

Medserv Operations Limited

Annual Report

2018

Medserv Operations Limited

	Page
Annual Report	
Directors' Report	2
Financial Statements:	
Statement of Financial Position	5
Statement of Profit or Loss and Other Comprehensive Income	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	11
Independent Auditors' Report	

Medserv Operations Limited

Directors' Report

For the Year Ended 31 December 2018

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 2018.

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

With spending returning by the International Oil Companies (IOCs) on the back of stronger oil prices, year 2018 saw a recovery gain traction in the global oil and gas upstream sector, with activity overall heading in an upward trajectory. The investment that the Company has put in place in its management systems and shore base facilities during the past years is bearing positive results. Medserv has achieved international recognition within the oil and gas service industry for its core competencies. The Company continues to service the offshore Libya Bahr Essalam Phase Two project as its contracts with its clients are extended. Work volume is anticipated to increase in line with the IOCs' offshore development plan to increase offshore field production volumes in Libya.

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 a few customers. The Company's objective is to increase client spread within the oil and gas industry by continuously working to secure business from additional 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 past years.

Medserv Operations Limited

Directors' Report (continued)

For the Year Ended 31 December 2018

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 directly benefit 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 €13,671,902 (2017: €11,109,236), representing an increase of 23% over the previous year. The increase in revenue during 2018 is mainly attributable to the market recovery as a number of projects and drilling campaigns which were previously delayed as a result of the slashed capital expenditure by the IOCs come on stream. As a result, the Company's operating profit during the year amounted to €735,413 (2017: loss of €1,168,543).

The Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) of the Company amounted to €3,633,006 (2017: €1,213,818). After recognising depreciation amounting to €2,897,593 (2017: €2,382,361) and net finance costs amounting to €1,179,836 (2017: €1,109,746), the Company registered a loss before tax of €444,423 (2017: loss before tax of €2,278,289). After accounting for taxation, the loss for the year amounted to €1,230,702 (2017: loss for the year of €1,648,808).

Financial key performance indicators

	2018	2017
	€ 000	€ 000
Revenue	13,672	11,109
Loss for the year	(1,231)	(1,649)
EBITDA	3,633	1,214
Working capital	4,180	4,892
Cash and cash equivalents	(2,305)	(575)
	2018	2017
EBITDA margin in %	26.57%	10.93%
EBITDA-to-Interest Coverage Ratio	3.08	1.09
Net debt (excl. parent company loans) to EBITDA	0.35	1.98
Net debt (excl. parent company loans) to Equity ratio	0.04	0.07

Medserv Operations Limited

Directors' Report (continued)

For the Year Ended 31 December 2018

Financial position

As at 31 December 2018, the Company reported a net asset position amounting to €31,814,475 (2017: €34,359,681) and a positive short-term liquidity position of €4,179,575 (2017: €4,891,560). Trade and other payables reported in the statement of financial position as at 31 December 2018 include a balance payable to the parent company amounting to €3,899,735 (2017: €3,997,242).

Dividends

No final dividends have been declared or proposed.

Reserves

During the year, transfers from statutory reserve to retained earnings amounted to €958,818 in accordance with the requirements of the Companies Act, 1995. Accumulated losses amounting to €594,939 are being carried forward.

Future developments

The Company's strategy remains in line with prior years and is aimed to improve earnings while at the same time ensuring that the Company operates in a cost-effective manner across its product service lines. The Company has continued its investment in its management systems 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 operate at a profit in the coming years.

Financial reporting framework

On 30 April 2019, 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 2018 in accordance with these accounting principles.

Approved by the Board of Directors on 30 April 2019 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 2018

		2018	2017
	Note	€	€
ASSETS			
Property, plant and equipment	12	16,746,784	18,042,994
Right-of-use assets	22	58,508,515	59,913,562
Deferred tax assets	11	8,581,508	9,213,382
Total non-current assets		83,836,807	87,169,938
Trade and other receivables	13	14,637,100	13,611,924
Contract assets	5	24,360	69,090
Cash at bank and in hand	14	107,548	290,453
Total current assets		14,769,008	13,971,467
Total assets		98,605,815	101,141,405
		=====	=====

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated. See Note 2.5.1.

Medserv Operations Limited

Statement of Financial Position (continued)

As at 31 December 2018

		2018	2017
	Note	€	€
EQUITY			
Share capital	15	232,940	232,940
Parent company loan	15	13,074,410	13,074,410
Revaluation reserve	15	10,763,556	11,022,539
Statutory reserve	15	8,338,508	9,297,326
(Accumulated losses)/retained earnings		(594,939)	732,466
Total equity		31,814,475	34,359,681
LIABILITIES			
Deferred income	16	31,796,873	32,572,406
Deferred tax liability	11	5,795,761	5,935,213
Lease liabilities	22	9,977,390	9,906,258
Amounts due to parent company	17	8,049,933	8,034,818
Loans and borrowings	18	548,989	1,221,877
Provision	19	32,961	31,245
Total non-current liabilities		56,201,907	57,701,817
Deferred income	16	875,533	775,533
Loans and borrowings	18	735,141	1,181,635
Trade and other payables	20	6,566,319	6,257,656
Bank overdraft	18	2,412,440	865,083
Total current liabilities		10,589,433	9,079,907
Total liabilities		66,791,340	66,781,724
Total equity and liabilities		98,605,815	101,141,405

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated. See Note 2.5.1.

The notes on pages 11 to 61 are an integral part of these financial statements.

The financial statements on pages 5 to 61 were approved and authorised for issue by the Board of Directors on 30 April 2019 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 2018

		2018	2017
	Note	€	€
Revenue	5	13,671,902	11,109,236
Cost of sales	7	(12,277,291)	(10,217,195)
Gross profit		1,394,611	892,041
Other income	6	878,318	876,485
Administrative expenses	7	(1,455,312)	(2,356,831)
Impairment loss on financial assets		(82,204)	(568,384)
Other expenses	6	-	(11,854)
Results from operating activities		735,413	(1,168,543)
Finance income	9	73	-
Finance costs	9	(1,179,909)	(1,109,746)
Net finance costs		(1,179,836)	(1,109,746)
Loss before income tax		(444,423)	(2,278,289)
Tax (expense)/income	10	(786,279)	629,481
Loss for the year		(1,230,702)	(1,648,808)
Other comprehensive income			
Items that are not 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 (loss)/ income for the year		(1,230,702)	9,373,731

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated. See Note 2.5.1.

The notes on pages 11 to 61 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Changes in Equity

For the Year Ended 31 December 2018

	Share capital	Parent company loan	Revaluation reserve	Statutory reserve	Retained Earnings/ (Accumulated Losses)	Total equity
	€	€	€	€	€	€
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
Balance at 1 January 2018	232,940	13,074,410	11,022,539	9,297,326	732,466	34,359,681
Adjustment on initial application of IFRS 9, net of tax	-	-	-	-	(1,314,504)	(1,314,504)
Total comprehensive income						
Loss	-	-	-	-	(1,230,702)	(1,230,702)
Transfer	-	-	(258,983)	(958,818)	1,217,801	-
Balance at 31 December 2018	232,940	13,074,410	10,763,556	8,338,508	(594,939)	31,814,475

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated. See Note 2.5.1.

The notes on pages 11 to 61 are an integral part of these financial statements.

Medserv Operations Limited

Statement of Cash Flows

For the Year Ended 31 December 2018

		2018	2017*
	Note	€	€
Cash flows from operating activities			
Loss for the year		(1,230,702)	(1,648,808)
Adjustments for:			
Depreciation	12, 22	2,897,593	2,382,361
Reversal of deferred income	6	(775,533)	(775,533)
Provision for discounted future gratuity payments	19	1,716	(1,434)
Impairment loss on trade and other receivables	21	100,932	8,345
Impairment loss/(reversal) on amounts owed by fellow subsidiaries	21	(27,073)	560,039
Exchange differences	6	(1,569)	11,854
Net finance costs	9	1,179,836	1,109,746
Deferred tax expense/(income)	10	786,279	(629,481)
		2,931,479	1,017,089
Changes in:			
Trade and other receivables		(233,747)	2,324,622
Contract assets		44,730	69,090
Trade and other payables		512,824	(1,274,160)
Related party balances		(2,576,167)	(543,135)
		679,119	1,593,506
Cash generated from operating activities		679,119	1,593,506
Interest paid		(85,016)	(35,284)
		594,103	1,558,222
Net cash from operating activities carried forward		594,103	1,558,222

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated. See Note 2.5.1.

Medserv Operations Limited

Statement of Cash Flows (continued)

For the Year Ended 31 December 2018

		2018	2017*
	Note	€	€
Net cash from operating activities brought forward		594,103	1,558,222
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	(196,336)	(1,595,943)
Cash used in investing activities		(196,336)	(1,595,943)
Cash flows from financing activities			
Proceeds from loans and borrowings		-	1,000,000
Repayment of bank loans		(1,119,382)	(1,230,458)
Interest paid on bank loans		(58,974)	(55,511)
Interest paid on funds advanced by parent		(458,130)	(458,170)
Payment of lease liabilities		(491,543)	(491,543)
Net cash used in financing activities		(2,128,029)	(1,235,682)
Net decrease in cash and cash equivalents		(1,730,262)	(1,273,403)
Cash and cash equivalents at 1 January		(574,630)	698,773
Cash and cash equivalents at 31 December	14	(2,304,892)	(574,630)
		=====	=====

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated. See Note 2.5.1.

The notes on pages 11 to 61 are an integral part of these financial statements.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

In preparing these financial statements, management has made judgements and estimates that affect the application of Company's 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 judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and information about assumptions and estimation uncertainties at 31 December 2018 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 11 – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and investment tax credits, tax losses, capital allowances carried forward can be utilised;
- Note 21 – measurement of ECL allowance for trade receivables and contract assets: key assumptions in determining the weighted-average loss rate; and

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

2 Basis of preparation (continued)

2.5 Change in significant accounting policies

The Company has initially applied IFRS 9 *Financial Instruments* (see 2.5.1) from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on these financial statements. The Company has early adopted IFRS 15 *Revenues from customers* and IFRS 16 *Leases* with a date of initial application of 1 January 2017 and accordingly adjustments have already been reflected in the corresponding period.

Due the transition methods chosen by the Company in applying this standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard. The effect of initially applying this standard is mainly attributed to an increase in impairment losses recognised on financial assets. See 2.5.1.

2.5.1 IFRS 9 *Financial Instruments*

IFRS 9 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*.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in administrative expenses. Consequently, the Company reclassified impairment losses amounting to €568,384 recognised under IAS 39, from 'administrative expenses' to 'impairment loss on financial assets' in the statement of profit or loss and OCI for the year ended 31 December 2017. Impairment losses on other financial assets are also presented separately in the statement of profit or loss and OCI.

Additionally, the Company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings.

Impact of adopting IFRS 9 at 1 January 2018

	Note	€
Retained earnings		
Recognition of expected credit losses under IFRS 9		1,608,361
Related tax		(293,857)
Impact at 1 January 2018	2.5.1 (ii)	1,314,504

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

2 Basis of preparation (continued)

2.5 Change in significant accounting policies (continued)

2.5.1 IFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at a mortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous 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 separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 3.2.2

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				€	€
Financial assets					
Trade and other receivables	13	Loans and receivables	Amortised cost	13,611,924	12,003,563
Cash and cash equivalents	14	Loans and receivables	Amortised cost	290,453	290,453
				13,902,377	12,294,016
Other assets					
Contract assets	5			69,090	69,090
Total assets				13,971,467	12,363,106
				=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

2 Basis of preparation (continued)

2.5 Change in significant accounting policies (continued)

2.5.1 IFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				€	€
Financial liabilities					
Lease liabilities	22	Other financial liabilities	Other financial liabilities	9,906,258	9,906,258
Amounts due to parent company	17	Other financial liabilities	Other financial liabilities	8,034,818	8,034,818
Secured bank loans	18	Other financial liabilities	Other financial liabilities	2,403,512	2,403,512
Trade and other payables	20	Other financial liabilities	Other financial liabilities	6,257,656	6,257,656
Bank overdraft	18	Other financial liabilities	Other financial liabilities	865,083	865,083
Total financial liabilities				<u>27,467,327</u>	<u>27,467,327</u>

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of €1,608,361 in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

2 Basis of preparation (continued)

2.5 Change in significant accounting policies (continued)

2.5.1 IFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount at 31 December 2017	Re- classification	Re- measurement	IFRS 9 carrying amount at 1 January 2018
	€	€	€	€
Financial assets				
<i>Amortised cost</i>				
Trade and other receivables:				
Brought forward: <i>Loans and receivables</i>	13,611,924	-		
Re-measurement			(1,608,361)	
Carried forward: <i>Amortised cost</i>				12,003,563
Cash and cash equivalents:				
Brought forward: <i>Loans and receivables</i>	290,453	-		
Re-measurement			-	
Carried forward: <i>Amortised cost</i>				290,453
	13,902,377	-	(1,608,361)	12,294,016
Other assets				
Contract assets:				
Brought forward: <i>Loans and receivables</i>	69,090	-		
Re-measurement			-	
Carried forward				69,090
Total assets	13,971,467	-	(1,608,361)	12,363,106

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

2 Basis of preparation (continued)

2.5 Change in significant accounting policies (continued)

2.5.1 IFRS 9 Financial Instruments (continued)

ii. Impairment of financial assets (continued)

The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an allowance for impairment as follows.

	€
Loss allowance at 31 December 2017 under IAS 39	568,384
Impairment recognised at 1 January 2018 on:	
Trade and other receivables	1,608,361
Contract assets	-
Cash and cash equivalents	-

Loss allowance at 1 January 2018 under IFRS 9	2,176,745
	=====

Additional information about how the Company measures the allowance for impairment is described in Note 21.4.

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

The determination of the business model assessment within which a financial asset is held have been made on the basis of the facts and circumstances that existed at the date of initial application.

3 Significant accounting policies

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.1 Foreign currency transactions (continued)

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at the reporting period. 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 reporting period. 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. Other non-operating foreign currency gains and losses are recognised in profit or loss are reported on a net basis as either "finance income" or "finance costs" depending on whether foreign currency movement is in a net gain or net loss position.

3.2 Financial instruments

3.2.1 Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3.2.2 Classification and subsequent measurement

3.2.2.1 Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.2 Financial instruments (continued)

3.2.2 Classification and subsequent measurement (continued)

3.2.2.1 Financial assets – Policy applicable from 1 January 2018 (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.2.2.2 Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

3.2.2.3 Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.2 Financial instruments (continued)

3.2.2 Classification and subsequent measurement (continued)

3.2.2.3 Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018 (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

3.2.2.4 Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

For financial assets at amortised cost, these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Company's financial assets comprise trade and other receivables, and cash and cash equivalents.

3.2.2.5 Financial assets – Policy applicable before 1 January 2018

The Company classified all its non-derivative financial assets into the loans and receivables category. 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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.2 Financial instruments (continued)

3.2.2 Classification and subsequent measurement (continued)

3.2.2.6 Financial liabilities – Policy applicable before 1 January 2018

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Company's financial liabilities at amortised cost comprise lease liabilities, amounts due to parent company, secured bank loans, bank overdraft and trade and other payables.

3.2.3 Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

3.2.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.3 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.

3.4 Property, plant and equipment

3.4.1 Recognition and measurement

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

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

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

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

3.4.2 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.

3.4.3 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 2018

3 Significant accounting policies (continued)

3.4 Property, plant and equipment (continued)

3.4.3 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.

3.5 Leases

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 assesses 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 when it:
 - has the right to operate the asset; or
 - designed the asset in a way that predetermines how and for what purpose it will be used.

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.5 Leases (continued)

3.5.1 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 varies between 40 and 42 years. 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;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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 2018

3 Significant accounting policies (continued)

3.5.1 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.

3.6 Impairment

3.6.1 Financial assets

3.6.1.1 Policy applicable from 1 January 2018

Financial instruments and contract assets

The Company recognises loss allowances for Expected Credit Losses (ECLs) on financial assets at amortised cost, namely trade and other receivables, amounts due from related parties, and cash at bank.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company measures loss allowances for trade receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.6 Impairment (continued)

3.6.1 Financial assets (continued)

3.6.1.1 Policy applicable from 1 January 2018 (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset. In the case of interest-free short term financial assets, such as trade receivables, ECLs are not discounted.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

3.6.1.2 Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.6 Impairment (continued)

3.6.1 Financial assets (continued)

3.6.1.2 Presentation of allowance for ECL in the statement of financial position (continued)

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off on its financial assets based on whether there is a reasonable expectation of recovery and with reference to its historical experience of recoveries. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment. A financial asset was impaired if objective evidence indicated 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.

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 was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account against receivables in the statements of financial position. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off against the financial asset directly. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

3.6.2 Non-financial assets

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.6 Impairment (continued)

3.6.2 Non-financial assets (continued)

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 Company of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

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

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

3.7 Employee benefits

3.7.1 Defined contribution plans

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

3.7.2 Other long-term employee benefits

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

3.8 Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a product or service to a customer.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.8 Revenue (continued)

3.8.1 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.

Logistic support services

The Company performs and provides logistics services to international oil companies carrying out offshore drilling campaigns. The Company delivers fully integrated supply base services which connect all the elements of our clients' logistics and materials management activities. Logistics support services include provision of equipment, personnel, warehousing, quays and land in a certified facility aimed at supporting offshore oil and gas drilling activities.

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.

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.

Engineering services

The Company through its engineering division carries out a full range of essential, non-critical engineering and technical services for the offshore platforms and drilling rigs. Services range from fabric maintenance, corrosion protection, riser inspection services, rig repair, technical services and general fabrication and maintenance. 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.

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.8 Revenue (continued)

3.8.1 Nature of goods and services (continued)

Supply of goods (continued)

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.

Supply of electricity

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.

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.

3.8.2 *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.

3.9 Finance income and finance costs

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

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

3.10 Government grants

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

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

3 Significant accounting policies (continued)

3.11 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.

3.11.1 Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year 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.

3.11.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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.

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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

4 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted, however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

- IFRIC 23 Uncertainty over Tax Treatments.
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015-2017 Cycle-various standards.

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

	2018	2017
	€	€
Shore base logistics services	9,489,581	8,781,941
Fabric maintenance, dredging and engineering services	1,202,674	463,023
Supply of goods	2,507,745	1,337,283
Photovoltaic income	471,902	526,989
	13,671,902	11,109,236
	=====	=====
Timing of revenue recognition		
Transferred over time	11,164,157	9,771,953
Point in time	2,507,745	1,337,283
	13,671,902	11,109,236
	=====	=====

5.2 Primary geographical markets

	2018	2017
	€	€
Malta	13,671,902	11,109,236
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

5 Revenue (continued)

5.3 Contract balances

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

	2018	2017
	€	€
Trade receivables, which are included in 'Trade and other receivables'	7,470,669	8,149,039
Contract assets	24,360	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 2018. The contract assets are transferred to receivables when the rights become unconditional.

6 Other income and other expenses

6.1 Other income

		2018	2017
	Note	€	€
Operating exchange gain		2,785	100,952
Reversal of deferred income	16	775,533	775,533
Government grant	11.3	100,000	-
		=====	=====
		878,318	876,485

6.2 Other expenses

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

7 Expenses by nature

7.1		2018	2017
	Note	€	€
Direct cost of services		7,020,589	5,537,064
Employee benefits	8	2,201,366	2,375,227
Depreciation	12, 22	2,897,593	2,382,361
Professional fees		442,954	608,127
Travelling and telecommunications		138,739	323,744
Repairs and maintenance		312,736	557,802
Insurance		160,277	191,110
Staff welfare		123,354	149,853
Security services		153,191	210,436
Other		281,804	238,302
		-----	-----
Total cost of sales and administrative expenses		13,732,603	12,574,026
		=====	=====

7.2 Administrative expenses include auditors' remuneration amounting to €52,500.

8 Personnel expenses

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

	2018	2017
	€	€
Directors' emoluments:		
Salaries	464,220	424,525
Fees	90,000	90,000
	-----	-----
	554,220	514,525
Wages and salaries	2,771,578	2,890,403
Social security contributions	179,536	176,052
Maternity funds	5,568	5,460
	-----	-----
	3,510,902	3,586,440
Recharged to fellow subsidiaries and parent company	(1,309,536)	(1,211,213)
	-----	-----
	2,201,366	2,375,227
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

8 Personnel expenses (continued)

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

	2018	2017
	No.	No.
Operating	78	83
Management and administration	22	18
	-----	-----
	100	101
	===	===

9 Finance income and finance costs

	2018	2017
	€	€
Unrealised non-operating exchange gains	73	-
	-----	-----
Finance income	73	-
	-----	-----
Interest payable on bank loan	(58,974)	(52,244)
Other bank interest payable	(85,016)	(25,922)
Interest payable on parent company loan	(473,244)	(472,728)
Interest cost on lease liabilities	(562,675)	(558,852)
	-----	-----
Finance costs	(1,179,909)	(1,109,746)
	-----	-----
Net finance costs	(1,179,836)	(1,109,746)
	=====	=====

10 Tax (expense)/income

10.1 Amounts recognised in profit or loss

		2018	2017
	Note	€	€
Deferred tax movement			
Origination and reversal of temporary differences	11.2	(786,279)	629,481
		=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

10 Tax (expense)/income (continued)

10.2 Amounts recognised in other comprehensive income

		2018	2017
	Note	€	€
Deferred tax movement			
Revaluation of right-of-use-assets	11.2	-	(5,935,213)
		=====	=====

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

	2018	2017
	€	€
Loss before tax	(444,423)	(2,278,289)
	-----	-----
Income tax using the domestic income tax rate 35%	155,548	797,401
Tax effect of:		
Investment tax credits	(958,818)	380,755
Disallowed expenses	16,991	(196,014)
Adjustment to prior year's deferred tax asset	-	352,661
	-----	-----
Tax (expense)/income	(786,279)	629,481
	=====	=====

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 2018

11 Deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€
Property, plant and equipment	-	-	(1,052,485)	(904,629)	(1,052,485)	(904,629)
Provision for discounted future gratuity payments	11,476	10,936	-	-	11,476	10,936
Provision for doubtful debts	335,025	2,921	-	-	335,025	2,921
Provision for exchange fluctuations	5,178	5,712	-	-	5,178	5,712
Investment tax credits	8,339,822	9,298,640	-	-	8,339,822	9,298,640
Unabsorbed capital allowances and unutilized tax losses	732,283	695,367	-	-	732,283	695,367
Right-of-use assets	-	-	(9,077,638)	(9,297,968)	(9,077,638)	(9,297,968)
Lease liabilities	3,492,086	3,467,190	-	-	3,492,086	3,467,190
Tax assets / (liabilities)	12,915,870	13,480,766	(10,130,123)	(10,202,597)	2,785,747	3,278,169
Set-off of tax	(4,334,362)	(4,267,384)	4,334,362	4,267,384	-	-
Net tax assets/(liabilities)	8,581,508	9,213,382	(5,795,761)	(5,935,213)	2,785,747	3,278,169
	=====	=====	=====	=====	=====	=====

11.2 Movement in temporary differences

2018

	Balance 01.01.18	Recognised in profit and loss 2018	IFRS 9 adjustment at 01.01.18 2018	Balance 31.12.18
	€	€	€	€
Property, plant and equipment	(904,629)	(147,856)	-	(1,052,485)
Provision for discounted future gratuity payments	10,936	540	-	11,476
Provision for doubtful debts	2,921	38,247	293,857	335,025
Provision for exchange fluctuations	5,712	(534)	-	5,178
Investment tax credits	9,298,640	(958,818)	-	8,339,822
Unabsorbed capital allowances and unutilized tax losses	695,367	36,916	-	732,283
Right-of-use assets	(9,297,968)	220,330	-	(9,077,638)
Lease liabilities	3,467,190	24,896	-	3,492,086
	3,278,169	(786,279)	293,857	2,785,747
	=====	=====	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

11 Deferred tax assets and liabilities (continued)

11.2 Movement in temporary differences (continued)

2017

	Balance 01.01.17	Recognized in profit and loss 2017	Recognised 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
	=====	=====	=====	=====

11.3 Recognition of deferred tax asset on investment tax credits

As at 31 December 2018, a deferred tax asset of €8,339,822 (2017: €9,298,640) 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 €307,222 (2017: €508,256) to be utilized by 31 December 2020. During 2018, the Company was granted the sum of €200,000 in settlement of unutilised investment tax credits awarded in relation to the STCs. This amount is payable in two equal instalments over 2 years. The first instalment was received in 2018 and is being recognised in other income (see note 6). The second instalment will be received in 2019 and is included in other receivables (see note 13.1) and deferred income (see note 16). The investment tax credits available in terms of regulation 5 of the BPRs and regulation 4 of the IARs, and amounting to €8,032,600 (2017: €8,790,384) do not expire.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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 01.01.17	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
Balance at 01.01.18	12,388,009	6,123,275	836,849	666,725	410,879	1,484,544	3,838,204	25,748,485
Acquisitions	52,733	85,840	46,893	10,864	-	-	-	196,330
Balance at 31.12.18	12,440,742	6,209,115	883,742	677,589	410,879	1,484,544	3,838,204	25,944,815
Depreciation								
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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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 01.01.18	2,138,794	3,153,410	349,007	510,938	357,871	500,295	695,170	7,705,485
Charge for the year	242,841	709,405	80,113	73,410	39,583	148,454	198,740	1,492,546
Balance at 31.12.18	2,381,635	3,862,815	429,120	584,348	397,454	648,749	893,910	9,198,031
Carrying amounts								
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
At 1 January 2018	10,249,215	2,969,865	487,842	155,788	53,008	984,249	3,143,034	18,042,994
At 31 December 2018	10,059,107	2,346,300	454,622	93,241	13,425	835,795	2,944,294	16,746,784

12.2 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 which extended the right of use of the said land until 29 May 2060 (see note 22.1).

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

12 Property, plant and equipment (continued)

12.3 Security

At 31 December 2018, 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	2018	2017
	€	€
Trade receivables	7,470,669	8,149,039
Amounts owed by fellow subsidiaries	6,367,501	4,736,293
Other receivables	458,082	357,191
Prepayments	340,848	369,401
	<u>14,637,100</u>	<u>13,611,924</u>
	=====	=====

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

13.3 The Company'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

	2018	2017
Note	€	€
Cash in hand	25,273	44,221
Bank balances	82,275	246,232
	<u>107,548</u>	<u>290,453</u>
Cash at bank and in hand	107,548	290,453
Bank overdrafts used for cash management purposes	18 (2,412,440)	(865,083)
	<u>(2,304,892)</u>	<u>(574,630)</u>
	=====	=====
Cash and cash equivalents at 31 December	(2,304,892)	(574,630)

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 2018

15 Capital and reserves

15.1 Share capital

	Ordinary shares	
	2018	2017
	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 (2017: 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 the company's 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 2018, 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 net of tax of the right-of-use assets at the reporting date consisting of land held from emphyteutical grant (see note 22). The transfer during the year to retained earnings represents the depreciation on the increase of the revalued amount, net of tax.

15.5 Availability of reserves for distribution

	2018	2017
	€	€
Distributable	-	732,466
Non-distributable	18,507,125	20,319,865
	18,507,125 =====	21,052,331 =====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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 2018 was equal to €775,533 (2017: €775,533). Deferred income also includes an amount of €100,000 awarded in settlement of unutilised special tax credits.

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	2018	2017
				€	€
Unsecured loan	EUR	6.00%	2022	3,683,704	3,683,672
Unsecured loan	EUR	6.00%	2023	3,424,959	3,409,876
Unsecured loan	EUR	4.50%	2026	941,270	941,270
				8,049,933	8,034,818
				=====	=====

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 2018

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.

	2018	2017
	€	€
Non-current liabilities		
Secured bank loans	548,989	1,221,877
	=====	=====
Current liabilities		
Secured bank loans	735,141	1,181,635
Bank overdrafts	2,412,440	865,083
	-----	-----
	3,147,581	2,046,718
	=====	=====

18.2 Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

As at 31 December 2018

	Original currency	Carrying amount	Nominal interest rate	Year of maturity
Bank loan	EUR	€826,490	Bank's base rate + 3.00%	2021
Bank loan	USD	€457,642	LIBOR + 3.5%	2019

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

18 Loans and borrowings (continued)

18.2 Terms and debt repayment schedule (continued)

The bank loans are secured by a first and second general hypothec each for €2,316,436 over all present and future assets, second special hypothec for €1,876,904 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 2018, the Company enjoyed general overdraft facilities of €3,000,000 (2017: €3,000,000) at the following terms and conditions:

Bank overdraft	Interest rate	Security
€2,500,000	5.35%	Second general and special Hypothec for 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 2018, the Company had unutilised bank overdraft facilities of €587,560 (2017: €2,134,917).

19 Provision

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

20 Trade and other payables

20.1	2018	2017
	€	€
Trade payables	2,380,483	2,048,111
Amounts due to related parties:		
Parent company	3,899,735	3,997,242
Other related companies	-	102,305
Accruals	286,101	109,998
	<u>6,566,319</u>	<u>6,257,656</u>
	=====	=====

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 cash and cash equivalents and trade and other receivables. On the same date, the Company's loans and receivables comprised cash and cash equivalents and trade and other receivables. The Company's non-derivative financial liabilities comprised loans and borrowings, bank overdrafts and trade and other payables.

Measurement of fair values

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 as far as possible.

Significant valuation issues are reported to the parent company's audit committee.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.1 Accounting classifications and fair values (continued)

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

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

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

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

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

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 other 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.

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

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.2 Financial risk management (continued)

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 Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Financial Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee reports regularly to the board of directors on its activities.

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's Audit Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

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 bank balances, trade receivables, and amounts due from related parties.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure, as follows:

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.4 Credit risk (continued)

Exposure to credit risk (continued)

		Carrying amount	
		2018	2017
Carrying amount	Note	€	€
Trade and other receivables	13	14,296,252	13,242,523
Cash at bank	14	82,275	246,232
		<u>14,378,527</u>	<u>13,488,755</u>
		=====	=====

Impairment losses on financial assets recognised in profit or loss were as follows.

	2018	2017
	€	€
Impairment loss on trade and other receivables	109,277	8,345
Impairment loss on amounts receivable from fellow subsidiaries	261,105	560,039
Reversal of impairment loss on amounts receivable from fellow subsidiaries	(288,178)	-
	<u>82,204</u>	<u>568,384</u>
	=====	=====

Trade receivables and contract assets

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. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

Through the Financial Risk Management Committee, the Company has an internal control system which identifies at an early stage any events of default. Most of the Company's customers have been transacting with the Company for a number of years, and losses rarely occur. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including geographic location, aging profile, maturity, trade history with the Company and existence of previous financial difficulties.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.4 Credit risk (continued)

Trade receivables and contract assets (continued)

The Company does not require collateral in respect of trade and other receivables. The Company does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

As at 31 December 2018, the Company's three (2017: three) significant customers accounted for €6.9 million (2017: €6.1 million) of the trade receivables.

At 31 December 2018, the exposure to credit risk for trade receivables and contract assets by geographic region was as follows:

	Carrying amount	
	2018	2017
	€	€
Carrying amount		
Domestic	191,225	627,876
EU countries	845,694	767,308
Libya	5,985,102	5,882,972
Other	473,008	939,973
	<u>7,495,029</u>	<u>8,218,129</u>
	=====	=====

A summary of the Company's exposure to credit risk for trade receivables and contract assets is as follows.

	2018	2017
	€	€
Not-credit impaired		
External credit ratings at least		
Baa3 from Standard & Poor's		
or BBB- from Standard & Poor's	1,397,042	995,098
Other customers:		
- Four or more years' trading		
history with the Company	5,982,338	6,159,706
- Less than four years' trading		
history with the Company	184,805	191,958
- Higher risk	879,712	879,712
	<u>8,443,897</u>	<u>8,226,474</u>
Total gross carrying amount		
Loss allowance	(948,868)	(8,345)
	<u>7,495,029</u>	<u>8,218,129</u>
	=====	=====
Carrying amount		

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.4 Credit risk (continued)

Trade receivables and contract assets (continued)

Comparative information under IAS 39

An analysis of the credit quality of trade receivables and the ageing of trade receivables as at 31 December 2017 is as follows.

	Gross	Impairment
	2017	2017
	€	€
Not past due	2,033,868	-
Past due 0-30 days	739,726	-
Past due 31-120 days	2,673,286	-
More than 120 days	2,702,159	-
<i>Impaired</i>		
More than 120 days	8,345	(8,345)
	8,157,384	(8,345)
	=====	=====

Impairment represents specific allowances. No collective impairment allowances were deemed necessary at 31 December 2017 in view of the insignificant historical loss rates.

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

Expected credit loss assessment for customers as at 1 January and 31 December 2018

The Company uses different provisioning matrices to measure the ECLs of trade receivables:

- Loss rates calculated using a method based on the historical period of sales to determine what part of sales were actually written off in preceding reporting periods.
- Specific provisions for internally rated customers.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.4 Credit risk (continued)

Trade receivables and contract assets (continued)

Expected credit loss assessment for customers as at 1 January and 31 December 2018 (continued)

Loss rates are based on actual credit loss experience over the past 4 years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

Loss rates calculated using a sales approach were based on actual credit loss experience over the past four years, which after being multiplied by scalar factors to take cognisance of current and future economic conditions resulted in a loss rate of 4.25% resulting in an ECL of €310,420 on total exposures of €7,300,627 as at 31 December 2018.

Movements in the allowance for impairment in respect of trade receivables and contract assets

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2018	2017
	€	€
Balance at 1 January under IAS 39	8,345	-
Adjustment on initial application of IFRS 9	839,591	-
	-----	-----
Balance at 1 January under IFRS 9	847,936	-
Reversal of amounts written off	(8,345)	-
Net remeasurement of loss allowance	109,277	8,345
	-----	-----
Balance at 31 December	948,868	8,345
	=====	=====

Cash and cash equivalents

The Company held cash and cash equivalents of €82,275 at 31 December 2018 (2017: €246,232). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated BBB to B2, based on ratings by Moody's.

Impairment on cash and cash equivalents has been measured on a 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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.4 Credit risk (continued)

Cash and cash equivalents (continued)

	2018 At amortised cost €
B2	34,656
BBB	47,619

Gross carrying amounts	82,275
Loss allowance	-

Carrying amount	82,275 =====

On initial application of IFRS 9, as at 1 January 2018, there was no impairment allowance on cash and cash equivalents.

Amounts due by fellow subsidiaries

During the year, an impairment loss on the amounts owed by fellow subsidiaries of €261,105 (2017: €560,039) was incurred. In addition, the Company reversed an impairment loss of €288,178 (2017: €nil) 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.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities over the next 60 days, including the servicing of financial obligations. The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

As at 31 December 2018, the Company had unutilised overdraft facilities amounting to €587,560 (2017: €2,134,917), 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 2018

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

21.5 Liquidity risk (continued)

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude 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 2018							
Non-derivative financial liabilities							
Amounts due to parent company	11,949,668	(14,134,777)	(4,357,893)	(458,215)	(8,292,652)	(1,026,017)	-
Secured bank loans	1,284,130	(1,360,118)	(784,378)	(314,040)	(261,700)	-	-
Bank overdraft	2,412,440	(2,541,506)	(2,541,506)	-	-	-	-
Lease liability	9,977,390	(28,531,688)	(517,556)	(524,868)	(1,612,643)	(2,854,177)	(23,022,444)
Trade and other payables	2,380,483	(2,380,483)	(2,380,483)	-	-	-	-
	28,004,111	(48,948,572)	(10,581,816)	(1,297,123)	(10,166,995)	(3,880,194)	(23,022,444)
	=====	=====	=====	=====	=====	=====	=====
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)
	=====	=====	=====	=====	=====	=====	=====

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 2018

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.

Exposure to Currency risk

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

	31 December 2018	31 December 2017
	USD	USD
Trade and other receivables	9,662	58,990
Secured bank loan	(523,446)	(1,072,075)
Funds in foreign currency	22,298	161,478
Net exposure	(491,486)	(851,607)
	=====	=====

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD	1.180	1.130	1.144	1.198

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.6 Market risk (continued)

21.6.1 Currency risk (continued)

Exposure to Currency risk (continued)

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 2017.

	Profit or loss	Equity
	€	€
31 December 2018		
USD	49,149	49,149
	=====	=====
31 December 2017		
USD	70,865	70,865
	=====	=====

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	
	2018	2017
	€	€
Variable rate instruments		
Financial assets	82,275	246,232
Financial liabilities	(3,696,572)	(3,268,595)
	=====	=====
Fixed rate instruments		
Financial liabilities	(8,049,933)	(8,034,818)
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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 bank balances and 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 2017.

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 €36,143 (2017: €30,224).

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:

- 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.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

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

21.8 Capital management

The Company defines capital as paid-in capital stock, additional paid-in capital, parent company loan 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.

22.1.1 Right-of-use assets

	Land Right-of-use assets
2018	€
Balance at 1 January	59,913,562
Depreciation charge for the year	(1,405,047)
Balance at 31 December	58,508,515
	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

22 Leases (continued)

22.1 As a lessee (continued)

22.1.1 Right-of-use assets (continued)

2017	Note	Land	
		Right-of-use assets	Prepaid operating lease
		€	€
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	-
		=====	=====

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.

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, amounted cumulatively to €59,913,562. 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 €42,955,810 from the aggregate of €59,913,562.

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

22 Leases (continued)

22.1 As a lessee (continued)

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

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)

22.1.2 Lease liabilities

	2018	2017
	€	€
Maturity analysis-contractual undiscounted cash flows		
Less than one year	517,556	491,543
One to five years	2,137,511	2,099,453
Five years to ten years	2,854,177	2,810,543
More than ten years	23,022,444	23,621,692
Total undiscounted lease liabilities at 31 December	28,531,688	29,023,231
	=====	=====
Non- current lease liabilities included in the statement of financial position at 31 December	9,977,390	9,906,258
	=====	=====

Amounts recognised in profit or loss

	2018	2017
	€	€
Interest on lease liabilities	(562,675)	(558,852)
Variable lease payments not included in the measurement of lease liabilities	(54,100)	(70,418)
	=====	=====

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

22 Leases (continued)

22.1 As a lessee (continued)

22.1.2 Lease liabilities (continued)

Amounts recognised in the statement of cash flows

	2018	2017
	€	€
Total cash outflow for leases	(491,543)	(491,543)
	=====	=====

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 €135,813 (2017: €106,099).

24 Related parties

24.1 Parent and ultimate controlling party

The Company is a wholly owned subsidiary of Medserv p.l.c. (the "parent company"), the registered office of which is situated at Port of Marsaxlokk, Birzebbugia, Malta. The parent is a public limited liability company incorporated in Malta and listed on the Malta Stock Exchange. Two of the Company's directors, namely Mr Anthony S Diacono and Mr Anthony J Duncan hold 31.17% and 34.33% (2017: 31.17% and 34.33%) 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").

Medserv Operations Limited

Notes to the Financial Statements

For the Year Ended 31 December 2018

24 Related parties (continued)

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 €225,000 (2017: €228,500). In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers.

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over the financial or operating policies of these companies. Directors' remuneration is included in Note 8.

24.4 Related party transactions

The following transactions were conducted during the year:

	2018	2017
	€	€
Parent company		
Interest charged by	473,244	472,728
	=====	=====
Fellow subsidiaries		
Payment of expenses on behalf of	2,758,123	1,535,808
Support services from	81,392	(213,352)
	=====	=====
Other related party		
Services provided by	(19,567)	(17,181)
	=====	=====

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 2018, 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 2018, 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 provisions of 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), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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Independent Auditors' Report (continued)

To the Shareholders of Medserv Operations Limited

Other information

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

Our opinion on the financial statements does not cover the directors' report, on which we report separately below in our 'Report 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 also responsible for overseeing the financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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



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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)

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.
- 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 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.

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

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and
- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

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

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

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit.

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

KPMG
Registered Auditors

30 April 2019