Medserv Operations Limited

Annual Report

2016

Company Registration Number: C 2971

Medserv Operations Limited

Medserv Operations Limited

Directors' Report

For the Year Ended 31 December 2016

The directors have prepared this directors' report for Medserv Operations Limited (the "Company") in accordance with Article 177 of the Companies Act, 1995 (Chapter 386, Laws of Malta) ("the Act") including the further provisions as set out in the Sixth Schedule to the Act together with the financial statements of the Company for the year ended 31 December 2016.

Board of directors

Anthony S Diacono
Anthony J Duncan
Joseph F X Zahra
Joseph Zammit Tabona
Charles L Daly (resigned on 31 December 2016)

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

The Oil and Gas industry is going through one of the most transformative periods in its history, which will ultimately redefine the energy business as we know it. This coupled with the geopolitical risk within the region in which the Company operates makes it challenging but brings with it opportunities.

During the year, the Company has experienced a slowdown in the demand for its services and external pressure on its profit margins. Notwithstanding the current oil and gas environment, the Company has continued to show resilience and secure new contracts.

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

Principal risks and uncertainties

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

Concentration risk: The Company's business is heavily dependent on relatively few customers. The Company's objective is to increase client spread within the oil and gas industry. The strategic development team is continuously working to secure business from new international oil companies.

Political risk: The Company's results may be significantly impacted positively or negatively as a result of political decisions. Regulatory and environmental decisions as well as political instability can delay, disrupt or cancel projects. The political and security climate in Libya was volatile in 2016 and is expected to remain so during the coming year.

Oil price: Oil service companies tend to have greater volatility of earnings than oil majors, given their sensitivity to the capital spending plans of oil explorers, which wax and wane with oil prices.

Medserv Operations Limited

Directors' Report (continued)

For the Year Ended 31 December 2016

Financial performance

The Company's total revenue for the year amounted to €16,467,599 (2015: €27,086,162) and its operating profit amounted to €2,355,248 (2015: €5,516,309). The significant decrease in results is attributable to the slowdown in the demand for its services and external pressure on the Company's profit margins.

The Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) of the Company amounted to €3,913,870 (2015: €6,961,587). After recognising depreciation amounting to €1,558,622 (2015: €1,445,278) and net finance costs amounting to €664,775 (2015: €1,063,660), the Company registered a profit before tax of €1,690,473 (2015: €4,452,649). After accounting for taxation, the profit for the year amounted to €6,850,614 (2015: €3,819,399).

Financial key performance indicators

	2016 € 000	2015 € 000
Revenue	16,468	27,086
Profit for the year	6,851	3,819
EBITDA	3,914	6,962
Working capital	8,155	3,146
Cash and cash equivalents	699	(2,496)

	2016	2015
EBITDA margin in %	23.77%	25.70%
EBITDA-to-Interest Coverage Ratio	5.88	6.55
Net debt to EBITDA	0.67	0.93
Debt to Equity ratio	0.11	1.06

Financial position

As at 31 December 2016, the Company reported a net asset position amounting to €24,985,950 (2015: €6,060,926) and a positive short term liquidity position of €8,154,643 (2015: €3,145,669). Trade and other payables reported in the statement of financial position as at 31 December 2016 include a balance payable to the parent company amounting to €3,735,371 (2015: €3,448,138).

Dividends

An interim dividend amounting to €1,000,000 was declared during the year. No final dividends have been declared or proposed.

Medserv Operations Limited

Directors' Report (continued)

For the Year Ended 31 December 2016

Reserves

During the year, transfers from retained earnings to statutory reserve amounted to €5,256,080 in accordance with the requirements of the Companies Act, 1995. Retained earnings amounting to €2,404,483 are being carried forward.

Future developments

The Company's strategy remains in line with prior years and is aimed to improve earnings while at the same time ensuring that the Company operates in a cost effective manner across its product service lines. The directors expect the Company to continue operating at a profit in the foreseeable future.

Approved by the Board of Directors on 5 April 2017 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 2016

	Note	2016	2015
		€	€
ASSETS			
Property, plant and equipment	11	**17,822,794**	18,469,964
Prepaid operating leases	22	**33,347,939**	34,123,472
Deferred tax assets	12	**8,583,901**	3,423,760
Total non-current assets		**59,754,634**	56,017,196
Derivative financial assets	21	-	1,176,437
Trade and other receivables	13	**15,798,548**	14,296,742
Prepaid operating leases	22	**775,533**	775,533
Cash at bank and in hand	14	**698,773**	192,658
Total current assets		**17,272,854**	16,441,370
Total assets		**77,027,488**	72,458,566

Medserv Operations Limited

Statement of Financial Position (continued)

As at 31 December 2016

	Note	2016	2015
		€	€
EQUITY			
Share capital	15	**232,940**	232,940
Shareholder's contribution	15	**13,074,410**	-
Statutory reserve	15	**9,274,117**	4,018,037
Retained earnings		**2,404,483**	1,809,949
Total equity		**24,985,950**	6,060,926
LIABILITIES			
Deferred income	16	**33,347,939**	34,123,472
Amounts due to parent company	17	**8,020,259**	16,286,822
Loans and borrowings	18	**1,522,450**	2,660,572
Provision	19	**32,679**	31,073
Total non-current liabilities		**42,923,327**	53,101,939
Deferred income	16	**775,533**	775,533
Loans and borrowings	18	**1,111,520**	3,788,455
Trade and other payables	20	**7,231,158**	8,731,713
Total current liabilities		**9,118,211**	13,295,701
Total liabilities		**52,041,538**	66,397,640
Total equity and liabilities		**77,027,488**	72,458,566

The notes on pages 11 to 46 are an integral part of these financial statements.

The financial statements on pages 5 to 46 were approved and authorised for issue by the Board of Directors on 5 April 2017 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 2016

	Note	2016	2015
		€	€
Revenue	5	**16,467,599**	27,086,162
Cost of sales	7	**(12,199,578)**	(19,821,792)
Gross profit		**4,268,021**	7,264,370
Other income	6	**436,200**	12,178
Administrative expenses	7	**(2,348,973)**	(1,651,465)
Other expenses	6	**-**	(108,774)
Results from operating activities		**2,355,248**	5,516,309
Finance income	9	**1,037**	-
Finance costs	9	**(665,812)**	(1,063,660)
Net finance costs		**(664,775)**	(1,063,660)
Profit before income tax		**1,690,473**	4,452,649
Tax income/(expense)	10	**5,160,141**	(633,250)
Profit for the year		**6,850,614**	3,819,399
Total comprehensive income for the year		**6,850,614**	3,819,399

The notes on pages 11 to 46 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Changes in Equity

For the Year Ended 31 December 2016

	Share capital	Shareholder's contribution	Statutory reserve	Retained earnings	Total equity
	€	€	€	€	€
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 declared	-	-	-	(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
Balance at 1 January 2016	**232,940**	**-**	**4,018,037**	**1,809,949**	**6,060,926**
Total comprehensive income					
Profit	**-**	**-**	**-**	**6,850,614**	**6,850,614**
Contributions by and distributions to owners					
Issue of shareholder's loan	**-**	**13,074,410**	**-**	-	**13,074,410**
Dividends declared	**-**	**-**	**-**	**(1,000,000)**	**(1,000,000)**
Transfer	**-**	**-**	**5,256,080**	**(5,256,080)**	**-**
Balance at 31 December 2016	**232,940**	**13,074,410**	**9,274,117**	**2,404,483**	**24,985,950**

The notes on pages 11 to 46 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Cash Flows

For the Year Ended 31 December 2016

	Note	2016 €	2015 €
Cash flows from operating activities			
Profit for the year		**6,850,614**	3,819,399
Adjustments for:			
Depreciation	11	**1,558,622**	1,445,278
Gain on disposal of property, plant and equipment	11	**(365,000)**	(7,875)
Provision for discounted future gratuity payments		**1,606**	1,492
Exchange differences		**36,322**	(4,303)
Net finance costs	9	**664,775**	1,063,660
Tax (income)/expense	10	**(5,160,141)**	633,250
		3,586,798	6,950,901
Changes in:			
Trade and other receivables		**1,388,353**	(3,466,241)
Trade and other payables		**(1,712,588)**	(1,062,248)
Related party balances		**2,300,762**	(4,286,789)
Cash generated from / (absorbed by) operating activities		**5,563,325**	(1,864,377)
Interest paid		**(71,255)**	(119,637)
Interest received		**1,037**	-
Taxation paid		**-**	(51,897)
Net cash from / (used in) operating activities		**5,493,107**	(2,035,911)
Balance carried forward		**5,493,107**	(2,035,911)

Medserv Operations Limited

Statement of Cash Flows (continued)

For the Year Ended 31 December 2016

	Note	2016	2015
		€	€
Balance brought forward		**5,493,107**	(2,035,911)
Cash flows from investing activities			
Acquisition of property, plant and equipment	11	**(1,291,452)**	(3,611,014)
Proceeds for sale of property, plant and equipment	11	**-**	29,006
Net cash used in investing activities		**(1,291,452)**	(3,582,008)
Cash flows from financing activities			
Proceeds from loans and borrowings		**-**	3,847,818
Repayment of bank loans		**(1,206,285)**	(1,289,788)
Interest paid on bank loan		**(87,792)**	(99,218)
Funds advanced by parent		**807,840**	3,620,000
Interest paid on funds advanced by parent		**(520,733)**	(743,929)
Net cash (used in) / from financing activities		**(1,006,970)**	5,334,883
Net increase / (decrease) in cash and cash equivalents		**3,194,685**	(283,036)
Cash and cash equivalents at 1 January		**(2,495,912)**	(2,212,876)
Cash and cash equivalents at 31 December	14	**698,773**	(2,495,912)

The notes on pages 11 to 46 are an integral part of these financial statements.

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. 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 prospectively.

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

- Note 12 – recognition of deferred tax assets on investment tax credits; and
- Note 21 – credit risk arising from the trade receivables operating in the oil and gas industry.

3 Significant accounting policies

The Company has consistently applied the accounting policies to all periods presented in these financial statements. Certain comparatives have been reclassified to conform with the current year's presentation.

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 cash and cash equivalents and trade and other receivables. The Company's non-derivative financial liabilities comprised loans and borrowings 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 with contractual maturities of three months or less, as well as a bank overdraft that was repayable on demand and forms an integral part of the 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

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 measured 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)

Depreciation commences when the item is available for use.

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

• buildings and base improvements	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.

3.5 Impairment

3.5.1 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 impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the 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)

3.5 Impairment (continued)

3.5.1 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.

3.5.2 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)

3.6 Employee benefits

3.6.1 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.

3.6.2 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.

3.7 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:

3.7.1 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.

3.7.2 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.

3.7.3 Photovoltaic income

The Company derives part of its revenue from the sale of solar generated electricity based on long term Feed-in-Tariffs. Revenue is recognised upon delivery of electricity produced to the local operator of the electricity grid. Delivery is deemed complete when all the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable. Revenues from the sale of electricity are recognised at the time the electricity is supplied on the basis of periodic meter readings.

3 Significant accounting policies (continued)

3.8 Lease payments

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

3.9 Finance income and finance costs

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

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

3.10 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.

3.11 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.

3.11.1 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.

3.11.2 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.

3 Significant accounting policies (continued)

3.11 Income tax (continued)

3.11.2 Deferred tax (continued)

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.

3.12 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 and amendments to standards are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. Except for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from Contracts with Customers*, which are discussed below, none of these are expected to have a significant effect on the financial statements of the Company in the period of initial application. The Company does not plan to early adopt these standards.

4.1 IFRS 9 *Financial Instruments*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

4 New standards and interpretations not yet adopted (continued)

4.1 IFRS 9 *Financial Instruments (continued)*

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

4.2 IFRS 15 *Revenue from Contracts with Customers*

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.

The Company has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements and is not expecting any significant impact on the Company's revenue recognition.

5 Revenue

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

6 Other income and other expenses

6.1 Other income

		2016	2015
	Note	**€**	€
Gain on disposal of property, plant and equipment	11	**365,000**	7,875
Unrealised operating exchange gain		**36,322**	4,303
Realised operating exchange gain		**34,878**	-
Reversal of prepaid operating lease	22	**(775,533)**	(775,533)
Reversal of deferred income	16	**775,533**	775,533
		436,200	12,178

6.2 Other expenses

Other expenses incurred in the comparative year represented net realised operating exchange losses.

7 Expenses by nature

7.1

	Note	2016 €	2015 €
Direct cost of services		**7,774,680**	15,484,647
Employee benefits	8	**2,541,975**	2,307,574
Depreciation	11	**1,558,622**	1,445,278
Professional fees		**494,110**	69,693
Travelling and telecommunications		**455,080**	315,841
Repairs and maintenance		**363,064**	594,389
Rent	22	**467,244**	490,156
Insurance		**214,063**	236,491
Staff welfare		**162,561**	138,697
Security services		**232,169**	180,829
Other		**284,983**	209,662
Total cost of sales and administrative expenses		**14,548,551**	21,473,257

7.2 Administrative expenses include auditors' remuneration amounting to €34,900.

8 Personnel expenses

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

	2016 €	2015 €
Directors' emoluments:		
Salaries	**357,650**	300,000
Fees	**77,029**	66,391
	434,679	366,391
Wages and salaries	**2,779,318**	2,557,518
Social security contributions	**163,263**	146,211
Maternity funds	**5,135**	-
	3,382,395	3,070,120
Recharged to fellow subsidiaries	**(840,420)**	(762,546)
	2,541,975	2,307,574

8 Personnel expenses (continued)

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

	2016	2015
	No.	No.
Operating	**83**	75
Management and administration	**17**	21
	100	96

9 Net finance costs

	2016	2015
	€	€
Bank interest receivable	**1,037**	-
Finance income	**1,037**	-
Interest payable on bank loan	**(87,645)**	(104,312)
Other bank interest payable	**(57,434)**	(113,255)
Interest payable on parent company loan	**(520,733)**	(846,093)
Finance costs	**(665,812)**	(1,063,660)
Net finance costs	**(664,775)**	(1,063,660)

10 Tax expense

10.1 Recognised in the income statement

	Note	2016 €	2015 €
Current tax			
Top-up taxes on dividends paid		-	(51,897)
Deferred tax movement			
Origination and reversal of temporary differences	12.2	**5,160,141**	(581,353)
		5,160,141	(633,250)

10.2 The tax income/(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:

	2016 €	2015 €
Profit before tax	**1,690,473**	4,452,649
Income tax using the domestic income tax rate 35%	**(591,666)**	(1,558,427)
Tax effect of:		
Investment tax credits	**5,702,563**	970,894
Disallowed expenses	-	(1,912)
Adjustment to prior year's deferred tax asset	**49,244**	8,092
Taxation on dividends paid	-	(51,897)
Tax income/(expense)	**5,160,141**	(633,250)

10.3 The Company is eligible to the incentives provided by regulations 5, 31 and 32 of the Business Promotion Regulations, 2001 ("BPRs") and regulation 4 of the Investment Aid Regulations ("IARs") (see note 12.3).

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 01.01.15	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	-	3,611,014
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
Balance at 01.01.16	11,681,499	5,004,667	686,216	560,888	365,062	1,484,544	3,838,204	-	23,621,080
Acquisitions	631,967	459,311	85,755	83,402	31,017	-	-	-	1,291,452
Write-off	-	(760,000)	-	-	-	-	-	-	(760,000)
Balance at 31.12.16	12,313,466	4,703,978	771,971	644,290	396,079	1,484,544	3,838,204	-	24,152,532
Depreciation									
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

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 01.01.16	1,476,000	2,390,753	197,142	371,682	214,462	203,387	297,690	-	5,151,116
Charge for the year	428,964	565,494	72,690	67,384	76,896	148,454	198,740	-	1,558,622
Released on write-off	-	(380,000)	-	-	-	-	-		(380,000)
Balance at 31.12.16	1,904,964	2,576,247	269,832	439,066	291,358	351,841	496,430	-	6,329,738
Carrying amounts									
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
At 1 January 2016	10,205,499	2,613,914	489,074	189,206	150,600	1,281,157	3,540,514	-	18,469,964
At 31 December 2016	**10,408,502**	**2,127,731**	**502,139**	**205,224**	**104,721**	**1,132,703**	**3,341,774**	**-**	**17,822,794**

11.2 At 31 December 2016, the Company still used fully depreciated plant and equipment that had a gross carrying amount of €2,480,617 (2015: €3,171,251).

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 (see note 22.2).

11 Property, plant and equipment (continued)

11.4 On 22 September 2016, a crane included in plant and equipment with a net book value of €380,000 was destroyed in an accident. Insurance proceeds covering the cost of the crane were received subsequent to year-end (see note 13.3).

11.5 Payment in advance and assets under construction at the beginning of 2015 related to cargo carrying units received during the prior year. As a result, the full cost of the cargo carrying units was reclassified to the respective category from payments in advance in the prior year.

11.6 Security

At 31 December 2016, 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	
	2016	2015	**2016**	2015	**2016**	2015
	€	€	**€**	€	**€**	€
Property, plant and equipment	**-**	-	**(703,217)**	(605,435)	**(703,217)**	(605,435)
Provision for discounted future gratuity payments	**11,438**	10,876	**-**	-	**11,438**	10,876
Provision for exchange fluctuations	**1,563**	282	**-**	-	**1,563**	282
Investment tax credits	**9,274,117**	4,018,037	**-**	-	**9,274,117**	4,018,037
Tax assets / (liabilities)	**9,287,118**	4,029,195	**(703,217)**	(605,435)	**8,583,901**	3,423,760
Set-off of tax	**(703,217)**	(605,435)	**703,217**	605,435	**-**	-
Net tax assets	**8,583,901**	3,423,760	**-**	-	**8,583,901**	3,423,760

12 Deferred tax assets and liabilities (continued)

12.2 Movement in temporary differences

	Balance 01.01.15	Recognised in profit or loss 2015	Balance 01.01.16	Recognised in profit or loss 2016	Balance 31.12.16
	€	€	€	€	€
Property, plant and equipment	(218,561)	(386,874)	(605,435)	**(97,782)**	**(703,217)**
Provision for discounted future gratuity payments	10,354	522	10,876	**562**	**11,438**
Provision for exchange fluctuations	(1,787)	2,069	282	**1,281**	**1,563**
Investment tax credits	4,215,107	(197,070)	4,018,037	**5,256,080**	**9,274,117**
	4,005,113	(581,353)	3,423,760	**5,160,141**	**8,583,901**

12.3 Recognition of deferred tax asset on investment tax credits

As at 31 December 2016, a deferred tax asset of €9,274,117 (2015: €4,018,037) 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 foreseeable period, the directors believe that the Company will have sufficient taxable profits in the future against which this deferred tax asset can be utilised.

These profit forecasts were based on realistic assumptions of business growth, including the expected volume of business arising from maintenance projects and the provision of logistic support services to the offshore oil and gas industry during the forecast period that the directors believe will be provided by the Company. Historic values of similar projects were used to support and quantify the net result of the future projects and services. The extent of utilization of the investment tax credits was based on the assumption that the profit forecasts will be subject to the current tax rate of 35%. Special Tax Credits (STCs) in terms of regulations 31 to 35 of the BPRs that are available to beneficiaries in terms of regulation 32 of the BPRs amounting to €2,357,406 are expected to be utilized by 31 December 2020. The investment tax credits available in terms of regulation 5 of the BPRs and regulation 4 of the IARs, and amounting to €6,916,711 do not expire.

In view of the clarified interpretation of enacted law leading to the probable increased utilisation of investment tax credits availed by the Company, a previously unrecognised deferred tax asset amounting to €2,382,242 (see note 12.4) has been recognised during the year.

12.4 Unrecognised deferred tax asset

As at 31 December 2015 a deferred tax asset of €2,382,242 in respect of investment tax credits was not recognised.

13 Trade and other receivables

13.1

	2016	2015
	€	€
Trade receivables	**8,932,863**	11,004,852
Amounts owed by fellow subsidiaries	**4,450,191**	1,895,376
Other receivables	**1,587,932**	626,547
Accrued income	-	376,124
Prepayments	**827,562**	393,843
	15,798,548	14,296,742

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 Other receivables include insurance proceeds amounting to €1,056,452 which were received subsequent to year-end (see note 11.4).

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	2016	2015
		€	€
Cash in hand		**26,464**	25,958
Bank balances		**672,309**	166,700
Cash at bank and in hand		**698,773**	192,658
Bank overdrafts used for cash management purposes	18	-	(2,688,570)
Cash and cash equivalents at 31 December		**698,773**	(2,495,912)

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	
	2016	2015
	No.	No.
In issue at 1 January - fully paid	**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 €2.329373 each (2015: 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 Shareholder's contribution

The loan payable to the parent company amounting to €13,074,410 issued in 2016 and capitalised during the year is unsecured, interest-free and repayable at the option of the Company.

15.3 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 2016, 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.

15.4 Availability of reserves for distribution

	2016	2015
	€	€
Distributable	**2,404,483**	1,809,949
Non-distributable	**9,274,117**	4,018,037
	11,678,600	5,827,986

15 Capital and reserves (continued)

15.5 Dividends

The following dividends were declared by the Company during the year:

	2016	2015
	€	€
€10 (2015: €25) per qualifying ordinary share	**1,000,000**	2,500,000

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 2016 was equal to €775,533 (2015: €775,533).

17 Amounts due to parent company

The amounts due to the parent company are unsecured and repayable after more than one year. These amounts comprise:

	Currency	**Nominal interest rate**	**Year of maturity**	**2016**	2015
				€	€
Unsecured loan	EUR	6.39%	2023	-	12,610,982
Unsecured loan	EUR	6.00%	2022	**3,683,500**	3,675,840
Unsecured loan	EUR	6.00%	2023	**3,395,542**	-
Unsecured loan	EUR	4.50%	2026	**941,217**	-
				8,020,259	16,286,822

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	2016 €	2015 €
Non-current liabilities			
Secured bank loans		**1,522,450**	2,660,572
Current liabilities			
Secured bank loans		**1,111,520**	1,099,885
Bank overdrafts	14	-	2,688,570
		1,111,520	3,788,455

18.2 Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

As at 31 December 2016

	Original currency	Carrying amount	Nominal interest rate	Year of maturity
Bank loan	EUR	€1,068,037	Bank's base rate + 3.00%	2018
Bank loan	USD	€1,565,933	LIBOR + 3.5%	2019

As at 31 December 2015

	Original currency	Carrying amount	Nominal interest rate	Year of maturity
Bank loan	EUR	€138,060	Bank's base rate + 3.00%	2018
Bank loan	EUR	€1,598,057	Bank's base rate + 3.00%	2018
Bank loan	USD	€2,024,341	LIBOR + 3.5%	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 €8,568,381, 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 2016, the Company enjoyed general overdraft facilities of €4,500,000 at the following terms and conditions:

Bank overdraft	Interest rate	Security
€1,500,000	5.15%	Joint and several guarantees by the parent company
€2,500,000	5.35%	First general Hypothec for €7,500,000 on subsidiary company's assets.
€500,000	5.15%	Joint and several guarantees by the parent company.

At 31 December 2016, the Company had unutilised bank overdraft facilities of €4,500,000 (2015: €1,411,430).

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

	2016	2015
	€	€
Trade payables	**3,307,145**	5,018,506
Amounts due to related parties:		
Parent company	**3,735,371**	3,448,138
Other related companies	**62,440**	55,165
Directors	**-**	586
Accruals	**126,202**	209,318
	7,231,158	8,731,713

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 comprised 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

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

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

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

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

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

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

21.1 Accounting classifications and fair values (continued)

Fair values versus carrying amounts (continued)

	31 December 2016		31 December 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	€	**€**	€	€
Financial instruments measured at fair value				
Derivative financial assets	-	-	1,176,437	1,176,437

The fair value of financial instruments measured at fair value was determined as follows:

Derivative financial assets

The recurring fair value of the Company's hedging instruments in the prior year was determined by independent brokers having appropriate recognised professional qualifications and experience. The fair value for the 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 2016 amounted to €Nil (2015: €1,176,437).

The fair value of the hedging instruments were 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.

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

Loans and receivables

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

Secured bank loans and non-current amounts due to parent company

The fair values of the Company's interest-bearing borrowings and loans are determined by using the discounted cash-flow method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2016 was assessed to be insignificant.

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

21.1 Accounting classifications and fair values (continued)

Fair values versus carrying amounts (continued)

Other financial liabilities

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

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 Company.

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

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	
		2016	2015
Carrying amount	**Note**	**€**	€
Derivative financial assets		-	1,176,437
Trade and other receivables	13	**14,970,986**	13,526,775
Cash at bank	14	**672,309**	166,700
		15,643,295	14,869,912

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.

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.

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

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.

As at 31 December 2016, the Company's three (2015: two) significant customers accounted for €6.7 million (2015: €8.3 million) of the trade receivables.

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	
	2016	2015
	€	€
Carrying amount		
Domestic	**731,883**	454,416
EU countries	**1,305,153**	1,563,754
Libya	**6,504,215**	8,976,761
Other	**391,612**	9,921
	8,932,863	11,004,852

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross	**Impairment**	Gross	Impairment
	2016	**2016**	2015	2015
	€	**€**	€	€
Not past due	**3,223,325**	-	6,615,148	-
Past due 0-30 days	**560,910**	-	1,367,486	-
Past due 31-120 days	**5,148,628**	-	2,530,810	-
More than 120 days	-	-	491,408	-
	8,932,863	-	11,004,852	-

There was no movement in the allowance for impairment in respect of trade receivables during the current and comparative year.

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available. One of the Company's customers, which owed the Company an amount of €0.9million as at 31 December 2016, is currently undergoing financial restructuring to strengthen its financial and operational systems. In this process, the customer has already secured refinancing from its principal lenders until the restructuring is complete. Management believes that this balance is collectible in full when taking into account negotiations to date and its assessment of the customer's credit risk.

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

21.4 Credit risk (continued)

Trade and other receivables (continued)

An analysis of the credit quality of trade receivables by rating agency category is as follows:

	2016	2015
	€	€
A+	**350,915**	278,306
A	**61,438**	86,243
A-	**10,030**	-
BBB+	**864,287**	3,121,831
BB-	**36,035**	64,495
B-	**275,004**	362,875
Not rated	**7,335,154**	7,091,102
	8,932,863	11,004,852

The trade receivables which are not rated represent highly reputable subsidiaries of international oil companies who have over five years' trading history with the Company. More specifically, 63% included in the 'not rated' category represent trade receivables who have over forty years' trading history with the Company.

Derivative financial assets

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

Cash and cash equivalents

The Company's cash at bank are held with banks which are rated BBB to 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 2016, the Company had unutilised overdraft facilities amounting to €4,500,000 (2015: €1,411,430), 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 2016							
Non-derivative financial liabilities							
Amounts due to parent company	**11,755,630**	**(14,950,401)**	**(3,962,908)**	**(230,621)**	**(458,158)**	**(1,374,530)**	**(8,924,184)**
Secured bank loans	**2,633,970**	**(2,791,561)**	**(607,114)**	**(607,114)**	**(1,577,333)**	-	-
Trade and other payables	**3,495,787**	**(3,495,787)**	**(3,495,787)**	-	-	-	-
	17,885,387	**(21,237,749)**	**(8,065,809)**	**(837,735)**	**(2,035,491)**	**(1,374,530)**	**(8,924,184)**
31 December 2015							
Non-derivative financial liabilities							
Amounts due to parent company	19,734,960	(27,458,226)	(3,913,826)	(483,191)	(961,130)	(2,883,389)	(19,216,690)
Secured bank loans	3,760,457	(4,064,132)	(626,090)	(626,090)	(1,255,181)	(1,556,771)	-
Trade and other payables	5,283,575	(5,283,575)	(5,283,575)	-	-	-	-
Bank overdrafts	2,688,570	(2,722,298)	(2,722,298)	-	-	-	-
	31,467,562	(39,528,231)	(12,545,789)	(1,109,281)	(2,213,311)	(4,440,160)	(19,216,690)

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.

21.6.1 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.

In the prior year, the Company entered into four forward contract agreements on behalf of Medserv M.E. Limited, a fellow subsidiary, for the acquisition in aggregate of $27 million on 16 February 2016. The fair value of the forward contracts at 31 December 2015 amounted to €1,176,437. As the Company was acting for an on behalf of Medserv M.E. Limited (the "principal") under a mandate agreement, the Company had contractual obligations towards the principal for the remittance of all gains, and had contractual rights to call upon the principal for the reimbursement of all losses, in relation to the forward contract. The Company provided these agency services for no consideration. As a result, the Company did 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. As the Company holds these forward contracts for and on behalf of a fellow subsidiary under a mandate agreement the Company is not exposed to price risk on the forward contracts as at the reporting date.

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

21.6 Market risk (continued)

21.6.1 Currency risk (continued)

Exposure to currency risk (continued)

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

	31 December 2016		31 December 2015	
	USD	**GBP**	USD	GBP
Trade and other receivables	**19,091**	-	-	-
Trade and other payables	-	-	(185,503)	(18,465)
Secured bank loan	**(1,649,869)**	-	(2,203,090)	-
Funds in foreign currency	**8,470**	-	5,936	-
Net exposure	**(1,622,308)**	-	(2,382,657)	(18,465)

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2016	2015	**2016**	2015
USD	**1.108**	1.094	**1.052**	1.093
GBP	**0.819**	0.734	**0.856**	0.737

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 2015.

	Profit or loss	**Equity,**
	€	€
31 December 2016		
USD	**167,743**	**167,743**
31 December 2015		
USD	168,381	168,381
GBP	2,278	2,278

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

21.6 Market risk (continued)

21.6.1 Currency risk (continued)

Sensitivity analysis (continued)

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.

21.6.2 Interest rate risk

Profile

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

	Carrying amount	
	2016	2015
	€	€
Variable rate instruments		
Financial assets	**672,309**	166,700
Financial liabilities	**(2,633,970)**	(6,449,027)
Fixed rate instruments		
Financial liabilities	**(8,020,259)**	(16,286,822)

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 rate at the end of the reporting period would not affect profit or loss. A change of 100 basis points in interest rates on fixed-rate instruments is not expected to have a significant effect on the Company's equity.

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 2015.

A change of 100 basis points in interest rates on variable rate instruments would have increased or decreased the Company's equity by €19,617 (2015: €62,824).

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 Company defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated.

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

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

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 €467,244 was recognised as an expense in profit or loss in respect of operating leases (2015: €490,156).

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 3.10). The initial fair value of the prepaid operating lease is being depreciated over the term of the lease expiring in 2060 as follows:

		2016	2015
	Note	**€**	€
At 1 January		**34,899,005**	35,674,538
Charge for the year	6.1	**(775,533)**	(775,533)
At 31 December		**34,123,472**	34,899,005
Non-current		**33,347,939**	34,123,472
Current		**775,533**	775,533
		34,123,472	34,899,005

23 Contingencies

At reporting date, the Company had given guarantees to the Company's bankers in favour of third parties amounting to €93,153 (2015: €134,670);

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 hold 31.3% and 33.49% (2015: 37.5% each) of the issued share capital of the parent company, respectively.

The parent company 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 ("fellow subsidiaries"). It also has a relationship with its directors ("key management personnel"), and an immediate relative of one of the directors ("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. Services provided to the Company by key management personnel during the year amounted to €135,000 (2015: €Nil).

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 8.

24.4 Related party transactions

The following transactions were conducted during the year:

	2016	2015
	€	€
Parent company		
Interest charged by	**520,733**	846,092
Dividend payable to	**1,000,000**	2,500,000
Fellow subsidiaries		
Payment of expenses on behalf of	**1,446,334**	4,044,837
Payment of expenses by	-	334,363
Transfer of equipment from	-	111,081
Support services to	-	29,966
Repayment of expenses previously paid on behalf of	-	188,924

24 Related parties (continued)

24.4 Related party transactions (continued)

	2016	2015
	€	€
Other related party		
Services provided by	**(17,012)**	(4,210)

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.

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Independent Auditors' Report

To the Shareholders of Medserv Operations Limited

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medserv Operations Limited (the "Company"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU; and

(b) have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv Operations Limited

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report and the statement of Directors' Responsibility for the Financial Statements, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the directors' report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act, and 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.

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

The directors are responsible for overseeing the Company's financial reporting process.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv Operations Limited

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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Independent Auditors' Report (continued)

To the Shareholders of Medserv Operations Limited

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv Operations Limited

2 Report on Other Legal and Regulatory Requirements

Auditors' Opinion on the Directors' Report

The directors of the Company are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act.

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

In accordance with article 179(3) of the Act, we are also required to:

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

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

In such regards:

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

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

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Independent Auditors' Report (continued)

To the Shareholders of Medserv Operations Limited

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

We have nothing to report in respect of the following matters where articles 179(10) and (11) of the Act requires us to report to you if, in our opinion:

(a) proper accounting records have not been kept by the Company; or

(b) the Company's financial statements are not in agreement with the accounting records; or

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

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

KPMG
Registered Auditors

5 April 2017