

MALTA GAMING AUTHORITY

Annual Report and Financial Statements

31 December 2017

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2017

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MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2017

GENERAL INFORMATION

Registration

The Malta Gaming Authority (the 'Authority') was established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

Board Members of the Authority

Mr. Joseph Cuschieri	(Chairman)
Dr. Chris Cilia	(Deputy Chairman)
Mr. Caesar Grech	
Ms. Ruth Trapani Galea	
Dr. Juliana Scerri Ferrante	

Chief Executive Officer

Mr. Joseph Cuschieri

Secretary of the Board of the Authority

Dr. Matthew Bondin

Head Office

Malta Gaming Authority Building
SCM 02-03, Level 4
SmartCity Malta
Ricasoli SCM1001
MALTA

Auditor

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

REPORT OF THE BOARD MEMBERS OF THE AUTHORITY

The Board Members of the Authority submit their annual report and the audited financial statements for the year ended 31 December 2017.

Principal activity

The Malta Gaming Authority was established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta for the purposes of carrying out the functions defined in the said Act.

Results

The operating revenue net of dormant funds generated by the Authority during the year amounted to EUR66,272,498 (2016: EUR62,528,892). After deducting all expenditure of EUR9,778,025 (2016: EUR9,850,870) the Authority registered a surplus for the year of EUR59,353,268 (2016: EUR55,030,286). The Authority transferred EUR54,499,298 (2016: EUR56,203,726) to the Government of Malta.

Board Members of the Authority

The Board Members of the Authority who served during the year under review are listed on page 2.

In accordance with Part IV, section 9 (2) of the Lotteries and Other Games Act, Cap. 438, the Chairman and other Board members of the Authority are appointed by the Minister for the Economy, Investment and Small Business for a maximum period of three years but may be reappointed on the expiration of their term of office.

Auditors

Ernst & Young Malta Limited have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the next meeting of the Board Members of the Authority.

The Report of the Board Members of the Authority is signed on their behalf by:



MR. JOSEPH CUSCHIERI
Chairman

19 April 2018



DR. CHRIS CILIA
Deputy Chairman

INDEPENDENT AUDITOR'S REPORT to the Board Members of Malta Gaming Authority

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Malta Gaming Authority ('the Authority'), which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

Basis for opinion

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

Other information

The other information obtained at the date of the auditor's report is the 2017 Board Members Report. The Board Members are responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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.

Board Members' Responsibility for the Financial Statements

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of Lotteries and Other Games Act, Cap. 438 of the Laws of Malta, and for such internal control as the Board determines 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 board is responsible for assessing the Authority'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 board either intend to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.



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INDEPENDENT AUDITOR'S REPORT to the Board Members of Malta Gaming Authority - continued

Report on the audit of the financial statements - continued

Auditor's Responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Authority'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 Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority 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 board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Ernst & Young Malta Limited
Certified Public Accountants

19 April 2018

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2017

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Notes	2017 EUR	2016 EUR
Revenue	5	66,272,498	62,528,892
Administrative and other expenses	6	(9,778,025)	(9,850,870)
Operating surplus		56,494,473	52,678,022
Release of unclaimed player's monies		2,796,503	-
Reversal of provision for claims	14	60,000	2,350,000
Finance income	8	2,292	2,264
Surplus for the year		59,353,268	55,030,286

The accounting policies and explanatory notes on pages 10 to 21 form an integral part of the financial statements.

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2017

STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	Notes	2017 EUR	2016 EUR
ASSETS			
Non-current assets			
Intangible assets	10	663,539	558,202
Property, plant and equipment	11	4,225,233	4,543,089
		4,888,772	5,101,291
Current assets			
Trade and other receivables	12	7,293,848	7,591,725
Cash at bank and in hand	16	7,760,330	1,743,765
		15,054,178	9,335,490
TOTAL ASSETS		19,942,950	14,436,781
EQUITY AND LIABILITIES			
Equity reserve	13	250,000	250,000
Reserve fund	13	5,539,053	-
National Lottery Reserve Fund	13	-	-
		5,789,053	250,000
Non-current liabilities			
Provision for claims	14	890,000	950,000
Current liabilities			
Trade and other payables	15	13,263,897	13,236,781
Total liabilities		14,153,897	14,186,781
TOTAL EQUITY AND LIABILITIES		19,942,950	14,436,781

The accounting policies and explanatory notes on pages 10 to 21 form an integral part of the financial statements.

The financial statements on pages 6 to 21 have been authorised for issue by the Board Members of the Authority on 19 April 2018 and were signed on their behalf by:

MR. JOSEPH CUSCHIERI
Chairman

DR. CHRIS CILIA
Deputy Chairman

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2017

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	National Lottery Reserve Fund EUR	Reserve Fund EUR	Equity reserve EUR	Total EUR
At 1 January 2017	-	-	250,000	250,000
Appropriation from statement of comprehensive income	1,029,724	58,323,544	-	59,353,268
Unclaimed prizes transferred in terms of section 59 of the Lotteries and Other Games Act, Cap. 438	685,083	-	-	685,083
Payments made to/or on behalf of Government in terms of sections 50 of the Lotteries and other Games Act, Cap. 438	(1,714,807)	(52,784,491)	-	(54,499,298)
At 31 December 2017	-	5,539,053	250,000	5,789,053
At 1 January 2016	-	-	250,000	250,000
Appropriation from statement of comprehensive income	976,463	54,053,823	-	55,030,286
Unclaimed prizes transferred in terms of section 59 of the Lotteries and Other Games Act, Cap. 438	651,118	-	-	651,118
Payments made to/or on behalf of Government in terms of sections 50 of the Lotteries and other Games Act, Cap. 438	(1,627,581)	(54,576,145)	-	(56,203,726)
Other payments from Government	-	522,322	-	522,322
At 31 December 2016	-	-	250,000	250,000

The accounting policies and explanatory notes on pages 10 to 21 form an integral part of the financial statements.

MALTA GAMING AUTHORITY
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STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Note	2017 EUR	2016 EUR
Operating activities			
Surplus for the year		59,353,268	55,030,286
Adjustment to reconcile surplus for the year to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		612,754	457,467
Amortisation of intangible assets		161,533	92,071
Increase in provision for doubtful debts		104,217	45,311
Loss on disposal of property, plant and equipment		-	-
Reversal of provision for claims		(60,000)	(2,350,000)
Finance income		(2,292)	(2,264)
Working capital adjustments:			
Decrease/Increase in trade and other receivables		193,660	(553,644)
Decrease/Increase in trade and other payables		712,199	2,296,546
Net cash flows from operating activities		61,075,339	55,015,773
Investing activities			
Purchase of property, plant and equipment		(294,898)	(1,325,436)
Purchase of intangible assets		(266,870)	(501,418)
Interest received		2292	2,264
Net cash flows used in investing activities		(559,476)	(1,824,590)
Financing activities			
Payments made to Government		(54,499,298)	(56,203,726)
Net cash flows used in financing activities		(54,499,298)	(56,203,726)
Net movement in cash and cash equivalents		6,016,565	(3,012,543)
Cash and cash equivalents at 1 January		1,743,765	4,756,308
Cash and cash equivalents at 31 December	16	7,760,330	1,743,765

The accounting policies and explanatory notes on pages 10 to 21 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Malta Gaming Authority ('the Authority') is a Government Authority established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta. The principal activity of the Authority is to regulate lotteries and other gaming activities in Malta.

2.1 BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis and are presented in Euro.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by EU and comply with the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and with the Companies Act, Cap. 386 of the Laws of Malta. These have been prepared under the historical cost convention and are presented in Euro, except for derivative financial instruments which have been measured at fair value.

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:

- IAS 7 (Amendments) - Disclosure Initiative
- IAS 12 (Amendments) - Recognition of Deferred Tax Assets for Unrealized Losses

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

Standards, interpretations and amendments to published standards as adopted by the EU which are not yet effective

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective for the current reporting year and which the Company has not early adopted, but plans to adopt upon their effective date. The new and amended standards follow:

- IFRS 9 - Financial instruments (effective for financial year beginning on or after 1 January 2018)
- IFRS 16 - Leases (effective for financial year beginning on or after 1 January 2019)
- IFRS 15 - Revenue from Contracts with Customers including amendments to IFRS 15 (effective for financial year beginning on or after 1 January 2018)
- IFRS 15 (Clarifications) - Revenue from Contracts with Customers (effective for financial year beginning on or after 1 January 2018)
- IFRS 4 (Amendments) - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial year beginning on or after 1 January 2018)
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle - (effective for financial year beginning on or after 1 January 2017/1 January 2018)

NOTES TO THE FINANCIAL STATEMENTS - continued

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

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

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet adopted by the EU. The Company plans to adopt the new standards upon their effective date. The new and amended standards follow:

- IFRS 17 – Insurance Contracts (effective for financial year beginning on or after 1 January 2021)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (effective for financial year beginning on or after 1 January 2018)
- IFRIC 23 – Uncertainty over Income Tax Treatments (effective for financial year beginning on or after 1 January 2019)
- IFRS 2 (Amendments) - Classification and Measurement of Share-based Payment Transactions (effective for financial year beginning on or after 1 January 2018)
- IAS 40 (Amendments) – Transfers of Investment Property (effective for financial year beginning on or after 1 January 2018)
- IFRS 9 (Amendments) – Prepayment Features with Negative Compensation (effective for financial year beginning on or after 1 January 2019)
- IAS 28 (Amendments) – Long-term Interests in Associates and Joint Ventures (effective for financial year beginning on or after 1 January 2019)
- Amendments to IAS19: Plan Amendment, Curtailment or Settlement (effective for financial year beginning on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for financial year beginning on or after 1 January 2019)

IFRS 15 – Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., sales of property, plant and equipment or intangibles). The Authority has determined that the standard does not have a significant effect on the fees charged by the Authority for licenses and applications and on duties.

IFRS 16 – Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Authority is still assessing the effect of the changes on the financial statements.

3. SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set out below:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for licenses, duties and application fees in the normal course of business. All revenue is recognised on the accrual basis. The following specific recognition criteria must also be met before revenue is recognised:

Licences

Revenue is recognised when the licence becomes due. It is accounted for on a straight line basis over the term of the licence.

NOTES TO THE FINANCIAL STATEMENTS – continued

3. SUMMARY OF ACCOUNTING POLICIES - continued

Revenue recognition - continued

Application fees

Revenue is recognised upon receiving the consideration together with a valid application form.

Duties

Depending on the type of licence, revenue from duties is either charged on a fixed fee basis or is based on a percentage of the regulated companies' reported revenue, up to a capped amount for remote gaming companies.

Interest income

Interest income is recognised as the interest accrues, unless collectability is in doubt.

Trade and other receivables

Trade receivables are recognised and carried at original amount due less an allowance for any uncollectible amounts. An estimate for impairment is made when collection of the full amount is no longer probable. Impaired debts are derecognised when they are assessed as uncollectible.

Amounts due from related parties are recognised and carried at cost.

Cash and cash equivalents

Cash in hand and at banks and term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at banks, net of overdrawn bank balances.

Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Authority.

Amounts due to related parties are carried at cost.

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets is recognised in the statement of comprehensive income. Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	%
Computer software	25

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Depreciation is calculated to write off the cost of the property, plant and equipment on a straight line basis over their expected useful life as follows:

	%
Leasehold improvements	6.67 - 33.33
Furniture and fittings	10 - 16.67
Office equipment	16.67 - 25
Motor vehicles	20
Computer equipment	25

Gains and losses arising on de-recognition upon disposal of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c) there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Finance leases, which transfer to the Authority substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of comprehensive income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS – continued

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, the Board is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the change becomes known.

Provisions for claims and contingent liabilities

Claims have been made against the Authority by third parties. Judgement is required to determine whether these claims will require an outflow of resources and whether these could be reliably estimated. The Authority quantifies the claims based on the damages and determines the probability of the outflow based on the advice provided by the legal counsel.

Where the Authority believes that the claims would probably result in an outflow of resources and can be reliably estimated, a provision is recognised. Where there is a possible obligation, but probably there will not be an outflow of resources, no provision is recognised whilst a contingent liability is disclosed.

In the opinion of the Board, the accounting estimates, assumptions and judgements other than those mentioned above, made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS I (revised) - 'Presentation of financial statements'.

5. REVENUE

Revenue comprises the following:

	2017	2016
	EUR	EUR
License fees	6,159,181	5,474,824
Application fees	502,670	335,935
Other	487,002	418,397
Total Authority fees	7,148,853	6,229,156
Duties	59,123,645	56,299,736
Total revenue	66,272,498	62,528,892

Number of licences in issue at end of year:

	2017	2016
	No.	No.
Commercial bingo houses	5	4
Casinos	4	4
Gaming parlours	52	48
National lotteries	1	1
Remote online gaming licences	625	513
Total number of licenses at end of year	687	570

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NOTES TO THE FINANCIAL STATEMENTS – continued

6. EXPENSES BY NATURE

	2017 EUR	2016 EUR
Auditor's remuneration	17,700	17,700
Chairman's emoluments and Board honoraria (note 18)	31,910	31,910
Staff costs (note 7)	5,353,958	5,191,648
General administrative expenses	1,270,898	1,331,231
Professional fees	998,548	1,272,711
Promotional expenses	594,356	746,752
Depreciation and amortisation on property, plant and equipment and intangible fixed assets (notes 10 and 11)	774,287	549,538
Provision for doubtful debts (note 12)	104,217	45,311
Contributions to other entities	632,151	664,069
Total administrative and other expenses	<u>9,778,025</u>	<u>9,850,870</u>

7. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	2017 EUR	2016 EUR
Salaries	4,781,227	4,498,305
Social Security costs	323,290	304,600
Fringe benefits	129,074	167,996
Other related costs	5,233,591	4,970,901
	<u>120,367</u>	<u>331,882</u>
	5,353,958	5,302,783
Recharged salaries to responsible Gaming Foundation and Gaming Academy	-	(111,135)
	<u>5,353,958</u>	<u>5,191,648</u>

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2017

NOTES TO THE FINANCIAL STATEMENTS – continued

7. EMPLOYEE INFORMATION - continued

b. Staff numbers

The number of persons employed by the Authority as at 31 December 2017 and 31 December 2016 was as follows:

	2017 Number	2016 Number
Finance	10	10
Legal affairs	6	6
Enforcement including a staff complement dedicated to AML	53	51
Regulatory *	38	22
Compliance	0	14
Other	1	2
Information systems	16	16
Human resources and administration	21	21
Programme management and strategy	6	4
Chairman's office	5	4
Internal audit	2	-
Total	158	150

* Includes Compliance in 2017

8. FINANCE INCOME

	2017 EUR	2016 EUR
Interest receivable on bank balances	2,292	2,264

9. TAXATION

No provision for Malta income tax has been made in these financial statements as the Authority's income is exempt from any liability to income tax.

MALTA GAMING AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS – continued

10. INTANGIBLE FIXED ASSETS

Intangible fixed assets pertain to software costs of the Authority. The movement in intangible fixed assets is as follows:

	Computer Software EUR
Cost	
At 1 January 2016	343,254
Additions	501,418
At 31 December 2016	844,672
Additions	266,870
At 31 December 2017	1,111,542
Amortisation	
At 1 January 2016	194,399
Amortisation for the year	92,071
At 31 December 2016	286,470
Amortisation for the year	161,533
At 31 December 2017	448,003
Net book value	
At 31 December 2017	663,539
At 31 December 2016	558,202

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements EUR	Furniture and fittings EUR	Office equipment EUR	Motor vehicles EUR	Computer equipment EUR	Total EUR
Cost						
At 31 December 2016	2,862,218	658,124	207,095	115,901	533,392	4,376,730
Additions	40,551	878,715	322,849	35,175	48,146	1,325,436
At 31 December 2016	2,902,769	1,536,839	529,944	151,076	581,538	5,702,166
Additions	209,424	3,882	1,438	52	80,102	294,898
At 31 December 2017	3,112,193	1,540,721	531,382	151,128	661,640	5,997,064
Depreciation						
At 1 January 2016	127,412	29,297	164,367	70,395	310,139	701,610
Depreciation charge for the year	149,134	147,041	73,779	24,973	62,540	457,467
At 31 December 2016	276,546	176,338	238,146	95,368	372,679	1,159,077
Depreciation charge for the year	263,359	169,778	79,634	16,972	83,011	612,754
At 31 December 2017	539,905	346,116	317,780	112,340	455,690	1,771,831
Net book value						
At 31 December 2017	2,572,288	1,194,605	213,602	38,788	205,950	4,225,233
At 31 December 2016	2,626,223	1,360,501	291,798	55,708	208,859	4,543,089

The Authority has moved into new premises during November 2015. The Authority has undertaken significant improvements to these new premises. Whilst most of the improvements have been in place as at year end, the project was fully completed in the first quarter of 2017.

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2017

NOTES TO THE FINANCIAL STATEMENTS – continued

12. TRADE AND OTHER RECEIVABLES

	2017 EUR	2016 EUR
Duties and licences receivable (note i)	6,836,958	7,184,060
Other receivables	-	1,871
Prepaid expenses	290,010	238,914
Deposits	166,880	166,880
	7,293,848	7,591,725

(i) At 31 December 2017, duties and licenses receivable at nominal value of EUR1,619,926 (2016: EUR1,515,709) were impaired and fully provided for (Note 5).

	2017 EUR	2016 EUR
Provision for doubtful debts		
Opening balance	1,515,709	1,470,398
Increase in provision for doubtful debts	104,217	45,311
Closing balance	1,619,926	1,515,709

As at the balance sheet date, the ageing analysis of duties and licences receivable is as follows:

	Total EUR	Neither past due nor impaired EUR	Past due but not impaired			
			<30 days EUR	31-60 days EUR	61-90 days EUR	>90 days EUR
2017	6,836,958	5,701,154	695,575	196,877	118,425	124,927
2016	7,184,060	4,708,313	1,121,507	610,263	472,843	271,134

13. RESERVES

a. Equity reserve

Funds for the creation of the Reserve have been retained from the gaming taxes collected. This was transferred to Equity reserve with approval of the Ministry of Finance.

b. Reserve Fund

The Reserve Fund represents accumulated excess of revenue over expenditure.

c. National Lottery Reserve Fund

By virtue of section 59(1) of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta, the National Lottery Licensee is to pay funds standing in its Unclaimed Prizes Reserve to the Authority. All funds received are to be credited to the National Lottery Reserve Fund. In accordance with section 50(6) of the same Act, all funds credited to the latter reserve shall be paid, not later than six weeks after the financial year end, to the National Lotteries Good Causes Fund held by the Treasury Department.

NOTES TO THE FINANCIAL STATEMENTS – continued

14. PROVISION FOR CLAIMS

During 2014 a gaming operator initiated court proceeding against the Authority claiming loss of profits from the Authority in the region of EUR800,000. The Authority with the assistance of legal counsel rebuts these claims. Other provisions estimated at EUR90,000 continued to be recognised as at 31 December 2017.

During 2017, a provision amounting to Eur 60,000 has been reversed as it was deemed that the Authority could not be further liable for this claim. During 2016, claims amounting to Eur 2,400,000 have not been pursued and from further analysis it was deemed remote that the Authority could be liable. The corresponding provision has been reversed.

The Authority continues to monitor these claims following the advice from its legal counsel.

15. TRADE AND OTHER PAYABLES

	2017 EUR	2016 EUR
Amounts due to Government (note i)	1,500,000	1,135,659
Unclaimed deposits (note ii)	5,568,213	7,048,547
Trade and Other payables	2,225,183	1,522,671
Accruals	530,611	819,862
Deferred income	3,439,890	2,710,042
	<u>13,263,897</u>	<u>13,236,781</u>

- i. Amounts due to government are unsecured, interest free and have no fixed date of repayment. These amounts are payable to the Government of Malta under the provisions of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta. Amounts due to government were settled subsequent to year end.
- ii. Balance includes unclaimed player deposits and dormant accounts from Remote Gaming operators which are passed on to the Authority by the licensee when no transactions have been recorded on players' account for more than thirty months.

16. CASH AND CASH EQUIVALENTS

Cash and short-term deposits consist of cash in hand and balance with banks. Cash and cash equivalents included in the statement of cash flows reconcile to the statement of financial position amounts as follows:

	2017 EUR	2016 EUR
Cash at bank and in hand	7,760,330	1,743,765

17. COMMITMENTS

The future minimum rentals payable including VAT under these operating leases as at 31 December 2016 and 31 December 2017 are as follows:

	2017 EUR	2016 EUR
Within one year	455,753	451,842
After one year but not more than five years	1,963,901	1,923,288
More than five years	4,368,502	4,828,568
	<u>6,788,156</u>	<u>7,203,698</u>

NOTES TO THE FINANCIAL STATEMENTS – continued

18. RELATED PARTY DISCLOSURES

Related party	Year	Total transactions with related parties EUR	Amounts owed to related parties at year end EUR	Type of transaction
Government of Malta - The Treasury	2017	54,499,298	1,500,000	Surplus for the year
Government of Malta - The Treasury	2016	55,030,286	1,135,659	Surplus for the year

Key management personnel

The Chairman and the Board members are considered to be key management personnel. Included in 'Administrative and other expenses' (note 6) are salaries paid to the Chairman and Board members amounting to EUR31,910 (2016: EUR31,910).

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

At the year end, the Authority's main financial assets on the statement of financial position comprise trade and other receivables, and cash at bank and in hand. At the year end, there were no financial assets off the statement of financial position.

At the year end, the Authority's main financial liabilities on the statement of financial position consisted of amounts due to government, other payables, accruals and deferred income.

Contractual maturity profile of financial liabilities

The presentation of the financial assets and liabilities listed above under the current and non-current headings within the statement of financial position is intended to indicate the timing in which cash flows will arise. The maturity profile of the financial liabilities of the Authority as at year end is as disclosed in note 15.

Credit risk

The Authority trades only with licensed, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Authority's exposure to impaired debts is not significant. Carrying amounts for trade receivables are stated net of any impairment provisions, when necessary, which are prudently made against debts in respect of which management reasonably believes that recoverability is doubtful. Credit risk with respect to debts is limited due to the number of licensees comprising the Authority's debtors' base. The Authority's cash at bank is placed with quality financial institutions. The Authority has no significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal or stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

NOTES TO THE FINANCIAL STATEMENTS – continued

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Fair values

The carrying amounts of cash at bank and in hand, trade receivables, trade payables and accrued expenses approximated their fair values.

Interest rate risk

With the exception of cash and bank balances, the value of the Authority's assets and liabilities are not subject to interest-rate movements.

20. CONTINGENT LIABILITIES

During 2016, an operator initiated court proceedings against the Authority. The Authority is contesting these claims and continues to follow the advice of its legal counsel. Court proceedings are in the initial stages and the damages, if any, cannot be reliably estimated. Accordingly, no provision for any liability has been made in these financial statements.

Up to the date of the authorisation of these financial statements, there were no other material claims made against the Authority that are expected to lead to a possible obligation.

MALTA GAMING AUTHORITY
Supplementary Statement for the year ended 31 December 2017

ADMINISTRATIVE AND OTHER EXPENSES

	31 December 2017		31 December 2016	
	EUR	EUR	EUR	EUR
Salaries and national insurance	5,353,958		5,191,648	
Training	117,302		43,794	
Other staff costs	12,862		48,798	
Staff and ancillary costs		5,484,122		5,284,240
Chairman's emoluments and board honoraria	31,910		31,910	
Subcontracted services	35,365		118,965	
Telecommunications	16,189		29,472	
IT and Ancillary Costs	159,037		70,220	
Water and electricity	7,309		47,634	
Rent	368,073		357,404	
Insurance and licences	37,867		33,977	
Postage, stationery and printing	45,605		63,445	
Office expenses	21,365		28,166	
Motor vehicle running expenses	68,941		58,259	
Bank charges	3,493		6,611	
Cleaning expenses	9,261		8,237	
Subscriptions	84,245		33,801	
Repairs and maintenance	102,679		189,899	
Business development expenses	16,928		17,058	
Overseas travelling	159,540		149,515	
Seminars and conferences	22,537		25,976	
General administrative expenses		1,190,344		1,270,549
Professional fees	729,038		771,951	
Internal audit fees	41,005		100,064	
Auditors' remuneration	17,700		17,700	
Due Diligence consultancy fees	204,210		324,045	
Legal fees	6,595		76,651	
Professional fees		998,548		1,290,411
Promotional expenses		594,356		746,752
Depreciation and amortisation		774,287		549,538
Loss on disposal of property, plant and equipment				-
Provision for doubtful debts		104,217		45,311
Contributions to other entities		632,151		664,069
		9,778,025		9,850,870