

Medserv Operations Limited

Annual Report

2017

Medserv Operations Limited

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Medserv Operations Limited

Directors' Report

For the Year Ended 31 December 2017

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 2017.

Board of directors

Anthony S Diacono
Anthony J Duncan
Joseph F X Zahra
Joseph Zammit Tabona

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

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

During the year, the Company has continued to experience a slowdown in the demand for its services and external pressure on its profit margins. Notwithstanding the downturn in the oil and gas environment during the year, the Company has continued to show resilience and maintain existing client relationships.

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 few customers. The Company's objective is to increase client spread within the oil and gas industry by continuously working to secure business from new international oil companies.

Political risk: The Company's results may be significantly impacted as a result of political decisions and instability which may delay, disrupt or cancel projects. The fiscal and economic conditions in Libya remained fragile during the year characterised by record inflation and a persistent political strife between rival governments. However, the steady rise in the country's oil exports is expected to boost its economy that has been in recession for the last three years. In addition, the re-opening of a number of key oilfields is pushing the country's economic growth back into positive territory and is expected to be maintained during 2018.

Medserv Operations Limited

Directors' Report (continued)

For the Year Ended 31 December 2017

Principal risks and uncertainties (continued)

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. Similar to other players in the industry, an increase in oil prices would benefit directly the Company from increased services required by oil companies in preparation of the oil exploration. On the other hand, as oil prices decline, energy production companies focus their efforts on increasing operating efficiencies. As companies engaged in oil and natural gas production curtail capital expenditures and seek operating efficiencies in response to lower oil prices, these actions apply downward pressure on the rates charged by drillers, oilfield support services, and other suppliers such as the Company. Accordingly, the Company's profit margins may be tightened due to such weakened demand for the services offered and heightened industry competition to maintain market share. The Company's strategy is to increase product diversification.

Financial performance

The Company's total revenue for the year amounted to €11,109,236 (2016: €16,467,599) and its operating loss amounted to €1,168,543 (2016: profit of €2,355,248). 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 as a result of the downturn in the oil and gas industry during the year.

The Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) of the Company amounted to a positive €1,213,818 (2016: €3,913,870). After recognising depreciation amounting to €2,382,361 (2016: €1,558,622) and net finance costs amounting to €1,109,746 (2016: €664,775), the Company registered a loss before tax of €2,278,289 (2016: profit before tax of €1,690,473). After accounting for taxation, the loss for the year amounted to €1,648,808 (2016: profit for the year of €6,850,614). After recognising the revaluation of the right-of-use assets at the reporting date, total comprehensive income for the year amounted to €9,373,731 (2016: €6,850,614).

Financial key performance indicators

	2017	2016
	€ 000	€ 000
Revenue	11,109	16,468
(Loss)/profit for the year	(1,649)	6,851
EBITDA	1,214	3,914
Working capital	4,892	8,155
Cash and cash equivalents	(575)	699
	2017	2016
EBITDA margin in %	10.93%	23.77%
EBITDA-to-Interest Coverage Ratio	1.09	5.88
Net debt to EBITDA (excluding parent company loans)	1.98	0.67
Debt to Equity ratio (excluding parent company loans)	0.07	0.11

Medserv Operations Limited

Directors' Report (continued)

For the Year Ended 31 December 2017

Financial position

As at 31 December 2017, the Company reported a net asset position amounting to €34,359,681 (2016: €24,985,950) and a positive short-term liquidity position of €4,891,560 (2016: €8,154,643). The net increase in the net asset position is a result of the revaluation of the property rights over the land held by the Company. Trade and other payables reported in the statement of financial position as at 31 December 2017 include a balance payable to the parent company amounting to €3,997,242 (2016: €3,735,371).

Dividends

No final dividends have been declared or proposed.

Reserves

During the year, transfers from retained earnings to statutory reserve amounted to €23,209 in accordance with the requirements of the Companies Act, 1995. Retained earnings amounting to €732,466 are being carried forward.

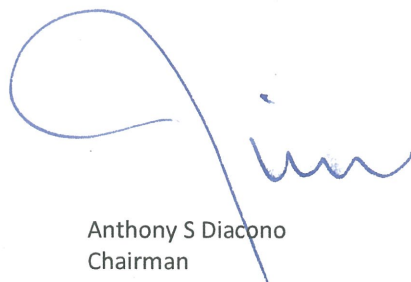
Future developments

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. Despite the decrease in revenue, the Company has continued its investment in technology and equipment. By taking this long-term business view the Company has successfully positioned itself to participate in the forecasted upturn in the industry. The directors expect the Company to continue operating at a profit in the foreseeable future.

Financial reporting framework

On 2 January 2017, the directors resolved to use International Financial Reporting Standards (IFRSs) as adopted by the EU as the Company's accounting framework and consequently prepared the financial statements for the year ended 31 December 2017 in accordance with these accounting principles.

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



Anthony S Diacono
Chairman



Anthony J Duncan
Director

Registered Office

Port of Marsaxlokk
Birzebbugia
Malta

Medserv Operations Limited

Statement of Financial Position

As at 31 December 2017

		2017	2016*
	Note	€	€
ASSETS			
Property, plant and equipment	12	18,042,994	17,822,794
Right-of-use assets	22	59,913,562	-
Prepaid operating leases	22	-	33,347,939
Deferred tax assets	11	9,213,382	8,583,901
Total non-current assets		87,169,938	59,754,634
Trade and other receivables	13	13,611,924	15,798,548
Contract assets	5	69,090	-
Prepaid operating leases	22	-	775,533
Cash at bank and in hand	14	290,453	698,773
Total current assets		13,971,467	17,272,854
Total assets		101,141,405	77,027,488
		=====	=====

* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.5.1.

Medserv Operations Limited

Statement of Financial Position (continued)

As at 31 December 2017

		2017	2016*
	Note	€	€
EQUITY			
Share capital	15	232,940	232,940
Parent company loan	15	13,074,410	13,074,410
Revaluation reserve	15	11,022,539	-
Statutory reserve	15	9,297,326	9,274,117
Retained earnings		732,466	2,404,483
Total equity		34,359,681	24,985,950
LIABILITIES			
Deferred income	16	32,572,406	33,347,939
Deferred tax liability	11	5,935,213	-
Lease liabilities	22	9,906,258	-
Amounts due to parent company	17	8,034,818	8,020,259
Loans and borrowings	18	1,221,877	1,522,450
Provision	19	31,245	32,679
Total non-current liabilities		57,701,817	42,923,327
Deferred income	16	775,533	775,533
Loans and borrowings	18	1,181,635	1,111,520
Trade and other payables	20	6,257,656	7,231,158
Bank overdraft	18	865,083	-
Total current liabilities		9,079,907	9,118,211
Total liabilities		66,781,724	52,041,538
Total equity and liabilities		101,141,405	77,027,488

* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.5.1.

The notes on pages 11 to 56 are an integral part of these financial statements.

The financial statements on pages 5 to 56 were approved and authorised for issue by the Board of Directors on 30 April 2018 and signed on its behalf by:

Anthony S Diacono
Chairman

Anthony J Duncan
Director

Medserv Operations Limited

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2017

		2017	2016*
	Note	€	€
Revenue	5	11,109,236	16,467,599
Cost of sales	7	(10,217,195)	(12,199,578)
Gross profit		892,041	4,268,021
Other income	6	876,485	436,200
Administrative expenses	7	(2,925,215)	(2,348,973)
Other expenses	6	(11,854)	-
Results from operating activities		(1,168,543)	2,355,248
Finance income	9	-	1,037
Finance costs	9	(1,109,746)	(665,812)
Net finance costs		(1,109,746)	(664,775)
(Loss)/profit before income tax		(2,278,289)	1,690,473
Tax income	10	629,481	5,160,141
(Loss)/profit for the year		(1,648,808)	6,850,614
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Revaluation of right-of-use assets	22	16,957,752	-
Related tax	10	(5,935,213)	-
Total other comprehensive income		11,022,539	-
Total comprehensive income for the year		9,373,731	6,850,614

* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.5.1.

The notes on pages 11 to 56 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Changes in Equity

For the Year Ended 31 December 2017

	Share capital €	Parent company loan €	Revaluation reserve €	Statutory reserve €	Retained earnings €	Total equity €
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						
Parent company 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
Balance at 1 January 2017	232,940	13,074,410	-	9,274,117	2,404,483	24,985,950
Total comprehensive income						
Loss	-	-	-	-	(1,648,808)	(1,648,808)
Other comprehensive income	-	-	11,022,539	-	-	11,022,539
Transfer	-	-	-	23,209	(23,209)	-
Balance at 31 December 2017	232,940	13,074,410	11,022,539	9,297,326	732,466	34,359,681

* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.5.1.

The notes on pages 11 to 56 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Cash Flows

For the Year Ended 31 December 2017

		2017	2016*
	Note	€	€
Cash flows from operating activities			
(Loss)/profit for the year		(1,648,808)	6,850,614
Adjustments for:			
Depreciation	12, 22	2,382,361	1,558,622
Gain on disposal of property, plant and equipment	12	-	(365,000)
Reversal of prepaid operating lease	6	-	775,533
Reversal of deferred income	6	(775,533)	(775,533)
Provision for discounted future gratuity payments	19	(1,434)	1,606
Provision for bad debts	21	8,345	-
Impairment loss on amounts owed by fellow subsidiaries	21	560,039	-
Exchange differences	6	11,854	36,322
Net finance costs	9	1,109,746	664,775
Tax income	10	(629,481)	(5,160,141)
		1,017,089	3,586,798
Changes in:			
Trade and other receivables		2,324,622	1,388,353
Contract assets		69,090	-
Trade and other payables		(1,274,160)	(1,712,588)
Related party balances		(543,135)	2,300,762
Cash generated from operating activities		1,593,506	5,563,325
Interest paid		(35,284)	(71,255)
Interest received		-	1,037
Net cash from operating activities carried forward		1,558,222	5,493,107

* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.5.1.

Medserv Operations Limited

Statement of Cash Flows (continued)

For the Year Ended 31 December 2017

		2017	2016*
	Note	€	€
Net cash from operating activities brought forward		1,558,222	5,493,107
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	(1,595,943)	(1,291,452)
Cash used in investing activities		(1,595,943)	(1,291,452)
Cash flows from financing activities			
Proceeds from loans and borrowings		1,000,000	-
Repayment of bank loans		(1,230,458)	(1,206,285)
Interest paid on bank loans		(55,511)	(87,792)
Funds advanced by parent		-	807,840
Interest paid on funds advanced by parent		(458,170)	(520,733)
Payment of lease liabilities		(491,543)	-
Net cash used in financing activities		(1,235,682)	(1,006,970)
Net (decrease) / increase in cash and cash equivalents		(1,273,403)	3,194,685
Cash and cash equivalents at 1 January		698,773	(2,495,912)
Cash and cash equivalents at 31 December	14	(574,630)	698,773

* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.5.1.

The notes on pages 11 to 56 are an integral part of these financial statements.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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 (IFRS) 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 right-of-use assets which are measured at revalued amounts.

2.3 Functional and presentation currency

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

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 10 - recoverability of recognised deferred tax assets on investment tax credits and unabsorbed capital allowances and unutilised tax losses;
- Note 21 - credit risk arising from the trade receivables; and
- Note 22 - measurement of right-of-use assets and lease liabilities and valuation of right-of-use assets.

2.5 Change of accounting policies

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

2 Basis of preparation (continued)

2.5 Change of accounting policies (continued)

2.5.1 Revenue

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

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

2.5.1.1 Application of new revenue standard

Statement of financial position

31 December 2017	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of IFRS 15
	€	€	€
Trade and other receivables	13,611,924	(69,090)	13,681,014
Contract asset	69,090	69,090	-
Total assets	101,141,405	-	101,141,405
	=====	=====	=====
Trade and other payables	6,257,656	-	6,257,656
Total liabilities	66,781,724	-	66,781,724
	=====	=====	=====
Total equity	34,359,681	-	34,359,681
	=====	=====	=====

Statement of profit or loss and other comprehensive income

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

2 Basis of preparation (continued)

2.5 Change of accounting policies (continued)

2.5.2 Leases

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

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

2.5.2.1 Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in 3.4.

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

2.5.2.2 As a lessee

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

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

Leases classified as operating leases under IAS 17

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

2 Basis of preparation (continued)

2.5 Change of accounting policies (continued)

2.5.2 Leases (continued)

2.5.2.2 As a lessee (continued)

Leases classified as operating leases under IAS 17 (continued)

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

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

2.5.2.3 Impacts on financial statements

On transition to IFRS 16, the Company recognised additional €9,838,949 of right-of-use assets and €9,838,949 of lease liabilities. There was no difference recognised in retained earnings on date of initial application of the standard as the Company adopted the approach whereby the right-of-use assets are initially measured equal to the lease liability (see note 2.5.2.2).

When measuring lease liabilities, the Company discounted lease payments using the incremental borrowing rate of the respective lease liability at 1 January 2017. The weighted-average rate applied is 5.68%.

	1 January 2017 €
Operating lease commitment at 31 December 2016 as disclosed in the Company's financial statements	-
Extension options reasonably certain to be exercised	9,838,949
Lease liabilities recognised at 1 January 2017	9,838,949

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

3 Significant accounting policies

Except as disclosed in note 2.5, 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 contract assets, trade 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 and amounts owed to parent company.

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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 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*

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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*

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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 Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 2.5.2.

Policy applicable from 1 January 2017

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

3 Significant accounting policies (continued)

3.4 Leases (continued)

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

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

3.4.1 As a lessee

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

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

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

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

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

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

3 Significant accounting policies (continued)

3.4 Leases (continued)

3.4.1 As a lessee (continued)

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

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

3.4.2 Under IAS 17

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

3.5 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.

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

3 Significant accounting policies (continued)

3.5 Impairment (continued)

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.

3.6 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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

3 Significant accounting policies (continued)

3.7 Revenue

The Company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from those under IFRS 15 and the impact of changes is disclosed in note 2.5.1.

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

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

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

3.7.1 Nature of goods and services

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. Services and support provided to the offshore oil and gas industry consists of integrated offshore logistics, engineering support services, mixing and storage of drilling fluids and waste management services. In this regard revenue is recognised and measured as follows.

3.7.1.1 Shore base logistics

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

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

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

3.7.1.2 Engineering services

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

3 Significant accounting policies (continued)

3.7 Revenue (continued)

3.7.1.3 Supply of goods

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

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

3.7.1.4 Photovoltaic income

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

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

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

3.7.2 Determining transaction price and allocation to performance obligations

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

3.8 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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

3 Significant accounting policies (continued)

3.9 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.

3.10 Income tax

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

3.10.1 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 assets and liabilities are offset only if certain criteria are met.

3.10.2 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.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

3 Significant accounting policies (continued)

3.10 Income tax (continued)

3.10.2 *Deferred tax (continued)*

If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the Company's business plan. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

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

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

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

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 2017, and have not been applied in preparing these financial statements. Except for IFRS 9 *Financial instruments* (which is discussed below), none of these are expected to have a significant effect on the financial statements of the Company in the period of initial application. The Company does not plan to early adopt IFRS 9.

4.1 *IFRS 9 Financial Instruments*

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

4 New standards and interpretations not yet adopted (continued)

4.1 IFRS 9 *Financial Instruments* (continued)

4.1.1 *Classification – financial assets*

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

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

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

4.1.2 *Impairment – Financial assets and contract assets*

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

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

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

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

4 New standards and interpretations not yet adopted (continued)

4.1 IFRS 9 *Financial Instruments* (continued)

4.1.2 *Impairment – Financial assets and contract assets (continued)*

Trade and other receivables, including contract assets

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

Cash and cash equivalents

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

4.1.3 *Classification – Financial liabilities*

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

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

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

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

4.1.4 *Disclosures*

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

4.1.5 *Transition*

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

4 New standards and interpretations not yet adopted (continued)

4.1 IFRS 9 *Financial Instruments* (continued)

4.1.5 *Transition (continued)*

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

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. The following tables disaggregate revenue by major service lines, timing of revenue recognition and the primary geographical market where the service is performed.

5.1 Category of activity

	2017	2016
	€	€
Shore base logistics services	8,781,941	13,066,765
Fabric maintenance, dredging and engineering services	463,023	1,639,098
Supply of goods	1,337,283	1,276,687
Photovoltaic income	526,989	485,049
	-----	-----
	11,109,236	16,467,599
	=====	=====
Timing of revenue recognition		
Transferred over time	9,771,953	15,190,912
Point in time	1,337,283	1,276,687
	-----	-----
	11,109,236	16,467,599
	=====	=====

5.2 Primary geographical markets

	2017	2016
	€	€
Malta	11,109,236	16,467,599
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

5 Revenue (continued)

5.3 Contract balances

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

	2017
	€
Receivables, which are included in 'Trade and other receivables'	8,149,039
Contract assets	69,090
	=====

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

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

	Contract assets 2017
	€
Increases as a result of changes in the measure of progress	69,090
	=====

6 Other income and other expenses

6.1 Other income

		2017	2016
	Note	€	€
Gain on disposal of property, plant and equipment	12	-	365,000
Unrealised operating exchange gain		-	36,322
Realised operating exchange gain		100,952	34,878
Reversal of prepaid operating lease	22	-	(775,533)
Reversal of deferred income	16	775,533	775,533
		-----	-----
		876,485	436,200
		=====	=====

6.2 Other expenses

Other expenses incurred in the current year represent net unrealised operating exchange losses.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

7 Expenses by nature

7.1		2017	2016
	Note	€	€
Direct cost of services		5,537,064	7,774,680
Employee benefits	8	2,375,227	2,541,975
Depreciation	12, 22	2,382,361	1,558,622
Professional fees		608,127	494,110
Travelling and telecommunications		323,744	455,080
Repairs and maintenance		557,802	363,064
Rent	22	-	467,244
Insurance		191,110	214,063
Staff welfare		149,853	162,561
Security services		210,436	232,169
Impairment of amounts owed by fellow subsidiaries	21	560,039	-
Other		246,647	284,983
Total cost of sales and administrative expenses		13,142,410	14,548,551
		=====	=====

7.2 Administrative expenses include auditors' remuneration amounting to €34,400.

8 Personnel expenses

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

	2017	2016
	€	€
Directors' emoluments:		
Salaries	424,525	357,650
Fees	90,000	77,029
	514,525	434,679
Wages and salaries	2,890,403	2,779,318
Social security contributions	176,052	163,263
Maternity funds	5,460	5,135
	3,586,440	3,382,395
Recharged to fellow subsidiaries and parent company	(1,211,213)	(840,420)
	2,375,227	2,541,975
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

8 Personnel expenses (continued)

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

	2017	2016
	No.	No.
Operating	83	83
Management and administration	18	17
	-----	-----
	101	100
	===	===

9 Finance income and finance costs

	2017	2016
	€	€
Bank interest receivable	-	1,037
	-----	-----
Finance income	-	1,037
	-----	-----
Interest payable on bank loan	(52,244)	(87,645)
Other bank interest payable	(25,922)	(57,434)
Interest payable on parent company loan	(472,728)	(520,733)
Interest cost on lease liabilities	(558,852)	-
	-----	-----
Finance costs	(1,109,746)	(665,812)
	-----	-----
Net finance costs	(1,109,746)	(664,775)
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

10 Tax expense

10.1 Amounts recognised in profit or loss

		2017	2016
	Note	€	€
Deferred tax movement			
Origination and reversal of temporary differences	11.2	629,481	5,160,141
		=====	=====

10.2 Amounts recognised in other comprehensive income

		2017	2016
	Note	€	€
Deferred tax movement			
Revaluation of right-of-use-assets	11.2	(5,935,213)	-
		=====	=====

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

	2017	2016
	€	€
(Loss)/Profit before tax	(2,278,289)	1,690,473
	-----	-----
Income tax using the domestic income tax rate 35%	797,401	(591,666)
Tax effect of:		
Investment tax credits	380,755	5,702,563
Disallowed expenses	(196,014)	-
Adjustment to prior year's deferred tax asset	(352,661)	49,244
	-----	-----
Tax income	629,481	5,160,141
	=====	=====

10.4 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 11.3).

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

11 Deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
	€	€	€	€	€	€
Property, plant and equipment	-	-	(904,629)	(703,217)	(904,629)	(703,217)
Provision for discounted future gratuity payments	10,936	11,438	-	-	10,936	11,438
Provision for doubtful debts	2,921	-	-	-	2,921	-
Provision for exchange fluctuations	5,712	1,563	-	-	5,712	1,563
Investment tax credits	9,298,640	9,274,117	-	-	9,298,640	9,274,117
Unabsorbed capital allowances and unutilized tax losses	695,367	-	-	-	695,367	-
Right-of-use assets	-	-	(9,297,968)	-	(9,297,968)	-
Lease liabilities	3,467,190	-	-	-	3,467,190	-
Tax assets / (liabilities)	13,480,766	9,287,118	(10,202,597)	(703,217)	3,278,169	8,583,901
Set-off of tax	(4,267,384)	(703,217)	4,267,384	703,217	-	-
Net tax assets/(liabilities)	9,213,382	8,583,901	(5,935,213)	-	3,278,169	8,583,901

11.2 Movement in temporary differences

2017

	Balance 01.01.17	Recognized in profit and loss 2017	Recongnised in other comprehensive income 2017	Balance 31.12.17
	€	€	€	€
Property, plant and equipment	(703,217)	(201,412)	-	(904,629)
Provision for discounted future gratuity payments	11,438	(502)	-	10,936
Provision for doubtful debts	-	2,921	-	2,921
Provision for exchange fluctuations	1,563	4,149	-	5,712
Investment tax credits	9,274,117	24,523	-	9,298,640
Unabsorbed capital allowances and unutilized tax losses	-	695,367	-	695,367
Right-of-use assets	-	(3,362,755)	(5,935,213)	(9,297,968)
Lease liabilities	-	3,467,190	-	3,467,190
	8,583,901	629,481	(5,935,213)	3,278,169

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

11 Deferred tax assets and liabilities (continued)

11.2 Movement in temporary differences (continued)

2016

	Balance 01.01.16	Recognised in profit or loss 2016	Balance 31.12.16
	€	€	€
Property, plant and equipment	(605,435)	(97,782)	(703,217)
Provision for discounted future gratuity payments	10,876	562	11,438
Provision for exchange fluctuations	282	1,281	1,563
Investment tax credits	4,018,037	5,256,080	9,274,117
	-----	-----	-----
	3,423,760	5,160,141	8,583,901
	=====	=====	=====

11.3 Recognition of deferred tax asset on investment tax credits

As at 31 December 2017, a deferred tax asset of €9,298,640 (2016: €9,274,117) was recognised in the financial statements to the extent of investment tax credits expected to be utilised in the future. Based on the 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 €508,256 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 €8,790,384 do not expire.

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2016

12 Property, plant and equipment

12.1

	Buildings	Plant and equipment	Furniture and fittings	Office and computer equipment	Motor vehicles	Cargo carrying units	Photovoltaic farm	Total
	€	€	€	€	€	€	€	€
Cost								
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
Balance at 01.01.17	12,313,466	4,703,978	771,971	644,290	396,079	1,484,544	3,838,204	24,152,532
Acquisitions	74,543	1,419,297	64,878	22,435	14,800	-	-	1,595,953
Balance at 31.12.17	12,388,009	6,123,275	836,849	666,725	410,879	1,484,544	3,838,204	25,748,485
Depreciation								
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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2016

12 Property, plant and equipment (continued)

12.1 (continued)

	Buildings €	Plant and equipment €	Furniture and fittings €	Office and computer equipment €	Motor vehicles €	Cargo carrying units €	Photovoltaic farm €	Total €
Balance at 01.01.17	1,904,964	2,576,247	269,832	439,066	291,358	351,841	496,430	6,329,738
Charge for the year	233,830	577,163	79,175	71,872	66,513	148,454	198,740	1,375,747
Balance at 31.12.17	2,138,794	3,153,410	349,007	510,938	357,871	500,295	695,170	7,705,485

Carrying amounts

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
At 1 January 2017	10,408,502	2,127,731	502,139	205,224	104,721	1,132,703	3,341,774	17,822,794
At 31 December 2017	10,249,215	2,969,865	487,842	155,788	53,008	984,249	3,143,034	18,042,994

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

12.3 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 22.1).

12.4 During 2016, a crane included in plant and equipment with a net book value of €380,000 was destroyed in an accident. Insurance proceeds covering the cost of the crane were received during 2017 (see note 13.3).

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

12 Property, plant and equipment (continued)

12.5 Security

At 31 December 2017, 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).

13 Trade and other receivables

13.1	2017	2016
	€	€
Trade receivables	8,149,039	8,932,863
Amounts owed by fellow subsidiaries	4,736,293	4,450,191
Other receivables	357,191	1,587,932
Prepayments	369,401	827,562
	-----	-----
	13,611,924	15,798,548
	=====	=====

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 included in the comparative year included insurance proceeds amounting to €1,056,452 which were received during the year (see note 12.4).

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

	2017	2016
Note	€	€
Cash in hand	44,221	26,464
Bank balances	246,232	672,309
	-----	-----
Cash at bank and in hand	290,453	698,773
Bank overdrafts used for cash management purposes	18 (865,083)	-
	-----	-----
Cash and cash equivalents at 31 December	(574,630)	698,773
	=====	=====

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

15 Capital and reserves

15.1 Share capital

	Ordinary shares	
	2017	2016
	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 (2016: 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 Parent company loan

The loan from the parent company is unsecured and interest-free. The loan is subject to an option to convert to share capital.

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 2017, 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 Revaluation reserve

The revaluation reserve relates to the revaluation of the right-of-use assets at the reporting date consisting of land held from emphyteutical grant (see note 22).

15.5 Availability of reserves for distribution

	2017	2016
	€	€
Distributable	732,466	2,404,483
Non-distributable	20,319,865	9,274,117
	-----	-----
	21,052,331	11,678,600
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

15 Capital and reserves (continued)

15.6 Dividends

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

	2017	2016
	€	€
€Nil (2016: €10) per qualifying ordinary share	-	1,000,000
	=====	=====

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 2017 was equal to €775,533 (2016: €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	2017	2016
				€	€
Unsecured loan	EUR	6.00%	2022	3,683,672	3,683,500
Unsecured loan	EUR	6.00%	2023	3,409,876	3,395,542
Unsecured loan	EUR	4.50%	2026	941,270	941,217
				-----	-----
				8,034,818	8,020,259
				=====	=====

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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.

		2017	2016
	Note	€	€
Non-current liabilities			
Secured bank loans		1,221,877	1,522,450
		=====	=====
Current liabilities			
Secured bank loans		1,181,635	1,111,520
Bank overdrafts	14	865,083	-
		-----	-----
		2,046,718	1,111,520
		=====	=====

18.2 Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

As at 31 December 2017

	Original currency	Carrying amount	Nominal interest rate	Year of maturity
Bank loan	EUR	€508,550	Bank's base rate + 3.00%	2018
Bank loan	EUR	€1,000,000	Bank's base rate + 3.00%	2021
Bank loan	USD	€894,962	LIBOR + 3.5%	2019

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

18 Loans and borrowings (continued)

18.2 Terms and debt repayment schedule (continued)

The bank loans were secured by a first general hypothec for €4,534,923 over all present and future assets, first special hypothec for €4,095,391 over temporary utile of Medserv site and property of Malta Freeport, joint and several guarantee of €2,169,574, pledge on receivables, guarantee for €12,270,000 given by the parent company; first pledge over a combined business policy for €8,568,381 and pledge of insurance cover over purchased equipment for €1,334,000, a letter of undertaking given by the shareholders that Mr Anthony J Duncan and Mr Anthony S Diacono will directly or indirectly retain control and hold more than 51% of the issued capital; letter of undertaking by the parent company whereby it undertakes to maintain the present level of its control and interest in 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.

Furthermore, as at 31 December 2017, the Company enjoyed general overdraft facilities of €3,000,000 (2016: €4,500,000) at the following terms and conditions:

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

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

19 Provision

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

20 Trade and other payables

20.1	2017	2016
	€	€
Trade payables	2,048,111	3,307,145
Amounts due to related parties:		
Parent company	3,997,242	3,735,371
Other related companies	102,305	62,440
Accruals	109,998	126,202
	-----	-----
	6,257,656	7,231,158
	=====	=====

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 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).

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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

21.1 Accounting classifications and fair values (continued)

- 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 basis for determining fair values is disclosed below:

Loans and receivables

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. 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 2017 was assessed to be insignificant.

Other financial liabilities

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

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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

21.3 Risk management framework (continued)

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

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

The parent company has set up a Financial Risk Management Committee to assist in the management of the credit risk, liquidity risk and market risk on a day-to-day basis. The Financial Risk Management Committee is made up of a board member and senior management of the Company.

21.4 Credit risk

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

Exposure to credit risk

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

		Carrying amount	
		2017	2016
Carrying amount	Note	€	€
Trade and other receivables	13	13,242,523	14,970,986
Cash at bank	14	246,232	672,309
		-----	-----
		13,488,755	15,643,295
		=====	=====

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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

21.4 Credit risk (continued)

Trade and other receivables (continued)

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 2017, the Company's three (2016: three) significant customers accounted for €6.1 million (2016: €6.7 million) of the trade receivables.

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

	Carrying amount	
	2017	2016
	€	€
Carrying amount		
Domestic	627,876	731,883
EU countries	767,308	1,305,153
Libya	5,882,972	6,504,215
Other	870,883	391,612
	-----	-----
	8,149,039	8,932,863
	=====	=====

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2017	2017	2016	2016
	€	€	€	€
Not past due	2,033,868	-	3,223,325	-
Past due 0-30 days	739,726	-	560,910	-
Past due 31-120 days	2,673,286	-	5,148,628	-
More than 120 days	2,710,504	(8,345)	-	-
	-----	-----	-----	-----
	8,157,384	(8,345)	8,932,863	-
	=====	=====	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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

21.4 Credit risk (continued)

Trade and other receivables (continued)

Impairment represents specific allowances. No collective impairment allowances was deemed necessary at the reporting date in view of the insignificant historical loss rates.

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

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

Cash and cash equivalents

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

Amounts due by subsidiaries

An impairment loss of €560,039 (2016: €nil) on the amounts owed by fellow subsidiaries was incurred during the year.

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 2017, the Company had unutilised overdraft facilities amounting to €2,134,917 (2016: €4,500,000), which bear interest at the Bank's Base Rate plus 3 per cent.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2016

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	Less than 1 year	1 - 2 years	2 - 5 years	5-10 years	More than 10 years
	€	€	€	€	€	€	€
31 December 2017							
Non-derivative financial liabilities							
Amounts due to parent company	12,032,060	(14,730,230)	(4,455,400)	(458,158)	(5,058,203)	(4,758,469)	-
Secured bank loans	2,403,512	(2,627,492)	(1,290,932)	(760,926)	(575,634)	-	-
Bank overdraft	865,083	(911,365)	(911,365)	-	-	-	-
Lease liability	9,906,258	(29,023,231)	(491,543)	(517,556)	(1,581,897)	(2,810,543)	(23,621,692)
Trade and other payables	2,150,416	(2,150,416)	(2,150,416)	-	-	-	-
	27,357,329	(49,442,734)	(9,299,656)	(1,736,640)	(7,215,734)	(7,569,012)	(23,621,692)
	=====	=====	=====	=====	=====	=====	=====
31 December 2016							
Non-derivative financial liabilities							
Amounts due to parent company	11,755,630	(14,950,401)	(4,193,529)	(458,158)	(1,374,530)	(8,924,184)	-
Secured bank loans	2,633,970	(2,791,561)	(1,214,228)	(1,577,333)	-	-	-
Trade and other payables	3,495,787	(3,495,787)	(3,495,787)	-	-	-	-
	17,885,387	(21,237,749)	(8,903,544)	(2,035,491)	(1,374,530)	(8,924,184)	-
	=====	=====	=====	=====	=====	=====	=====

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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.

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

	31 December 2017	31 December 2016
	USD	USD
Trade and other receivables	58,990	19,091
Secured bank loan	(1,072,075)	(1,649,869)
Funds in foreign currency	161,478	8,470
Net exposure	(851,607)	(1,622,308)
	=====	=====

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
USD	1.130	1.108	1.198	1.052

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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

21.6 Market risk (continued)

21.6.1 Currency risk (continued)

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 2016.

	Profit or loss	Equity
	€	€
31 December 2017		
USD	70,865	70,865
	=====	=====
31 December 2016		
USD	167,743	167,743
	=====	=====

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	
	2017	2016
	€	€
Variable rate instruments		
Financial assets	246,232	672,309
Financial liabilities	(3,268,595)	(2,633,970)
	=====	=====
Fixed rate instruments		
Financial liabilities	(8,034,818)	(8,020,259)
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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

21.6 Market risk (continued)

21.6.2 Interest rate risk (continued)

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 2016.

A change of 100 basis points in interest rates on variable rate instruments would have increased or decreased the Company's profit and loss and equity by €30,224 (2016: €19,617).

21.7 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:

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

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

21.7 Operational risk (continued)

- 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

21.8 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 Leases

22.1 As a 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 with the option to extend the lease for three further periods of ten years each.

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

22 Leases (continued)

22.1 As a lessee (continued)

22.1.1 Right-of-use assets and prepaid operating lease

		Land	
		Right-of-use assets	Prepaid operating lease
2017	Note	€	€
Balance at 1 January		9,838,949	34,123,472
Transfer from prepaid operating lease		34,123,472	(34,123,472)
Depreciation charge for the year		(1,006,611)	-
Revaluation	22.1.1.1	16,957,752	-
Balance at 31 December		59,913,562	-
		=====	=====
		Land	
		Note	Prepaid operating lease
2016			€
Balance at 1 January			34,899,005
Charge for the year	6.1		(775,533)
Balance at 31 December	16		34,123,472
			=====
Non-current			33,347,939
Current			775,533
			=====
			34,123,472
			=====

22.1.1.1 Revaluation of land held from emphyteutical grant

The Company carried out a fair value exercise as at 31 December 2017 to revalue the property rights over the land that the Company holds. The property rights held by the Company over industrial property forming part of the Malta Freeport Terminals at the Port of Marsaxlokk and at Hal Far Industrial Estate in Malta were valued by an external valuer.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

22 Leases (continued)

22.1 As a lessee (continued)

22.1.1 Right-of-use assets and prepaid operating lease (continued)

22.1.1.1 Revaluation of land held from emphyteutical grant (continued)

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

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

22.1.1.2 Measurement of fair value

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

22 Leases (continued)

22.1 As a lessee (continued)

22.1.2 Lease liabilities

	2017
	€
Maturity analysis-contractual undiscounted cash flows	
Less than one year	491,543
One to five years	2,099,453
Five years to ten years	2,810,543
More than ten years	23,621,692
	=====
Total undiscounted lease liabilities at 31 December	29,023,231
	=====

Non- current lease liabilities included in the statement of financial position at 31 December	9,906,258
	=====

Amounts recognised in profit or loss

	2017
	€
Interest on lease liabilities	(558,852)
Variable lease payments not included in the measurement of lease liabilities	(70,418)
	=====

Amounts recognised in the statement of cash flows

	2017
	€
Total cash outflow for leases	(491,543)

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

22 Leases (continued)

22.1 As a lessee (continued)

22.1.3 Extension option

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

23 Contingencies

At reporting date, the Company had given guarantees to the Company's bankers in favour of third parties amounting to €106,099 (2016: €93,153).

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, Birzebugia, 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 31.17% and 34.33% (2016: 31.30% and 33.49%) of the issued share capital of the parent company, respectively.

The parent company prepares the consolidated financial statements of the Company 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. Company 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 year. Compensation for services provided to the Company by key management personnel or entities under their control during the year amounted to €228,500 (2016: €135,000). In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2017

24 Related parties (continued)

24.3 Transactions with key management personnel (continued)

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:

	2017	2016
	€	€
Parent company		
Interest charged by	472,728	520,733
Dividend payable to	-	1,000,000
	=====	=====
Fellow subsidiaries		
Payment of expenses on behalf of	1,535,808	1,446,334
Support services from	(213,352)	-
	=====	=====
Other related party		
Services provided by	(17,181)	(17,012)
	=====	=====

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 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- (a) give a true and fair view of the financial position of the Company as at 31 December 2017, 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 which comprises the directors' report.

Our opinion on the financial statements does not cover the directors' report, on which we report separately in section 2 of our report, as part of our reporting on other legal and regulatory requirements.

Responsibilities of the Directors for the Financial Statements

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

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 Noel Mizzi.

KPMG
Registered Auditors

30 April 2018