Medserv Operations Limited

Annual Report

2015

Company Registration Number: C 2971

Medserv Operations Limited

Medserv Operations Limited

Directors' Report

For the Year Ended 31 December 2015

The directors present their report of Medserv Operations Limited (the "Company") for the year ended 31 December 2015.

Board of directors

Anthony S Diacono
Anthony J Duncan
Joseph F X Zahra
Joseph Zammit Tabona
Charles L Daly

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 €5,516,309 (2014: €2,517,607). After charging net financing expenses of €1,063,660 (2014: €605,362) the profit before taxation for the year under review amounted to €4,452,649 (2014: €1,912,245). After accounting for taxation, the profit for the year amounted to €3,819,399 (2014: €1,417,358).

As at 31 December 2015, the Company reported a net asset position amounting to €6,060,926 (2014: €4,741,527) and a positive short term liquidity position of €3,145,669 (2014: negative short term liquidity position of €2,869,475). Trade and other payables reported in the statement of financial position as at 31 December 2015 included a balance payable to the parent company amounting to €3,448,138 (2014: €3,305,528).

Dividends

An interim dividend amounting to €2,500,000 was declared during the year. No final dividends have been declared or proposed.

Reserves

During the year, transfers from statutory reserve to retained earnings amounted to €197,070 in accordance with the requirements of the Companies Act, 1995.

Approved by the Board of Directors on 22 March 2016 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 2015

	Note	2015 €	2014 €
ASSETS			
Property, plant and equipment	11	**18,469,964**	16,325,359
Prepaid operating leases	22	**34,123,472**	34,899,006
Deferred tax assets	12	**3,423,760**	4,005,113
Total non-current assets		**56,017,196**	55,229,478
Derivative financial assets	21	**1,176,437**	-
Trade and other receivables	13	**14,296,742**	10,187,930
Prepaid operating leases	22	**775,533**	775,533
Cash at bank and in hand	14	**192,658**	332,794
Total current assets		**16,441,370**	11,296,257
Total assets		**72,458,566**	66,525,735

The notes on pages 9 to 42 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Financial Position (continued)

As at 31 December 2015

	Note	2015 €	2014 €
EQUITY			
Share capital	15	**232,940**	232,940
Statutory reserve	15	**4,018,037**	4,215,107
Retained earnings		**1,809,949**	293,480
Total equity		**6,060,926**	4,741,527
LIABILITIES			
Deferred income	16	**34,123,472**	34,899,006
Amounts due to parent company	17	**16,286,822**	12,564,658
Loans and borrowings	18	**2,660,572**	125,231
Provision	19	**31,073**	29,581
Total non-current liabilities		**53,101,939**	47,618,476
Deferred income	16	**775,533**	775,533
Loans and borrowings	18	**3,788,455**	3,622,867
Trade and other payables	20	**8,731,713**	9,767,332
Total current liabilities		**13,295,701**	14,165,732
Total liabilities		**66,397,640**	61,784,208
Total equity and liabilities		**72,458,566**	66,525,735

The notes on pages 9 to 42 are an integral part of these financial statements.

The financial statements on pages 3 to 42 were approved and authorised for issue by the Board of Directors on 22 March 2016 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 2015

	Note	2015 €	2014 €
Revenue	5	**26,560,738**	22,437,341
Cost of sales	7	**(19,821,792)**	(18,334,680)
Gross profit		**6,738,946**	4,102,661
Other income	6	**537,602**	214,010
Administrative expenses	7	**(1,651,465)**	(1,785,481)
Other expenses	6	**(108,774)**	(13,583)
Results from operating activities		**5,516,309**	2,517,607
Finance costs	9	**(1,063,660)**	(605,362)
Profit before income tax		**4,452,649**	1,912,245
Tax expense	10	**(633,250)**	(494,887)
Profit for the year		**3,819,399**	1,417,358
Total comprehensive income for the year		**3,819,399**	1,417,358

The notes on pages 9 to 42 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Changes in Equity

For the Year Ended 31 December 2015

	Share capital	Statutory reserve	Retained earnings	Total equity
	€	€	€	€
Balance at 1 January 2014	232,940	4,469,005	22,224	4,724,169
Total comprehensive income				
Profit	-	-	1,417,358	1,417,358
Distributions to owners				
Dividends	-	-	(1,400,000)	(1,400,000)
Transfer	-	(253,898)	253,898	-
Balance at 31 December 2014	232,940	4,215,107	293,480	4,741,527
Balance at 1 January 2015	**232,940**	**4,215,107**	**293,480**	**4,741,527**
Total comprehensive income				
Profit	-	-	**3,819,399**	**3,819,399**
Distributions to owners				
Dividends	-	-	**(2,500,000)**	**(2,500,000)**
Transfer	-	**(197,070)**	**197,070**	-
Balance at 31 December 2015	**232,940**	**4,018,037**	**1,809,949**	**6,060,926**

The notes on pages 9 to 42 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Cash Flows

For the Year Ended 31 December 2015

	Note	2015	2014
		€	€
Cash flows from operating activities			
Profit for the year		**3,819,399**	1,417,358
Adjustments for:			
Depreciation		**1,445,278**	924,220
Gain on sale of property, plant and equipment		**(7,875)**	(10,200)
Reversal of impairment loss on trade receivables		-	(8,230)
Provision for / (reversal) discounted future gratuity payments		**1,492**	(7,501)
Exchange differences		**(4,303)**	5,596
Finance costs		**1,063,660**	605,362
Tax expense		**633,250**	494,887
		6,950,901	3,421,492
Changes in:			
Trade and other receivables		**(3,466,241)**	(5,962,489)
Trade and other payables		**(1,062,248)**	3,179,672
Other related party balances		**(4,286,789)**	(4,143,402)
Shareholders' balance		-	(4,247)
Cash absorbed by operating activities		**(1,864,377)**	(3,508,974)
Interest paid		**(119,637)**	(20,223)
Taxation paid		**(51,897)**	-
Net cash used in operating activities		**(2,035,911)**	(3,529,197)
Balance carried forward		**(2,035,911)**	(3,529,197)

The notes on pages 9 to 42 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Cash Flows (continued)

For the Year Ended 31 December 2015

	Note	2015	2014
		€	€
Balance brought forward		**(2,035,911)**	(3,529,197)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(3,611,014)**	(7,492,498)
Proceeds for sale of property plant and equipment		**29,006**	10,200
Net cash used in investing activities		**(3,582,008)**	(7,482,298)
Cash flows from financing activities			
Proceeds from loans and borrowings		**3,847,818**	1,267,673
Repayment of bank loans		**(1,289,788)**	(65,255)
Interest paid on bank loan		**(99,218)**	(3,147)
Funds advanced by parent		**3,620,000**	2,968,581
Interest paid on funds advanced by parent		**(743,929)**	(520,967)
Net cash from financing activities		**5,334,883**	3,646,885
Net decrease in cash and cash equivalents		**(283,036)**	(7,364,610)
Cash and cash equivalents at 1 January		**(2,212,876)**	5,151,734
Cash and cash equivalents at 31 December	14	**(2,495,912)**	(2,212,876)

The notes on pages 9 to 42 are an integral part of these financial statements.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2015

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 and presented 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, except for derivative financial instruments which have been measured at fair value. The methods used to measure fair values 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 note 12 – recognition of deferred tax asset on investment tax credits.

3 Significant accounting policies

The Company has consistently applied the accounting policies to all periods presented in these financial statements.

3.1 Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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. 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. Foreign currency differences arising on translation are generally recognised in profit or loss.

3.1.1 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.

3.2 Financial instruments

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 loans and borrowings, amounts due to fellow subsidiaries and parent company and trade and other payables.

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 and financial liabilities – Recognition and derecognition

The Company 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 provision of the instrument.

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.

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

3 Significant accounting policies (continued)

3.2 Financial instruments (continued)

3.2.2 Non-derivative financial assets and financial liabilities – Recognition and derecognition (continued)

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.

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 forms an integral part of the Company's cash management.

3.2.4 Non–derivative financial liabilities - measurement

Other 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.

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.

3.2.6 Derivative financial instruments

The Company holds financial instruments under a mandate agreement. Derivatives are initially measured at fair value, any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measure at fair value and changes therein are generally recognised in profit or loss.

3 Significant accounting policies (continued)

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.

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.

3.3.2 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.

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

3 Significant accounting policies (continued)

3.3 Property, plant and equipment (continued)

3.3.3 Depreciation (continued)

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 and base improvements	10 - 48	years
• furniture and fittings	10	years
• office and computer equipment	5	years
• plant and equipment	8	years
• cargo carrying units	10	years
• photovoltaic farm	20	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.

3.6 Impairment

3.6.1 Non-derivative financial assets

Financial assets not carried at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairement. 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.

3 Significant accounting policies (continued)

3.6 Impairment (continued)

3.6.1 Non-derivative financial assets (continued)

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.

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 Significant accounting policies (continued)

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.

3.8 Revenue

The Company is engaged in providing services and support to the offshore oil and gas industry and as such is involved in providing support services that span over a term and sells goods and supplies. In this regard revenue is recognised and measured as follows:

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 Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, 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. Revenue is measured net of returns, trade discounts and volume rebates.

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.

In both instances, revenue is measured at fair value of the consideration received or receivable.

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 Finance costs

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 Significant accounting policies (continued)

3.11 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.

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 Company 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.

3.12 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

Current tax comprises 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 or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes if any. Current tax also includes any tax arising from the declaration of dividends.

Deferred tax

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 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. 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.

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.

3 Significant accounting policies (continued)

3.13 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.

4 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. Except for IFRS 15 *Revenue from Contracts with Customers,* none of these are expected to have a significant effect on the financial statements of the Company in the period of initial application.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue,* IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.* IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. This IFRS has not yet been endorsed by the EU.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

5 Revenue

Revenue is stated after deduction of sales rebates and indirect taxes and represents revenue from logistical support and other services.

6 Other income and other expenses

6.1 Other income

	Note	**2015** €	2014 €
Gain on sale of property, plant and equipment		**7,875**	10,200
Photovoltaic income		**525,424**	203,810
Unrealised operating exchange gain		**4,303**	-
Reversal of prepaid operating lease	22	**(775,533)**	(775,533)
Reversal of deferred income	16	**775,533**	775,533
		537,602	214,010

6.2 Other expenses

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

7 Expenses by nature

7.1

	Note	2015 €	2014 €
Directs cost of services		**15,484,647**	15,486,360
Employee benefits	8	**2,307,574**	1,598,985
Depreciation	11	**1,445,278**	924,220
Professional fees		**69,693**	296,416
Travelling and telecommunications		**315,841**	356,993
Repairs and maintenance		**594,389**	567,632
Rent		**490,156**	288,108
Insurance		**236,491**	157,305
Security services		**180,829**	215,369
Other		**348,359**	288,773
Total cost of sales and administrative expenses		**21,473,257**	20,120,161

7.2 Administrative expenses include auditors' remuneration amounting to €32,850.

8 Personnel expenses

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

	2015 €	2014 €
Directors' emoluments:		
Salaries	**300,000**	300,000
Fees	**66,391**	65,071
	366,391	365,071
Wages and salaries	**2,557,518**	2,126,245
Social security contributions	**146,211**	103,344
	3,070,120	2,594,660
Recharged to fellow subsidiaries	**(762,546)**	(995,675)
	2,307,574	1,598,985

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

	2015 No.	2014 No.
Operating	**75**	74
Management and administration	**21**	16
	96	90

9 Finance costs

	2015	2014
	€	€
Interest payable on bank loan	**104,312**	4,523
Other bank interest payable	**113,255**	49,788
Interest payable on parent company loan	**846,093**	551,051
	1,063,660	605,362

10 Tax expense

10.1 Recognised in the income statement

	Note	2015	2014
		€	€
Current tax			
Top-up taxes on dividends paid		**(51,897)**	-
Deferred tax movement			
Origination and reversal of temporary differences	12.2	**(581,353)**	(494,887)
		(633,250)	(494,887)

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

	2015	2014
	€	€
Profit before tax	**4,452,649**	1,912,245
Income tax using the domestic income tax rate 35%	**(1,558,427)**	(669,286)
Tax effect of:		
Investment tax credits	**970,894**	182,702
Disallowed expenses	**(1,912)**	(1,912)
Adjustment to prior year's deferred tax asset	**8,092**	(6,391)
Taxation on dividends paid	**(51,897)**	-
Tax expense	**(633,250)**	(494,887)

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").

11 Property, plant and equipment

11.1

	Buildings	Plant and equipment	Furniture and fittings	Office and computer equipment	Motor vehicles	Cargo carrying units	Photovoltaic farm	Payments in advance and assets under construction	Total
	€	€	€	€	€	€	€	€	€
Cost									
Balance at 01.01.14	3,758,847	2,790,422	156,912	313,555	183,053	-	-	3,358,160	10,560,949
Acquisitions	3,216,302	1,462,732	375,401	169,371	107,721	1,098,666	1,627,306	1,562,418	9,619,917
Transfers to payments in advance and assets under construction	2,350,578	-	-	-	-	-	2,195,000	(4,545,578)	-
Disposals	-	(106,565)	-	-	(18,235)	-	-	-	(124,800)
Balance at 31.12.14	**9,325,727**	**4,146,589**	**532,313**	**482,926**	**272,539**	**1,098,666**	**3,822,306**	**375,000**	**20,056,066**
Balance at 01.01.15	9,325,727	4,146,589	532,313	482,926	272,539	1,098,666	3,822,306	375,000	20,056,066
Acquisitions	2,355,772	884,078	153,903	77,962	112,523	10,878	15,898	-	3,611,004
Transfers from payments in advance and assets under construction	-	-	-	-	-	375,000	-	(375,000)	-
Disposals	-	(26,000)	-	-	(20,000)	-	-	-	(46,000)
Balance at 31.12.15	**11,681,499**	**5,004,667**	**686,216**	**560,888**	**365,062**	**1,484,544**	**3,838,204**	**-**	**23,621,080**
Depreciation									
Balance at 01.01.14	859,222	1,574,623	79,491	271,510	146,441	-	-	-	2,931,287
Charge for the year	224,074	408,528	52,442	46,228	39,064	54,933	98,951	-	924,220
Disposals	-	(106,565)	-	-	(18,235)	-	-	-	(124,800)
Balance at 31.12.14	**1,083,296**	**1,876,586**	**131,933**	**317,738**	**167,270**	**54,933**	**98,951**	**-**	**3,730,707**

11 Property, plant and equipment (continued)

11.1 (continued)

	Buildings €	Plant and equipment €	Furniture and fittings €	Office and computer equipment €	Motor vehicles €	Cargo carrying units €	Photovoltaic farm €	Payments in advance and assets under construction €	Total €
Balance at 01.01.15	1,083,296	1,876,586	131,933	317,738	167,270	54,933	98,951	-	3,730,707
Charge for the year	392,704	519,036	65,209	53,944	67,192	148,454	198,739	-	1,445,278
Disposals	-	(4,869)	-	-	(20,000)	-	-	-	(24,869)
Balance at 31.12.15	**1,476,000**	**2,390,753**	**197,142**	**371,682**	**214,462**	**203,387**	**297,690**	**-**	**5,151,116**
Carrying amounts									
At 1 January 2014	2,899,625	1,215,799	77,421	42,045	36,612	-	-	3,358,160	7,629,662
At 31 December 2014	8,242,431	2,270,003	400,380	165,188	105,269	1,043,733	3,723,355	375,000	16,325,359
At 1 January 2015	**8,242,431**	**2,270,003**	**400,380**	**165,188**	**105,269**	**1,043,733**	**3,723,355**	**375,000**	**16,325,359**
At 31 December 2015	**10,205,499**	**2,613,914**	**489,074**	**189,206**	**150,600**	**1,281,157**	**3,540,514**	**-**	**18,469,964**

11.2 At 31 December 2015, the Company still used fully depreciated plant and equipment that had a gross carrying amount of €3,171,251 (2014: €1,014,262).

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 Property, plant and equipment (continued)

11.4 Payments in advance and assets under construction at the beginning of 2014 related to the photovoltaic equipment and construction cost for the development of the 2011 kWp photovoltaic farm and included capitalized borrowing costs of €59,645, capitalized depreciation of €36,874 and capitalized personnel expenses of €36,404. During 2015, no borrowing costs or personnel expenses were capitalised. During 2014, borrowing costs and personnel expenses amounting to €135,749 and €36,523 respectively were further capitalized until the photovoltaic farm was completed. The total cost of the farm amounting to €4,545,578 was reclassified from payments in advance and assets under construction to the respective property, plant and equipment categories during 2014.

Payment in advance at the beginning of 2015 related to cargo carrying units received subsequent to year end. During 2015, the full cost of the cargo carrying units was reclassified to the respective category from payments in advance.

11.5 Commitments

During 2015, the Company did not enter into contracts to purchase property, plant and equipment (2014: €467,692).

11.6 Security

At 31 December 2015, the Company's emphytheutical 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 issued by the Company's parent during the current and comparative years and bank borrowings (refer to note 18).

12 Deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2015	2014	**2015**	2014	**2015**	2014
	€	€	**€**	€	**€**	€
Property, plant and equipment	**-**	-	**(802,503)**	(218,561)	**(802,503)**	(218,561)
Provision for discounted future gratuity payments	**10,876**	10,354	**-**	-	**10,876**	10,354
Provision for exchange fluctuations	**282**	-	**-**	(1,787)	**282**	(1,787)
Investment tax credits	**4,215,107**	4,215,107	**(2)**	-	**4,215,105**	4,215,107
Tax assets / (liabilities) before set-off	**4,226,265**	4,225,461	**(802,505)**	(220,348)	**3,423,760**	4,005,113
Set-off of tax	**-**	(220,348)	**-**	220,348	**-**	-
Net tax assets / (liabilities)	**4,226,265**	4,005,113	**(802,505)**	-	**3,423,760**	4,005,113

12 Deferred tax assets and liabilities (continued)

12.2 Movement in temporary differences

	Balance 01.01.14	Recognised in profit or loss 2014	Balance 01.01.15	Recognised in profit or loss 2015	Balance 31.12.15
	€	€	€	€	€
Property, plant and equipment	15,304	(233,865)	**(218,561)**	**(386,874)**	**(605,435)**
Provision for discounted future gratuity payments	12,981	(2,627)	**10,354**	**522**	**10,876**
Impairment loss on receivables	2,880	(2,880)	**-**	**-**	**-**
Provision for exchange fluctuations	(170)	(1,617)	**(1,787)**	**2,069**	**282**
Unutilised tax losses and unabsorbed capital allowances	253,898	(253,898)	**-**	**-**	**-**
Investment tax credits	4,215,107	-	**4,215,107**	**(197,070)**	**4,018,037**
	4,500,000	(494,887)	**4,005,113**	**(581,353)**	**3,423,760**

12.3 Recognition of deferred tax asset on investment tax credits

As at 31 December 2015, a deferred tax asset of €4,018,037 (2014: €4,215,107) was recognised in the financial statements to the extent of investment tax credits expected to be utilised in the future. Based on the Company's profit forecasts for the period 2016 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%. The investment tax credits do not expire.

12.4 Unrecognised deferred tax asset

A deferred tax asset of €2,312,288 (2014: €2,382,242) has not been recognised in respect of investment tax credits.

13 Trade and other receivables

13.1

	2015	2014
	€	€
Trade receivables	**11,004,852**	7,323,724
Amounts owed by fellow subsidiaries	**1,895,376**	1,252,744
Other receivables	**626,547**	1,028,100
Accrued income	**376,124**	-
Deferred expenses	-	245,602
Prepayments	**393,843**	337,760
	14,296,742	10,187,930

13.2 Amounts owed by fellow subsidiaries are unsecured, interest-free and repayable on demand. Transactions with related parties are set out in note 24 to these financial statements.

13.3 "The Company has entered into four forward contract agreements on behalf of Medserv ME Limited, a fellow subsidiary, for the acquisition in aggregate of $27 million on 16 February 2016. The fair value of the forward contracts at the reporting date amounted to €1,176,437.

As the Company is acting for an on behalf of Medserv ME Limited (the "principal") under a mandate agreement, the Company has contractual obligations towards the principal for the remittance of all gains, and has contractual rights to call upon the principal for the reimbursement of all losses, in relation to the forward contract. The Company is providing these agency services for no consideration. As a result, the Company does not meet the criteria for fair value gains and losses on the forward contracts to be recognized on its own account.

The derivative financial assets and the liability towards the principal have been separately recognized and presented in the statement of financial position to reflect the Company's rights and obligations to the relevant parties, and the risk exposures emanating from both contracts."

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

14 Cash and cash equivalents

	Note	**2015**	2014
		€	€
Cash in hand		**25,958**	53,525
Bank balances		**166,700**	279,269
Cash at bank and in hand		**192,658**	332,794
Bank overdrafts used for cash management purposes	18	**(2,688,570)**	(2,545,670)
Cash and cash equivalents		**(2,495,912)**	(2,212,876)

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 21.

15 Capital and reserves

15.1 Share capital

	Ordinary shares	
	2015	2014
	No.	No.
In issue at 1 January	**100,001**	100,001
	======	======
In issue at 31 December – fully paid	**100,001**	100,001
	======	======

The Company's authorised share capital comprised 500,000 shares of €2.325373 each (2014: 500,000 ordinary shares of €2.329373 each).

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.

15.2 Statutory reserve

The statutory reserve is not 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 2015, the balance in this reserve represented the deferred tax asset recognised in respect of investment tax credits available to the Company as at that date.

15.3 Availability of reserves for distribution

	2015	2014
	€	€
Distributable	**1,809,949**	293,480
Non-distributable	**4,018,037**	4,215,107
	5,827,986	4,508,587
	=======	=======

15.4 Dividends

The following dividends were declared and paid by the Company for the year:

	2015	2014
	€	€
€25 (2014: €14) per qualifying ordinary share	**2,500,000**	1,400,000
	=======	======

15 Capital and reserves (continued)

15.4 Dividends (continued)

After the end of the reporting period, the following dividends were proposed by the directors. The dividends have not been provided for and there are no tax consequences.

	2015	2014
	€	€
Nil (2014: €14) per qualifying ordinary share	-	1,400,000
	======	=======

Dividend per qualifying ordinary share is worked out on the number of shares existing as at 31 December 2015.

16 Deferred income

During 2012, the Company 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 emphytheutical grant deeds, a lease agreement as well as the operating licence issued by the Malta Freeport Corporation Limited to Medserv Operations Limited. The award was conditional on the Company 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 emphytheutical grant. The amount recognised in profit or loss during 2015 was equal to €775,533 (2014: €775,533).

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	2015	2014
				€	€
Unsecured loan	EUR	6.39%	2023	**12,610,982**	12,564,658
Unsecured loan	EUR	6%	2022	**3,675,840**	-
				16,286,822	12,564,658
				========	=======

Transactions with related parties are set out in note 24 to these financial statements.

18 Loans and borrowings

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

	Note	2015 €	2014 €
Non-current liabilities			
Secured bank loans		**2,660,572**	125,231
		========	========
Current liabilities			
Secured bank loans		**1,099,885**	1,077,197
Bank overdrafts	14	**2,688,570**	2,545,670
		3,788,455	3,622,867
		========	========

18.2 Terms and debt repayment schedule

At the end of the year, the Company had bank loans amounting to €3,760,457. The interest rate and terms of repayment were as follows:

Bank loan	Interest rate	Repayable by
€138,060	5.35%	Monthly instalments of €4,785 inclusive of interest, repayable up to 16 July 2018.
€1,598,057	5.35%	Monthly instalments of €50,303 inclusive of interest, repayable up to 20 November 2018.
€2,024,341 (USD: 2,203,090)	4.11%	Monthly instalments of €49,260 (USD53,610) inclusive interest, repayable up to 26 August 2019.

The loans were secured by a guarantee for €12,270,000 given by the parent company; first pledge given by the Company over a building insurance policy for €4,000,000, 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 the Company 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 the Company.

18 Loans and borrowings (continued)

18.2 Terms and debt repayment schedule (continued)

Furthermore as at 31 December 2015, the Company enjoyed general overdraft facilities of €4,100,000 at the following terms and conditions:

Bank overdraft	Interest rate	Security
€1,100,000	5.15%	Joint and several guarantee by the parent company.
€2,500,000	5.35%	First general hypothec for €7,500,000 given by the company.
€500,000	5.15%	Joint and several guarantees by the parent company.

At 31 December 2015, the Company had unutilised bank overdraft facilities of €1,411,430 (2014: €454,330).

19 Provision

This provision relates to 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.

20 Trade and other payables

20.1

	2015	2014
	€	€
Trade payables	**5,018,506**	6,203,657
Amounts due to related parties:		
Parent company	**3,448,138**	3,305,528
Other related companies	**55,165**	166,080
Directors	**586**	-
Accruals	**209,318**	92,067
	8,731,713	9,767,332

20.2 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

Accounting classifications

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 derivative financial assets comprise forward exchange contracts used for hedging. The Company's non-derivative financial liabilities comprised loans and borrowings, bank overdrafts, amounts due to the parent company and 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 years are equal to the carrying amounts shown in the statement of financial position.

The base for determining fair values is disclosed below.

Derivative financial assets

The recurring fair value of the Company's hedging instruments was determined by independent brokers having appropriate recognised professional qualifications and experience. The fair value for all derivative financial instruments was measured using the market comparison valuation technique and has been categorised within level 2 of the fair value hierarchy. The instruments' fair value as at 31 December 2015 amounted to €1,176,437.

The fair value of the forward contracts was based on the difference between the agreed price of selling or buying the financial instruments on a future date and the price quoted on the year-end date for selling or buying the same or similar financial instruments.

Loans and receivables

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. Other cash and cash equivalents and trade and other 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 approximates their fair values.

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

21.2 Financial risk management

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 has 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.

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 a board member and senior management of the Group.

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.

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

21.4 Credit risk (continued)

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	
		2015	2014
Carrying amount	**Note**	**€**	€
Derivative financial asset		**1,176,437**	-
Trade and other receivables	13	**13,526,775**	9,604,568
Cash at bank	14	**166,700**	279,269
		14,869,912	9,883,837

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 historically 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. As at 31 December 2015, the Company's two significant customers accounted for €8.3 million of the trade receivables (2014: €3.6 million).

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

21.4 Credit risk (continued)

Trade and other receivables (continued)

The maximum exposure to credit risk for trade receivables (see note 13.1) at the reporting date by geographic region was:

	Carrying amount	
	2015	2014
	€	€
Carrying amount		
Domestic	**454,416**	737,794
EU countries	**1,563,754**	2,208,603
Libya	**8,976,761**	4,333,685
Other	**9,921**	43,642
	11,004,852	7,323,724

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross	**Impairment**	Gross	Impairment
	2015	**2015**	2014	2014
	€	**€**	€	€
Not past due	**6,615,148**	-	6,170,306	-
Past due 0-30 days	**1,367,486**	-	512,767	-
Past due 31-120 days	**2,530,810**	-	222,064	-
More than 120 days	**491,409**	-	418,587	-
	11,004,852	-	7,323,724	-

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

	2015	2014
	€	€
Balance at 1 January	-	8,230
Movement	-	(8,230)
Balance at 31 December	-	-

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

21.4 Credit risk (continued)

Impairment losses (continued)

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

Derivative financial assets

The derivatives are entered into with a bank which is noted AA-, based on ratings by Fitch.

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 2015, the Company had unutilised overdraft facilities amounting to €1,411,430 (2014: €454,330), which bear interest at the Bank's Base Rate plus 3 per cent.

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 2015							
Non-derivative financial liabilities							
Amounts due to parent company	16,286,822	(24,010,088)	(465,688)	(483,191)	(961,130)	(2,883,389)	(19,216,690)
Secured bank loans	3,760,457	(4,062,132)	(626,090)	(626,090)	(1,255,181)	(1,556,771)	-
Trade and other payables	8,731,713	(8,731,713)	(8,731,713)	-	-	-	-
Bank overdrafts	2,688,570	(2,722,298)	(2,722,298)	-	-	-	-
	31,467,562	(39,526,231)	(12,545,789)	(1,109,281)	(2,213,311)	(4,440,160)	(19,216,690)
31 December 2014							
Non-derivative financial liabilities							
Amounts due to parent company	12,564,658	(19,562,195)	(368,908)	(375,022)	(743,930)	(2,975,720)	(15,098,615)
Secured bank loans	1,202,428	(1,229,921)	(903,198)	(195,019)	(131,704)	-	-
Trade and other payables	9,767,332	(9,767,332)	(9,767,332)	-	-	-	-
Bank overdrafts	2,545,670	(2,579,848)	(2,579,848)	-	-	-	-
	26,080,088	(33,139,296)	(13,619,286)	(570,041)	(875,634)	(2,975,720)	(15,098,615)

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

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 to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the Company's functional currency.

In respect of 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.

The Company is exposed to market price risk arising from the uncertainty about the future prices of derivatives held by the Company that are classified in the statement of the financial position as financial assets at fair value through profit or loss. As the Company holds these forward contracts for an on behalf of a fellow subsidiary under a mandate agreement (see note 13.3) the Company is not exposed to price risk on the forward contracts as at the reporting date.

Exposure to currency risk

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

	31 December 2015		31 December 2014	
	USD	**GBP**	USD	GBP
Trade payables	**(185,503)**	**(18,465)**	(69,366)	(36,970)
Bank loan	**(2,203,090)**	-	-	-
Available funds in foreign currency	**5,936**	-	2,127	-
Net statement of financial position exposure	**(2,382,657)**	**(18,465)**	(67,239)	(36,970)

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	
	2015	2014	**2015**	2014
USD	**1.094**	1.329	**1.093**	1.217
GBP	**0.734**	0.806	**0.737**	0.783

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 is based on foreign currency exchange rate variances that 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 2014.

	Profit or loss
	€
31 December 2015	
USD	**168,381**
GBP	**2,278**
	====
31 December 2014	
USD	4,955
GBP	4,207
	====

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.

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	
	2015	2014
	€	€
Variable rate instruments		
Financial liabilities	**(6,449,027)**	(3,748,098)
	=======	=======
Fixed rate instruments		
Financial assets	**166,700**	279,269
Financial liabilities	**(16,286,822)**	(12,564,658)
	========	========

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 at the reporting date, would have increased / (decreased) profit or loss (and equity) by the pre-tax amount shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2014.

A change of 100 basis points in interest rates on fixed rate instruments, would have increased or decreased the Company's equity by €162,828 (2014: € 125,647).

A change of 100 basis points in interest rates on variable rate instruments would have increased or decreased the Company's equity by €64,490 (2014: €39,649).

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 directors' 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.

22 Operating leases

22.1 Leases as lessee

The Company leases a quay, premises and ancillary facilities at Malta Freeport, Kalafrana and premises at Hal Far Industrial Estate under separate operating leases. The lease at Malta Freeport, Kalafrana runs for a period of forty-seven and a half years from 5 December 2012. This lease has been granted to the Company under title of temporary emphyteusis. The lease at Hal Far Industrial Estate runs for a period of ten years from 20 October 2014.

During the year, an amount of €490,156 was recognised as an expense in profit or loss in respect of operating leases (2014: €228,108).

22.2 Prepaid operating lease

The Company recognised prepaid operating lease on 1 January 2013 representing the fair value of the property rights held by the Company 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 emphytheutical grant deeds, a lease agreement, as well as the operating licence issued by the Malta Freeport Corporation Limited to the Company. An external valuer valued the property rights on the basis of market value on the assumption that the property rights could be sold subject to any existing third party obligations. The market value of the above-mentioned property rights, as at 31 December 2012, amounted to €40,273,431. This amount less the carrying amount of improvements of €3,047,826 included in property, plant and equipment as at 31 December 2012, was established as the fair value of the prepaid operating lease at grant date (refer to accounting policy 3.11). The initial fair value of the prepaid operating lease is being depreciated over the term of the lease expiring in 2060 as follows:

		2015	2014
	Note	**€**	€
At 1 January	3.9	**35,674,539**	36,450,072
Charge for the year		**(775,533)**	(775,533)
At 31 December		**34,899,006**	35,674,539
Non-current		**34,123,472**	34,899,006
Current		**775,533**	775,533
		34,899,005	35,674,539

23 Contingencies

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

- Guarantees given to the Company's bankers in favour of third parties amounting to €134,670 (2014: €134,670)
- The Company acts as a guarantor in favour of its parent company's banker up to a limit of €1,300,000 for a bank overdraft facility.

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.

24.2 Identity of other related parties

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

24.3 Transactions with key management personnel

Directors of the Company 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.

Directors' remuneration is included in Note 9.

24 Related parties (continued)

24.4 Related party transactions

The following transactions were conducted during the year:

In addition to the transactions disclosed in the statement of cash flows and notes 13.3 and 20 to the financial statements there were the following party transactions:

	2015	2014
	€	€
Parent company		
Interest charged by	**846,092**	686,797
Dividend payable to	**2,500,000**	1,400,000
	========	========
Fellow subsidiaries		
Payment of expenses on behalf of	**4,044,837**	1,143,981
Payment of expenses by	**(334,363)**	-
Cash received on behalf of	-	135,000
Transfer of equipment from	**(111,081)**	-
Support services to	**29,966**	237,206
Services provided by	-	14,491
Repayment of expenses previously paid on behalf of	**188,924**	188,924
	======	======
Other related party		
Services provided by	**4,210**	8,906
	======	======

24.5 Related party balances

Information on amounts due from / to related parties is set out in notes 13, 17 and 20 to these financial statements.

KPMG
Portico Building
Marina Street
Pietà PTA 9044
Malta

Telephone (+356) 2563 1000
Fax (+356) 2566 1000
E-mail kpmg@kpmg.com.mt
Internet www.kpmg.com.mt

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 42, which comprise the statement of financial position as at 31 December 2015 and the statements 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 for the Financial Statements 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.

KPMG
Portico Building
Marina Street
Pietà PTA 9044
Malta

Telephone (+356) 2563 1000
Fax (+356) 2566 1000
E-mail kpmg@kpmg.com.mt
Internet www.kpmg.com.mt

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 2015, 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

22 March 2016