application. In accordance with the transitional provisions set out in the Standard, entities need not apply the disclosure requirements in comparative information provided for periods before the initial application of the Standard. Consequently, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period. The application of IFRS 13 in the current year has resulted in additional disclosures that are required by the Standard for certain financial and/or non-financial items.

##### *Amendments to IAS 19 – Employee Benefits*

In the current year the Company has applied the Revised IAS 19 Employee Benefits, which is applicable for annual periods beginning on or after 1 January 2013. The Standard represents the completion of the IASB's project to improve the accounting for pensions and other post-employment benefits. Where applicable, the Company has revised its accounting policy for post-employment benefits in line with the revised IAS 19. In accordance with the transitional provisions, this Standard is required to be applied retrospectively (except as otherwise indicated). The adoption of this Standard did not have a material quantitative impact on the Company's financial statements.

##### *Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities*

In the current year, the Company has applied the December 2011 Amendments to IFRS 7, *Disclosures – Offsetting Financial Assets and Financial Liabilities* applicable for annual periods beginning on or after 1 January 2013 (with earlier application being permitted). The Amendments include additional disclosures for the Company's recognised financial instruments that are set off in accordance with IAS 32.



# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 4. Initial Application of an International Financial Reporting Standard and International Financial Reporting Standards in issue but not yet effective (continued)

#### *International Financial Reporting Standards in issue but not yet effective*

##### *IFRS 9 – Financial Instruments*

The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The Standard supersedes all previous versions of IFRS 9.

IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule based requirements that are generally considered to be overly complex and difficult to apply.

The new model also results in a single, forward-looking 'expected loss' impairment model that will require more timely recognition of expected credit losses.

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, this standard has not yet been endorsed by the EU. The company is in the process of assessing the potential impact, if any, of the new standard on the financial position and performance of the company.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 4. Initial Application of an International Financial Reporting Standard and International Financial Reporting Standards in issue but not yet effective (continued)

*International Financial Reporting Standards in issue but not yet effective (continued)*

#### *IAS 32 – Financial Instruments: Presentation*

These amendments are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. IAS 32 is effective for annual periods beginning on or after 1 January 2014.

#### *IFRS 15 – Revenue from contracts with customers*

The standard is the result of a convergence project between the IASB and the FASB. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts. The company is in the process of assessing the potential impact, if any, of the new standard on the financial position and performance of the company.

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

### 5. Restatement of error

In previous years an element of accrued income relating to the recognition of licenses fee income on a straight line basis had been presented within the fair value movement in investment property instead of revenue and the deferred tax thereon was computed at the rate of 12% per annum instead of 35% per annum. There was no impact on the profit before tax as a result of the above.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 5. Restatement of error (continued)

The effect of the change on 2012 and prior periods is tabulated below:

	USD
<i>Effect on 2012</i>	
Increase in revenue	3,126,991
Decrease in fair value movement in investment property	<u>(3,126,991)</u>
	-
Increase in deferred tax charge	<u>719,208</u>
	719,208
Decrease in profit 2012	
<i>Effect on periods prior to 2012</i>	
Increase in deferred tax liability	<u>10,837,321</u>
	11,556,529
Decrease in retained earnings at 31 December 2012	<u><u>11,556,529</u></u>

### 6. Revenue

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

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

	2013 USD	2012 USD
Licence fees	8,946,991	8,946,991
Other income	819,625	724,135
Rents receivable	1,274,684	1,217,205
Royalties	727,814	803,831
Security fees	1,327,426	1,253,250
	<u>13,096,540</u>	<u>12,945,412</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 7. Investment income

	2013 USD	2012 USD
Interest income on bank deposits	110,334	118,429
Interest on long-term debtor	2,463,394	2,550,472
Other interest receivable	253,002	-
	<u>2,826,730</u>	<u>2,668,901</u>

### 8. Finance costs

	2013 USD	2012 USD
<i>Finance costs:</i>		
Interest payable on debenture loan stock	18,472,564	17,963,804
Interest on bank overdrafts and loans	151,516	330,893
	<u>18,624,080</u>	<u>18,294,697</u>
Less: Government subvention	(18,472,564)	(18,041,172)
Net interest payable	<u>151,516</u>	<u>253,525</u>

Interest payable on debenture loan stock is recharged to the Government of Malta as per government subvention, also referred to in notes 1 and 18.

### 9. Profit before tax

	2013 USD	2012 USD
<i>This is stated after charging:</i>		
Depreciation of property, plant and equipment	<u>125,786</u>	<u>84,017</u>

Auditor's remuneration for the current financial year amounted to *USD13,101* (2012 - *USD11,827*). Other fees payable to the auditor comprise *USD15,471* (2012 - *USD15,777*) for other non-audit services.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 10. Key management personnel compensation

	2013 USD	2012 USD
<i>Directors' compensation:</i>		
<i>Short-term benefits:</i>		
Management remuneration	<u>28,660</u>	<u>21,172</u>

### 11. Staff costs and employee information

	2013 USD	2012 USD
<i>Staff costs:</i>		
Wages and salaries	1,998,753	1,810,905
Social security costs	164,260	163,485
Directors' remuneration (note 10)	28,660	21,172
	<u>2,191,673</u>	<u>1,995,562</u>

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

	2013 Number	2012 Number
Administration and finance	7	7
Operational	78	83
	<u>85</u>	<u>90</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 12. Income tax expense

	2013 USD	2012 USD
Balance brought forward	1,523,415	1,523,415
<i>Tax charge for the year:</i>		
Malta tax at 35%	(1,957,623)	-
Final withholding tax at 15%	(15,972)	(14,642)
Deferred taxation	(5,070,382)	(5,936,579)
	<u>(7,043,977)</u>	<u>(5,951,221)</u>
	(5,520,562)	(4,427,806)
<i>Tax paid:</i>		
Tax at source on interest income	15,972	14,642
Tax refund	(1,523,415)	-
Transfer to deferred taxation	5,070,382	5,936,579
	<u>(1,957,623)</u>	<u>1,523,415</u>

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

	2013 USD	2012 USD
Profit before tax	6,284,387	21,045,196
Tax at the applicable rate of 35%	2,199,535	7,365,819
<i>Tax effect of:</i>		
Interest income subject to 15% withholding tax	(21,296)	(19,523)
Profit and loss transactions not allowable for tax purposes	103,538	(107,448)
Fair value movement in investment property	(1,875,653)	(4,685,989)
Fair value movement in cross-currency swap	4,194,772	1,791,737
Deferred tax on investment property	2,443,081	1,606,625
	<u>7,043,977</u>	<u>5,951,221</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 13. Property, plant and equipment

	Plant and machinery USD	Motor vehicles USD	Total USD
<b>Cost</b>			
At 01.01.2012	2,140,995	254,926	2,395,921
Additions	3,787	-	3,787
At 01.01.2013	2,144,782	254,926	2,399,708
Additions	705,168	-	705,168
Disposals	-	(27,293)	(27,293)
At 31.12.2013	2,849,950	227,633	3,077,583
<b>Accumulated depreciation</b>			
At 01.01.2012	1,791,552	254,926	2,046,478
Provision for the year	84,017	-	84,017
At 01.01.2013	1,875,569	254,926	2,130,495
Provision for the year	125,786	-	125,786
Released on disposal	-	(27,293)	(27,293)
At 31.12.2013	2,001,355	227,633	2,228,988
<b>Carrying amount</b>			
At 31.12.2012	269,213	-	269,213
At 31.12.2013	848,595	-	848,595

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 14. Investment property

The fair value of the company's investment property comprises two components as follows:

	As at 01.01.2013 USD	Movement USD	As at 31.12.2013 USD
Investment property	266,816,223	20,359,009	287,175,232
Accrued income	50,245,777	2,946,991	53,192,768
	<u>317,062,000</u>	<u>23,306,000</u>	<u>340,368,000</u>

The movement in the fair value of investment property is further analysed below:

	Investment properties USD
<b>Fair value</b>	
At 01.01.2012	300,546,470
Increase in fair value	13,388,539
Movement in accrued income	3,126,991
	<u>317,062,000</u>
At 01.01.2013	317,062,000
Additions	15,000,000
Increase in fair value	5,359,009
Movement in accrued income	2,946,991
	<u>340,368,000</u>
<b>As at 31.12.2013</b>	<b><u>340,368,000</u></b>

The accrued income component relates to the difference between the license fee for the period as agreed between the parties and the recognition of such license fee income on a straight-line basis.

In October 2004 the company leased out the majority of its investment property for a 30-year period. At that date a concession to operate both terminals was granted for the same period. On 4 February 2008, the above agreement was amended and the lease was subsequently extended to 35 years. By virtue of a deed of amendment the lease was revised for the five years commencing 5 October 2011. Furthermore, subject to certain irrevocable obligations, the lessee has the option to extend the lease by an additional period of 30 years, at rates already determined, at any time on/or before the date falling four years prior to expiry of the thirty-fifth year.



# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 14. Investment property (continued)

The company has other lease agreements as well as other revenue streams including revenue based on volume through-put.

The fair value of the company's investment property was determined by management on the basis of:

- The net present value of future cash flows from existing contractual arrangements less the discounted value of future operating costs; and
- The net present value of historic and contractual infrastructural and superstructure investments undertaken by operators for the benefit of the company after the termination of the existing leases.

A key assumption underlying the valuation is the determination of an appropriate discount rate. A rate that ranges between 5.5% and 9.5% (2012 - 4.69% and 9%) has been used in the valuation. An increase of 10% in this discount rate, with all other variables remaining constant, would result in a fluctuation of *USD45M* (2012 - *USD37M*) in the value of the company's investment property. On the basis of these assessments, and after having taken account of the implications of the amendments to the agreements described above on the future cash flows, the company reported an increase in the value of the investment property of *USD5,359,009* in 2013 (2012 - *USD13,388,539*).

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The company's fair value measurements are categorised as Level 3 since they are based on significant unobservable inputs. As described above the values were arrived at using discounted cash flows. The most significant unobservable data related to the discount rate factor used. The higher the discount rate the lower the fair value.

During the current year the company has made no transfers between fair value levels.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 14. Investment property (continued)

Operating leases relating to the investment property owned by the company are for varying lease terms. The lessees do not have the option to purchase the property at the expiry of the lease period. The income earned under the operating leases amounted to *USD10,949,489* (2012 – *USD10,968,027*) which include contingent rent of *USD727,814* (2012 – *USD803,831*)

At the end of the reporting period, the respective lessees had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2013 USD	2012 USD
Within one year	8,090,000	7,965,000
Between two and five years	34,404,000	33,222,000
Over five years	206,057,000	214,770,000
	<u>248,551,000</u>	<u>255,957,000</u>

### 15. Financial assets

*Shares in subsidiary undertakings:*

	2013 USD	2012 USD
5,180,000 (2012 : 5,180,000) "A" ordinary shares of Eur2.329373 each, 440,000 (2012 : 440,000) "B" ordinary shares of Eur2.329373 each and 60,000 (2012 : 60,000) "C" ordinary shares of Eur2.329373 each in Freeport Terminal (Malta) p.l.c. – 99% of equity held	14,709,666	14,709,666
Provision for diminution in value	<u>(14,709,666)</u>	<u>(14,709,666)</u>
	<u>-</u>	<u>-</u>

The registered office of these subsidiaries is Freeport Centre, Kalafrana, Malta.

The above subsidiary is non-operating and immaterial and is earmarked for liquidation in the near future. The directors do not anticipate any further losses to be incurred on this investment. As a result of the above the directors did not consider it necessary to prepare consolidated financial statements.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 16. Loans and receivables

This represents the outstanding consideration for the entire equity sold in 2004 of Malta Freeport Terminals Limited, which bears interest at 4% per annum and is repayable in 30 equal annual installments. The receivable is denominated in USD as is guaranteed as disclosed in note 28.

	2013 USD	2012 USD
Receivable from third party	60,461,780	62,413,251
Less: amounts recoverable within one year	(2,029,529)	(1,951,471)
Amounts recoverable after one year	<u>58,432,251</u>	<u>60,461,780</u>

### 17. Trade and other receivables

	2013 USD	2012 USD
Trade receivables	1,488,856	1,904,755
Other receivables	22	21
Prepayments and accrued income	2,733,484	2,721,030
	<u>4,222,362</u>	<u>4,625,806</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 18. Derivative instrument at fair value

	2013 USD	2012 USD
Value of cross currency differential	(26,860,996)	(14,875,932)
Value of interest rate differential	(51,289,892)	(32,717,001)
Fair value of cross currency interest rate swap as at 31 December	(78,150,888)	(47,592,933)
Interest rate differential guaranteed by the Government of Malta	51,289,892	32,717,001
<b>Fair value as at 31 December</b>		
Classified with current liabilities	<u>(26,860,996)</u>	<u>-</u>
Classified with non-current liabilities	<u>-</u>	<u>(14,875,932)</u>

The fair value movement in the derivative instrument during the year net of the interest rate differential guaranteed by the Government of Malta was as follows:

	2013 USD	2012 USD
Loss on cross currency interest rate swap	<u>11,985,064</u>	<u>5,119,248</u>

In 2004 the company entered into a cross currency interest rate swap converting its 7.25% *USD250,000,000* Debenture Loan Stock to 6.991% *EUR200,754,838*. As illustrated in note 8, the interest on this instrument is being borne by the Government of Malta.

As the company reports in USD and the swap liability is in Euros, any exchange rate fluctuation exposure will crystallise on the maturity of the instrument in 2028 or before, subject to the option held by the counterparty. The Government of Malta has indemnified the company for any losses that could arise from the interest rate differential on the cross currency interest rate swap. Such a loss may only arise if the instrument is not held to maturity.

As at the statement of financial position date the counterparty had an option to wind-up the derivative in 2014 and 2024. The liability existing as at 31 December 2013 has consequently been classified as a current liability.

On 11 April 2014 the company and the counterparty entered into a new agreement whereby the counterparty's options to wind-up the swap were amended to 2015 and 2025.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 19. Trade and other payables

	2013 USD	2012 USD
Trade payables	353,498	404,679
Capital creditor	15,000,000	-
Amounts due to the Government of Malta	2,489,717	2,541,712
Other payables	143,069	157,295
Accruals and deferred income	4,042,162	3,985,239
	<u>22,028,446</u>	<u>7,088,925</u>

No interest is charged on trade and other payables.

### 20. Bank overdrafts and loans

	2013 USD	2012 USD
Bank overdrafts	83,440	153,537
Bank loans	1,600,923	4,331,348
	<u>1,684,363</u>	<u>4,484,885</u>

Bank overdrafts and loans are repayable as follows:

	2013 USD	2012 USD
On demand or within one year	1,196,011	1,968,866
In the second year	488,352	1,157,505
In the third year	-	1,208,906
In the fourth year	-	149,608
	<u>1,684,363</u>	<u>4,484,885</u>
Less: amount due for settlement within 12 months (shown under current liabilities)	<u>(1,196,011)</u>	<u>(1,968,866)</u>
	<u>488,352</u>	<u>2,516,019</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 20. Bank overdrafts and loans (continued)

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

	2013 USD	2011 USD
Bank overdrafts denominated in Euro	83,440	153,537
Bank loans denominated in Euro	1,600,923	4,331,348
	<u>1,684,363</u>	<u>4,484,885</u>

Interest amounting to *USD Nil* (2011 – *USD 77,368*) was borne by the Government of Malta (refer to note 8).

The bank loans and overdrafts bear interest between 4% and 4.5% per annum (2012 – between 2.7% and 4.5% per annum) respectively and are secured by a hypothec over the company's assets together with guarantees given by the Government of Malta.

### 21. Other financial liabilities

	2013 USD	2012 USD
7.25% Debenture Loan Stock 2028	<u>250,000,000</u>	<u>250,000,000</u>

The above loan and interest thereon is guaranteed by the Government of Malta and is repayable in 2028. As disclosed in note 8 interest is recharged to the Government of Malta.

### 22. Post-employment benefits

This provision represents the year-end provision for possible future liabilities relating to a gratuity the company is obliged to pay upon an employee's retirement. The provision represents the company's obligation discounted to the net present value after considering the average life expectancy of such employees and expected increases in salaries, where applicable. The provision for retirement benefits is unfunded. It has been computed in accordance with the accounting policy stated in note 2 and represents the company's obligation discounted to the net present value at the rate of 5.12% after considering the average life expectancy of such employees and expected increases based on inflation rates and past salary increases, where applicable.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 22. Post-employment benefits (continued)

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

	2013 USD	2012 USD
Balance at 1 January	1,092,098	1,132,187
Settlements	(25,256)	(22,903)
Effect of translation to USD	(45,583)	(3,569)
Movement for the year	25,256	(13,617)
Balance at 31 December	1,046,515	1,092,098
Less: amounts due for settlement within 12 months	(49,310)	(60,521)
Amounts due for settlement after 12 months	997,205	1,031,577

### 23. Deferred tax liability

	Opening balance USD	Recognised in profit or loss USD	Closing balance USD
2012			
<i>Arising on:</i>			
<i>Temporary differences</i>			
Property, plant and equipment	(56,055)	(21,712)	(77,767)
Investment property	(30,411,322)	(1,606,624)	(32,017,946)
Accrued income	(16,491,575)	(1,094,447)	(17,586,022)
Provisions	396,266	(14,032)	382,234
	<u>(46,562,686)</u>	<u>(2,736,815)</u>	<u>(49,299,501)</u>
<i>Arising on:</i>			
Unused tax losses	4,747,876	(3,199,764)	1,548,112
	<u>(41,814,810)</u>	<u>(5,936,579)</u>	<u>(47,751,389)</u>
2013			
<i>Arising on:</i>			
<i>Temporary differences</i>			
Property, plant and equipment	(77,767)	(31,788)	(109,555)
Investment property	(32,017,946)	(2,443,081)	(34,461,027)
Accrued income	(17,586,022)	(1,031,447)	(18,617,469)
Provisions	382,234	(15,954)	366,280
	<u>(49,299,501)</u>	<u>(3,522,270)</u>	<u>(52,821,771)</u>
<i>Arising on:</i>			
Unused tax losses	1,548,112	(1,548,112)	-
	<u>(47,751,389)</u>	<u>(5,070,382)</u>	<u>(52,821,771)</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 24. Share capital

	2013 and 2012	
	Authorised USD	Issued and called up USD
2,976,128 ordinary shares of USD1 each, all of which have been issued and called up	<u>2,976,128</u>	<u>2,976,128</u>

### 25. Cash and cash equivalents

	2013 USD	2012 USD
Cash at bank and on hand	38,447,908	28,108,065
Bank overdraft	<u>(83,440)</u>	<u>(153,537)</u>
Cash and cash equivalents in the cash flow statement	<u>38,364,468</u>	<u>27,954,528</u>

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2013 was 0.25% per annum (2012 – 0.575%). The interest rate on the bank overdraft is disclosed in note 20.

### 26. Related party disclosures

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

	2013			2012		
	Related party activity USD	Total activity USD	%	Related party activity USD	Total activity USD	%
<i>Administrative:</i> Key management personnel	<u>28,660</u>	<u>2,191,673</u>	<u>1</u>	<u>21,172</u>	<u>1,995,562</u>	<u>1</u>



# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 26. Related party disclosures (continued)

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

In the year under review the company incurred interest of *USD18,472,564* (2012 - *USD18,041,172*) which, as illustrated in notes 8, 18, 20 and 21, was borne by the Government of Malta. The amounts owed to the Government of Malta are disclosed in note 19. These amounts are unsecured, interest free and will be settled in cash. No guarantees have been given.

As disclosed in note 18, the Government of Malta has indemnified the company for any losses that could arise from the interest rate differential on the cross currency interest rate swap. Such a loss may only arise if the instrument is not held to maturity.

The Government of Malta is also providing guarantees for the company's debenture loan, bank loans and overdrafts as illustrated in notes 20 and 21.

### 27. Fair values of financial assets and financial liabilities

At 31 December 2013 and 2012 the carrying amounts of financial assets and financial liabilities that are not measured at fair value and that are classified with current assets and current liabilities respectively approximated their fair values due to the short-term maturities of these assets and liabilities.

Derivative financial instruments are measured at their fair values.

The company has a financial liability at fair value through profit or loss, consisting of a cross currency interest rate swap, which can be classified as Level 2. The fair value of the financial liability is disclosed in note 18.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 27. Fair values of financial assets and financial liabilities (continued)

The fair value of the cross currency interest rate swap represents the present value arising from interest rate differentials between the currencies on the respective nominal values translated at the appropriate exchange rate.

The following table provides an analysis of financial instruments that are not measured subsequent to initial recognition at fair value, other than those with carrying amounts that are reasonable approximations of fair value, grouped into Levels 1 to 3.

Fair value measurement at end of the reporting period using:

	Level 1	Level 2	Level 3	Total amount	Carrying amount
	EUR	EUR	EUR	EUR	EUR
<i>Financial assets</i>					
<i>Loans and receivables</i>					
Receivables from third parties	-	60,461,780	-	60,461,780	60,461,780
<i>Financial liabilities at amortised cost</i>					
7.25% Debenture	-	317,600,000	-	317,600,000	250,000,000
Loan Stock 2028	-	1,684,363	-	1,684,363	1,684,363
Bank loans and overdrafts	-		-		
Total	-	319,284,363	-	319,284,363	251,684,363

The fair value of financial liabilities categorised within Level 2 above, was established by reference to current fair value of another similar instrument. The inputs used relate to the average market interest rates. This valuation technique is consistent with general accepted economic methodologies for pricing instruments.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 28. Financial risk management

The exposures to risk and the way risks arise, together with the company's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

Where possible, the company aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

#### *Credit risk*

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

Credit risk with respect to trade receivables is limited due to credit control procedures in place. Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The company assesses the credit quality of its trade receivables by taking into account their financial standing and past experience. Management considers the credit quality of its trade receivables as being acceptable. These financial assets do not include any material balances with past default experience.

Credit risk with respect to the long-term receivable amounting to *USD60,461,780* (disclosed in note 16) is not deemed to be significant by the directors as there are no indicators that the party is not in a position to meet its obligations. This loan is also guaranteed by the counterparty's related party. Both the counterparty and the guarantor operate mainly in the shipping industry. Their credit rating as per Moody's is B2.

Cash at bank is placed with reliable financial institutions. The majority of the company's bank balances are placed with the Central Bank of Malta.

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

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 28. Financial risk management (continued)

#### *Foreign currency risk*

Foreign currency transactions arise when the company buys or sells goods or services the price of which are denominated in a foreign currency, borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency or acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency. Foreign currency transactions comprise mainly transactions in Euro.

The company is exposed to foreign currency risk primarily on its monetary assets and liabilities, some of which are denominated in different currencies than the functional currency.

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

In 2004 the company entered into a cross currency interest rate swap converting its 7.25% USD250,000,000 Debenture Loan Stock to 6.991% EUR200,754,838.

As the company reports in USD and the swap liability is in Euros, any exchange rate fluctuation exposure will crystallise on the maturity of the instrument in 2028 or before, subject to the option held by the counterparty.

#### *Interest rate risk*

The company has taken out bank facilities and has issued debenture loans to finance its operations as disclosed in notes 20 and 21 respectively. The interest rates thereon are disclosed accordingly. The company has also entered into a cross currency interest rate swap converting its USD fixed interest on its debenture loans to fixed interest denominated in EUR as disclosed in note 18.

The company earns interest on its long-term receivables and on its bank deposits as disclosed in note 16 and 25 respectively.

As detailed in the notes to these financial statements, the interest on part of the bank loans is recharged to the Government of Malta. In addition, the interest payable on the 7.25% debenture loans and the net interest rate differential on the cross currency interest rate swap is borne by the Government of Malta; thus the effect on the company's statement of comprehensive income is nil in respect thereof. As disclosed in note 18, the Government of Malta has indemnified the company for any losses that could arise from the interest rate differential on the cross currency interest rate swap. Such a loss may only arise if the instrument is not held to maturity. The company is not exposed to fair value risk on other financial instruments carrying a fixed rate of interest since these are carried at amortised cost.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 28. Financial risk management (continued)

#### *Interest rate risk (continued)*

The company is exposed to cash flow interest rate risk on financial instruments carrying a floating rate of interest.

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.

#### *Sensitivity analysis*

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

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

The estimated change in cash flows solely in relation to the swap for changes in the EUR/USD exchange rate is based on an instantaneous increase or decrease of 1 per cent in EUR, with all other variables remaining constant.

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

	Profit and loss sensitivity	
	2013	2012
	USD	USD
Market interest rates - cash flows	+/- 240K	+/- 153K
EUR/USD exchange rates	+/- 2.8m	+/- 2.6m

#### *Liquidity risk*

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

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

### 28. Financial risk management (continued)

#### *Liquidity risk (continued)*

As detailed in note 8, the interest payable on the 7.25% debenture loans and certain of the company's borrowings is borne by the Government of Malta. Furthermore, as disclosed in note 18, in 2004 the company entered into a cross currency interest rate swap converting its 7.25% USD250,000,000 Debenture Loan Stock to 6.991% EUR200,754,838. In addition, the Government of Malta bears the net interest cost on this derivative.

The following maturity analysis for financial liabilities shows the remaining contractual maturities using the contractual undiscounted cash flows on the basis of the earliest date on which the company can be required to pay. The analysis includes both interest (to the extent that these are not borne by the Government of Malta as stipulated above) and principal cash flows.

	Within 1 year USD	Between 1-5 years USD	Over 5 years USD	Total USD
<b>2013</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	22,077,756	130,403	866,802	23,074,961
Variable rate instruments	1,255,675	490,183	-	1,745,858
Fixed rate instruments	-	-	250,000,000	250,000,000
<b>Derivative financial liabilities</b>				
Cross currency interest rate swap	26,860,996	-	-	26,860,996
	<u>50,194,427</u>	<u>620,586</u>	<u>250,866,802</u>	<u>301,681,815</u>
<b>2012</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	7,149,446	277,855	753,722	8,181,023
Variable rate instruments	1,988,319	3,035,169	-	5,023,488
Fixed rate instruments	-	-	250,000,000	250,000,000
<b>Derivative financial liabilities</b>				
Cross currency interest rate swap	-	14,875,932	-	14,875,932
	<u>9,137,765</u>	<u>18,188,956</u>	<u>250,753,722</u>	<u>278,080,443</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2013

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### 28. Financial risk management (continued)

#### *Capital risk management*

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

The capital structure of the company consists of items presented within equity in the statement of financial position.

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

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

### 29. Events after the reporting period

As disclosed in note 18, as at 31 December 2013 the counterparty to the company's derivative instrument had an option to wind-up the derivative in 2014 and 2024. On 11 April 2014 the company and the counterparty entered into a new agreement whereby the counterparty's options to wind-up the swap were amended to 2015 and 2025. In addition the company and the counterparty are at an advanced stage of discussion to further amend the counterparty's options to wind-up the swap.

## Independent auditor's report to the members of

### Malta Freeport Corporation Limited

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We have audited the accompanying financial statements of Malta Freeport Corporation Limited set out on pages 5 to 45, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Directors' responsibility for the financial statements*

As explained more fully in the statement of directors' responsibilities on page 4, the directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Companies Act (Chap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *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 of financial statements that give a true and fair view 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.



## Independent auditor's report (continued)

to the members of

### Malta Freeport Corporation Limited

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#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Malta Freeport Corporation Limited as at 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Chap. 386).



Paul Darmanin as Director  
in the name and on behalf of  
**Deloitte Audit Limited**  
Registered auditor

31 October 2014