MALTA GAMING AUTHORITY

Annual Report and Financial Statements

31 December 2018

CONTENTS

GENERAL INFORMATION

Registration
The Malta Gaming Authority (hereinafter referred to as the 'Authority') was established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta.

Board of Governors of the Authority

Ms. Marlene Seychell	(Chairperson)
Dr. Chris Cilia	(Deputy Chairperson)
Mr. Caesar Grech	
Ms. Ruth Trapani Galea	
Dr. Juliana Scerri Ferrante	
Mr. Roberto Francalanza	
Ms. Jacqueline Grech	

Chief Executive Officer

Mr. Heathcliff Farrugia

Secretary of the Board of the Authority

Dr. Mikiel Calleja

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 OF GOVERNORS OF THE AUTHORITY

The Board Members of the Authority submit their annual report and the audited financial statements for the year ended 31 December 2018.

Principal activity

The Malta Gaming Authority hereinafter referred to as the 'Authority' was established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta for the purpose 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 EUR 75,244,475 (2017: EUR66,272,498). After deducting all expenditure of EUR 11,621,185 (2017: EUR9,778,025) the Authority registered a surplus for the year of EUR 64,130,495 (2017: EUR59,353,268). The Authority transferred EUR 63,221,963 (2017: EUR54,499,298) to the Government of Malta.

Board of Governors of the Authority

The members of the Board of Governors of the Authority (hereinafter referred to as the 'Board') who acted in such position during the year under review are listed on page 2.

Chairperson
In accordance with Article 6(4) and the First Schedule of the Gaming Act, Chapter 583 of the Laws of Malta, the Chairperson and the other members of the Board are appointed by the Minister responsible for the gaming sector.

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 of Governors of the Authority.

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

MS. MARLENE SEYCHELL
Chairperson

DR. CHRIS CILIA
Deputy Chairperson

11 April 2019

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INDEPENDENT AUDITOR'S REPORT
to the Board of Governors 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 2018 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Gaming Act, Chapter 583 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 2018 Board of Governors Report. The Board of Governors 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 of Governors' 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 the Gaming Act, Chapter 583 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 of Governors 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
11 April 2019

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	2018 EUR	2017 EUR
Revenue	5	75,244,475	66,272,498
Administrative and other expenses	6	(11,621,185)	(9,778,025)
Operating surplus		**63,623,290**	56,494,473
Release of unclaimed player's monies		506,867	2,796,503
Reversal of provision for claims	14	-	60,000
Finance income	8	338	2,292
Surplus for the year		**64,130,495**	59,353,268

The accounting policies and explanatory notes on pages 10 to 22 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Notes	2018 EUR	2017 EUR
ASSETS			
Non-current assets			
Intangible assets	10	819,629	663,539
Property, plant and equipment	11	3,716,255	4,225,233
		4,535,884	4,888,772
Current assets			
Trade and other receivables	12	10,287,726	7,293,848
Cash at bank and in hand	16	10,253,080	7,760,330
		20,540,806	15,054,178
TOTAL ASSETS		**25,076,690**	19,942,950
EQUITY AND LIABILITIES			
Equity reserve	13	250,000	250,000
Reserve fund	13	7,138,455	5,539,053
National Lottery Reserve Fund	13	-	-
		7,388,455	5,789,053
Non-current liabilities			
Provision for claims	14	890,000	890,000
Current liabilities			
Trade and other payables	15	16,798,235	13,263,897
Total liabilities		17,688,235	14,153,897
TOTAL EQUITY AND LIABILITIES		**25,076,690**	19,942,950

The accounting policies and explanatory notes on pages 10 to 22 form an integral part of the financial statements.

The financial statements on pages 6 to 21 have been authorised for issue by the Board of Governors of the Authority on 11 April 2019 and were signed on their behalf by:

MS. MARLENE SEYCHELL
Chairperson

DR. CHRIS CILIA
Deputy Chairperson

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

	National Lottery Reserve Fund EUR	Reserve Fund EUR	Equity reserve EUR	Total EUR
At 1 January 2018	-	5,539,053	250,000	5,789,053
Appropriation from statement of comprehensive income	1,011,873	63,118,622	-	64,130,495
Unclaimed prizes transferred in terms of Article 59 of the Lotteries and Other Games Act, Chapter 438 of the Laws of Malta.	690,869	-	-	690,869
Payments made to/or on behalf of Government in terms of Article 50 of the Lotteries and other Games Act, Chapter 438 of the Laws of Malta substituted by the Gaming Act, Chapter 583 of the Laws of Malta	(1,702,742)	(61,519,220)	-	(63,221,963)
At 31 December 2018	**-**	**7,138,455**	**250,000**	**7,388,455**
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**

The accounting policies and explanatory notes on pages 10 to 22 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Note	2018 EUR	2017 EUR
Operating activities			
Surplus for the year		64,130,495	59,353,268
Adjustment to reconcile surplus for the year to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		472,083	612,754
Amortisation of intangible assets		318,922	161,533
Increase in provision for doubtful debts		138,053	104,217
Reversal of provision for claims		-	(60,000)
Finance income		(338)	(2,292)
Working capital adjustments:			
Decrease/Increase in trade and other receivables		(3,131,931)	193,660
Decrease/Increase in trade and other payables		4,225,209	712,199
Net cash flows from operating activities		**66,152,493**	61,075,339
Investing activities			
Purchase of property, plant and equipment		(65,347)	(294,898)
Purchase of intangible assets		(417,742)	(266,870)
Interest received		338	2292
Net cash flows used in investing activities		**(482,751)**	(559,476)
Financing activities			
Payments made to Government		(63,221,963)	(54,499,298)
Grant Amortisation		44,971	
Net cash flows used in financing activities		**(63,176,992)**	(54,499,298)
Net movement in cash and cash equivalents		**2,492,750**	6,016,565
Cash and cash equivalents at 1 January		**7,760,330**	1,743,765
Cash and cash equivalents at 31 December	16	**10,253,080**	7,760,330

The accounting policies and explanatory notes on pages 10 to 22 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Malta Gaming Authority hereinafter referred to as the 'Authority' is established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta. The principal activity of the Authority is to govern and supervise the gaming sector 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 the European Union (EU) and comply with the Gaming Act, Chapter 583 of the Laws of Malta.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards hereinafter referred to 'IFRSs' as adopted by the European Union (EU) and with the Companies Act, Chapter 583 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.

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective during the year:

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

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

The Authority applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.
Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Authority. The Authority has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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 15 Revenue from Contracts with Customers
  IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.
  The Company adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Company did not apply any of the other available optional practical expedients.

- IFRS 9 Financial instruments (effective for financial year beginning on or after 1 January 2018).
  The Company applied the modified retrospective method upon adoption of IFRS 9. This method required the recognition of the cumulative effect of initially applying IFRS 9 to retained earnings and not to restate prior years. The impairment of financial assets, mainly trade receivables, is now assessed using an expected credit loss model, whereas previously the incurred loss model was used. The Company had no material impact to its impairment allowances from this change. As the Company does not apply hedge accounting and continues measuring at fair value all financial assets currently held at fair value, there was no impact from these changes.

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 changes resulting from these standards are not expected to have a material effect on the financial statements of the Company. The new and amended standards follow:

- IFRS 16 Leases (effective for financial year beginning on or after 1 January 2019)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial year beginning on or after 1 January 2019)
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial year beginning on or after 1 January 2019)

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

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

The Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

	€000
Assets	
Property, plant and equipment (right-of-use assets)	4,784,170
Liabilities	
Lease liabilities	4,784,170
Net impact on equity	-

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)
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for financial year beginning on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for financial year beginning on or after 1 January 2019)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for financial year beginning on or after 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for financial year beginning on or after 1 January 2020)
- Amendment to IFRS 3 Business Combinations (effective for financial year beginning on or after 1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (effective for financial year beginning on or after 1 January 2020)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Deferred Indefinitely)

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.

NOTES TO THE FINANCIAL STATEMENTS – continued

3. SUMMARY OF ACCOUNTING POLICIES - continued

Revenue recognition - continued

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.

Impairment of financial assets

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

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Authority does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Authority has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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.

Grant

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

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.

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

5. REVENUE

Revenue comprises the following:

	2018	2017
	EUR	EUR
License fees	6,987,413	6,159,181
Application fees	409,220	502,670
Other	959,970	487,002
Total Authority fees	8,356,603	7,148,853
Duties	66,887,872	59,123,645
Total revenue	**75,244,475**	66,272,498

Number of licences in issue at end of year:

	2018	2017
	No.	No.
Commercial bingo houses	4	5
Casinos	4	4
Gaming parlours	52	52
National lotteries	1	1
Remote online gaming licences	275	625
Total number of licenses at end of year	336	687

NOTES TO THE FINANCIAL STATEMENTS – continued

6. EXPENSES BY NATURE

	2018	2017
	EUR	EUR
Auditor's remuneration	26,550	17,700
Chairperson's emoluments and Board honoraria (note 18)	43,591	31,910
Staff costs (note 7)	6,536,287	5,353,958
General administrative expenses	1,445,383	1,270,898
Professional fees	1,069,754	998,548
Promotional expenses	849,252	594,356
Depreciation and amortisation on property, plant and equipment and intangible fixed assets (notes 10 and 11)	791,007	774,287
Provision for doubtful debts (note 12)	138,053	104,217
Contributions to other entities	721,308	632,151
Total administrative and other expenses	11,621,185	9,778,025

7. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	2018	2017
	EUR	EUR
Salaries	5,747,979	4,781,227
Social Security costs	371,367	323,290
Fringe benefits	135,169	129,074
	6,254,515	5,233,591
Other related costs	281,772	120,367
	6,536,287	5,353,958
Recharged salaries to responsible Gaming Foundation and Gaming Malta Foundation	-	-
	6,536,287	5,353,958

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 2018 and 31 December 2017 was as follows:

	2018 Number	2017 Number
Finance	11	10
Legal affairs	6	6
Enforcement including a staff complement dedicated to AML	59	53
Regulatory	38	38
Other	1	1
Information systems	11	12
Human resources and administration	21	21
Programme management and strategy	9	10
Chief Executive Officer's Office	5	5
Internal audit	4	2
Total	**165**	158

8. FINANCE INCOME

	2018 EUR	2017 EUR
Interest receivable on bank balances	338	2,292

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.

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 2017	844,672
Additions	266,870
At 31 December 2017	**1,111,542**
Additions	417,742
Transfers	74,473
At 31 December 2018	**1,603,757**
Amortisation	
At 1 January 2017	286,470
Amortisation for the year	161,533
At 31 December 2017	**448,003**
Amortisation for the year	336,124
At 31 December 2018	**784,127**
Net book value	
At 31 December 2018	**819,629**
At 31 December 2017	663,539

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 1 January 2017	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**
Additions	-	-	4,907	-	60,440	65,347
Transfers	-	-	-	-	(74,473)	(74,473)
At 31 December 2018	**3,112,193**	**1,540,721**	**536,289**	**151,128**	**647,607**	**5,987,938**
Depreciation						
At 1 January 2017	**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**
Depreciation charge for the year	186,945	169,558	78,055	20,082	45,212	499,852
At 31 December 2018	**726,850**	**515,674**	**395,835**	**132,422**	**500,902**	**2,271,683**
Net book value						
At 31 December 2018	**2,385,343**	**1,025,047**	**140,454**	**18,706**	**146,705**	**3,716,255**
At 31 December 2017	2,572,288	1,194,605	213,602	38,788	205,950	4,225,233

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.

NOTES TO THE FINANCIAL STATEMENTS – continued

12. TRADE AND OTHER RECEIVABLES

	2018 EUR	2017 EUR
Duties and licences receivable (note i,ii)	5,566,756	4,148,916
Accrued Income (note i, ii)	4,104,320	2,688,042
Prepaid expenses	449,770	290,010
Deposits	166,880	166,880
	10,287,726	7,293,848

(i) At 31 December 2018, duties and licenses receivable at nominal value of EUR1,757,979 (2017: EUR1,619,926) were impaired and fully provided for (Note 5).

Provision for doubtful debts	2018 EUR	2017 EUR
Opening balance	1,619,926	1,515,709
Increase in provision for doubtful debts	138,053	104,217
Closing balance	1,757,979	1,619,926

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

			Past due but not impaired			
	Total EUR	Neither past due nor impaired EUR	<30 days EUR	31-60 days EUR	61-90 days EUR	>90 days EUR
2018	**9,671,076**	**6,583,405**	**652,878**	**1,417,053**	**898,014**	**119,631**
2017	6,836,958	5,701,154	695,575	196,877	118,425	124,927

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 Article 59(1) of the Lotteries and Other Games Act, Chapter 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 Article 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. The Authority continues to monitor these claims following the advice from its legal counsel.

15. TRADE AND OTHER PAYABLES

	2018	2017
	EUR	EUR
Amounts due to Government (note i)	-	1,500,000
Unclaimed deposits (note ii)	7,589,545	5,568,213
Trade and Other payables	1,748,522	2,058,741
Advances received from operators	2,289,038	166,442
Accruals	765,759	530,611
Deferred income	4,405,370	3,439,890
	16,798,234	13,263,897

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 Gaming Act, Chapter 583, 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:

	2018	2017
	EUR	EUR
Cash at bank and in hand	10,253,080	7,760,330

17. COMMITMENTS

The future minimum rentals payable including VAT under these operating leases as at 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
	EUR	EUR
Within one year	469,415	455,753
After one year but not more than five years	2,022,726	1,963,901
More than five years	3,519,903	4,368,502
	6,012,044	6,788,156

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	**2018**	**63,221,963**	**-**	**Surplus for the year**
Government of Malta - The Treasury	2017	54,499,298	1,500,000	Surplus for the year

Key management personnel

The Chairperson and the Board of Governors are considered to be key management personnel. Included in 'Administrative and other expenses' (note 6) are salaries paid to the Chairperson and Board of Governors amounting to EUR 43,591 (2017: 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.

ADMINISTRATIVE AND OTHER EXPENSES

	31 December 2018		31 December 2017	
	EUR	**EUR**	EUR	EUR
Salaries and national insurance	6,536,287		5,353,958	
Training	100,725		117,302	
Other staff costs	13,603		12,862	
Staff and ancillary costs		6,650,615		5,484,122
Chairperson's emoluments and board honoraria	43,951		31,910	
Subcontracted services	9,788		35,365	
Telecommunications	56,789		46,189	
IT and Ancillary Costs	344,399		159,037	
Water and electricity	43,468		7,309	
Rent	374,489		368,073	
Insurance and licences	58,805		37,867	
Postage, stationery and printing	55,821		45,605	
Office expenses	24,166		21,365	
Motor vehicle running expenses	59,270		68,941	
Bank charges	4,620		3,493	
Cleaning expenses	11,284		9,261	
Subscriptions	66,363		84,245	
Repairs and maintenance	141,156		102,679	
Business development expenses	14,075		16,928	
Overseas travelling	86,694		129,540	
Seminars and conferences	6,059		22,537	
General administrative expenses		1,401,197		1,190,344
Professional fees	689,658		729,038	
Internal audit fees	-		41,005	
Auditors' remuneration	26,550		17,700	
Due Diligence consultancy fees	291,065		204,210	
Legal fees	62,481		6,595	
Professional fees		1,069,754		998,548
Promotional Expenses		849,252		594,356
Depreciation and amortisation		791,007		774,287
Provision for doubtful debts		138,053		104,217
Contributions to other entities		721,308		632,151
		11,621,185		9,778,025