Malta Freeport Corporation Limited

Report and financial statements

31 December 2014

Contents

Malta Freeport Corporation Limited

Directors, officer and other information

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

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
	Dr. C. Cilia LL.D. IC Law, Maisonnette 1 Guatemala Court Triq il-Ghenba Attard Malta

The directors present their report and the audited financial statements of the company for the year ended 31 December 2014.

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 *USD175,090* from *USD13,096,540* reported in 2013 to *USD13,271,630* reported in 2014. The increase in the fair value of the company's investment property amounted to *USD4,666,686* during the year ended 31 December 2014 compared to an increase of *USD5,359,009* reported last year. In the year under review the company reported a gain on its cross currency interest rate swap agreement of *USD33,124,547* whilst in 2013 the company incurred a loss of *USD11,985,064*. The profit before tax for the year amounted to *USD50,747,056* compared to *USD6,284,387* reported last year.

The company's net assets at the end of the reporting period amounted to *USD133,818,289* (2013 – *USD87,948,931*).

Result and dividends
The result for the year ended 31 December 2014 is shown in the statement of comprehensive income on page 6. The profit for the year after taxation was *USD45,869,358*. 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)
Ronnie Pellegrini
Michael Callus

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 6 November 2015 by:

Robert Sarsero	***Ronnie Pellegrini***
Chairman	***Director***

Malta Freeport Corporation Limited

Statement of directors' responsibilities

The directors are required by the Companies Act (Cap. 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 (Cap. 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 2014

	Notes	**2014 USD**	2013 USD
Revenue	*5*	**13,271,630**	13,096,540
Staff costs	*10*	**(2,279,150)**	(2,191,673)
Other administrative costs		**(412,941)**	(415,091)
Gain/ loss on exchange		**485,800**	(253,443)
Fair value movement in investment property	*13*	**4,666,686**	5,359,009
Gain/ (loss) on cross currency interest rate swap	*17*	**33,124,547**	(11,985,064)
Investment income	*6*	**2,532,917**	2,826,730
Finance costs	*7*	**(642,433)**	(152,621)
Profit before tax	*8*	**50,747,056**	6,284,387
Income tax expense	*11*	**(4,877,698)**	(7,043,977)
Profit/ (loss) and total comprehensive Income/ (expense) for the year		**45,869,358**	(759,590)

Malta Freeport Corporation Limited

Statement of financial position

Year ended 31 December 2014

	Notes	2014 USD	2013 USD
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	**755,244**	848,595
Investment property	13	**347,885,000**	340,368,000
Loans and receivables	15	**56,321,542**	58,432,251
		404,961,786	399,648,846
Current assets			
Loans and receivables	15	**2,110,710**	2,029,529
Trade and other receivables	16	**4,022,459**	4,222,362
Derivative instrument at fair value	17	**6,263,551**	-
Cash and cash equivalents	24	**60,723,632**	38,447,908
		73,120,352	44,699,799
Total assets		**478,082,138**	444,348,645
Current liabilities			
Trade and other payables	18	**6,076,185**	22,028,446
Derivative instrument at fair value	17	**-**	26,860,996
Bank overdraft and loans	19	**31,566,521**	1,196,011
Current tax liabilities	11	**1,231,245**	1,957,623
Post-employment benefits	21	**15,712**	49,310
		38,889,663	52,092,386
Non-current liabilities			
Other financial liabilities	20	**250,000,000**	250,000,000
Bank loans	19	**-**	488,352
Post-employment benefits	21	**913,564**	997,205
Deferred tax liability	22	**54,460,622**	52,821,771
		305,374,186	304,307,328
Total liabilities		**344,263,849**	356,399,714
Net assets		**133,818,289**	87,948,931

Malta Freeport Corporation Limited

Statement of financial position (continued)

Year ended 31 December 2014

	Notes	**2014 USD**	2013 USD
EQUITY			
Share capital	*23*	**2,976,128**	2,976,128
Reporting currency conversion difference		**759,548**	759,548
Retained earnings		**130,082,613**	84,972,845
Total equity		**133,818,289**	88,708,521

These financial statements were approved by the board of directors, authorised for issue on 6 November 2015 and signed on its behalf by:

Robert Sarsero
Chairman

Ronnie Pellegrini
Director

Rate of exchange as at 31 December 2014: EUR1 = USD1.2141 (31 December 2013: EUR1:USD1.3791)

Malta Freeport Corporation Limited

Statement of changes in equity

Year ended 31 December 2014

	Share capital USD	Reporting currency conversion difference USD	Retained earnings USD	Total USD
Balance at 1 January 2013	2,976,128	759,548	84,972,845	88,708,521
Loss and total comprehensive expense for the year	-	-	(759,590)	(759,590)
Balance at 1 January 2014	2,976,128	759,548	84,213,255	87,948,931
Profit and total comprehensive income for the year	-	-	45,869,358	45,869,358
Balance at 31 December 2014	**2,976,128**	**759,548**	**130,082,613**	**133,818,289**

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 (Cap. 386).

Malta Freeport Corporation Limited

Statement of cash flows
Year ended 31 December 2014

	Note	**2014** **USD**	2013 USD
Cash flows from operating activities			
Profit before tax		**50,747,056**	6,284,387
Adjustments for:			
Depreciation		**102,622**	125,786
Fair value movement in cross-currency swap		**(33,124,547)**	11,985,064
Fair value movement in investment property		**(4,666,686)**	(5,359,009)
Unrealised difference on exchange		**(485,800)**	253,443
Increase in provisions		**(93,775)**	(20,327)
Interest income		**(2,532,917)**	(2,826,730)
Net interest expense		**642,433**	151,516
Operating profit before working capital movements		**10,588,386**	10,594,130
Movement in trade and other receivables		**199,902**	403,444
Movement in trade and other payables		**(1,010,592)**	(91,841)
Cash flows from operations		**9,777,696**	10,905,733
Interest paid		**(642,433)**	(151,516)
Taxation paid		**(3,965,224)**	(15,972)
Taxation refund		**-**	1,523,415
Retirement benefits paid		**(23,464)**	(25,256)
Net cash flows from operating activities		**5,146,575**	12,236,404
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(9,271)**	(705,168)
Payments to acquire investment property		**(14,500,000)**	-
Movement in long-term receivables		**(820,786)**	(995,520)
Interest received		**2,577,048**	2,858,092
Net cash flows from investing activities		**(12,753,009)**	1,157,404
Cash flows from financing activities			
Movement in bank loan		**(1,600,923)**	(2,983,868)
Net movement in cash and cash equivalents		**(9,207,357)**	10,409,940
Cash and cash equivalents at the beginning of the year		**38,364,468**	27,954,528
Cash and cash equivalents at the end of the year	*24*	**29,157,111**	38,364,468

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.

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.

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. The company controls an investee when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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.

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.

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.

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

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.

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.

2. **Significant accounting policies (continued)**

Impairment (continued)

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.

(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.

2. Significant accounting policies (continued)

Revenue recognition (continued)

(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.

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.

2. Significant accounting policies (continued)

Leases (continued)

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.

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.

2. Significant accounting policies (continued)

Taxation (continued)

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.

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.

2. Significant accounting policies (continued)

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.

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 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

IAS 1 Amendments

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. The amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The IAS 1 amendments are effective for annual periods beginning on or after 1 January 2016. 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 amended standard on the financial position and performance of the company.

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 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.

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

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.

By virtue of an amendment issued on 11 September 2015, the effective date of the Standard was deferred by one year to annual periods beginning on or after 1 January 2018, with earlier application being permitted. This Standard has not as yet been endorsed by the EU at the date of authorisation of these financial statements. 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. 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:

	2014 **USD**	2013 USD
Licence fees	**8,946,991**	8,946,991
Other income	**722,854**	819,625
Rents receivable	**1,296,523**	1,274,684
Royalties	**972,658**	727,814
Security fees	**1,332,604**	1,327,426
	13,271,630	13,096,540

6. Investment income

	2014 USD	2013 USD
Interest income on bank deposits	**75,875**	114,220
Interest on long term debtor	**2,457,042**	2,459,508
Other interest receivable	**-**	253,002
	2,532,917	2,826,730

7. Finance costs

	2014 USD	2013 USD
Finance costs:		
Interest payable on debenture loan stock	**18,311,866**	18,472,564
Interest on bank overdrafts and loans	**526,483**	151,516
Bank charges	**115,950**	1,105
	18,954,299	18,625,185
Less: government subvention	**(18,311,866)**	(18,472,564)
Net interest payable	**642,433**	152,621

Interest payable on debenture loan stock is recharged to the Government of Malta as per government subvention, also referred to in notes 1 and 17.

8. Profit before tax

	2014 USD	2013 USD
This is stated after charging:		
Depreciation of property, plant and equipment	**114,296**	125,786

Auditor's remuneration for the current financial year amounted to *USD12,620* (2013 - *USD13,101*). Other fees payable to the auditor comprise *USD22,053* (2013 - *USD15,471*) for other non-audit services.

9. Key management personnel compensation

	2014 USD	2013 USD
Directors' compensation:		
Short-term benefits:		
Management remuneration	31,198	28,660

10. Staff costs and employee information

	2014 USD	2013 USD
Staff costs:		
Wages and salaries	2,083,915	1,998,753
Social security costs	164,037	164,260
Directors' remuneration (note 9)	31,198	28,660
	2,279,150	2,191,673

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

	2014 Number	2013 Number
Administration and finance	7	7
Operational	75	78
	82	85

11. Income tax expense

	2014 USD	2013 USD
Balance brought forward	**(1,957,623)**	1,523,415
Tax charge for the year:		
Malta tax at 35%	**(3,319,988)**	(1,957,623)
Final withholding tax at 15%	**(7,601)**	(15,972)
Deferred taxation	**(1,638,852)**	(5,070,382)
Overprovided tax in prior year	**88,743**	-
	(4,877,698)	(7,043,977)
	(6,835,321)	(5,520,562)
Tax paid:		
Tax at source on interest income	**7,601**	15,972
Refund	**-**	(1,523,415)
Settlement tax	**1,957,623**	-
Provisional tax	**2,000,000**	-
Transfer to deferred taxation	**1,638,852**	5,070,382
Balance carried forward	**(1,231,245)**	(1,957,623)

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

	2014 USD	2013 USD
Profit before tax	**50,747,056**	6,284,387
Tax at the applicable rate of 35%	**17,761,470**	2,199,535
Tax effect of:		
Interest income subject to 15% withholding tax	**(10,133)**	(21,296)
Profit and loss transactions not allowable for tax purposes	**(117,969)**	103,538
Fair value movement in investment property	**(1,633,340)**	(1,875,653)
Fair value movement in cross-currency swap	**(11,593,591)**	4,194,772
Deferred tax on investment property	**560,003**	2,443,081
Overprovided tax in prior year	**(88,742)**	-
Income tax expense for the year	**4,877,698**	7,043,977

12. Property, plant and equipment

	Plant and machinery USD	Motor vehicles USD	Total USD
Cost			
At 01.01.2013	2,144,782	254,926	2,399,708
Additions	705,168	-	705,168
Disposals	-	(27,293)	(27,293)
At 01.01.2014	2,849,950	227,633	3,077,583
Additions	9,271	-	9,271
At 31.12.2014	2,859,221	227,633	3,086,854
Accumulated depreciation			
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 01.01.2014	2,001,355	227,633	2,228,988
Provision for the year	102,622	-	102,622
At 31.12.2014	2,103,977	227,633	2,331,610
Carrying amount			
At 31.12.2013	848,595	-	848,595
At 31.12.2014	**755,244**	-	**755,244**

13. Investment property

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

	As at 01.01.2014 USD	Movement USD	**As at 31.12.2014 USD**
Investment property	287,175,232	4,666,686	**291,841,918**
Accrued income	53,192,768	2,850,314	**56,043,082**
	340,368,000	7,517,000	**347,885,000**

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

	Investment properties USD
Fair value	
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
At 01.01.2014	340,368,000
Decrease in fair value	4,666,686
Movement in accrued income	2,850,314
As at 31.12.2014	**347,885,000**

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.

13. 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% (2013 – 5.5% and 9.5%) 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 *USD37M* (2013 – *USD45M*) 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 *USD448,686* in 2014 (2013 – *USD5,359,009*).

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.

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 *USD11,216,172* (2013 – *USD10,949,489*) which include contingent rent of *USD972,658* (2013 – *USD727,814*)

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

	2014 USD	2013 USD
Within one year	**8,653,000**	8,014,000
Between two and five years	**35,258,000**	34,328,000
Over five years	**196,535,000**	205,498,000
	240,446,000	247,840,000

14. Financial assets

Shares in subsidiary undertakings:

	2014 USD	2013 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	**(14,709,666)**	(14,709,666)
	-	-

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.

15. 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 25.

	2014 USD	2013 USD
Receivable from third party	**58,432,252**	60,461,780
Less: amounts recoverable within one year	**(2,110,710)**	(2,029,529)
Amounts recoverable after one year	**56,321,542**	58,432,251

16. Trade and other receivables

	2014 USD	2013 USD
Trade receivables	**1,485,336**	1,488,856
Other receivables	**19**	22
Prepayments and accrued income	**2,537,104**	2,733,484
	4,022,459	4,222,362

17. Derivative instrument at fair value

	2014 USD	2013 USD
Value of cross currency differential	**6,263,551**	(26,860,996)
Value of interest rate differential	**(52,801,299)**	(51,289,892)
Fair value of cross currency interest rate swap as at 31 December	**(46,537,748)**	(78,150,888)
Interest rate differential guaranteed by the Government of Malta	**52,801,299**	51,289,892
Fair value as at 31 December		
Classified with current assets	**6,263,551**	-
Classified with current liabilities	**-**	(26,860,996)

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:

	2014 USD	2013 USD
Gain/ (loss) on cross currency interest rate swap	**33,124,547**	(11,985,064)

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 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.

The counterparty to the swap agreement had the option to wind-up the derivative in January 2014 which option was not exercised following a one-year extension to January 2015 with the company. A further extension to July 2015 was granted by the counterparty to the company. This extension was renewed again and is in force to the present day. The company on its part provided the counterparty with a cash collateral which balance as at 31 December 2014 amounted to *USD56,642,397*. The company sought and found a new counterparty with whom negotiations are currently being finalised.

18. Trade and other payables

	2014 USD	2013 USD
Trade payables	**27,994**	353,498
Capital creditor	**500,000**	15,000,000
Amounts due to government	**2,000,712**	2,489,717
Other payables	**113,457**	143,069
Accruals and deferred income	**3,434,022**	4,042,162
	6,076,185	22,028,446

No interest is charged on trade and other payables.

19. Bank overdrafts and loans

	2014 USD	2013 USD
Bank overdrafts	**31,566,521**	83,440
Bank loans	**-**	1,600,923
	31,566,521	1,684,363

Bank overdrafts and loans are repayable as follows:

	2014 USD	2013 USD
On demand or within one year	**31,566,521**	1,196,011
In the second year	**-**	488,352
	31,566,521	1,684,363
Less: amount due for settlement within 12 months (shown under current liabilities)	**(31,566,521)**	(1,196,011)
	-	488,352

19. Bank overdrafts and loans (continued)

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

	2014 USD	2013 USD
Bank overdrafts denominated in Euro	**3,987**	83,440
Bank loans denominated in Euro	**-**	1,600,923
	3,987	1,684,363

The bank overdraft bears interest at LIBOR plus margin of 1.25% per annum and is secured with guarantees given by the Government of Malta. In the prior year the bank loans and overdraft bore interest at 4% 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.

20. Other financial liabilities

	2014 USD	2013 USD
7.25% Debenture Loan Stock 2028	**250,000,000**	250,000,000

The above loan and interest thereon is guaranteed by the Government of Malta and is repayable in 2028. As disclosed in note 7 interest is recharged to the Government of Malta.

21. 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.

21. Post-employment benefits (continued)

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

	2014 USD	2013 USD
Balance at 1 January	**1,046,515**	1,092,098
Settlements	**(23,464)**	(25,256)
Effect of translation to USD	**(125,209)**	47,440
Movement for the year	**31,434**	(67,767)
Balance at 31 December	**929,276**	1,046,515
Less: amounts due for settlement within 12 months	**(15,712)**	(49,310)
Amounts due for settlement after 12 months	**913,564**	997,205

22. Deferred tax liability

	Opening balance USD	Recognised in profit or loss USD	Closing balance USD
2013			
Arising on:			
Temporary differences			
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
	(49,299,501)	(3,522,270)	(52,821,771)
Arising on:			
Unused tax losses	1,548,112	(1,548,112)	-
	(47,751,389)	(5,070,382)	(52,821,771)
2014			
Arising on:			
Temporary differences			
Property, plant and equipment	**(109,555)**	**(40,205)**	**(149,760)**
Investment property	**(34,461,027)**	**(560,003)**	**(35,021,030)**
Accrued income	**(18,617,469)**	**(997,610)**	**(19,615,079)**
Provisions	**366,280**	**(41,033)**	**325,247**
	(52,821,771)	**(1,638,851)**	**(54,460,622)**

23. Share capital

	2014 and 2013 Authorised USD	2014 and 2013 Issued and called up USD
2,976,128 ordinary shares of USD1 each, all of which have been issued and called up	**2,976,128**	**2,976,128**

24. Cash and cash equivalents

	2014 USD	2013 USD
Cash at bank and on hand	**60,723,632**	38,447,908
Bank overdraft	**(31,566,521)**	(83,440)
Cash and cash equivalents in the cash flow statement	**29,157,111**	38,364,468

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2014 was 0.1% per annum (2013 – 0.25%). The interest rate on the bank overdraft is disclosed in note 19.

At the statement of financial position date an amount of *USD56,642,397* disclosed as cash at bank and on hand is held as a cash collateral in connection with the company's cross currency interest rate swap.

25. Related party disclosures

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

	2014 Related party activity USD	2014 Total activity USD	2014 %	2013 Related party activity USD	2013 Total activity USD	2013 %
Administrative:						
Key management personnel	**31,198**	**2,279,150**	**1**	28,660	2,191,673	1

25. 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 *USD18,311,866* (2013 - *USD18,472,564*) which, as illustrated in notes 7, 17, 18 and 19, was borne by the Government of Malta. The amounts owed to the Government of Malta are disclosed in note 18. These amounts are unsecured, interest free and will be settled in cash. No guarantees have been given.

As disclosed in note 17, 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 18 and 19.

26. Fair values of financial assets and financial liabilities

At 31 December 2014 and 2013 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 17.

26. 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
	EUR	EUR	EUR	EUR	EUR
2014					
Financial assets					
Loans and receivables					
Receivables from third parties	-	58,432,252	-	58,432,252	58,432,252
Financial liabilities at amortised cost					
7.25% Debenture Loan Stock 2028	-	344,200,000	-	344,200,000	250,000,000
Bank loans and overdrafts	-	31,566,521	-	31,566,521	31,566,521
Total	-	375,766,521	-	375,766,521	281,566,521
2013					
Financial assets					
Loans and receivables					
Receivables from third parties	-	60,461,780	-	60,461,780	60,461,780
Financial liabilities at amortised cost					
7.25% Debenture Loan Stock 2028	-	317,600,000	-	317,600,000	250,000,000
Bank loans and overdrafts	-	1,684,363	-	1,684,363	1,684,363
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.

27. 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 *USD58,432,252* (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. 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.

27. 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 19 and 20 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 17.

The company earns interest on its long-term receivables and on its bank deposits as disclosed in note 15 and 24 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 17, 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.

27. 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	
	2014	2013
	USD	USD
Market interest rates - cash flows	**+/- 190K**	+/- 240K
EUR/USD exchange rates	**+/- 2.4m**	+/- 2.8m

Liquidity risk

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

27. Financial risk management (continued)

Liquidity risk (continued)

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 17, 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
2014				
Non-derivative financial liabilities				
Non-interest bearing	6,091,897	154,917	758,647	7,005,461
Variable rate instruments	31,566,521	-	-	31,566,521
Fixed rate instruments	-	-	250,000,000	250,000,000
	37,658,418	154,917	250,758,647	288,571,982
2013				
Non-derivative financial liabilities				
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
Derivative financial liabilities				
Cross currency interest rate swap	26,860,996	-	-	26,860,996
	50,194,427	620,586	250,866,802	301,681,815

27. 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.

Deloitte.

Deloitte Audit Limited
Deloitte Place
Mriehel Bypass
Mriehel BKR 3000
Malta

Tel: +356 2343 2000, 2134 5000
Fax: +356 2133 2606
info@deloitte.com.mt
www.deloitte.com/mt

Company Ref No: C51312
VAT Reg No: MT2013 6121
Exemption number: EXO2155

Independent auditor's report

to the members of

Malta Freeport Corporation Limited

We have audited the accompanying financial statements of Malta Freeport Corporation Limited set out on pages 5 to 43, which comprise the statement of financial position as at 31 December 2014, 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 (Cap. 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

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 2014, 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 (Cap. 386).

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

6 November 2015