MALTA FREEPORT CORPORATION LIMITED

Annual Report and Financial Statements

31 December 2015

MALTA FREEPORT CORPORATION LIMITED Annual Financial Statements for the year ended 31 December 2015

CONTENTS

	Pages
Company information	2
Directors' report	3 - 4
Independent auditor's report	5 - 6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 33

MALTA FREEPORT CORPORATION LIMITED

Annual Financial Statements for the year ended 31 December 2015

COMPANY INFORMATION

Registration

Malta Freeport Corporation Limited ("the Company") is registered in Malta as a limited liability company under the Companies Act, Cap 386 of the laws of Malta. The Company's registered number is C9353.

Directors

Robert Sarsero (Chairman)

Michael Callus Ronnie Pellegrini Tony Nicholl Dr. Joe Cilia

Dr. Henry Antoncich
Lisa Cassar Shaw
John Zammit
Dunstan Attard

(Appointed on 14 December 2016) (Appointed on 14 December 2016) (Appointed on 14 December 2016) (Appointed on 14 December 2016)

(Resigned on 14 December 2016)

(Resigned on 14 December 2016)

(Appointed on 14 December 2016)

(Appointed on 14 December 2016)

Secretary

Dr. Byron Camilleri LL.D.

Registered office

Freeport Centre Port of Marsaxlokk Kalafrana Malta

Auditor

Ernst & Young Malta Limited Certified Public Accountants Regional Business Centre Achille Ferris Street Msida MSD 1751 Malta

Bankers

APS Bank Limited APS Centre Tower Street Birkirkara Malta

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

Central Bank of Malta Pjazza Kastilja Valletta Malta

Legal advisors

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

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

Banif Bank (Malta) p.1.c 6, Hompesch Road Fgura Malta

UBS Limited 100, Liverpool Street London EC2M 2RH United Kingdom

MALTA FREEPORT CORPORATION LIMITED

Annual Financial Statements for the year ended 31 December 2015

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2015.

Principal activities

The Company's principal activity, which is unchanged since last year, fulfils the role of land lord and authority over the Freeport zone.

Financial and operational review

During the year under review the Company reported a decrease in revenue of USD480,516 from USD13,271,630 reported in 2014 to USD12,791,114 reported in 2015. The increase in the fair value of the Company's investment property amounted to USD16,368,009 during the year ended 31 December 2015 compared to an increase of USD4,666,686 reported last year. In the year under review the Company reported a gain on its cross currency interest rate swap agreement of USD25,174,657 whilst in 2014 the Company generated a gain of USD33,124,547. The profit before tax for the year amounted to USD54,135,521 compared to USD50,747,056 reported last year.

The Company's net assets at the end of the reporting period amounted to USD193,911,361 (2014: USD133,818,289).

Results and dividends

The results for the year ended 31 December 2015 is shown in the statement of comprehensive income on page 7. The profit for the year after taxation was US60,093,072 (2014: USD45,869,358). The directors do not propose the distribution of a dividend (2014: Nil).

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 of the Company who held office during the year are set out on page 2.

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

Statement of directors' responsibilities

The Companies Act, Cap. 386 of the Laws of Malta requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year.

The directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates;
- the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the European Union;
- the financial statements are prepared on the basis that the Company must be presumed to be carrying on its business as a going concern; and
- account has been taken of income and charges relating to the accounting year, irrespective of the date of receipt or payment.

MALTA FREEPORT CORPORATION LIMITED Annual Financial Statements for the year ended 31 December 2015

DIRECTORS' REPORT - continued

Statement of directors' responsibilities - continued

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act, Cap. 386 of the Laws of Malta. They 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.

Auditor

Ernst & Young Malta limited have expressed their willingness to continue in office and a resolution for their reappointment will be proposed in the Annual General Meeting.

The directors' report was approved by the board of directors and signed on its behalf on 10 April 2017 by:

ROBERT SARSERO

Chairman

DUNSTAN ATTARD

Director



Ernst & Young Malta Limited Regional Business Centre Achille Ferris Street Msida MSD 1751, Maita Tel: +356 2134 2134 Fax: +356 2133 0280 ey.malta@mt ey.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MALTA FREEPORT CORPORATION LIMITED

We have audited the accompanying financial statements of Malta Freeport Corporation Limited set out on pages 7 to 33 which comprise the statement of financial position as at 31 December 2015 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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and the Companies Act, Cap. 386 of the Laws of Malta, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatements, 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 consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

Opinion

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company as of 31 December 2015, and of its financial performance and its 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 of the Laws of Malta.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MALTA FREEPORT CORPORATION LIMITED - continued

Report on other Legal and Regulatory Requirements

We also have responsibilities under the Companies Act, Cap. 386 of the Laws of Malta to report to you if in our opinion:

- The information given in the directors' report is not consistent with the financial statements.
- Adequate accounting records have not been kept.
- The financial statements are not in agreement with the accounting records.
- We have not received all the information and explanations we require for our audit.
- If certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

This copy of the audit report has been signed by Anthony Doublet for and on behalf of

Ernst & Young Malta Limited Certified Public Accountants

10 April 2017

MALTA FREEPORT CORPORATION LIMITED Annual Financial Statements for the year ended 31 December 2015

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2015

	Notes	2015 USD	2014 USD
Revenue	4	12,791,114	13,271,630
Staff costs	9	(2,156,436)	(2,279,150)
Other administrative costs		(600,702)	(412,941)
Gain on exchange		275,519	485,800
Fair value movement in investment property	12	16,368,009	4,666,686
Gain on cross currency interest rate swap	16	25,174,657	33,124,547
Investment income	5	2,346,615	2,532,917
Finance costs	6	(63,255)	(642,433)
Profit before tax	7	54,135,521	50,747,056
Income tax credit/(expense)	10	5,957,551	(4,877,698)
Profit for the year		60,093,072	45,869,358
Other comprehensive income		. *	
Total comprehensive income for the year	(-	60,093,072	45,869,358

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION as at 31 December 2015

ASSETS	Notes	2015 2014 USD USD
Non-curent assets Property plant and equipment Investment property Loans and receivables	11 12 14	653,869 755,244 366,700,000 347,885,000 54,126,404 56,321,542
Total non-current assets		421,480,273 404,961,786
Current assets Loans and receivables Trade and other receivables Derivative instrument at fair value Cash and cash equivalents	14 15 16 23	2,195,138 2,110,710 4,063,484 4,022,459 31,438,208 6,263,551 36,576,300 60,723,632
Total current assets		74,273,130 73,120,352
Total assets		495,753,403 478,082,138
EQUITY AND LIABILITIES Equity Issued capital Reporting currency conversion difference Retained earnings	22	2,976,128 2,976,128 759,548 759,548 190,175,685 130,082,613
Total equity		193,911,361 133,818,289
Non-current liabilities Other financial liabilities Post-employment benefits Deferred tax liabilities	19 20 21	250,000,000 250,000,000 951,799 913,564 44,936,288 54,460,622
Total non-current liabilities		295,888,087 305,374,186
Current liabilities Trade and other payables Bank overdrafts Current tax liabilities Post-employment benefits	17 18 10 20	4,334,922 6,076,185 3,854 31,566,521 1,609,159 1,231,245 6,020 15,712
Total current liabilities		5,953,955 38,889,663
Total liabilities		301,842,042 344,263,849
Total equity and liabilities		495,753,403 478,082,138

Rate of exchange as at 31 December 2015: EUR1 = USD1.0887 (31 December 2014: EUR1 = USD1.2141)

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

The financial statements on pages 7 to 33 have been authorised for issue by the directors on 10 April 2017:

Chairman

DUNSTAN ATTARD

Director

MALTA FREEPORT CORPORATION LIMITED Annual Financial Statements for the year ended 31 December 2015

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2015

	Share premium USD	Foreign exchange translation difference USD	Retained earnings USD	Total USD
Balance at 1 January 2015	2,976,128	759,548	130,082,613	133,818,289
Profit and total comprehensive income for the year	4)	+	60,093,072	60,093,072
Balance at 31 December 2015	2,976,128	759,548	190,175,685	193,911,361
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

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

MALTA FREEPORT CORPORATION LIMITED Annual Financial Statements for the year ended 31 December 2015

STATEMENT OF CASH FLOWS for the year ended 31 December 2015

	Note	2015 USD	2014 USD
Cash flows before operating activities Profit before tax		54,135,521	50,747,056
Adjustments for: Depreciation		103,799	102,622
Fair value movement in cross-currency swap		(25,174,657)	(33,124,547)
Fair value movement in investment property		(16,368,009)	(4,666,686)
Unrealised difference on exchange		(275,519)	(485,800)
Increase/(decrease) in provisions		33,361	(93,775)
Interest income		(2,346,615)	(2,532,917)
Net interest expense		63,255	642,433
Operating profit before working capital movements		10,171,136	10,588,386
Movement in trade and other receivables		(2,508,371)	199,902
Movement in trade and other payables		(1,376,947)	(1,010,592)
Cash generated from operations		6,285,818	9,777,696
Interest paid		(152,052)	(642,433)
Taxation paid		(3,188,869)	(3,965,224)
Retirement benefits paid		(4,818)	(23,464)
Net cash flows from operating activities		2,940,079	5,146,575
Investing activities		(2.424)	(9,271)
Payments to acquire property, plant and equipment		(2,424)	(14,500,000)
Payments to acquire investment property		2,110,710	(820,786)
Movement in long term receivables Interest received		2,366,970	2,577,048
Net cash flows from/(used in) investing activities		4,475,256	(12,753,009)
Financing activities Movement in bank loan		- 	(1,600,923)
Net cash flows used in financing activities		3 4	(1,600,923)
Net movement in cash and cash equivalents		7,415,335	(9,207,357)
Cash and cash equivalents at beginning of the year		29,157,111	38,364,468
Cash and cash equivalents at end of the year	23	36,572,446	29,157,111

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Malta Freeport Corporation Limited ("the Company") is registered in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. Its registered office is provided on page 2. The principal activities of the Company are described in the directors' report.

2.1 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 (IFRS) as adopted by the European Union (EU). The significant accounting policies adopted are set out below.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year

The accounting policies are consistent with those of the previous financial year, except for the following standards, interpretations and amendments effective as of 1 January 2015. The adoption of these standards, interpretations and amendments did not have a significant impact on the financial statements of the Company.

- IFRIC 21 Levies (effective for financial years beginning on or after 17 June 2014)
- Improvements to IFRS (2011-2013 cycle) (effective for financial years beginning on or after 1 January 2015)

Standards, interpretations and amendments to published standards that are not yet effective

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early. None of these standards, interpretations and amendments is expected to have an impact on the financial position or performance of the Company.

- IAS 19 Amendment Defined Benefit Plans Employee Contributions (effective for financial years beginning on or after 1 February 2015)
- Improvements to IFRS (2010 2012 Cycle) (effective for financial years beginning on or after 1 February 2015)
- IFRS 11 Amendment Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016)
- IAS 1 Amendment Disclosure Initiative (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 38 Amendment Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 41 Amendment Bearer Plants (effective for financial years beginning on or after 1 January 2016)
- IAS 27 Amendment Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016)
- Improvements to IFRS (2012 2014 Cycle) (effective for financial years beginning on or after 1 January 2016)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

Standards, interpretations and amendments that are not yet endorsed by the European Union

- IFRS 10 and IAS 28 Amendments Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (effective for financial years beginning on or after 1 January 2016)
- IFRS 10, IFRS 12 and IAS 28 Amendments Investment Entities: Applying the Consolidation Exception (effective for financial years beginning on or after 1 January 2016)
- IFRS 14 Regulatory Deferral Accounts (effective for financial years beginning on or after 1 January 2016)
- IAS 7 Amendment Disclosure Initiative (effective for financial years beginning on or after 1 January 2017)
- IAS 12 Amendment Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017)
- IFRS 2 Amendment Classification and Measurement of Share-based Payment Transactions (effective for financial years beginning on or after 1 January 2018)
- IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)
- IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019)

The changes resulting from these standards are not expected to have material effect on the financial statements of the company.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

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.

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 Motor vehicles 5% - 25% per annum 25% per annum

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

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

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.

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.

The company will reassess on whether or not it controls an investee if facts and circumstances indicate that there are changes t one or more of the three elements of control. Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when; the company loses control of the subsidiary.

Investments in subsidiaries are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses. Dividends from the investment are recognised in profit or loss.

Other financial instruments

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Other financial instruments - continued

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 and other 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 (EIR). Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

(iii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the EIR. 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 EIR 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 and other 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.

2.3 SUMMARY OF 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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

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

(i) Provision of services

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

(ii) Interest income

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

(iii) Royalty income

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

(iv) Rental income

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

Borrowing costs

Borrowing costs include the costs incurred in obtaining external financing.

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

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessor

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Company as a lessor - 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. Contingent rents are recognised as revenue in the period in which they are earned.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on the purchase of assets or services is not recoverable from
 the taxation authority, in which case the value added tax is recognised as part of the asset or as
 part of the expense item as applicable: and
- receivables and payables that are stated with the amount of value added tax included.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Taxes - continued

Value added tax - continued

The net of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables that are stated with the amount of value added tax included

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. Remeasurements 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.

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 retranslated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the retranslation 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 retranslated 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 retranslated. 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 retranslation 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.

2.3 SUMMARY OF 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.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 12 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.

REVENUE 4.

Bank charges

Less: government subvention

Net interest payable

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

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

		2015 USD	2014 USD
	Licence fees Other income Rents receivable Royalties Security fees	8,946,991 612,773 1,135,536 805,451 1,290,363	8,946,991 722,854 1,296,523 972.658 1,332,604
	Security rees	12,791,114	13,271,630
5.	INVESTMENT INCOME		
		2015 USD	2014 USD
	Interest income on bank deposits Interest on long term debtor	28,613 2,318,002	75,875 2,457,042
		2,346,615	2,532,917
6.	FINANCE COSTS		
		2015 USD	2014 USD
	Interest payable on debenture loan stock Interest on bank overdrafts	15,502,807 59,361	18,311,866 526,483

Interest payable on debenture loan stock is recharged to the Government of Malta as per government subvention, also referred to in notes 1 and 16.

3,894

63,255

15,566,062

(15,502,807)

115,950

642,433

18,954,299 (18,311,866)

MALTA FREEPORT CORPORATION LIMITED Annual Financial Statements for the year ended 31 December 2015

NOTES TO THE FINANCIAL STATEMENTS - continued

7. PROFIT BEFORE TAX	2015 USD	2014 USD
This is stated after charging: Depreciation of property, plant and equipment =	103,799	102,622
Auditors' remuneration for the current financial year amounted to U Other fees payable to the auditor comprise USD22,053 in 2014 for o	JSD10,541 (2014: U other non-audit servi	JSD12,620). ces.
8. KEY MANAGEMENT PERSONNEL COMPENSATION		
	2015 USD	2014 USD
Management remuneration =	29,751	31,198
9. STAFF COSTS AND EMPLOYEE INFORMATION		
	2015 USD	2014 USD
Wages and salaries Social security costs Directors' remuneration (note 8)	1,972,863 153,822 29,751	2,083,915 164,037 31,198
Enderton remandation (ness o)	2,156,436	2,279,150
The average number of persons employed during the year, including up as follows:	ng executive directo	rs, was made
	2015 Number	2014 Number
Administration and finance Operational	7 81	7 75
	88	82

10. INCOME TAX (CREDIT)/EXPENSE

	2015 USD	2014 USD
Balance brought forward	(1,231,245)	(1,957,623)
Tax (credit)/expense for the year: Malta tax at 35% Final withholding tax at 15% Deferred taxation Overprovided tax in prior year	(3,566,783) 9,524,334	(3,319,988) (7,601) (1,638,852) 88,743
C respective as process	5,957,551	(4,877,698)
	4,726,306	(6,835,321)
Tax paid: Tax at source on interest income Settlement tax Provisional tax Transfer to deferred taxation	1,231,245 1,957,624 (9,524,334)	7,601 1,957,623 2,000,000 1,638,852
Balance carried forward	(1,609,159)	(1,231,245)

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

	2015 USD	2014 USD
Profit before tax	54,135,521	50,747,056
Tax at the applicable rate of 35%	(18,947,432)	(17,761,470)
Tax effect of: Interest income subject to 15% withholding tax Profit and loss transactions not allowable for tax purposes Fair value movement in investment property Fair value movement in cross-currency swap Deferred tax on investment property Deferred tax on change in tax rates on immovable property Overprovided tax in prior year	814 5,728,803 8,811,130 (1,964,161) 12,328,397	10,133 117,969 1,633,340 11,593,591 (560,003) 88,742
Income tax credit/(expense) for the year	5,957,551	(4,877,698)

11. PROPERTY PLANT AND EQUIPMENT

	Plant and machinery USD	Motor vehicles USD	Total USD
Cost At 1 January 2014 Additions	2,849,950 9,271	227,633	3,077,583 9,271
At 1 January 2015 Additions	2,859,221 2,424	227,633	3,086,854 2,424
At 31 December 2015	2,861,645	227,633	3,089,278
Accumulated depreciation At 1 January 2014 Depreciation charge for the year	2,001,355 102,622	227,633	2,228,988 102,622
At 1 January 2015 Depreciation charge for the year	2,103,977 103,799	227,633	2,331,610 103,799
At 31 December 2015	2,207,776	227,633	2,435,409
Carrying amount At 31 December 2014	755,244	-	755,244
At 31 December 2015	653,869		653,869

At 31 December 2015, cost of fully depreciated assets still in use amounted to USD2,336,109 (2014: USD1,957,660).

12. INVESTMENT PROPERTY

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

	As at 1 January 2015 USD	Movement USD	As at 31 December 2015 USD
Investment property Accrued income	291,841,918 56,043,082	16,368,009 2,446,991	308,209,927 58,490,073
	347,885,000	18,815,000	366,700,000

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

	Investment properties USD
Fair value At 1 January 2014 Increase in fair value Movement in accrued income	340,368,000 4,666,686 2,850,314
As at 1 January 2015 Increase in fair value Movement in accrued income	347,885,000 16,368,009 2,446,991
As at 31 December 2015	366,700,000

12. INVESTMENT PROPERTY - continued

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.

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% (2014: 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 USD34M (2014 – USD37M) in the value of the Company's investment property. On the basis of these assessments and after having taken account of the implications of the amendments to the agreements described above on the future cash flows, the Company reported an increase in the value of the investment property of USD16,368,009 in 2015 (2014: USD4,666,686).

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.

Operating leases relating to the investment property owned by the Company are for varying lease terms. The lessees do not have the option to purchase the property at the expiry of the lease period. The income earned under the operating leases amounted to USD10,887,978 (2014: USD11,216,172) which include contingent rent of USD805,451 (2014: USD972,658)

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

	2015 USD	2014 USD
Within one year Between two and five years Over five years	9,008,663 37,033,068 180,047,838	8,653,000 35,258,000 196,535,000
	226,089,569	240,446,000

13. FINANCIAL ASSETS

Shares in subsidiary undertakings:

	2015 USD	2014 USD
5,180,000 (2014: 5,180,000) "A" ordinary shares of EUR2.329372 each, 440,000 (2014: 440,000) "B" ordinary shares of EUR2.329373 each and 60,000 (2014: 60,000) "C" ordinary shares of EUR2.329373 each in Freeport Terminal (Malta) p.l.c. – 99% of equity held Provision for diminution in value	14,709,666 (14,709,666)	14,709,666 (14,709,666)

The registered office of this subsidiary 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.

14. 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 24.

	2015 USD	2014 USD
Receivable from third party Less: amounts recoverable within one year	56,321,542 (2,195,138)	58,432,252 (2,110,710)
Amounts recoverable after one year	54,126,404	56,321,542

15. TRADE AND OTHER RECIEVABLES

	2015 USD	2014 USD
Trade receivables Other receivables Prepayments and accrued income	1,291,804 18 2,771,662	1,485,336 19 2,537,104
. ,	4,063,484	4,022,459

16. DERIVATIVE INSTRUMENT AT FAIR VALUE

	2015 USD	2014 USD
Value of cross currency differential Value of interest rate differential	31,438,208 (27,996,274)	6,263,551 (52,801,299)
Fair value of cross currency interest rate swap as at 31 December	3,441,934	(46,537,748)
Interest rate differential guaranteed by the Government of Malta	27,996,274	52,801,299
Fair value as at 31 December Classified with current assets	31,438,208	6,263,551

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:

Gain on cross currency interest rate swap	25,174,657	33,124,547
	2015 USD	2014 USD

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 6, 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 Company on its part provided the counterparty with a cash collateral which balance as at 31 December 2015 amounted to USD19,677,094 (2014: USD56,642,397).

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 up to January 2017. Consequently, the Company finalized a new cross currency interest rate swap with a new counterparty in January 2017, for the exchange of interest at 7.25% of USD250,000,000 Debenture Loan Stock to 6.426% of EUR238,027,230. The new agreement does not include the exchange of the principal amounts at the termination date of the swap.

17. TRADE AND OTHER PAYABLES

Trade payables Capital creditor	13,546	27,994 500,000
Amounts due to government	1,609,162	2,000,712
Other payables	124,450	113,457
Accruals and deferred income	2,587,764	3,434,022
	4,334,922	6,076,185

No interest is charged on trade and other payables.

18. BANK OVERDRAFTS

2015 2014 USD USD 3,854 31,566,521

Bank overdrafts

Bank overdrafts are repayable on demand. The counterparty has an obligation to return the collateral.

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

Bank overdrafts denominated in Euro 2015 USD USD 2014

3,854 3,987

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.

19. OTHER FINANCIAL LIABILITIES

7.25% Debenture Loan Stock 2028

2015
USD

2014
USD

2014
USD

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 6 interest is recharged to the Government of Malta.

20. 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 1.90% (2014: 5.12%) after considering the average life expectancy of such employees and expected increases based on inflation rates and past salary increases, where applicable.

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

	2015 USD	2014 USD
Balance at 1 January Settlements Effect of translation to USD Movement for the year	929,276 (4,818) (95,981) 129,342	1,046,515 (23,464) (125,209) 31,434
Balance at 31 December Less: amounts due for settlement within 12 months	957,819 (6,020)	929,276 (15,712)
Amounts due for settlement after 12 months	951,799	913,564

21. DEFERRED TAX LIABILITY

	Opening balance USD	Recognised in profit or loss USD	Closing balance USD
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)
2015 Arising on: Temporary differences Property, plant and equipment Investment property Accrued income Provisions	(149,760) (35,021,030) (19,615,079) 325,247	6,555 10,364,236 (856,447) 9,990	(143,205) (24,656,794) (20,471,526) 335,237
_	(54,460,622)	9,524,334	(44,936,288)
SHARE CAPITAL		2017	14014
		2015	and 2014 Issued and
		Authorised	called up
		USD	USD
2,976,128 ordinary shares of USD 1 each, all of which have been issued and called up		2,976,128	2,976,128

23. CASH AND CASH EQUIVALENTS

22.

2015 USD	2014 USD
36,576,300 (3,854)	60,723,632 (31,566,521)
36,572,446	29,157,111
	36,576,300 (3,854)

23. CASH AND CASH EQUIVALENTS - continued

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2015 was 0.1% per annum (2014: 0.1%) The interest rate on the bank overdraft is disclosed in note 18.

As at 31 December 2015, an amount of USD19,677,094 (2014: 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.

24. RELATED PARTY DISCLOSURES

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

Key management personnel

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 USD15,502,807 (2014: USD18,311,866) which, as illustrated in notes 6, 16, 17 and 18, was borne by the Government of Malta. The amounts owed to the Government of Malta are disclosed in Note 17. These amounts are unsecured, interest free and will be settled in cash. No guarantees have been given.

As disclosed in note 16, 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 17 and 18.

25. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

At 31 December 2015 and 2014 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 asset 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 asset is disclosed in note 16.

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.

25. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES - continued

Fair value measurement at end of the reporting period using:

	Level 1 USD	Level 2 USD	Level 3 USD	Total amount USD	Carrying amount USD
2015 Financial assets Loans and receivables Receivables from third parties	2	64,486,599		64,486,599	56,321,542
Financial liabilities at amortised cost		04,400,377		01,100,000	
7.25% Debenture Loan Stock 2028	-	354,563,832		354,563,832	250,000,000
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

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.

26. 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.

26. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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 USD56,321,542 (disclosed in Note 14) 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 B1.

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.

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 18 and 19 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 Euro as disclosed in note 16.

The Company earns interest on its long-term receivables and on its bank deposits as disclosed in notes 14 and 23 respectively.

26. FINANCIAL RISK MANAGEMENT - continued

Interest rate risk - continued

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 16, 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.

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	
	2015 USD	2014 USD	
Market interest rates – cash flows EUR/USD exchange rates	+/- 39k +/-2.2m	+/- 190k +/-2.4m	

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 6, 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 16, 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.

26. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

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
2015 Non-derivative financial liabilities Non-interest bearing Variable rate instruments Fixed rate instruments	4,340,942 3,854	143,683	808,116 250,000,000	5,292,741 3,854 250,000,000
	4,344,796	143,683	250,808,116	255,296,595
2014 Non-derivative financial liabilities Non-interest bearing Variable rate instruments Fixed rate instruments	6,091,897 31,566,521	154,917	758,647 250,000,000	7,005,461 31,566,521 250,000,000
	37,658,418	154,917	250,758,647	288,571,982

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.

DETAILED INCOME STATEMENT

	Schedule	2015 USD	2014 USD
Licence fees Other income Rents receivable Royalties Security fees		8,946,991 612,773 1,135,536 805,451 1,290,363	8,946,991 722,854 1,296,523 972,658 1,332,604
Staff costs Other administrative expenses	II II	12,791,114 (2,156,436) (600,702)	13,271,630 (2,279,150) (412,941)
	11	10,033,976	10,579,539

STAFF COSTS AND OTHER ADMINISTRATIVE EXPENSES

	2015 USD	2014 USD
Staff costs Directors' emoluments Wages and salaries	29,751 2,126,685 2,156,436	31,198 2,247,952 2,279,150
Other administrative expenses Audit fee Depreciation Insurance Motor vehicle expenses Professional fees Promotional and travelling Provision for retirement benefits and financial obligations Settlement of claims Repairs and maintenance Staff costs and training Stationery and printing Sundry expenses Telecommunication expenses Water and electricity	10,541 103,799 31,598 56,986 47,207 9,247 129,342 152,400 4,463 30,056 5,798 3,721 11,813 3,731	11,681 102,622 37,941 69,804 73,235 21,961 23,464 9,311 27,272 6,221 6,334 11,293 11,802
	600,702	412,941