

**MALTA FREEPORT CORPORATION LIMITED**

**Annual Report and Financial Statements**

**31 December 2020**

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Report & Financial Statements for the year ended 31 December 2020**

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**MALTA FREEPORT CORPORATION LIMITED**  
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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 registration number is C 9353.

**Director**

Robert Sarsero (Chairman)  
Carmelo Briffa  
Claudette Abela Baldacchino  
Fredrick Azzopardi  
Claire Azzopardi (appointed 29<sup>th</sup> July 2021)  
Aleander Balzan (appointed 29<sup>th</sup> July 2021)  
Joe Cilia  
Graziella Chircop  
Charlie Gordimania (appointed 29<sup>th</sup> July 2021)  
Adrian Gatt  
Lisa Cassar Shaw (resigned 29<sup>th</sup> July 2021)  
Larah Borg Balzan (resigned 29<sup>th</sup> July 2021)  
Giuseppe D'Emanuele (resigned 29<sup>th</sup> July 2021)  
Marie Louise Darmanin (resigned 29<sup>th</sup> July 2021)

**Company Secretary**

Audrey Felice (appointed 29<sup>th</sup> July 2021)  
Fiona Galea Farrugia (resigned 29<sup>th</sup> July 2021)

**Registered Office**

Freeport Centre  
Port of Marsaxlokk,  
Kalafrana, Birzebbugia BBG05,  
Malta

**Auditors**

Reanda Malta Limited  
A3 Towers, Block A3,  
Level 12, Triq I-Arkata,  
Paola, Malta

**Bankers**

APS Bank Limited  
APS Centre Tower Street,  
Birkirkara, Malta

Bank of Valletta PLC  
Corporate Centre,  
St Venera, Malta

HSBC Bank Malta PLC  
Mill Street,  
Qormi, Malta

**Legal Advisors**

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

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

**MALTA FREEPORT CORPORATION LIMITED**  
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**DIRECTORS' REPORT**

The directors present their report and the audited financial statements of Malta Freeport Corporation Limited (the "Company") for the year ended 31 December 2020.

**Principal activities**

The Company's principal activity, which is unchanged since last year, fulfils the role of landlord 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 an increase in revenue of USD 995,616 from USD 12,787,360 reported in 2019 to USD 13,782,976 reported in 2020. The increase in the fair value of the Company's investment property amounted to USD 19,648,585 during the year ended 31 December 2020 compared to a decrease of USD 10,692,555 reported last year. In the year under review the Company reported a loss on its cross-currency interest rate swap agreement of USD 5,736,718 (2019: profit of USD 8,507,755). The profit before tax for the year amounted to USD 31,455,119 compared to USD 9,678,238 reported in 2019.

The Company's net assets at the end of the reporting year amounted to USD 304,666,295 (2019: USD 273,795,776).

**Results and Dividends**

The results for the year ended 31 December 2020 are shown in the statement of comprehensive income on page 8. The profit for the year after taxation was USD 27,201,972 (2019: USD 8,754,541). The directors declared and paid a dividend amounting to USD 584,600 during the year (2019: USD 552,950).

**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 risk 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 day-to-day operation. Further detail can be found under note 25 of the annual financial statements.

**Post balance sheet events**

There were no subsequent events which would require an adjustment or disclose in the financial statements of the Company. All post balance sheet events are adequately disclosed in note 27 to the financial statements.

## **DIRECTORS' REPORT – continued**

### **Directors**

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

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

### **Statement of directors' responsibilities**

The 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 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:

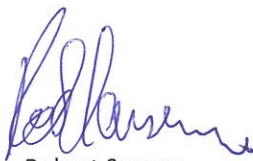
- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that reasonable;
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business as a going concern;
- Account for income and charge 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**

Reanda 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



Carmelo Briffa  
Director

23rd September 2021

## INDEPENDENT AUDITORS' REPORT

*To the shareholders of Malta Freeport Corporation Limited*

### Report on the audit of financial statements

#### Opinion

We have audited the accompanying financial statements of Malta Freeport Corporation Limited ("the Company"), set out on pages 9 to 40, which comprise the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and 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 2020, and of its financial performance for its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

#### 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements of both 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) in 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 judgement, 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 addresses the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' 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 a 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 (76%) of the Company and is valued at fair value for an amount of USD466 million as at 31 December 2020.

## Reanda Malta Ltd.



## **INDEPENDENT AUDITORS' REPORT - continued**

### **Key Audit Matters – continued**

#### *Valuation of investment property – continued*

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, this is the discounted value of future cash inflows from existing contractual agreements less the discounted value of future cash outflows, including operation 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 assumption such as discount rate.

Given the size, complexity and sensitivity of the valuation of investment property and the information provided by means of disclosure in Note 11 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 support lease agreements and other documents. 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 of information included in the Annual Report, other than the financial statements and our audit 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**

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and the requirements of the Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 has no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

## **Reanda Malta Ltd.**

## **INDEPENDENT AUDITORS' REPORT (continued)**

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objective is 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 auditors' 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.

As part of an audit in accordance with ISAs, we exercise professional judgement 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 auditors' 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 auditors' 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 the audit.

### **Reanda Malta Ltd.**

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## **INDEPENDENT AUDITORS' REPORT (continued)**

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

#### **Other Matter**

The financial report of Malta Freeport Corporation Limited for the year ended 31 December 2019 was audited by another auditor who expressed an unmodified opinion on that financial report on 16<sup>th</sup> September 2020.

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

##### *Directors' report*

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.

##### *Other requirements*

- Proper accounting records have not been kept;
- The financial statements are not in agreement with the accounting records; and
- We have not received all the information and explanations we require for our audit.

We have nothing to report to you in this respect.



*This copy of the audit report has been signed by  
Robert Borg (Director)  
For and on behalf of*

**Reanda Malta Limited**

23<sup>rd</sup> September 2021

**MALTA FREEPORT CORPORATION LIMITED**  
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**STATEMENT OF COMPREHENSIVE INCOME**

	Notes	2020 USD	2019 USD
Revenue	4	13,782,976	12,787,360
Staff costs	8	(3,196,504)	(2,933,295)
Other administrative costs		(565,023)	(1,082,516)
Dec / (Inc) in the provision for retirement benefits and financial obligations		623,849	(297,054)
Gain on exchange		354,563	62,349
Fair value movement in investment property	11	19,648,585	(10,692,555)
Fair value movement in Malta Government stocks		3,811,495	-
(Loss) / Gain on cross-currency interest rate swap	14	(5,736,718)	8,507,755
Movement in expected credit losses of financial assets	12, 13, 20	365,246	(89,223)
Interest income	5	2,337,017	3,386,393
Other income	9	29,698	-
Movement in the provision for claims		-	29,052
Finance costs	6	(65)	(28)
<b>Profit before tax</b>	7	<b>31,455,119</b>	<b>9,678,238</b>
Income tax expense	22	(4,253,147)	(923,697)
<b>Profit for the year</b>		<b>27,201,972</b>	<b>8,754,541</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>27,201,972</b>	<b>8,754,541</b>

*The accounting policies and explanatory notes on pages 13 to 40 form an integral part of the financial statements.*

**MALTA FREEPORT CORPORATION LIMITED**  
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**STATEMENT OF FINANCIAL POSITION**

	Notes	2020 USD	2019 USD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	671,556	655,733
Investment property	11	466,790,496	447,141,911
Financial investments	21	40,160,348	-
Loans and receivables	12	41,334,695	43,501,366
<b>Total non-current assets</b>		<b>548,957,095</b>	<b>491,299,010</b>
<b>Current assets</b>			
Loans and receivables	12	2,670,721	2,568,001
Income tax receivable	22	316,902	-
Trade and other receivables	13	3,847,165	4,446,185
Cash and cash equivalents	20	58,745,252	82,504,102
<b>Total current assets</b>		<b>65,580,040</b>	<b>89,518,288</b>
<b>TOTAL ASSETS</b>		<b>614,537,135</b>	<b>580,817,298</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	19	2,976,128	2,976,128
Foreign exchange translation reserve		759,548	759,548
Retained earnings		296,677,472	270,060,100
<b>Total Equity</b>		<b>300,413,148</b>	<b>273,795,776</b>
<b>Non-current liabilities</b>			
Other financial liabilities	17	250,000,000	250,000,000
Post-employment benefits	18	925,860	1,475,456
Derivative instruments at fair value	14	10,509,320	4,772,604
Provision for claims		-	42,363
Deferred income tax liabilities	23	49,246,061	46,927,014
<b>Total non-current liabilities</b>		<b>310,681,241</b>	<b>303,217,437</b>
<b>Current liabilities</b>			
Trade and other payables	15	3,441,021	3,578,494
Post-employment benefits	18	1,725	3,293
Income tax payable	22	-	222,298
<b>Total current liabilities</b>		<b>3,442,746</b>	<b>3,804,085</b>
<b>Total liabilities</b>		<b>314,123,987</b>	<b>307,021,522</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>614,537,135</b>	<b>580,817,298</b>

Rate of exchange as at 31 December 2020: EUR1 = USD1.2271 (31 December 2019: USD1.1234)

The accounting policies and explanatory notes on pages 13 to 40 form an integral part of the financial statements.

The financial statements on pages 9 to 40 have been authorised for issue by the Board of Directors on 23rd September 2021 and signed on its behalf by:

  
 Robert Sarsero  
 Chairman

  
 Carmelo Briffa  
 Director

**MALTA FREEPORT CORPORATION LIMITED**  
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**STATEMENT OF CHANGES IN EQUITY**

	Notes	Share Capital  USD	Foreign Exchange Translation Reserve  USD	Retained Earnings  USD	Total Equity  USD
<b>Financial year ended 31 December 2019</b>					
Balance at 1 January 2019		2,976,128	759,548	261,858,509	265,594,185
Dividend distribution	27	-	-	(552,950)	(552,950)
Total comprehensive income for the year		-	-	8,754,541	8,754,541
<b>Balance at 31 December 2019</b>		<b>2,976,128</b>	<b>759,548</b>	<b>270,060,100</b>	<b>273,795,776</b>
<b>Financial year ended 31 December 2020</b>					
Balance at 1 January 2020		2,976,128	759,548	270,060,100	273,795,776
Dividend distribution	27	-	-	(584,600)	(584,600)
Total comprehensive income for the year		-	-	27,201,972	27,201,972
Movement in the foreign exchange translation reserve		-	-	-	-
<b>Balance at 31 December 2020</b>		<b>2,976,128</b>	<b>759,548</b>	<b>296,677,472</b>	<b>300,413,148</b>

*The accounting policies and explanatory notes on pages 13 to 40 form an integral part of the financial statements*



**MALTA FREEPORT CORPORATION LIMITED**  
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**STATEMENT OF CASH FLOWS**

	Notes	2020 USD	2019 USD
<b>Cash flows before operating activities</b>			
Profit before tax		31,455,119	9,678,238
<i>Adjustments for:</i>			
Depreciation		64,978	84,303
Fair value movement in cross-currency swap		5,736,718	(8,507,755)
Fair value movement in investment property		(19,648,586)	10,692,555
Difference on exchange		(49,124)	(62,349)
(Decrease)/Increase in post-employment benefits		(623,849)	297,054
Provision for claims		-	(29,052)
Provision for ECL's		(365,246)	(58,842)
Interest income		(2,337,017)	(3,386,393)
Net interest expense		65	28
Operating Profit before working capital movements		<u>14,233,058</u>	<u>8,707,787</u>
Movement in trade and other receivables		599,374	(1,729,096)
Movement in trade and other payables		<u>(179,833)</u>	<u>(969,895)</u>
Cash generated from operations		14,652,599	6,008,796
Interest paid		(65)	(28)
Taxation paid / received		(2,473,299)	360,440
Retirement benefits fund		<u>(17,354)</u>	<u>(23,793)</u>
<b>Net cash flows from operating activities</b>		<u>12,161,881</u>	<u>6,345,415</u>
<b>Investing Activities</b>			
Payments to acquire property, plant and equipment		(80,801)	(135,257)
Movement in loans and receivables		2,568,001	2,469,232
Movement in investment for MGS		(40,160,348)	-
Interest received		<u>2,337,017</u>	<u>3,495,575</u>
<b>Net cash flow from investing activities</b>		<u>(35,336,131)</u>	<u>6,345,415</u>
<b>Financing activities</b>			
Payments of dividends		(584,600)	(552,950)
<b>Net cash flows from financing activities</b>		<u>(584,600)</u>	<u>(552,950)</u>
<b>Net movement in cash and cash equivalents</b>		<u>(23,758,850)</u>	<u>11,622,015</u>
Cash and cash equivalents at beginning of the year		82,504,102	70,882,087
Cash and cash equivalents at end of the year	20	<u>58,745,252</u>	<u>82,504,102</u>

*The accounting policies and explanatory notes on pages 13 to 40 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 landlord 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 Dollars (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 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 ended 31 December 2020:

- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) (effective for financial year beginning on or after 1 January 2020)
- Amendments to IAS1 and IAS8: Definition of Material (issued on 31 October 2018) (effective for financial year beginning on or after 1 January 2020)
- Amendments to IFRS9, IAS39 and IFRS7: Interest Rate Benchmark Reform (issued on 26 September 2019) (effective for financial year beginning on or after 1 January 2020)
- Amendments to IFRS3 Business Combinations (issued on 22 October 2018) (effective for financial year beginning on or after 1 January 2020)
- Amendment to IFRS16 Leases Covid19 Related Rent Concessions (issued May 2020) (effective for financial year beginning on or after 1 June 2020)

The adoption of these standards did not have significant impact on the financial statements or performance of the Company

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**2.2 Changes in Accounting Policies and Disclosures - continued**

**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.

- Amendments to IFRS4 Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020) (effective for financial year beginning on or after 1 January 2021)
- Amendments to IFRS9, IAS39, IFRS7, IFRS4, and IFRS16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020) (effective for financial year beginning on or after 1 January 2021)

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

- IFRS17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020) (effective for financial year beginning on or after 1 January 2023)
- Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively) (effective for financial year beginning on or after 1 January 2023)
- Amendments to IFRS3 Business Combinations; IAS16 Property, Plant and Equipment; IAS37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020) (effective for financial year beginning on or after 1 January 2022)
- Amendments to IAS1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021) (effective for financial year beginning on or after 1 January 2023)
- Amendments to IAS8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued of 12 February 2021) (effective for financial year beginning on or after 1 January 2023)

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

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

### **2.3 Summary of Significant Accounting Policies**

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

#### **Property, Plant and Equipment**

The Company's property, plant and equipment is 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.

#### **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 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 because 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.



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

### **2.3 Summary of Significant Accounting Policies – continued**

#### **Government Grants**

Government grants are recognised where there is reasonable assurance that the grant received, and all attached conditions will be complied with. When the grant relates to an 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.

#### **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.

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 estimates 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**

##### *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.

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

### **2.3 Summary of Significant Accounting Policies – continued**

#### **Financial Instruments – continued**

##### *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 (ETR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

##### *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.

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

### **2.3 Summary of Significant Accounting Policies – continued**

#### **Financial Instruments – continued**

##### *Financial assets designated at fair value through OCI (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 profit or loss 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.

##### *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*

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.

##### *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.

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

### **2.3 Summary of Significant Accounting Policies – continued**

#### **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.

##### *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.



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

### **2.3 Summary of Significant Accounting Policies – continued**

#### **Financial Liabilities – continued**

##### *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.

##### *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**

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 is 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. The Company elects to apply the practical expedient to not disclose the amount of the remaining performance obligations for contract that meet the requirements of the right to invoice.

#### *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. 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 asset 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.

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

### **2.3 Summary of Significant Accounting Policies – continued**

#### **Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### *Company as a lessee*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### *i) Right-of-use assets*

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- |                                      |                    |
|--------------------------------------|--------------------|
| • Plant and Machinery                | 5% - 25% per annum |
| • Motor Vehicles and other Equipment | 25% per annum      |

If the ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

#### *ii) Lease liabilities*

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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

### **2.3 Summary of Significant Accounting Policies – continued**

#### **Leases – continued**

##### *iii) Short-term leases and lease of low-value assets*

The Company applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

##### *Company as a lessor*

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

#### **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 non-complex nature of the actuarial assumptions, the Company did not involve an independent actuary in the measurement of its post-employment benefit obligations.

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

### **2.3 Summary of Significant Accounting Policies – continued**

#### **Currency translation**

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

#### **Cash and Cash Equivalents**

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

#### **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 USD 10,349,883 (2019: USD 10,049,520). 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.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**2.3 Summary of Significant Accounting Policies – continued**

**Fair Values**

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

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

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

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

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

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

**3 Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty**

The 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.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**3 Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty – continued**

*Government subvention or 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 11 to the financial statements.

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

**4 Revenue**

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

	2020	2019
	USD	USD
Rental Income (i)	10,355,296	10,155,846
Security Service fees (ii)	1,809,064	1,600,720
Royalties (ii)	550,025	703,761
Other income (iii)	1,068,591	327,033
	<u>13,782,976</u>	<u>12,787,360</u>

**Disaggregated revenue information**

- i. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operation nature.
- ii. Revenue from security service fees and royalties is generation from one geographical region, being Malta, and has the same timing of revenue recognition – being recognised over time.
- iii. 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.

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**5 Interest Income**

	2020 USD	2019 USD
Interest income on bank deposits	483,934	1,431,438
Interest on loans and receivable	1,853,083	1,954,955
	<u>2,337,017</u>	<u>3,386,393</u>

**6 Finance Costs**

	2020 USD	2019 USD
Interest payable on debenture loan stock	17,527,783	17,108,927
Interest on bank balances	65	28
	<u>17,527,848</u>	<u>17,108,955</u>
Less: government subvention (note 3)	<u>(17,527,783)</u>	<u>(17,108,927)</u>
	<u>65</u>	<u>28</u>

Interest payable on debenture loan stock is charged to the Government of Malta as per government subvention, also referred to Notes 2.1 and 17.

**7 Profit Before Tax**

	2020 USD	2019 USD
<i>This is state after charging:</i>		
Depreciation of property, plant and equipment	60,482	84,303
Fees paid to the auditors for audit services and tax compliance	5,711	15,758
	<u>66,193</u>	<u>99,061</u>

**8 Staff Costs and Employee Information**

	2020 USD	2019 USD
Wages and salaries	2,880,233	2,609,962
Social security costs	203,347	191,507
Directors' remuneration (note 24)	112,924	131,826
	<u>3,196,504</u>	<u>2,933,295</u>

The average number of persons employed during the year including all board members, was made up as follows:

	2020 Number	2019 Number
Administration and finance	15	13
Operational	97	92
	<u>112</u>	<u>105</u>

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

**9 Other Income**

Other income represents funds received for the corporate social responsibility projects.

**10 Property, Plant and Equipment**

	Plant & Machinery USD	Motor Vehicles USD	Total USD
<b>Cost</b>			
As at 01 January 2019	2,934,175	227,633	3,161,808
Additions	135,257	-	135,257
<b>As at 31 December 2019</b>	<u>3,069,432</u>	<u>227,633</u>	<u>3,297,065</u>
<b>Accumulated Depreciation</b>			
As at 01 January 2019	2,329,396	227,633	2,557,029
Depreciation	84,303	-	84,303
<b>As at 31 December 2019</b>	<u>2,413,699</u>	<u>227,633</u>	<u>2,641,332</u>
<b>Net Book Value</b>			
<b>As at 31 December 2019</b>	<u>655,733</u>	<u>-</u>	<u>655,733</u>

	Plant & Machinery USD	Motor Vehicles USD	Total USD
<b>Cost</b>			
As at 01 January 2020	3,069,432	227,633	3,297,065
Additions	80,801	-	80,801
<b>As at 31 December 2020</b>	<u>3,150,233</u>	<u>227,633</u>	<u>3,377,866</u>
<b>Accumulated Depreciation</b>			
As at 01 January 2020	2,413,699	227,633	2,641,332
Depreciation	64,978	-	64,978
<b>As at 31 December 2020</b>	<u>2,478,677</u>	<u>227,633</u>	<u>2,706,310</u>
<b>Net Book Value</b>			
<b>As at 31 December 2020</b>	<u>671,556</u>	<u>-</u>	<u>671,556</u>

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

**11 Investment Property**

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

	As at 1 January 2020 USD	Movement USD	As at 31 December 2020 USD
Investment Property	387,048,234	19,724,119	406,772,353
Accrued Income (I)	60,093,677	(75,534)	60,018,143
<b>As at 31 December 2020</b>	<b>447,141,911</b>	<b>19,648,585</b>	<b>466,790,496</b>

- i. 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.

	Investment Properties USD
Fair Value	
As at 1 January 2019	457,910,000
Decrease in fair value	(10,692,555)
Movement in accrued income	(75,534)
As at 1 January 2020	<u>447,141,911</u>
Increase in fair value	19,724,119
Movement in accrued income	(75,534)
As at 31 December 2020	<u>466,790,496</u>

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



**NOTES TO THE FINANCIAL STATEMENTS – continued**

**11 Investment Property – continued**

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

- The present value of future net cash Cows, that is the discounted value of future cash inflows from existing contractual agreements less the discounted value of future cash outflows, including operating cost 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% (2018: same) has been used in the valuation.

Furthermore, changes in the USD/EUR exchange rate also have an effect on the valuation of the Company's investment property. An appreciation of EUR/USD exchange rate by USD0.005 will adversely affect the valuation of the Company's investment property by USD 2M in 2020 (2019: An appreciation of EUR/USD exchange rate by USD0.05 will adversely affect the valuation of the Company's investment property by USD 5M).

On the basis of these assessment, 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 USD 19,648,585 (2019: decrease of USD 10,692,555).

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 (Note 11). The lessees do not have the option to purchase the property at the expiry of the lease period. The income earned under the operation leases amounted to USD 10,349,883 (2019: USD 10,155,846).

**12 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 instalments.

	2020 USD	2019 USD
Receivable from third party	44,431,965	46,999,966
Less: allowance at 31 December under IFRS 9	<u>(425,562)</u>	<u>(930,599)</u>
	44,005,416	46,069,367
Less: amounts recoverable within one year	<u>(2,670,721)</u>	<u>(2,568,001)</u>
Amounts recoverable after one year	<u>41,334,695</u>	43,501,366

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**13 Trade and Other Receivables**

	2020 USD	2019 USD
Trade receivables	3,328,367	3,596,727
Allowance for expected credit losses	(53,596)	(53,951)
	<u>3,274,771</u>	<u>3,542,776</u>
Prepayments and accrued income	572,394	906,409
	<u>3,847,165</u>	<u>4,446,185</u>

**14 Derivative Instrument at Fair Value**

	2020 USD	2019 USD
<i>Derivative liability</i>		
Cross-currency interest rate swap	(10,509,320)	(4,772,604)
	<u>(10,509,320)</u>	<u>(4,772,604)</u>
(Loss) / Gain on valuation of cross-currency interest rate swap	(5,736,718)	8,507,755
	<u>(5,736,718)</u>	<u>8,507,755</u>

In January 2017, the company entered into a cross-currency interest rate swap with counterparty, for the exchange interest at 7.25% of USD 250,000,000 Debenture Loan Stock to 6.426% of EUR 238,027,230. The agreement does not include the exchange of the principal amounts at the termination date of the swap. As disclosed in Note 6, the interest on this instrument is being borne by the Government of Malta.

As the company reports in USD and the swap liability is in 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 2020 amounted to USD 15,640,000 (2019: USD 8,730,000). The counterparty has an obligation to return the collateral upon termination of the swap. The counterparty has latitude in setting the amount of collateral required, depending on the mark-to-market valuation of the swap.

**15 Trade and Other Payables**

	2020 USD	2019 USD
Trade payables	36,461	15,649
Amounts due to government (Note 24)	479,800	681,990
Other payables	141,330	134,893
Accruals and deferred income	2,647,590	2,628,162
Other accruals	135,840	117,800
	<u>3,441,021</u>	<u>3,578,494</u>

No interest is charged on trade and other payables

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**16 Bank Overdrafts**

The bank overdraft bears interest of 4% per annum and is secured with a guarantee given by the Government of Malta. At 31 December 2020, the Company had available balance of USD 2,024,715 (2019: USD 1,853,610) under its committed bank overdraft facility. None of this balance was drawn as at 31 December 2020 (2019: none).

**17 Other Financial Liabilities**

	2020 USD	2019 USD
7.25% (2019: 7.25%) USD Debenture Loan Stock 2028	<u>250,000,000</u>	<u>250,000,00</u>

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 the whole or in part, at a redemption price. As disclosed in Note 6, interest is charged to the Government of Malta.

**18 Post-employment benefits**

	2020 USD	2019 USD
Balance as at 1 January	1,478,749	1,228,666
Settlements	(17,354)	(23,793)
Effect on translation to USD	90,039	(23,178)
Movement for the year	<u>(623,849)</u>	<u>297,054</u>
Balance as at 31 December	927,585	1,478,749
Less: amounts due for settlement within 12 months	(1,725)	(3,293)
Amounts due for settlement after 12 months	<u>925,860</u>	<u>1,475,456</u>

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

**19 Share Capital**

	2020 and 2019 Authorised USD	Issued and Called Up USD
2,976,128 ordinary shares of USD 1 each all of which have been issued and called up	<u>2,976,128</u>	<u>2,976,128</u>

**20 Cash and Cash Equivalents**

	2020 USD	2019 USD
Cash at bank and in hand	59,032,479	82,652,167
Allowance for expected credit losses	<u>(287,227)</u>	<u>(148,065)</u>
Cash and cash equivalents in the cash flow statement	<u>58,745,252</u>	<u>82,504,102</u>

Cash at bank earns interests at floating rates based on bank deposit rates. The interest rate on the bank overdraft is disclosed in Note 16.

As at 31 December 2020, an amount of USD 15,640,000 (2019: USD 8,730,000) disclosed as cash at bank and in hand is held as cash collateral in connection with the Company's cross-currency interest rate swap as described in Note 14.

**21 Financial investments**

	2020 USD	2019 USD
0.4% MGS 2026 (i)	13,339,190	-
1.5% MGS 2045 (ii)	<u>26,821,158</u>	-
	<u>40,160,348</u>	-

- i. The Company held 11,000,000 shares in the Malta Government Stocks maturing in 2026 with a fair value of USD 13,339,190.
- ii. The company held 19,000,000 shares in the Malta Government Stocks maturing in 2045 with a fair value of USD 26,821,158.

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**22 Current income tax**

	2020 USD	2019 USD
Current tax:		
Malta corporate tax at 35%	(323,668)	(409,106)
Income tax at 15%	(1,610,432)	(1,748,075)
	<u>(1,934,099)</u>	<u>(2,157,181)</u>
Deferred tax (note 23)	(2,319,047)	1,233,484
Income tax expense for the year	<u>(4,253,146)</u>	<u>(923,697)</u>

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

	2020 USD	2019 USD
Profit before tax	<u>31,455,119</u>	9,678,238
Tax at the applicable rate of 35%	<u>(11,009,292)</u>	(3,387,383)
<i>Tax effect of:</i>		
Interest income subject to 15% tax	96,787	67,977
Rental income subject to 15% tax	2,050,455	2,030,590
Profit and loss transactions not allowable for tax purposes	93,789	60,544
Exempt income	273,020	-
Fair value movement in investment property subject to 10% tax	4,915,923	(2,673,139)
Fair value movement in MGS	1,334,023	-
Fair value movement in cross-currency swap	<u>(2,007,851)</u>	<u>2,977,714</u>
Income tax expense for the year	<u>(4,253,146)</u>	<u>(923,697)</u>

Below is a reconciliation of the current tax recoverable:

Balance brought forward	<u>(222,298)</u>	2,158,231
<b>Current tax:</b>		
Malta corporate tax at 15%	(323,668)	(409,106)
Income tax at 15%	<u>(1,610,431)</u>	<u>(1,748,075)</u>
<b>Tax payments:</b>		
Tax at source on interest income	72,590	339,885
Settlement tax	1,523,384	1,538,441
Provisional tax	<u>877,325</u>	<u>1,608,560</u>
Income tax receivable	<u>316,902</u>	<u>(222,298)</u>

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**23 Deferred tax**

	Opening Balance USD	Recognised in Profit or Loss USD	Closing Balance USD
<b>2020</b>			
<b>Arising in temporary differences</b>			
Property, plant and equipment	(135,791)	(22,600)	(158,391)
Investment property	(38,704,823)	(1,972,412)	(40,677,235)
Accrued income	(9,014,052)	11,330	(9,002,722)
Provisions	927,652	335,366	592,286
	<u>(46,927,014)</u>	<u>(2,319,047)</u>	<u>(49,246,061)</u>
<b>2019</b>			
<b>Arising in temporary difference</b>			
Property, plant and equipment	(181,253)	45,462	(135,791)
Investment property	(39,774,079)	1,069,256	(38,704,823)
Accrued income	(9,025,382)	11,330	(9,014,052)
Provisions	820,216	107,436	927,652
	<u>(48,160,498)</u>	<u>1,233,484</u>	<u>(46,927,014)</u>

**24 Related Party Disclosures**

	2020			2019		
	Related Party Activity USD	Total Staff Costs USD	%	Related Party Activity USD	Total Staff Costs USD	%
Key management personnel	<u>112,924</u>	<u>3,196,504</u>	<u>3.53</u>	<u>131,826</u>	<u>2,933,295</u>	<u>4.49</u>

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 USD 17,527,783 (2018: USD 17,108,927) which, as illustrated in Notes 6 and 17 was borne by the Government of Malta. The amounts owed to/from the Government of Malta are disclosed in Notes 15. 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 14, the Government of Malta has indemnified the Company for any losses that could arise from the interest rate differential and on any losses that could arise if the instrument is terminated before its maturity.

The Government of Malta is also providing guarantees for the Company's debenture loan and overdrafts as illustrated in Notes 16 and 17.

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

### **25 Fair Values on Financial Assets and Financial Liabilities**

At 31 December 2020 and 2019 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. Fair value of the derivative instrument is disclosed in Note 14.

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.

### **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 USD44,431,965 (2019: USD46,999,966) (disclosed in Note 12) 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.



**NOTES TO THE FINANCIAL STATEMENTS – continued**

**26 Financial Risk Management – continued**

*Foreign currency risk*

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

The Company is exposed to foreign exchange 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.

*Interest rate risk*

The Company has issued debenture loans to finance its operations as disclosed in Notes 16 and 17 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 14.

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.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**26 Financial Risk Management – continued**

*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 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 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.

*Liquidity risk*

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

In January 2017, the Company entered into a cross-currency interest rate swap with a counterparty, for the exchange of interest at 7.25% of USD250,000,000 Debenture Loan Stock to 6.426% of EUR238,027,230. The agreement does not include the exchange of the principal amounts at the termination date of the swap. As disclosed in Note 6, the interest on this instrument is being borne by the Government of Malta.

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.

*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 Distribution made and proposed**

	2020 USD	2019 USD
<i>Cash dividends declared and paid</i>		
Final cash dividend for 2020: USD 0.196 per share (2019: USD 0.186 per share)	<u>584,600</u>	<u>552,950</u>

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

**28 Comparative Figures**

Comparative figures have been adjusted to conform to the current year's presentation.

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**SUPPLEMENTARY STATEMENTS**

**Statement**

Detailed Income Statement	I.
Staff Costs and Other Administrative Expenses	II.

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**STATEMENT I: DETAILED INCOME STATEMENT**

	2020	2019
	USD	USD
Rental Income	10,355,296	10,155,846
Security Service fees	1,809,064	1,600,720
Royalties	550,025	703,761
Other income	1,068,591	327,033
	<u>13,782,976</u>	<u>12,787,360</u>
Staff Costs	(3,196,504)	(2,933,295)
Other Administrative Expenses	(565,023)	(1,082,516)
	<u>10,021,449</u>	<u>8,771,549</u>

**MALTA FREEPORT CORPORATION LIMITED**  
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**STATEMENT II: STAFF COSTS AND OTHER ADMINISTRATIVE EXPENSES**

	2020	2019
	USD	USD
<b>Staff Costs</b>		
Directors' emoluments	112,924	131,826
Wages and salaries	<u>3,083,580</u>	<u>2,801,469</u>
	<b>3,196,504</b>	<b>2,933,295</b>
 <b>Other Administrative Costs</b>		
Audit fee	5,711	15,758
Depreciation	60,482	84,423
Insurance	50,880	29,094
Motor vehicle expenses	74,903	62,447
Professional fees	207,501	273,372
Promotion and travelling	9,257	41,238
Corporate social responsibility project expenses	28,013	476,252
Repairs and maintenance	24,037	12,762
Staff costs and training	15,838	27,894
Stationery and printing	17,934	12,038
Sundry expenses	57,428	53,489
Utilities	7,420	(10,589)
Bank charges	5,619	4,338
	<u>565,023</u>	<u>1,082,516</u>