

**MALTA FREEPORT CORPORATION
LIMITED**

*Annual Report
and
Financial Statements
31 December 2021*

CONTENTS

	<i>Pages</i>
Company Information	2 - 3
Directors' Report	4 - 5
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Change in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10 - 39
Independent Auditors' Report	40 - 43

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.

Directors

Robert Sarsero (Chairman)
Carmelo Briffa
Claudette Abela Baldacchino
Claire Azzopardi (appointed 29th July 2021)
Aleander Balzan (appointed 29th July 2021)
Charles Gordimania (appointed 29th July 2021)
Ramon Deguara (appointed 25th September 2022)
Priscilla Muscat (appointed 25th September 2022)
Margaret Camilleri (appointed 25th September 2022)
Mark Aquilina (appointed 25th September 2022)
Fredrick Azzopardi (resigned 25th September 2022)
Joe Cilia (resigned 25th September 2022)
Graziella Chircop (resigned 25th September 2022)
Adrian Gatt (resigned 25th September 2022)
Lisa Cassar Shaw (resigned 29th July 2021)
Larah Borg Balzan (resigned 29th July 2021)
Giuseppe D’Emanuele (resigned 29th July 2021)
Marie Louise Darmanin (resigned 29th July 2021)

Company Secretary

Jolene Flask (appointed 25th September 2022)
Audrey Felice (appointed 29th July 2021 and resigned 25th September 2022)
Fiona Galea Farrugia (resigned 29th July 2021)

Registered Office

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

Auditors

Horwath Malta
‘La Provvida’
Karm Zerafa Street
Birkiikata, BKR 1713
Malta

COMPANY INFORMATION - continued

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

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 2021.

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 has a mission to administer the area and maintain harmony within the Stakeholders that operate within the Zone. It is also the Regulator and Licensing Authority acting on behalf of the Government of Malta.

Financial and Operational Review

During the year under review the Company reported a decrease in revenue of USD 223,219 from €12,988,701 reported in 2020 to USD 12,765,482 reported in 2021. The increase in the fair value of the Company's investment property amounted to USD 15,618,067 during the year ended 31 December 2021 compared to an increase of USD 19,648,585 reported last year. In the year under review the company reported a positive movement of USD 9,858,607 as compared to a negative movement of USD 5,736,718 in the prior year on the company's interest rate currency swap.

In addition, during the financial year 2021 the Company earned USD 5,040,351 gains on forward currency exchange swap agreements. On the other hand, these realised exchange gains were wiped out by unrealised exchange losses of USD 5,231,507 as a result of the weakening of the US Dollar as at the year end.

The profit before tax for the year amounted to USD 37,736,879 compared to USD 31,455,119 reported in 2020.

The Company's net assets at the end of the reporting year amounted to USD 332,275,950 (2020: USD 300,413,148).

Results and Dividends

The results for the year ended 31 December 2021 are shown in the statement of comprehensive income on page 6. The profit for the year after taxation was USD 32,742,057 (2020: USD 27,201,972). The directors declared and paid a dividend amounting to USD 879,255 during the year (2020: USD 584,600).

Likely future developments

The directors consider that the year-end financial position was satisfactory and that the Company is well-placed to sustain the present level of activity in the foreseeable future.

Financial Risk Management

The successful management of risk is essential to enable the Company to achieve its objectives. The ultimate responsibility for risk management rests with the Company's directors, who evaluate the Company's risk appetite and formulate policies for identifying and managing such risks. There are a number of financial risks that could potentially impact the activities of the Company and include, not limited to, the following; credit risk, but 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 26 of the annual financial statements.

DIRECTORS' REPORT - continued

Post balance sheet events

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

Directors

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

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

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 statements the directors should:

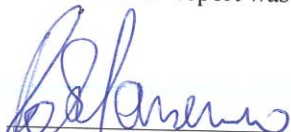
- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable;
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business as a going concern;
- Account for income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

Horwath Malta 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

17 October 2022

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2021 USD	2020 USD
Revenue	4	12,765,482	12,988,701
Staff costs	8	(3,392,274)	(3,196,504)
Other administrative costs		(934,939)	(565,023)
(Increase) / decrease in the provision for retirement benefits and financial obligations		(33,004)	623,849
(Loss) / gain on exchange		(5,231,507)	354,563
Fair value movement in investment property	11	15,618,067	19,648,585
Fair value movement in Malta Government stocks		-	3,811,495
Gain / (loss) on cross-currency interest rate swap	14	9,858,607	(5,736,718)
Movement in expected credit losses of financial assets	12,13,20	321,399	365,246
Interest income	5	2,240,326	2,337,017
Other income	9	6,525,061	823,973
Finance costs	6	(339)	(65)
Profit before tax	7	37,736,879	31,455,119
Income tax expense	22	(4,994,822)	(4,253,147)
Profit for the year		32,742,057	27,201,972
Other comprehensive income		-	-
Total comprehensive income for the year		32,742,057	27,201,972

The accounting policies and explanatory notes on pages 10 to 39 form an integral part of the financial statements.

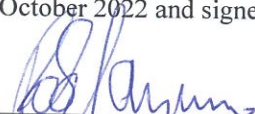
STATEMENT OF FINANCIAL POSITION

	Notes	2021 USD	2020 USD
ASSETS			
Non-current assets			
Property, plant and equipment	10	1,251,460	671,556
Investment property	11	482,333,029	466,790,496
Financial investments	21	-	40,160,348
Loans and receivables	12	38,845,953	41,334,695
Total non-current assets		522,430,442	548,957,095
Current assets			
Loans and receivables	12	2,777,551	2,670,721
Income tax receivable	22	-	316,902
Trade and other receivables	13	1,548,166	3,847,165
Cash and cash equivalents	20	113,374,712	58,745,252
Total current assets		117,700,429	65,580,040
TOTAL ASSETS		640,130,871	614,537,135
EQUITY AND LIABILITIES			
Equity			
Share capital	19	2,976,128	2,976,128
Foreign exchange translation reserve		759,548	759,548
Retained earnings		328,540,274	296,677,472
Total Equity		332,275,950	300,413,148
Non-current liabilities			
Other financial liabilities	17	250,000,000	250,000,000
Post-employment benefits	18	877,201	925,860
Derivative instruments at fair value	14	650,713	10,509,320
Deferred income tax liabilities	23	50,920,380	49,246,061
Total non-current liabilities		302,448,294	310,681,241
Current liabilities			
Trade and other payables	15	3,101,649	3,441,021
Post-employment benefits	18	-	1,725
Income tax payable	22	2,304,978	-
Total current liabilities		5,406,627	3,442,746
Total liabilities		307,854,921	314,123,987
TOTAL EQUITY AND LIABILITIES		640,130,871	614,537,135

Rate of exchange as at 31 December 2021: Euro 1 = USD 1.1326 (31 Dec 2020: Euro 1 = USD 1.2271).

The accounting policies and explanatory notes on pages 10 to 39 form an integral part of the financial statements.

The financial statements on pages 6 to 39 have been authorized for issue by the Board of Directors on 17 October 2022 and signed on its behalf by:


Robert Sarsero
Chairman


Carmelo Briffa
Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share Capital USD	Foreign Exchange Translation Reserve USD	Retained Earnings USD	Total Equity USD
Financial year ended 31 December 2020					
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
Balance at 31 December 2020		2,976,128	759,548	296,677,472	300,413,148
Financial year ended 31 December 2021					
Balance at 1 January 2021		2,976,128	759,548	296,677,472	300,413,148
Dividend distribution	27	-	-	(879,255)	(879,255)
Total comprehensive income for the year		-	-	32,742,057	32,742,057
Balance at 31 December 2021		2,976,128	759,548	328,540,274	332,275,950

The accounting policies and explanatory notes on pages 10 to 39 form an integral part of the financial statements

STATEMENT OF CASH FLOWS

	Notes	2021 USD	2020 USD
Cash flows before operating activities			
Profit before tax		37,736,882	31,455,119
<i>Adjustments for:</i>			
Depreciation		64,682	64,978
Fair value movement in cross-currency swap		(9,858,607)	5,736,718
Fair value movement in investment property		(15,618,067)	(19,648,586)
Difference on exchange		1,928,914	(49,124)
Movement in post-employment benefits		33,004	(623,849)
Movement in provision for ECL's		(325,429)	(365,246)
Gain on sale of investments		(1,453,959)	(790,359)
Accrued income		75,534	75,534
Interest income		(2,240,326)	(2,337,017)
Net interest expense		339	65
Operating profit before working capital movements		10,342,967	13,518,233
Movement in trade and other receivables		2,335,620	1,314,199
Movement in trade and other payables		(551,570)	(179,833)
Cash generated from operations		12,127,017	14,652,599
Interest paid		(339)	(65)
Taxation paid		(1,925,492)	(2,473,299)
Taxation refunded		1,226,871	-
Retirement benefits fund		(12,484)	(17,354)
Net cash flows from operating activities		11,415,573	12,161,881
Investing Activities			
Payments to acquire property, plant and equipment		(644,581)	(80,801)
Movement in loans and receivables		2,670,721	2,568,001
Acquisition of investments		(307,761,344)	(40,160,348)
Proceeds received from disposal of investments		347,588,020	-
Interest received		2,240,326	2,337,017
Net cash flow from investing activities		44,093,142	(35,336,131)
Financing activities			
Payments of dividends		(879,255)	(584,600)
Net cash flows from financing activities		(879,255)	(584,600)
Net movement in cash and cash equivalents		54,629,460	(23,758,850)
Cash and cash equivalents at beginning of the year		58,745,252	82,504,102
Cash and cash equivalents at end of the year	20	113,374,712	58,745,252

The accounting policies and explanatory notes on pages 10 to 39 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. 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.

2.1 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 New and revised standards

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

New and revised Standards, Interpretations and amendments

The Company adopted several new or revised Standards, Interpretations and amendments issued by the International Accounting Standards Board (IASB) and the IFRS Interpretation Committee and endorsed by the EU. The adoption of these new or revised standards, interpretations and amendments did not have a material impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS – continued

2.2 New and revised standards - continued

New and revised Standards, Interpretations and amendments - continued

Accordingly, the Company has made no changes to its accounting policies:

<i>Title</i>	<i>Effective Date</i>
(i) Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
(ii) Covid-19-Related Rent Concessions beyond 30 June 2021 Amendment to IFRS 16	1 April 2021
(iii) Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021

New and revised Standards, Interpretations and amendments issued but not yet effective

At the end of the reporting period, certain new Standards, Interpretations or amendments thereto, were in issue and endorsed by the EU, but not yet effective for the current financial period. There have been no instances of the early adoption of the Standards, Interpretations or amendments ahead of their effective date. The directors anticipate that the adoption of the new Standards, Interpretations or amendments thereto, will not have a material impact on the financial statements upon initial application.

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 basis:

Plant and Machinery	5% - 25% per annum
Motor Vehicles	25% per annum

NOTES TO THE FINANCIAL STATEMENTS – continued

2.3 Summary of significant accounting policies - continued

Property, plant and equipment - continued

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

Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the period in which they arise.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount and are recognised in profit and loss in the period of derecognition.

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.

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 recognized 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

Impairment of non-financial assets - continued

Impairment losses are recognised in the statement of comprehensive income.

An assessment is made at its 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, not 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.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

Financial instruments - continued

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.

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 on 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 subject to impairment assessment.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

Financial instruments - continued

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized 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 derecognized 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, not transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement.

Impairment of financial assets

The Company recognizes 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

Impairment of financial assets - continued

ECLs are recognized 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 recognizes 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 recognized 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 recognized 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 amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized 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 amortization 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 derecognized 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 recognized 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 recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Provisions

Provisions are recognized 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 recognized 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 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 carryable 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

Borrowing costs

Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

Leases

The 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 asset 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

Leases - continued

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 payment (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.

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 lease 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

Taxes - continued

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, the tax basis 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 exist to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

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.

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 running on the date the fair value was remeasured. 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 Summary of significant accounting policies – continued

Operating segments

For management purposes, the Company is organised 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 recognised revenue from lease and security services from one customer amounting to USD 10,180,705 (2020: USD 10,349,883). Likewise, non-current assets, other than financial instruments, are also situated in Malta.

Share capital

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

Dividends

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

Fair values

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. Judgements in applying accounting policies and key sources of estimation uncertainty

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

Judgements

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

Functional currency

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

Government subvention 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 recognises 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 required 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.

NOTES TO THE FINANCIAL STATEMENTS – continued

4. Revenue

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

	2021 USD	2020 USD
Rental income (i)	10,225,358	10,355,296
Security service fees (ii)	1,755,106	1,809,064
Royalties (ii)	474,088	550,025
Other income (iii)	310,930	274,316
	<u>12,765,482</u>	<u>12,988,701</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.

5. Interest income

	2021 USD	2020 USD
Interest income on bank deposits	27,404	483,934
Interest on loans and receivables	2,212,922	1,853,083
	<u>2,240,326</u>	<u>2,337,017</u>

6. Finance costs

	2021 USD	2020 USD
Interest payable on debenture loan stock	18,090,751	17,527,783
Interest on bank balances	339	65
	<u>18,091,090</u>	<u>17,527,848</u>
Less: government subvention (Note 3)	<u>(18,090,751)</u>	<u>(17,527,783)</u>
	<u>339</u>	<u>65</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.

NOTES TO THE FINANCIAL STATEMENTS - continued

7. Profit before tax

	2021 USD	2020 USD
<i>This is state after charging:</i>		
Depreciation of property, plant and equipment	64,682	64,978
Fees paid to the auditors for audit services and tax compliance	<u>9,462</u>	<u>5,711</u>

8. Staff costs and employee information

	2021 USD	2020 USD
Wages and salaries	3,041,200	2,880,233
Social security costs	221,081	203,347
Directors' remuneration (Note 24)	<u>129,993</u>	<u>112,924</u>
	<u>3,392,274</u>	<u>3,196,504</u>

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

	2021 Number	2020 Number
Administration and finance	15	15
Operational	<u>96</u>	<u>97</u>
	<u>111</u>	<u>112</u>

9. Other income

	2021 USD	2020 USD
Capital gains on financial investments	1,453,959	790,359
Realised gains on currency SWAP agreements	5,040,351	3,916
Funds received for the corporate social responsibility projects	<u>30,751</u>	<u>29,698</u>
	<u>6,525,061</u>	<u>823,973</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

10. Property, plant and equipment

	Plant & Machinery USD	Motor Vehicles USD	Assets under construction USD	Total USD
Cost				
As at 01 January 2020	3,069,432	227,933	-	3,297,065
Additions	80,801	-	-	80,801
As at 31 December 2020	3,150,233	227,933	-	3,377,866
Accumulated Depreciation				
As at 01 January 2020	2,413,699	227,633	-	2,641,332
Depreciation	64,978	-	-	64,978
As at 31 December 2020	2,478,677	227,633	-	2,706,310
Net Book Value				
As at 31 December 2020	671,556	-	-	671,566
	Plant & Machinery USD	Motor Vehicles USD	Assets under construction USD	Total USD
Cost				
As at 01 January 2021	3,150,233	227,633	-	3,377,866
Additions	120,426	-	524,160	644,586
As at 31 December 2021	3,270,659	227,633	524,160	4,022,452
Accumulated Depreciation				
As at 01 January 2021	2,478,677	227,633	-	2,706,310
Depreciation	64,682	-	-	64,682
As at 31 December 2021	2,543,359	227,633	-	2,770,992
Net Book Value				
As at 31 December 2021	727,300	-	524,160	1,251,460

As at 31 December 2021, the Company had an asset under construction amounting to USD 524,160. This pertains to the construction costs incurred by the Company for a project being built on its land, which is expected to be transferred to a lessee after completion as part of the lease agreement existing among both parties.

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 2021 USD	Movement USD	As at 31 December 2021 USD
Investment property	406,772,353	15,618,067	422,390,420
Accrued income (i)	60,018,143	(75,534)	59,942,609
As at 31 December 2021	<u>466,790,496</u>	<u>15,542,533</u>	<u>482,333,029</u>

- 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 2020	
Increase in fair value	447,141,911
Movement in accrued income	19,724,119
	<u>(75,534)</u>
As at 1 January 2021	
Increase in fair value	466,790,496
Movement in accrued income	15,618,067
	<u>(75,534)</u>
As at 31 December 2021	<u>482,333,029</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 flows, 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% (2020: same) has been used in the valuation.

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 15,618,067 (2020: increase of USD 19,724,119).

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.

Company as a lessor

Operating leases relating to the investment property owned by the Company are for varying lease terms. The lessees do not have option to purchase the property at the expiry of the lease period. The income earned under the operation leases amounted to USD 10,255,358 (2020: USD 10,355,296).

NOTES TO THE FINANCIAL STATEMENTS - continued

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.

	2021 USD	2020 USD
Receivable from third party	41,761,243	44,431,965
Less: allowance at 31 December under IFRS 9	<u>(137,739)</u>	<u>(426,549)</u>
	41,623,504	44,005,416
Less: amounts recoverable within one year	<u>(2,777,551)</u>	<u>(2,670,721)</u>
Amounts recoverable after one year	<u><u>38,845,953</u></u>	<u><u>41,334,695</u></u>

13. Trade and other receivables

	2021 USD	2020 USD
Trade receivables	1,054,899	3,328,367
Allowance for expected credit losses	<u>(16,975)</u>	<u>(53,596)</u>
	1,037,924	3,274,771
Prepayments and accrued income	<u>510,242</u>	<u>572,394</u>
	<u><u>1,548,166</u></u>	<u><u>3,847,165</u></u>

14. Derivative instrument at fair value

	2021 USD	2020 USD
<i>Derivative liability</i>		
Cross-currency interest rate swap	<u>(650,713)</u>	<u>(10,509,320)</u>
Gain / (loss) on valuation of cross-currency interest rate swap	<u><u>9,858,607</u></u>	<u><u>(5,736,718)</u></u>

NOTES TO THE FINANCIAL STATEMENTS - continued

14. Derivative instrument at fair value – continued

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 2021 amounted to USD 15,640,000 (2020: USD 15,640,000). 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

	2021 USD	2020 USD
Trade payables	26,952	36,461
Amounts due to government (Note 24)	306,749	479,800
Other payables	111,642	141,330
Accruals and deferred income	2,580,488	2,647,590
Other accruals	75,818	135,840
	<u>3,101,649</u>	<u>3,441,021</u>

No interest is charged on trade and other payables.

16. Bank overdrafts

The bank overdraft bears interest of 1.6% per annum and is secured with a guarantee given by the Government of Malta. At 31 December 2021, the Company had available balance of USD 1,868,790 (2020: USD 2,024,715) under its committed bank overdraft facility. None of this balance was drawn as at 31 December 2021 (2020: none).

NOTES TO THE FINANCIAL STATEMENTS - continued

17. Other financial liabilities

	2020 USD	2021 USD
7.25% (2020: 7.25%) USD Debenture Loan Stock 2028	<u>250,000,000</u>	<u>250,000,000</u>

The above loan and interest thereon is guaranteed by the Government of Malta and is repayable in 2028. 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

	2021 USD	2020 USD
Balance as at 1 January	927,585	1,478,749
Settlements	(12,484)	(17,354)
Effect on translation to USD	(70,904)	90,039
Movement for the year	33,004	(623,849)
Balance as at 31 December	<u>877,201</u>	<u>927,585</u>
Less: amounts due for settlement within 12 months	<u>-</u>	<u>(1,725)</u>
Amounts due for settlement after 12 months	<u>877,201</u>	<u>925,860</u>

19. Share capital

	2021 and 2020	
	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

	2021 USD	2020 USD
Cash at bank and in hand	113,665,968	59,032,479
Allowance for expected credit losses	(291,256)	(287,227)
Cash and cash equivalents in the cash flow statement	<u>113,374,712</u>	<u>58,745,252</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

20. Cash and cash equivalents - continued

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 2021, an amount of USD 15,640,000 (2020: USD 15,640,000) 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

	2021 USD	2020 USD
0.4% MGS 2026 (i)	-	13,339,190
1.5% MGS 2045 (ii)	-	26,821,158
	<u>-</u>	<u>40,160,348</u>

As at 31 December 2021

As at 31 December 2021 the Company did not held any financial investments.

As at 31 December 2020

- 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.

22. Current income tax

	2021 USD	2020 USD
Current tax:		
Malta corporate tax at 35%	(1,770,861)	(323,668)
Income tax at 15%	(1,549,642)	(1,610,432)
	<u>(3,320,503)</u>	<u>(1,934,100)</u>
Deferred tax (Note 23)	(1,674,319)	(2,319,047)
	<u>(4,994,822)</u>	<u>(4,253,147)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

22. Current income tax – continued

	2021 USD	2020 USD
Tax applying the statutory income tax rate and the income tax expense for the year are reconciled as follows:		
	2021 USD	2020 USD
Profit before tax	<u>37,736,879</u>	<u>31,455,119</u>
Tax at the applicable rate of 35%	(13,207,908)	(11,009,293)
<i>Tax effect of:</i>		
Interest income subject to 15% tax	8,244	96,787
Rental income subject to 15% tax	2,057,944	2,050,455
Profit and loss transactions not allowable for tax purposes	(1,703,327)	93,789
Exempt income	510,303	273,020
Fair value movement in investment property subject to 10%	3,889,410	4,915,923
Fair value movement in MGS	-	1,334,023
Fair value movement in cross-currency swap	<u>3,450,512</u>	<u>(2,007,851)</u>
Income tax expense for the year	<u>(4,994,822)</u>	<u>(4,253,147)</u>
Below is a reconciliation of the current tax recoverable:		
	2021 USD	2020 USD
Balance brought forward	<u>316,902</u>	<u>(222,298)</u>
Current tax:		
Malta corporate tax at 15%	(1,770,861)	(323,668)
Income tax at 15%	<u>(1,549,642)</u>	<u>(1,610,431)</u>
Tax payments:		
Tax at source on interest income and financial investments	6,183	72,590
Tax refunded	(1,226,869)	-
Settlement tax	1,537,841	1,523,384
Provisional tax	<u>381,468</u>	<u>877,325</u>
	<u>(2,304,978)</u>	<u>316,902</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

23. Deferred tax

	Opening Balance USD	Recognised in Profit or loss USD	Closing Balance USD
2021			
Arising in temporary differences			
Property, plant and equipment	(158,391)	5,333	(153,058)
Investment property	(40,677,235)	(1,561,806)	(42,239,041)
Accrued Income	(9,002,722)	11,330	(8,991,392)
Provisions	592,287	(129,176)	463,111
	<u>(49,246,061)</u>	<u>(1,674,319)</u>	<u>(50,920,380)</u>
2020			
Arising in temporary differences			
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	(335,365)	592,287
	<u>(46,927,014)</u>	<u>(2,319,047)</u>	<u>(49,246,061)</u>

24. Related party disclosures

	2021			2020		
	Related Party Activity USD	Total Staff Costs USD	%	Related Party Activity USD	Total Staff Costs USD	%
Key management personnel	<u>129,993</u>	<u>3,392,274</u>	<u>3.83</u>	<u>112,924</u>	<u>3,196,504</u>	<u>3.53</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 18,090,751 (2020: USD 17,527,783) 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 Note 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

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% Eur 200,754,838. 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.

DETAILED INCOME STATEMENT

	Schedule	2021	2020
		USD	USD
Rental income		10,225,358	10,355,296
Other income		310,930	274,316
Royalties		474,088	550,025
Security fees		1,755,106	1,809,064
		12,765,482	12,988,701
Staff costs	2	(3,392,274)	(3,196,504)
Other administrative expenses	2	(934,939)	(565,023)
		8,438,269	9,227,174

STAFF COSTS AND OTHER ADMINISTRATIVE EXPENSES

	2021 USD	2020 USD
Staff costs		
Directors' emoluments	129,993	112,924
Wages and salaries	<u>3,262,281</u>	<u>3,083,580</u>
	<u><u>3,392,274</u></u>	<u><u>3,196,504</u></u>
Other administrative expenses		
Audit fee	9,462	5,711
Depreciation	64,682	64,978
Insurance	78,645	50,880
Motor vehicle expenses	72,951	74,903
Professional fees	184,042	207,501
Promotional and travelling	33,660	10,427
Corporate Social Responsibility project expenses	309,060	20,929
Repairs and maintenance	25,161	22,920
Staff costs and training	29,182	44,135
Stationery and printing	17,413	17,934
Sundry expenses	31,871	31,542
Telecommunication expenses	9,216	9,996
Bank charges	61,335	5,619
Water and electricity	8,259	(2,576)
Bad debts written-off	-	124
	<u><u>934,939</u></u>	<u><u>565,023</u></u>