

**MALTA FREEPORT CORPORATION LIMITED**

**Annual Report and Financial Statements**

**31 December 2018**

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**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2018**

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**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)

Tony Nicholl  
Dr. Joe Cilia  
Dr. Henry Antoncich  
Charlene Bianco Farrugia  
Joseph Paris  
Lisa Cassar Shaw  
John Zammit  
Dunstan Attard  
Alexander Chetcuti

**Secretary**

Dr. Christopher Vella

**Registered office**

Freeport Centre  
Port of Marsaxlokk  
Kalafrana, Birzebbugia BBG05  
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

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

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

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

Dr. A. Mifsud Bonnici  
Mifsud Bonnici Advocates  
40/1, Old Mint Street  
Valletta  
Malta

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2018**

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**DIRECTORS' REPORT**

The Directors present their report and the audited financial statements of Malta Freeport Corporation (the "Company") for the year ended 31 December 2018.

**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. The Company is the sole owner of the property situated at Freeport Zone and hence is the sole lessor. The Company is also responsible for providing security services within the Freeport Zone and has a mission to administer the area and maintain harmony within the Stakeholders that operate within the Zone. It is also the Regulator and Licensing Authority acting on behalf of the Government of Malta.

**Financial and operational review**

During the year under review the Company reported a decrease in revenue of USD72,886 from USD12,913,578 reported in 2017 to USD12,840,692 reported in 2018. The increase in the fair value of the Company's investment property amounted to USD12,179,863 during the year ended 31 December 2018 compared to an increase of USD61,695,204 reported last year. In the year under review the Company reported a gain on its cross-currency interest rate swap agreement of USD9,827,024 (2017: Loss of USD23,678,808). The profit before tax for the year amounted to USD34,745,842 compared to USD50,394,493 reported in 2017.

The Company's net assets at the end of the reporting period amounted to USD265,594,185 (2017: USD235,789,371).

**Results and dividends**

The results for the year ended 31 December 2018 are shown in the statement of comprehensive income on page 9. The profit for the year after taxation was USD31,488,089 (2017: USD49,460,844). The directors declared and paid a dividend amounting to USD570,800 during the year (2017: USD589,300).

**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.

**Financial risk management**

The successful management of risk is essential to enable the company to achieve its objectives. The ultimate responsibility for risk management rests with the company's directors, who evaluate the company's risk appetite and formulate policies for identifying and managing such risks. There are a number of financial risks that could potentially impact the activities of the Company and include, but not limited to, the following: credit risk, foreign currency risk, interest rate risk, liquidity risk, etc. The Company's objective in managing such risks is the creation and protection of shareholder's value. In order to manage and mitigate such risks, the Company employs a number of risk management tools in its day-to-day operation. Further detail can be found under note 26 of the annual financial statements.

**Post balance sheet events**

There were no subsequent events which would require adjustment or disclosure in the financial statements of the Company.

**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.

**DIRECTORS' REPORT – continued**

**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 judgements and estimates that are reasonable;
- 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;
- Account for income and charges relating to the accounting period on the accruals basis;
- Value separately the components of asset and liability items; and
- Report comparative figures corresponding to those of the preceding accounting period.

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.

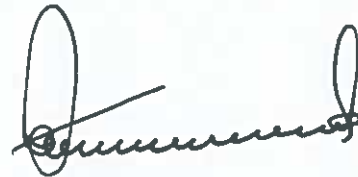
**Auditor**

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

The Directors' report was authorised for issue by the Board of Directors and signed on its behalf by:



**ROBERT SARSERO**  
Chairman



**DUNSTAN ATTARD**  
Director

18 November 2019

## **INDEPENDENT AUDITOR'S REPORT to the Shareholders of Malta Freeport Corporation Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the separate financial statements of Malta Freeport Corporation Limited (the "Company"), set on pages 9 to 44, which comprise the statement of financial position as at 31 December 2018 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 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 ("IFRS") and the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act").

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### *Valuation of investment property*

The investment property represents a significant part of the total assets (79%) of the Company and is valued at fair value for an amount of USD457.9 million as at 31 December 2018.

Management is determining fair value of its investment property on an annual basis. The fair value is determined on the basis of the present value of future net cash flows, that is the discounted value of future cash inflows from existing contractual agreements less the discounted value of future cash outflows, including operating costs and taxation, 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. The valuation is highly sensitive to key assumptions such as discount rate.

## **INDEPENDENT AUDITOR'S REPORT to the Shareholders of Malta Freeport Corporation Limited - continued**

### **Key audit matters - continued**

#### *Valuation of investment property - continued*

Given the size, complexity and sensitivity of the valuation of investment property and the information provided by means of disclosure in Note 12 to the financial statements in relation to the main assumptions used in the valuation, we addressed this as a key audit matter.

Our audit procedures focused on the evaluation of the appropriateness of the valuation model used together with the assumptions and estimates, made by management, in the valuation methodology. We tested the integrity of inputs of the projected cash flows used in the valuations to supporting leases and other documents. We included a valuation specialist on our team to assist us with evaluating the valuation methodology and the assumptions and estimates used. We also assessed the adequacy of the disclosures relating to the assumptions used in the valuation.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the directors for the financial statements**

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Companies Act, 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **INDEPENDENT AUDITOR'S REPORT to the Shareholders of Malta Freeport Corporation Limited - continued**

### **Auditor's responsibilities for the audit of the financial statements – continued**

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## **INDEPENDENT AUDITOR'S REPORT to the Shareholders of Malta Freeport Corporation Limited - continued**

### **Report on other legal and regulatory requirements**

#### *Matters on which we are required to report by the Companies Act*

We are required to express an opinion as to whether the directors' report has been prepared in accordance with the applicable legal requirements. In our opinion the directors' report has been prepared in accordance with the Companies Act.

In addition, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' report and other information. We have not identified any material misstatements in the Directors' report. We have nothing to report in this regard.

We also have responsibilities under the Companies Act to report to you if in our opinion:

- proper 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.

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

*The partner in charge of the audit resulting in this independent auditor's report is  
Anthony Doublet for and on behalf of*

Ernst & Young Malta Limited  
Certified Public Accountants

18 November 2019

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2018**

**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2018**

	Notes	2018 USD	2017 USD
Revenue	4	12,840,692	12,913,578
Staff costs	9	(2,575,747)	(2,396,193)
Other administrative costs		(587,208)	(513,796)
Gain on exchange		3,580	20,244
Fair value movement in investment property	12	12,179,863	61,695,204
Gain/(loss) on cross-currency interest rate swap	4, 16	9,827,024	(23,678,808)
Movement in expected credit losses of financial assets		69,082	-
Interest income	5	3,002,170	2,408,604
Provision for claims		(11,450)	-
Finance costs	6	(2,164)	(54,340)
<b>Profit before tax</b>	7	<b>34,745,842</b>	<b>50,394,493</b>
Income tax expense	4, 10	(3,257,753)	(933,649)
<b>Profit for the year</b>		<b>31,488,089</b>	<b>49,460,844</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>31,488,089</b>	<b>49,460,844</b>

*The accounting policies and explanatory notes on pages 13 to 44 form an integral part of the financial statements.*

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2018**

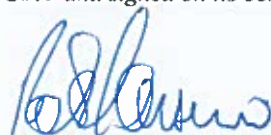
**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2018**

	Notes	2018 USD	2017 USD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property plant and equipment	11	604,779	592,744
Investment property	12	457,910,000	445,805,670
Loans and receivables	14	45,956,573	49,469,198
<b>Total non-current assets</b>		<b>504,471,352</b>	<b>495,867,612</b>
<b>Current assets</b>			
Loans and receivables	14	2,469,232	2,374,263
Income tax receivable	10	2,158,231	342,187
Trade and other receivables	15	2,902,610	7,171,229
Cash and cash equivalents	23	70,882,087	55,352,893
<b>Total current assets</b>		<b>78,412,160</b>	<b>65,240,572</b>
<b>Total assets</b>		<b>582,883,512</b>	<b>561,108,184</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	22	2,976,128	2,976,128
Reporting currency conversion reserve		759,548	759,548
Retained earnings		261,858,509	232,053,695
<b>Total equity</b>		<b>265,594,185</b>	<b>235,789,371</b>
<b>Non-current liabilities</b>			
Other financial liabilities	19	250,000,000	250,000,000
Post-employment benefits	20	1,228,666	1,149,098
Derivative instruments at fair value	16	13,280,359	23,107,383
Provision for claims		71,415	59,965
Deferred income tax liabilities	4,21	48,160,498	47,307,489
<b>Total non-current liabilities</b>		<b>312,740,938</b>	<b>321,623,935</b>
<b>Current liabilities</b>			
Trade and other payables	17	4,548,389	3,550,969
Bank overdrafts	18, 23	-	121,909
Post-employment benefits	20	-	22,000
<b>Total current liabilities</b>		<b>4,548,389</b>	<b>3,694,878</b>
<b>Total liabilities</b>		<b>317,289,327</b>	<b>325,318,813</b>
<b>Total equity and liabilities</b>		<b>582,883,512</b>	<b>561,108,184</b>

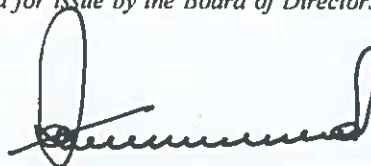
Rate of exchange as at 31 December 2018: EUR1 = USD1.145 (31 December 2017: USD1.1993)

The accounting policies and explanatory notes on pages 13 to 44 form an integral part of the financial statements.

The financial statements on pages 9 to 44 have been authorised for issue by the Board of Directors on 18 November 2019 and signed on its behalf by:



**ROBERT SARSERO**  
Chairman



**DUNSTAN ATTARD**  
Director

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2018**

**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2018**

	Note	Share premium USD	Foreign exchange translation difference USD	Retained earnings USD	Total USD
Balance at 1 January 2017		2,976,128	759,548	183,182,151	186,917,827
Dividend distribution	27	-	-	(589,300)	(589,300)
Profit and total comprehensive income for the year		-	-	49,460,844	49,460,844
<b>Balance at 31 December 2017</b>		<b>2,976,128</b>	<b>759,548</b>	<b>232,053,695</b>	<b>235,789,371</b>
Balance at 1 January 2018		2,976,128	759,548	232,053,695	235,789,371
Loss allowance at 1 January 2018 under IFRS 9		-	-	(1,112,475)	(1,112,475)
Dividend distribution	27	-	-	(570,800)	(570,800)
Profit and total comprehensive income for the year		-	-	31,488,089	31,488,089
<b>Balance at 31 December 2018</b>		<b>2,976,128</b>	<b>759,548</b>	<b>261,858,509</b>	<b>265,594,185</b>

*The accounting policies and explanatory notes on pages 13 to 44 form an integral part of the financial statements.*

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2018**

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2018**

	Notes	2018 USD	2017 USD
<b>Cash flows before operating activities</b>			
Profit before tax		34,745,842	50,394,493
<i>Adjustments for:</i>			
Depreciation	11	50,967	34,066
Fair value movement in cross-currency swap	16	(9,827,024)	23,678,808
Fair value movement in investment property	12	(12,179,863)	(61,695,204)
Unrealised difference on exchange		(3,580)	(20,244)
Increase in post-employment benefits		57,568	246,376
Provision for claims		11,450	7,260
Provision for ECLs		(69,081)	-
Interest income	5	(3,002,170)	(2,408,604)
Net interest expense	6	2,164	54,340
<b>Operating profit before working capital movements</b>		<b>9,786,273</b>	<b>10,291,291</b>
Movement in trade and other receivables		4,344,152	518,103
Movement in trade and other payables		997,420	(1,940,291)
<b>Cash generated from operations</b>		<b>15,127,845</b>	<b>8,869,103</b>
Interest paid		(2,164)	(76,312)
Taxation paid	10	(4,220,798)	(3,595,374)
Retirement benefits paid	20	(30,959)	(52,155)
<b>Net cash flows from operating activities</b>		<b>10,873,924</b>	<b>5,145,262</b>
<b>Investing activities</b>			
Payments to acquire property, plant and equipment	11	(63,002)	(462)
Movement in loans and receivables	14	2,374,262	2,282,942
Interest received		3,036,719	2,400,095
<b>Net cash flows from investing activities</b>		<b>5,347,979</b>	<b>4,682,575</b>
<b>Financing activities</b>			
Proceeds from termination of cross-currency swap	16	-	2,090,000
Payment of dividends	27	(570,800)	(589,300)
<b>Net cash flows from financing activities</b>		<b>(570,800)</b>	<b>1,500,700</b>
<b>Net movement in cash and cash equivalents</b>		<b>15,651,103</b>	<b>11,328,537</b>
Cash and cash equivalents at beginning of the year		55,230,984	43,902,447
<b>Cash and cash equivalents at end of the year</b>	23	<b>70,882,087</b>	<b>55,230,984</b>

*The accounting policies and explanatory notes on pages 13 to 14 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 Company’s principal activity, which is unchanged since last year, fulfils the role of land lord and authority over the Freeport Zone. The Company is the sole owner of the property situated at Freeport Zone and hence is the sole lessor. The Company is also responsible for providing security services within the Freeport Zone and has a mission to administer the area and maintain harmony with the Stakeholders that operate within the Zone. It is also the Regulator and Licensing Authority acting on behalf of the Government of Malta.

### **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 are presented in United States Dollar (USD), being the Company’s presentation and functional currency.

#### **Statement of compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and comply with the requirements of the Companies Act, Cap. 386 of the Laws of Malta. 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 adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective during the year:

- IFRS 9 - Financial Instruments (effective for financial year beginning on or after 1 January 2018)
- IFRS 2 (Amendments) – Classification and Measurement of Share-based Payment Transactions (effective for financial year beginning on or after 1 January 2018)
- Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for financial year beginning on or after 1 January 2018)
- IFRS 15 - Revenue from Contracts with Customers including amendments to IFRS 15 (effective for financial year beginning on or after 1 January 2018)
- IFRS 4 (Amendments) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial year beginning on or after 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective for financial year beginning on or after 1 January 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for financial year beginning on or after 1 January 2018)
- IAS 40 (Amendments) – Transfers of Investment Property (effective for financial year beginning on or after 1 January 2018)

Other than disclosed below, the adoption of these standards, where applicable, did not have significant impact on the financial statements or performance of the Company. The nature and effect of the changes as a result of the adoption of IFRS 9 is described below.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – continued**

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

**IFRS 9 – Financial Instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company has adopted IFRS 9 as issued by the IASB on 1 January 2018. The details of the new accounting policy are presented in note 2.3.

*Classification and measurement*

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories have been replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 allows entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities is largely the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

The Company has concluded that the financial assets previously classified as loans and receivables under IAS 39 are measured at amortised cost under IFRS 9. There is no financial impact arising as the accounting measurement is the same as under IAS39.

*Impairment of financial assets*

IFRS 9 has fundamentally changed the impairment methodology. The standard replaces IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Company is required to record an allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months (12-month ECL) unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset (lifetime ECL).

The general principle of IFRS 9 is that ECL accounting requires that the credit risk of financial instruments within the scope of impairment to be assessed for significant increase since initial recognition at each reporting sheet date. If there is a significant increase in credit risk, lifetime ECL is recognised. The principle of significant deterioration in credit risk can be achieved by performing an assessment to compare the risk of default occurring at the reporting date with the risk of default occurring at the date of initial recognition.

The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an allowance for impairment as follows:

Loss allowance on loans and other receivables and on cash balances as at 31 December 2017 amounted to USD1,112,475 – being USD1,078,344 on loans and receivables and USD34,131 on cash balances. A corresponding deferred tax asset of USD389,366 was recorded during the year.

## **NOTES TO THE FINANCIAL STATEMENTS - continued**

### **2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued**

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

#### **IFRS 9 – Financial Instruments - continued**

##### *Transition*

The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement, including impairment, requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather than those of IAS 39.

The determination of the business model assessment within which a financial asset is held have been made on the basis of the facts and circumstances that existed at the date of initial application.

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

The Company applied IFRS15 from 1 January 2018. Due to the transition method chosen by the Company in applying IFRS15, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

IFRS15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction contracts and related interpretations and it applies, with limited exception, to all revenue arising from contracts with its customers. Under IFRS15, revenue is recognised when a customer obtains control of the goods or services and is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company has adopted IFRS15 using the modified retrospective method of adoption, with the cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings as at 1 January 2018. Accordingly, the comparative information for 2017 has not been restated and continues to be reported under IAS 18 Revenue. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

There has been no impact to the Company's equity on the date of adoption of IFRS15. The details of the new accounting policy, highlighting the performance obligations and the recognition of revenue in line with the 5-step model is presented below and in note 2.3.

#### **Application of the new revenue standard**

##### *Rental income*

Similar to IAS18, rental income comprising of income from operating leases remains out of scope of IFRS15 and is accounted for under IAS17 Leases during the year ended 31 December 2018.

##### *Provision of services*

Under IAS 18, revenue from the provision of security services was recognised over the period in which the services are rendered. The Company enters into contracts with customers to provide security services at rates established in the contract. After assessing the accounting implications of adopting IFRS15, the Company identified the provision of security services as one performance obligation which is satisfied over time; accordingly, revenue is recognised rateably over the period of the contract – which is similar to the previous accounting treatments. Thus, there are no significant changes in the pattern and timing of revenue recognition under IFRS 15 when compared to IAS18.



## **NOTES TO THE FINANCIAL STATEMENTS - continued**

### **2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – continued**

#### **Application of the new revenue standard - continued**

##### *Royalty income*

Royalty income relates to fees charged to customers based on quantity of oil dispensed from storage tanks by the customer (“throughput”), the identified performance obligation is the right of access for the dispensing of the oil, which is deemed to be one performance obligation satisfied over time. This is similar to the previous accounting treatments and accordingly there are no significant changes in the pattern and timing of revenue recognition under IFRS15 when compared to IAS18.

##### *Other income*

Other income relates to ad-hoc income earned by the Company which is recognised at the point in time in which the customer obtains control of the good or service.

Additional disclosures have been added to the Company’s financial statements in line with the requirements of IFRS15 which were not previously required under the previous standard.

#### **Amendments to IAS 40 Transfers of Investment Property**

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Company’s financial statements.

#### **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. Except as mentioned below, none of these standards, interpretations and amendments is expected to have an impact on the financial position or performance of the Company.

- IFRIC 23 - Uncertainty over Income Tax Treatments (effective for financial year beginning on or after 1 January 2019)
- IFRS 9 (Amendments) - Prepayment Features with Negative Compensation (effective for financial year beginning on or after 1 January 2019)
- IAS 19 (Amendments) - Plan Amendment, Curtailment or Settlement (effective for financial year beginning on or after 1 January 2019)
- IAS 28 (Amendments) - Long-term Interests in Associates and Joint Ventures (effective for financial year beginning on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for financial year beginning on or after 1 January 2019)
- IFRS 16 - Leases (effective for financial year beginning on or after 1 January 2019)

IFRS 16 – Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting under IFRS 16 is substantially unchanged from current accounting treatment under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and accordingly, the Company does not expect an effect on its financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS - continued**

### **2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – continued**

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

These are as follows:

- IFRS 17 - Insurance Contracts (effective for financial year beginning on or after 1 January 2021)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for financial year beginning on or after 1 January 2020)
- IFRS 3 (Amendments) – Business Combinations (effective for financial year beginning on or after 1 January 2020)
- IAS 1 and IAS 8 (Amendments) – Definition of Material (effective for financial year beginning on or after 1 January 2020)
- IFRS 14 - Regulatory Deferral Accounts (the EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard)

The Company is still assessing the impact that these new standards will have on the financial statements.

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

### **2.3 SUMMARY OF 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.

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.

## **NOTES TO THE FINANCIAL STATEMENTS - continued**

### **2.3 SUMMARY OF 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.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### **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. Specifically, the Company controls an investee if, and only if, the company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The Company will reassess on whether or not it controls an investee if facts and circumstances indicate that there are changes to 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. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the company gains control until the date the company ceases the subsidiary. If the Company loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised as a financial asset.

#### **Impairment of non-financial assets**

The Company assess, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) 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 its 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). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Impairment of non-financial assets - continued**

Impairment losses are recognised in the statement of comprehensive income.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimated the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

**Financial instruments**

From 1 January 2018 the company had adopted the following accounting policies to its financial instruments upon adoption of IFRS9.

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

*Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

*Financial assets at amortised cost (debt instruments)*

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial instruments - continued**

*Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)*

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Company holds no financial assets classified under this category.

*Financial assets designated at fair value through OCI with recycling of cumulative gains and losses (equity instruments)*

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of comprehensive income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Company holds no financial assets classified under this category.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income. The Company holds no financial assets classified under this category.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial instruments - continued**

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired  
or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement.

**Impairment of financial assets**

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses ("ECLs") at each reporting date. The 12-month ECL is calculated by multiplying the 12-month probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial liabilities – continued**

*Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income. Loans and borrowings include other financial liabilities, bank overdraft and trade and other payables.

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

The Company adopted the new standard as of 1 January 2018 without restating comparative information. The cumulative effect of the adjustments arising from the new requirements are therefore recognized in the opening balance of retained earnings on 1 January 2018. Therefore, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

**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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Revenue recognition**

**Policies applicable before 1 January 2018**

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 Company assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Company has concluded that it is acting as principal in all of its revenue arrangements, except for water and electricity recharging costs to which the Company accounts at net revenue and is included as part of Other income. The following specific recognition criteria must also be met before revenue is recognised:

**(i) Rental income**

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 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 the profit or loss on a straight-line basis over the lease term.

**(ii) Provision of services**

Revenue from the provision of services, such as security services, is recognised in the period in which the services are rendered.

**(iii) 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.

**(iv) Royalty income**

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

**Policies applicable after 1 January 2018**

Revenue is measured based on the consideration specified in contracts with customers and is recognised as the related performance obligation is satisfied.

*Provision of services*

Revenue from the provision of security services was recognised over the period in which the services are rendered. The Company enters into contracts with customers to provide security services at rates established in the contract. The provision of security services is one performance obligation which is satisfied over time and accordingly revenue is recognised over the period of the contract. The Company considers that there is no variable consideration. None of the consideration is conditional, and accordingly no contract assets are recognised. The Company elects to apply the practical expedient to not disclose the amount of the remaining performance obligations for contracts that meet the requirements of the right to invoice.



## **NOTES TO THE FINANCIAL STATEMENTS - continued**

### **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

#### **Policies applicable after 1 January 2018 - continued**

##### *Royalty income*

Royalty income relates to fees charged to customers based on the quantity of oil dispensed from storage tanks by the customer ("throughput"). The identified performance obligation is the right of access for the dispensing of the oil, which is deemed to be one performance obligation satisfied over time, and accordingly, revenue is recognised over the period of the contract. The Company considers that there is no variable consideration. None of the consideration is conditional, and accordingly no contract assets are recognised. The Company elects to apply the practical expedient to not disclose the amount of the remaining performance obligations for contracts that meet the requirements of the right to invoice.

##### *Other income*

Other income relates to ad-hoc income earned by the Company. Payment for such goods or services is received concurrently with the transfer of these goods or services to customers and accordingly revenue is recognised at the point of transfer which is recognised at the point in time in which the customer obtains control of the good or service. The Company considers that there is no variable consideration. None of the consideration is conditional, and accordingly no contract assets are recognised.

##### *Disaggregated revenue*

The Company discloses disaggregated revenue information, taking into consideration how information about the Company's revenue is generally presented.

##### **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.

##### **Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to the expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

##### **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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Company as a lessor**

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

Leased assets are presented in the statement of financial position according to their nature and, where applicable, are tested for impairment in accordance with the Company's accounting policy on impairment. Where applicable, depreciable leased assets are depreciated in accordance with the Company's accounting policy. The Company's leased assets are classified with investment property and are subsequently measured at fair value.

*Rental income*

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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Taxes - continued**

*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.

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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**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.

**Operating segments**

For management purposes, the Company is organized and managed under a single business segment that is leasing of land and administration of the Freeport Zone, which is the basis upon which the Company reports its segment information.

Revenue generated by the Company are from external customers which are companies situated in Malta. Furthermore, the Company recognized revenue from lease and security services from one customer amounting to USD10,052,395 (2017: USD10,026,834). Likewise, non-current assets, other than financial instruments, are also situated in Malta.

**Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**Dividends**

Dividends payable on ordinary shares are recognised in the period in which they are approved by the Board of Directors.

**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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Company's financial statement requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Judgements**

In the process of applying the Company's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

*Functional currency*

The Company has determined that its functional currency is the USD. It is the currency of the primary economic environment in which the Company operates given that it is the currency that mainly influences sales prices for goods and services and the currency in which funds from operating and financing activities are kept.

*Government subvention on interest expense on debenture loan stock*

The Government of Malta reimburses the Company on the interest expense on the debenture loan stock. The accounting for such government subvention requires significant judgement due to the fact that the Government of Malta is also the Parent company, and grants provided by the Government in the capacity of a shareholder should not be considered to constitute as a government grant. The Company determined that the subvention from the Government of Malta qualifies as a government grant after considering the facts and circumstances attached to it. Accordingly, the Company recognizes the subvention when received, net of the interest expense as disclosed in Note 6.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

*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.

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2018**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**4. REVENUE**

Revenue represents the amount received or receivable for services rendered during the year, net of any indirect taxes as disclosed below:

	2018 USD	2017 USD
Rental income	10,180,691	10,082,516
Security service fees (i)	1,595,724	1,464,053
Royalties (i)	604,959	642,671
Other income (ii)	459,318	724,338
	<u>12,840,692</u>	<u>12,913,578</u>

**Disaggregated revenue information**

- (i) Revenue from security service fees and royalties is generated from one geographical region, being Malta, and has the same timing of revenue recognition – being recognised over time.
- (ii) Revenue from other income is generated from one geographical region, being Malta, and has the same timing of revenue recognition – being recognised at the point in time when control is passed to the customer.

**5. INTEREST INCOME**

	2018 USD	2017 USD
Interest income on bank deposits	951,329	271,480
Interest on loans and receivable	2,050,841	2,137,124
	<u>3,002,170</u>	<u>2,408,604</u>

**6. FINANCE COSTS**

	2018 USD	2017 USD
Interest payable on debenture loan stock	18,062,609	17,446,198
Interest on bank balances	2,164	54,340
	<u>18,064,773</u>	<u>17,500,538</u>
Less: government subvention (note 3)	(18,062,609)	(17,446,198)
Net interest payable	<u>2,164</u>	<u>54,340</u>

Interest payable on debenture loan stock is recharged to the Government of Malta as per government subvention, also referred to in notes 2.1 and 19.

**MALTA FREEPORT CORPORATION LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**7. PROFIT BEFORE TAX**

	2018 USD	2017 USD
<i>This is stated after charging:</i>		
Depreciation of property, plant and equipment	50,967	34,066
Auditors' remuneration	16,859	15,929

**8. KEY MANAGEMENT PERSONNEL COMPENSATION**

	2018 USD	2017 USD
Directors' remuneration (notes 9 and 24)	49,600	46,612

**9. STAFF COSTS AND EMPLOYEE INFORMATION**

	2018 USD	2017 USD
Wages and salaries	2,345,518	2,184,187
Social security costs	180,629	165,394
Directors' remuneration (note 8 and 24)	49,600	46,612
	<u>2,575,747</u>	<u>2,396,193</u>

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

	2018 Number	2017 Number
Administration and finance	15	15
Operational	82	78
	<u>97</u>	<u>93</u>

**10. CURRENT INCOME TAX**

	2018 USD	2017 USD
<b>Current tax</b>		
Malta corporate tax at 35%	(840,188)	(1,608,561)
Income tax at 15% (i)	(1,564,556)	(1,525,393)
Overprovision of tax in prior year (i)	-	1,757,814
	<u>(2,404,744)</u>	<u>(1,376,140)</u>
Deferred tax (note 21)	(853,009)	442,490
Income tax expense for the year	<u>(3,257,753)</u>	<u>(933,650)</u>

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**10. CURRENT INCOME TAX - continued**

- i. Effective from 2017, the Company has opted to adopt 15% income tax as per Article 31D of the Income Tax Act, Cap 123 of the Laws of Malta. The company also amended the prior year tax return to reflect the same tax treatment. This resulted to an overprovision of tax in 2016 having initially subjected the rental income to 35% normal corporate tax, which has been adjusted in 2017.

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

	2018 USD	2017 USD
Profit before tax	34,745,842	50,394,493
Tax at the applicable rate of 35%	(12,161,045)	(17,638,073)
<i>Tax effect of:</i>		
Interest income subject to 15% tax	34,829	12,695
Rental income subject to 15% tax	2,051,245	2,016,504
Profit and loss transactions not allowable for tax purposes	321,463	9,560
Fair value movement in investment property subject to 10% tax	3,056,297	8,946,486
Fair value movement in cross-currency swap	3,439,458	(8,047,584)
Effect of change in tax rates on accrued rent income (i)	-	12,048,948
Overprovision of tax in prior year	-	1,757,815
Income tax expense for the year	<b>(3,257,753)</b>	<b>(933,649)</b>

Below is a reconciliation of the current tax recoverable/ (payable):

	2018 USD	2017 USD
Balance brought forward	342,187	(1,833,676)
Current tax:		
Malta corporate tax at 35%	(840,188)	(1,608,561)
Income tax at 15% on rent and interest	(1,564,556)	(1,525,393)
Overprovision of tax in prior year	-	1,757,815
	<b>(2,404,744)</b>	<b>(1,376,139)</b>
Tax paid:		
Tax at source on interest income	26,122	13,015
Settlement tax	1,538,743	1,922,365
Provisional tax	2,655,933	1,659,994
Accrued interest on late payment of tax	-	(43,372)
Balance carried forward	<b>2,158,231</b>	<b>342,187</b>



**MALTA FREEPORT CORPORATION LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS - continued**

**11. PROPERTY PLANT AND EQUIPMENT**

	Plant and machinery USD	Motor vehicles USD	Total USD
<b>Cost</b>			
At 1 January 2017	2,870,711	227,633	3,098,344
Additions	462	-	462
<b>At 1 January 2018</b>	<b>2,871,173</b>	<b>227,633</b>	<b>3,098,806</b>
Additions	63,002		63,002
<b>At 31 December 2018</b>	<b>2,934,175</b>	<b>227,633</b>	<b>3,161,808</b>
<b>Accumulated depreciation</b>			
At 1 January 2017	2,244,363	227,633	2,471,996
Depreciation charge for the year	34,066	-	34,066
<b>At 1 January 2018</b>	<b>2,278,429</b>	<b>227,633</b>	<b>2,506,062</b>
Depreciation charge for the year	50,967		50,967
<b>At 31 December 2018</b>	<b>2,329,396</b>	<b>227,633</b>	<b>2,557,029</b>
<b>Carrying amount</b>			
At 31 December 2017	592,744	-	592,744
<b>At 31 December 2018</b>	<b>604,779</b>	<b>-</b>	<b>604,779</b>

At 31 December 2018, cost of fully depreciated assets still in use amounted to USD2,633,422 (2017: USD2,332,716).

**12. INVESTMENT PROPERTY**

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

	As at 1 January 2018 USD	Movement USD	As at 31 December 2018 USD
Investment property	385,560,926	12,179,863	397,740,789
Accrued income	60,244,744	(75,533)	60,169,211
	<b>445,805,670</b>	<b>12,104,330</b>	<b>457,910,000</b>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**12. INVESTMENT PROPERTY - continued**

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

	<b>Investment properties USD</b>
Fair value	
As at 1 January 2017	384,186,000
Increase in fair value	61,695,204
Movement in accrued income	(75,534)
	<hr/>
As at 1 January 2018	445,805,670
Increase in fair value	12,179,863
Movement in accrued income	(75,533)
	<hr/>
<b>As at 31 December 2018</b>	<b>457,910,000</b>
	<hr/> <hr/>

As disclosed in Note 10, effective from 2017 the Company has opted to adopt 15% income tax on its rental income. The Company also amended 2016 tax return to reflect the same tax treatment. This resulted to an overprovision of tax in 2016 having initially subjected the rental income to 35% normal corporate tax, which was corrected in 2017. In line with these tax adjustments, the investment property valuation was updated in 2017 to reflect the 15% income tax on the future cash inflows. The tax adjustment in 2017 resulted to a USD42.9M increase in the present value of the investment property as at 31 December 2017 in the form of future tax savings.

The accrued income component relates to the difference between the rental income for the period as agreed between the parties and the recognition of such rental 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 container terminals were 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. On 19 August 2015, the lessee gave notice to the Company that it has satisfied the required obligations as per license agreement and therefore wanted to exercise the option to extend the lease for another 30 years and on 14 August 2017, the Company and the lessee signed an agreement to officially formalize the extension of the license and the lease for another 30 years.

The Company has other lease agreements as well as other revenue streams including revenue based on volume through-put. The other lease agreements will expire between years 2035 to 2060. The effectivity of the leases is subject to the licenses granted by the Company to operate in the Freeport Zone.

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

- The present value of future net cash flows, that is the discounted value of future cash inflows from existing contractual agreements less the discounted value of future cash outflows, including operating costs and taxation; 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% (2017: 5.5% and 9.5%) has been used in the valuation. An increase of 50 basis points in this discount rate, with all other variables remaining constant, would result in a fluctuation of USD41M (2017 – USD40M) in the value of the Company's investment property.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**12. INVESTMENT PROPERTY - continued**

On the basis of these assessments, and after having taken account of any changes to future cash flows, the Company reported an increase in the value of the investment property of USD12,179,863 (2017: USD61,695,204).

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 USD10,785,650 (2017: USD10,725,187) which include contingent rent of USD604,959 (2017: USD642,671).

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

	2018 USD	2017 USD
Within one year	10,864,544	10,867,291
Between two and five years	40,978,000	40,612,412
Over five years	472,280,500	481,990,872
	524,123,044	533,470,575

**13. FINANCIAL ASSETS**

Shares in subsidiary undertakings:

	2018 USD	2017 USD
Nil (2017: 5,180,000) "A" ordinary shares of EUR2.329372 each, Nil (2017: 440,000) "B" ordinary shares of EUR2.329373 each and Nil (2017: 60,000) "C" ordinary shares of EUR2.329373 each in Freeport Terminal (Malta) p.l.c. – 99% of equity held	-	14,709,666
Provision for diminution in value	-	(14,709,666)
	-	-

The above previously controlled entity was struck-off on 27 December 2018 and accordingly the investment was derecognized and corresponding provision reversed.

**MALTA FREEPORT CORPORATION LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**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.

	2018 USD	2017 USD
Receivable from third party (notes 26 and 27)	49,469,198	51,843,461
Less: allowance at 31 December under IFRS 9	(1,043,393)	-
	<u>48,425,805</u>	<u>51,843,461</u>
Less: amounts recoverable within one year	(2,469,232)	(2,374,263)
Amounts recoverable after one year	<u>45,956,573</u>	<u>49,469,198</u>

**15. TRADE AND OTHER RECEIVABLES**

	2018 USD	2017 USD
Trade receivables	1,464,492	5,972,354
Amounts due from government (note 24)	-	366,453
Prepayments and accrued income	1,438,118	832,422
	<u>2,902,610</u>	<u>7,171,229</u>

As at the balance sheet date, the ageing analysis of trade receivables are as follows:

	Total USD	Neither past due nor impaired USD	Past due but not impaired			
			30-60 days USD	61-90 days USD	91-120 days USD	>120 days USD
2018	1,464,492	1,327,286	39,728	89,087	3,157	5,234
2017	5,972,354	633,715	1,450,820	2,891,242	305,025	691,552

**16. DERIVATIVE INSTRUMENT AT FAIR VALUE**

	2018 USD	2017 USD
<i>Derivative asset</i>		
Cross-currency interest rate swap	-	-
<i>Derivative liability</i>		
Cross-currency interest rate swap	(13,280,359)	(23,107,383)
Gain/(loss) on valuation of cross-currency interest rate swap	9,827,024	23,107,383
Gain/(loss) on termination of cross-currency interest rate swap	-	571,425
Gain/(loss) on cross-currency interest rate swap	<u>9,827,024</u>	<u>23,678,808</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**16. DERIVATIVE INSTRUMENT AT FAIR VALUE – continued**

In 2004 the Company entered into a cross-currency interest rate swap converting its 2016 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.

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 2016 with the Company. A further extension to July 2016 was granted by the counterparty to the Company. This extension was renewed again and is in force up to January 2017. The Company received USD2,090,000 cash upon the settlement of cross-currency interest swap in January 2017.

In January 2017, the Company finalized a new cross-currency interest rate swap with a new counterparty, 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.

As the Company reports in USD and the swap liability is in Euro, 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. In 2004 and going forward, 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 2018 amounted to USD30,569,972 (2017: USD27,220,000). The counterparty has an obligation to return the collateral.

**17. TRADE AND OTHER PAYABLES**

	2018 USD	2017 USD
Trade payables	24,773	438,778
Amounts due to government (note 24)	889,676	-
Other payables	314,134	220,141
Accruals and deferred income	3,211,408	2,892,050
Other accruals	108,398	-
	<b>4,548,389</b>	<b>3,550,969</b>

No interest is charged on trade and other payables.

**18. BANK OVERDRAFTS**

	2018 USD	2017 USD
Bank overdrafts (note 23)	-	121,909

Bank overdrafts are repayable on demand.

**MALTA FREEPORT CORPORATION LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS - continued**

**18. BANK OVERDRAFTS - continued**

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

	2018 USD	2017 USD
Bank overdrafts denominated in Euro	-	121,909

The bank overdraft bears interest of 4% per annum and is secured with a guarantee given by the Government of Malta. At 31 December 2018, the Company had available USD1,333,925 (2017: USD1,359,095) of undrawn committed bank overdraft facility.

**19. OTHER FINANCIAL LIABILITIES**

	2018 USD	2017 USD
7.25% Debenture Loan Stock 2028 (note 25)	250,000,000	250,000,000

The above loan and interest thereon is guaranteed by the Government of Malta and is repayable in 2028. The Company has the option to redeem the debenture loan stock at any time, in whole or in part, at a redemption price. 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 2.3 and represents the Company's obligation discounted to the net present value at the rate of 1.88% (2017: 1.88%) 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:

	2018 USD	2017 USD
Balance at 1 January	1,171,098	976,877
Settlements	(30,959)	(52,155)
Effect of translation to USD	(53,995)	134,562
Movement for the year	142,522	111,814
Balance at 31 December	1,228,666	1,171,098
Less: amounts due for settlement within 12 months	-	(22,000)
Amounts due for settlement after 12 months	1,228,666	1,149,098

**MALTA FREEPORT CORPORATION LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS - continued**

**20. POST-EMPLOYMENT BENEFITS - continued**

The weighted average duration of the obligation is 18.4 years (2017: 17.14 years) and the expected timing of future benefit payments as of 31 December are as follows:

	2018 USD	2017 USD
Within one year	-	22,000
Between two and five years	55,173	13,219
Over five years	1,173,493	1,135,879
	<u>1,228,666</u>	<u>1,171,098</u>

**21. DEFERRED TAX LIABILITY**

	Opening balance USD	Recognised in profit or loss USD	Closing balance USD
<b>2017</b>			
<b>Arising on temporary differences</b>			
Property, plant and equipment	(157,479)	11,923	(145,556)
Investment property	(25,909,258)	(12,646,835)	(38,556,093)
Accrued income	(21,112,097)	12,075,385	(9,036,712)
Derivative asset at fair value	(931,499)	931,499	-
Provisions	360,354	70,518	430,872
	<u>(47,749,979)</u>	<u>442,490</u>	<u>(47,307,489)</u>
<b>2018</b>			
<b>Arising on temporary differences</b>			
Property, plant and equipment	(145,556)	(35,697)	(181,253)
Investment property	(38,556,093)	(1,217,986)	(39,774,079)
Accrued income	(9,036,712)	11,330	(9,025,382)
Provisions(i)	430,872	389,344	820,216
	<u>(47,307,489)</u>	<u>(853,009)</u>	<u>(48,160,498)</u>

- (i) Includes a deferred tax asset amounting to USD368,188 upon impairment provisions recognised for expected credit losses in line with the requirements of IFRS9.

**22. SHARE CAPITAL**

	2018 and 2017	
	Authorised USD	Issued and called up USD
2,976,128 ordinary shares of USD1 each, all of which have been issued and called up	<u>2,976,128</u>	<u>2,976,128</u>

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2018**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**23. CASH AND CASH EQUIVALENTS**

	2018 USD	2017 USD
Cash at bank and on hand	70,882,087	55,352,892
Bank overdrafts	-	(121,909)
	<hr/>	<hr/>
Cash and cash equivalents in the cash flow statement	70,882,087	55,230,984
	<hr/> <hr/>	<hr/> <hr/>

Cash at bank earns interest at floating rates based on bank deposit rates. The average interest rate on the cash at bank in 2018 was 1.35% per annum (2017: 0.7%) The interest rate on the bank overdraft is disclosed in note 18.

As at 31 December 2018, an amount of USD30,569,972 (2017: USD27,220,000) 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 as described in note 16.

**24. RELATED PARTY DISCLOSURES**

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

	2018			2017		
	Related party activity USD	Total activity USD	%	Related party activity USD	Total activity USD	%
Key management personnel	49,600	2,575,747	1.93	46,612	2,396,193	2
	<hr/>					

As highlighted in Note 2.1 to the financial statements, the Government of Malta is the Parent Company of Malta Freeport Corporation Limited. The key management personnel expense refers to the remuneration of the Directors.

In the year under review the Company incurred interest of USD18,062,609 (2017: USD17,446,198) which, as illustrated in notes 6 and 19 was borne by the Government of Malta. The amounts owed to/from the Government of Malta are disclosed in notes 15 and 17. These amounts refer to recharges for the settlement of liabilities made by the Government on behalf of the Company and vice versa. 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 and overdrafts as illustrated in notes 18 and 19.



**NOTES TO THE FINANCIAL STATEMENTS - continued**

**25. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

At 31 December 2018 and 2017 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.

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
<b>2018</b>					
<b>Financial assets</b>					
<b>Loans and receivables</b>					
Receivables from third parties	-	55,834,017	-	55,834,017	49,469,198
<b>Financial liabilities at amortised cost</b>					
7.25% Debenture					
Loan Stock 2028	-	348,113,446	-	348,113,446	250,000,000
<b>2017</b>					
<b>Financial assets</b>					
<b>Loans and receivables</b>					
Receivables from third parties	-	58,833,548	-	58,833,548	51,843,461
<b>Financial liabilities at amortised cost</b>					
7.25% Debenture					
Loan Stock 2028	-	329,086,350	-	329,086,350	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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**26. FINANCIAL RISK MANAGEMENT**

*Credit risk*

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.

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 USD49,469,198 (2017: USD51,843,461) (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 reputable banks.

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. Such cross-currency interest rate swap was terminated in January 2017. A new cross-currency interest rate swap with a different counterparty was entered in the same month, for the exchange of interest at 7.25% of USD250,000,000 Debenture Loan Stock to 6.426% of EUR238,027,230.

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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**26. FINANCIAL RISK MANAGEMENT – continued**

*Interest rate risk*

The Company has taken out bank facilities and has issued debenture loans to finance its operations as disclosed in notes 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 note 5.

As detailed in the Notes to these financial statements, 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 6, 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 debenture loan stock 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:

	<b>Profit and loss sensitivity</b>	
	<b>2018</b>	<b>2017</b>
	<b>USD</b>	<b>USD</b>
Market interest rates – cash flows	+/-5k	+/-5k
EUR/USD exchange rates	+/-2.7m	+/-2.9m

*Liquidity risk*

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

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**26. FINANCIAL RISK MANAGEMENT - continued**

*Liquidity risk - continued*

As detailed in note 5, 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 15, 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. Such cross-currency interest rate swap was terminated in January 2017. A new cross-currency interest rate swap with a different counterparty was entered in the same month, for the exchange of interest at 7.25% of USD250,000,000 Debenture Loan Stock to 6.426% of EUR238,027,230. In addition, the Government of Malta bears the net interest cost on this derivative.

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

	Within 1 year USD	Between 1-5 years USD	Over 5 years USD	Total USD
<b>2018</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	4,548,389	-	-	4,548,389
Fixed rate instruments	18,125,000	72,500,000	331,562,500	422,187,500
Government subvention on interest expense	(17,513,496)	(70,053,984)	(87,567,481)	(175,134,961)
Post-employment benefits	-	52,686	1,562,768	1,615,454
<b>Derivative financial liabilities</b>				
Cross-currency interest rate swap	(611,504)	(2,446,016)	(2,751,767)	(5,809,287)
	4,548,389	52,686	242,806,020	247,407,095
<b>2017</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	3,550,969	-	-	3,550,969
Fixed rate instruments	18,246,909	72,500,000	349,687,500	440,434,409
Government subvention on interest expense	(18,125,000)	(72,500,000)	(99,687,500)	(190,312,500)
Post-employment benefits	18,687	12,073	1,399,939	1,430,699
<b>Derivative financial liabilities</b>				
Cross-currency interest rate swap	219,049	876,195	1,204,769	2,300,013
	3,910,614	888,268	252,604,708	257,403,590

*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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**27. DISTRIBUTIONS MADE AND PROPOSED**

	<b>2018</b>	<b>2017</b>
	<b>USD</b>	<b>USD</b>
<i>Cash dividends declared and paid</i>		
Final cash dividend for 2017: USD0.192 per share (2016: USD0.198 per share)	<b>570,800</b>	<b>589,300</b>

**DETAILED INCOME STATEMENT**

	<b>Schedules</b>	<b>2018 USD</b>	<b>2017 USD</b>
Rents receivable		<b>10,180,691</b>	10,082,516
Other income		<b>459,318</b>	724,338
Royalties		<b>604,959</b>	642,671
Security fees		<b>1,595,724</b>	1,464,053
		<b>12,840,692</b>	12,913,578
Staff costs	<b>II</b>	<b>(2,575,747)</b>	(2,396,193)
Other administrative expenses	<b>II</b>	<b>(587,208)</b>	(513,796)
		<b>9,677,737</b>	10,003,589

**STAFF COSTS AND OTHER ADMINISTRATIVE EXPENSES**

	2018 USD	2017 USD
<b>Staff costs</b>		
Directors' emoluments	49,600	46,612
Wages and salaries	2,526,147	2,349,581
	<u>2,575,747</u>	<u>2,396,193</u>
<b>Other administrative expenses</b>		
Audit fee	16,859	15,929
Depreciation	50,967	34,066
Insurance	37,096	35,850
Motor vehicle expenses	58,976	56,100
Professional fees	147,208	43,364
Promotional and travelling	18,655	10,547
Provision for retirement benefits and financial obligations	142,522	111,814
Interest on late payment of tax	-	138,721
Repairs and maintenance	13,594	4,487
Staff costs and training	36,014	22,369
Stationery and printing	12,063	8,612
Sundry expenses	41,096	9,794
Telecommunication expenses	10,039	9,746
Bank charges	2,488	4,012
Water and electricity	(5,361)	8,385
Bad debts written-off	4,992	-
	<u>587,208</u>	<u>513,796</u>