

Medserv Operations Limited

Annual Report

2013

Medserv Operations Limited

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Medserv Operations Limited

Directors' Report

For the Year Ended 31 December 2013

The directors present their report of Medserv Operations Limited (the "Company") for the year ended 31 December 2013.

Board of directors

Anthony S Diacono
Anthony J Duncan
Johannes Jacobus van Leeuwen
Joseph F X Zahra
Joseph Zammit Tabona (appointed 28 February 2014)
David Roberts (deceased on 5 July 2013)

Principal activities

The Company is engaged in the provision of a comprehensive logistical support and service base for the offshore oil and gas industry.

Review of business development and financial position

During the year, the Company registered an operating profit of €466,059 (2012: operating loss €636,832). After charging net financing expenses of €184,112 (2012: €164,891) the profit for the year before taxation amounted to €281,947 (2012: loss before taxation of €801,723). After accounting for taxation, the profit for the year amounted to €589,104 (2012: loss of €12,437).

As at 31 December 2013, the Company reported a net asset position amounting to €4,724,169 (2012: €4,135,065) and a positive short term liquidity position of €2,061,836 (2012: negative working capital of €1,411,081). Trade and other payables reported in the statement of financial position as at 31 December 2013 included a balance payable to the parent company amounting to €5,096,327 (2012: €842,367).

Dividends

No final dividend is being recommended.

Reserves

During the year, transfers from retained earnings to statutory reserve amounted to €566,880 in accordance with the requirements of the Companies Act., 1995.

Approved by the Board of Directors on 28 March 2014 and signed on its behalf by:



Anthony S Diacono
Chairman



Anthony J Duncan
Director

Registered Office

Port of Marsaxlokk
Birzebbugia
Malta

Medserv Operations Limited

Directors' Responsibility for the Financial Statements

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the directors of Medserv Operations Limited (the "Company") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company as at the end of the financial period and of the profit or loss of the Company for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, through oversight of management, are responsible to ensure that the Company establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Company's business. This responsibility includes establishing and maintaining controls pertaining to the Company's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:



Anthony S Diacono
Chairman



Anthony J Duncan
Director

Medserv Operations Limited

Statement of Financial Position

As at 31 December 2013

		2013	2012
	Note	€	€
ASSETS			
Property, plant and equipment	11	7,629,662	4,333,469
Deferred tax assets	12	4,500,000	4,192,843
Total non-current assets		12,129,662	8,526,312
Inventories	13	-	73,671
Trade and other receivables	14	3,157,020	3,177,213
Cash at bank and in hand	15	5,151,734	16,382
Total current assets		8,308,754	3,267,266
Total assets		20,438,416	11,793,578
		=====	=====

The notes on pages 9 to 46 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Financial Position (continued)

As at 31 December 2013

	Note	2013 €	2012 €
EQUITY			
Share capital	16	232,940	232,940
Statutory reserve	16	4,469,005	3,902,125
Retained earnings		22,224	-
Total equity		4,724,169	4,135,065
LIABILITIES			
Amounts due to parent company	17	9,430,245	2,000,000
Loans and borrowings	18	-	943,214
Provisions	19	37,084	36,952
Total non-current liabilities		9,467,329	2,980,166
Loans and borrowings	18	-	2,259,847
Trade and other payables	20	6,246,918	2,418,500
Total current liabilities		6,246,918	4,678,347
Total liabilities		15,714,247	7,658,513
Total equity and liabilities		20,438,416	11,793,578
		=====	=====

The notes on pages 9 to 46 are an integral part of these financial statements.

The financial statements on pages 3 to 46 were approved and authorised for issue by the Board of Directors on 28 March 2014 and signed on its behalf by:


Anthony S Diacono
Chairman


Anthony J Duncan
Director

Medserv Operations Limited

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2013

		2013	2012
	Note	€	€
Revenue	5	6,571,222	6,284,176
Cost of sales	7	(4,830,129)	(5,533,613)
Gross profit		1,741,093	750,563
Other income	6	12,353	20,939
Administrative expenses	7	(1,284,710)	(1,405,039)
Other expenses	6	(2,677)	(3,295)
Results from operating activities		466,059	(636,832)
Finance income		12,675	-
Finance costs	9	(196,787)	(164,891)
Net finance costs		(184,112)	(144,891)
Profit / (loss) before income tax		281,947	(801,723)
Tax income	10	307,157	789,286
Profit / (loss) for the year		589,104	(12,437)
Total comprehensive income for the year		589,104	(12,437)
		=====	=====

The notes on pages 9 to 46 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Changes in Equity

For the Year Ended 31 December 2013

	Share capital	Statutory reserve	Retained earnings	Total equity
	€	€	€	€
Balance at 1 January 2012	232,940	3,362,910	551,652	4,147,502
Total comprehensive income for the year				
Loss for the year	-	-	(12,437)	(12,437)
Contributions by and distributions to owners				
Transfer from retained earnings	-	539,215	(539,215)	-
Balance at 31 December 2012	232,940	3,902,125	-	4,135,065
	=====	=====	=====	=====
Balance at 1 January 2013	232,940	3,902,125	-	4,135,065
Total comprehensive income for the year				
Profit for the year	-	-	589,104	589,104
Contributions by and distributions to owners				
Transfer from retained earnings	-	566,880	(566,880)	-
Balance at 31 December 2013	232,940	4,469,005	22,224	4,724,169
	=====	=====	=====	=====

The notes on pages 9 to 46 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Cash Flows

For the Year Ended 31 December 2013

	2013	2012
Note	€	€
Cash flows from operating activities		
Profit / (loss) for the year	589,104	(12,437)
Adjustments for:		
Depreciation	295,054	308,985
Bad debts written off	8,575	118,534
(Gain)/ loss on exchange fluctuations	(260)	6,286
Reversal of impairment loss on other receivables	-	15,166
Recognition of impairment loss on trade receivables	(9,763)	(118,534)
Provision for discounted future gratuity payments	132	8,763
Interest payable	196,787	164,891
Interest receivable	(12,675)	-
Tax income	(307,157)	(789,286)
	<u>759,797</u>	<u>(297,632)</u>
Change in inventories	73,671	(73,671)
Change in trade and other receivables	(48,219)	668,156
Change in trade and other payables	(609,301)	(383,901)
Change in related party balances	5,972,621	139,062
	<u>6,148,569</u>	<u>52,014</u>
Cash generated from operating activities		
Interest paid	(111,899)	(88,045)
	<u>6,036,670</u>	<u>(36,031)</u>
Net cash from / (used in) operating activities		
	<u>6,036,670</u>	<u>(36,031)</u>
Balance carried forward	6,036,670	(36,031)

The notes on pages 9 to 46 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Cash Flows (continued)

For the Year Ended 31 December 2013

		2013	2012
	Note	€	€
Balance brought forward		<u>6,036,670</u>	<u>(36,031)</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,499,338)	(1,232,629)
Advances to fellow subsidiary		-	(70,731)
Net cash used in investing activities		<u>(3,499,338)</u>	<u>(1,303,360)</u>
Cash flows from financing activities			
Loan advanced by bank		2,172,909	834,578
Repayment of bank loans		(3,569,259)	(308,040)
Interest paid on bank loan		(60,865)	(62,462)
Funds advanced by parent		6,701,376	-
Repayment of funds advanced by parent		(842,367)	-
Net cash from financing activities		<u>4,401,794</u>	<u>464,076</u>
Net increase / decrease in cash and cash equivalents		<u>6,939,126</u>	<u>(875,315)</u>
Cash and cash equivalents at 1 January		(1,790,378)	(912,050)
Effect of exchange rate fluctuations on cash held		(2,986)	(2,964)
Cash and cash equivalents at 31 December	15	<u>5,151,734</u> =====	<u>(1,790,329)</u> =====

The notes on pages 9 to 46 are an integral part of these financial statements.

Medserv Operations Limited

Notes to the Financial Statements

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Medserv p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2013

1 Reporting entity

Medserv Operations Limited (the "Company") is a limited liability company domiciled and incorporated in Malta.

2 Basis of preparation

2.1 Statement of compliance

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

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis. The methods used to measure fair values for disclosure purpose are discussed in note 21.

2.3 Functional and presentation currency

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

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 in the period in which the estimates are revised and in any future periods affected.

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 12 – Recognition of deferred tax asset on investment tax credits;
- Note 11 – Capitalisation of expenses; and
- Note 14 – Deferral of costs directly attributable to service contracts.

Medserv p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2013

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Group the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2 Financial instruments

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

3.2.1 Non-derivative financial assets – recognition and derecognition

The Company initially recognises non-derivative financial assets on the date that they are originated.

The Company 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 Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company 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.

At reporting date, the Company's loans and receivables comprise amounts due from fellows subsidiaries, cash and cash equivalents and trade and other receivables.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

3 Significant accounting policies (continued)

3.2 Financial instruments (continued)

3.2.2 Non-derivative financial liabilities - recognition and derecognition

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company 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 Company 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.

The Company's non-derivative financial liabilities comprise, loans and borrowings, a bank overdraft, amounts due to the parent company and trade and other payables.

3.2.3 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 recognised initially 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, as well as a bank overdraft that is repayable on demand and formed an integral part of the Company's cash management.

3.2.4 Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are recognised initially 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 Company's cash management was included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

3 Significant accounting policies (continued)

3.2 Financial instruments (continued)

3.2.5 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.

3.3 Property, plant and equipment

3.3.1 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 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.

The 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.

3.3.2 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 Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

3 Significant accounting policies (continued)

3.3 Property, plant and equipment (continued)

3.3.3 Depreciation

Depreciation 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 Company will obtain ownership of the land by the end of the lease term.

A charge equivalent to a full year's depreciation is provided for during the year in which the property, plant and equipment is first brought to use and none during the year in which the item is disposed of or scrapped. No depreciation is recognised on items of property, plant and equipment which are not yet in use.

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

• buildings	10 - 48 years
• furniture and fittings	10 years
• health and safety equipment	5 years
• office and computer equipment	5 years
• plant and equipment	8 years
• motor vehicles	4 years

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

3.4 Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Company's statement of financial position.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

3 Significant accounting policies (continued)

3.5 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.

3.6 Impairment

3.6.1 *Non-derivative financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. 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 Company on terms that the Company 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 Company 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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

3 Significant accounting policies (continued)

3.6 Impairment (continued)

3.6.2 Non-financial assets

The carrying amounts of the Company'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. 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 CGU.

The Company'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.

3.7 Employee benefits

3.7.1 Defined contribution plans

The Company 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.

3.7.2 Other long-term employee benefits

The Company'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 Company's obligations.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

3 Significant accounting policies (continued)

3.8 Revenue

3.8.1 Services rendered

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

3.8.2 Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards occurs when the product is loaded onto the client's vessel. Generally for such products the customer has no right of return.

3.9 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3.10 Foreign currency gains and losses

Foreign currency gains and losses 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.

3.11 Finance income and finance cost

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.

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

3 Significant accounting policies (continued)

3.12 Government grants

Grants that compensate the Company 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.

3.13 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

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 measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unutilised tax losses, 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 utilised. 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.

3.14 Unrealised profits

Part II of the Third Schedule to the Act requires that only profits realised at the reporting date may be included as part of retained earnings available for distribution. Any unrealised profits at this date, taken to the credit of the income statement, are transferred to non-distributable reserves.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

4 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for the annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

5 Revenue

Revenue is stated after deduction of sales rebates and indirect taxes.

6 Other income and other expenses

6.1 Other income

	2013	2012
	€	€
Realised operating exchange gain	6,119	8,471
Government grant	6,234	12,468
	<u>12,353</u>	<u>20,939</u>
	=====	=====

6.2 Other expenses

Other expenses incurred in the current and comparative years represented unrealised operating exchange losses.

7 Expenses by nature

		2013	2012
	Note	€	€
Direct cost of services		3,144,862	3,968,080
Employee benefit expense	8	1,474,660	1,533,703
Depreciation	11	295,054	308,985
Professional fees		171,130	112,266
Travelling and telecommunications		230,575	383,623
Repairs and maintenance expenses		275,620	108,217
Rent		259,778	228,110
Insurance		99,464	116,153
Other expenses		107,435	179,515
Intra group charges		56,251	-
		<u>6,114,839</u>	<u>6,938,652</u>
		=====	=====
Total cost of sales and administrative expenses			

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

7 Expenses by nature (continued)

7.2 Administrative expenses include auditors' remuneration amounting to €23,200.

8 Personnel expenses

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

	2013	2012
	€	€
Directors' emoluments:		
Salaries	216,798	216,798
Fees	38,436	38,436
	<u>255,234</u>	<u>255,234</u>
Wages and salaries	1,209,568	1,209,568
Social security contributions	72,130	72,130
	<u>1,536,932</u>	<u>1,536,932</u>
Recharged to fellow subsidiary	-	-
Government grant - employment aid	(3,229)	(3,229)
	<u>1,533,703</u>	<u>1,533,703</u>
	=====	=====

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

	2013	2012
	No.	No.
Operating	38	38
Management and administration	9	9
	<u>47</u>	<u>47</u>
	===	===

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

9 Finance income and finance costs

	2013	2012
	€	€
Bank interest receivable	12,675	-
Finance income	12,675	-
	=====	=====
Interest payable on bank loan	57,665	65,520
Other bank interest payable	86,215	99,371
Interest payable on parent company loan	52,907	-
Finance costs	196,787	164,891
	=====	=====
Net finance costs	184,112	164,891
	=====	=====

10 Tax income

10.1 Recognised in the income statement

		2013	2012
	Note	€	€
Current tax income			
Current year		-	6,312
Deferred tax movement			
Origination and reversal of temporary differences	12.2	307,157	782,974
Total tax income		307,157	789,286
		=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

10 Tax income (continued)

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

	2013	2012
	€	€
Profit / (loss) before tax	281,947	(801,723)
Income tax using the domestic income tax rate 35%	(98,681)	280,603
Tax effect of:		
Depreciation charges not deductible by way of capital allowances in determining taxable income	(191)	(1,801)
Business Promotion Act investment tax credits	405,812	446,385
Disallowed expenses	-	53,423
Exempt income	-	4,364
Adjustment to prior year's deferred tax asset	217	-
Adjustment to prior year's current tax	-	6,312
Tax income	307,157	789,286
	=====	=====

- 10.3** The Company is eligible to the incentives provided by regulations 5 and 31 of the Business Promotion Regulations, 2001 ("BPRs") and regulation 4 of the Investment Aid Regulations ("IARs").

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

11 Property, plant and equipment

11.1

Cost	Buildings €	Plant and equipment €	Furniture and fittings €	Office and computer equipment €	Motor vehicles €	Assets not in use €	Total €
Balance at 1 January 2012	3,684,600	1,555,674	77,497	273,348	134,517	-	5,725,636
Acquisitions	-	1,207,954	16,470	11,131	-	-	1,235,555
Disposals	-	(2,926)	-	-	-	-	(2,926)
Balance at 31 December 2012	3,684,600	2,760,702	93,967	284,479	134,517	-	6,958,265
Balance at 1 January 2013	3,684,600	2,760,702	93,967	284,479	134,517	-	6,958,265
Acquisitions	74,247	233,207	62,945	29,076	48,536	3,358,160	3,806,171
Disposals	-	(203,487)	-	-	-	-	(203,487)
Balance at 31 December 2013	3,758,847	2,790,422	156,912	313,555	183,053	3,358,160	10,560,949
Depreciation							
Balance at 1 January 2012	738,278	1,152,414	57,747	240,396	126,976	-	2,315,811
Charge for the year	60,129	221,949	6,712	16,530	3,665	-	308,985
Balance at 31 December 2012	798,407	1,374,363	64,459	256,926	130,641	-	2,624,796
Balance at 1 January 2013	798,407	1,374,363	64,459	256,926	130,641	-	2,624,796
Charge for the year	60,815	188,823	15,032	14,584	15,800	-	295,054
Charge for the year – capitalised Disposals	-	36,874	-	-	-	-	-
	-	(25,437)	-	-	-	-	(25,437)
Balance at 31 December 2013	859,222	1,574,623	79,491	271,510	146,441	-	2,931,287

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

11 Property, plant and equipment (continued)

11.1 (continued)	Office and Buildings €	Plant and equipment €	Furniture and fittings €	computer equipment €	Motor vehicles €	Assets not in use €	Total €
Carrying amounts							
At 1 January 2012	2,946,322	403,260	19,750	32,952	7,541	-	3,409,825
At 31 December 2012	2,886,193	1,386,339	29,508	27,553	3,876	-	4,333,469
At 1 January 2013	2,886,193	1,386,339	29,508	27,553	3,876	-	4,333,469
At 31 December 2013	2,899,625	1,215,799	77,421	42,045	36,612	3,358,160	7,629,662

11.2 At 31 December 2013, the Company still used fully depreciated plant and equipment that had a gross carrying amount of €1,222,576 (2012: €1,209,369).

11.3 The Company's buildings are constructed on land held under title of temporary emphyteusis from Malta Freeport Corporation Limited for a period up to 29 May 2045. On 5 December 2012, the Company entered into a lease agreement with Malta Freeport Corporation Limited that would extend the right of use of the said land until 29 May 2060.

11.4 During the year capitalised borrowing costs related to the construction of the photovoltaic farm classified as assets not in use amounted to €59,645 (2012: €Nil). Assets not in use mainly consists of photovoltaic equipment and constructions costs for the development of the 2011 kwp photovoltaic farm.. the raid amount includes capitalised depreciation of €36,874, personnel expenses of €36,404 and capitalized borrowing costs of €58,208. The photovoltaic farm is reduced to be commissioned by July 2014.

11.5 Security

At 31 December 2013, the Company's emphyteutical rights on the Medserv site at the Malta Freeport at the Post of Marsascala (refer to note 11.6) were subject to a general hypothec and a special hypothec in relation to the note issued by the Company's parent during the year.

As at the end of the comparative year the Company's plant and equipment were subject to hypothecs on bank loans and general overdraft facilities amounting to €3,315,596.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

11 Property, plant and equipment (continued)

11.6 Fair value measurement of leased facilities at Malta Freeport

During the comparative year, the property rights held by the Company over industrial property forming part of the Malta Freeport at the Port of Marsaxlokk were valued by an external valuer, Perit Dr Marc Bonello, Partner of the local professional firm TBA Periti, in terms of, and with due regard given to, the Valuation Standards of the Kamra Tal-Periti (Chamber of Architects & Civil Engineers of Malta) and with The Royal Institution of Chartered Surveyors 'RICS Valuation – Professional Standards (March 2012)'. TBA Periti declared that it has no undisclosed interest in the property, and its employment and compensation were not contingent upon its findings and valuation, and that no fees payable to TBA Periti were made by the Group during the preceding year. These property rights, which comprise land and the overlying buildings and facilities, emanate from the emphyteutical grant deeds dated 29th May 1997, 23rd December 1999, 22nd June 2004, the lease agreement dated 5th December 2012, as well as the operating licence issued by the Malta Freeport Corporation Limited to Medserv Operations Limited on the 5th December 2012. The valuation of the 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 TBA Periti's analysis and experience in the local real estate market and information provided by the Company, it won the professional opinion of TBA Periti that the Market Value of the above-mentioned property rights, as at 31st December 2012, amounts to €40.3 million.

- 11.7** As at 31 December 2013, the Company is committed to incur capital expenditure of €1.6 million (2012: €4 million).

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

12 Deferred tax assets and liabilities

12.1 Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
	€	€	€	€	€	€
Property, plant and equipment	15,304	38,588	-	-	15,304	38,588
Provision for discounted future gratuity payments	12,981	12,935	-	-	12,981	12,935
Impairment loss on receivables	2,880	6,297	-	-	2,880	6,297
Provision for exchange fluctuations	-	-	(170)	(1,107)	(170)	(1,107)
Unutilised tax losses and unabsorbed capital allowances	253,898	326,835	-	-	253,898	326,835
Investment tax credits	4,215,107	3,809,295	-	-	4,215,107	3,809,295
	<u>4,500,170</u>	<u>4,193,950</u>	<u>(170)</u>	<u>(1,107)</u>	<u>4,500,000</u>	<u>4,192,843</u>
Tax assets / (liabilities)	4,500,170	4,193,950	(170)	(1,107)	4,500,000	4,192,843
Set off of tax	(170)	(1,107)	170	1,107	-	-
	<u>4,500,000</u>	<u>4,192,843</u>	<u>-</u>	<u>-</u>	<u>4,500,000</u>	<u>4,192,843</u>
Net tax assets	4,500,000	4,192,843	-	-	4,500,000	4,192,843
	=====	=====	=====	=====	=====	=====

12.2 Movement in temporary differences during the year

	Balance 01.01.12	Recognised in profit or loss	Balance 31.12.12
	€	€	€
Property, plant and equipment	38,364	224	38,588
Provision for discounted future gratuity payments	9,867	3,068	12,935
Impairment loss on receivables	989	5,308	6,297
Provision for exchange fluctuations	(2,261)	1,154	(1,107)
Unutilised tax losses and unabsorbed capital allowances	-	326,835	326,835
Investment tax credits	3,362,910	446,385	3,809,295
	<u>3,409,869</u>	<u>782,974</u>	<u>4,192,843</u>
	=====	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

12 Deferred tax assets and liabilities (continued)

12.2 Movement in temporary differences during the year (continued)

	Balance 01.01.13	in profit or loss	Balance 31.12.13
	€	€	€
Property, plant and equipment	38,588	(23,284)	15,304
Provision for discounted future gratuity payments	12,935	46	12,981
Impairment loss on receivables	6,297	(3,417)	2,880
Provision for exchange fluctuations	(1,107)	937	(170)
Unutilised tax losses and unabsorbed capital allowances	326,835	(72,937)	253,898
Investment tax credit	3,809,295	405,812	4,215,107
	<u>4,192,843</u>	<u>307,157</u>	<u>4,500,000</u>
	=====	=====	=====

12.3 Recognition of deferred tax asset on investment tax credits

A deferred tax asset of €4,215,107 (2012: €3,809,295) representing partial tax value of investment tax credits has been recognised in the financial statements. Based on the Company's profit forecasts of the Malta operations for the period 2014 to 2020, the directors believe that the Company will have sufficient taxable profit 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 shore base at Malta Freeport. 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%.

12.4 Unrecognised deferred tax asset

A deferred tax asset of €1,126,967 (2012: €Nil) has not been recognised in respect of investment tax credits, because it is not probable that sufficient future taxable profit will be available until these credits expire on 31 December 2020, against which the Company can use the benefits therefrom.

13 Inventories

Inventories in the comparative year consisted of raw materials and consumables used in the provision of maintenance services.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

14 Trade and other receivables

14.1	2013	2012
	€	€
Trade receivables	1,627,985	2,145,624
Amounts owed by fellow subsidiaries	101,158	170,758
Other receivables	728,608	287,163
Prepayments	354,181	98,054
Accrued income	-	475,614
Deferred expenses	345,088	-
	<u>3,157,020</u>	<u>3,177,213</u>
	=====	=====

14.2 Trade receivables are shown net of impairment losses amounting to €8,230 (2012: €17,993).

14.3 The amounts owed by related parties are unsecured, interest free and repayable on demand. Transactions with related parties are set out in note 24 to these financial statements.

14.4 The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 21.

14.5 Deferred expenses mainly include costs incurred by the Group that are related directly to securing a contract. These costs have been deferred as they relate to contracts commencing in year 2014 and beyond for which future economic benefits are expected to flow to the enterprise and can be identified separately and measured reliably.

15 Cash and cash equivalents

	2013	2012
	€	€
Bank balances	5,142,316	2,695
Cash in hand	9,418	13,687
	<u>5,151,734</u>	<u>16,382</u>
Cash at bank and in hand	5,151,734	16,382
Bank overdrafts used for cash management purposes	-	(1,806,711)
	<u>5,151,734</u>	<u>(1,790,329)</u>
	=====	=====

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

16 Capital and reserves

16.1 Share capital

	Ordinary shares	
	2013	2012
	No.	No.
In issue at 1 January	100,001 =====	100,001 =====
In issue at 31 December - fully paid	100,001 =====	100,001 =====

At 31 December 2013, the authorised share capital comprised 500,000 ordinary shares (2012: 500,000). All shares have a par value of €2.329373.

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 Company's residual assets.

16.2 Statutory reserve

The statutory reserve is non-distributable and comprises transfers of amounts equivalent to unrealised gains in accordance with the requirements of the Companies Act, 1995 (Chapter 386, Laws of Malta). As at 31 December 2013, the balance in this reserve represented the deferred tax asset recognised in respect of investment tax credits, unutilised tax losses and unabsorbed capital allowances available to the Company as at that date.

16.3 Availability of reserves for distribution

	2013	2012
	€	€
Distributable	22,224	-
Non-distributable	4,469,005	3,902,125
	<u>4,491,229</u> =====	<u>3,902,125</u> =====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

17 Amounts due to parent company

The amounts due to the parent company are unsecured and repayable after more than one year. The amount is made up as follows:

	Currency	Nominal Interest rate	Year of maturity	2013	2012
				€	€
Unsecured borrowings	EUR	-	After 2014	2,728,870	2,000,000
Unsecured loan	EUR	6%	2023	6,701,375	-
				<u>9,430,245</u>	<u>2,000,000</u>
				=====	=====

Transactions with related parties are set out in note 25 to these financial statements.

18 Loans and borrowings

18.1 This note provides information about the contractual terms of the Company's interest-bearing loan and borrowings. For more information about the Company's exposure to interest rate and liquidity risk, see note 21.

	2013	2012	2011
	€	€	€
Non-current liabilities			
Secured bank loans	-	943,214	647,732
	=====	=====	=====
Current liabilities			
Secured bank loans	-	453,136	222,080
Bank overdraft	-	1,806,711	922,348
	<u>-</u>	<u>2,259,847</u>	<u>1,144,428</u>
	=====	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

18 Loans and borrowings (continued)

18.2 Terms and debt repayment

At the end of the comparative year, the Company had bank loans amounting to €1,396,350. The interest rate and terms of repayment were as follows:

Bank loan	Interest rate	Repayable by
€9,773	5.25%	Monthly instalments of €1,977 inclusive of interest, repayable up to April 2013.
€64,925	4.45%	Monthly instalments of €988 inclusive of interest, repayable up to December 2018.
€99,749	4.45%	Repayable immediately upon receipt of Malta Enterprise grant.
€583,267	5.50%	Monthly instalments of €12,727 inclusive of interest, repayable up to April 2017.
€638,636	5.50%	Monthly instalments of €20,050 inclusive of interest, repayable up to December 2015.

The loans amounting to €9,773, €64,925 and €99,749 were secured by joint and several guarantees given by the parent company.

The loans amounting to €583,267 and €638,636 were secured by a general hypothec for €3,315,596 over all assets present and future of the Company; a special hypothec for €3,315,596 over the temporary utile dominium on Medserv Site and buildings at Malta Freeport, Kalafrana; a guarantee that the Company shall not pay dividends in excess of 40% of the Group's net profit after tax, not to pay dividends beyond the amount of €1,514,093 without the bank's prior consent.

During 2013, all of these loans were repaid in full from the proceeds of a €13,000,000 6% bond issued by Medserv p.l.c on 11 October 2013. These bonds are redeemable on 30 September 2023 with an early redemption option exercisable by giving a 30 day notice from 30 September 2020.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

18 Loans and borrowings (continued)

18.2 Terms and debt repayment (continued)

Furthermore, as at 31 December 2012, the Company enjoyed general overdraft facilities of €2,425,000 at the following terms and conditions.

Bank overdraft	Interest rate	Security
€25,000	5.375%	Joint and several guarantees by parent company
€500,000	5.25%	Joint and several guarantees by parent company
€1,900,000	5.50%	Secured by a general hypothec over the Company's assets present and future; a special hypothec over the emphyteutical property situated at the Company's sites and buildings

The outstanding overdraft balances in relation to the facilities of €25,000 and €1,900,000 were repaid in full through the same €13,000,000 6% bond issue (refer to note 18.2). At 31 December 2013, the Company had unutilised bank overdraft facilities of €500,000 (2012: €616,840).

19 Provisions

This provision is for retirement gratuities relating to the Company's obligation to effect ex-gratia payments to a number of its retiring employees, according to the Collective Agreement with the employees' union.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

20 Trade and other payables

20.1	2013	2012
	€	€
Trade payables	732,299	1,352,961
Other payables	-	101,047
Amounts due to other related company	55,709	58,622
Amounts due to parent company	5,096,327	842,367
Amounts due to director	-	3,692
Amounts due to ultimate shareholder	4,247	1,540
Accruals	358,336	58,271
	<u>6,246,918</u>	<u>2,418,500</u>
	=====	=====

20.2 The amounts due to related parties are all unsecured, interest free and repayable on demand. Transactions with related parties are set out in note 24 to these financial statements.

20.3 The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

21 Financial instruments – Fair values and risk management

21.1 Accounting classifications and fair values

The Company 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 Company's loans and receivables comprised amounts due from fellow subsidiaries cash and cash equivalents and trade and other receivables. The Company's non-derivative financial liabilities comprised trade and other payables.

Fair values versus carrying amounts

The fair values of financial assets and liabilities, as at the end of the current and comparative year are equal to the carrying amounts shown in the statement of financial position.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.1 Accounting classifications and fair values (continued)

The base for determining fair values is disclosed below.

Loans and receivables

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. A bank balance amounting to €4,000,000 included in cash and cash equivalents is repriceable within 3 months. Other 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.

Financial liabilities

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

21.2 Overview

The Company 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 Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

21.3 Risk management framework

The Board of directors have overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors, together with the parent company's Audit Committee, are responsible for developing and monitoring the Company's risk management policies.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.3 Risk management framework (continued)

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities. The Company, 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 parent company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The parent company has 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 board members and senior management officers of the Company.

21.4 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company'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:

		Carrying amount	
		2013	2012
	Note	€	€
Trade and other receivables (excluding prepayments)	14	2,457,751	3,079,159
Cash at bank	15	5,142,316	2,695
		<u>7,600,067</u>	<u>3,081,854</u>
		=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.4 Credit risk (continued)

Trade and other receivables

The Company offers logistical services to large customers operating within the oil and gas industry. These customers operate huge budgets and should therefore have sufficient funds to meet their obligations towards the Company. Contracts with customers are generally negotiated by the Board of Directors and discussed with the parent company's Audit Committee.

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

The Company'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. Approximately 40 percent (2012: 40 percent) of the Company's revenue is attributable to sales transactions with a single customer.

The maximum exposure to credit risk for trade receivables (see note 14.1) at the reporting date by geographic region was:

	Carrying amount	
	2013	2012
	€	€
Domestic	416,032	247,604
EU countries	269,339	598,364
Libya	930,911	1,227,905
Other	11,703	71,751
	<u>1,627,985</u>	<u>2,145,624</u>
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.4 Credit risk (continued)

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross Impairment		Gross Impairment	
	2013	2013	2012	2012
	€	€	€	€
Not past due	1,046,898	-	1,664,295	-
Past due 0-30 days	185,135	-	159,236	-
Past due 31-120 days	233,572	-	267,846	-
More than 120 days	170,610	8,230	72,240	17,993
	<u>1,636,215</u>	<u>8,230</u>	<u>2,163,617</u>	<u>17,993</u>
	=====	=====	=====	=====

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2013	2012
	€	€
Balance at 1 January	17,993	2,827
Movement	(9,763)	15,166
	<u>8,230</u>	<u>17,993</u>
	=====	=====

The impairment loss at 31 December 2013 relates to amounts being disputed by customer. The recoverability of such balance is doubtful at year-end, although the directors have indicated that efforts will be made to recover such balance.

Based on historic default rates, the Company believes that apart from the above, no further impairment allowance is necessary, in respect of trade receivables past due more than 120 days.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.5 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

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

Typically the Company 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 2013, the Company had overdraft facilities amounting to €500,000, which bear interest at the Bank's Base Rate plus 3 per cent respectively.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.5 Liquidity risk (continued)

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	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	5-10 years
	€	€	€	€	€	€	€
31 December 2013							
Non-derivative financial liabilities							
Amounts due to parent company	9,430,245	(13,451,065)	(201,041)	(201,041)	(402,082)	(1,608,328)	(11,038,573)
Trade and other payables	6,246,918	(6,246,918)	(6,246,918)	-	-	-	-
	<u>15,677,163</u>	<u>(20,100,065)</u>	<u>(6,447,959)</u>	<u>(201,041)</u>	<u>(402,082)</u>	<u>(1,608,328)</u>	<u>(11,440,655)</u>
	=====	=====	=====	=====	=====	=====	=====
31 December 2012							
Non-derivative financial liabilities							
Amounts due to parent company	2,000,000	(2,000,000)	-	-	-	(2,000,000)	-
Secured bank loans	1,396,350	(1,532,727)	(312,608)	(202,587)	(780,493)	(237,039)	-
Trade and other payables	2,418,500	(2,418,500)	(2,418,500)	-	-	-	-
Bank overdraft	1,806,711	(1,889,211)	(1,889,211)	-	-	-	-
	<u>7,621,561</u>	<u>(7,757,938)</u>	<u>(4,537,819)</u>	<u>(202,587)</u>	<u>(780,493)</u>	<u>(2,237,039)</u>	<u>-</u>
	=====	=====	=====	=====	=====	=====	=====

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company'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 Company is exposed to currency risk on sales, purchases and bank balances that are denominated in a currency other than the Company's functional currency, primarily the US Dollars (USD) and Sterling (GBP).

In respect of denominated monetary assets and liabilities denominated in foreign currencies, the Company 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 Company to hold on to foreign currency when rates are not favourable until the situation reverses.

Exposure to currency risk

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

	31 December 2013		31 December 2012	
	USD	GBP	USD	GBP
Trade payables	(6,459)	(5,296)	(17,040)	(41,078)
Net statement of financial position exposure	(6,459)	(5,296)	(17,040)	(41,078)
Available funds in foreign currency	216	-	7,695	501
Net exposure	(6,243)	(5,296)	(9,345)	(40,577)
	=====	=====	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.6 Market risk (continued)

Currency risk (continued)

Exposure to currency risk (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
USD	1.328	1.286	1.377	1.321
GBP	0.849	0.811	0.835	0.817

Sensitivity analysis

A 10 percent strengthening of the Euro against the following currencies at 31 December would have increased / (decreased) profit or loss (and equity) by the pre tax amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

	Profit or loss
	€
31 December 2013	
USD	440
GBP	577
	=====
31 December 2012	
USD	642
GBP	4,569
	=====

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.7 Interest rate risk

Profile

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

	Carrying amount	
	2013	2012
	€	€
Fixed rate instruments		
Financial assets	5,142,316	2,695
Financial liabilities	(6,701,375)	-
	=====	=====
Variable rate instruments		
Financial liabilities	-	(3,203,061)
	=====	=====

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the end of the reporting period would not affect profit or loss.

The Company's borrowings are subject to an interest rate that varies according to revisions made to the Bank's Base Rate. The Company 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 fixed rates instruments, would have increased or decreased the Company's equity by €323 (2012: €Nil). A change of 100 basis points in interest rates on variable rate instruments would have increased or decreased the Company's equity by €Nil (2012: €21,996).

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

21 Financial instruments – Fair values and risk management (continued)

21.8 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company'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 Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company'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 Company 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

21.9 Capital management

The Board'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 directors monitor the return on capital, which the Company defines as result from operating activities divided by total shareholders' equity. The directors also monitor the level of dividends to ordinary shareholders.

The directors seek 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.

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

The Company is not subject to externally imposed capital requirements.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

22 Operating leases

Leases as lessee

The Company leases a quay, a warehouse and ancillary facilities at Malta Freeport, Kalafrana. This lease runs for a period of forty-seven and a half years from 5 December 2012.

During the year, an amount of €228,108 was recognised as an expense in profit or loss in respect of operating leases (2012: €228,110).

23 Contingencies

At reporting date, the Company had guarantees given to the Company's bankers in favour of third parties amounting to €8,159 (2012: €8,159).

24 Related parties

24.1 Parent and ultimate controlling party

The Company is a wholly owned subsidiary of Medserv p.l.c (the "parent company"), the registered office of which is situated at Port of Marsaxlokk, Birzebbugia, Malta. The parent is a public limited liability company incorporated in Malta and listed on the Malta Stock Exchange. Two of the Company's directors, namely Mr Anthony S Diacono and Mr Anthony J Duncan, each hold directly or indirectly 37.5% of the issued share capital of the parent.

Medserv p.l.c. prepares the consolidated financial statements of the Group of which Medserv Operations Limited forms part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

24 Related parties (continued)

24.2 Identity of other related parties

The Company has a relationship with a number of fellow subsidiaries forming part of the Mesderv p.l.c. group of companies, namely, Medserv International Limited, Medserv Misurate F2C, Medserv East Africa Limited, Medserv Libya Limited, Medserv Italy Limited, Medserv Italia Srl, Medserv Eastern Mediterranean Limited and Medserv Cyprus Limited (the "fellow-subsiidiaries and group related companies"). It also has a relationship with its directors (the "key management personnel"), and immediate relative of one of the directors (the "other related party").

24.3 Transactions with key management personnel

Directors of the Company and their immediate relatives have indirect and direct control of the voting shares of the Company. There were no loans to directors during the current and comparative periods.

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers.

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, namely Electric Fix Energy (the "other related company").

24.4 Related party transactions

The following transactions were conducted during the year:

	2013	2012
	€	€
Parent company		
Payment of expenses on behalf of	401,972	72,517
Interest charged by	96,327	-
Dividend paid to	-	298,056
Cash received by Company on behalf of	12,775,600	-
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2013

24 Related parties (continued)

24.4 Related party transactions (continued)

	2013	2012
	€	€
Fellow subsidiaries and group related parties		
Payment of expenses on behalf of	667,662	15,263
Cash received on behalf of	133,651	568,275
Advances by	-	10,748
Advances to	187,802	67,000
Transfer of equipment to	97,005	-
	=====	=====
Services provided by	56,251	26,985
Services provided to	-	264,645
Wages and salaries paid on behalf of Company by	-	23,221
Cash received on behalf of Company by	15,405	-
Expenses paid on behalf of Company by	-	59,341
Repayment of expenses previously paid on behalf of	113,478	-
	=====	=====
Key management personnel		
Payment of expenses on behalf of	108,336	23,298
Remuneration paid to	265,550	-
	=====	=====
Other related party		
Services provided by	6,600	6,600
	=====	=====
Other related company		
Capital goods acquired from	1,947,475	-
	=====	=====

24.5 Related party balances

Information on amounts due from / to related parties is set out in notes 14, 17 and 20 to these financial statements.



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Independent Auditors' Report

To the Members of Medserv Operations Limited

Report on the Financial Statements

We have audited the financial statements of Medserv Operations Limited (the "Company") as set out on pages 3 to 46, which comprise the statement of financial position as at 31 December 2013 and the of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"). They are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act and may not be appropriate for any other purpose.

In addition, we read the Directors' Report and consider the implications for our report if we become aware of any apparent material misstatements of fact.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Independent Auditors' Report (continued)

To the Members of Medserv Operations Limited

Opinion on Financial Statements

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta).

Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act")

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- proper accounting records have not been kept by the Company; or
- the Company's 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; or
- certain disclosures of directors' remuneration specified by the Act are not made.

Kevin Mifsud (Director) for and on behalf of

KPMG
Registered Auditors

28 March 2014