2017

Annual Report & Financial Statements

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Company Registration Number: C 28847

Directors' & Other Statutory Reports

Chairman's Statement

2017 was a tough year for the oil services industry and Medserv was not immune from this, as reflected in the results for the year under review.

For the year ended 31 December 2017

The recent extension to the agreement between OPEC, Russia and other non-OPEC producers to extend oil production restraints through to the end of 2018 has allowed oil prices to stabilise in the range US$65 – US$75 per barrel. With this new-found stability, international oil companies (IOC's) are bringing back into the active state developments and exploration projects that had been shelved. Having reset their costs through the downcycle, the oil majors are already turning the page on a string of dismal earnings. Cash flows have recovered sufficiently for many to cover their revised capital spending plans and dividends.

The oil services sector is also showing corresponding signs of recovery. Oil and Gas Industry professionals believe the second half of 2018 is when the industry will start to feel the positive effect of a stabilizing market. This is driving an increase in investment by the IOCs in new projects and reactivation of projects that had been mothballed. This increase in spending is the single most important industry data that confirms the stronger optimism being registered across the industry for 2018.

In the period 2014-2016, it is reported (Deloitte)[1] that upstream support service sector has lost 36% of the companies through insolvency, 50% of jobs lost in the sector and revenue contracted by 55%. The report also states that the companies that survived are coming out stronger and all have taken similar steps to put them in this position. Actions taken by these successful companies include continued investment in technology, innovative business processes and

1 Source: https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/oil-field-services-sector-transforms-again.html

personnel to drive internal and value chain efficiencies. Other tactics include expansion into new markets, diversification and the renewal of business on a long-term contract basis.

Over the past two years Medserv has been following a similar course to re-shape and re-position the Company. This required the Company to invest more not less despite the decrease in revenue. By taking this long-term business view the Company has successfully positioned itself to participate in the forecasted upturn. We now see positive benefits coming through in a strong business pipeline for 2018 and beyond, in geographical and product terms for both our main revenue streams - Integrated Logistic Support Services (ILSS) and Oil Country Tubular Goods (OCTG).

The main area of growth remains the Middle East for our OCTG business. We expect to secure increased business in our established markets whilst also moving into neighbouring countries in the near term. Integration of logistics with OCTG is accelerating following the successful development in 2017 of the new supply base in Duqm, Oman and the introduction of the "Mill to Rig" integrated logistics services which provides rig-ready pipe at point of need. The success of the OCTG service is also driving growth outside the Middle East. We expect further consolidated service offerings to be secured for OCTG with the target markets of Central and North Africa expected to be the next new markets for OCTG outside the Middle East for Medserv Group.

The ILSS sector in the Company is also expected to show increased revenues. The recently reported major finds offshore Egypt and Cyprus in the Eastern Mediterranean is attracting significant investment by the oil majors to the area. Medserv is well positioned to participate in this upturn as we already have a strong presence in the region, having a base in Cyprus since 2014. At the end of 2017 Medserv Egypt succeeded in securing its first business to manage and operate five logistics sites in Egypt on a long-term contract with an oil major. This significant breakthrough puts the Company in a position to offer its full range of services to support the major investments being made by the oil and gas industry across Egypt and the wider region.

The investment in marketing, plant and equipment, information technology and human resources over the past two years has made it possible for the Company not only to survive the downturn experienced in our industry but to come out stronger and expand our business reach. This has had an impact on our financial results under review. Our profitability has been impacted by not only the reduction in revenue but also by the non-cash charges recognised in the income statement.

I am confident that the market has passed the worst. Having gone through major restructuring the market is now in a better shape to meet the new realities with profitability returning to our industry. Medserv is well placed to move forward during 2018 and to deliver a stronger performance, allowing Medserv to restore dividend payments as rightly expected by shareholders.

None of this is possible without the continued support of all stakeholders, clients, shareholders, bond holders, management and staff. To all I would like to extend my sincere gratitude for their respective contributions towards our business.

Thank you.

Anthony S. Diacono
Chairman

30 APRIL 2018

Corporate Social Responsibility

The Company places significant importance on contributing to the communities in which we operate each year. The following are the various ways in which Medserv has supported the community over the year in review.

The Company donated funds to several entities including; the Malta Association of Small Shareholders, Puttinu Cares, the ALIVE Foundation, Fondazzjoni Patrimonju Malta, an organization set up with the aim of spreading Malta's extensive heritage locally and internationally, donated food to the Malta Food Bank and organised several blood donations by its employees. Furthermore, the Company also donated funds to the Presidents' trust for the development of a Skate Park in Birzebbugia (SPARK Project).

The Company also supported one of its employees in his participation in The Grid Event and the Tang Soo Do World Championships.

Our support to the Project FLASC (Floating Liquid-piston Accumulator using Seawater under Compression) continues. FLASC uses pressurised seawater and compressed air to store energy from offshore renewable resources. It is best suited for floating systems since it integrates directly into the platform itself. Potential applications include floating wind, solar PV, wave and tidal energy systems, along with liquefaction of natural gas, water injection in oil wells and desalination. A small-scale prototype was deployed in the Dock 1 area of Cospicua towards the end of last year. The project also placed 2nd in an international competition contested by 158 contenders from 24 EU countries.

At year end, the Group's solar farm was fast approaching a milestone figure of 5 million kg of CO2 emissions saved. The system has produced over 7,597,900 kWh of energy.


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Directors' Report

For the year ended 31 December 2017

The directors have prepared this directors' report for Medserv p.l.c. ('the Company') in accordance with Article 177 of the Companies Act, 1995 (Chapter 386, Laws of Malta) ('the Act') including the further provisions as set out in the Sixth Schedule to the Act together with the financial statements of the Company for the year ended 31 December 2017.

Board of directors

Anthony S Diacono
Anthony J Duncan
Joseph F X Zahra
Joseph Zammit Tabona
Godwin A Borg
Laragh Cassar (appointed on 1 January 2017)

Principal activities

The Group's principal activities consist of providing shore base logistics to the offshore oil and gas industry and engineering and supply chain management for Oil Country Tubular Goods (OCTG) to support the onshore oil and gas industry. Shore base logistics is mainly provided from the Group's bases set up in Mediterranean rim countries, supporting international oil companies in their offshore activities, ranging from exploration to development and production. Engineering and supply chain management for OCTG is mainly provided by Middle East Tubular Services Group of Companies (METS) from its facilities in the Middle East. The Group is continuously working to cross-sell its services within its Group's operating segments.

Review of business development

During the past years, the oil and gas industry has gone through one of the most transformative periods in its history, triggered by weak demand and low oil prices. This in turn has prompted the IOCs to focus on their cost efficiencies by adjusting their business models and establish new partnerships to survive the new reality. Major projects that did not meet profitability criteria were either cancelled or deferred. Such measures, combined with efficiency improvements, are beginning to bear fruit for the industry as a growing number of projects are now able to break even at very low levels of oil prices.

During the year, the Group has continued to experience a slowdown in the demand for its services and external pressure on its profit margins. The Group's business in Southern Iraq was the unit which was most significantly impacted by the global political and economic factors of the industry. However, management remains committed to operating in this country given that Iraq is the second largest oil producer within the Organization of the Petroleum Exporting Countries (Opec) oil cartel and its economy is expected to recover and stabilise during 2018 before picking up notably in 2019. Also, the Iraq business venture has a leading position being the sole VAM® licensed workshop in the country. The VAM® licensee network consists of certified repair shops that thread premium connections of the same quality and performance as those delivered from the production facilities of Vallourec Oil & Gas France.

Other divisions which experienced a slow down due to either environmental issues or pressure on profit margins were Portugal, Cyprus and Malta. Notwithstanding the downturn in the oil and gas environment during the year, the Group still maintained positive earnings and has continued to show resilience and secure major contracts across its geographical operating spread.

The Board continues to strategically lead the business focusing on the activities it has experience in as well as on the opportunities it sees going forward.

Principal risks and uncertainties

The Board considers the nature and the extent of the risk profile that is acceptable to the Board and the impact these risks pose to the Group. The most important strategic, corporate, and operational risks as well as uncertainties identified during the year together with the actions taken by the Group to reduce these risks are listed below.

CONCENTRATION RISK

The Group's business is heavily dependent on relatively few customers both in the shore base logistics and OCTG. The Group's objective is to increase client spread within the oil and gas industry. The acquisition of METS was a significant measure taken during 2016 to reduce client concentration risk. The strategic development team is continuously working to secure business from new international oil companies.

POLITICAL RISK

The Group's results may be significantly impacted positively or negatively as a result of political decisions. Regulatory and environmental decisions as well as political instability can delay, disrupt or cancel projects. The fiscal and economic conditions in Libya remained fragile during the year characterised by record inflation and a persistent political strife between rival governments. However, the steady rise in the country's oil exports is expected to boost its economy that has been in recession for the last three years. In addition, the re-opening of a number of key oilfields is pushing the country's economic growth back into positive territory and is expected to be maintained during 2018. In Iraq, the political situation is expected to improve in view of the continued reconstruction efforts, higher oil prices and the continued improvement in security conditions. The Group operates in eight jurisdictions with the intention of increasing its operational footprint to continue to minimise this risk.

OIL PRICE

Oil service companies tend to have greater volatility of earnings than oil majors, given their sensitivity to the capital spending plans of oil explorers, which wax and wane with oil prices. The Group is always striving to reduce this risk by investing in countries where cost of oil production is low, primarily Middle East and Africa. Also the Group strategy is to increase product diversification. Until year 2012 the Group's product services was limited to two, namely *'Offshore Logistics'* and *'Drilling Fluid Manufacture'*. This has now increased to five to include *'OCTG Pipe Services'*, '*Engineering Services'* and '*Environmental Services'*.

Financial Performance

Group's total revenue for the year amounted to €28,777,143 (2016: €32,822,270) and the Group's operating loss amounted to €4,095,787 (2016: profit of €9,104). The significant decrease in results is attributable to the slowdown in the demand for its services, delays in drilling projects and pressure on profit margins. The delayed drilling projects are still in place and are expected to contribute during the coming year.

The Adjusted Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) of the Group amounted to €4,434,014 (2016: €5,401,429). After recognising depreciation amounting to €6,646,216 (2016: €3,467,846), amortisation amounting to €2,779,291 (2016: €2,051,013), net finance costs amounting to €3,941,199 (2016: €2,463,336) and unrealised exchange loss amounting to €104,295 (2016: gains of €126,534), the Group registered a loss before tax of €8,036,986 (2016: loss before tax of €2,454,232). Loss after accounting for taxation amounted to €7,633,558 (2016: €2,977,095).

The Group registered negative earnings per share of €0.13c8 (2016: positive earnings per share of €0.05c9).

REVENUE

Total Group revenue is 50% made up of Integrated Logistics Support Services (ILSS), 48% OCTG and the remaining from photovoltaic income.

COST OF SALES AND ADMINISTRATIVE EXPENSES

The cost of sales of the Group for the year amounted to €26,614,100 as against €28,244,667 incurred in 2016, while gross profit margins decreased by 6.4% compared to last year. The main causes behind this decrease were the following:

- Maintaining the Cyprus and Portuguese shore bases operational despite not contributing any significant revenue to the Group;
- An increase in depreciation charge and amortisation (non-cash items) of €2,906,631 compared to last year;
- The cash drain sustained in the Iraq operation.

Administrative expenses are mainly fixed by nature. The Group did not curtail any of the resources of its business development team but invested in additional manpower with the objective of participating in new tenders as opportunities present themselves.

Financial key performance indicators

	YEAR 2017	YEAR 2016
	€ Million	**€ Million**
Total turnover	28.78	32.82
- Integrated Logistics Support Services (ILSS)	13.97	19.25
- Oil Country Tubular Goods (OCTG)	14.28	13.08
- Photovoltaic Farm	0.53	0.49
Adjusted EBITDA	4.43	5.40
(Loss)/profit for the year	(7.64)	2.98
Cash generated from operating activities	4.53	7.35
Cash and cash equivalents	2.77	6.22
Equity	28.10	26.41
Balance sheet total	153.27	121.45
Capital expenditure	2.60	19.41

EBITDA margin in %	15.41%	16.46%
Interest coverage ratio	1.53%	1.90
Net debt to EBITDA	11.10	8.49
Debt to Equity ratio	1.85	2.01
Earnings per Share (EPS)	(13c8)	5c9
Average employee for the year	258	212

Financial Position

The equity attributable to the owners of the Company as at 31 December 2017 amounted to €28,250,706 (2016: €26,354,406). The net increase is a result of the revaluation of the property rights over the land in Malta held by one of the Company's subsidiaries.

Dividends

No reserves are available for distribution.

Reserves

Retained earnings amounting to €1,151,793 and accumulated losses of €465,330 for the Group and the Company respectively are being carried forward.

Future Developments

In line with the Group's strategy for diversification in geographic markets, client base and product services, the Group is actively positioning itself for growth in various new significant oil and gas markets. Projects in new territories arising primarily from organic growth are scheduled to come online before the end of 2018. The Company is awaiting adjudication on a tender for the provision of machine shop services in Uganda. This is a long-term contract with consistent, dependable revenues. The Company is experiencing an increasing number of tendering opportunities within its core ILSS and OCTG competencies and is in discussions with IOCs to develop a service which encompasses both OCTG and ILSS service lines.

Events occurring after the end of the accounting period

Medserv Oil & Gas Services J.S.C, the Company's subsidiary in Egypt, was awarded a three-year contract with the option of extending for further periods to provide the integrated logistics support services for the production phase of offshore operations being conducted by an International Oil Company. This new contract was awarded through a competitive tender process and is effective as from 1 January 2018. The initial value of the contract is estimated to be over €10 million with prospects for further growth in the Group's business units, namely, ILSS and OCTG. This new market is considered by the industry to be the big new energy source on Europe's doorstep.

Outlook

During the past years, the oil and gas industry has managed to innovate and reinvent itself. The sector has emerged from this downturn as more flexible and robust. The sector is expected to continue its slow recovery as upstream companies increase production, helping the midstream and services businesses as well. The first countries to recover from this downturn are the geographical regions in which the Group operates given that the cost of producing oil and gas in these countries is relatively lower compared to other regions.

The outlook for the Group remains optimistic, as the Group anticipates better performance in all its operating segments as the market continues to improve over the year.

Going Concern

As required by Listing Rule 5.62, upon due consideration of the Company's performance and statement of financial position, capital adequacy and solvency, the directors confirm the Company's ability to continue operating as a going concern for the foreseeable future.

Auditors

KPMG have expressed their willingness to continue in office. A resolution proposing the reappointment of KPMG as auditors of the Company will be submitted at the forthcoming annual general meeting.

Disclosure in terms of the Listing Rules

Pursuant to Listing Rule 5.64

SHARE CAPITAL STRUCTURE

The Company's authorised share capital is €12,000,000 divided into 120,000,000 ordinary shares of €0.10 per share. The Company's issued share capital is €5,374,440.50 divided into 53,744,405 ordinary shares of €0.10 per share. All of the issued shares of the Company form part of one class of ordinary shares in the Company, which shares are listed on the Malta Stock Exchange. All shares in the Company have the same rights and entitlements and rank *pari passu* between themselves.

Disclosure in terms of the Listing Rules

Pursuant to Listing Rule 5.64

Contd.

The following are highlights of the rights attaching to the shares

Dividends	The shares carry the right to participate in any distribution of dividend declared by the Company;
Voting rights	Each share shall be entitled to one vote at meetings of shareholders;
Pre-emption rights	Subject to the limitations contained in the memorandum and articles of association, shareholders in the Company shall be entitled, in accordance with the provisions of the Company's memorandum and articles of association, to be offered any new shares to be issued by the Company a right to subscribe for such shares in proportion to their then current shareholding, before such shares are offered to the public or to any person not being a shareholder;
Capital distributions	The shares carry the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise;
Transferability	The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange, applicable from time to time;
Other	The shares are not redeemable and not convertible into any other form of security;
Mandatory takeover bids	Chapter 11 of the Listing Rules, implementing the relevant Squeeze-Out and Sell-Out Rules provisions of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, regulates the acquisition by a person or persons acting in concert of the control of a company and provides specific rules on takeover bids, squeeze-out rules and sell-out rules. The shareholders of the Company may be protected by the said Listing Rules in the event that the Company is subject to a Takeover Bid (as defined therein). The Listing Rules may be viewed on the official website of the Listing Authority - www.mfsa.com.mt;

Disclosure in terms of the Listing Rules

Pursuant to Listing Rule 5.64

Contd.

Holdings in excess of 5% of the share capital

On the basis of the information available to the Company as at the 31 December 2017, the following persons hold 5% or more of its issued share capital:

Malampaya Investments Limited	34.33%	(18,450,000 shares)
Anthony S Diacono	31.17%	(16,751,835 shares)
Rizzo Farrugia & Co (Stockbrokers) Limited on behalf of clients	10.24%	(5,500,016 shares)

As far as the Company is aware, no other person holds any direct or indirect shareholding in excess of 5% of its total issued share capital.

Appointment/ Replacement of Directors

In terms of the memorandum and articles of association of the Company, the directors of the Company shall be appointed by the shareholders in the annual general meeting as follows:

a. Any shareholder/s who, in the aggregate, holds not less than 0.5% of the total shares having voting rights in the Company shall be entitled to nominate a fit and proper person for appointment as a director of the Company. The directors themselves or a committee thereof may make recommendations and nominations to the shareholders for the appointment of directors at the next following annual general meeting.

b. Shareholders are granted a period of at least fourteen (14) days to nominate candidates for appointment as Directors. Such notice may be given by the publication of an advertisement in at least two (2) daily newspapers. All such nominations, including the candidate's acceptance to be nominated as director, shall on pain of disqualification be made on the form to be prescribed by the Directors from time to time and shall reach the Office not later than fourteen (14) days after the publication of the said notice (the "**Submission Date**"); PROVIDED THAT the Submission Date shall not be less than fourteen (14) days prior to the date of the meeting appointed for such election. Nominations to be made by the Directors or any sub-committee of the Directors

Disclosure in terms of the Listing Rules

Pursuant to Listing Rule 5.64

Contd.

Appointment/ Replacement of Directors (Contd.)

appointed for that purpose shall also be made by not later than the date established for the closure of nominations to shareholders.

c. In the event that there are either less nominations than there are vacancies on the board or if there are as many nominations made as there are vacancies on the Board, then each person so nominated shall be automatically appointed a director.

d. In the event that there are more nominations made, then an election shall take place. After the date established as the closing date for nominations to be received by the Company for persons to be appointed directors, the directors shall draw the names of each candidate by lot and place each name in a list in the order in which they were drawn. The list shall be signed by the Chairman and the Company Secretary for verification purposes.

e. On the notice calling the annual general meeting at which an election of directors is to take place there shall be proposed one resolution for the appointment of each candidate in the order in which the names were drawn, so that there shall be as many resolutions as there are candidates. The Directors shall further ensure that any Member may vote for each candidate by proxy.

f. At the general meeting at which the election of directors is to take place the Chairman shall propose the name of each candidate as a separate resolution and the shareholders shall take a separate vote for each candidate (either by a show of hands or through a poll). Each shareholder shall be entitled, in the event of a poll, to use all or part only of his votes on a particular candidate.

g. Upon a resolution being carried, the candidate proposed by virtue of that resolution shall be considered elected and appointed a Director. No further voting shall take place once enough resolutions have been passed to ensure that all vacancies on the Board have been filled, even if there are still candidates with respect to whom a resolution has not yet been called.

h. Shareholders may vote in favour or against the resolution for the appointment of a director in any election, and a resolution shall be considered carried if it receives the assent of more than 50% of the shareholders present and voting at the meeting.

Disclosure in terms of the Listing Rules

Pursuant to Listing Rule 5.64

Contd.

Appointment/ Replacement of Directors (Contd.)

i. Unless a shareholder demands that a vote be taken in respect of all or any one or more of the nominees, in the event that there are as many nominations as there are vacancies or less, no voting will take place and the nominees will be deemed appointed directors.

j. Subject to the above, any vacancy among the directors may be filled by the co-option of another person to fill such vacancy. Such co-option shall be made by the board of directors and shall be valid until the conclusion of the next annual general meeting.

k. Any director may be removed, at any time, by the Member or Members by whom he was appointed. The removal may be made in the same manner as the appointment.

Any director may be removed at any time by the Company in general meeting pursuant to the provisions of section 140 of the Act.

Amendment to the Memorandum and Articles of Association

In terms of the Companies Act, Cap 386 of the laws of Malta, the Company may by extraordinary resolution at a general meeting alter or add to its memorandum or articles of association. An extraordinary resolution is one where:

a. It has been taken at a general meeting of which notice specifying the intention to propose the text of the resolution as an extraordinary resolution and the principle purpose thereof has been duly given;

b. It has been passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate not less than seventy five per cent (75%) in nominal value of the shares issued by the Company represented and entitled to vote at the meeting and at least fifty one per cent (51%) in nominal value of all the shares issued by the Company and entitled to vote at the meeting.

If one of the aforesaid majorities is obtained but not both, another meeting shall be duly convened within 30 days to take a fresh vote on the proposed resolution. At the second meeting the resolution may be passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate not

Disclosure in terms of the Listing Rules

Pursuant to Listing Rule 5.64

Contd.

Amendment to the Memorandum and Articles of Association (Contd.)

less than 75% in nominal value of the shares issued by the Company represented and entitled to vote at the meeting. However, if more than half in nominal value of all the shares issued by the Company having the right to vote at the meeting is represented at that meeting, a simple majority in nominal value of such shares so represented shall suffice.

Board Members' Powers

The Directors are vested with the management of the Company, and their powers of management and administration emanate directly from the memorandum and articles of association and the law. The Directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts, sue and be sued in representation of the Company. In terms of the memorandum and articles of association they may do all such things that are not by the memorandum and articles of association reserved for the Company in general meeting.

In particular, the Directors are authorised to issue shares in the Company with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Directors may from time to time determine, as long as such issue of Equity Securities falls within the authorised share capital of the Company. Unless the shareholders otherwise approve in a general meeting, the Company shall not in issuing and allotting new shares:

a. Allot any of them on any terms to any person unless an offer has first been made to each existing shareholder to allot to him at least on the same terms, a proportion of the new shares which is as nearly as practicable equal to the proportion in nominal value held by him of the aggregate shares in issue in the Company immediately prior to the new issue of shares; and

b. Allot any of them to any person upon the expiration of any offer made to existing shareholders in terms of a) above. Any such shares not subscribed for by the existing shareholders may be offered for subscription to the general public under the same or other conditions which however cannot be more favourable to the public than offer made under (a).

Furthermore, the Company may, subject to such restrictions, limitations and conditions contained in the Companies Act, acquire its own shares.

Save as otherwise disclosed herein, the provisions of Listing Rules 5.64.2, 5.64.4 to 5.64.7, 5.64.10 and 5.64.11 are not applicable to the Company.

Pursuant to Listing Rule 5.70

Material Contracts in relation to which a Director of the Company was directly or indirectly interested

None

Pursuant to Listing Rule 5.70.2

Company Secretary:
Dr Laragh Cassar LL.D.

Registered Office of Company:
Port of Marsaxlokk
Birzebbugia
Malta

Telephone:
(+356) 2220 2000

Approved by the Board of Directors on 30 April 2018 and signed on its behalf by:

Anthony S. Diacono
Chairman

Anthony J. Duncan
Director

Statement of the Directors

Pursuant to Listing Rule 5.68

TO THE BEST OF THE KNOWLEDGE OF THE DIRECTORS:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Issuer and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 30 April 2018 by:

Anthony S. Diacono
Chairman

Anthony J. Duncan
Director

Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

Corporate Governance - Statement of Compliance

Introduction

Pursuant to the Listing Rules issued by the Listing Authority, Medserv p.l.c. (the "**Company**") as a company whose equity securities are listed on a regulated market, should endeavour to adopt the Code of Principles of Good Corporate Governance contained in Appendix 5.1 of the Listing Rules (the "**Code**"). In terms of Listing Rule 5.94, the Company is obliged to prepare a report explaining how it has complied with the Code. For the purposes of the Listing Rules, the Company is hereby reporting on the extent of its adoption of the recommended Code.

The directors strongly believe that the practices recommended by the Code are in the best interests of the Medserv Group of Companies and its shareholders generally and that compliance therewith is not only expected by investors but also evidences the directors' and the Company's commitment to a high standard of governance.

Good corporate governance is the collective responsibility of the board of directors of the Company (the "**Board**"). As demonstrated by the information set out in this statement, the Company believes that it has, save as indicated herein the section entitled "Non-Compliance with the Code", throughout the accounting period under review, applied the principles and complied with the provisions of the Code. In the Non-Compliance section, the Board indicates and explains the instances where it has departed from or where it has not applied the Code, as allowed by the Code.

Part 01
Compliance with the code

PRINCIPLE 1 : THE BOARD

The Board's principal purpose is to provide the required leadership of the Company, to set the present and future strategy of the Company and to ensure proper oversight and accountability. Throughout 2016, the Board comprised six directors, three of whom holding Executive positions, that is, Mr Anthony S. Diacono (Executive Director), Mr Anthony J. Duncan (Executive Director) and Mr Godwin A. Borg (Executive Director) and three holding Non-Executive positions, Mr Joseph FX Zahra (Non-Executive Director), Mr Joseph Zammit Tabona (Non-Executive Director), and Laragh Cassar (Non-Executive Director). All of the directors were nominated by the shareholders and appointed automatically with effect from the annual general meeting held on the 31 May 2017.

The presence of the executive directors on the Board is designed to ensure that the Board has direct access to the individuals having the prime responsibility for the executive management of the Company and the implementation of approved policies. Each director is provided with the information and explanations as may be required by any particular agenda item.

The Board delegates specific responsibilities to an Audit Committee, to a Remuneration Committee and to a Financial Risk Committee. Further details in relation to the said committees and the responsibilities of the Board are found in Principles 4 and 5 of this Statement.

The directors and Restricted Persons (as defined in the Listing Rules) are informed and are aware of their obligations on dealings in securities of the Company within the established parameters of the law and the Listing Rules. Each such Director and Senior Officer has been provided with the code of dealing required in terms of Listing Rule 5.106 and training in respect of their obligations arising thereunder.

PRINCIPLE 2 :
CHAIRMAN AND CHIEF EXECUTIVE

The Chairman of the Company leads the Board and sets its agenda. In addition, the Chairman ensures that the directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the Company and that effective communication with shareholders is maintained. The Chairman also encourages active engagement by all directors for discussion of complex or contentious issues. The executive responsibility for the running of the Company's business is collectively vested as explained in Part 2.

PRINCIPLE 3 :
COMPOSITION OF THE BOARD

The Board considers that the size of the Board, whilst not being large as to be unwieldy, is appropriate, taking into account the size of the Company and its operations. The combined and varied knowledge, experience and skills of the Board members provides the balance of competences that are required, adds value to the functioning of the Board and gives direction to the Company.

As above set out, throughout the period under review, the Board consisted of three executive directors and three non-executive directors. Mr Joseph FX Zahra (Non-Executive Director) and Mr Joseph Zammit Tabona (Non-Executive Director) are considered to be independent within the meaning provided by the Code. Each non-executive director has

Part 01
Compliance with the code

Contd.

submitted a declaration to the Board as stipulated under the Code Provision 3.4 undertaking:

a. to maintain in all circumstances his/her independence of analysis, decision and action;

b. not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and

c. to clearly express his/her opposition in the event that he/she finds that a decision of the board may harm the Company.

PRINCIPLE 4: THE RESPONSIBILITIES OF THE BOARD

The Board has the first level responsibility for executing the four basic roles of Corporate Governance, namely accountability, monitoring, strategy formulation and policy development. The Board has established a clear internal and external reporting system so that it has access to accurate, relevant and timely information and ensures that management constantly monitor performance and report to its satisfaction.

During the year under review, the Board continued to implement measures aimed at developing a succession policy for the Company's directors and senior management. In this respect, Mr Anthony S. Diacono continued to occupy the position of Chairman and Group Chief Executive Officer. Mr Anthony J Duncan retained his position as executive director and in addition to his role as Finance Director, has also assumed the responsibility for Group Compliance. Mr. Karl Bartolo, continued to occupy the positions of Chief Financial Officer and Chief Executive Officer Designate. On 30 April 2018, the board extended Mr. Karl Bartolo's appointment to Group CEO, and Mr. Anthony Diacono has been appointed an executive director with specific repsonsibility for Group Strategy. Furthermore, Mr. Silvio Camilleri has been appointed Group Chief Financial Officer.

Mr. Godwin A. Borg currently serves as a consultant to the Company as Technical Director as well as being a member of the Board. The executive team also comprises three Regional Managers entrusted to manage the three present main areas of current and future business, the Mediterranean, Middle East and Caribbean.

During 2017, the Company organised training sessions for the Board and management of the Group by a globally recognised anti-bribery business organisation for the purposes of augmenting the anti-bribery culture of the Medserv Group

PRINCIPLE 5: BOARD MEETINGS

For the period under review the Board has implemented its policy to meet at least once every quarter. As a matter of practice, each board meeting to be held throughout the year is scheduled well in advance of their due date and each director is provided with detailed Board papers relating to each agenda item in good time prior to the actual meetings. Board meetings concentrate mainly on strategy, operational performance and financial performance of the Company. After each Board meeting and before the next, Board minutes that faithfully record attendance, key issues and decisions are sent to the directors. Meetings were attended as follows:

Part 01
Compliance with the code

Contd.

Members	Meetings Attended out of Total held during tenure
Anthony S. Diacono	7 out of 7
Anthony J. Duncan	7 out of 7
Joseph FX Zahra	7 out of 7
Joseph Zammit Tabona	7 out of 7
Charles Daly	7 out of 7
Godwin A. Borg	5 out of 7
Laragh Cassar	6 out of 6

The Board also delegates specific responsibilities to the management team of the Company, the Audit Committee, the Remuneration Committee and the Financial Risk Management Committee, which Committees operate under their formal terms of reference.

Board Committees

Audit Committee

The Board delegates certain responsibilities to the Audit Committee, the terms of reference of which reflect the requirements stipulated in the Listing Rules and under applicable law. In addition, unless otherwise dealt with in any other manner prescribed by the Listing Rules, the Audit Committee has the responsibility to, inter alia, monitor and scrutinise, and, if required, approve Related Party Transactions, if any, falling within the ambits of the Listing Rules and to make its recommendations to the Board of any such proposed Related Party Transactions. The Audit Committee establishes internal procedures and monitors these on a regular basis. The terms of reference for the Audit Committee are designed both to strengthen this function within the Company and to widen the scope of the duties and responsibilities of this Committee. The Committee also has the authority to summon any person to assist it in the performance of its duties, including the Company's external auditors. KPMG, as external auditors of the Company, were invited to attend each of the Company's audit committee meetings. During 2017, an internal audit function was set-up. The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the Company and its subsidiaries for the purpose of advising management and the Board, through the Audit Committee, on the efficiency and effectiveness of management policies, practices and internal controls. The function is expected to promote the application of best practices within the organisation.

Throughout 2017 to date, the Audit Committee was composed of Mr Joseph FX Zahra (independent non-executive director and Chairman of the Audit Committee), Mr Joseph Zammit Tabona (independent non-executive director) and Dr Laragh Cassar (non-executive director).

Part 01
Compliance with the code

Contd.

During 2017, the Audit Committee met eight times.

Members	Meetings Attended out of Total held during tenure
Joseph FX Zahra	8 out of 8
Joseph Zammit Tabona	8 out of 8
Laragh Cassar	8 out of 8

The Board considers Joseph FX Zahra to be independent and competent in accounting and/or auditing. Such determination was based on Mr Zahra's substantial experience in various audit, accounting and risk management roles throughout his career.

The Board is confident that the Audit Committee Members, as a whole, have competence relevant to the sector in which the Issuer is operating, which competence was garnered over the years as a result of their involvement with the Medserv group.

Financial Risk Management Committee

The Board has set up a Financial Risk Management Committee composed of Mr Anthony J. Duncan (executive director), Mr Karl Bartolo (Chief Financial Officer[2]), Mr Silvio Camilleri (Financial Controller[3]) and Mr Colin Galea (Chief Accountant). The said Committee was set up with a view to manage the Group's currency, interest rates, liquidity and foreign exchange risks and to manage the Group's own financial investments. The Committee operates under specific terms of reference approved by the Board. The financial controllers within the Medserv group are invited to attend meetings of the Financial Risk Management Committee.

During 2017, the Financial Risk Management Committee met four times.

Members	Meetings Attended out of Total held during tenure
Anthony J. Duncan	1 out of 4
Mr Karl Bartolo	4 out of 4
Mr Silvio Camilleri	4 out of 4
Mr Colin Galea	4 out of 4

Remuneration Committee

This is considered under the Remuneration Report.

Senior executive management

For information on the senior executive management of the Group, please see the section under the heading "Principle 4: The Responsibilities of the Board"

PRINCIPLE 6: INFORMATION AND PROFESSIONAL DEVELOPMENT

The Board appoints the Chief Executive Officer who continues to enjoy its full support and confidence. Appointments and changes to senior management are the responsibility of the Chief Executive Director and are approved by the Board. The Board actively considers the professional and technical development of all senior management and staff members. Management prepares detailed reviews

2 Appointed Group CEO on 30 April 2018
3 Appointed Group CFO on 30 April 2018

Part 01
Compliance with the code

Contd.

for each Board meeting covering all aspects of the Company's business.

On joining the Board, a new director is provided with the opportunity to consult with the executive directors and senior management of the Company in respect of the operations of the Group. Each director is made aware of the Company's on-going obligations in terms of the Companies Act, the Listing Rules and other relevant legislation. Directors have access to the advice and services of the Company Secretary and to the legal counsel to the Company to the Board. The Company is also prepared to bear the expense incurred by the directors requiring independent professional advice should they judge it necessary to discharge their responsibilities as directors.

PRINCIPLE 7: EVALUATION OF THE BOARD'S PERFORMANCE

With respect to the year under review, the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not per se appoint a Committee to carry out this performance evaluation, but the evaluation exercise was conducted through a questionnaire, copies of which were sent to the Chairman of the Audit Committee and the results were reported to the Chairman of the Board.

PRINCIPLE 8: COMMITTEES

Remuneration Committee

This is considered under the Remuneration Report.

PRINCIPLE 9: RELATIONS WITH SHAREHOLDERS AND WITH THE MARKET & PRINCIPLE 10: INSTITUTIONAL INVESTORS

The Board is of the view that over the period under review, the Company has communicated effectively with the market through a number of company announcements that it published informing the market of significant events happening within the Company.

The Company also communicates with its shareholders through its Annual General Meeting (further detail is provided under the section entitled General Meetings). The Chairman arranges for all directors to attend the annual general meeting and for the chairman of the Audit Committee to be available to answer questions, if necessary.

The Board ensures that sufficient contact is maintained with major shareholders to understand issues and concerns.

Apart from the annual general meeting, the Company intends to continue with its active communication strategy in the market and shall accordingly continue to communicate with its shareholders and the market by way of the Annual Report and Financial Statements, by publishing its results on a six-monthly basis during the year and through the directors' statements published on a six-monthly basis, and by company announcements to the market in general. During 2017, the Company also communicated to the market through a press conference at which local brokers were invited to attend. The Company recognises the importance of maintaining a dialogue with the market to ensure that its strategies and performance are well understood and disclosed to the market in a timely manner.

Part 01
Compliance with the code

Contd.

The Company's website (http://www.medservenergy.com) also contains information about the Company and its business which is a source of further information to the market.

PRINCIPLE 11: CONFLICTS OF INTEREST

The directors are aware that their primary responsibility is always to act in the interest of the Company and its shareholders as a whole irrespective of who appointed them to the Board. Acting in the interest of the Company includes an obligation to avoid conflicts of interest. In such instances, the Company has strict policies in place which allow it to manage such conflicts, actual or potential, in the best interest of the Company.

PRINCIPLE 12: CORPORATE SOCIAL RESPONSIBILITY

The Company places substantial importance on its corporate social responsibility to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large. The Company is fully aware of its obligation to preserving the environment and continues to implement policies aimed at respecting the natural environment and to avoiding/minimising pollution.

During the year under review, the Company donated funds to Malta Association of Small Shareholders, the ALIVE Foundation, Fondazzjoni Patrimonju Malta, an organization set up with the aim of spreading Malta's extensive heritage locally and internationally, donated food to the Malta Food Bank and organised blood donations by its employees. Furthermore, the Company also donated funds to the Presidents' trust for the development of a Skate Park in Bizebbugia (SPARK Project).

The Company also supported one of its employees in his participation in The Grid Event and the Tang Soo Do World Championships.

The Company promotes open communication with its workforce, responsibility and personal development. The Company maintains a staff development programme aimed at providing training to staff to assist their development with an aim to improve the Company's competitiveness and efficiency.

Part 02
Non Compliance
with the code

PRINCIPLE 2: CHAIRMAN AND CHIEF EXECUTIVE

In terms of Code Provision 2.1, it is recommended that the position of the Chairman and of the Chief Executive Officer be occupied by different individuals with clear divisions of responsibilities. In the event that the positions are occupied by the same individual as is the case with the Company in view of Mr Anthony S Diacono occupying both the chairmanship and the position of Group Chief Executive Director, it is further recommended that the Company explains to the market, by way of a company announcement, the reason for the two roles being combined. A Company Announcement was issued on 26 July 2016. In terms of Code Provision 2.3, Mr Anthony Diacono is the Chairman of the Company and a significant shareholder of the Company and therefore does not meet the independence criteria in terms of the Code.

PRINCIPLE 3: COMPOSITION OF THE BOARD

In accordance with Code Provision 3.1, where the roles of the Chairman and the Chief Executive Director are combined, the Board should appoint one of the independent non-executive directors to be the senior independent director. The Board has not appointed one of the independent non-executive directors to be the senior independent director.

Furthermore, in terms of Code Provision 4.2.7, the Chairman holds a key responsibility in developing a succession policy for the future composition of the board and the executive arm thereof. During the year under review, the Board continued to implement the Board's succession planning in terms of the continued interaction with the Chief Executive Designate and the senior executive management. The Board has not, however, developed as full succession plan for the Board as a whole.

PRINCIPLE 7: CODE PROVISION 7.1 EVALUATION COMMITTEE

The Board has not appointed an ad hoc committee to evaluate its own performance. As set out above, the evaluation was conducted through a questionnaire.

PRINCIPLE 8B (NOMINATION COMMITTEE)

Pursuant to the Company's Articles of Association, the appointment of directors to the Board is reserved exclusively to the Company's shareholders (in line also with general and commonly accepted practice in Malta). Any shareholder/s who in the aggregate hold not less than 0.5% of the total number of issued shares having voting rights in the Company is entitled to nominate a fit and proper person for appointment as a director of the Company. Furthermore, in terms of the memorandum and articles of association of the Company, the directors themselves are entitled to make recommendations and nominations to the shareholders for the appointment of directors at the next following annual general meeting.

Within this context, the Board believes that the setting up of a Nomination Committee is not required since the Board itself has the authority to recommend and nominate directors. Notwithstanding this, the Board will retain under review the issue relating to the setting up of a Nomination Committee.

Part 02
Non Compliance with the code

Contd.

CODE PROVISION 9.3

The Company does not have a formal mechanism in place as required by Code provision 9.3 to resolve conflicts between minority shareholders and controlling shareholders and no such conflicts have arisen.

Internal Control

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk to achieve business objectives, and can provide only reasonable, and not absolute, assurance against normal business risks or loss. Included with the Company's internal control system are procedures to identify, control and report major risks within a relevant timeframe. Financial reporting is prepared monthly and consolidated quarterly which performance is analysed against budgets and shared with senior management and directors. The Board reviews the effectiveness of the Company's system of internal controls. The Company strengthens this function through the Audit Committee that has initiated a business risk monitoring plan, the implementation of which is regularly monitored.

The key features of the Company's system of internal control are as follows:

ORGANISATION

The Company operates through the Chief Executive Officer with clear reporting lines and delegation of powers. Whilst members of the senior management of the Group are in constant contact, formal management meetings are scheduled on a monthly basis. They are attended by the Chief Executive Officer and senior executive management and other members of staff, upon invitation.

CONTROL ENVIRONMENT

The Company is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Company policies and employee procedures are in place for the reporting and resolution of improper activities.

The Company has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Company objectives.

Company executives participate in periodic strategic reviews, which include consideration of long-term projections and the evaluation of business alternatives. Regular budgets and strategic plans are prepared. Performance against these plans is actively monitored and reported to the Board.

Part 02
Non Compliance
with the code

Contd.

RISK IDENTIFICATION

Company management is responsible for the identification and evaluation of key risks applicable to their respective areas of business. The mandate of the Audit Committee and the Financial Risk Management Committee also includes the continuous assessment and oversight of such key risks.

Listing Rule 5.97.5

The information required by this Listing Rule is found in the Directors' Report.

GENERAL MEETINGS AND SHAREHOLDERS' RIGHTS

Conduct of general meetings

It is only shareholders whose details are entered into the register of members on the record date that are entitled to participate in the general meeting and to exercise their voting rights. In terms of the Listing Rules, the record date falls 30 days immediately preceding the date set for the general meeting to which it relates. The establishment of a record date and the entitlement to attend and vote at general meeting does not, however, prevent trading in the shares after the said date.

In order for business to be transacted at a general meeting, a quorum must be present. In terms of the Articles of Association, 51% of the nominal value of the issued equity securities entitled to attend and vote at the meeting constitutes a quorum. If within half an hour, a quorum is not present, the meeting shall stand adjourned to the same day the next week, at the same time and place or to such other day and at such other time and place as the directors may determine. In any event, the adjourned meeting must be held at least ten days after the final convocation is issued and no new item must be put on the agenda of such adjourned meeting. If at the adjourned meeting a quorum is not yet present within half an hour from the time appointed for the meeting, the member or members present shall constitute a quorum. Generally, the Chairman of the board presides as Chairman at every general meeting of the Company. At the commencement of any general meeting, the Chairman may, subject to applicable law, set the procedure which shall be adopted for the proceedings of that meeting. Such procedure is binding on the members.

If the meeting consents or requires, the Chairman shall adjourn a quorate meeting to discuss the business left unattended or unfinished. If a meeting is adjourned for 30 days or more, notice of the quorate meeting must be given as in the case of an original meeting. Otherwise, it is not necessary to give any notice of an adjourned meeting or of the business to be transacted at such quorate meeting.

Part 02
Non Compliance with the code

Contd.

At any general meeting, a resolution put to a vote shall be determined and decided by a show of hands, unless a poll is demanded before or on the declaration of the result of a show of hands by;

a. the Chairman of the meeting; or

b. by at least three (3) members present in person or by proxy; or

c. any member or members present in person or by proxy and representing not less than one tenth of the total voting power of all members having the right to vote at that meeting; or

d. a member or members present in person or by proxy holding equity securities conferring a right to vote at the meeting, being equity securities on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the equity securities conferring that right.

Unless a poll is so demanded, a declaration by the Chairman that a resolution has, on a show of hands, been carried or carried unanimously, or by a particular majority, or lost together with an entry to that effect in the minute book, shall constitute conclusive evidence of the fact without need for further proof. If a resolution requires a particular majority in value, in order for the resolution to pass by a show of hands, there must be present at that meeting a member or members holding in the aggregate at least the required majority. A poll demanded on the election of the Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at the discretion of the Chairman. In the case of equality of votes, whether on a show of hands or on a poll, the chairman has a second or casting vote. On a show of hands every member present in person or by proxy shall have one vote for each equity security carrying voting rights of which he is the holder, provided that all calls or other sums presently payable by him in respect of equity securities have been paid.

PROXY

Every member is entitled to appoint one person to act as proxy holder to attend and vote at a general meeting instead of him. The proxy holder shall enjoy the same rights to participate in the general meeting as those to which the member thus represented would be entitled. If a member is holding shares for and on behalf of third parties, such member shall be entitled to grant a proxy to each of his clients or to any third party designated by a client and the said member is entitled to cast votes attaching to some of the shares differently from the others. In the case of voting by a show of hands, a proxy who has been mandated by several members and instructed to vote by some shareholders in favour of a resolution and by others against the same resolution shall have one vote for and one vote against the resolution.

The instrument appointing a proxy must be deposited at the office or by electronic mail at the address specified in the notice convening the meeting not less than forty-eight (48) hours before the time for holding the meeting or, in the case of a poll, not less than forty-eight (48) hours before the time appointed for the taking of the poll. The same applies to the revocation of the appointment of a proxy.

A form of instrument of proxy shall be in such form as may be determined by the directors and which would allow a member appointing a proxy to indicate how he would like his proxy to vote in relation to each resolution.

Part 02
Non Compliance
with the code

Contd.

INCLUDING ITEMS ON THE AGENDA

A shareholder or shareholders holding not less than 5% of the issued share capital may include items on the agenda of the general meeting and table draft resolutions for items included on the agenda of a general meeting. Such right must be exercised by the shareholder at least 46 days before the date set for the general meeting to which it relates.

QUESTIONS

Shareholders have the right to ask questions which are pertinent and related to the items on the agenda.

ELECTRONIC VOTING

In terms of the Articles of Association of the Company, the directors may establish systems to:

a. allow persons entitled to attend and vote at general meetings of the Company to do so by electronic means in accordance with the relevant provisions of the Listing Rules; and

b. allow for votes on a resolution on a poll to be cast in advance.

Where a shareholder requests the Company to publish a full account of a poll, the Company is required to publish the information on its website not later than 15 days after the general meeting at which the result was obtained.

Further details on the conduct of a general meeting and shareholders' rights are contained in the Memorandum and Articles of Association of the Company and in line with chapter 12 of the Listing Rules.

Remuneration Statement

The Remuneration Committee oversees the development and implementation of the remuneration and related policies of the Medserv group of companies.

During the year under review, the Committee was composed of Mr Joseph Zammit Tabona (Chairman), Mr Joseph FX Zahra and Dr Laragh Cassar, all of whom are non-executive directors. Mr Joseph FX Zahra and Mr Joseph Zammit Tabona are considered to be independent directors.

During 2017, the Remuneration Committee did not formally meet on the basis that there were no significant changes in the Company's remuneration policy.

Remuneration Policy

SENIOR EXECUTIVES

The Board determines the framework of the overall remuneration policy and individual remuneration arrangements for its senior executives based on the recommendations from the Remuneration Committee. The Committee considers that these remuneration packages reflect market conditions and are designed to attract appropriate quality executives to ensure the efficient management of the Company. During the current year under review, there have been no significant changes in the Company's remuneration policy and no significant changes are intended to be effected thereto in the year ahead. The terms and conditions of employment of each individual within the executive team are set out in their respective indefinite contracts of employment with the Company, other than in respect of the regional manager for the Middle East (Mr Gareth McMurray) who, during 2017, was on a definite contract. During 2018, Mr McMurray was engaged in the same role on an indefinite contract. The Company's senior executives may be paid a bonus by the Company – the payment and extent of payment of such bonus is entirely at the discretion of the Board, subject to the recommendation of the Committee. Moreover, share options and profit-sharing are currently not part of the Company's remuneration policy. Specific criteria for determining the extent of senior executive's entitlement to a bonus will be formulated by the Remuneration Committee in due course.

The Company has opted not to disclose the amount of remuneration paid to its senior executives on the basis that it is commercially sensitive

DIRECTORS

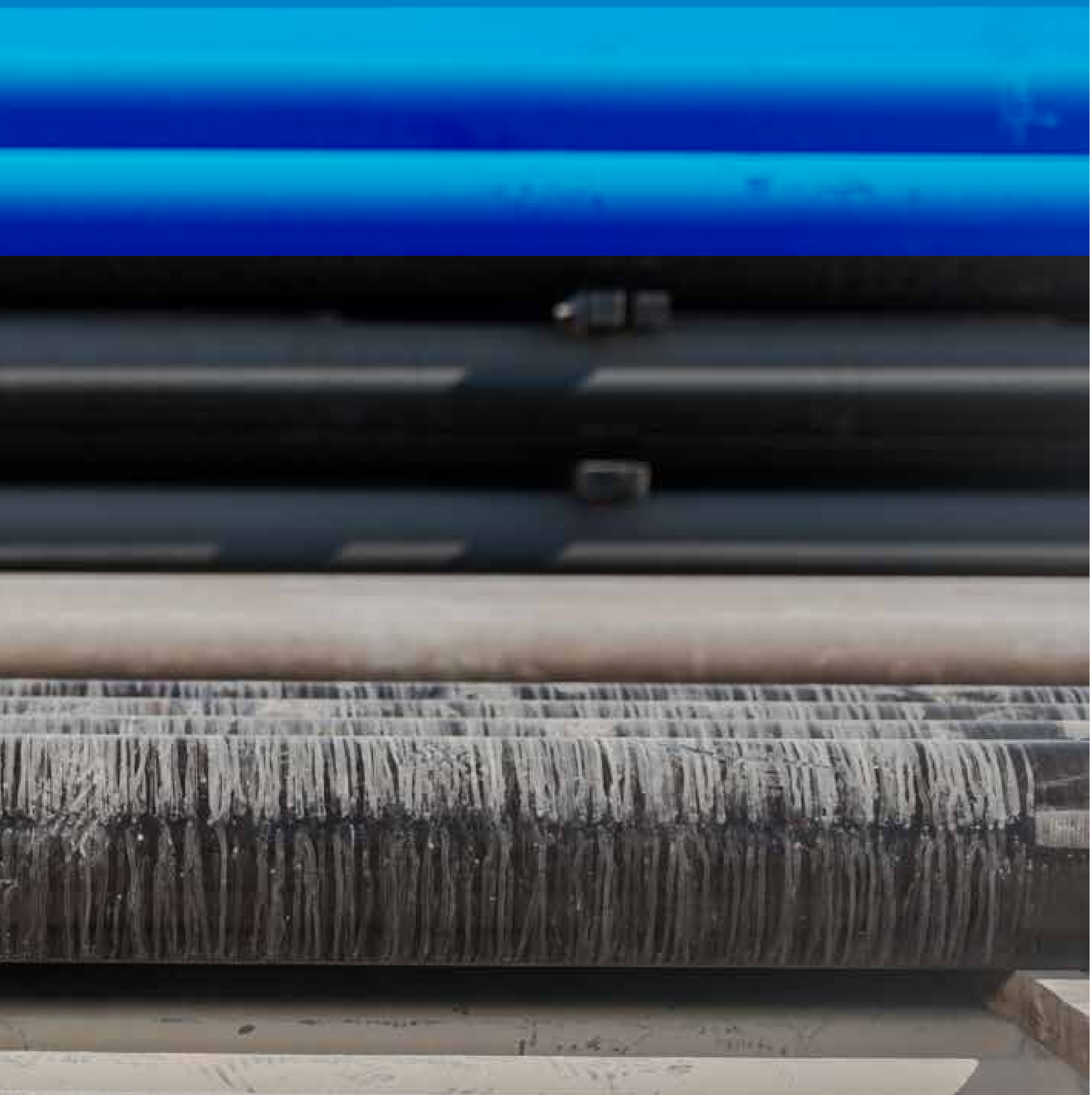
The Board determines the framework of the remuneration policy for the members of the Board as a whole, based on the recommendations from the Remuneration Committee. The maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders in General Meeting. The financial statements disclose an aggregate figure in respect of the remuneration as directors of which with respect to the period under review amounted to €90,000 (entirely representing a fixed remuneration). Directors' emoluments are designed to reflect the directors' knowledge of the business and time committed as directors to the Company's affairs.

Signed on behalf of the Board of Directors on 30 April 2018 by:

Joseph FX Zahra
Director & Chairman of
Audit Committee

Financial Statements

2017



Financial Statements

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Statements of Financial Position

As at 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016*	2017	2016
	Note	€	€	€	€
Assets					
Property, plant and equipment	13	**31,883,439**	34,254,781	**-**	-
Intangible assets and goodwill	15	**14,499,708**	17,180,253	**-**	-
Trade and other receivables	18	**483,294**	1,272,321	**-**	-
Contract costs	6	**954,239**	-	**-**	-
Investments in subsidiaries	14	**-**	-	**13,407,096**	13,419,223
Receivables from subsidiaries	18	**-**	-	**48,903,247**	47,317,261
Right-of-use assets	29	**75,895,472**	-	**-**	-
Prepaid operating lease	29	**-**	33,347,939	**-**	-
Deferred tax assets	16	**9,265,525**	8,837,098	**-**	-
Total non-current assets		**132,981,677**	94,892,392	**62,310,343**	60,736,484
Inventories	17	**1,247,944**	1,266,371	**-**	-
Prepaid operating lease	29	**-**	775,533	**-**	-
Current tax assets		**2,712**	1,565	**2,712**	1,565
Trade and other receivables	18	**14,225,843**	18,299,765	**9,414,847**	9,947,385
Contract costs	6	**378,593**	-	**-**	-
Contract assets	6	**802,611**	-	**-**	-
Cash at bank and in hand	26	**3,633,763**	6,217,782	**704,909**	46,584
Total current assets		**20,291,466**	26,561,016	**10,122,468**	9,995,534
Total assets		**153,273,143**	121,453,408	**72,432,811**	70,732,018

* The Group has intially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not re-stated. See Note 2.5.2

Statements of Financial Position (Contd.)

As at 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016*	2017	2016
	Note	€	€	€	€
Equity					
Share capital	19	**5,374,441**	5,374,441	**5,374,441**	5,374,441
Share premium	19	**12,003,829**	12,003,829	**12,003,829**	12,003,829
Retained earnings / accumulated losses	19	**1,151,793**	8,572,973	**(465,330)**	669,416
Other reserves	19	**9,720,643**	403,163	-	-
Equity attributable to owners of the Company		**28,250,706**	26,354,406	**16,912,940**	18,047,686
Non-controlling interests		**(151,958)**	53,588	-	-
Total equity		**28,098,748**	26,407,994	**16,912,940**	18,047,686
Liabilities					
Loans and borrowings	22	**50,792,518**	52,056,568	**49,570,640**	50,534,118
Employee benefits	24	**614,303**	536,629	-	-
Deferred income	21	**32,631,548**	33,347,939	-	-
Lease liabilities	29	**25,054,810**	-	-	-
Provisions	23	**600,552**	681,911	-	-
Deferred tax liabilities	16	**6,017,396**	61,068	-	-
Total non-current liabilities		**115,711,127**	86,684,115	**49,570,640**	50,534,118
Bank overdraft	26	**865,083**	-	-	-
Current tax liabilities		**512**	63,174	-	-
Loans and borrowings	22	**1,181,635**	1,111,520	-	-
Trade and other payables	25	**5,663,865**	6,210,853	**5,949,231**	2,150,214
Deferred income	21	**775,533**	839,165	-	-
Lease liabilities	29	**841,670**	-	-	-
Provisions	23	**40,566**	39,079	-	-
Employee benefits	24	**94,404**	97,508	-	-
Total current liabilities		**9,463,268**	8,361,299	**5,949,231**	2,150,214
Total liabilities		**125,174,395**	95,045,414	**55,519,871**	52,684,332
Total equity and liabilities		**153,273,143**	121,453,408	**72,432,811**	70,732,018

* The Group has intially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not re-stated. See Note 2.5.2

The notes on pages 50 to 129 are an integral part of these financial statements. The financial statements on pages 41 to 129 were approved and authorised for issue by the Board of Directors on 30 April 2018 and signed on its behalf by:

Anthony S. Diacono
Chairman

Anthony J. Duncan
Director

Statements of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016*	2017	2016
	Note	€	€	€	€
Continuing Operations					
Revenue	6	**28,777,143**	32,822,270	**-**	1,000,000
Cost of sales	8	**(26,614,100)**	(28,244,667)	**-**	-
Gross profit		**2,163,043**	4,577,603	**-**	1,000,000
Other income	7	**817,485**	573,240	**-**	-
Administrative expenses	8	**(6,917,339)**	(5,141,739)	**(926,440)**	(228,705)
Other expenses	7	**(158,977)**	-	**-**	-
Results from operating activities		**(4,095,788)**	9,104	**(926,440)**	771,295
Finance income	10	**478,100**	384,444	**3,690,123**	2,591,562
Finance costs	10	**(4,419,299)**	(2,847,780)	**(3,898,345)**	(3,080,331)
Net finance (costs)/income	10	**(3,941,199)**	(2,463,336)	**(208,222)**	(488,769)
(Loss)/profit before income tax		**(8,036,986)**	(2,454,232)	**(1,134,662)**	252,526
Tax income/(expense)	11	**403,428**	5,431,327	**(84)**	(1,477)
(Loss)/profit for the year		**(7,633,559)**	2,977,095	**(1,134,746)**	281,049
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Revaluation of right-of-use assets	29	**16,957,752**	-	**-**	-
Related tax	16	**(5,935,213)**	-	**-**	-
Cash flow hedges – effective portion of changes in fair value	19	**1,110,224**	(748,343)	**-**	-
Foreign currency translation differences – foreign operations	19	**(2,808,450)**	1,159,570	**-**	-
Net loss on hedge of net investment in a foreign operation	19	**-**	(755,490)	**-**	-
Net gain in fair value of cash flow hedges reclassified to goodwill	27	**-**	(428,094)	**-**	-
Other comprehensive income		**9,324,313**	(772,357)	**-**	-
Total comprehensive income		**1,690,754**	2,204,738	**(1,134,746)**	281,049

Statements of Profit or Loss and Other Comprehensive Income (Contd.)

For the year ended 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016*	2017	2016
	Note	€	€	€	€
(Loss)/profit attributable to:					
Owners of the Company		**(7,421,180)**	3,138,993	**(1,134,746)**	281,049
Non-controlling interests		**(212,379)**	(161,898)	**-**	-
		(7,633,559)	2,977,095	**(1,134,746)**	281,049
Total comprehensive income attributable to:					
Owners of the Company		**1,896,300**	2,365,719	**(1,134,746)**	281,049
Non-controlling interests		**(205,546)**	(160,981)	**-**	-
		1,690,754	2,204,738	**(1,134,746)**	281,049
Earnings per share:					
Basic Earnings per share	20	**(13c8)**	5c9	**(2c1)**	0c5
Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)	12	**4,434,015**	5,401,429		

* The Group has intially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not re-stated. See Note 2.5.2

The notes on pages 50 to 129 are an integral part of these financial statements.

Statement of Changes in Equity – The Group

For the year ended 31 December 2017

	ATTRIBUTABLE TO OWNERS OF THE COMPANY							
	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
	€	€	€	€	€	€	€	€
Balance at 1 January 2016*	4,500,000	-	-	1,176,437	5,433,980	11,110,417	11,883	11,122,300
Total comprehensive income								
Profit / (loss)	-	-	-	-	3,138,993	3,138,993	(161,898)	2,977,095
Other comprehensive income	-	-	1,158,653	(1,931,927)	-	(773,274)	917	(772,357)
Total comprehensive income	-	-	1,158,653	(1,931,927)	3,138,993	2,365,719	(160,981)	2,204,738
Transactions with owners of the Company								
Contributions and distributions								
Issue of ordinary shares	874,441	12,003,829	-	-	-	12,878,270	-	12,878,270
Total contributions and distributions	874,441	12,003,829	-	-	-	12,878,270	-	12,878,270
Changes in ownership interests								
Acquisition of subsidiaries with non-controlling interest	-	-	-	-	-	-	202,686	202,686
Total changes in ownership interests	-	-	-	-	-	-	202,686	202,686
Total transactions with owners of the Company	874,441	12,003,829	-	-	-	12,878,270	202,686	13,080,956
Balance at 31 December 2016	5,374,441	12,003,829	1,158,653	(755,490)	8,572,973	26,354,406	53,588	26,407,994

Statement of Changes in Equity – The Group (Contd.)

For the year ended 31 December 2017

ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Share capital	Share premium	Translation reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
	€	€	€	€	€	€	€	€	€
Balance at 1 January 2017	5,374,441	12,003,829	1,158,653	-	(755,490)	8,572,973	26,354,406	53,588	26,407,994
Total comprehensive income									
Loss	-	-	-	-	-	(7,421,180)	(7,421,180)	(212,379)	(7,633,559)
Other comprehensive income	-	-	(2,815,283)	11,022,539	1,110,224	-	9,317,480	6,833	9,324,313
Total comprehensive income	-	-	(2,815,283)	11,022,539	1,110,224	(7,421,180)	1,896,300	(205,546)	1,690,754
Balance at 31 December 2017	5,374,441	12,003,829	(1,656,630)	11,022,539	354,734	1,151,793	28,250,706	(151,958)	28,098,748

* The Group has intially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not re-stated. See Note 2.5.2

The notes on pages 50 to 129 are an integral part of these financial statements.

Statement of Changes in Equity – The Company

For the year ended 31 December 2017

	Share capital	Share premium	Retained earnings	Total equity
	€	€	€	€
Balance at 1 January 2016	4,500,000	-	388,367	4,888,367
Total comprehensive income				
Profit	-	-	281,049	281,049
Transactions with owners of the Company				
Contributions and distributions				
Issue of ordinary shares	874,441	12,003,829	-	12,878,270
Total transactions with owners of the Company	874,441	12,003,829	-	12,878,270
Balance at 31 December 2016	5,374,441	12,003,829	669,416	18,047,686
Balance at 1 January 2017	**5,374,441**	**12,003,829**	**669,416**	**18,047,686**
Total comprehensive income				
Loss	**-**	**-**	**(1,134,746)**	**(1,134,746)**
Balance at 31 December 2017	**5,374,441**	**12,003,829**	**(465,330)**	**16,912,940**

The notes on pages 50 to 129 are an integral part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2017

	THE GROUP		THE COMPANY	
	2017	2016*	2017	2016
	€	€	€	€
Cash flows from operating activities				
(Loss)/profit for the year	**(7,633,559)**	2,977,095	**(1,134,746)**	281,049
ADJUSTMENTS FOR:				
Depreciation	**5,646,216**	3,467,846	**-**	-
Reversal of deferred income	**(775,533)**	(775,533)	**-**	-
Reversal of prepaid operating lease	**-**	775,533	**-**	-
Amortisation of intangible assets	**1,666,012**	1,388,343	**-**	-
Amortisation of signing bonus	**1,113,279**	662,670	**-**	-
Impairment losses on trade receivables	**8,345**	-	**-**	-
Tax (income)/expense	**(403,428)**	(5,431,327)	**84**	1,477
Exchange differences	**104,295**	(126,534)	**-**	-
Provision for discounted future gratuity payments	**(1,434)**	1,606	**-**	
Reversal of employees' end of service benefits	**-**	(65,328)	-	**-**
Loss/(gain) on disposal of property, plant and equipment	**111,899**	(371,119)	**-**	-
Net finance costs	**3,941,199**	2,463,336	**208,222**	488,769
Impairment losses on investments in subsidiaries	**-**	-	**12,127**	-
Impairment losses on amounts receivable from subsidiaries	**-**	**-**	**537,921**	-
Dividend income	**-**	-	**-**	(1,000,000)
	3,777,291	4,966,588	**(376,392)**	(228,705)
Change in inventories	**(144,550)**	(117,128)	**-**	-
Change in trade and other receivables	**(49,716)**	5,148,079	**-**	141,852
Change in contract costs	**1,333,192**	-	**-**	-
Change in contract assets	**802,611**	-	**-**	-
Change in trade and other payables	**1,153,289**	(2,531,765)	**60,936**	(16,571)
Change in related party balances	**-**	-	**1,449,258**	(3,672,504)
Change in provisions and employee benefits	**-**	274,284	**-**	-
Cash generated from/(absorbed by) operating activities	**4,565,539**	7,740,058	**1,133,802**	(3,775,928)
Bank interest paid	**(35,284)**	(150,834)	**-**	-
Bank interest received	**-**	3,229	**-**	-
Tax paid	**(4,873)**	(242,804)	**(1,231)**	(3,042)
Net cash from / (used in) operating activities carried forward	**4,525,382**	7,349,649	**1,132,571**	(3,778,970)

Statements of Cash Flows (Contd.)

For the year ended 31 December 2017

		THE GROUP		THE COMPANY	
		2017	2016*	2017	2016
	Note	€	€	€	€
Net cash from / (used in) operating activities brought forward		**4,525,382**	7,349,649	**1,132,571**	(3,778,970)
Cash flows from investing activities					
Advances to subsidiaries		**-**	-	**(300,000)**	(37,801,894)
Receipts from disposal of property, plant and equipment		**135,000**	-	**-**	-
Acquisition of subsidiaries, net of cash received		**-**	(32,702,685)	**-**	-
Issue of signing bonuses subject to vesting period		**-**	(3,180,802)	**-**	-
Acquisition of property, plant and equipment		**(2,604,011)**	(1,656,970)	**-**	-
Bank interest received		**4,499**	-	**2,929**	-
Interest received from subsidiaries		**-**	-	**2,485,503**	1,916,363
Net cash (used in)/from investing activities		**(2,464,512)**	(37,540,457)	**2,188,432**	(35,885,531)
Cash flows from financing activities					
Loan advanced by bank		**1,000,000**	-	**-**	-
Repayments of bank loans		**(1,230,458)**	(1,206,285)	**-**	-
Interest paid on bank loans		**(55,511)**	(87,792)	**-**	-
Issue of notes (net of transaction costs)		**-**	30,108,111	**-**	30,108,111
Interest paid on notes		**(2,662,679)**	(1,981,835)	**(2,662,678)**	(1,981,835)
Payment of lease liabilities		**(2,082,114)**	-	**-**	-
Proceeds from issue of share capital (net of transaction costs)		**-**	11,513,996	**-**	11,513,996
Net cash (used in)/from financing activities		**(5,030,762)**	38,346,195	**(2,662,678)**	39,640,272
Net (decrease)/increase in cash and cash equivalents		**(2,969,892)**	8,155,387	**658,325**	(24,229)
Cash and cash equivalents at 1 January		**6,217,782**	(1,651,754)	**46,584**	70,813
Effect of exchange rate fluctuations on cash held		**(479,210)**	(285,851)	**-**	-
Cash and cash equivalents at 31 December	**26**	**2,768,680**	6,217,782	**704,909**	46,584

* The Group has intially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not re-stated. See Note 2.5.2

The notes on pages 50 to 129 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

01 Reporting Entity

Medserv p.l.c. (the "Company") is a public liability company domiciled and incorporated in Malta. The principal activities of the Company is that of a holding company (see note 14).

The consolidated financial statements of the Company as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in providing integrated shore base logistics to the offshore oil and gas market operating mainly in the Mediterranean basin and integrated oil country tubular goods (OCTG) services to the onshore oil and gas market operating in the Middle East.

02 Basis of Preparation

2.1 / STATEMENT OF COMPLIANCE

The consolidated and separate financial statements (the "financial statements") have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU. All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU. These financial statements have also been drawn up in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act").

Article 4 of Regulation 1606/2002/EC requires that, for each financial year starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State.

2.2 / BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis, except for right-of-use assets which are measured at revalued amounts.

2.3 / FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Euro (€), which is the Company's functional currency.

02
Basis of
Preparation

Contd.

2.4 / USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 13 - recoverability of property, plant and equipment of the Company's subsidiary, Middle East Tubular Services (Iraq) Limited;
Note 15 - impairment testing for cash-generating unit containing goodwill;
Note 16 - recoverability of recognised deferred tax assets on investment tax credits and unabsorbed capital and unutilised tax losses;
Note 28 - credit risk arising from the trade receivables.
Note 29 - measurement of right-of-use assets and lease liabilities and valuation of right-of-use assets.

2.5 / CHANGE OF ACCOUNTING POLICIES

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these financial statements.

2.5.1 / Leases

The Group has early adopted IFRS 16 *Leases* with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2017. The details of the changes in accounting policies are disclosed below.

2.5.1.1 /Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in 3.8.

On transition to IFRS 16, the Group elected to apply the practical expedient to 'grandfather' the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2017.

2.5.1.2 / As a lessee

As a lessee, the Group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and liabilities for most leases

02
Basis of Preparation

Contd.

– i.e. these leases are on-balance sheet.

For leases which were classified as operating under IAS 17, the Group recognised right-of-use assets and lease liabilities.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the lessees' incremental borrowing rate as at 1 January 2017. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognise right-of-use assets and lease liabilities with less than 12 months of lease term;
- Applied the recognition exemption for leases of low-value assets to leases of IT equipment;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

2.5.1.3 / Impacts on financial statements

On transition to IFRS 16, the Group recognised an additional €24,418,217 of right-of-use assets and €24,418,217 of lease liabilities. There was no difference recognised in retained earnings on date of initial application of the standard as the Group adopted the approach whereby the right-of-use assets are initially measured equal to the lease liability (see note 2.5.2.1).

When measuring lease liabilities, the Group discounted lease payments using the incremental borrowing rate of the respective lease liability at 1 January 2017. The weighted-average rate applied is 6.55%.

	1 January 2017
	€
Operating lease commitment at 31 December 2016 as disclosed in the Group's consolidated financial statements	26,313,549
Discounted using the incremental borrowing rate at 1 January 2017	15,463,098
Extension options reasonably certain to be exercised	9,838,949
Changes in estimates regarding variable lease payments based on an index or a rate	(1,020,017)
Difference in term	136,187
Lease liabilities recognised at 1 January 2017	24,418,217

02
Basis of
Preparation

Contd.

2.5.2 / Revenue

The Group has early adopted IFRS 15 *Revenue from Contracts with Customers* with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied IFRS 15 using the cumulative effect method that is by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2017. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of the impact upon initial application of IFRS 15 are set out below.

2.5.2.1 / Impacts of financial Statements

Statement of profit or loss and other comprehensive income

After assessing the accounting implications of adopting IFRS 15 in its financial statements, the Directors concluded that under the previous accounting standards the Company recognised revenue for services provided using the stage of completion which is assessed by reference to surveys of work performed for each contract held and as a result there is no significant change in the Company's pattern and timing of revenue recognition under IFRS 15. There is therefore no impact on adoption and initial application of IFRS 15 as at 1 January 2017 to the Company's statement of profit or loss and other comprehensive income.

02
Basis of
Preparation

Contd.

2.5.2.1 / Impacts on financial statements

Statement of financial position

IMPACT OF CHANGES IN ACCOUNTING POLICIES

31 December 2017	As reported	Adjustments	Balances without adoption of IFRS 15
	€	€	€
Trade and other receivables	483,294	(954,239)	1,437,533
Contract cost	954,239	954,239	-
Total non-current assets	**132,981,677**	**-**	**132,981,677**
Trade and other receivables	14,225,843	(1,182,204)	15,408,047
Contract cost	378,593	378,593	-
Contract assets	802,611	802,611	-
Total current assets	**20,291,466**	**-**	**20,291,466**
Total assets	**153,273,143**	**-**	**153,273,143**
Trade and other payables	5,663,865	-	5,663,865
Total liabilities	**125,174,395**	**-**	**125,174,395**
Total equity	**28,098,748**	**-**	**28,098,748**

03
Significant accounting Policies

3.1 / BASIS OF CONSOLIDATION

3.1.1 / Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 3.1.2). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 3.7). Any gain on a bargain purchase is recognised in profit or loss immediately. Transactions costs are expensed as incurred, except if related to the issue of debt or equity securities (see note 3.4).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

3.1.2 / Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

3.1.3 / Non-controlling interests

Losses applicable to the non-controlling interests in subsidiaries are allocated to the non- controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

3.1.4 / Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.5 / Interests in joint venture

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

In the consolidated financial statements, interests in the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transactions costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income (OCI) of joint ventures, until the date on which joint control ceases.

3.1.6 / Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with the joint ventures are eliminated against the investment to the extent of the Group's interest in the joint ventures. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

03
Significant accounting Policies

Contd.

3.2 / FOREIGN CURRENCY

3.2.1 / Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- financial liabilities denominated in USD and designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see note 3.2.4); and
- qualifying cash flow hedges to the extent the hedges are effective (see note 3.4.4).

3.2.2 / Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and presented within equity in the translation reserve. However, if the operation is a non-wholly owned subsidiary then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

3.2.3 / Hedge accounting

The Group designates certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

3.2.4 / Hedge of a net investment in foreign operation

When a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

3.2.5 / Foreign currency gains and losses

Foreign currency gains and losses relating to operating activities are recognised in profit or loss are reported on a net basis as either "other income" or "other expenses" depending on whether foreign currency movement is in a net gain or net loss position. Other non-operating foreign currency gains and losses are recognised in profit or loss are reported on a net basis as either "finance income" or "finance costs" depending on whether foreign currency movement is in a net gain or net loss position.

3.3 / DISCONTINUED OPERATION

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations;

  or

- is a subsidiary acquired exclusively with a view to re-sale

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statements of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

3.4 / FINANCIAL INSTRUMENTS

At reporting date, the Company's loans and receivables comprised loans to subsidiaries, cash and cash equivalents and trade and other receivables. On the same date, the Group's loans and receivables comprised cash and cash equivalents and trade and other receivables.

The Group's non-derivative financial liabilities comprised secured notes, loans and borrowings and trade and other payables.

The Group classifies non-derivative financial assets and non-derivative financial liabilities into the categories of 'loans and receivables' and 'other financial liabilities' respectively.

03
Significant accounting Policies

Contd.

3.4.1 / Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Group initially recognises loans and receivables on the date when they are originated. All other financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.4.2 / Non-derivative financial assets - measurement

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and call deposits with contractual maturities of three months or less, as well as a bank overdraft that was repayable on demand and forms an integral part of the Group's cash management.

3.4.3 / Non–derivative financial liabilities – measurement

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

A bank overdraft that was repayable on demand and formed an integral part of the Group's cash management was included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3.4.4 / Derivative financial instruments and hedge accounting

In prior year, the Group held derivative financial instruments to hedge its foreign currency risk exposure resulting from the acquisition of METS (see notes 27 and 28).

03
Significant accounting Policies

Contd.

3.4.4.1 / Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in OCI. For a hedge of a forecast transaction that subsequently results in the recognition of a non-financial item, any gains or losses on the cash flow hedging instrument that were recognised in OCI are included in the initial cost or the other carrying amount of the non-financial item.

In the event that the forecast transaction is no longer expected to occur, or the hedge no longer meets the criteria for hedge accounting, or the hedging instrument expires or is sold, or terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

3.5 / SHARE CAPITAL

Share capital consists of ordinary shares that are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

3.6 / PROPERTY, PLANT AND EQUIPMENT

3.6.1 / Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and is recognised net within “other income” or “other expenses” in profit or loss.

3.6.2 / Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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3.6.3 / Depreciation

Deprecation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Property developed and related improvements made on leased land are depreciated over the shorter of the land's lease term and the useful lives of the building and improvements unless it is reasonably certain that the Group will obtain ownership of the land by the end of the lease term.

Depreciation commences when the item is available for use.

The estimated useful lives for the current and comparative periods are as follows:

Buildings and base improvements	3 - 48 years
Furniture and fittings	10 years
Office and computer equipment	5 years
Plant and equipment	8 years
Motor vehicles	4 years
Cargo carrying units	10years
Photovoltaic farm	20years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.7 / INTANGIBLE ASSETS AND GOODWILL

3.7.1 / Recognition and measurement

Intangible assets include customer relationships, licenses, brand and contractual rights that are acquired by the Group and have finite useful lives. Intangible assets acquired as part of a business combination are measured at fair value at the date of acquisition less accumulated amortisation and any accumulated impairment losses.

Goodwill that arises upon the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognised immediately in profit or loss. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

3.7.2 / Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred

3.7.3 / Amortisation

Amortisation is calculated to write off the cost of the intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Goodwill is not amortised.

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The estimated useful lives for the current period are as follows:

Customer relationships	10 years
Licences	10 years
Brand	10 years
Contractual rights	5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.8 / LEASES

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 2.5.

Policy applicable from 1 January 2017

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assess whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset either:
    - the Group has the right to operate the asset; or
    - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2017.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

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3.8.1 / As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of–use assets are determined on the same basis as those of property. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, adjusted for certain remeasurements of the lease liability.

Subsequent to initial recognition, right-of-use assets that convey to the lessee rights over the use of land are revalued periodically, such that its carrying amount does not differ materially from that which would be determined using the fair value at the date of the statement of financial position. Any surpluses arising on revaluation are accounted for in terms of IAS 16 *Property, Plant and Equipment*, and thus credited to a revaluation reserve. Any deficiencies from decrease in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to profit or loss.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property, and lease liabilities, separately in the statement of financial position.

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3.8.2 / Under IAS 17

In the comparative period, assets held under operating leases were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

3.9 / INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

3.10 / IMPAIRMENT

3.10.1 / Non-derivative financial assets

Financial assets not carried at fair value through profit or loss including interests in joint ventures, are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

An impairment loss in respect of joint ventures is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

3.10.2 / Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

3.11 / INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are shown in the statement of financial position of the Company at cost less any accumulated impairment losses.

3.12 / EMPLOYEE BENEFITS

3.12.1 / Defined contribution plans

The Group contributes towards the State defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised in profit or loss as incurred.

3.12.2 / Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on German Government Bonds that have maturity dates approximating the terms of the Group's obligations.

3.12.3 / Severance payments

Pursuant to United Arab Emirates (U.A.E.) and Sultanate of Oman labour regulations, severance payments have to be paid on termination of employment either by the employer

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or by the employee. The Group's net obligation in respect of this defined benefit obligation is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, and discounting that amount. The calculation of the liability is performed annually at each reporting date using the projected unit credit method. Remeasurements of the liability, which comprise actuarial gains and losses, are recognised immediately in OCI. The Group determines the interest expense on the liability for the period by applying the discount rate used to measure the obligation at the beginning of the annual period to the then-net liability, taking into account any changes in the liability during the period as a result of payments. Interest expense is recognised in profit or loss. The Group recognises gains and losses on the settlement of a liability when the settlement occurs.

3.13 / PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as finance cost.

3.14 / REVENUE

The Group has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from those under IFRS 15 and the impact of changes is disclosed in note 2.5.2.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from the sale of goods was recognised when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods and the amount of revenue could be measured reliably.

Revenue from rendering of services was recognised in proportion to the stage of completion of the work performed at the reporting date, which was determined based on surveys of work performed.

3.14.1 / Nature of goods and services

The following is a description of the principal activities – separated by reportable segments – from which the Group generates its revenue. For more detailed information about reportable segments, see note 5 *Operating Segments*.

The Group is engaged in providing services and support to the offshore oil and gas industry and OCTG services to the onshore oil and gas market and as such is involved in providing support services that span over a term. Services and support provided to the offshore oil and gas industry consists of integrated offshore logistics, engineering support

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services, mixing and storage of drilling fluids and waste management services. OCTG services to the onshore oil and gas market consists of handling and storage, inspection and machine shop services. In this regard revenue is recognised and measured as follows.

3.14.1.1 / Integrated Logistics Support Services (ILSS)

Logistic support services

Shore base logistics have been identified as a series of distinct services transferred to the customer in the same pattern, on the basis that both of the following criteria are met:

- each distinct service in the series is satisfied over time; and
- has a single method of measuring progress used to measure the progress.

As the customer simultaneously receives and consumes all of the benefits provided by the entity as the Group performs, this is a routine or recurring service and thus revenue is recognised over time.

Engineering services

Engineering services have been identified as a bundle of distinct goods or services that form one single obligation.

As the Group's performance creates or enhances an asset that the customer controls as the asset is created, revenue is recognised over time.

Supply of goods

The Group is involved in procuring various goods and supplies to its customers for use on the offshore rigs and their supply vessels. Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the specific location or loaded onto the client's vessel, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied. Generally, for such goods, the customer has no right of return.

Therefore, revenue from supply of goods is recognised when the goods are delivered as this is the point in time that the consideration is unconditional since only the passage of time is required before payment is due.

3.14.1.2 / Oil country tubular goods (OCTG)

Storage and handling

Storage and handling services have been identified as distinct on the basis that the following criteria are met:

- the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

As the customer simultaneously receives and consumes all of the benefits provided by the entity as the Group performs, this is a routine or recurring service and thus revenue is recognised over time.

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Inspection

Inspection services have been identified as distinct on the basis that the following criteria are met:

- the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

As the Group's performance creates or enhances an asset that the customer controls as the asset is created, and this is a routine or recurring service, revenue is thus recognised over time.

Repairs of pipes

Each of the service provided in this operating segment has been identified as distinct on the basis that the following criteria are met:

- the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

As the Group's performance creates or enhances an asset that the customer controls as the asset is created, and this is a routine or recurring service, revenue is thus recognised over time.

3.14.1.3 / Photovoltaic income

Supply of electricity

The Group derives part of its revenue from the sale of solar generated electricity based on long term Feed-in-Tariffs. The photovoltaic income has been identified as a series of distinct services transferred to the customer in the same pattern, on the basis that both of the following criteria are met:

- each distinct service in the series is satisfied over time; and
- has a single method of measuring progress used to measure the progress.

As the customer simultaneously receives and consumes all of the benefits provided by the entity as the Group performs, this is a routine or recurring service and thus revenue is recognised over time.

3.14.2 / Determining transaction price and allocation to performance obligations

The Group's amount of consideration which it expects to be entitled to in exchange for transferring of services to a customer is determined on a per-service usage basis and is payable in accordance with customary payment terms. Accordingly, a transaction price is determined separately for each performance obligation.

3.14.3 / Dividend income

DIvidend income is recognised in profit or loss on the date on which the Company's right to recieve payment is established.

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Significant accounting Policies

Contd.

3.15 / FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income recognised on financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.16 / GOVERNMENT GRANTS

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

Government grants related to assets, including non-monetary grants, are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss on a systematic basis over the useful life of the asset and presented as a deduction from the amortization cost of the related asset.

3.17 / INCOME TAX

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, , and any adjustment to the tax payable in respect of previous years. The amount of current tax payables or receivable is the best estimate to the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax liability arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

3.18 / EARNINGS PER SHARE

The Group presents basic earnings per share (EPS) data for its ordinary shares. This EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, the calculation of EPS for all periods presented shall be adjusted retrospectively.

3.19 / SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors, the chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the Company's assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

04
New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these financial statements. Except for IFRS 9 *Financial instruments* (which is discussed below), none of these are expected to have a significant effect on the financial statements of the Group in the period of initial application. The Group does not plan to early adopt IFRS 9.

4.1 / IFRS 9 FINANCIAL INSTRUMENTS

The Group is required to adopt IFRS 9 Financial Instruments from 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements. The estimated impact of the adoption of this standard on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting this standard at 1 January 2018 may change because the new accounting policies and underlying estimates are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

4.1.1 / Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade and other receivables.

4.1.2 / Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following basis:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition

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New standards and interpretations not yet adopted

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and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Group has determined an initial assessment of the potential impact of the adoption of IFRS 9 on its financial statements and is not expecting any material impact in the Group's financial statements.

The following analysis provides further detail about this estimated impact at 1 January 2018.

Trade and other receivables, including contract assets

The estimated ECLs were calculated based on actual credit loss experience over the past years. The Group performed the calculation of ECL rates based on credit risk characteristics such as credit risk grade and geographic region.

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institution counterparties, which are rated BBB+ to AA-, based on ratings by Standard and Poor's. The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

4.1.3 / Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

4.1.4 / Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

4.1.5 / Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

04
New standards and interpretations not yet adopted

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- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The assessment on the determination of the business model within which a financial asset is held will have to be made on the basis of the facts and circumstances that exist at the date of initial application.

05
Operating Segments

5.1 /

The Group has three reportable segments, as described below, which represent the Group's strategic divisions. These divisions offer different products and services, and are managed separately because they require different resources and marketing strategies. For each of the strategic divisions, the Board of Directors, which is the chief operating decision maker, reviews internal management reports on a monthly basis.

The results for the reporting segment *'Oil country tubular goods'* in the comparative period represents a ten-month period from acquisition date to comparative year-end.

The following summary describes the operations in each of the Group's reportable segments:

Integrated logistics support services

Includes the provision of comprehensive logistical support services to the offshore oil and gas industry from the Group's bases in Malta, Cyprus and Portugal.

Oil country tubular goods

Includes the provision of an integrated approach to OCTG handling, inspection and repairs based in three Middle East locations, namely U.A.E., Southern Iraq and Sultanate of Oman.

Photovoltaic farm

Involves the generation of electricity which is sold into the national grid for a twenty-year period at a price secured under the tariff scheme regulated by subsidiary legislation S.L. 423.46 in Malta.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries

Contd.

5.2 / INFORMATION ABOUT REPORTABLE SEGMENTS

	INTEGRATED LOGISTICS SUPPORT SERVICES		OIL COUNTRY TUBULAR GOODS		PHOTOVOLTAIC FARM		TOTAL	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
				10months				
	€	€	**€**	€	**€**	€	**€**	€
External revenues	**13,966,073**	19,253,222	**14,284,081**	13,083,999	**526,989**	485,049	**28,777,143**	32,822,270
Inter-segment revenue	**541,061**	582,443	**907,124**	-	-	-	**1,448,185**	582,443
Segment revenue	**14,507,134**	19,835,665	**15,191,205**	13,083,999	**526,989**	485,049	**30,225,328**	33,404,713
Unrealised exchange differences included in other income and other expenses	**(104,295)**	(126,534)	**-**	-	**-**	-	**(104,295)**	(126,534)
Net finance costs	**(2,273,628)**	(1,019,317)	**(1,269,354)**	(1,429,324)	**(398,217)**	(395,907)	**(3,941,199)**	(2,844,548)
Depreciation on property, plant and equipment	**(1,974,792)**	(2,297,806)	**(1,170,854)**	(961,928)	**(208,110)**	(208,112)	**(3,353,756)**	(3,467,846)
Depreciation on right-of-use assets	**(1,308,956)**	-	**(983,505)**	-	**-**	-	**(2,292,461)**	-
Amortisation	**-**	-	**(1,666,012)**	(1,388,343)	**-**	-	**(1,666,012)**	(1,388,343)
Other material non-cash items: - amortisation of signing bonus	**-**	-	**(1,113,279)**	(662,670)	**-**	-	**(1,113,279)**	(662,670)
Reportable segment profit / (loss) before tax	**(4,823,212)**	361,508	**(3,134,438)**	(2,696,770)	**(79,337)**	(118,970)	**(8,036,987)**	(2,454,232)
Adjusted EBITDA	**838,441**	3,678,631	**3,068,584**	1,745,495	**526,990**	485,049	**4,434,015**	5,909,175
Reportable segment assets	**108,483,234**	73,666,187	**39,032,481**	39,418,398	**3,287,117**	5,495,225	**150,802,832**	118,579,810
Capital expenditure	**1,658,442**	1,703,075	**945,569**	17,703,075	**-**	-	**2,604,011**	19,406,150
Reportable segment liabilities	**76,127,976**	54,547,420	**42,808,209**	34,297,026	**6,238,210**	6,200,968	**125,174,395**	95,045,414
Operating net cash flows	**2,785,570**	4,899,728	**1,212,823**	1,964,872	**526,989**	485,049	**4,525,382**	7,349,649
Investing net cash flows	**(1,518,943)**	4,303,134	**(945,569)**	(41,843,591)	-	-	**(2,464,512)**	(37,540,457)
Financing net cash flows	**(3,337,657)**	38,742,102	**(1,294,889)**	**-**	**(398,216)**	(395,907)	**(5,030,762)**	38,346,195

05
Operating Segments

Contd.

5.3 / RECONCILIATION OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS, ASSETS AND LIABILITIES

	2017	2016
	€	€
Revenues		
Total external revenues for reportable segments	**28,777,143**	32,822,270
Consolidated revenues	**28,777,143**	32,822,270
Profit or loss		
(Loss)/profit before tax for reportable segments	**(8,036,987)**	(2,454,232)
Consolidated loss before income tax	**(8,036,987)**	(2,454,232)
Assets		
Total assets for reportable segments	**150,802,832**	118,579,810
Unallocated amounts	**2,470,311**	2,873,598
Consolidated total assets	**153,273,143**	121,453,408
Liabilities		
Total liabilities for reportable segments	**125,174,395**	95,045,414
Consolidated total liabilities	**125,174,395**	95,045,414

5.4 / GEOGRAPHICAL INFORMATION

The ILSS segment is managed from Malta but operate base facilities and/or offices in Malta, Cyprus, Portugal, Italy and Libya. The OCTG segment is managed from U.A.E. and operate base facilities in U.A.E., Southern Iraq and Sultanate of Oman. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets. Non-current assets exclude goodwill amounting to €2,470,311 (2016: €2,873,598).

05
Operating Systems

Contd.

5.4 / GEOGRAPHICAL INFORMATION (CONTD.)

	Revenues	Non-current assets
	€	€
31 December 2017		
Libya	**7,176,395**	**1,246**
Italy	**571,183**	**-**
UK	**796,621**	**-**
Portugal	**652,535**	**136,196**
Cyprus	**2,363,824**	**3,710,738**
Malta	**2,046,122**	**93,437,949**
South Korea	**673,981**	**-**
Netherlands	**212,401**	**-**
Middle East	**14,284,081**	**33,225,237**
	28,777,143	**130,511,366**
31 December 2016		
Libya	7,914,747	2,080
Italy	510,379	-
Cyprus	1,547,744	4,792,274
Switzerland	870	181,069
Malta	3,438,306	60,090,537
Croatia	915,684	-
South Korea	3,914,260	-
Middle East	13,083,999	27,219,454
Other countries	1,496,281	51,460
	32,822,270	92,336,874

Group revenues from transactions with three (2016: four) major external customers during 2017 amounted to approximately €16.1 million (2016: €20.7 million). Revenues are being analysed by country of incorporation of customers.

Situation in Libya

The Group's Libya operations remain minimal as a result of the political scenario in the region. However a number of companies in the oil industry which were previously carrying on business in Libya have moved their operations to the Group's Malta base.

06
Revenue

6.1 / DISAGGREGATION OF REVENUE

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's strategic divisions, which are its reportable segments (see note 5).

	INTEGRATED LOGISTICS SUPPORT SERVICES		OIL COUNTRY TUBULAR GOODS		PHOTOVOLTAIC FARM		TOTAL	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€	**€**	€
Primary geographical Markets								
Malta	**10,949,714**	16,592,727	**-**	-	**526,989**	485,049	**11,476,703**	17,077,776
Middle East	**-**	-	**14,284,081**	13,093,999	-	-	**14,284,081**	13,093,999
Cyprus	**2,363,824**	1,547,744	**-**	-	**-**	-	**2,363,824**	1,547,744
Portugal	**652,535**	1,102,751	**-**	-	**-**	-	**652,535**	1,102,751
	13,966,073	19,243,222	**14,284,081**	13,093,999	**526,989**	485,049	**28,777,143**	32,822,270

	INTEGRATED LOGISTICS SUPPORT SERVICES		OIL COUNTRY TUBULAR GOODS		PHOTOVOLTAIC FARM		TOTAL	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€	**€**	€
Major service lines								
Logistic support services	**9,232,054**	14,531,695	**-**	-	**-**	-	**9,232,054**	14,531,695
Supplies	**1,337,283**	1,276,687	**-**	-	**-**	-	**1,337,283**	1,276,687
Engineering services	**1,608,958**	1,336,595	**-**	-	**-**	-	**1,608,958**	1,336,595
Storage and handling	**1,787,778**	2,098,245	**12,082,033**	10,670,209	**-**	-	**13,869,811**	12,768,454
Inspection	**-**	-	**1,309,531**	1,144,855	**-**	-	**1,309,531**	1,144,855
Repairs of pipes	**-**	-	**892,517**	1,278,935	**-**	-	**892,517**	1,278,935
Supply of electricity	**-**	-	**-**	-	**526,989**	485,049	**526,989**	485, 049
	13,966,073	17,966,535	**14,284,081**	13,093,999	**526,989**	485,049	**28,777,143**	32,822,270
Timing of revenue recognition								
Transferred over time	**12,628,790**	17,966,535	**14,284,081**	13,093,999	**526,989**	485,049	**27,439,860**	31,545,583
Point in time	**1,337,283**	1,276,687	**-**	-	**-**	-	**1,337,283**	1,276,687
	13,966,073	19,243,222	**14,284,081**	13,093,999	**526,989**	485,049	**28,777,143**	32,822,270

06
Revenue

Contd.

6.2 / CONTRACT BALANCES

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	31 December 2017
	€
Receivables, which are included in 'Trade and other receivables'	12,298,397
Contract assets	802,611

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on 31 December 2017. The contract assets are transferred to receivables when the rights become unconditional.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

	Contract assets 2017
	€
Increases as a result of changes in the measure of progress	802,611

6.2 / CONTRACT COSTS

The contract costs represent the carrying amount of a signing bonus amounting to €1,272,319 (originally €1,590,401) granted to a key management personnel of METS during 2016 subject to vesting period. This signing bonus started being amortised over a period of five years, from the date of commencement, of the contract on 1 January 2017. This signing bonus was classified in 2016 to contract assets and included in trade and other receivables. Upon the early adoption of IFRS 15 Revenue from contracts with customers, this signing bonus was reclassified to contract costs and is being presented separately in the statement of financial position (see notes 2.5.2 and 18.7).

07
Other income and other expenses

7.1 / OTHER INCOME

		THE GROUP	
		2017	2016
	Note	€	€
Exchange differences		-	126,534
Gain on disposal of property, plant and equipment	13	-	371,119
Government grants		**4,490**	4,388
Reversal of prepaid operating lease	29	-	(775,533)
Reversal of deferred income	21	**775,533**	775,533
Other income		**37,462**	71,199
		817,485	573,240

7.2 / OTHER EXPENSES

Other expenses incurred in the current and comparative year represented net unrealised operating exchange losses and loss on disposal of equipment.

08
Expenses By Nature

8.1 /

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note	€	€	€	€
Direct cost of services		**12,174,224**	12,746,708	-	-
Consumables	17	**3,531**	1,095,475	-	-
Employee benefits	9	**6,891,458**	6,732,297	-	-
Depreciation	13, 29	**5,646,216**	3,467,846	-	-
Amortisation of intangible assets	15	**1,666,013**	1,388,343	-	-
Amortisation of signing bonus	18	**1,113,279**	662,670	-	-
Professional fees		**1,278,083**	1,340,568	**258,271**	109,185
Listing expenses		**86,986**	94,001	**86,986**	94,001
Travelling and telecommunications		**600,700**	887,551	**1,148**	4,224
Impairment losses on investment in subsidiaries		-	-	**12,127**	-
Impairment losses on amounts receivable from subsidiaries		-	-	**537,921**	-
Repairs and maintenance		**787,017**	822,758	-	-
Rent		-	2,040,464	-	-
Insurance		**576,956**	598,153	**7,503**	-
Security services		**171,141**	309,905	-	-
Staff welfare		**655,224**	521,706	-	-
Other		**1,880,612**	677,961	**22,484**	21,295
Total cost of sales and administrative expenses		**33,531,439**	33,386,406	**926,440**	228,705

08
Expenses By Nature

Contd.

8.2 /

The total fees charged to the Group by the independent auditors during 2017 can be analysed as follows:

	€
Auditors' remuneration	145,766
Tax advisory services	49,976
Other non-audit services	61,120
	256,862

09
Personnel Expenses

Personnel expenses incurred by the Group during the year are analysed as follows:

	2017	2016
	€	€
Directors' emoluments:		
Remuneration	**424,525**	357,650
Fees	**90,000**	77,029
	514,525	434,679
Wages and salaries	**6,031,623**	6,097,625
Social security contributions	**206,844**	192,460
Termination benefit	**127,775**	-
Maternity fund	**5,460**	5,135
Special contribution	**5,231**	2,398
	6,891,458	6,732,297

The weekly average number of persons employed by the Group during the year was as follows:

	2017	2016
	No.	No.
Operating	**199**	183
Management and administration	**59**	29
	258	**212**

10
Finance income and finance costs

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note	€	€	€	€
Bank interest receivable		**4,499**	3,229	**2,929**	-
Interest receivable from subsidiaries		**-**	-	**2,617,493**	2,542,191
Gain due to early loan repayment		**-**	-	**-**	49,371
Unrealised exchange differences		**-**	101,016	**1,067,677**	-
Realised exchange differences		**473,601**	280,199	**2,024**	-
Finance income		**478,100**	384,444	**3,690,123**	2,591,562
Interest payable on bank loans		**(112,794)**	(73,410)	**-**	(15,982)
Other bank interest payable		**(27,703)**	(163,477)	**-**	-
Interest payable to note holders		**(2,765,479)**	(2,610,893)	**(2,765,479)**	(2,610,893)
Finance cost on finance leases		**(1,507,778)**	-	**-**	-
Unrealised exchange differences		**(5,545)**	-	**(1,132,866)**	(453,456)
Finance costs		**(4,419,299)**	(2,847,780)	**(3,898,345)**	(3,080,331)
Net finance (costs)		**(3,941,199)**	(2,463,336)	**(208,222)**	(488,769)

11
Tax income / (expense)

11.1 / RECOGNISED IN THE INCOME STATEMENT

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note	€	€	€	€
Current tax expense					
Current year		**(3,884)**	(3,830)	**-**	-
Adjustment for prior years		**-**	1,707	**(84)**	(1,477)
		(3,884)	(2,123)	**(84)**	(1,477)
Deferred tax movement					
Movement in temporary differences		**407,312**	5,433,450	**-**	-
Total tax income/(expense)		**403,428**	5,431,327	**(84)**	(1,477)

11 Tax Expenses

Contd.

11.2 /

The tax income/(expense) for the year and the result of the accounting result multiplied by the tax rate applicable in Malta, the Company's country of incorporation, are reconciled as follows:

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
(Loss)/Profit before tax	**(8,036,987)**	(2,454,232)	**(1,134,662)**	282,526
Tax using the Company's domestic tax rate	**2,812,945**	858,981	**(397,132)**	(98,884)
Tax effect of:				
Investment tax credits (see note 16.3)	**380,755**	5,702,564	**-**	-
Disallowed expenses	**(1,727,486)**	(900,905)	**(397,527)**	(251,116)
Difference in tax rates applicable to Group entities	**(10,142)**	318,985	**-**	-
Exempt dividends	**-**	-	**-**	350,000
Exempt income	**863,266**	114,769	**-**	-
Special contribution to the defence fund	**-**	658	**-**	-
Tax effect of unrecognised deferred tax	**-**	(81,734)	**-**	-
Adjustment to prior year current taxation	**-**	51,858	**311**	(1,477)
Adjustment to prior years' deferred tax asset	**(541,661)**	(22,201)	**-**	-
Effect of translation to reporting currency	**-**	13,994	**-**	-
Consolidation adjustments not subject to tax	**(1,374,249)**	(625,642)	**-**	-
Tax income/(expense)	**403,428**	5,431,327	**(84)**	(1,477)

The applicable tax rate during the current and prior year is the statutory local income tax rate of 35% for income generated in Malta. The results from operations in Cyprus and Portugal are subject to the statutory local income tax of 12.5% and 21% respectively. The Company's subsidiary in the Sultanate of Oman is exempt from income tax for a period of 10 years which may extend by further 15 years according to the procedures set in the Concession Agreement between the local government and the Sohar Free Zone LLC (the operating authority). This subsidiary is in the process of obtaining the tax exemption certificate from Ministry of Finance and management is confident that it will be able to obtain and claim tax exemption for the afore-mentioned and following tax periods. Hence, no provision for income tax has been made in these financial statements. The Company's subsidiaries in U.A.E. and Southern Iraq are exempt from income tax.

The Company's subsidiary, Medserv Operations Limited is eligible to the incentives provided by regulations 5, 31 and 32 of the Business Promotion Regulations, 2001 ("BPRs") and regulation 4 of the Investment Aid Regulations ("IARs") (see note 16.3).

12
Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)

The Directors of the Group have presented the performance measure adjusted EBITDA as they monitor this performance measure at a consolidated level and they believe this measure is relevant to an understanding of the Group's financial performance. Adjusted EBITDA is calculated by adjusting profit from continuing operations to exclude the impact of taxation, net finance costs, depreciation, amortisation and unrealised exchange differences.

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

Reconciliation of adjusted EBITDA to profit from continuing operations

		2017	2016
	Note	€	€
(Loss)/profit from continuing operations		**(7,633,559)**	2,977,095
Tax income	11	**(403,428)**	(5,431,327)
(Loss) before tax		**(8,036,987)**	(2,454,232)
Adjustments for:			
Net finance costs	10	**3,941,199**	2,463,336
Depreciation	13,29	**5,646,216**	3,467,846
Amortisation of intangible assets	15	**1,666,012**	1,388,343
Amortisation of signing bonus	18	**1,113,279**	662,670
Unrealised exchange differences included in other income and other expenses	7	**104,295**	(126,534)
Adjusted EBITDA		**4,434,014**	5,401,429

13
Property, plant and equipment - The Group

13.1 /

	Total	Buildings	Base improvements
	€	€	€
Cost			
Balance at 01.01.16	31,001,463	9,607,574	3,507,574
Acquisitions through business combinations	19,532,255	1,300,050	5,660,985
Additions	1,656,970	631,966	40,004
Disposals/write-off	(789,404)	-	-
Effect on movements in exchange rates	555,104	36,805	159,012
Balance at 31.12.16	51,956,388	11,576,395	9,367,575
Balance at 01.01.17	**51,956,388**	**11,576,395**	**9,367,575**
Acquisitions	**2,604,011**	**48,932**	**291,173**
Transfer	**(74,757)**	**-**	**-**
Disposals/write-off	**(399,159)**	**-**	**-**
Effect on movements in exchange rates	**(2,500,356)**	**(163,348)**	**(719,301)**
Balance at 31.12.17	**51,586,127**	**11,461,979**	**8,939,447**
Depreciation			
Balance at 01.01.16	6,953,348	1,154,251	1,092,411
Charge for the year	3,467,846	367,759	607,656
Acquisitions	7,631,666	580,492	2,130,964
Disposals	(408,795)	-	-
Effect of movements in exchange rates	57,542	5,286	14,507
Balance at 31.12.16	17,701,607	2,107,788	3,845,538
Balance at 01.01.17	**17,701,607**	**2,107,788**	**3,845,538**
Charge for the year	**3,353,756**	**110,710**	**619,966**
Disposals	**(232,988)**	**-**	**-**
Effect of movements in exchange rates	**(1,119,687)**	**(80,047)**	**(310,775)**
Balance at 31.12.17	**19,702,688**	**2,138,451**	**4,154,729**
Carrying amounts			
At 1 January 2016	24,048,115	8,453,323	2,415,163
At 31 December 2016	34,254,781	9,468,607	5,522,037
At 1 January 2017	**34,254,781**	**9,468,607**	**5,522,037**
At 31 December 2017	**31,883,439**	**9,323,528**	**4,784,718**

Plant and equipment	Photo-voltaic farm	Cargo carrying units	Furniture and fittings	Office and computer equipment	Payment in advance and Motor vehicles	Assets under construction
€	€	€	€	€	€	€
8,547,962	4,016,252	3,479,429	883,701	560,889	398,082	-
10,347,307	-	-	186,772	124,300	743,244	1,169,597
750,561	-	-	86,021	86,896	61,522	-
(760,000)	-	-	-	-	(29,404)	-
296,560	-	-	5,239	3,538	20,848	33,102
19,182,390	4,016,252	3,479,429	1,161,733	775,623	1,194,292	1,202,699
19,182,390	**4,016,252**	**3,479,429**	**1,161,733**	**775,623**	**1,194,292**	**1,202,699**
1,965,623	**-**	**-**	**74,047**	**48,498**	**175,738**	**-**
(60,270)	**-**	**-**	**-**	**-**	**(14,487)**	**-**
(367,559)	**-**	**-**	**-**	**-**	**(31,600)**	**-**
(1,333,559)	**-**	**-**	**(23,679)**	**(18,747)**	**(94,801)**	**(146,920)**
19,386,625	**4,016,252**	**3,479,429**	**1,212,100**	**805,374**	**1,229,142**	**1,055,779**
3,120,744	312,918	443,447	233,389	371,682	224,506	-
1,624,817	208,112	347,083	120,200	71,292	120,927	-
4,065,756	-	-	112,680	113,701	628,073	-
(380,000)	-	-	-	-	(28,795)	-
31,371	-	-	1,069	810	4,499	-
8,462,688	521,030	790,530	467,338	557,485	949,210	-
8,462,688	**521,030**	**790,530**	**467,338**	**557,485**	**949,210**	**-**
1,739,418	**208,110**	**347,084**	**101,783**	**93,392**	**133,293**	**-**
(195,585)	**-**	**-**	**-**	**-**	**(37,403)**	**-**
(617,720)	**-**	**-**	**(15,264)**	**(15,376)**	**(80,505)**	**-**
9,388,801	**729,140**	**1,137,614**	**553,857**	**635,501**	**964,595**	
5,427,218	3,703,334	3,035,982	650,312	189,207	173,576	-
10,719,702	3,495,222	2,688,899	694,395	218,138	245,082	1,202,699
10,719,702	**3,495,222**	**2,688,899**	**694,395**	**218,138**	**245,082**	**1,202,699**
9,997,824	**3,287,112**	**2,341,815**	**658,243**	**169,873**	**264,547**	**1,055,779**

13 Property, plant and equipment - The Group

Contd.

13.2 /

At 31 December 2017, the Company still used fully depreciated plant and equipment that had a gross carrying amount of €903,968 (2016: €683,004).

13.3 /

The Group's buildings and base improvements are situated on land held under title of temporary emphyteusis (see note 29.1).

13.4 /

During 2016, a crane included in plant and equipment with a net book value of €380,000 was destroyed in an accident. Insurance proceeds covering the cost of the crane were received during 2017 (see note 18.7).

13.5 /

Assets under construction as at year end consists of expenses incurred for the development of warehouses and additional office buildings in the Group's facilities in the Middle East.

13.6 / COMMITMENTS

As at year-end, the Group did not enter into any contractual commitments to purchase property, plant and equipment.

13.7 / SECURITY

At 31 December 2017, the Group's emphyteutical rights on the Medserv site at the Malta Freeport at the Port of Marsaxlokk (refer to note 22) were subject to a general hypothec and a special hypothec in relation to the notes issue and bank borrowings by the Group (refer to note 22).

13.8 / RECOVERABILITY OF PROPERTY, PLANT AND EQUIPMENT

During the current year, due to net losses sustained by Middle East Tubular Services (Iraq) Limited, the Iraq Cash-Generating Unit (CGU), primarily composed of property, plant and equipment, including the assets not yet in use, with a total net book value amounting to €5,492,011 was tested for impairment. No impairment loss was recognised in view of the fact that the recoverable amount exceeded the carrying amount of the CGU. The recoverable amount of the CGU as at reporting date was determined with reference to its value-in-use, determined by discounting the future cash flows to be generated from the continuing use. The cash flow projections included specific estimates for the five-year period 2018 to 2022 and a terminal growth rate thereafter. The cash flow projections in the prior period considered specific estimates for the years 2017 to 2026.

13
Property, plant and equipment - The Group

Contd.

13.8 / RECOVERABILITY OF PROPERTY, PLANT AND EQUIPMENT (CONTD.)

The key assumptions used in the estimation of value-in-use calculation were as follows:

	2017	2016
	%	%
Pre-tax discount rate	**25.10**	21.82
Average EBITDA margin	**37.83**	35.80
Terminal value growth rate	**2.00**	n/a

The values assigned to the key assumptions represent management's assessment of future trends in the industry. The key assumptions are based on both external sources and internal sources (historical data). The projected annual revenue growth rate is based on the assumption that there is a significant increase in oil activity in the region. The directors are satisfied that the judgements made are appropriate to the circumstances but, as with all projections relating to future events, there is a degree of uncertainty inherent in the figures.

Management has identified that a reasonably possible change in the below key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	CHANGE REQUIRED	
	2017	2016
	%	%
Pre-tax discount rate	**+ 1.4**	+ 6.63
Average EBITDA margin	**- 6.79**	- 7.79

14 Investments in Subsidiaries

14.1 /

	Total	Capital subscribed	Loans receivable
	€	€	€
At 1 January 2016	344,813	344,813	-
Issue of loan receivable to subsidiary	13,074,410	-	13,074,410
At 31 December 2016	**13,419,223**	**344,813**	**13,074,410**
At 1 January 2017	13,419,223	344,813	13,074,410
Impairment Loss	(12,127)	(12,127)	-
At 31 December 2017	**13,407,096**	**332,686**	**13,074,410**

14.2 /

The loan receivable from the subsidiary as at 31 December 2017 is unsecured and interest free. The loan is subject to an option to convert to share capital.

14.3 / LIST OF SUBSIDIARIES AND SUB-SUBSIDIARIES

Subsidiaries	Registered office	Ownership 2017	interest 2016	Nature of business	Paid up
		%	%		%
Medserv International Limited	Port of Marsaxlokk Birzebbugia, Malta	99.99	99.99	Holding company	25
Medserv Italy Limited	Port of Marsaxlokk Birzebbugia, Malta	99.99	99.99	Holding company	20
Medserv Eastern Mediterranean Limited	Port of Marsaxlokk Birzebbugia, Malta	99.99	99.99	Holding company	20
Medserv Western Mediterranean Limited	Port of Marsaxlokk Birzebbugia, Malta	99.99	99.99	Holding company	20
Medserv Libya Limited	Port of Marsaxlokk Birzebbugia, Malta	99.99	99.99	Logistical support and other services	20
Medserv M.E. Limited	Port of Marsaxlokk Birzebbugia, Malta	99.99	99.99	Holding company	100
Medserv Operations Limited	Port of Marsaxlokk Birzebbugia, Malta	99.99	99.99	Logistical support and other services	100
Sub-subsidiaries					
Medserv (Cyprus) Limited	Karaiskakis Street Limassol, Cyprus	80.00	80.00	Logistical support and other services	100
MDS Energy Portugal Unipessoal Lda	Ave D Joao II 46–4-A 1990-095 Lisbon, Portugal	100.00	100.00	Logistical support and other services	100
Medserv Energy TT Limited	18, Scott Bushe Street Port of Spain Trinidad & Tobago, W.I.	100.00	100.00	Logistical support and other services	100
Medserv Egypt Oil & Gas Services J.S.C	51, Tanta Street Cairo, Egypt	80.00	80.00	Logistical support and other services	100
Middle East Tubular Services Holdings Limited	Belmont Chambers Road Town Tortola, British Virgin Islands	100.00	100.00	Holding company	100
Middle East Tubular Services Limited	Belmont Chambers Road Town Tortola, British Virgin Islands	100.00	100.00	OCTG services in U.A.E.	100
Middle East Tubular Services LLC (FZC)	PO Box 561, PC322 Al Falaj-Al Qabail, Sohar Sultanate of Oman	100.00	100.00	OCTG services in Sultanate of Oman	100
Middle East Tubular Services (Iraq) Limited	Belmont Chambers Road Town Tortola, British Virgin Islands	90.00	90.00	OCTG services in Southern Iraq	100
Middle East Comprehensive Tubular Services (Duqm) L.L.C.	PO Box 45, PC102 The Special Economic Zone of Duqm Al Duqm, Al Wusta'a Sultanate of Oman	100.00	-	OCTG services in Sultanate of Oman	100

15.1 / RECONCILIATION OF CARRYING AMOUNT

15
Intangible assets and goodwill

			Customer	Contractual			
		Total	Goodwill	Brand	relationships	Licences	Rights
Cost	Note	€	€	€	€	€	€
Acquisitions through business combinations		18,366,196	2,671,198	284,402	14,102,368	343,104	965,124
Effects of movements in exchange rates		202,400	202,400	-	-	-	-
Balance at 31 December 2016		18,568,596	2,873,598	284,402	14,102,368	343,104	965,124
Balance at 1 January 2017		**18,568,596**	**2,873,598**	**284,402**	**14,102,368**	**343,104**	**965,124**
Effect of movements in exchange rates		**(403,287)**	**(403,287)**	**-**	**-**	**-**	**-**
Transfer to right-of-use assets	29	**(965,124)**	**-**	**-**	**-**	**-**	**(965,124)**
Balance at 31 December 2017		**17,200,185**	**2,470,311**	**284,402**	**14,102,368**	**343,104**	**-**
Amortisation							
Amortisation for the year		1,388,343	-	23,700	1,175,197	28,592	160,854
Balance at 31 December 2016		1,388,343	-	23,700	1,175,197	28,592	160,854
Balance at 1 January 2017		**1,388,343**	**-**	**23,700**	**1,175,197**	**28,592**	**160,854**
Amortisation for the year		**1,666,013**	**-**	**28,440**	**1,410,237**	**34,311**	**193,025**
Transfer to right-of-use assets	29	**(353,879)**	**-**	**-**	**-**	**-**	**(353,879)**
Balance at 31 December 2017		**2,700,477**	**-**	**52,140**	**2,585,434**	**62,903**	**-**
Carrying amounts							
At 31 December 2016		17,180,253	2,873,598	260,702	12,927,171	314,512	804,270
At 31 December 2017		**14,499,708**	**2.470,311**	**232,262**	**11,516,934**	**280,201**	**-**

15
Intangible assets and goodwill

Contd.

15.2 / AMORTISATION

The amortisation of customer relationships, licences, brand and contractual rights is included in 'cost of sales' in the statement of profit or loss and other comprehensive income.

15.3 / TRANSFER TO RIGHT-OF-USE ASSETS

On the reporting date, the contractual rights with carrying amount of €611,245 relating to favourable lease terms on land leases of one of the Company's subsidiaries were reclassified to right-of-use assets. On 31 December 2017, the fair value of these right-of-use assets was found to be not materially different from its carrying amount (see note 29).

15.4 / IMPAIRMENT TESTING FOR GOODWILL

Goodwill arising from the acquisition of Middle East Tubular Services Limited ('the METS sub-group') is mainly attributable to the synergies expected to be achieved from combining the operations of the METS sub-group with the Group and the skills and technical talent of the METS sub-group's work force. The goodwill arising from the acquisition of the METS sub-group has been allocated to the OCTG Cash-Generating Unit (CGU). Goodwill has been capitalised as an intangible asset and an impairment assessment is carried out annually.

The recoverable amount of this CGU was based on its value-in-use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The recoverable amount of the CGU exceeded its carrying amount and thus no impairment loss was recognised.

The key assumptions used in the estimation of value-in-use were as follows:

	2017	2016
	%	%
Discount rate - range	**17.00 - 25.10**	16.20 - 21.82
Discount rate – weighted average	**17.89**	16.64
Terminal value growth rate	**2.00**	2.00
Average EBITDA margin	**22.69 - 46.48**	n/a
Budgeted EBITDA rate for terminal value	**n/a**	24.68

15
Intangible assets and goodwill

Contd.

The discount rates were a pre-tax measure based on the base-specific weighted-average cost of capital (WACC) and reflect specific risks and conditions related to the relevant base.

The cash flow projections for the Oman CGU considered specific estimates for ten years based on the expected duration of the contract with its main client for the supply chain management of OCTG. The other entities' cash flow projections included specific estimates for five years and a terminal growth rate thereafter.

EBITDA margin was based on management's expectations of market developments and future outcomes, taking into account past performance, adjusted for anticipated revenue growth. It was assumed that sales prices would grow at a constant margin above forecast inflation over the projected period.

The estimated recoverable amount of the CGU exceeded its carrying amount by approximately €9.2 million (2016: €4.9 million). Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	CHANGE REQUIRED	
	2017	2016
	%	%
Discount rate	**+ 11.54**	+ 2.56
Average EBITDA margin	**- 22.31**	n/a
Budgeted EBITDA rate for terminal value	**n/a**	- 4.79

16.1 /

16
Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	2017	2016	2017	2016	2017	2016
	€	€	€	€	€	€
Property, plant and equipment	**-**	-	**(1,012,533)**	(988,053)	**(1,012,533)**	(988,053)
Provision for discounted future gratuity payments	**10,936**	11,438	**-**	-	**10,936**	11,438
Provision for doubtful debts	**2,921**	-	**-**	-	**2,921**	-
Provision for exchange fluctuations	**5,712**	1,563	**-**	-	**5,712**	1,563
Investment tax credits	**9,298,639**	9,274,117	**-**	-	**9,298,639**	9,274,117
Unabsorbed capital allowances	**768,954**	-	**-**	-	**768,954**	-
Unabsorbed tax losses	**-**	476,965	**-**	-	**-**	476,965
Lease Liabilities	**3,536,072**	-	**-**	-	**3,536,072**	-
Right-of-use assets	**-**	-	**(9,362,572)**	-	**(9,362,572)**	-
Tax assets / (liabilities)	**13,623,234**	9,764,083	**(10,375,105)**	(988,053)	**3,248,129**	8,776,030
Set-off of tax	**(4,357,799)**	(926,985)	**4,357,709**	926,985	**-**	-
Net tax assets	**9,265,525**	8,837,098	**(6,017,396)**	(61,068)	**3,248,129**	8,776,030

16 Deferred tax assets and liabilities

Contd.

16.2 / MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR - THE GROUP

	Balance 01.01.16	Recognised in profit or loss	Balance 31.12.16
	€	€	€
Property, plant and equipment	(788,026)	(200,027)	(988,053)
Provision for discounted future gratuity payments	10,876	562	11,438
Provision for exchange fluctuations	282	1,281	1,563
Investment tax credits	4,018,037	5,256,080	9,274,117
Unutilised tax losses and unabsorbed capital allowances	101,411	375,554	476,965
	3,342,580	5,433,450	8,776,030

	Balance	Recognised in profit and loss	Recongnised in other comprehensive income	Balance
	01.01.17	2017	2017	31.12.17
	€	€	€	€
Property, plant and equipment	**(988,053)**	**(24,480)**	**-**	**(1,012,533)**
Provision for discounted future gratuity payments	**-**	**2,921**	**-**	**2,921**
Provision for doubtful debts	**11,438**	**(502)**	**-**	**10,936**
Provision for exchange fluctuations	**1,563**	**4,149**	**-**	**5,712**
Investment tax credits	**9,274,117**	**(24,522)**	**-**	**9,298,639**
Unutilised tax losses and unabsorbed capital allowances	**476,965**	**(366,578)**	**-**	**768,954**
Right-of-use assets	**-**	**(3,427,359)**	**(5,935,213)**	**(9,362,572)**
Lease liabilities	**-**	**3,536,072**	**-**	**3,536,072**
	8,776,030	**407,312**	**(5,935,213)**	**3,248,129**

16
Deferred tax assets and liabilities

Contd.

16.3 / RECOGNITION OF DEFERRED TAX ASSET ON INVESTMENT TAX CREDITS

As at 31 December 2017, a deferred tax asset of €9,298,639 (2016: €9,274,117) was recognised in the financial statements to the extent of investment tax credits expected to be utilised in the future. Based on the Group's profit forecasts for the foreseeable period, the directors believe that the Company will have sufficient taxable profits in the future against which this deferred tax asset can be utilised.

These profit forecasts were based on realistic assumptions of business growth, including the expected volume of business arising from maintenance projects and the provision of logistic support services to the offshore oil and gas industry during the forecast period that the directors believe will be provided by the Company. Historic values of similar projects were used to support and quantify the net result of the future projects and services. The extent of utilization of the investment tax credits was based on the assumption that the profit forecasts will be subject to the current tax rate of 35%. Special Tax Credits (STCs) in terms of regulations 31 to 35 of the BPRs that are available to beneficiaries in terms of regulation 32 of the BPRs amounting to €508,256 are expected to be utilised by 31 December 2020. The investment tax credits available in terms of regulation 5 of the BPRs and regulation 4 of the IARs, and amounting to €8,790,383 do not expire.

In 2016, a previously unrecognised deferred tax asset amounting to €2,382,242 was recognised in view of the clarified interpretation of enacted law leading to the probable increased utilisation of investment tax credits availed by the Company.

16.4 / UNRECOGNISED DEFERRED TAX ASSET

A deferred tax asset of €30,996 consisting of tax losses sustained by one of the Company's subsidiaries (2016: €121,917) has not been recognised.

17
Inventories

Inventories amounting to €1,247,944 (2016: €1,266,371) consisted of consumables used in the provision of maintenance and OCTG services.

In 2017, inventories of €615,209 (2016: €1,095,475) were recognised as an expense during the year and included in 'cost of sales'.

18 Trade & other receivables

18.1 /

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Notes	€	€	€	€
Trade receivables		**12,229,307**	12,812,338	**-**	-
Amounts due by subsidiaries	18.2	**-**	-	**9,114,847**	7,555,412
Loans receivable from subsidiaries	18.4	**-**	-	**300,000**	2,391,973
Other receivables	18.7	**680,051**	2,225,624	**-**	-
Accrued income		**-**	14,458	**-**	-
Differed expenses		**-**	89,629	**-**	-
Prepayments	18.8	**1,799,779**	2,839,636	**-**	-
Contract asset		**-**	1,590,401	**-**	-
Total trade and other receivables		**14,709,137**	19,572,086	**9,414,847**	9,947,385
Non-current		**483,294**	1,272,321	**-**	-
Current		**14,225,843**	18,299,765	**9,414,847**	9,947,385
		14,709,137	19,572,086	**9,414,847**	9,947,385

18.2

Amounts due by subsidiaries are unsecured, interest-free and repayable on demand. Transactions with related parties are set out in note 31 to these financial statements.

18.3

The Group's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in note 28.

18.4

The loans receivable from subsidiaries classified as current assets have the following terms and conditions:

				THE COMPANY	
	Currency	Nominal interest rate	Year of maturity	2017	2016
				€	€
Unsecured loan	EUR	6.00%	2017	**-**	1,464,718
Unsecured loan	EUR	6.25%	2017	**-**	927,255
Unsecured loan	EUR	4.00%	2018	**300,000**	-
				300,000	2,391,973

18
Trade & other receivables

18.5

Receivables from subsidiaries classified as non-current assets have the following terms and conditions:

	Currency	Nominal interest rate	Year of maturity	THE COMPANY 2017	THE COMPANY 2016
				€	€
Unsecured loan	EUR	6.00%	2023	**3,409,882**	3,395,542
Unsecured loan	EUR	6.00%	2022	**3,683,680**	3,683,500
Unsecured loan	EUR	4.50%	2026	**941,265**	941,217
Unsecured loan	EUR	4.50%	2026	**21,282,846**	21,247,988
Unsecured loan	USD	5.75%	2026	**7,740,595**	8,781,306
Unsecured loan	EUR	6.00%	2023	**9,306,112**	9,267,708
Unsecured loan	EUR	6.00%	2019	**1,628,703**	-
Unsecured loan	EUR	6.25%	2019	**910,164**	-
				48,903,247	47,317,261

18.6

Out of non-current assets, loans receivable from Medserv M.E Limited amount to €38,329,553 (2016: €39,297,002).

18.7

In the comparative year, other receivables included insurance proceeds amounting to €1,056,452 which were received subsequent to year end (see note 13.4).

18.8

The contract asset amounting to €1,590,401 in 2016 consists of a signing bonus granted to a key management personnel of METS subject to vesting period. On the early adoption of IFRS 15 *Revenue from contracts with customers*, this contract asset was reclassified to contract costs and is being presented separately in the statement of financial position (see notes 2.5.2 and 6.3). Included in prepayments is another signing bonus amounting to €1,590,401 subject to vesting period granted to another key management personnel of METS and which is being amortised to profit or loss over a period of two years, starting on 23 February 2016. The carrying amount of this signing bonus as at year end amounts to €132,533 (2016: €927,732). Both signing bonuses would need to be repaid by the employees should they do not remain in employment with the Group for two years.

19 Capital and Reserves

19.1 / SHARE CAPITAL

	GROUP AND COMPANY	
	Ordinary shares	
	2017	2016
	No.	No.
In issue at 1 January – fully paid	**53,744,405**	45,000,006
Increase in shares due to rights issue	-	8,744,399
In issue at 31 December - fully paid	**53,744,405**	**53,744,405**

The Company's authorised share capital amounts to 120,000,000 shares of €0.10 each (2016: 120,000,000 ordinary shares of €0.10 each).

In the first quarter of 2016, the Company issued 8,744,399 ordinary shares by way of a rights issue at an offer price of €1.50 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Group and the Company's residual assets.

19.2 / SHARE PREMIUM

Share premium amounting to €12,003,829 (2016: €12,003,829) represents premium on issue of 8,744,399 ordinary shares of a nominal value of €0.10 each at a share price of €1.50 each (see note 19.1). Share premium is shown net of transaction costs of €238,330 directly attributable to the issue of the ordinary shares.

19.3 / TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

19.4 / HEDGING RESERVE

The hedging reserve comprises the net loss on hedge of net investment in foreign operations and the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

19
Capital and Reserves

Contd.

19.5 / REVALUATION RESERVE

The revaluation reserve relates to the revaluation of the right-of-use assets at the reporting date consisting of land held from emphyteutical grant (see note 31).

19.6 / AVAILABILITY OF RESERVES FOR DISTRIBUTION

	THE COMPANY	
	2017	2016
	€	€
Distributable	-	669,416
Non-distributable	**11,538,499**	12,003,829
	11,538,499	12,673,245

19.7 /DIVIDENDS

No reserves are available for distribution by the Company.

19.8 / NON-CASH TRANSACTIONS

There were no non-cash transactions during the year. In prior year, shares issued amounting to €1,364,273 were debited to shareholders' accounts.

20
Earnings Per Share

The calculation of basic earnings per share of the Group and the Company is based on the profit or loss attributable to ordinary shareholders of the Company as shown in the statement of profit or loss and other comprehensive income, divided by the weighted-average number of ordinary shares at 31 December 2017.

There were no dilutive potential ordinary shares during the current and comparative year.

(Loss)/profit attributable to ordinary shareholders from continuing operations (basic)

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
(Loss)/profit for the year attributable to owners of the Company	**(7,421,180)**	(3,138,993)	**(1,134,746)**	281,049

20 Earnings Per Share

Contd.

Weighted-average number of ordinary shares (basic)

	2017	2016
	€	€
Issued ordinary shares at 1 January	**53,744,405**	45,000,006
Effect of rights issue in 2016	-	7,836,511
Weighted-average number of ordinary shares at 31 December	**53,744,405**	52,836,517

Earnings per share of the Group and the Company for the year ended 31 December 2017 amounted to a negative 13c8 (2016: positive earnings per share of 5c9) and 2c1 (2016: positive earnings per share of 0c5) respectively.

21 Deferred Income

During 2012, the Group was awarded an extension of property rights over industrial property forming part of the Malta Freeport at the Port of Marsaxlokk. These property rights, which comprise land and the overlying buildings and facilities, emanate from the various emphyteutical grant deeds, a lease agreement as well as the operating licence issued by the Malta Freeport Corporation Limited to Medserv Operations Limited (the subsidiary). The award was conditional on the Group investing €9 million in improvements to the underlying property and reaching employment levels of 90 full time equivalents by the year 2045. Both conditions were fulfilled by 31 December 2014.

This deferred income is being recognised in profit or loss over the remaining period of the emphyteutical grant. The amount recognised in profit or loss during 2017 was equal to €775,533 (2016: €775,533).

Included in deferred income is a government grant amounting to €59,142 (2016: €63,632) received in relation to the Group's investment in property, plant and equipment. This grant is being amortised over the estimated useful life of the property, plant and equipment.

22
Loans and Borrowings

22.1 /

This note provides information about the contractual terms of the Group's and Company's interest-bearing loans and borrowings.

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 28.

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
Non-current liabilities				
Secured bank loans	**1,221,877**	1,522,450	**-**	-
Secured notes	**19,862,674**	19,800,875	**19,862,674**	19,800,875
Unsecured notes	**29,707,967**	30,733,243	**29,707,967**	30,733,243
	50,792,518	52,056,568	**49,570,641**	50,534,118

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
Current liabilities				
Secured bank loans	**1,181,635**	1,111,520	**-**	-
Bank overdrafts	**865,083**	-	**-**	-
	2,046,718	1,111,520	**-**	-

22
Loans and Borrowings

Contd.

22.2 / TERMS AND DEBT REPAYMENT SCHEDULE

The terms and conditions of outstanding loans are as follows:

	Original currency	Carrying amount	Nominal interest rate	Year of maturity
Bank loan	EUR	€508,550	Bank's base rate + 3.00%	2018
Bank loan	EUR	€ 1,000,000	Bank's base rate + 3.00%	2021
Bank loan	USD	€894,962	LIBOR + 3.5%	2019
Secured notes	EUR	€19,862,674	6%	2023
Unsecured notes	EUR	€22,033,676	4.5%	2026
Unsecured notes	USD	€7,674,291	5.75%	2026

The bank loans were secured by a first general hypothec for €4,534,923 over all present and future assets, first special hypothec for €4,095,391 over temporary utile of Medserv site and property of Malta Freeport, joint and several guarantee of €2,169,574, pledge on receivables given by a fellow subsidiary, guarantee for €12,270,000 given by the Company; first pledge over a combined business policy for €8,568,381, and pledge of insurance cover over purchases equipment for €1,334,000, a letter of undertaking given by the shareholders that Mr Anthony J Duncan and Mr Anthony S Diacono will directly or indirectly retain control and hold more than 51% of the issued capital; letter of undertaking by the parent company whereby it undertakes to maintain the present level of its control and interest in Medserv Operations Limited through its shareholding throughout the duration of the facilities, and a letter of undertaking by the parent company whereby it undertakes not to declare dividends or pay shareholders' loans without the bank's written consent and to maintain the present level of control and interest in Medserv Operations Limited.

22
Loans and Borrowings

22.3 /

The carrying amount of the notes is made up as follows:

	2017
	€
Balance at 1 January 2017	**50,534,118**
Effect of movement in exchange rate	**(1,065,785)**
Amortisation of transaction costs during the year	**102,308**
Balance as at 31 December 2017	**49,570,641**

	2016
	€
Balance at 1 January 2016	19,743,473
Proceeds from issue of notes	30,000,016
Transaction costs	(567,797)
Effect of movement in exchange rate	675,892
Amortisation of transaction costs during the year	682,534
Balance as at 31 December 2016	50,534,118

The notes issued in 2016 are unsecured. The other notes are secured by Medserv Operations Limited (a subsidiary – see note 14.2) through a general hypothec and a special hypothec over its emphyteutical rights on the Medserv site at the Malta Freeport at the Port of Marsaxlokk (refer to Note 13.7).

22.4 /

Furthermore, as at 31 December 2017, the Group enjoyed general overdraft facilities of €3,000,000 at the following terms and conditions:

Bank overdraft	Interest rate	Security
€2,500,000	5.35%	First general and special Hypothec for €7,500,000 on subsidiary company's assets.
€500,000	5.15%	Joint and several guarantees for €1,500,000 by the parent company; and Letter of undertaking to inform the bank of any default.

At 31 December 2017, the Group had unutilised bank overdraft facilities of €2,134,917 (2016: €4,500,000).

23
Provisions

Contd.

	Total	Legal and constructive obligations	Other claims
	€	€	€
Balance at 1 January 2017	(720,990)	(681,911)	(39,079)
Provisions used during the year	2,965	2,965	-
Provisions made during the year	(15,283)	(15,283)	-
Effect of movement in exchange rates	92,190	92,190	-
Balance at 31 December 2017	**(641,118)**	**(602,039)**	**(39,079)**
Non-current	(600,552)	(600,552)	-
Current	(40,566)	(1,487)	(39,079)
	(641,118)	**(602,039)**	**(39,079)**

23.1 / LEGAL AND CONSTRUCTIVE OBLIGATIONS

Legal and constructive obligations amounting to €602,039 (2016: €681,911) consist of a minimum increment rate of 2% per annum over its future operating lease payments of the Group's lease in Sohar Free Zone, the Sultanate of Oman.

23.2 / OTHER CLAIMS

As a result of the acquisition of METS (see note 27), the Group assumed a contingent liability of €39,079.

24
Employee benefits

24.1 /

	2017	2016
	€	€
Liability for severance payments	(677,462)	(601,458)
Liability for retirement gratuities	(31,245)	(32,679)
	(708,707)	**(634,137)**
Non-current	(614,303)	(536,629)
Current	(94,404)	(97,508)
	(708,707)	**(634,137)**

24
Employee benefits

Contd.

24.2 /

The following table shows a reconciliation from the opening balances to the closing balances for the liability for severance payments and its components.

	2017	2016
	€	€
Balance at 1 January	**(601,458)**	-
Assumed in a business combination	-	(627,297)
Included in profit or loss:		
Interest cost	**(272,805)**	(42,905)
Effect of movements in exchange rates	**73,156**	(32,242)
Benefits paid	**123,645**	100,986
Balance at 31 December	**(677,462)**	(601,458)

24.3 /

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2017	2016
Discount rate	3.5%	3.5%
Future salary growth	5.0%	5.0%
Expected term	8.84 years	9.74 years

24 Employee Benefits

Contd.

24.4 /

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	31 December 2017		31 December 2016	
	Increase	Decrease	Increase	Decrease
	€	€	€	€
Discount rate (1% movement)	**44,230**	**(50,457)**	47,466	(47,026)
Future salary growth (1% movement)	**(111,360)**	**109,202**	(100,232)	100,232
Expected term (1 year)	**17,977**	**(20,090)**	16,947	(17,541)

25 Trade and other Payables

25.1 /

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
Trade payables	**3,633,213**	4,311,535	**79,538**	64,249
Amounts due to shareholders	**61,314**	61,314	**61,314**	61,314
Amounts due to note holders	**59,236**	6,729	**59,236**	6,729
Amounts due to subsidiaries	**-**	-	**5,726,310**	1,986,831
Amounts due to non-controlling interest	**850,003**	749,018	**-**	-
Amounts due to joint venture	**-**	1,242	**-**	-
Accrued expenses	**431,167**	753,270	**22,833**	31,091
Other payables	**628,932**	327,745	**-**	-
	5,663,865	6,210,853	**5,949,231**	2,150,214

25.2 /

The amounts due to subsidiaries and shareholders are all unsecured, interest free and repayable on demand. Transactions with related parties are set out in note 31 to these financial statements.

25.3 /

The Group's and Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

26
Cash and Cash Equivalents

		THE GROUP		THE COMPANY	
		2017	2016	2017	2016
	Note	€	€	€	€
Cash in hand		**84,090**	149,026	**-**	-
Bank balances		**3,549,673**	6,068,756	**704,909**	46,584
		3,633,763	6,217,782	**704,909**	46,584
Bank overdraft used for cash management purposes	22	**(865,083)**	-	**-**	-
Cash and cash equivalents		**2,768,680**	6,217,782	**704,909**	46,584

The Group's and Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 28.

27
Acquisition of subsidiary

27.1 /

On 23 February 2016 Medserv M.E. Limited, a limited liability company incorporated under the laws of Malta and a fully owned subsidiary of the Company, acquired the issued share capital of Middle East Tubular Services Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands. Through this acquisition Medserv M.E. Limited purchased the following companies:

a. One hundred per cent of Middle East Tubular Services Limited, a limited liability company incorporated under the laws of the British Virgin Islands and having a branch registered in Sharjah, U.A.E.; and
b. One hundred per cent of Middle East Tubular Services LLC, (FZC), a limited liability free zone company registered in the Sohar Free Zone, the Sultanate of Oman; and
c. Ninety per cent of Middle East Tubular Services (Iraq) Limited, a limited liability company incorporated under the laws of the British Virgin Islands and having a branch registered in Iraq.

The above METS companies ("METS") operate in the oil country tubular goods (OCTG) market providing an integrated approach to OCTG handling, inspection and repairs based in three Middle East locations, namely:

- Hamriyah Free Zone, Emirate of Sharjah, U.A.E. – offering handling and storage, inspection and machine shop services;
- Khor Al Zubair, Basra, Southern Iraq – offering handling and

27 Acquisition of subsidiary

Contd.

storage, inspection and machine shop services;

- Sohar Free Zone, Sultanate of Oman – offering handling and storage and inspection services.

The handling and storage services in the U.A.E. and the Sultanate of Oman are also core competences of the Group's other operating segments. Additionally, the METS inspection services fit in well with the Group's aspirations and previous skills. The machine shops in U.A.E. and Southern Iraq provide a high margin step-out into a complimentary service area for the Group and an excellent growth prospect for its existing and new clients. The METS companies are a strong regional player with limited competition due to them holding VAM® and API® licenses.

The Group's Board of Directors believe that the METS acquisition will provide the Group with a better-balanced oil services offering in two major niche markets, that is, offshore logistics and engineering services, which represent a low-risk but essential service to the industry.

For the ten months ended 31 December 2016, METS contributed revenue of €13,083,999, an earnings before interest, tax, depreciation and amortization (EBITDA) of €1,745,496 and a loss for the year of €2,696,770.

If the acquisition had occurred on 1 January 2016, management estimates that consolidated revenue would have been €35.4 million, and consolidated profit for the year would have been €2.8 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016

27.2 / CONSIDERATION TRANSFERRED

The purchase consideration of Middle East Tubular Services Holdings Limited and its subsidiaries amounted to USD45,000,000 (equivalent to €40,839,795) paid in cash. A deposit of USD3,000,000 (equivalent to €2,727,273) was paid on signing of the share purchase agreement dated 8 October 2015 and the remaining balance was settled on the acquisition date of 23 February 2016.

27.3 / ACQUISITION-RELATED COSTS

The Group incurred acquisition-related costs of €394,857 on legal fees and due diligence costs. These costs have been included in 'administrative expenses' in 2015.

27
Acquisition of subsidiary

Contd.

27.4 / IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	€
Property, plant and equipment	11,900,589
Intangible assets	15,694,998
Inventories	1,093,210
Trade and other receivables	4,424,781
Cash and cash equivalents	5,409,832
Trade and other payables	(3,766,171)
Total identifiable net assets acquired	**34,757,239**

Measurement of fair values

The valuation technique used for measuring the fair value of material assets acquired were as follows:

ASSETS ACQUIRED	VALUATION TECHNIQUE
Property, plant and equipment	*Market comparison technique and cost technique:* The valuation model considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate.
Intangible assets	*Relief-from-royalty method, multi-period excess earnings method and incremental cash flow:* The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The multi-period-excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. The incremental cash flow method attempt to quantify the incremental benefit (and hence value) obtained from use of an intangible asset.
Other identifiable assets and liabilities	These have been measured at their estimated fair value as at acquisition date, unless provided otherwise by IFRS 3 *Business Combinations*.

The Group has elected to measure the non-controlling interest (NCI) in Middle East Tubular Services (Iraq) Limited at the proportionate share of the identifiable net assets and liabilities acquired.

27
Acquisition of subsidiary

Contd.

27.5 / GOODWILL

Goodwill arising from the acquisition has been recognised as follows:

	€
Consideration transferred	37,658,998
NCI based on their proportionate interest in the recognised amounts of the assets and liabilities of METS	197,533
Fair value of identifiable net assets	(34,757,239)
Goodwill	**3,099,292**
Gain on cash flow hedge	(428,094)
Goodwill, net of gain on cash flow hedge	**2,671,198**

The goodwill is mainly attributable to the synergies expected to be achieved from combining the operations of METS with the integrated logistics support services segment and the skills and technical talent of the METS sub-group's work force. The goodwill arising from the acquisition of METS has been allocated to the OCTG segment.

27.6 / FINANCING TRANSACTION

The acquisition of Middle East Tubular Services Holdings Limited was financed through a dual issue made by the Company pursuant to a prospectus dated 21 December 2016. The Company issued €21,982,400 in Euro Bonds and USD9,148,100 in USD Bonds to intermediaries and issued 8,744,399 ordinary shares in the Company by way of a rights issue and by way of an open offer of lapsed rights of shareholders and the offer of the rights held by the major shareholders to intermediaries (that is, the intermediaries offer by the rights held by Mr Anthony S. Diacono and those in part held by Malampaya Investments Limited) in all cases at a share offer price of €1.50 per share.

As a result of the dual issue, the Company raised €35,098,998 and USD9,148,100. The said funds were utilised to settle the balance of the purchase consideration of the acquisition of Middle East Tubular Services Holdings Limited and its subsidiaries. The remaining funds are to be used by the Company for the purpose of settling its bank facilities, to finance improvements and/or the development of the Group's existing and new bases and to finance the Group's working capital.

28
Financial instruments - Fair values and risk management

28.1 / ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

Accounting classifications

The Group classifies non-derivative financial assets and non-derivative financial liabilities into the categories of 'loans and receivables' and 'other financial liabilities', respectively. At reporting date, the Group's loans and receivables comprised cash and cash equivalents and trade and other receivables. On the same date, the Company's loans and receivables comprised loans receivable from subsidiaries, cash and cash equivalents and trade and other receivables. The Group's non-derivative financial liabilities comprised secured notes, loans and borrowings, bank overdrafts and trade and other payables. The Company's non-derivative financial liabilities comprised secured notes and trade and other payables.

Fair values versus carrying amounts

A number of the Group's accounting policies and disclosures require the determination of fair value, both for financial and non-financial assets and liabilities. Fair values have been determined for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. When measuring the fair value of an asset or liability, the Group uses observable market data whenever sufficient data is available.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuations techniques as follows:

- **Level 1 :** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2 :** inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3 :** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

28
Financial instruments - Fair values and risk management

Contd.

28.1 / ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTD.)

THE GROUP

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	€	€	€	€
Financial instruments not measured at fair value				
Secured notes	**(19,862,674)**	**(21,400,000)**	(19,800,875)	(21,700,000)
Unsecured notes	**(29,707,967)**	**(30,664,883)**	(30,733,243)	(32,368,612)

THE COMPANY

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	€	€	€	€
Financial instruments not measured at fair value				
Secured notes	**(19,862,674)**	**(21,400,000)**	(19,800,875)	(21,700,000)
Unsecured notes	**(29,707,967)**	**(30,664,883)**	(30,733,243)	(32,368,612)

The Group and the Company did not have any financial instruments measured at fair value in the current and comparative year.

The fair value of financial instruments not measured at fair value was determined as follows:

Secured and unsecured notes issued

This category of liabilities is carried at amortised cost. Its fair value has been determined by reference to the market price as at 31 December 2017 and classified as Level 2 in view of the infrequent activity in the market.

Loans and receivables

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. Cash and cash equivalents and trade and receivables are all short-term in nature. The carrying amounts of these financial assets therefore approximate their fair values.

Non-current receivables from subsidiaries

The fair values of the Company's non-current receivables from subsidiaries are determined by using the discounted cash-flow method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. These long-term fixed-rate receivables are evaluated by the Company based on parameters such as interest rates, specific country risk and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables.

28
Financial instruments - Fair values and risk management

Contd.

28.1 / ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTD.)

Secured bank loans

The fair values of the Group's interest-bearing borrowings and loans are determined by using the discounted cash-flow method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2017 was assessed to be insignificant.

Other financial liabilities

This category of liabilities is carried at amortised cost. The carrying value of these liabilities which are short term in nature, approximates their fair values.

28.2 / FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

28.3 / RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors, together with the Group's Audit Committee, are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board of Directors set up a Financial Risk Management Committee to assist in the management of the credit risk, liquidity risk and market risk on a day-to-day basis. The Financial Risk Management Committee is made up of a Board member and senior management of the Group.

28
Financial instruments - Fair values and risk management

Contd.

28.4 / CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	CARRYING AMOUNT			
	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
Trade and other receivables	**15,044,801**	15,052,420	**9,414,847**	9,947,385
Receivable from subsidiaries	**-**	-	**48,903,247**	47,317,261
Cash at bank	**3,549,673**	6,068,756	**704,909**	46,584
	18,594,474	21,121,176	**59,023,003**	57,311,230

Trade and other receivables

The Group offers logistical services to large customers operating within the oil and gas industry. These customers operate huge budgets and historically have sufficient funds to meet their obligations towards the Group.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate, has less influence on credit risk. Details of concentration of revenue are included in note 5.4.

Through the Financial Risk Management Committee, the Group has an internal control system which identifies at an early stage any events of default.

Most of the Group's customers have been transacting with the Group for a number of years, and losses rarely occur. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including geographic location, aging profile, maturity, trade history with the Group and existence of previous financial difficulties.

As at 31 December 2017, the Group's three (2016: four) most significant customers accounted for €6.25 million (2016: €8.0 million) of the trade receivables.

28
Financial instruments - Fair values and risk management

Contd.

28.4 / CREDIT RISK (CONTD.)

Trade and other receivables (Contd.)

The maximum exposure to credit risk for trade receivables (see note 18.1) at the reporting date by geographic region was as follows:

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
Carrying amount				
Domestic	**627,876**	837,315	**-**	-
Eurozone countries	**1,858,433**	1,633,193	**-**	-
Libya	**5,963,960**	6,504,215	**-**	-
Middle East	**2,977,246**	3,154,849	**-**	-
Other regions	**801,792**	682,766	**-**	-
	12,229,307	12,812,338	**-**	-

The aging of trade receivables that were not impaired at the reporting date was as follows:

	THE GROUP			
	Gross	Impairment	Gross	Impairment
	2017	2017	2016	2016
	€	€	€	€
Not past due	**2,953,011**	**-**	5,246,786	-
Past due 0-30 days	**1,728,853**	**-**	1,001,923	-
Past due 31-120 days	**4,614,780**	**-**	3,022,765	-
More than 120 days	**2,941,008**	**(8,345)**	3,540,864	-
	12,237,652	**(8,345)**	12,812,338	-

28
Financial instruments - Fair values and risk management

Contd.

28.4 / CREDIT RISK (CONTD.)

Trade and other receivables (Contd.)

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour, strength of clients relationship and extensive analysis of customer credit risk. One of the Group's customers, which owed the Group an amount of €0.9million as at 31 December 2017, has undergone financial restructuring to strengthen its financial and operational systems. In this process, the customer has secured refinancing from its principal lenders and parent company. Management believes that this balance is collectible in full when taking into account negotiations to date and its assessment of the customer's credit risk.

Other trade receivables represent predominantly highly reputable international oil companies and their subcontractors who have over five years' trading history with the Group.

Cash and cash equivalents

The Group's cash at bank are held with banks which are rated BBB+ to AA-, based on ratings by Standard and Poor's.

Amounts due by subsidiaries

An impairment loss of €537,921 (2016: €nil) on the amounts owed by subsidiaries was incurred during the year.

28.5 / LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group regularly reviews the costing of its services in its effort to monitor its cash flow requirements.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As at 31 December 2017, the Group had an unutilised overdraft facility amounting to €2,134,917 (2016: €4,500,000), which bears interest at the Bank's Base Rate plus 3 per cent.

28
Financial instruments - Fair values and risk management

28.5 / LIQUIDITY RISK (CONTD.)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	5 - 10 years	More than 10 years
THE GROUP	€	€	€	€	€	€	€
31 December 2017							
Financial liabilities							
Secured notes	**19,862,674**	**(27,200,000)**	**(1,200,000)**	**(1,200,000)**	**(3,600,000)**	**(21,200,000)**	**-**
Unsecured notes	**29,707,967**	**(41,789,946)**	**(1,428,906)**	**(1,430,111)**	**(4,290,634)**	**(34,640,295)**	**-**
Secured bank loans	**2,403,512**	**(2,628,716)**	**(1,290,132)**	**(760,926)**	**(576,858)**	**-**	**-**
Bank overdraft	**865,083**	**(888,224)**	**(888,224)**	**-**	**-**	**-**	**-**
Lease liabilities	**25,896,480**	**(57,111,075)**	**(2,288,180)**	**(2,037,982)**	**(6,119,287)**	**(10,725,705)**	**(36,379,920)**
Trade and other payables	**5,232,698**	**(5,232,698)**	**(5,232,698)**	**-**	**-**	**-**	**-**
	83,968,414	**(134,850,658)**	**(12,328,940)**	**(5,429,019)**	**(14,586,779)**	**(66,126,000)**	**(36,379,920)**
31 December 2016							
Financial liabilities							
Secured notes	19,800,875	(28,190,575)	(1,200,000)	(1,200,000)	(3,600,000)	(22,190,575)	-
Unsecured notes	30,733,243	(43,692,351)	(1,487,562)	(1,489,223)	(4,471,749)	(37,390,016)	-
Secured bank loans	2,633,970	(2,791,560)	(1,214,228)	(1,577,333)	-	-	-
Trade and other payables	2,150,214	(2,150,214)	(2,150,214)	-	-	-	-
	59,378,941	(80,885,339)	(10,112,643)	(4,266,556)	(8,071,749)	(59,580,591)	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

28 Financial instruments - Fair values and risk management

Contd.

28.6 / MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of the Group companies.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by maintaining funds in bank accounts denominated in the same foreign currencies. This will enable the Group to hold on to foreign currency when rates are not favourable until the situation reverses.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts in foreign currency:

	31 DECEMBER 2017			
	USD	LYD	OMR	AED
Trade receivables	**530,621**	**-**	**1,131,614**	**7,116,239**
Trade payables	**(369,579)**	**-**	**(375,793)**	**(3,734,272)**
Unsecured notes	**(9,181,930)**	**-**	**-**	**-**
Bank loan	**(1,072,075)**	**-**	**-**	**-**
Available funds in foreign currency	**2,670,658**	**29,424**	**178,152**	**1,513,137**
Net statement of financial position exposure	**(7,422,305)**	**29,424**	**933,973**	**4,895,104**

28
Financial instruments - Fair values and risk management

Contd.

28.6 / MARKET RISK (CONTD.)

Exposure to currency risk (Contd.)

	31 DECEMBER 2017				
	USD	GBP	LYD	OMR	AED
Trade receivables	501,293	-	-	873,549	10,292,419
Trade payables	(322,067)	(8,784)	-	(249,514)	(3,313,295)
Unsecured notes	(9,179,430)	-	-	-	-
Bank loan	(1,649,869)	-	-	-	-
Available funds in foreign currency	115,941	-	4,242	1,520,316	1,494,933
Net statement of financial position exposure	(10,534,132)	(8,784)	4,242	2,144,351	8,474,057

The Company's exposure to foreign currency risk was as follows based on notional amounts in foreign currency:

	31 DECEMBER 2017
	USD
Receivables from subsidiaries	**9,272,180**
Unsecured notes	**(9,181,930)**
Available funds in foreign currency	**838,474**
Net statement of financial position exposure	**928,724**

	31 DECEMBER 2016	
	USD	AED
Receivables from subsidiaries	9,256,374	-
Amounts due to subsidiaries	-	(7,691,353)
Unsecured notes	(9,179,430)	-
Available funds in foreign currency	19,587	-
Net statement of financial position exposure	**96,531**	**(7,691,353)**

28
Financial instruments - Fair values and risk management

Contd.

28.6 / MARKET RISK (CONTD.)

Exposure to currency risk (Contd.)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
USD	**1.130**	1.108	**1.198**	1.052
GBP	**0.876**	0.819	**0.880**	0.856
LYD	**1.562**	1.477	**1.617**	1.515
OMR	**0.434**	0.425	**0.460**	0.404
AED	**4.150**	4.069	**4.399**	3.861

Sensitivity analysis

A 10 percent strengthening of the Euro against the following currencies as at 31 December would have increased / (decreased) profit or loss and equity by the pre-tax amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group and the Company considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

28
Financial instruments - Fair values and risk management

Contd.

28.6 / MARKET RISK (CONTD.)

Exposure to currency risk (Contd.)

	THE GROUP	THE COMPANY	THE GROUP	THE COMPANY
	Profit or loss		Equity	
31 December 2017	€	€	€	€
USD	**(103,002)**	**(76,617)**	**697,350**	**(76,617)**
LYD	**(1,799)**	**-**	**-**	**-**
OMR	**-**	**-**	**(202,974)**	**-**
AED	**-**	**-**	**(111,284)**	**-**
31 December 2016				
USD	(3,156)	(9,176)	1,009,183	(9,176)
GBP	1,026	-	-	-
LYD	(275)	-	-	-
OMR	-	-	(530,772)	-
AED	-	198,683	(391,088)	198,683

A 10 percent weakening of the Euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

28
Financial instruments - Fair values and risk management

Contd.

28.7 / INTEREST RATE RISK

Profile

At the reporting date the interest rate profile of the Group's and the Company's interest-bearing financial instruments was:

	CARRYING AMOUNT			
	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
Variable-rate instruments				
Financial assets	**3,549,673**	6,068,756	**704,909**	46,584
Financial liabilities	**(3,268,595)**	(2,633,970)	-	-
Fixed-rate instruments				
Financial assets	**-**	-	**49,203,247**	49,709,234
Financial liabilities	**(49,570,641)**	(50,534,118)	**(49,570,641)**	(50,534,118)

The Group and the Company do not account for any fixed-rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the end of the reporting period would not affect profit or loss. A change of 100 basis points in interest rates on fixed-rate instruments is not expected to have a significant effect on the Group's and the Company's equity.

The Group's bank balances and borrowings and the Company's bank balances are subject to an interest rate that varies according to revisions made to the Bank's Base Rate. The Group does not carry out any hedging in order to hedge its interest rate risk exposure.

A change of 100 basis points in interest rates on variable-rate instruments would have increased or decreased the Group's profit or loss and equity by €2,811 (2016: €34,348) and by €7,049 (2016: €466) on the Company's profit or loss and equity. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. The analysis is performed on the same basis for 2016.

28
Financial instruments - Fair values and risk management

Contd.

28.8 / OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

28.9 / CAPITAL MANAGEMENT

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as cumulative translation adjustments are excluded from capital for the purposes of capital management.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity. The board also monitors the level of dividends to ordinary shareholders.

The board of directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. In view of the nature of the Group's activities and the extent of borrowings or debt, the capital level as at the end of the reporting period is deemed adequate by the board of directors.

There were no changes in the Group's approach to capital management during the year.

29 Leases

Contd.

29.1 / AS A LESSEE

The Group leases several parcels of land and buildings in Malta, Cyprus, Iraq, UAE and Oman. The lease terms for these leases run for various periods, up to a maximum remaining period of forty-three and a half years until 2060.

Information about leases for which the Group is a lessee is presented below.

29.1.1 / Right-of-use assets and prepaid operating lease

2017	Note	Right-of-use assets €	Prepaid operating lease €
Balance at 1 January		**24,418,217**	**34,123,472**
Transfer from prepaid operating lease		**34,123,472**	**(34,123,472)**
Additions		**3,739,249**	**-**
Depreciation charge for the year		**(2,292,460)**	**-**
Revaluation	22.1.1.1	**16,957,752**	**-**
Transfer from intangible assets	15.3	**611,245**	**-**
Effect of movement in exchange rates		**(1,662,003)**	**-**
Balance at 31 December		**75,895,472**	**-**

	LAND
2016	**Prepaid operating lease €**
Balance at 1 January	34,899,005
Charge for the year	(775,533)
Balance at 31 December	34,123,472
Non-current	33,347,939
Current	775,533
	34,123,472

29
Leases

Contd.

29.1.1.1 / Revaluation of land held from emphyteutical grant

The Group carried out a fair value exercise as at 31 December 2017 to revalue the property rights over the land that the Group holds.

The property rights held by the Group over industrial property forming part of the Malta Freeport Terminals at the Port of Marsaxlokk and at Hal-Far Industrial Estate in Malta were valued by an external valuer.

The property rights of the Group at the Malta Freeport Terminals, which comprise industrial land and the overlying buildings and facilities, emanate from the emphyteutical grant deeds dated 29 May 1997, 23 December 1999 and 22 June 2004, the lease agreement dated 5 December 2012 as well as the operating licence issued by the Malta Freeport Corporation Limited to Medserv Operations Limited on the 5 December 2012. The property rights of the company at Hal Far Industrial Estate, which comprise two adjacent plots of industrial land, emanate from the lease agreements. The valuation of all these property rights was carried out on the basis of Market Value on the assumption that the property rights could be sold subject to any existing third party obligations.

Based upon publicly available data and comparable recent market transactions on an arm's length basis, together with the analysis and experience in the local real estate market and information provided by the Company, it is the professional opinion of the independent valuers, that the market value of the above-mentioned right-of-use assets, as at the 31 December 2017, amounts cumulatively to €59,913,561. The revaluation increase of €16,957,752 (gross of tax) recognised in other comprehensive income is thus determined after deducting the carrying amount of the right-of-use asset of €42,955,809 and from the aggregate of €59,913,561.

The carrying amount of the other right-of-use assets relating to land are not deemed materially different from their fair value and have thus not been revalued.

29.1.1.2 /Measurement of fair value

The following table shows the valuation technique used in measuring the fair value of land held from emphyteutical grant, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Market approach: The valuation model provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.	Prices per square meter ranging from €161 to €1,076	The estimate fair value would increase/ (decrease) if:- • price per square metre was higher / (lower)

29 Leases

Contd.

29.1.2 / Lease liabilities

	2017
	€
Maturity analysis-contractual undiscounted cash flows	
Less than one year	**2,288,180**
One to five years	**8,157,270**
Five years to ten years	**10,285,705**
More than ten years	**36,379,920**
Total undiscounted lease liabilities at 31 December	**57,111,075**
Current	**841,670**
Non-current	**25,054,810**
Lease liabilities included in the statement of financial position at 31 December	**25,896,480**

After the reporting date, the Group entered into another lease commitment with a term of 25 years where the future estimated undiscounted cash outflows are estimated to be of €8,398,032 over the whole term.

Amounts recognised in profit or loss

	2017
	€
Interest on lease liabilities	**(1,507,778)**
Variable lease payments not included in the measurement of lease liabilities	**(70,418)**

Amounts recognised in the statement of cash flows

	2017
	€
Total cash outflow for leases	**(2,082,114)**

29
Leases

Contd.

29.1.3 / Extension option

Some leases contain extension options exercisable by the Group up to one year before the end of the contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable by the Group and not by the lessors. The Group assesses at the lease commencement whether it is reasonably certain to exercise the extension options and subsequently reassess whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. The extension options provided to the Group were assessed by management and it was concluded that all extension options exercisable by the Group are reasonably certain to be exercised.

30
Contingencies

30.1 /

At reporting date, the Group had the following contingent liabilities:

- Guarantees given to the Group's bankers in favour of third parties amounting to €106,099 (2016: €93,153).
- The Company acts as a guarantor in favour of a subsidiary up to a limit of €12,270,000.

30.2 /

The Company has uncalled share capital on its investments in subsidiaries, namely Medserv International Limited, Medserv Italy Limited, Medserv Libya Limited, Medserv Western Mediterranean Limited and Medserv Eastern Mediterranean Limited amounting to €38,781 (2016: €38,781) (see note 14).

31
Related Parties

31.1 / SIGNIFICANT SHAREHOLDERS

Two of the Company's directors, namely Mr Anthony S Diacono and Mr Anthony J Duncan hold 31.17% and 34.33% (2016: 31.30% and 33.49%) respectively of the issued share capital of the Company either directly or indirectly.

31.2 / IDENTITY OF RELATED PARTIES

The Group has a related party relationship with its directors, shareholders and immediate relatives of a director.

The Company has a related party relationship with its subsidiaries (see note 14.2), its directors and companies controlled by subsidiaries ("other related parties").

31.3 / TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Directors of the Company have indirect and direct control of the voting shares of the Company. Mr Anthony S Diacono and Mr Anthony J Duncan hold 31.17% and 34.33% (2016: 31.30% and 33.49%) respectively of the issued share capital either directly or indirectly. There were no loans to directors during the current and comparative year. Compensation for services provided to the Group by key management personnel during the year amounted to €228,500 (2016: €135,000). The total remuneration paid to key management personnel of the Group (including directors' emoluments) during the year amounted to €1,049,411 (2016: €1,007,354).

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over the financial or operating policies of these companies.

31.4 / OTHER RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed in the statements of changes in equity and cash flows and note 18 to these financial statements, there were the following related party transactions:

	THE COMPANY	
	2017	2016
	€	€
Subsidiaries		
Interest charged to	2,617,493	2,542,19
Dividend income from	-	1,000,000

31
Related Parties

31.4 / OTHER RELATED PARTY TRANSACTIONS

	THE GROUP		THE COMPANY	
	2017	2016	2017	2016
	€	€	€	€
Other related parties Services provided by	**17,181**	17,012	**-**	-

31.5 /RELATED PARTY BALANCES

Information on amounts due from or payable to related parties are set out in notes 14, 18 and 25 to these financial statements.

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Subsequent Events

Medserv Oil & Gas Services J.S.C, the Company's subsidiary in Egypt, was awarded a three-year contract with the option of extending for further periods to provide the integrated logistics support services for the production phase of offshore operations being conducted by an International Oil Company. This new contract was awarded through a competitive tender process and is effective as from 1 January 2018.

Independent Auditors' Report

To the Shareholders of

Medserv p.l.c.

2017

Independent Auditors' Report

To the Shareholders of Medserv p.l.c.

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medserv p.l.c. (the "Company"), and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. During the course of our audit, we maintained our independence from the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, 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 (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors’ Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Assessment of carrying amounts of non-current assets including goodwill related to METS sub-group at Group level and loans receivable from subsidiary at Company level

Accounting policies notes 3.4.1, 3.6 and 3.7 to the financial statements and notes 13, 15 and 18 for further disclosures

Goodwill (Group: €2,470,311) and intangible assets (Group: €12,029,397) included in ‘Intangible assets and goodwill’, property, plant and equipment in relation to Middle East Tubular Services (Iraq) (“PPE”) (Group: €5,492,011) included in property, plant and equipment and loans receivable from Medserv M.E Limited (Company: €38,329,553) included in ‘Receivables from subsidiaries’.

The Group’s assets include a significant amount of goodwill, intangible assets and PPE in relation to Oil Country Tubular Goods (“OCTG") businesses of the Group (collectively referred to as “METS sub-group”). Each of those businesses forming part of the METS sub-group is considered by the Group to be a separate cash-generating unit (“CGU” or “CGUs”). Goodwill arising from the acquisition of the METS sub-group has been allocated to a collection of CGUs, the OCTG segment as a whole (“OCTG CGU Group”). The Group attributed that goodwill primarily to the synergies expected to the achieved as a result of combining the operations of the METS sub-group with the Group and the skills and technical talent of the METS sub-group’s work force, as explained in note 15.

As the intangible assets have a definite useful life, those assets are assessed at each reporting date to determine whether there is any indication of impairment. PPE is also assessed annually for impairment indications. In the event that such indicators (at the separate CGU level) exist, in accordance with the applicable financial reporting framework, the Company is required to estimate the recoverable amount that CGU, without consideration of goodwill. If that amount is lower than the carrying amount, an impairment should be recorded.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters (continued)

The OCTG CGU Group, to which the goodwill relates, is tested annually for impairment (i.e. to determine the recoverable amount, and whether that amount is at least equal to the carrying amount).

Each of the separate CGUs generate revenues from the provision of engineering and supply chain management services to support the oil and gas industry. These businesses are subject to identical key risk factors as follows:

- the global and regional political and economic risks;
- the volatility in oil prices; and
- the concentration risk due to dependency on a few customers.

Significant judgement is involved in determining the carrying amount of each separate CGU and the OCTG CGU due to the assumptions applied in the preparation of discounted cash flow forecasts, to arrive at the value-in-use of each separate CGU and the OCTG CGU. More specifically, the key assumptions underlying the calculation of the recoverable amount of each separate CGU and the OCTG CGU are:

- the discount rate;
- the terminal value growth rate; and
- the average EBITDA margin.

As at the reporting date, the Company had material amounts receivable from one of its subsidiaries, Medserv M.E Limited in relation to the loan advanced to that subsidiary for the acquisition of the METS sub-group. That receivable is assessed, at each reporting date, to determine whether there is objective evidence of impairment loss. A heightened risk of impairment exist in relation to that receivable, in view its higher carrying amount compared to the aggregated carrying amount of the separate CGUs and the OCTG CGU (at Group level). The same key assumptions, as those underlying the calculation of the recoverable amount of each of the separate CGUs and the OCTG CGU, apply to the discounted present value of future cash flows related to the loan receivable from Medserv M.E Limited.

Our response

We involved our valuation specialist to assist in evaluating the key assumptions underlying the value-in-use calculations. In particular, we evaluated:

- the appropriateness of assumptions applied by the Company to the key inputs of the net cash flow projections. More specifically, we evaluated the Company's assessment of those inputs, as applicable, against (i) historical accuracy of cash flow forecasts (ii) market data, and (iii) pertinent documentation with respect to the Group's contracted and current business pipeline;

Independent Auditors’ Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters (continued)

- the appropriateness of the discount rate applied in the model in light of the specific underlying risks; and

- the impact on the recoverable amounts of each separate CGU and of the OCTG CGU, and the discounted present value of estimated future cash flows of the receivable from Medserv M.E. Limited, of reasonably-possible reductions in forecasted net cash flows, in order to gauge the sensitivity of those amounts to changes in the key assumptions.

We have no key observations to report, specific to this matter.

Recoverability of recognised deferred tax assets

Accounting policy note 3.17 to the financial statements and note 16 for further disclosures

Deferred tax assets (Group: €9,265,525)

The Group recognised deferred tax assets that, in the main, relate to unutilised tax credits. In accordance with the applicable financial reporting framework, the recognition of deferred tax assets is permitted only to the extent that it is probable that future taxable profits will be available against which these assets can be used. The recognition restrictions are more pronounced where the carry forward of tax credits to future profits is time-barred. The recognition of deferred tax assets relies on the exercise of significant judgement by the directors in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated. Due to estimation uncertainty, the projected relief of tax credits for which the deferred tax assets are recognised, might be materially different from the actual amount relieved.

Our response

- We evaluated the assumptions underlying the Group’s projections having regard to (i) our understanding of the Group and the industry in which the Group operates; and (ii) the Group’s contracted and current business pipeline.

- We assessed the applicability of enacted and substantively enacted tax laws that support the recognition of the deferred tax assets.

We have no key observations to report, specific to this matter.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters (continued)

Measurement of Right-of-use assets and lease liabilities and valuation of Right-of-use assets

Accounting policy notes 2.5 and 3.8 to the financial statements and note 29 for further disclosures

Right-of-use assets (Group: €75,895,472), Lease liabilities (Group: Non-current: €25,054,810 and Current: €841,670) and Revaluation reserve (Group: €11,022,539)

Measurement of Right-of-use assets and lease liabilities

On 31 October 2017, the EU endorsed the new accounting standard applicable to leases ('IFRS 16 *Leases*'), effective from 1 January 2019 with an earlier application permitted for entities that apply the new accounting standard applicable to revenue ('IFRS 15 *Revenue from Contracts with Customers*'). Effective from 1 January 2017, the Group has early adopted the new leases accounting standard. That standard introduces new estimates and judgemental thresholds that affect the Group's measurement of lease transactions. Upon initial application, the measurement of right-of-use assets and lease liabilities involves complex accounting requirements.

As the Group holds a right to use over leased properties, under IFRS 16 *Leases*, the Group (as a lessee) is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. On initial application of IFRS 16 *Leases*, lease liabilities are measured at the present value of the remaining future lease rental payments discounted using the incremental borrowing rate on transition to IFRS 16 *Leases*, with the option to recognise a corresponding right-of-use asset of an equal amount being availed of.

More specifically, the key assumptions involved in measuring the right-of-use assets and lease liabilities are:

- the rate applied to discount the present value of the lease payments over the lease period; and
- the lease term for Group's lease contracts that contain renewal options.

Valuation of Right-of-use assets

On 31 December 2017, the Group revalued its right-of-use assets of the Malta base and recognised a significant uplift in their value. Such valuation requires significant judgement due to the assumptions applied in measuring the market price.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters (continued)

Our response

Specifically in relation to measurement we carried out the following audit procedures:

- we considered the appropriateness of the assumptions made by the directors in determining the measurement of right-of-use assets in accordance with the requirements of the new standard by evaluating the lease terms of sampled lease contracts; and

- we assessed the rationale applied by the directors in determining the rate used to discount the lease payments to present value by comparing it to our own assessment in relation to yield rates on a geographical basis as well as on a property type basis.

Specifically in relation to valuation of the Malta base properties we involved our valuation specialists to challenge the appropriateness of the assumptions used by the Group's appointed external valuer in determining the price per square metre of leased land.

We have no key observations to report, specific to this matter.

Other information

The directors are responsible for the other information which comprises:
- the Chairman's Statement;
- the Statement on Corporate Social Responsibility;
- the Directors' Report;
- the Statement by the Directors pursuant to Listing Rule 5.68; and
- the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance,

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the Directors' Report on which we report separately below in our 'Opinion on the Directors' Report', 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.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act, and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

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.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee 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.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

2 Opinion on the Directors' Report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and

- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;

- we have not identified material misstatements in the directors' report; and

- we have nothing to report in relation to the statement on going concern.

KPMG

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

3 Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors by the board of directors on 26 October 2001, and subsequently reappointed by the shareholders at the Company's general meetings for each financial year thereafter. Following the listing of the Company's shares on the Malta Stock Exchange, and excluding the initial period during which those shares were listed (that is, financial year ending 31 December 2006), the period of total uninterrupted engagement is eleven years;

- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and

- we have not provided any of the prohibited services as set out in the APA.

Matters on which we are required to report by exception by the Act

Pursuant to articles 179(10) and 179(11) of the Act, we have nothing to report to you with respect to the following matters:

- proper accounting records have not been kept; or

- the financial statements are not in agreement with the accounting records; or

- we have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Noel Mizzi.

KPMG
Registered Auditors

30 April 2018

Independent Auditors' Report

To the Shareholders of Medserv p.l.c.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta

We are required, pursuant to Listing Rule 5.98, to express an opinion to the shareholders of Medserv p.l.c (the "Company") on specific disclosures in the Annual Report which relate to the Corporate Governance - Statement of Compliance for the year ended 31 December 2017.

Specifically, with respect to the following matters noted in Listing Rule 5.100, we report whether:

(a) we have identified material misstatements with respect to the disclosures referred to in Listing Rule 5.97.4 and Listing Rule 5.97.5. Where any material misstatements are identified, we are required to provide an indication of the nature of such misstatements; and

(b) the other disclosures required by Listing Rule 5.97 have been provided.

Responsibilities of the Directors

Pursuant to Listing Rule 5.97, the directors are responsible for preparing the disclosures that are free from material misstatement in accordance with the requirements of the Listing Rules.

Auditors' Responsibilities

Our responsibility is to examine the disclosures and to report thereon in the form of a reasonable assurance conclusion based on our work. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

We apply International Standard on Quality Control 1 and, accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Auditors' Responsibilities (continued)

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, 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 (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures, nor on the ability of the Company to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rule 5.97.4 and Listing Rule 5.97.5 is based solely on our knowledge and understanding of the Company and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the disclosures.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Conclusion (continued)

In our opinion:

(a) in light of the knowledge and understanding of the Company and its environment obtained during the course of our audit of the financial statements, we have not identified material misstatements with respect to the following disclosures:

   (i) the information referred to in Listing Rule 5.97.4, included in the directors' Corporate Governance – Statement of Compliance, as this relates to the Company's internal control and risk management systems in relation to the financial reporting process; and

   (ii) the information referred to in Listing Rule 5.97.5, included in the Directors' Report, insofar as it is applicable to the Company;

(b) the other disclosures required by Listing Rule 5.97 have been included in the directors' Statement of Compliance on Corporate Governance, as these apply to the Company.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Noel Mizzi.

KPMG
Registered Auditors

30 April 2018

Notes

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