

**MALTA GAMING AUTHORITY**  
**Annual Report and Financial Statements**  
**31 December 2016**

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**MALTA GAMING AUTHORITY**  
**Annual Financial Statements for the year ended 31 December 2016**

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**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

**Auditors**

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 2016.

**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 total operating revenue generated by the Authority during the year amounted to EUR62,528,892 (2015: EUR60,894,130). After deducting all expenditure of EUR9,850,870 (2015: EUR8,634,566) the Authority registered a surplus for the year of EUR55,030,286 (2015: EUR52,302,088). The Authority transferred EUR56,203,726 (2015: EUR55,830,907) 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

16 June 2017



**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 2016 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 2016, 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.

#### **Emphasis of Matter**

We draw attention to Note 20 - Contingent Liabilities to the financial statements which describes the uncertainty related to claims made by the operators against the Authority. Our opinion is not modified in respect of this matter.

#### **Other information**

The other information obtained at the date of the auditor's report is the 2016 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**

### **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

16 June 2017

**MALTA GAMING AUTHORITY**  
**Annual Financial Statements for the year ended 31 December 2016**

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**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2016**

	Notes	2016 EUR	2015 EUR
Revenue	5	62,528,892	60,894,130
Administrative and other expenses	6	(9,850,870)	(8,634,566)
<b>Operating surplus</b>		<b>52,678,022</b>	<b>52,259,564</b>
Reversal of provision for claims	14	2,350,000	-
Finance income	8	2,264	42,524
<b>Surplus for the year</b>		<b>55,030,286</b>	<b>52,302,088</b>

*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 2016**

**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2016**

	Notes	2016 EUR	2015 EUR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	10	558,202	148,855
Property, plant and equipment	11	4,543,089	3,675,120
		<b>5,101,291</b>	<b>3,823,975</b>
<b>Current assets</b>			
Trade and other receivables	12	7,591,725	7,083,392
Cash at bank and in hand	16	1,743,765	4,756,308
		<b>9,335,490</b>	<b>11,839,700</b>
<b>TOTAL ASSETS</b>		<b>14,436,781</b>	<b>15,663,675</b>
<b>EQUITY AND LIABILITIES</b>			
Equity reserve	13	250,000	250,000
Reserve Fund	13	-	-
National Lottery Reserve Fund	13	-	-
		<b>250,000</b>	<b>250,000</b>
<b>Non-Current Liabilities</b>			
Provision for claims	14	950,000	3,300,000
<b>Current liabilities</b>			
Trade and other payables	15	13,236,781	12,113,675
<b>Total liabilities</b>		<b>14,186,781</b>	<b>15,413,675</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14,436,781</b>	<b>15,663,675</b>

*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 16 June 2017 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 2016**

**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2016**

	<b>National Lottery Reserve Fund EUR</b>	<b>Reserve Fund EUR</b>	<b>Equity reserve EUR</b>	<b>Total EUR</b>
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
<b>At 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>250,000</b>	<b>250,000</b>
At 1 January 2015	-	-	250,000	250,000
Appropriation from statement of comprehensive income	955,899	51,346,189	-	52,302,088
Unclaimed prizes transferred in terms of section 59 of the Lotteries and Other Games Act, Cap. 438	649,042	-	-	649,042
Payments made to/or on behalf of Government in terms of sections 50 of the Lotteries and other Games Act, Cap. 438	(1,604,941)	(54,225,966)	-	(55,830,907)
Other payments from Government	-	2,879,777	-	2,879,777
<b>At 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>250,000</b>	<b>250,000</b>

*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 2016**

	Note	2016 EUR	2015 EUR
<b>Operating activities</b>			
Surplus for the year		55,030,286	52,302,088
Adjustment to reconcile surplus for the year to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		457,467	254,295
Amortisation of intangible assets		92,071	50,123
Increase in provision for doubtful debts		45,311	337,459
Loss on disposal of property, plant and equipment		-	52,421
Reversal of provision for claims		(2,350,000)	-
Finance income		(2,264)	(42,524)
Working capital adjustments:			
Increase in trade and other receivables		(553,644)	(398,586)
Increase in trade and other payables		2,296,546	2,662,879
<b>Net cash flows from operating activities</b>		<b>55,015,773</b>	<b>55,218,155</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(1,325,436)	(3,763,448)
Purchase of intangible assets		(501,418)	(101,631)
Interest received		2,264	59,557
<b>Net cash flows used in investing activities</b>		<b>(1,824,590)</b>	<b>(3,805,522)</b>
<b>Financing activities</b>			
Payments made to Government		(56,203,726)	(55,830,907)
<b>Net cash flows used in financing activities</b>		<b>(56,203,726)</b>	<b>(55,830,907)</b>
<b>Net movement in cash and cash equivalents</b>		<b>(3,012,543)</b>	<b>(4,418,274)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>4,756,308</b>	<b>9,174,582</b>
<b>Cash and cash equivalents at 31 December</b>	16	<b>1,743,765</b>	<b>4,756,308</b>

*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.

#### **Going Concern**

These financial statements have been drawn up on a going concern basis, which assumes that the Authority will continue in operational existence in the foreseeable future. It is the policy of the Authority to continuously distribute its reserves to Government. The surplus for the year was of EUR55,030,286 and this has all been distributed. As a consequence, as at 31 December 2016, the current assets of the Authority amounted to EUR9,335,491 whilst its current liabilities amounted to EUR13,236,781. The current liabilities include an amount of EUR7,048,547 of unclaimed player deposits which is unlikely to generate an immediate cash outflow for the authority despite these being repayable on demand. Moreover, the Authority continues to forecast regular cash inflows from operating activities and may also manage its capital by adjusting the distribution from its reserves. The Board consider that no material uncertainty exists, and therefore it is appropriate to continue adopting the going concern basis in preparing the financial statements.

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

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

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

The accounting policies are consistent with those of the previous financial year, except for the following standards, interpretations and amendments effective as of 1 January 2016.

- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions (effective for financial years beginning on or after 1 February 2015)
- Annual Improvements to IFRSs 2010–2012 Cycle (effective for financial years beginning on or after 1 February 2015)
- IAS 1 (Amendments) Disclosure Initiative (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 38 (Amendments) Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 41 (Amendments) Bearer Plants (effective for financial years beginning on or after 1 January 2016)
- IAS 27 (Amendments) Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016)

**NOTES TO THE FINANCIAL STATEMENTS - continued**

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

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

- IFRS 10, IFRS 12 and IAS 28 (Amendments) Investment Entities – Applying the Consolidation Exception (effective for financial years beginning on or after 1 January 2016)
- IFRS 11 (Amendments) Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016)
- Annual Improvements to IFRS (2012 – 2014 Cycle) (effective for financial years beginning on or after 1 January 2016)

The adoption of these standards, interpretations and amendments did not have a significant impact on the financial statements of the Authority.

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

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

- IFRS 9 - Financial instruments (effective for financial years beginning on or after 1 January 2018)
- IFRS 15 – Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018)

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

- IFRS 14 – Regulatory deferral accounts (effective for financial years beginning on or after 1 January 2016)
- IFRS 16 – Leases (effective for financial years beginning on or after 1 January 2019)
- IAS 12 (Amendments) Recognition of Deferred Tax Assets on Unrealized Losses (effective for financial years beginning on or after 1 January 2017)
- IAS 7 (Amendments) Disclosure Initiative (effective for financial years beginning on or after 1 January 2017)
- Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)
- IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions (effective for financial years beginning on or after 1 January 2018)
- IFRS 4 (Amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018)
- IFRS 10 and IAS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective for financial years beginning on or after 1 January 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018)
- IAS 40 (Amendments) Transfers of Investment Property (effective for financial years beginning on or after 1 January 2018)

The Authority is still assessing the effect of these changes on the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**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.

*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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. SUMMARY OF ACCOUNTING POLICIES – continued**

**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

**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
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 of 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.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**3. SUMMARY OF ACCOUNTING POLICIES – continued**

**Leases -continued**

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.

**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 1 (revised) - 'Presentation of financial statements'.

**5. REVENUE**

Revenue comprises the following:

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
License fees	5,474,824	5,217,755
Application fees	337,885	233,204
Other	416,447	264,269
<b>Total Authority fees</b>	<b>6,229,156</b>	<b>5,715,228</b>
Duties	56,299,736	55,178,902
<b>Total revenue</b>	<b>62,528,892</b>	<b>60,894,130</b>
Number of licences in issue at end of year:	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Commercial Bingo Houses	4	4
Casinos	4	4
Gaming Parlours	48	46
National Lotteries	1	1
Remote online gaming licences	513	490
<b>Total number of licenses at end of year</b>	<b>570</b>	<b>545</b>

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**6. EXPENSES BY NATURE**

	2016 EUR	2015 EUR
Auditor's remuneration	17,700	14,160
Chairman's emoluments and Board honoraria (note 18)	31,910	32,710
Staff costs (note 7)	5,191,648	4,076,733
General administrative expenses	1,331,231	1,342,070
Professional fees	1,272,711	1,240,909
Promotional expenses	746,752	748,862
Depreciation and amortisation on property, plant and equipment and intangible fixed assets (notes 10 and 11)	549,538	304,418
Provision for doubtful debts (note 12)	45,311	337,459
Contributions to other entities	664,069	537,245
Total administrative and other expenses (Statement I)	<u>9,850,870</u>	<u>8,634,566</u>

**7. EMPLOYEE INFORMATION**

**a. Staff costs**

The total employment costs were as follows:

	2016 EUR	2015 EUR
Salaries	4,498,305	3,626,937
Social Security costs	304,600	244,114
Fringe benefits	167,996	129,827
Other related costs	4,970,901	4,000,878
	<u>331,882</u>	<u>190,210</u>
Recharged salaries to Responsible Gaming Foundation and Gaming Academy	5,302,783	4,191,088
	<u>(111,135)</u>	<u>(114,355)</u>
	<u>5,191,648</u>	<u>4,076,733</u>



**MALTA GAMING AUTHORITY**  
**Annual Financial Statements for the year ended 31 December 2016**

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**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 2016 and 31 December 2015 was as follows:

	2016 Number		2015 Number
Finance	10	Finance	16
Legal affairs	6	Legal affairs	5
Enforcement	51	Enforcement	37
Authorisations	22	Regulatory	18
Compliance	14		
Other	2	Other	20
Information Systems	16	Information Systems	13
Human Resources and Administration	21	Operations	21
Programme Management and Strategy	4	Programme Management and Strategy	4
Chairman's Office	4	Chairman's Office	3
<b>Total</b>	<b>150</b>		<b>137</b>

**8. FINANCE INCOME**

	2016 EUR	2015 EUR
Interest receivable on bank balances	<b>2,264</b>	42,524

**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**  
**Annual Financial Statements for the year ended 31 December 2016**

**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:

	<b>Computer Software EUR</b>
<b>Cost</b>	
At 1 January 2015	241,623
Additions	101,631
At 31 December 2015	343,254
Additions	501,418
<b>At 31 December 2016</b>	<b>844,672</b>
<b>Amortisation</b>	
At 1 January 2015	144,276
Amortisation for the year	50,123
At 31 December 2015	194,399
Amortisation for the year	92,071
<b>At 31 December 2016</b>	<b>286,470</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>558,202</b>
At 31 December 2015	148,855

**11. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold Improvements EUR</b>	<b>Furniture and fittings EUR</b>	<b>Office equipment EUR</b>	<b>Motor vehicles EUR</b>	<b>Computer equipment EUR</b>	<b>Total EUR</b>
<b>Cost</b>						
At 1 January 2015	-	241,062	174,735	115,901	326,480	858,178
Additions	2,862,218	661,958	32,360	-	206,912	3,763,448
Disposals	-	(244,896)	-	-	-	(244,896)
At 31 December 2015	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
<b>At 31 December 2016</b>	<b>2,902,769</b>	<b>1,536,839</b>	<b>529,944</b>	<b>151,076</b>	<b>581,538</b>	<b>5,702,166</b>
<b>Depreciation</b>						
At 1 January 2015	-	167,968	154,725	49,526	267,571	639,790
Depreciation charge for the year	127,412	53,804	9,642	20,869	42,568	254,295
Depreciation released on disposals	-	(192,475)	-	-	-	(192,475)
At 31 December 2015	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
<b>At 31 December 2016</b>	<b>276,546</b>	<b>176,338</b>	<b>238,146</b>	<b>95,368</b>	<b>372,679</b>	<b>1,159,077</b>
<b>Net book value</b>						
<b>At 31 December 2016</b>	<b>2,626,223</b>	<b>1,360,501</b>	<b>291,798</b>	<b>55,708</b>	<b>208,859</b>	<b>4,543,089</b>
At 31 December 2015	2,734,806	628,827	42,728	45,506	223,253	3,675,120

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 2016.

**MALTA GAMING AUTHORITY**  
**Annual Financial Statements for the year ended 31 December 2016**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**12. TRADE AND OTHER RECEIVABLES**

	2016 EUR	2015 EUR
Duties and licences receivable (note i)	7,184,060	6,695,475
Other receivables	1,871	34,548
Prepaid expenses	238,914	186,489
Deposits	166,880	166,880
	<u>7,591,725</u>	<u>7,083,392</u>

- i. At 31 December 2016, duties and licenses receivable at nominal value of EUR1,034,096 (2015: EUR988,785) were impaired and fully provided for (Note 6).

<b>Provision for doubtful debts</b>	<b>2016 EUR</b>	<b>2015 EUR</b>
Opening balance	988,785	651,326
Increase in provision for doubtful debts	45,311	337,459
Closing balance	<u>1,034,096</u>	<u>988,785</u>

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
2016	7,184,060	4,708,313	1,121,507	610,263	472,843	271,134
2015	6,695,475	5,168,758	766,816	207,257	162,700	389,944

**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.

**MALTA GAMING AUTHORITY**  
**Annual Financial Statements for the year ended 31 December 2016**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**14. PROVISION FOR CLAIMS**

During 2014, players of certain gaming operators have submitted claims that they were owed the amounts of EUR3,300,000 since they have not been paid these amounts by the gaming operators. They are also keeping the Authority responsible and liable for such amounts. During 2016, claims amounting to EUR2,400,000 (2015: EUR900,000) have not been pursued and from further analysis it is deemed remote that the Authority could be liable. The corresponding provision has been reversed.

Furthermore, during 2016 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. Further provisions estimated at EUR150,000 (2015: EUR100,000) have also been recognised as at 31 December 2016.

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

**15. TRADE AND OTHER PAYABLES**

	2016 EUR	2015 EUR
Amounts due to government (note i)	1,135,659	1,657,981
Unclaimed deposits (note ii)	7,048,547	5,206,635
Other payables	1,522,671	1,735,065
Accruals	819,862	612,883
Deferred income	2,710,042	2,901,111
	<b>13,236,781</b>	<b>12,113,675</b>

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.

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:

	2016 EUR	2015 EUR
Cash at bank and in hand	1,743,765	4,756,308

As at 31 December 2015, the amount of EUR1,462,738 was pledged against a letter of credit issued to third parties by a local bank. The pledge was released in 2016.

**MALTA GAMING AUTHORITY**  
**Annual Financial Statements for the year ended 31 December 2016**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**17. COMMITMENTS**

The future minimum rentals payable including VAT under these operating leases as at 31 December 2016 and 31 December 2015 are as follows:

	2016 EUR	2015 EUR
Within one year	451,842	440,920
After one year but not more than five years	1,923,288	1,876,225
More than five years	4,828,568	5,327,473
	7,203,698	7,644,618

**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	2016	55,030,286	1,135,659	Surplus for the year
Government of Malta - The Treasury	2015	52,302,088	1,657,981	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 (2015: EUR32,710).

**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.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued**

**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.

**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 2014, gaming operators have submitted claims amounting to circa EUR1,700,000 mainly in respect to overpayment of gaming taxes paid to the Authority due to wrongful classification of the games provided by the operator. The Authority is contesting these claims and continues to follow the advice of its legal counsel.

Furthermore, a request for damages by a gaming operator against the Authority during 2014 has been pursued during 2015 and 2016 and a provision for claims of EUR800,000 has been made (note 14).

Another operator initiated court proceedings against the Authority. The Authority is contesting these claims and continues to follow the advice of its legal counsel. Moreover, 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.

**MALTA GAMING AUTHORITY**  
**Supplementary Statement for the year ended 31 December 2016**

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**SUPPLEMENTARY STATEMENT**

	<b>Statement</b>
Administrative and other expenses	<b>I</b>

**ADMINISTRATIVE AND OTHER EXPENSES**

	31 December 2016		31 December 2015	
	EUR	EUR	EUR	EUR
Salaries and national insurance	5,191,648		4,076,733	
Training	43,794		123,856	
Other staff costs	48,798		35,739	
<b>Staff costs</b>		<b>5,284,240</b>		<b>4,236,328</b>
Chairman's emoluments and board honoraria	31,910		32,710	
Subcontracted services	118,965		74,849	
Telecommunications	99,692		89,933	
Water and electricity	47,634		43,005	
Rent	357,404		233,309	
Insurance and licences	33,977		9,901	
Postage, stationery and printing	63,445		73,131	
Office expenses	28,166		28,695	
Motor vehicle running expenses	58,259		77,617	
Bank charges	6,611		13,617	
Cleaning expenses	8,237		18,864	
Subscriptions	33,801		32,907	
Repairs and maintenance	189,899		191,444	
Business development expenses	17,058		17,550	
Overseas travelling	149,515		193,190	
Seminars and conferences	25,976		32,042	
<b>General administrative expenses</b>		<b>1,270,549</b>		<b>1,162,764</b>
Professional fees	771,951		779,074	
Internal audit fees	100,064		119,786	
Auditors' remuneration	17,700		14,160	
Due Diligence consultancy fees	324,045		241,382	
IT consultancy fees	76,651		100,667	
<b>Professional fees</b>		<b>1,290,411</b>		<b>1,255,069</b>
<b>Promotional expenses</b>		<b>746,752</b>		<b>748,862</b>
<b>Depreciation and amortisation</b>		<b>549,538</b>		<b>304,418</b>
<b>Loss on disposal of property, plant and equipment</b>		<b>-</b>		<b>52,421</b>
<b>Provision for doubtful debts</b>		<b>45,311</b>		<b>337,459</b>
<b>Contributions to other entities</b>		<b>664,069</b>		<b>537,245</b>
		<b>9,850,870</b>		<b>8,634,566</b>