

# **Malta Freeport Corporation Limited**

**Report and financial statements**

31 December 2011

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# Malta Freeport Corporation Limited

## Directors, officer and other information

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*Directors:* Mark Portelli (Chairman)  
Carmel Vassallo  
Francesca Grech

*Secretary:* Reynold Portelli

*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 2011

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The directors present their report and the audited financial statements of the company for the year ended 31 December 2011.

### 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 a profit before tax of *USD30,761,027* compared to a profit before tax of *USD45,720,753* reported last year. The movement in the results is mainly attributable to a lower fair value gain on the company's cross currency interest swap which gain amounted to *USD8,491,929* in 2011 compared to *USD20,958,806* in 2010. In addition during the year under review the increase in fair value of the company's investment property amounted to *USD14,160,000* compared to *USD16,024,000* reported last year.

The company's net assets at the end of the reporting period amounted to *USD84,451,867* (2010 – *USD58,232,252*).

### Result and dividends

The result for the year ended 31 December 2011 is shown in the statement of comprehensive income on page five. The profit for the year after taxation was *USD26,219,615*. 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:

Mark Portelli (Chairman)  
Carmel Vassallo  
Francesca Grech (appointed 16 November 2011)  
Alfred E. Aquilina (deceased 20 May 2011)

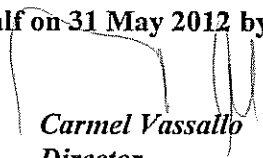
In accordance with the company's memorandum of association, all the directors retire and, being eligible, offer themselves for re-election.

### 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 May 2012 by:

  
*Mark Portelli*  
Chairman

  
*Carmel Vassallo*  
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 2011

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	<i>Notes</i>	<b>2011 USD</b>	<b>2010 USD</b>
Revenue	5	8,106,364	7,674,577
Staff costs	10	(2,190,283)	(2,220,619)
Other administrative expenses		(298,619)	(539,949)
Gains on exchange differences		293,973	1,991,838
Fair value movement in investment property	13	14,160,000	16,024,000
Gain on cross currency interest rate swap	18	8,491,929	20,958,806
Investment income	6	2,647,958	2,685,452
Finance costs	7	(450,295)	(853,352)
Profit before tax	8	30,761,027	45,720,753
Income tax expense	11	(4,541,412)	(4,319,222)
<b>Profit and total comprehensive income for the year</b>		<b>26,219,615</b>	<b>41,401,531</b>

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# Malta Freeport Corporation Limited

## Statement of financial position

31 December 2011

	<i>Notes</i>	<b>2011</b> <b>USD</b>	2010 USD
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	349,443	150,046
Investment property	13	300,546,470	286,386,470
Long-term receivables	15	62,413,251	64,289,664
Deferred tax asset	16	5,088,086	7,925,305
		<u>368,397,250</u>	<u>358,751,485</u>
<b>Current assets</b>			
Trade and other receivables	17	10,534,844	14,355,589
Current tax asset	11	1,523,415	1,523,415
Cash and cash equivalents	25	18,857,230	14,824,076
		<u>30,915,489</u>	<u>30,703,080</u>
<b>Total assets</b>		<u><b>399,312,739</b></u>	<u><b>389,454,565</b></u>
<b>Current liabilities</b>			
Trade and other payables	19	8,521,501	6,778,882
Bank overdraft and loans	20	3,897,162	8,304,272
Provision for liabilities and other charges	22	349,896	58,804
		<u>12,768,559</u>	<u>15,141,958</u>
<b>Non-current liabilities</b>			
Other financial liabilities	21	250,000,000	250,000,000
Derivative instrument at fair value	18	9,756,684	18,248,614
Bank loans	20	5,228,983	11,911,869
Provision for liabilities and other charges	22	1,041,071	1,553,497
Deferred tax liability	23	36,065,575	34,366,375
		<u>302,092,313</u>	<u>316,080,355</u>
<b>Total liabilities</b>		<u><b>314,860,872</b></u>	<u><b>331,222,313</b></u>
<b>Net assets</b>		<u><b>84,451,867</b></u>	<u><b>58,232,252</b></u>



# Malta Freeport Corporation Limited

## Statement of financial position (continued)

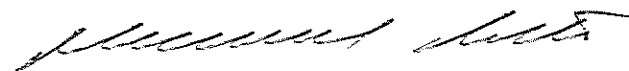
31 December 2011

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	<i>Notes</i>	<b>2011 USD</b>	<b>2010 USD</b>
<b>EQUITY</b>			
Share capital	24	2,976,128	2,976,128
Reporting currency conversion difference		759,548	759,548
Retained earnings		80,716,191	54,496,576
<b>Total equity</b>		<b>84,451,867</b>	<b>58,232,252</b>

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These financial statements were approved by the board of directors, authorised for issue on 31 May 2012 and signed on its behalf by:



*Mark Portelli*  
Chairman



*Carmel Vassallo*  
Director

*The rate of exchange at 31 December 2011 was EUR1:USD1.2939 (2010 – EUR1:USD1.3362)*

# Malta Freeport Corporation Limited

## Statement of changes in equity

Year ended 31 December 2011

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	Share capital USD	Reporting currency conversion difference USD	Retained earnings USD	Total USD
<b>Balance at 1 January 2010</b>	2,976,128	759,548	13,095,045	16,830,721
Profit and total comprehensive income for the year	-	-	41,401,531	41,401,531
<b>Balance at 31 December 2010</b>	2,976,128	759,548	54,496,576	58,232,252
Profit and total comprehensive income for the year	-	-	26,219,615	26,219,615
<b>Balance at 31 December 2011</b>	<u>2,976,128</u>	<u>759,548</u>	<u>80,716,191</u>	<u>84,451,867</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 2011

	<i>Note</i>	2011 USD	2010 USD
<b>Cash flows from operating activities</b>			
Profit before tax		30,761,027	45,720,753
<i>Adjustments for:</i>			
Depreciation		82,758	7,313
Fair value movement in cross-currency swap		(8,491,929)	(20,958,806)
Fair value movement in investment property		(14,160,000)	(16,024,000)
Unrealised difference on exchange		(293,973)	(1,991,838)
Increase in provisions		(463,809)	(342,101)
Interest income		(2,647,958)	(2,685,452)
Net interest expense		450,295	853,352
		<hr/>	<hr/>
Operating profit before working capital movements		5,236,410	4,579,221
Movement in trade and other receivables		3,820,745	2,497,067
Movement in trade and other payables		1,983,999	(4,895,879)
		<hr/>	<hr/>
<b>Cash flows from operations</b>		<b>11,041,154</b>	<b>2,180,409</b>
Interest paid		(450,295)	(853,352)
Taxation paid		(4,993)	(4,168)
Retirement benefits paid		(16,305)	(30,854)
		<hr/>	<hr/>
<i>Net cash flows from operating activities</i>		<b>10,569,561</b>	<b>1,292,035</b>
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment		(282,155)	(139,337)
Interest received		2,665,358	5,522,084
		<hr/>	<hr/>
<i>Net cash flows from investing activities</i>		<b>2,383,203</b>	<b>5,382,747</b>
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Repayment of bank loans		(10,483,093)	(11,557,603)
Proceeds from long-term receivables		1,876,413	10,071,526
		<hr/>	<hr/>
<i>Net cash flows from financing activities</i>		<b>(8,606,680)</b>	<b>(1,486,077)</b>
		<hr/>	<hr/>
<b>Net movement in cash and cash equivalents</b>		<b>4,346,084</b>	<b>5,188,705</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>14,379,894</b>	<b>9,191,189</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	25	<b>18,725,978</b>	<b>14,379,894</b>
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# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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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 other borrowings, are secured by the Government of Malta.

Due to the above therefore, the directors consider that there is no material uncertainty that the company is not 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.

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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 2. Significant accounting policies (continued)

#### *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.

#### *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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 2. Significant accounting policies (continued)

#### *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.

#### (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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 2. Significant accounting policies (continued)

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

##### (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.

##### (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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 2. Significant accounting policies (continued)

#### *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*

All assets are tested for impairment except for deferred tax assets, derivative instruments and investment property measured at fair value.

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.

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.



# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 2. Significant accounting policies (continued)

#### *Impairment (continued)*

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.

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.

#### *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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 2. Significant accounting policies (continued)

#### *Revenue recognition (continued)*

##### (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 the period when the service is provided.

#### *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.

#### *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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 2. Significant accounting policies (continued)

#### *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.

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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 2. Significant accounting policies (continued)

#### *Retirement benefit costs*

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with estimations being carried out at the end of each reporting period. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

#### *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 determined. 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 2011

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### 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 13 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.

### 4. International Financial Reporting Standards in issue but not yet effective

#### *IFRS 9 (as amended in 2010) – Financial Instruments*

IFRS 9 represents the completion of the classification and measurement part of the IASB's project to replace IAS 39. This Standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the assets. The Standard requires financial assets to be subsequently measured at amortised cost or at fair value. The requirements for financial liabilities address the problem of volatility in profit or loss arising from measuring own debt at fair value. Under IFRS 9, any entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income except in specified circumstances.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. 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 2011

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#### 4. International Financial Reporting Standards in issue but not yet effective (continued)

##### *Amendments to IAS 12 – Income Taxes*

The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model under IAS 40 – *Investment Property*. For the purposes of measuring deferred tax, the amendments introduce a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. The presumption can be rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time, rather than through sale.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012 with earlier application permitted. However, the amendments have not been endorsed by the EU. The company is currently assessing the potential impact, if any, of the amendments to IAS 12 on the company financial statements.

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

IFRS 13 establishes a single framework for measuring fair value where that is required by other Standards. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The Standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted. The Standard has not been endorsed by the EU. The company is currently in the process of assessing the potential impact, if any, of adopting IFRS 13.

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

This represents the completion of the IASB's project to improve the accounting for pensions and other post-employment benefits. The amendment is applicable for annual periods beginning on or after 1 January 2013.

The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and all actuarial gains and losses to be recognised immediately through other comprehensive income.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 4. International Financial Reporting Standards in issue but not yet effective (continued)

#### *Amendments to IAS 32 and IFRS 7 - Offsetting Financial Assets and Financial Liabilities*

The IAS 32 and IFRS 7 amendments are applicable for annual periods beginning on or after 1 January 2014 and 1 January 2013 respectively. 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. The disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received.

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. 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:

	2011 USD	2010 USD
Licence fees	4,044,445	3,476,318
Other income	559,766	658,540
Rents receivable	1,224,150	1,207,192
Royalties	931,841	1,053,064
Security fees	1,346,162	1,279,463
	<u>8,106,364</u>	<u>7,674,577</u>

### 6. Investment income

	2011 USD	2010 USD
Interest income on bank deposits	33,287	28,527
Interest on long-term debtor	2,614,671	2,656,925
	<u>2,647,958</u>	<u>2,685,452</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 7. Finance costs

	2011 USD	2010 USD
<i>Finance costs:</i>		
Interest payable on debenture loan stock	19,516,751	18,328,006
Interest on bank overdrafts and loans	662,662	999,130
Irrecoverable interest on loans (a)	-	267,240
	<u>20,179,413</u>	<u>19,594,376</u>
Less: Government subvention (b)	(19,729,118)	(18,741,024)
Net interest payable	<u>450,295</u>	<u>853,352</u>

Notes –

- (a) In the prior year the Government of Malta decided to recover part of the interest incurred on the debenture loan stock in previous years.
- (b) Interest payable on debenture loan stock and certain of the company's bank borrowings is recharged to the Government of Malta as per government subvention, also referred to in notes 1 and 15.

### 8. Profit before tax

	2011 USD	2010 USD
<i>This is stated after charging:</i>		
Depreciation of property, plant and equipment	<u>82,758</u>	<u>7,313</u>

Auditor's remuneration for the current financial year amounted to *USD12,292* (2010 - *USD10,890*). Other fees payable to the auditor comprise *USD16,308* (2010 - *USD25,210*) for other non-audit services.

### 9. Key management personnel compensation

	2011 USD	2010 USD
<i>Directors' compensation:</i>		
<i>Short-term benefits:</i>		
Management remuneration	<u>23,089</u>	<u>21,542</u>



# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 10. Staff costs and employee information

	2011 USD	2010 USD
<i>Staff costs:</i>		
Wages and salaries	1,994,886	2,019,792
Social security costs	172,308	179,285
Directors remuneration (refer above)	23,089	21,542
	<u>2,190,283</u>	<u>2,220,619</u>

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

	2011 Number	2010 Number
Administration and finance	7	7
Operational	88	89
	<u>95</u>	<u>96</u>

### 11. Income tax expense

	2011 USD	2010 USD
Balance brought forward	1,523,415	1,523,415
<i>Tax charge for the year:</i>		
Final withholding tax at 15%	(4,993)	(4,168)
Deferred taxation	(4,536,419)	(4,315,054)
	<u>(4,541,412)</u>	<u>(4,319,222)</u>
	<u>(3,017,997)</u>	<u>(2,795,807)</u>
<i>Tax paid:</i>		
Tax at source on interest income	4,993	4,168
Transfer to deferred taxation	4,536,419	4,315,054
	<u>1,523,415</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:

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 11. Income tax expense (continued)

	2011 USD	2010 USD
Profit before tax	30,761,027	45,720,753
Tax at the applicable rate of 35%	10,766,359	16,002,264
<i>Tax effect of:</i>		
Interest income subject to 15% withholding tax	(6,657)	(5,818)
Profit and loss transactions not allowable for tax purposes	10,685	(656,123)
Fair value movement in investment property	(4,956,000)	(5,608,400)
Fair value movement in cross-currency swap	(2,972,175)	(7,335,582)
Deferred tax on investment property	1,699,200	1,922,881
Income tax expense for the year	<u>4,541,412</u>	<u>4,319,222</u>

### 12. Property, plant and equipment

	Plant and machinery USD	Motor vehicles USD	Total USD
<b>Cost</b>			
At 01.01.2010	1,719,503	254,926	1,974,429
Additions	139,337	-	139,337
At 01.01.2011	1,858,840	254,926	2,113,766
Additions	282,155	-	282,155
At 31.12.2011	<u>2,140,995</u>	<u>254,926</u>	<u>2,395,921</u>
<b>Accumulated depreciation</b>			
At 01.01.2010	1,701,481	254,926	1,956,407
Provision for the year	7,313	-	7,313
At 01.01.2011	1,708,794	254,926	1,963,720
Provision for the year	82,758	-	82,758
At 31.12.2011	<u>1,791,552</u>	<u>254,926</u>	<u>2,046,478</u>
<b>Carrying amount</b>			
At 31.12.2010	<u>150,046</u>	<u>-</u>	<u>150,046</u>
At 31.12.2011	<u>349,443</u>	<u>-</u>	<u>349,443</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 13. Investment property

	<b>Investment properties USD</b>
<b>Fair value</b>	
At 01.01.2010	270,362,470
Increase in fair value	16,024,000
	<hr/>
At 01.01.2011	286,386,470
Increase in fair value	14,160,000
	<hr/>
At 31.12.2011	300,546,470
	<hr/>
<b>Carrying amount</b>	
At 31.12.2010	286,386,470
	<hr/>
<b>At 31.12.2011</b>	<b>300,546,470</b>
	<hr/> <hr/>

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.

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 4.69% and 9% has been used in the valuation. A movement of 10% in this discount rate, with all other variables remaining constant, would result in a fluctuation of *USD33M* 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 *USD14,160,000* in 2011 (2010 – *USD16,024,000*).

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 13. 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 *USD6,200,436* (2010 – *USD5,736,574*).

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

	2011 USD	2010 USD
Within one year	7,919,000	5,716,000
Between two and five years	34,144,000	25,060,000
Over five years	216,200,000	221,106,000
	<u>258,263,000</u>	<u>251,882,000</u>

### 14. Financial assets

*Shares in subsidiary undertakings:*

	2011 USD	2010 USD
5,180,000 (2010 : 5,180,000) "A" ordinary shares of Eur2.329373 each, 440,000 (2010 : 440,000) "B" ordinary shares of Eur2.329373 each and 60,000 (2010 : 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
104,411 (2010 : 104,411) "A" ordinary shares of Eur2.329373 each and 104,410 (2010 : 104,410) "C" ordinary shares of Eur2.329373 each in Coastal Management Company Limited (in liquidation) – 81% of equity held	717,237	717,237
Provision for diminution in value	<u>(15,426,903)</u>	<u>(15,426,903)</u>
	<u>-</u>	<u>-</u>

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

The above subsidiaries are non-operating and immaterial. Freeport Terminal (Malta) p.l.c. is earmarked for liquidation in the near future. The directors do not anticipate any further losses to be incurred on these investments. 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 2011

### 15. Long-term receivables

This is made up as follows:

- the long-term receivable, which represents the outstanding consideration for the entire equity sold in 2004 of Malta Freeport Terminals Limited, bears interest at 4% per annum and is repayable in 30 equal annual installments; and
- amounts due from the Government of Malta representing the long-term portion of expenditure incurred on infrastructural works and other equipment costs as well as borrowing costs paid by the company on behalf of The Government of Malta together with other advances. Interest was charged on the outstanding amount which is equal to the bank interest suffered on equivalent bank borrowings included in note 20.

Amounts repayable within one year are shown under debtors.

	2011 USD	2010 USD
Recoverable development expenditure	-	3,163,812
Long-term receivable	<b>64,289,664</b>	66,093,908
	<b>64,289,664</b>	69,257,720
Less recoverable development expenditure included in short-term debtors (note 17)	-	(3,163,812)
Less amounts recoverable in less than one year (note 17)	<b>(1,876,413)</b>	(1,804,244)
	<b>62,413,251</b>	64,289,664

### 16. Deferred tax asset

	2010 USD	Movement for the year USD	2011 USD
<i>Arising on:</i>			
Accelerated tax depreciation	(33,804)	(22,251)	<b>(56,055)</b>
Other temporary differences	7,959,109	(2,814,968)	<b>5,144,141</b>
	<b>7,925,305</b>	<b>(2,837,219)</b>	<b>5,088,086</b>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 17. Trade and other receivables

	2011 USD	2010 USD
Recoverable development expenditure (note 15)	-	3,163,812
Short-term portion of long-term receivable (note 15)	1,876,413	1,804,244
Trade receivables	4,804,094	6,515,395
Other receivables	18,266	1,384,776
Prepayments and accrued income	3,836,071	1,487,362
	<u>10,534,844</u>	<u>14,355,589</u>

### 18. Derivative instrument at fair value

	2011 USD	2010 USD
Value of cross currency differential	(9,756,684)	(18,248,614)
Value of interest rate differential	(8,491,305)	(23,035,318)
Fair value of cross currency interest rate Swap as at 31 December	<u>(18,247,989)</u>	<u>(41,283,932)</u>
Interest rate differential guaranteed by the Government of Malta	<u>8,491,305</u>	<u>23,035,318</u>
Fair value as at 31 December	<u>(9,756,684)</u>	<u>(18,248,614)</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:

	2011 USD	2010 USD
Gain on cross currency interest rate swap	<u>8,491,929</u>	<u>20,958,806</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 7, 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. 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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 19. Trade and other payables

	2011 USD	2010 USD
Trade payables	168,923	1,821,602
Amounts due to the Government of Malta	1,229,177	-
Other payables	451,208	453,644
Accruals and deferred income	6,672,193	4,503,636
	<u>8,521,501</u>	<u>6,778,882</u>

### 20. Bank overdrafts and loans

	2011 USD	2010 USD
Bank overdrafts (secured)	131,252	444,182
Bank loans (secured)	8,994,893	19,771,959
	<u>9,126,145</u>	<u>20,216,141</u>

Bank overdrafts and loans are repayable as follows:

	2011 USD	2010 USD
On demand or within one year	3,897,162	8,304,272
In the second year	2,718,248	4,891,631
In the third year	1,361,008	3,280,522
In the fourth year	1,076,293	2,034,753
In the fifth year	73,434	1,213,133
After five years	-	491,830
	<u>9,126,145</u>	<u>20,216,141</u>
Less: amount due for settlement within 12 months (shown under current liabilities)	<u>(3,897,162)</u>	<u>(8,304,272)</u>
	<u>5,228,983</u>	<u>11,911,869</u>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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

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

	2011 USD	2010 USD
Bank overdrafts denominated in Euro	131,252	444,182
Bank loans denominated in Euro	8,994,893	19,771,959
	<u>9,126,145</u>	<u>20,216,141</u>

Interest amounting to *USD212,367* (2010 – *USD413,018*) was borne by the Government of Malta (refer to note 7b).

The bank loans and overdrafts bear interest between 2.7% and 4.5% per annum (2010 – between 4.35% and 5.75% 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

	2011 USD	2010 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 7(b) interest is recharged to the Government of Malta.



# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 22. Provisions for liabilities and other charges

This comprises the following:

- Provision for retirement 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.
- Provision for financial obligations of subsidiary undertaking - at the end of each reporting period the company had undertaken to finance certain outstanding financial obligations entered into by one of its subsidiaries, all of which had been accrued for in the prior year financial statements.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 22. Provisions for liabilities and other charges (continued)

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

	2011 USD	2010 USD
<i>Provision for retirement benefits:</i>		
Balance at 1 January	1,612,301	1,520,662
Settlements	(16,305)	(30,854)
Effect of translation to USD	(61,018)	(110,073)
Movement for the year	(402,791)	232,566
	<u>1,132,187</u>	<u>1,612,301</u>
<i>Provision for financial obligations of subsidiary undertaking:</i>		
Balance at 1 January	-	464,594
Settlements	-	(464,594)
Movement for the year	258,780	-
	<u>258,780</u>	<u>-</u>
	<u>1,390,967</u>	<u>1,612,301</u>
Less: amounts due for settlement within 12 months	(349,896)	(58,804)
Balance at 31 December	<u><u>1,041,071</u></u>	<u><u>1,553,497</u></u>

### 23. Deferred tax liability

	2010 USD	Movement for the year USD	2011 USD
<i>Arising on:</i>			
Investment property	34,366,375	1,699,200	36,065,575
	<u>34,366,375</u>	<u>1,699,200</u>	<u>36,065,575</u>

### 24. Share capital

	2011 and 2010 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>

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 25. Cash and cash equivalents

	2011 USD	2010 USD
Cash at bank and on hand	18,857,230	14,824,076
Bank overdraft	(131,252)	(444,182)
	<u>18,725,978</u>	<u>14,379,894</u>
Cash and cash equivalents in the cash flow statement	<u>18,725,978</u>	<u>14,379,894</u>

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2011 was 0.575% per annum (2010 – 0.33%). 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:

	2011			2010		
	Related party activity USD	Total activity USD	%	Related party activity USD	Total activity USD	%
<i>Administrative:</i>						
Key management personnel	<u>23,089</u>	<u>2,488,902</u>	<u>1</u>	<u>21,542</u>	<u>2,760,568</u>	<u>1</u>

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 *USD19,729,118* (2010 – *USD18,741,024*) which, as illustrated in notes 7, 15 and 20, was borne by the Government of Malta. The amounts owed by and to the Government of Malta are disclosed in notes 15, 17 and 19.

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 7, 15, 20 and 21.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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

At 31 December 2011 and 2010 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 that are not measured at fair value are not materially different from their carrying amounts.

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.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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 2011

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### 28. Financial risk management

#### *Credit risk*

Financial assets which potentially subject the company to concentrations of credit risk consist principally of 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 *USD 64,289,664* (disclosed in note 15) 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.

Cash at bank is placed with reliable financial institutions.

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.

#### *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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 28. Financial risk management (continued)

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

#### *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 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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

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### 28. Financial risk management (continued)

#### *Sensitivity analysis (continued)*

The estimated change in cash flows for changes in functional currency 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	
	2011	2010
	USD	USD
Market interest rates - cash flows	+/- 59K	+/- 131K
EUR/USD exchange rates	+/- 2.5m	+/- 2.7m

#### *Liquidity risk*

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

As detailed in note 7, 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.

# Malta Freeport Corporation Limited

## Notes to the financial statements

31 December 2011

### 28. Financial risk management (continued)

#### *Liquidity risk (continued)*

	Within 1 year USD	Between 1-5 years USD	Over 5 years USD	Total USD
<b>2011</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	8,871,397	256,599	784,471	9,912,467
Variable rate instruments	4,050,800	5,566,667	-	9,617,467
Fixed rate instruments	-	-	250,000,000	250,000,000
Derivative financial liabilities	-	-	9,756,684	9,756,684
	<u>12,922,197</u>	<u>5,823,266</u>	<u>260,541,155</u>	<u>279,286,618</u>
<b>2010</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	6,837,686	229,667	1,323,830	8,391,183
Variable rate instruments	7,143,747	11,420,039	491,828	19,055,614
Fixed rate instruments	-	-	250,000,000	250,000,000
Derivative financial liabilities	-	-	18,248,614	18,248,614
	<u>13,981,433</u>	<u>11,649,706</u>	<u>270,064,272</u>	<u>295,695,411</u>

#### *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 debt, which includes the borrowings disclosed in notes 20 and 21, cash and cash equivalents as disclosed in note 25 and 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.



## 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 five to thirty-eight, which comprise the statement of financial position as at 31 December 2011, 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 four, 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 2011, 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 May 2012