2018

Annual Report & Financial Statements

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For the year
Ended December 2018

For the year ended
31 December 2018

Chairman's Statement

The year under review, 2018, was a very encouraging year for the Medserv Group and sets the expectations of all stakeholders for both the medium and the long term. Recent strategic decisions taken during the past three years are starting to produce the results expected from such actions and these are explained in detail in our CEO's report.

The Group is now considered a global player in our industry. We are servicing more clients in more continents and we seek to continue growing in a sustainable manner. We remain first movers and put a lot of emphasis on improving our product globally.

The management team, led by Group CEO Karl Bartolo, have not only met but surpassed targets set by my board. The division of responsibility between the CEO and myself as Chairman is having a positive effect. My board is focused on delivering long-term strategy to ensure the Group maintains its leading position in our sector whereas Management is focused on delivering this in the interest of all stakeholders.

The long-term future of the Group is paramount in all we do. However, short-term considerations should not be overlooked in achieving this aim. Included in these considerations, is the resumption of dividend payments after this long period of essential investment.

The initiative commenced by the two main shareholders, as announced on the 30th April 2018 to seek new strategic investors to take forward the Group is ongoing but moving at a cautious pace and discussions with interested parties are progressing.

The Group looks to the future with confidence. The market is back as evidenced by the stability of oil prices, and the Group has positioned itself to participate in the renewed activity globally. All of this would not have been possible without the work put in by my fellow board members, management and staff that operate around the world. I also would like to thank all stakeholders in the Group being shareholders, bond holders and minority partners in our subsidiaries for their continued support.

Anthony S. Diacono
Chairman

CEO's Statement

For year 2018 adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to €7.3m, an improvement of 69% over the previous year and surpassing the Group's forecast by 7.4% A detailed analysis of the Group's financial performance for the reporting year is provided in the Directors' report.

The Group is positioned for further growth as the market becomes more confident. This is further strengthened as new discoveries increase drilling programs, existing contracts are extended, and new business is secured. North Africa, Middle East as well as the expanding region of the Eastern Mediterranean and South America have significant oil and gas projects in the pipeline which demand services within the Group's key competencies.

Revenue is forecast to double in year 2019 with a consequent increase in EBITDA.

The Company's main operating segments are primarily ILSS and OCTG, generating total revenues for year 2018 of €36.2 million (2017: €28.8 million), a 26% increase year on year. EBITDA grew by over 69%, from €4.3 million to €7.3 million. During 2018, the ILSS were predominantly provided to the offshore oil and gas projects carried out within the Mediterranean basin, whilst supply chain management and machine shop services for OCTG were mainly performed in the Middle East.

In year 2018, the Group provided shore base support services to all the drilling activity offshore Libya, Cyprus and the offshore oil and gas activity in Egypt connected to the Zohr field. The Company supported both ENI and Exxon drilling campaigns in Cyprus, resulting in discoveries which increased interest in the region and neighbouring countries. Other opportunities are now being actively explored in this promising market.

The Group's first half of the year of operations in Egypt required a significant amount of resources to setup its management systems. This subsidiary started generating positive EBITDA from the fourth quarter of the reporting year.

The strongest performer in the Middle East during 2018 remained the Oman business unit despite the one-time impairment loss on property, plant and equipment amounting to €0.6m for curtailing its facilities in Sohar and moving its operation to Duqm, in line with the local Government policy. Sumitomo, a global tubular manufacturer, is the driver of this business by constantly supplying large quantities of pipe in the region and selecting our subsidiary METS as their partner for supply chain management services.

The operations in Iraq remain dampened, resulting in an impairment on property, plant and equipment amounting to €0.4m. Management is in the process of restructuring this business unit. The Company remains committed to Iraq as operators in the Basra region (South Iraq) have reactivated their plans to boost their output by a combined 1.8 million barrels of oil per day. Increased enquires and work orders are proof of improved market conditions in this country after the reporting period.

Activity in the oil and gas industry is increasing and the Group is registering positive results in its core competences. Swift action by management to address the changing realities of both industry and the company has positioned Medserv for future growth. The Staatsolie Suriname contract award valued at $30.6 million has provided the Group with a stepping stone to a new emerging region with growing interest and opportunities for both of its operating segments – ILSS and OCTG.

As mentioned in our previous published statements, the Group is still waiting for state authority approval for the Uganda project to proceed. An award would provide the Group with another long-term contract with consistent revenues. The Group is also awaiting the adjudication of an award of additional Supply Chain Management contracts in the Middle East in 2019, the volumes of which are forecasted to be equivalent to those currently being managed by the subsidiary in Oman.

The Group expects to benefit from synergies in cross-selling its services within its existing facilities. METS Oman business unit could be the first to benefit from cross-selling as current facilities designed for supply chain management of OCTG may be utilised as a shore base for exploratory drilling campaigns.

The Group remains poised for achieving this growth without the need of significant additional capital expenditure by commercialising its management services, a new revenue stream. In Suriname, it was the management systems and experience which led to the contract award. The Group's operational reach in Europe, Middle East, South America and Africa is presenting unprecedented opportunities for both ILSS and OCTG.

As mentioned, the Group's objective is to continue to grow its earnings. The strong business pipeline allows the Company to deliver its objectives, amongst which the resumption of dividend payment, the reduction in structural debt and the continuation of investment in information systems.

As already announced, the two major shareholders of the Company, who together hold 65.5% of the Company's issued share capital are in the process of seeking a strategic investor to acquire their shareholding in the Company. This process is still ongoing, and interest remains positive. The team I lead remains focused on delivering shareholder value. The introduction of the right strategic partner will be of benefit in accelerating the Company's growth potential.

We have come a long way from last year and the main factors contributing to this positive change of events is that the Market is improving, and the team is successfully competing across all regions. We still have more work to achieve the results demanded by our board and shareholders, but I remain confident that with the Management team in place we are heading onwards and upwards thanks to the team's effort for which I am grateful.

Karl Bartolo
CEO

Corporate Social Responsibility

For the year ended 31 December 2018

The Company places significant importance on contributing to the communities in which we operate.

The following are the various ways in which Medserv has provided support over the year in review.

The people of Kerala have always been and are still central to the Medserv success story, especially in the Middle East. Subsequent to the floods which wrecked the community in August 2018, the worst flood Kerala has seen in nearly a century, Medserv together with our staff from the various Group bases across the globe, aided through financial donations to the Kerala Foundation to provide some relief to the Keralan communities.

Medserv Cyprus embarked on an awareness campaign in relation to reusable water bottles so as to reduce plastic waste and donated Medserv branded re-usable bottles to countryside schools in the region. They plan to continue to build on this initiative in 2019.

Medserv Malta and Medserv Cyprus have actively participated in a Pink October Awareness Campaign to help raise awareness amongst their employees about the importance of screening for breast cancer.

In 2018, the Company donated funds to several entities, including the Association for Abandoned Animals Sanctuary, L-Istrina and Puttinu Cares. Donations of food to the Malta Food Bank were made, and a number of blood donations by its employees were organised on site at the Malta base.

The Company is keen on promoting a healthier and more active lifestyle and provide support for its employees whenever possible. In the year under review, the Company supported some of its employees in their participation in The GRID Event in Malta. The GRID is an OCR Event that occurs twice a year, with the main event usually held in June with a course averaging 12 to 15km offering 30 plus obstacles, rough terrains, sea and sun, challenging all athletes.

Support was also provided for another employee who participated in the World Company Sport Games held in La Baule, France as part of the Malta Employees Sports Association (MESA) contingent and went on to finish in second place.

Our Commitment to Health, Safety, Security, Environment & Quality (HSSEQ)

Through the creation and implementation of the Company's 12 Life Saving Rules in August 2018, Medserv has reinforced its commitment to reduce the number of HSSEQ incidents at the workplace. Rollout across all bases took place in 2018 and reinforcement of the Practices is being carried out throughout 2019 by means of a Safety Awareness Campaign which involves all employees and contractors across the board.

In 2018, METS Group successfully achieved ISO 9001:2015, ISO 14001:2015 and OSHAS 18001:2007 International Standard Certification as follows:

- METS UAE (Hamrijah) achieved ISO 9001:2015 certification, August 2018
- METS Iraq achieved ISO 9001:2015 certification, April 2018
- METS Sohar (Oman) achieved ISO 9001:2015, ISO 14001:2015 & OSHAS 18001:2007 certification, April 2018

Testament to the positive safety culture that has developed throughout the group, a Medserv Cyprus employee at the Limassol base, Rafael Michael, has been awarded the ExxonMobil Gold Standard Award for Safety for recognising and taking action in an unsafe predicament.

Green Energy

In 2014, Medserv invested in a large Solar Farm at its base in Malta Freeport. Over 8,000 photovoltaic (PV) panels were installed. At year end, the Group's solar farm was fast approaching a milestone figure, just over 9 million kg of CO2 emissions saved. As at 31 December 2018, the system had produced exactly 14,090,343 kWh of energy.

Anthony S Diacono
Anthony J Duncan
Joseph F X Zahra
Joseph Zammit Tabona
Godwin A Borg
Laragh Cassar

The Group's principal activities consist of providing shore base logistics and engineering services to the offshore oil and gas industry and supply chain management for Oil Country Tubular Goods (OCTG) to support the onshore oil and gas industry. Shore base logistics is mainly provided from the Group's bases set up in Mediterranean rim countries, supporting International Oil Companies (IOCs) in their offshore activities, ranging from exploration to development and production. Supply chain management for OCTG are mainly provided by Middle East Tubular Services Group of Companies (METS) from its facilities in the Middle East. The Group is continuously working to cross-sell its services within its Group's operating segments.

With spending returning by the 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 Group has put in place in its management systems during the past years is bearing positive results. Medserv has achieved international recognition within the oil and gas service industry for their core competencies, namely the Integrated Logistics Support Services (ILSS)
and OCTG.

The year 2018 was marked with a number of value propositions which have increased the underlying values of the Company's contracts as well as unlocking new opportunities in both its operating segments.

Operations in Egypt commenced at the beginning of the year. As in any start-up, the contract implementation was challenging as the Company finalized its recruitment for key personnel and the purchase of all its own equipment. All this equipment has been commissioned towards the fourth quarter, with increased earnings and margins reflected in this period. Following the successful execution of this important contract, the Group is well positioned to secure services of similar scope with other operators in Egypt.

During the year, the Company secured a second contract in Cyprus with a major IOC, strengthening the Company's leading position in the region. The Company has already successfully supported two drilling campaigns during the year both of which resulted in considerable gas finds, triggering multi-drilling programs in the coming years as well as interest by other IOCs in securing acreage in neighbouring countries. The Company is in discussions to secure a third contract with another major IOC as it consolidates its facilities in Limassol shore base, following the closure of the Larnaca base earlier this year.

The Group continues to service the offshore Libya Bahr Essalam Phase Two project as its contracts are extended. Work volume is anticipated to increase in line with the IOCs' offshore development plan to increase offshore field production volumes in Libya.

In Portugal, the client has discontinued its project following the ruling by the Portuguese courts to suspend their licence. As a result, a decision has been taken by the Company during the year to close down the base in Portugal.

The OCTG operating segment operating solely in the Middle East remains a key contributor to the Group's earnings. The subsidiary in Duqm, Oman continues to generate substantial earnings. The performance of the subsidiary in Iraq remains weak. The Company remains committed to operating in this country as a result of the improving market conditions and the potential growth opportunities. However, this may still warrant restructuring measures. The Iraq business venture has a leading position being the sole VAM® licensed workshop in the south of the country. The VAM® licensee network consists of certified repair shops that thread premium connections of the same quality and performance as those delivered from the production facilities of Vallourec Oil & Gas France.

During the fourth quarter of 2018, the Company secured a shore base contract valued at $30.6 million in South America, a new geographical market, following an international tendering process. The contract is for a period of fifteen months commencing on 1 January 2019. The contract relates to an emerging region adjacent to recent discoveries in offshore Guyana, potentially providing further opportunities in the region for the Group.

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.

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 Group. The most important strategic, corporate and operational risks, as well as uncertainties identified during the year together with the actions taken by the Group to reduce these risks are listed below:

CONCENTRATION RISK

The Group's business is heavily dependent on relatively few customers both in the shore base logistics and OCTG. The Group's objective is to increase client spread within the oil and gas industry. The acquisition of METS was a significant measure taken during 2016 to reduce client concentration risk. During the year, the Group has secured contracts with other major IOCs. The strategic development team is continuously working to secure business with new IOCs.

POLITICAL RISK

The Group's results may be significantly impacted positively or negatively as a result of political decisions. Regulatory and environmental decisions as well as political instability can delay, disrupt or cancel projects. The fiscal and economic conditions in Libya remained fragile during the year, characterised by record inflation and a persistent political strife between rival governments. In Iraq, the political and security situation has improved following the swearing-in of a prime minister designate and president in October 2018. Iraq is the second-largest crude oil producer in the Organisation of the Petroleum Exporting Countries (OPEC) after Saudi Arabia and is therefore a key pillar within the oil market. The Group now operates in eight jurisdictions, with the intention of increasing its operational footprint to continue to minimise this risk.

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. The Group is always striving to reduce this risk by investing in countries where cost of oil production is low, primarily in the Middle East and Africa. Also, the Group's strategy is to increase the number of services offered. The Group's services include *'Offshore Logistics', 'Drilling Fluid Manufacture', 'OCTG Pipe Services', 'Engineering Services'* and '*Environmental Services'*. During the year, the Group continued its drive to increase its spread by adding *'Management Services'* within its portfolio.

Group's total revenue for the year amounted to €36,187,199 (2017: €28,777,143), representing an increase of 26% over the previous year. The increase in revenue during 2018 is mainly attributable to the market recovery within the ILSS segment as the number of the offshore drilling campaigns carried out by the IOCs in the Mediterranean basin have resulted in the Company's shore base facilities being active for most of the year. The OCTG segment has maintained the same levels of revenue generated last year.

The Adjusted Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) of the Group amounted to €7,318,591 (2017: €4,329,719), a significant improvement of 69% over the previous year as a result of the revenue growth. After recognising depreciation amounting to €7,874,498 (2017: €5,646,216), amortisation amounting to €1,923,600 (2017: €2,779,292), net provision for impairment losses on property, plant and equipment amounting to €981,572 (2017: €nil), the Group incurred an operating loss amounting to €3,461,446 (2017: loss of €4,095,788). This loss is mainly the result of the increase in the depreciation and the one-time net provision for impairment losses on property, plant and equipment.

The Group continued to generate cash profits in a period of market slowdown (specifically from 2016 to 2018) and this allowed the Group to maintain investment through that period, enabling the Group to meet demand and new opportunities as the market recovers.

After deducting the net finance costs amounting to €5,369,898 (2017: €3,941,199), the Group registered a loss before tax of €8,831,344 (2017: loss before tax of €8,036,987). Loss after accounting for taxation amounted to €9,526,894 (2017: €7,633,559).

The Group registered negative earnings per share of €0.16c8 (2017: negative earnings per share of €0.13c8).

REVENUE

The Group's revenue was 59% (2017: 50%) generated by the ILSS segment, 40% (2017: 48%) by the OCTG segment and the remaining 1% by the photovoltaic income (2017: 2%).

COST OF SALES AND ADMINISTRATIVE EXPENSES

The cost of sales of the Group for the year amounted to €33,639,893 against €26,614,100 incurred in 2017, while gross profit margins decreased by 0.5% compared to last year. The main causes behind this decrease were the following:

- An increase in the depreciation charge by €2.2 million (40%) over the previous year mainly as a result of the Group's continuous investment in its plant and equipment especially in Egypt and the setting up of new facilities in Cyprus and Duqm;

- The lower margins earned during the starting up of the subsidiary in Egypt during the first half of the year;

Cost of sales also include the amortisation of the intangible assets amounting to €1,472,987 (2017: €1,666,013) which were recognised in 2016 upon the acquisition of METS. These intangible assets consist mainly of customer relationships and is being amortised over a period of ten years. The Company believes that the intrinsic value from the recognised customer relationships is yet to be derived in the coming years.

Administrative expenses are mainly fixed by nature. The decrease of 12% over last year is mainly the result of the decrease in the amortisation of the contract costs relating to the signing bonuses granted to key management personnel of METS upon acquisition in 2016. The Group continues its investment in its business development with the objective of participating in new tenders as opportunities present themselves.

OTHER EXPENSES

Other expenses consist mainly of a provision on impairment losses on the plant and equipment of the subsidiary in Iraq, as a result of the net losses sustained by the subsidiary and on the base improvements in Sohar, given that the Group downsized its base in Sohar.

	2018	2017
	€ Million	€ Million
Total turnover	**36.19**	28.78
Integrated Logistics Support Services (ILSS)	**21.47**	13.97
Oil Country Tubular Goods (OCTG)	**14.22**	14.28
Photovoltaic Farm	**0.5**	0.53
Adjusted EBITDA	**7.32**	4.43
Loss for the year	**(9.53)**	(7.64)
Cash generated from operating activities	**8.84**	4.53
Cash and cash equivalents	**(2.41)**	2.77
Equity	**18.67**	28.10
Balance sheet total	**156.78**	153.27
Capital expenditure	**6.88**	2.60

	2018	2017
EBITDA margin in %	**20.27%**	15.41%
Interest coverage ratio	**2.37**	1.49
Net debt to EBITDA	**7.34**	11.36
Debt to Equity ratio	**3**	1.85
EPS	**(16c8)**	(13c8)
Average employee for the year	**292**	258

The equity attributable to the owners of the Company as at 31 December 2018 amounted to €19,349,641 (2017: €28,250,706).

No reserves are available for distribution.

Accumulated losses amounting to €8,215,519 and €695,423 for the Group and the Company respectively are being carried forward.

In line with the Group's strategy for diversification in geographic markets, client base and product services, the Group is actively positioning itself for growth in various new significant oil and gas markets. The Group is awaiting adjudication on tenders relating to Supply Chain Management contracts in the Middle East during 2019. These long-term contracts are a result of organic growth in the region following the acquisition of the METS Group in 2016. The volumes and profits projected from these contracts would be equivalent to those currently being earned in Oman. The provision of machine shop services in Uganda is still on track and is awaiting a final investment decision by the Joint Venture Partners, Tullow Oil, China National Offshore Oil Corporation (CNOOC) and Total. These long-term projects would provide the Group with consistent and dependable earnings from 2020 onwards. The Company is experiencing an increasing number of tendering opportunities within its core ILSS and OCTG competencies and is in discussions with IOCs to cross-sell its existing facilities for supply chain management of OCTG to support both the offshore and onshore drilling campaigns.

Medserv International Limited, a subsidiary domiciled and incorporated in Malta, has been awarded a fifteen months contract to provide ILSS services for the nearshore drilling campaign conducted by Suriname's national oil company in the country. This new contract was awarded through a competitive tender process and is effective as from 1 January 2019. Consequently, the subsidiary has opened a branch in Suriname on 14 January 2019.

Five years after the downturn, the oil and gas industry has managed to demonstrate its ability to reinvent itself. The sector has emerged from this downturn as more flexible and robust with oil majors reporting higher profits at the current barrel oil prices than when the oil was trading above $100 a barrel prior to 2014. The premium OCTG market has also climbed in price and increased in delivery times and this is increasing the demand for the repair and accessory production market in which the Group is present. Consideration is now being given to the cost of repair over the cost of replacement of OCTG. This steady improvement across the industry is expected to continue as upstream companies increase production, helping the midstream and services businesses as well.

The Group anticipates significantly improved performance in all its operating segments. This is mainly attributable to the Group's access to lucrative markets as a result of its diversification, its projected business pipeline and the firm floor under the oil prices which is expected to be maintained in the coming years.

As required by Listing Rule 5.62, upon due consideration of the Group and Company's performance and statement of financial position, capital adequacy and solvency, the directors confirm the Group and Company's ability to continue operating as a going concern for the foreseeable future.

KPMG have expressed their willingness to continue in office. A resolution proposing the reappointment of KPMG as auditors of the Company will be submitted at the forthcoming annual general meeting.

Pursuant to Listing Rule 5.64

SHARE CAPITAL STRUCTURE

The Company's authorised share capital is €12,000,000 divided into 120,000,000 ordinary shares of €0.10 per share. The Company's issued share capital is €5,374,440.50 divided into 53,744,405 ordinary shares of €0.10 per share. All of the issued shares of the Company form part of one class of ordinary shares in the Company, which shares are listed on the Malta Stock Exchange. All shares in the Company have the same rights and entitlements and rank *pari passu* between themselves.

The following are highlights of the rights attaching to the shares:

The shares carry the right to participate in any distribution of dividend declared by the Company;

Each share shall be entitled to one vote at meetings of shareholders;

Subject to the limitations contained in the memorandum and articles of association, shareholders in the Company shall be entitled, in accordance with the provisions of the Company's memorandum and articles of association, to be offered any new shares to be issued by the Company a right to subscribe for such shares in proportion to their then current shareholding, before such shares are offered to the public or to any person not being a shareholder

The shares carry the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise;

The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange, applicable from time to time;

The shares are not redeemable and not convertible into any other form of security;

Chapter 11 of the Listing Rules, implementing the relevant Squeeze-Out and Sell-Out Rules provisions of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, regulates the acquisition by a person or persons acting in concert of the control of a company and provides specific rules on takeover bids, squeeze-out rules and sell-out rules. The shareholders of the Company may be protected by the said Listing Rules in the event that the Company is subject to a Takeover Bid (as defined therein). The Listing Rules may be viewed on the official website of the Listing Authority - www.mfsa.com.mt;

Pursuant to Listing Rule 5.64

(Contd)

On the basis of the information available to the Company as at 31 December 2018, the following persons hold 5% or more of its issued share capital:

Malampaya Investments Limited	34.33%	(18,450,000 shares)
Anthony S Diacono	31.17%	(16,751,835 shares)
Rizzo Farrugia & Co (Stockbrokers) Limited on behalf of clients	10.71%	(5,754,844 shares)

As far as the Company is aware, no other person holds any direct or indirect shareholding in excess of 5% of its total issued share capital.

In terms of the memorandum and articles of association of the Company, the directors of the Company shall be appointed by the shareholders in the annual general meeting as follows:

(a) Any shareholder/s who, in the aggregate, holds not less than 0.5% of the total shares having voting rights in the Company shall be entitled to nominate a fit and proper person for appointment as a director of the Company. The directors themselves or a committee thereof may make recommendations and nominations to the shareholders for the appointment of directors at the next following annual general meeting.

(b) Shareholders are granted a period of at least fourteen (14) days to nominate candidates for appointment as Directors. Such notice may be given by the publication of an advertisement in at least two (2) daily newspapers. All such nominations, including the candidate's acceptance to be nominated as director, shall, on pain of disqualification, be made on the form to be prescribed by the Directors from time to time and shall reach the Office not later than fourteen (14) days after the publication of the said notice (the "Submission Date"); PROVIDED THAT the Submission Date shall not be less than fourteen (14) days prior to the date of the meeting appointed for such election. Nominations to be made by the Directors or any sub-committee of the Directors appointed for that purpose shall also be made by not later than the date established for the closure of nominations to shareholders.

(c) In the event that there are either less nominations than there are vacancies on the board or if there are as many nominations made as there are vacancies on the Board, then each person so nominated shall be automatically appointed a director.

Pursuant to Listing Rule 5.64

(Contd)

(d) In the event that there are more nominations made, then an election shall take place. After the date established as the closing date for nominations to be received by the Company for persons to be appointed directors, the directors shall draw the names of each candidate by lot and place each name in a list in the order in which they were drawn. The list shall be signed by the Chairman and the Company Secretary for verification purposes.

(e) On the notice calling the annual general meeting at which an election of directors is to take place, there shall be proposed one resolution for the appointment of each candidate in the order in which the names were drawn, so that there shall be as many resolutions as there are candidates. The Directors shall further ensure that any Member may vote for each candidate by proxy.

(f) At the general meeting at which the election of directors is to take place, the Chairman shall propose the name of each candidate as a separate resolution and the shareholders shall take a separate vote for each candidate (either by a show of hands or through a poll). Each shareholder shall be entitled, in the event of a poll, to use all or part only of his votes on a particular candidate.

(g) Upon a resolution being carried, the candidate proposed by virtue of that resolution shall be considered elected and appointed a Director. No further voting shall take place once enough resolutions have been passed to ensure that all vacancies on the Board have been filled, even if there are still candidates with respect to whom a resolution has not yet been called.

(h) Shareholders may vote in favour or against the resolution for the appointment of a director in any election, and a resolution shall be considered carried if it receives the assent of more than 50% of the shareholders present and voting at the meeting.

(i) Unless a shareholder demands that a vote be taken in respect of all or any one or more of the nominees, in the event that there are as many nominations as there are vacancies or less, no voting will take place and the nominees will be deemed appointed directors.

(j) Subject to the above, any vacancy among the directors may be filled by the co-option of another person to fill such vacancy. Such co-option shall be made by the board of directors and shall be valid until the conclusion of the next annual general meeting.

(k) Any director may be removed, at any time, by the Member or Members by whom he was appointed. The removal may be made in the same manner as the appointment.

Any director may be removed at any time by the Company in a general meeting pursuant to the provisions of section 140 of the Act.

Pursuant to Listing Rule 5.64

(Contd)

In terms of the Companies Act, Cap 386 of the laws of Malta, the Company may, by extraordinary resolution at a general meeting, alter or add to its memorandum or articles of association. An extraordinary resolution is one where:

(a) It has been taken at a general meeting of which notice specifying the intention to propose the text of the resolution as an extraordinary resolution and the principle purpose thereof has been duly given;

(b) It has been passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate not less than seventy five per cent (75%) in nominal value of the shares issued by the Company represented and entitled to vote at the meeting and at least fifty one per cent (51%) in nominal value of all the shares issued by the Company and entitled to vote at the meeting.

If one of the aforesaid majorities is obtained but not both, another meeting shall be duly convened within 30 days to take a fresh vote on the proposed resolution. At the second meeting the resolution may be passed by a shareholder or shareholders having the right to attend and vote at the meeting holding in the aggregate not less than 75% in nominal value of the shares issued by the Company represented and entitled to vote at the meeting. However, if more than half in nominal value of all the shares issued by the Company having the right to vote at the meeting is represented at that meeting, a simple majority in nominal value of such shares so represented shall suffice.

The Directors are vested with the management of the Company, and their powers of management and administration emanate directly from the memorandum and articles of association and the law. The Directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts, sue and be sued in representation of the Company. In terms of the memorandum and articles of association they may do all such things that are not by the memorandum and articles of association reserved for the Company in general meeting.

In particular, the Directors are authorised to issue shares in the Company with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Directors may from time to time determine, as long as such issue of Equity Securities falls within the authorised share capital of the Company. Unless the shareholders otherwise approve in a general meeting, the Company shall not in issuing and allotting new shares:

Pursuant to Listing Rule 5.64

(Contd)

(a) Allot any of them on any terms to any person unless an offer has first been made to each existing shareholder to allot to him at least on the same terms, a proportion of the new shares which is as nearly as practicable equal to the proportion in nominal value held by him of the aggregate shares in issue in the Company immediately prior to the new issue of shares; and

(b) Allot any of them to any person upon the expiration of any offer made to existing shareholders in terms of a) above. Any such shares not subscribed for by the existing shareholders may be offered for subscription to the general public under the same or other conditions which however cannot be more favourable to the public than offer made under (a).

Furthermore, the Company may, subject to such restrictions, limitations and conditions contained in the Companies Act, acquire its own shares.

Save as otherwise disclosed herein, the provisions of Listing Rules 5.64.2, 5.64.4 to 5.64.7, 5.64.10 and 5.64.11 are not applicable to the Company.

Pursuant to Listing Rule 5.70

Material Contracts in relation to which a Director of the Company was directly or indirectly interested

None

Pursuant to Listing Rule 5.70.2

Company Secretary
Dr Laragh Cassar LL.D.

Telephone
(+356) 2220 2000

Registered Office of Company
Port of Marsaxlokk
Birzebbugia
Malta

Approved by the Board of Directors on 30 April 2019 and signed on its behalf by:

Anthony S. Diacono
Chairman

Anthony J. Duncan
Director

Statement of the Directors

Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

Corporate Governance - Statement of Compliance

Introduction

Pursuant to the Listing Rules issued by the Listing Authority, Medserv p.l.c. (the "Company") as a company whose equity securities are listed on a regulated market, should endeavour to adopt the Code of Principles of Good Corporate Governance contained in Appendix 5.1 of the Listing Rules (the "Code"). In terms of Listing Rule 5.94, the Company is obliged to prepare a report explaining how it has complied with the Code. For the purposes of the Listing Rules, the Company is hereby reporting on the extent of its adoption of the recommended Code.

The directors strongly believe that the practices recommended by the Code are in the best interests of the Medserv Group of Companies and its shareholders generally and that compliance therewith is not only expected by investors but also evidences the directors' and the Company's commitment to a high standard of governance.

Good corporate governance is the collective responsibility of the board of directors of the Company (the "Board"). As demonstrated by the information set out in this statement, the Company believes that it has, save as indicated herein the section entitled "Non-Compliance with the Code", throughout the accounting period under review, applied the principles and complied with the provisions of the Code. In the Non-Compliance section, the Board indicates and explains the instances where it has departed from or where it has not applied the Code, as allowed by the Code

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Compliance with the code

PRINCIPLE 1: THE BOARD

The Board's principal purpose is to provide the required leadership of the Company, to set the present and future strategy of the Company and to ensure proper oversight and accountability. Throughout 2017, the Board comprised six directors, three of whom holding Executive positions, that is, Mr Anthony S. Diacono (Executive Director), Mr Anthony J. Duncan (Executive Director) and Mr Godwin A. Borg (Executive Director) and three holding Non-Executive positions, Mr Joseph F.X. Zahra (Non-Executive Director), Mr Joseph Zammit Tabona (Non-Executive Director), and Laragh Cassar (Non-Executive Director). All of the directors were nominated by the shareholders and appointed automatically with effect from the annual general meeting held on the 28 May 2018.

The presence of the executive directors on the Board is designed to ensure that the Board has direct access to the individuals having the prime responsibility for the executive management of the Company and the implementation of approved policies. Each director is provided with the information and explanations as may be required by any particular agenda item.

The Board delegates specific responsibilities to an Audit Committee, to a Remuneration Committee and to a Financial Risk Committee. Further details in relation to the said committees and the responsibilities of the Board are found in Principles 4 and 5 of this Statement.

The directors and Restricted Persons (as defined in the Listing Rules) are informed and are aware of their obligations on dealings in securities of the Company within the established parameters of the law and the Listing Rules. Each such Director and Senior Officer has been provided with the code of dealing required in terms of Listing Rule 5.106 and training in respect of their obligations arising thereunder.

PRINCIPLE 2: CHAIRMAN AND CHIEF EXECUTIVE

The Chairman of the Company leads the Board and sets its agenda. In addition, the Chairman ensures that the directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the Company and that effective communication with shareholders is maintained. The Chairman also encourages active engagement by all directors for discussion of complex or contentious issues. The executive responsibility for the running of the Company's business is collectively vested as explained in Part 2.

PRINCIPLE 3: COMPOSITION OF THE BOARD

The Board considers that the size of the Board, whilst not being large as to be unwieldy, is appropriate, taking into account the size of the Company and its operations. The combined and varied knowledge, experience and skills of the Board members provides the balance of competences that are required, adds value to the functioning of the Board and gives direction to the Company.

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Compliance with the code

(Contd)

As above set out, throughout the period under review, the Board consisted of three executive directors and three non-executive directors. Mr Joseph F.X. Zahra (Non-Executive Director) and Mr Joseph Zammit Tabona (Non-Executive Director) are considered to be independent within the meaning provided by the Code. Each non-executive director has submitted a declaration to the Board as stipulated under the Code Provision 3.4 undertaking:

a) to maintain in all circumstances his/her independence of analysis, decision and action;

b) not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and

c) to clearly express his/her opposition in the event that he/she finds that a decision of the board may harm the Company.

PRINCIPLE 4:
THE RESPONSIBILITIES OF THE BOARD

The Board has the first level responsibility for executing the four basic roles of Corporate Governance, namely accountability, monitoring, strategy formulation and policy development. The Board has established a clear internal and external reporting system so that it has access to accurate, relevant and timely information and ensures that management constantly monitor performance and report to its satisfaction.

During the year under review, the Board continued to implement measures in terms of its succession policy for the Company's directors and senior management. In this respect, on the 30 April 2018, Mr Karl Bartolo was appointed as Group CEO and Mr Silvio Camilleri was appointed Group CFO. Mr Anthony S. Diacono continued to occupy the position of Chairman and has taken on specific responsibilities with regards to Group Strategy. Mr Anthony J Duncan retained his position as executive director and in addition to his role as Finance Director, has also assumed the responsibility for Group Compliance.

Mr. Godwin A. Borg currently serves as a consultant to the Company as Technical Director as well as being a member of the Board. The executive team also comprises three Regional Managers entrusted to manage the three present main areas of current and future business, the Mediterranean, Middle East and Caribbean.

PRINCIPLE 5: BOARD MEETINGS

For the period under review the Board has implemented its policy to meet at least once every quarter. As a matter of practice, each board meeting to be held throughout the year is scheduled well in advance of their due date and each director is provided with detailed Board papers relating to each agenda item in good time prior to the actual meetings. Board meetings concentrate mainly on strategy, operational performance and financial performance of the Company. After each Board meeting and before the next, Board minutes that faithfully record attendance, key issues and decisions are sent to the directors. Meetings were attended as follows:

Members	Meetings Attended out of Total held during tenure
Anthony S. Diacono	8 out of 8
Anthony J. Duncan	8 out of 8
Joseph F.X. Zahra	7 out of 8
Joseph Zammit Tabona	8 out of 8
Godwin Borg	7 out of 8
Laragh Cassar	7 out of 8

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Compliance with the code

(Contd)

The Board also delegates specific responsibilities to the management team of the Company, the Audit Committee, the Remuneration Committee and the Financial Risk Management Committee, which Committees operate under their formal terms of reference.

Board Committees

AUDIT COMMITTEE

The Board delegates certain responsibilities to the Audit Committee, the terms of reference of which reflect the requirements stipulated in the Listing Rules and under applicable law, including the roles set out in Listing Rules 5.127 to 5.130. In addition, unless otherwise dealt with in any other manner prescribed by the Listing Rules, the Audit Committee has the responsibility to, inter alia, monitor and scrutinise, and, if required, approve Related Party Transactions, if any, falling within the ambits of the Listing Rules and to make its recommendations to the Board of any such proposed Related Party Transactions. The Audit Committee establishes internal procedures and monitors these on a regular basis. The terms of reference for the Audit Committee are designed both to strengthen this function within the Company and to widen the scope of the duties and responsibilities of this Committee. The Committee also has the authority to summon any person to assist it in the performance of its duties, including the Company's external auditors. KPMG, as external auditors of the Company, were invited to attend each of the Company's audit committee meetings. During 2017, an internal audit function was set-up. The role of the internal auditor is to carry out systematic risk-based reviews and appraisals of the operations of the Company and its subsidiaries for the purpose of advising management and the Board, through the Audit Committee, on the efficiency and effectiveness of management policies, practices and internal controls. The function is expected to promote the application of best practices within the organisation.

The appointment of the auditors of the Company has been made in line with the Statutory Audit Regulation (Regulation (EU) No 537/2014), in particular in compliance with Articles 16 and 17 of Title III of the said Regulation.

Throughout 2018 to date, the Audit Committee was composed of Mr Joseph F.X. Zahra (independent non-executive director and Chairman of the Audit Committee), Mr Joseph Zammit Tabona (independent non-executive director) and Dr Laragh Cassar (non-executive director). The Chairman of the Audit Committee was appointed by the Board of Directors.

During 2018, the Audit Committee met eight times.

Members	Meetings Attended out of Total held during tenure
Joseph F.X. Zahra	7 out of 8
Joseph Zammit Tabona	8 out of 8
Laragh Cassar	5 out of 8

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Compliance with the code

(Contd)

Pursuant to Listing Rule 5.64

(Contd)

The Board considers Joseph F.X. Zahra to be independent and competent in accounting and/or auditing. Such determination was based on Mr Zahra's substantial experience in various audit, accounting and risk management roles throughout his career.

The Board is confident that the Audit Committee Members, as a whole, have competence relevant to the sector in which the Issuer is operating, which competence was garnered over the years as a result of their involvement with the Medserv group.

FINANCIAL RISK MANAGEMENT COMMITTEE

The Board has set up a Financial Risk Management Committee composed of Mr Anthony J. Duncan (executive director), Mr Karl Bartolo (CEO), Mr Silvio Camilleri (Group CFO) and Mr Colin Galea (Chief Accountant). The said Committee was set up with a view to manage the Group's currency, interest rates, liquidity and foreign exchange risks and to manage the Group's own financial investments. The Committee operates under specific terms of reference approved by the Board. The financial controllers within the Medserv group are invited to attend each meeting of the Financial Risk Management Committee.

During 2018, the Financial Risk Management Committee met four times.

Members	Attended
Mr Anthony J. Duncan	1
Mr Karl Bartolo	3
Mr Silvio Camilleri	4
Mr Colin Galea	4

Remuneration Committee – This is considered under the Remuneration Report.

SENIOR EXECUTIVE MANAGEMENT

For information on the senior executive management of the Group, please see the section under the heading "Principle 4: The Responsibilities of the Board".

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Compliance with the code

(Contd)

PRINCIPLE 6: INFORMATION AND PROFESSIONAL DEVELOPMENT

The Board appoints the Chief Executive Officer. Appointments and changes to senior management are the responsibility of the CEO and Executive Directors and are approved by the Board. The Board actively considers the professional and technical development of all senior management and staff members. The CEO also has systems in place to monitor management and staff morale. Management prepares detailed reviews for each Board meeting covering all aspects of the Company's business. The CEO, through the Human Resource Department of the Group, has put systems in place to monitor management and staff morale.

On joining the Board, a new director is provided with the opportunity to consult with the executive directors and senior management of the Company in respect of the operations of the Group. Each director is made aware of the Company's on-going obligations in terms of the Companies Act, the Listing Rules and other relevant legislation. Directors have access to the advice and services of the Company Secretary and to the legal counsel to the Company to the Board. The Company is also prepared to bear the expense incurred by the directors requiring independent professional advice should they judge it necessary to discharge their responsibilities as directors.

PRINCIPLE 7: EVALUATION OF THE BOARD'S PERFORMANCE

With respect to the year under review, the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not per se appoint a Committee to carry out this performance evaluation, but the evaluation exercise was conducted through a questionnaire, copies of which were sent to the Chairman of the Audit Committee and the results were reported to the Chairman of the Board. The said questionnaire also includes an evaluation of the performance of the Chairman.

PRINCIPLE 8: COMMITTEES

Remuneration Committee - This is considered under the Remuneration Report.

PRINCIPLE 9: RELATIONS WITH SHAREHOLDERS AND WITH THE MARKET & PRINCIPLE 10: INSTITUTIONAL INVESTORS

The Board is of the view that over the period under review, the Company has communicated effectively with the market through a number of company announcements that it published informing the market of significant events happening within the Company.

The Company also communicates with its shareholders through its Annual General Meeting (further detail is provided under the section entitled General Meetings). The Chairman arranges for all directors to attend the annual general meeting and for the chairman of the Audit Committee to be available to answer questions, if necessary.

The Board ensures that sufficient contact is maintained with major shareholders to understand issues and concerns.

Apart from the annual general meeting, the Company intends to continue with its active communication strategy in the market and shall accordingly continue to communicate with its shareholders and the market by way of the Annual Report and Financial

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Compliance with the code

(Contd)

Statements, by publishing its results on a six-monthly basis during the year and through the directors' statements published on a six-monthly basis, and by company announcements to the market in general. During 2018, the Company also communicated to the market through brokers on two occasions. The Company recognises the importance of maintaining a dialogue with the market to ensure that its strategies and performance are well understood and disclosed to the market in a timely manner.

The Company's website (www.medservenergy.com) also contains information about the Company and its business which is a source of further information to the market.

PRINCIPLE 11: CONFLICTS OF INTEREST

The directors are aware that their primary responsibility is always to act in the interest of the Company and its shareholders as a whole irrespective of who appointed them to the Board. Acting in the interest of the Company includes an obligation to avoid conflicts of interest. In such instances, the Company has strict policies in place which allow it to manage such conflicts, actual or potential, in the best interest of the Company.

PRINCIPLE 12: CORPORATE SOCIAL RESPONSIBILITY

The Company places substantial importance on its corporate social responsibility to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large. The Company is fully aware of its obligation to preserving the environment and continues to implement policies aimed at respecting the natural environment and to avoiding/ minimising pollution. During the year under review, the Company contributed to many initiatives supporting the environment, including the donation of Medserv branded re-usable bottles to Cypriot countryside schools with a view to raising awareness for the reduction in plastic waste.

The Company also donated funds towards L-Istrina 2018, the Pink October Awareness Campaign, the AAA Sanctuary and the KERALA Flood Relief, a project aimed at supporting at least 50,000 flood victims to fight against the scenario created by the floods in Kerala. The Company has organised a blood donation day with the Malta Blood Donation Centre and has donated food to the Malta Food Bank. The team in Cyprus also organised a contribution of medicine, food and clothing towards the Greece AID after a series of wildfires left a number of casualties and many without homes.

The Company firmly believes in the contribution of sports in maintaining the wellbeing of its employees and to this end, the Company sponsored the participation by its employees in The Grid and this year's edition of the World Company Sports Games +40 Category, held in La Baule-Escoublac in France.

During the month of March, the Company also organised a campaign aimed at bringing awareness and fighting sexual harassment.

The Company promotes open communication with its workforce, responsibility and personal development. The Company maintains a staff development programme aimed at providing training to staff to assist their development with an aim to improve the Company's competitiveness and efficiency.

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Non-Compliance with the code

PRINCIPLE 2 - CODE PROVISION 2.3

Whilst steps have been taken by the Company to segregate the office of Chairman and Chief Executive Officer through the appointment of Mr Karl Bartolo as Chief Executive Officer of the Group, the Chairman of the Company is not considered to meet the independence criteria set out in the Listing Rules largely due to executive role within the Group (being responsible for strategy) and also being one of the major shareholders of the Company . The Board considers that Mr Diacono duly fulfils the role required of a Chairman in terms of the Listing Rules, notwithstanding his lack of formal independence.

PRINCIPLE 7 – CODE PROVISION 7.1 EVALUATION COMMITTEE

The Board has not appointed an ad hoc committee to evaluate its own performance. As set out above, the evaluation was conducted through a questionnaire and considers this to be a process sufficient to evaluate the performance of the board.

PRINCIPLE 8B (NOMINATION COMMITTEE)

Pursuant to the Company's Articles of Association, the appointment of directors to the Board is reserved exclusively to the Company's shareholders (in line also with general and commonly accepted practice in Malta). Any shareholder/s who in the aggregate hold not less than 0.5% of the total number of issued shares having voting rights in the Company is entitled to nominate a fit and proper person for appointment as a director of the Company. Furthermore, in terms of the memorandum and articles of association of the Company, the directors themselves are entitled to make recommendations and nominations to the shareholders for the appointment of directors at the next following annual general meeting.

Within this context, the Board believes that the setting up of a Nomination Committee is not required since the Board itself has the authority to recommend and nominate directors. Notwithstanding this, the Board will retain under review the issue relating to the setting up of a Nomination Committee.

CODE PROVISION 9.3

The Company does not have a formal mechanism in place as required by Code provision 9.3 to resolve conflicts between minority shareholders and controlling shareholders. No such conflicts have arisen to date and in view of the relatively small shareholder base of the Company, the Board does not consider it necessary to establish a formal mechanism for this process.

Internal Control

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk to achieve business objectives, and can provide only reasonable, and not absolute, assurance against normal business risks or loss. Included with the Company's internal control system are procedures to identify, control and report major risks within a relevant timeframe. Financial reporting is prepared monthly and consolidated quarterly which performance is analysed against budgets and shared with senior management and directors. The Board reviews the effectiveness of the Company's system of internal controls. The Company strengthens this function through the Audit Committee that has initiated a business risk monitoring plan, the implementation of which is regularly monitored.

The key features of the Company's system of internal control are as follows:

ORGANISATION

The Company operates through the Chief Executive Officer with clear reporting lines and delegation of powers. Whilst members of the senior management of the Group are in constant contact, formal management meetings are scheduled on a monthly basis. They are attended by the Chief Executive Officer and senior executive management and other members of staff, upon invitation.

CONTROL ENVIRONMENT

The Company is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Company policies and employee procedures are in place for the reporting and resolution of improper activities.

The Company has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Company objectives.

Company executives participate in periodic strategic reviews, which include consideration of long-term projections and the evaluation of business alternatives. Annual budgets and strategic plans are prepared. Performance against these plans is actively monitored and reported to the Board, at minimum on a quarterly basis.

RISK IDENTIFICATION

Company management is responsible for the identification and evaluation of key risks applicable to their respective areas of business. The mandate of the Audit Committee and the Financial Risk Management Committee also includes the continuous assessment and oversight of such key risks.

Listing Rule 5.97.5

The information required by this Listing Rule is found in the Directors' Report.

General Meetings and Shareholders' Rights

CONDUCT OF GENERAL MEETINGS

It is only shareholders whose details are entered into the register of members on the record date that are entitled to participate in the general meeting and to exercise their voting rights. In terms of the Listing Rules, the record date falls 30 days immediately preceding the date set for the general meeting to which it relates. The establishment of a record date and the entitlement to attend and vote at general meeting does not, however, prevent trading in the shares after the said date.

In order for business to be transacted at a general meeting, a quorum must be present. In terms of the Articles of Association, 51% of the nominal value of the issued equity securities entitled to attend and vote at the meeting constitutes a quorum. If within half an hour, a quorum is not present, the meeting shall stand adjourned to the same day the next week, at the same time and place or to such other day and at such other time and place as the directors may determine. In any event, the adjourned meeting must be held at least ten days after the final convocation is issued and no new item must be put on the agenda of such adjourned meeting. If at the adjourned meeting a quorum is not yet present within half an hour from the time appointed for the meeting, the member or members present shall constitute a quorum. Generally, the Chairman of the Board presides as Chairman at every general meeting of the Company. At the commencement of any general meeting, the Chairman may, subject to applicable law, set the procedure which shall be adopted for the proceedings of that meeting. Such procedure is binding on the members.

If the meeting consents or requires, the Chairman shall adjourn a quorate meeting to discuss the business left unattended or unfinished. If a meeting is adjourned for 30 days or more, notice of the quorate meeting must be given as in the case of an original meeting. Otherwise, it is not necessary to give any notice of an adjourned meeting or of the business to be transacted at such quorate meeting.

At any general meeting, a resolution put to a vote shall be determined and decided by a show of hands, unless a poll is demanded before or on the declaration of the result of a show of hands by;

(i) the Chairman of the meeting; or

(ii) by at least three (3) members present in person or by proxy; or

(iii) any member or members present in person or by proxy and representing not less than one tenth of the total voting power of all members having the right to vote at that meeting; or

(iv) a member or members present in person or by proxy holding equity securities conferring a right to vote at the meeting, being equity securities on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the equity securities conferring that right.

Unless a poll is so demanded, a declaration by the Chairman that a resolution has, on a show of hands, been carried or carried unanimously, or by a particular majority, or lost together with

Listing Rule 5.97.5

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General Meetings and Shareholders' Rights

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an entry to that effect in the minute book, shall constitute conclusive evidence of the fact without need for further proof. If a resolution requires a particular majority in value, in order for the resolution to pass by a show of hands, there must be present at that meeting a member or members holding in the aggregate at least the required majority. A poll demanded on the election of the Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at the discretion of the Chairman. In the case of equality of votes, whether on a show of hands or on a poll, the chairman has a second or casting vote. On a show of hands every member present in person or by proxy shall have one vote for each equity security carrying voting rights of which he is the holder, provided that all calls or other sums presently payable by him in respect of equity securities have been paid.

PROXY

Every member is entitled to appoint one person to act as proxy holder to attend and vote at a general meeting instead of him. The proxy holder shall enjoy the same rights to participate in the general meeting as those to which the member thus represented would be entitled. If a member is holding shares for and on behalf of third parties, such member shall be entitled to grant a proxy to each of his clients or to any third party designated by a client and the said member is entitled to cast votes attaching to some of the shares differently from the others. In the case of voting by a show of hands, a proxy who has been mandated by several members and instructed to vote by some shareholders in favour of a resolution and by others against the same resolution shall have one vote for and one vote against the resolution.

The instrument appointing a proxy must be deposited at the office or by electronic mail at the address specified in the notice convening the meeting not less than forty-eight (48) hours before the time for holding the meeting or, in the case of a poll, not less than forty-eight (48) hours before the time appointed for the taking of the poll. The same applies to the revocation of the appointment of a proxy.

A form of instrument of proxy shall be in such form as may be determined by the directors and which would allow a member appointing a proxy to indicate how he would like his proxy to vote in relation to each resolution.

INCLUDING ITEMS ON THE AGENDA

A shareholder or shareholders holding not less than 5% of the issued share capital may include items on the agenda of the general meeting and table draft resolutions for items included on the agenda of a general meeting. Such right must be exercised by the shareholder at least 46 days before the date set for the general meeting to which it relates.

QUESTIONS

Shareholders have the right to ask questions which are pertinent and related to the items on the agenda.

ELECTRONIC VOTING

In terms of the Articles of Association of the Company, the directors may establish systems to:

a) allow persons entitled to attend and vote at general meetings of the Company to do so by electronic means in accordance with the relevant provisions of the Listing Rules; and

Listing Rule 5.97.5

(Contd)

General Meetings and Shareholders' Rights

(Contd)

b) allow for votes on a resolution on a poll to be cast in advance.

Where a shareholder requests the Company to publish a full account of a poll, the Company is required to publish the information on its website not later than 15 days after the general meeting at which the result was obtained.

Further details on the conduct of a general meeting and shareholders' rights are contained in the Memorandum and Articles of Association of the Company and in line with chapter 12 of the Listing Rules.

REMUNERATION STATEMENT

The Remuneration Committee oversees the development and implementation of the remuneration and related policies of the Medserv group of companies.

During the year under review, the Committee was composed of Mr Joseph Zammit Tabona (Chairman), Mr Joseph FX Zahra and Dr Laragh Cassar, all of whom are non-executive directors. Mr Joseph FX Zahra and Mr Joseph Zammit Tabona are considered to be independent directors.

During 2018, the Remuneration Committee met once to discuss and set the salaries and bonuses for senior management.

REMUNERATION POLICY – SENIOR EXECUTIVES

The Board determines the framework of the overall remuneration policy and individual remuneration arrangements for its senior executives based on the recommendations from the Remuneration Committee. The Committee considers that these remuneration packages, inclusive of a variable and non-variable payment, reflect market conditions and are designed to attract appropriate quality executives to ensure the efficient management of the Company. The payment of a variable remuneration has become increasingly important in attracting and maintaining quality staff. During the current year under review, there have been no significant changes in the Company's remuneration policy and no significant changes are intended to be affected thereto in the year ahead. The terms and conditions of employment of each individual within the executive team are set out in their respective indefinite contracts of employment with the Company. The Company's senior executives may be paid a bonus by the Company – the payment and extent of payment of such bonus is entirely at the discretion of the Board, subject to the recommendation of the Committee and is based upon the performance of the individual determined in terms of both objective as well as subjective criteria. Moreover, share options and profit-sharing are currently not part of the Company's remuneration policy. Specific criteria for determining the extent of senior executive's entitlement to a bonus will be formulated by the Remuneration Committee in due course.

The Company has opted not to disclose the amount of remuneration paid to its senior executives on the basis that it is commercially sensitive.

Listing Rule 5.97.5

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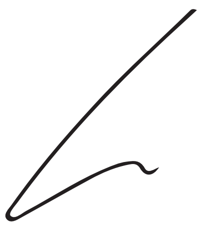
General Meetings and Shareholders' Rights

(Contd)

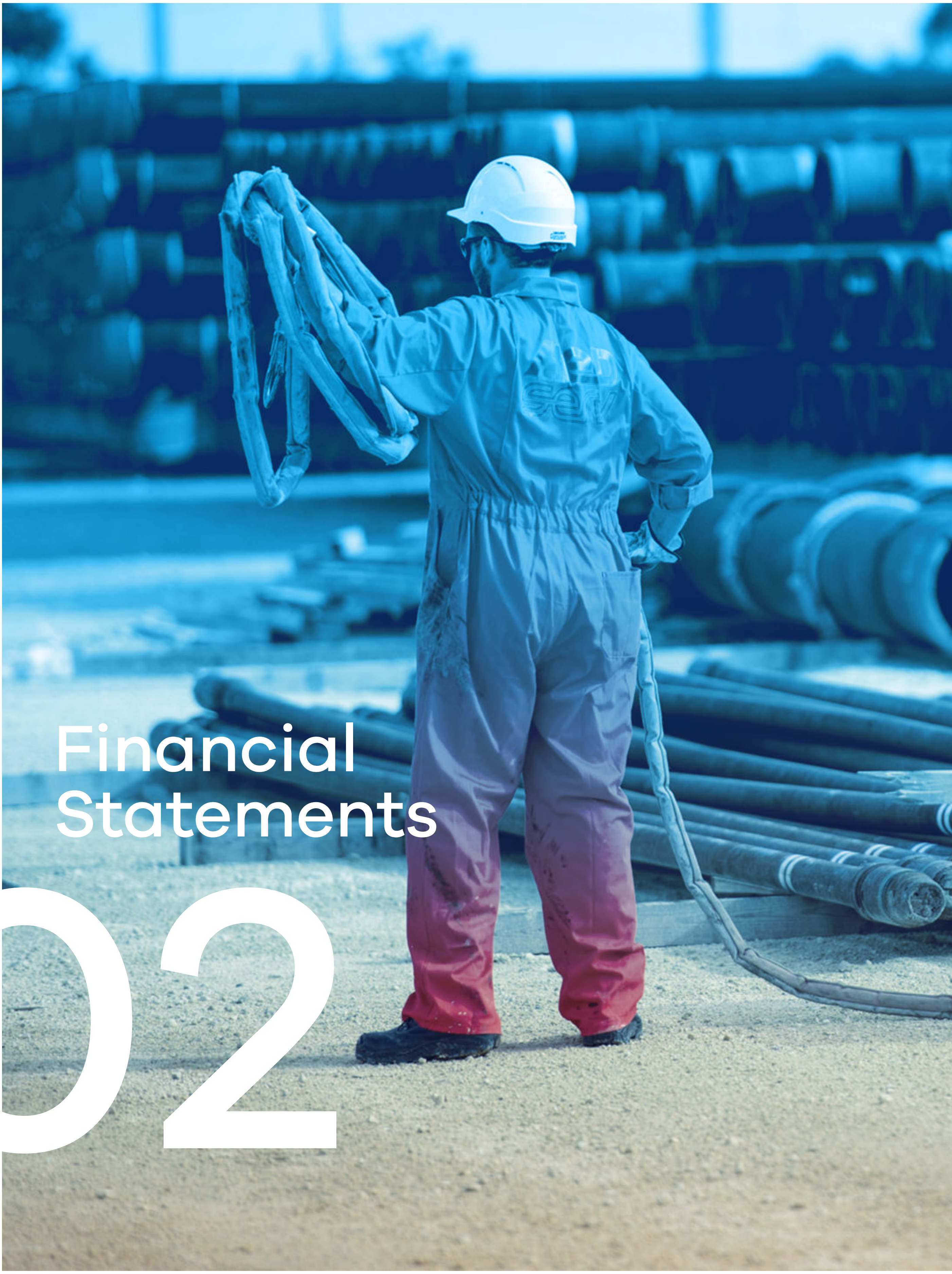
REMUNERATION POLICY – DIRECTORS

The Board determines the framework of the remuneration policy for the members of the Board as a whole, based on the recommendations from the Remuneration Committee. The maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders in General Meeting. The financial statements disclose an aggregate figure in respect of the remuneration as directors of which with respect to the period under review amounted to €90,000 (entirely representing a fixed remuneration). Directors' emoluments are designed to reflect the directors' knowledge of the business and time committed as directors to the Company's affairs.



Signed on behalf of the Board of Directors on 30 April 2019 by:

Joseph F X Zahra
Director and Chairman of Audit Committee


Financial
Statements
02


For the year
Ended December 2018

Statements of Financial Position

As at 31 December 2018

		THE GROUP		THE COMPANY	
		2018	2017*	2018	2017*
	Note	€	€	€	€
Assets					
Property, plant and equipment	13	**33,200,767**	31,883,439	**-**	-
Intangible assets and goodwill	15	**13,162,169**	14,499,708	**-**	-
Trade and other receivables	18	**-**	483,294	**-**	-
Contract costs	6	**636,158**	954,239	**-**	-
Investments in subsidiaries	14	**-**	-	**13,418,743**	13,407,096
Receivables from subsidiaries	18	**-**	-	**49,262,955**	48,903,247
Right-of-use assets	28	**78,335,057**	75,895,472	**-**	-
Deferred tax assets	16	**9,418,544**	9,265,525	**-**	-
Total non-current assets		**134,752,695**	132,981,677	**62,681,698**	62,310,343
Inventories	17	**1,274,704**	1,247,944	**-**	-
Current tax assets		**755**	2,712	**755**	2,712
Trade and other receivables	18	**14,730,612**	14,225,843	**12,049,301**	9,414,847
Contract costs	6	**334,299**	378,593	**-**	-
Contract assets		**67,775**	802,611	**-**	-
Cash at bank and in hand	26	**5,616,232**	3,633,763	**15,916**	704,909
Total current assets		**22,024,377**	20,291,466	**12,065,972**	10,122,468
Total assets		**156,777,072**	153,273,143	**74,747,670**	72,432,811

* The Group and the Company have 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 GROUP		THE COMPANY	
		2018	2017*	2018	2017*
	Note	€	€	€	€
Equity					
Share capital	19	**5,374,441**	5,374,441	**5,374,441**	5,374,441
Share premium	19	**12,003,829**	12,003,829	**12,003,829**	12,003,829
(Accumulated losses)/ retained earnings	19	**(8,215,519)**	1,151,793	**(695,423)**	(465,330)
Other reserves	19	**10,186,890**	9,720,643	**-**	-
Equity attributable to owners of the Company		**19,349,641**	28,250,706	**16,682,847**	16,912,940
Non-controlling interests		**(652,926)**	(151,958)	**-**	-
Total equity		**18,696,715**	28,098,748	**16,682,847**	16,912,940
Liabilities					
Loans and borrowings	22	**54,028,322**	50,792,518	**50,053,057**	49,570,640
Employee benefits	24	**819,163**	614,303	**-**	-
Deferred income	21	**31,851,634**	32,631,548	**-**	-
Lease liabilities	28	**28,682,854**	25,054,810	**-**	-
Provisions	23	**-**	600,552	**-**	-
Deferred tax liabilities	16	**6,485,536**	6,017,396	**-**	-
Total non-current liabilities		**121,867,509**	115,711,127	**50,053,057**	49,570,640

* The Group and the Company have 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 GROUP		THE COMPANY	
		2018	2017*	2018	2017*
	Note	€	€	€	€
Bank overdraft	22/26	**3,209,219**	865,083	**-**	-
Current tax liabilities		**37,176**	512	**-**	-
Loans and borrowings	22	**2,075,411**	1,181,635	**-**	-
Trade and other payables	25	**8,145,393**	5,663,865	**8,011,766**	5,949,231
Deferred income	21	**875,533**	775,533	**-**	-
Lease liabilities	28	**1,825,925**	841,670	**-**	-
Provisions	23	**44,191**	40,566	**-**	-
Employee benefits	24	**-**	94,404	**-**	-
Total current liabilities		**16,212,848**	9,463,268	**8,011,766**	5,949,231
Total liabilities		**138,080,357**	125,174,395	**58,064,823**	55,519,871
Total equity and liabilities		**156,777,072**	153,273,143	**74,747,670**	72,432,811

* The Group and the Company have 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 56 to 144 are an integral part of these financial statements.

The financial statements on pages 44 to 55 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

Statements of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

		THE GROUP		THE COMPANY	
		2018	2017*	2018	2017*
	Note	€	€	€	€
Continuing Operations					
Revenue	6	**36,187,199**	28,777,143	-	-
Cost of sales	8	**(33,639,893)**	(26,614,100)	-	-
Gross profit		**2,547,306**	2,163,043	-	-
Other income	7	**2,049,613**	817,485	-	-
Administrative expenses	8	**(6,067,853)**	(6,917,339)	**(363,773)**	(926,440)
Impairment loss on financial assets	27	**(122,645)**	-	**69,454**	-
Other expenses	7	**(1,867,867)**	(158,977)	-	-
Results from operating activities		**(3,461,446)**	(4,095,788)	**(294,319)**	(926,440)
Finance income	10	**9**	478,100	**3,275,220**	3,690,123
Finance costs	10	**(5,369,907)**	(4,419,299)	**(3,103,843)**	(3,898,345)
Net finance (costs)/income	10	**(5,369,898)**	(3,941,199)	**171,377**	(208,222)
Loss before income tax		**(8,831,344)**	(8,036,987)	**(122,942)**	(1,134,662)
Tax (expense)/income	11	**(695,550)**	403,428	**(147)**	(84)
Loss for the year		**(9,526,894)**	(7,633,559)	**(123,089)**	(1,134,746)
Other comprehensive income					
Items that are not reclassified subsequently to profit or loss:					
Revaluation of right-of-use assets	28	**-**	16,957,752	**-**	-
Related tax	16	**-**	(5,935,213)	**-**	-
Items that may be reclassified subsequently to profit or loss:					
Net loss on hedge of net investment in a foreign operation	19	**(487,867)**	1,110,224	**-**	-
Foreign currency translation differences – foreign operations	19	**1,187,253**	(2,808,450)	**-**	-
Other comprehensive income		**699,386**	9,324,313	**-**	**-**
Total comprehensive income		**(8,827,508)**	1,690,754	**(123,089)**	(1,134,746)

Statements of Profit or Loss and Other Comprehensive Income (continued)

For the year ended 31 December 2018

		THE GROUP		THE COMPANY	
		2018	2017*	2018	2017*
	Note	€	€	€	€
Loss attributable to:					
Owners of the Company		**(9,043,058)**	(7,421,180)	**(123,089)**	(1,134,746)
Non-controlling interests		**(483,836)**	(212,379)	**-**	-
		(9,526,894)	(7,633,559)	**(123,089)**	(1,134,746)
Total comprehensive income attributable to:					
Owners of the Company		**(8,317,828)**	1,896,300	**(123,089)**	(1,134,746)
Non-controlling interests		**(509,680)**	(205,546)	**-**	-
		(8,827,508)	1,690,754	**(123,089)**	(1,134,746)
Earnings per share					
Basic Earnings per share	20	**(16c8)**	(13c8)	**(0c2)**	(2c1)
Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)	12	**7,318,591**	4,329,719		

* The Group and the Company have initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information has not been restated except for separately presenting impairment losses on financial assets. See Note 2.5.1.

The notes on pages 56 to 144 are an integral part of these financial statements.

Statement of Changes in Equity – The Group

For the year ended 31 December 2018

	ATTRIBUTABLE TO OWNERS OF THE COMPANY								
	Share capital	Share premium	Translation reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
	€	€	€	€	€	€	€	€	€
Balance at 1 January 2017*	**5,374,441**	**12,003,829**	**1,158,653**	**-**	**(755,490)**	**8,572,973**	**26,354,406**	**53,588**	**26,407,994**
Total comprehensive income									
Loss	-	-	-	-	-	(7,421,180)	(7,421,180)	(212,379)	(7,633,559)
Other comprehensive income	-	-	(2,815,283)	11,022,539	1,110,224	-	9,317,480	6,833	9,324,313
Total comprehensive income	**-**	**-**	**(2,815,283)**	**11,022,539**	**1,110,224**	**(7,421,180)**	**1,896,300**	**(205,546)**	**1,690,754**
Balance at 31 December 2017	**5,374,441**	**12,003,829**	**(1,656,630)**	**11,022,539**	**354,734**	**1,151,793**	**28,250,706**	**(151,958)**	**28,098,748**

* The Group 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 10 to 91 are an integral part of these financial statements.

Statement of Changes in Equity – The Group

For the year ended 31 December 2018

	ATTRIBUTABLE TO OWNERS OF THE COMPANY								
	Share capital	Share premium	Translation reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
	€	€	€	€	€	€	€	€	€
Balance at 1 January 2018 as previously reported	**5,374,441**	**12,003,829**	**(1,656,630)**	**11,022,539**	**354,734**	**1,151,793**	**28,250,706**	**(151,958)**	**28,098,748**
Adjustment on initial application of IFRS 9, net of tax*	-	-	-	-	-	(583,237)	(583,237)	-	(583,237)
Adjusted balance at 1 January 2018	**5,374,441**	**12,003,829**	**(1,656,630)**	**11,022,539**	**354,734**	**568,556**	**27,667,469**	**(151,958)**	**27,515,511**
Total comprehensive income									
Loss	-	-	-	-	-	(9,043,058)	(9,043,058)	(483,836)	(9,526,894)
Other comprehensive income	-	-	1,213,097	-	(487,867)	-	725,230	(25,844)	699,386
Total comprehensive income	**-**	**-**	**1,213,097**	**-**	**(487,867)**	**(9,043,058)**	**(8,317,828)**	**(509,680)**	**(8,827,508)**
Transactions with owners of the Company									
Change in ownership interest									
Dilution of non-controlling interest without a change in control	-	-	-	-	-	-	-	8,712	8,712
Transfers between reserves	-	-	-	(258,983)	-	258,983	-	-	-
Balance at 31 December 2018	**5,374,441**	**12,003,829**	**(443,533)**	**10,763,556**	**(133,133)**	**(8,215,519)**	**19,349,641**	**(652,926)**	**18,696,715**

* The Group 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 10 to 91 are an integral part of these financial statements.

Statement of Changes in Equity – The Company

For the year ended 31 December 2018

ATTRIBUTABLE TO OWNERS OF THE COMPANY				
	Share capital	Share premium	Retained earnings	Total equity
	€	€	€	€
Balance at 1 January 2017*	**5,374,441**	**12,003,829**	**669,416**	**18,047,686**
Total comprehensive income				
Loss	-	-	(1,134,746)	(1,134,746)
Balance at 31 December 2017	**5,374,441**	**12,003,829**	**(465,330)**	**16,912,940**
Balance at 1 January 2018	**5,374,441**	**12,003,829**	**(465,330)**	**16,912,940**
Adjustment on initial application of IFRS 9, net of tax	-	-	(107,000)	(107,000)
Adjusted balance at 1 January 2018	**5,374,441**	**12,003,829**	**(572,330)**	**16,805,940**
Total comprehensive income				
Loss	-	-	(123,093)	(123,093)
Balance at 31 December 2018	**5,374,441**	**12,003,829**	**(695,423)**	**16,682,847**

* 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 56 to 144 are an integral part of these financial statements.

Statements of Cash Flows

For the Year Ended 31 December 2018

	THE GROUP		THE COMPANY	
	2018	2017*	2018	2017*
	€	€	€	€
Cash flows from operating activities				
Loss for the year	(9,526,894)	(7,633,559)	(123,092)	(1,134,746)
Adjustments for: Depreciation	7,874,693	5,646,216	-	-
Reversal of deferred income	(875,533)	(775,533)	-	-
Gain on lease modification	(342,131)	-	-	-
Amortisation of intangible assets	1,472,987	1,666,012	-	-
Amortisation of signing bonus	450,613	1,113,279	-	-
Impairment losses on trade receivables, contract assets and related party receivables	122,245	8,345	(69,454)	537,921
Impairment losses on property, plant and machinery	1,598,906	-	-	-
Tax (expense)/income	695,550	(403,428)	147	84
Exchange differences	154,896	104,295	-	-
Provision for discounted future gratuity payments	1,716	(1,434)	-	-
Loss/(gain) on disposal of property, plant and equipment	268,961	111,899	-	-
Net finance costs / (income)	5,369,907	3,941,199	(171,377)	208,222
(Reversal of) / Impairment losses on investments in subsidiaries	-	-	(11,647)	12,127
	7,265,916	**3,777,291**	**(375,423)**	**(376,392)**

Statements of Cash Flows (contd)

For the Year Ended 31 December 2018

	THE GROUP		THE COMPANY	
	2018	2017*	2018	2017*
	€	€	€	€
Change in inventories	(26,760)	(144,550)	-	-
Change in trade and other receivables	(504,768)	(49,716)	-	
Change in contract costs	-	1,333,192	-	-
Change in contracts assets	-	802,611	-	-
Change in trade and other payables	2,481,527	(1,153,289)	94,201	60,936
Change in related party balances	-	-	31,400	1,449,258
Change in provisions and employee benefits	(486,471)	-	-	-
Cash generated from/(absorbed by) operating activities	**8,729,443**	**4,565,539**	**(249,822)**	**1,133,802**
Bank interest paid	146,947	(35,284)	-	-
Bank interest received	1,946	-	-	-
Tax paid	(39,271)	(4,873)	1,810	(1,231)
Net cash from/(used in) operating activities carried forward	**8,839,065**	**4,525,382**	**(248,012)**	**1,132,571**

Statements of Cash Flows (contd)

For the Year Ended 31 December 2018

		THE GROUP		THE COMPANY	
		2018	2017*	2018	2017*
	Note	€	€	€	€
Net cash from/(used in) operating activities carried forward		**8,839,065**	**4,525,382**	**(247,712)**	**1,132,571**
Cash flows from investing activities					
Advances to subsidiaries		-	-	(300,000)	(300,000)
Receipts from disposal of property, plant and equipment		327,108	135,000		
Acquisition of property, plant and equipment		(6,883,846)	(2,604,011)	-	-
Bank interest received		9	4,499	9	2,929
Interest received from subsidiaries		-	-	2,485,503	2,485,503
Net cash (used in)/from investing activities		**(6,556,729)**	**(2,464,512)**	**2,185,512**	**2,188,432**
Cash flows from financing activities					
Loan advanced by bank		5,101,502	1,000,000	-	-
Repayments of bank loans		(1,463,018)	(1,230,458)	-	-
Interest paid on bank loans		(146,947)	(55,511)	-	-
Interest paid on notes		(2,650,626)	(2,662,679)	(2,626,493)	(2,662,678)
Payment of lease liabilities		(3,187,177)	(2,082,114)	-	-

Statements of Cash Flows (contd)

For the Year Ended 31 December 2018

		THE GROUP		THE COMPANY	
		2018	2017*	2018	2017*
	Note	€	€	€	€
Net cash used in/(from) financing activities		**(2,346,266)**	**(5,030,762)**	**(2,626,493)**	**(2,662,678)**
Net (decrease) / increase in cash and cash equivalents		**(63,930)**	**(2,969,892)**	**(688,993)**	**658,325**
Cash and cash equivalents at 1 January		2,768,680	6,217,782	704,909	46,584
Effect of exchange rate fluctuations on cash held		(297,737)	(479,210)	-	-
Cash and cash equivalents	**26**	**2,407,013**	**2,768,680**	**15,916**	**704,909**

* The Group and 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 56 to 144 are an integral part of these financial statements.

Medserv p.l.c. (the "Company") is a public liability company domiciled and incorporated in Malta. The principal activity of the Company is that of a holding company (see note 14).

The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in providing integrated shore base logistics to the offshore oil and gas market operating mainly in the Mediterranean basin and integrated oil country tubular goods (OCTG) services to the onshore oil and gas market operating in the Middle East.

02 Basis of preparation

2.1 / STATEMENT OF COMPLIANCE

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

Article 4 of Regulation 1606/2002/EC requires that, for each financial year starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State.

Details of the Group's accounting policies are included in Note 3. This is the first set of the financial statements in which IFRS 9 *Financial Instruments* has been applied. Changes to significant accounting policies are described in note 2.5.

02

Basis of preparation

(Contd)

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 Group'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 13 / impairment test of property, plant and equipment of Company's subsidiaries, Middle East Tubular Services Limited and Middle East Tubular Services (Iraq) Limited: key assumptions underlying recoverable amounts;
- Note 15 / impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts;
- Note 16 / 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; and
- Note 18.7 / measurement of ECL allowance for loans receivable from subsidiary: key assumptions underlying ECL allowance.

2.5 / CHANGE IN SIGNIFICANT ACCOUNTING POLICIES

The Group 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 Group has early adopted IFRS 15 *Revenues from customers* and IFRS 16 *Leases* with a date of initial application of 1 January 2017 and accodingly adjustments have already been reflected in the corresponding period.

Due to the transition methods chosen by the Group in applying IFRS 9 comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard, except for separately presenting impairment loss on financial assets. The effect of initially applying this standard is mainly attributed to an increase in impairment losses recognised on financial assets (See 2.5.1).

02

Basis of preparation

(Contd)

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 Group 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 Group and Company's approach was to include the impairment of financial assets in 'administrative expenses'. Consequently, the Group reclassified impairment losses amounting to €537,921, 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 presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations.

Additionally, the Group 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 reserves, retained earnings and NCI (for a description of the transition method, see 2.5.1.4).

Impact of adopting IFRS 9 at 1 January 2018

		THE GROUP	THE COMPANY
	Note	€	€
Retained earnings			
Recognition of expected credit losses under IFRS 9		877,093	107,000
Related tax		(293,856)	-
Impact at 1 January 2018	**2.5.1.2**	**583,237**	**107,000**

02

Basis of preparation

(Contd)

2.5.1.1 / Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value Through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (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 Group's accounting policies related to financial liabilities.

For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 3.3.

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 Group'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.

				THE GROUP	
		Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
	Note			€	€
Financial assets					
Trade and other receivables	18	Loans and receivables	Amortised cost	14,709,137	13,842,308
Cash at bank and in hand	26	Loans and receivables	Amortised cost	3,663,763	3,653,499
Contract assets	6	Loans and receivables	Amortised cost	802,611	802,611
Total financial assets				**19,175,511**	**18,298,418**

02

Basis of preparation

(Contd)

2.5.1.1 / Classification and measurement of financial assets and financial liabilities (Contd)

				THE GROUP	
		Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
	Note			€	€
Financial liabilities					
Lease liabilities	28	Other financial liabilities	Other financial liabilities	25,896,480	25,896,480
Secured bank loans	22	Other financial liabilities	Other financial liabilities	1,221,877	1,221,877
Secured notes	22	Other financial liabilities	Other financial liabilities	19,862,674	19,862,674
Unsecured notes	22	Other financial liabilities	Other financial liabilities	29,707,967	29,707,967
Trade and other payables	25	Other financial liabilities	Other financial liabilities	5,663,865	5,663,865
Bank overdraft	26	Other financial liabilities	Other financial liabilities	865,083	865,083
Total financial liabilities				**83,217,946**	**83,217,946**

02

Basis of preparation

(Contd)

2.5.1.1 / Classification and measurement of financial assets and financial liabilities (Contd)

THE COMPANY					
		Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
	Note			€	€
Financial assets					
Trade and other receivables	18	Loans and receivables	Amortised cost	9,414,847	9,414,847
Receivables from subsidiaries	14	Loans and receivables	Amortised cost	48,903,247	48,796,247
Cash at bank and in hand	26			704,909	704,909
Total financial assets				**59,023,003**	**58,916,003**

	Note			€	€
Financial liabilities					
Secured notes	22	Other financial liabilities	Other financial liabilities	19,862,674	19,862,674
Unsecured notes	22	Other financial liabilities	Other financial liabilities	29,707,967	29,707,967
Trade and other payables	25	Other financial liabilities	Other financial liabilities	5,949,231	5,949,231
Total financial liabilities				**55,519,872**	**55,519,872**

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of €98,545 for the Group and an increase of €Nil for the Company in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

02

Basis of preparation

(Contd)

2.5.1.1 / Classification and measurement of financial assets and financial liabilities (Contd)

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.

THE GROUP	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
	€	€	€	€
Financial assets Amortised cost				
Trade and other receivables		-		
Brought forward: *Loans and receivables*	14,709,137			
Remeasurement			866,829	
Carried forward: *Amortised cost*				13,842,308
Cash and cash equivalents		-		
Brought forward: *Loans and receivables*	3,663,763			
Remeasurement			10,264	
Carried forward: *Amortised cost*				3,653,499
Contract assets		-		
Brought forward: *Loans and receivables*	802,611			
Remeasurement			-	
Carried forward: *Amortised cost*				802,611
Total assets	**19,175,511**	**-**	**877,093**	**18,298,418**

02

Basis of preparation

(Contd)

2.5.1.1 / Classification and measurement of financial assets and financial liabilities (Contd)

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.

THE COMPANY

	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
	€	€	€	€
Financial assets Amortised cost				
Trade and other receivables				-
Brought forward: *Loans and receivables*	9,414,847	-		
Remeasurement			-	
Carried forward: *Amortised cost*				9,414,847
Receivables from Subsidiaries				
Trade and other receivables				
Brought forward: *Loans and receivables*	48,903,247	-		
Remeasurement			107,000	
Carried forward: *Amortised cost*				48,796,247
Cash at bank and in hand				
Brought forward: *Loans and receivables*	704,909	-		
Remeasurement			-	
Carried forward: *Amortised cost*				704,909
	59,023,003	**-**	**107,000**	**58,916,003**

02

Basis of preparation

(Contd)

2.5.1.2 / 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 (see Note 3.9.1).

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

	THE GROUP	THE COMPANY
	€	€
Loss allowance at 31 December 2017 under IAS 39	8,345	537,921
Impairment recognised at 1 January 2018 on:		
Trade and other receivables	866,829	-
Receivables from subsidiaries	-	107,000
Cash at bank	10,264	-
Loss allowance at 1 January 2018 under IFRS 9	**885,438**	**644,921**

Additional information about how the Group measures the allowance for impairment is described in Note 27.4.

2.5.1.3 / Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

02

Basis of preparation

(Contd)

2.5.1.4 / Transition

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

The Group 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.

3.1 / BASIS OF CONSOLIDATION

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 3.1.2). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 3.9). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income (OCI) of joint ventures, until the date on which joint control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with the joint ventures are eliminated against the investment to the extent of the Group's interest in the joint ventures. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 / FOREIGN CURRENCY

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- financial liabilities denominated in USD and designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see note 3.2.4); and
- qualifying cash flow hedges to the extent the hedges are effective (see note 3.3.5).

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and presented within equity in the translation reserve, except to the extent that the translation difference is allocated to NCI. However, if the operation is a non-wholly owned subsidiary then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

The Group designates certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

When a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

Foreign currency gains and losses relating to operating activities are recognised in profit or loss and 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 and 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.

3.3 / FINANCIAL INSTRUMENTS

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group 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 FVTPL, transaction costs are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group 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.

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 Group 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.

The Group 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 Group'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.

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.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group 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 Group 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 Group'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.

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 loans to subsidiaries, cash and cash equivalents and trade and other receivables. The Group's financial assets comprise cash and cash equivalents, trade and other receivables, and contract assets.

The Group 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.

The Group 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 Group 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 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 comprise secured and unsecured notes, secured and unsecured loans and borrowings and trade and other payables. The Group's financial liabilities comprise lease liabilities, secured and unsecured notes, loans and borrowings, trade and other payables, and bank overdraft.

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

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

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of, for a derivative, changes in the fair value of the hedging instrument or, for a non-derivative, foreign exchange gains and losses is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

3.4 / 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.

3.5 / PROPERTY, PLANT AND EQUIPMENT

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.

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

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 Group will obtain ownership of the land by the end of the lease term.

Depreciation commences when the item is available for use.

buildings and base improvements	3 - 42 years
furniture and fittings	10 years
office and computer equipment	5 years
plant and equipment	8 years
motor vehicles	4 years
cargo carrying units	10 years
photovoltaic farm	20 years

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

3.6 / INTANGIBLE ASSETS AND GOODWILL

Intangible assets include customer relationships, licenses, brand and contractual rights that are acquired by the Group and have finite useful lives. Intangible assets acquired as part of a business combination are measured at fair value at the date of acquisition less accumulated amortisation and any accumulated impairment losses.

Goodwill that arises upon the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognised immediately in profit or loss. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of the intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Goodwill is not amortised.

customer relationships	10 years
licences	10 years
brand	10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.7 / LEASES

At inception of a contract, the Group 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 Group assess whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group 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 Group has the right to operate the asset; or
  - the Group 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 Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Group 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 the right-of–use assets vaires between 3 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 Group's incremental borrowing rate. Generally, the Group 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 Group is reasonably certain to exercise, lease payments in an optional renewal period if the group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group 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 Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

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

3.8 / INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

3.9 / IMPAIRMENT

Financial instruments and contract assets

The Group recognises loss allowances for Expected Credit Losses (ECLs) on financial assets at amortised cost.

The Group 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 Group measures loss allowances for trade receivables 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 Group 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 Group's historical experience and informed credit assessment and including forward-looking information.

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

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

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

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 Group 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 Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group 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 Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

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.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group 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 Group 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 Group'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 Group on terms that the Group 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 Group 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. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. 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.

The carrying amounts of the Group'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. Goodwill is tested annually for impairment.

The recoverable amount of an asset or cash-generating unit (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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The Group'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.

The Group'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. An impairment loss in respect of goodwill is not reversed.

3.10 / INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are shown in the statement of financial position of the Company at cost less any accumulated impairment losses.

3.11 / EMPLOYEE BENEFITS

The Group 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.

The Group'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 Group's obligations.

Pursuant to United Arab Emirates (U.A.E.) and Sultanate of Oman labour regulations, severance payments have to be paid on termination of employment either by the employer or by the employee. The Group's net obligation in respect of this defined benefit obligation is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, and discounting that amount. The calculation of the liability is performed annually at each reporting date using the projected unit credit method. Re-measurement of the liability, which comprise actuarial gains and losses, are recognised immediately in OCI. The Group determines the interest expense on the liability for the period by applying the discount rate used to measure the obligation at the beginning of the annual period to the then-net liability, taking into account any changes in the liability during the period as a result of payments. Interest expense is recognised in profit or loss. The Group recognises gains and losses on the settlement of a liability when the settlement occurs.

3.12 / PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as finance cost.

3.13 / REVENUE

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

The following is a description of the principal activities – separated by reportable segments – from which the Group generates its revenue. For more detailed information about reportable segments, see note 5 Operating Segments.

The Group is engaged in providing services and support to the offshore oil and gas industry and OCTG services to the onshore oil and gas market 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. OCTG services to the onshore oil and gas market consists of handling and storage, inspection and machine shop services and other ancillary services. In this regard revenue is recognised and measured as follows:

Logistic support services

The Group performs and provides logistics services to international oil companies carrying out offshore drilling campaigns. The Group 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 Group performs, this is a routine or recurring service and thus revenue is recognised over time.

Engineering services

The Group 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 Group'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 Group 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 Group has objective evidence that all criteria for acceptance have been satisfied. Generally, for such goods, the customer has no right of return. Therefore, revenue from supply of goods is recognised when the goods are delivered as this is the point in time that the consideration is unconditional since only the passage of time is required before payment is due.

Storage and handling

Storage and handling services have been identified as distinct on the basis that the following criteria are met:

- the customer can benefit from the good or service on its own or in conjunction with other readily available resources; and
- the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

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

Inspection

Inspection services have been identified as distinct on the basis that the following criteria are met:

- the customer can benefit from the good or service on its own or in conjunction with other readily available resources; and
- the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

As the Group's performance creates or enhances an asset that the customer controls as the asset is created, and this is a routine or recurring service, revenue is thus recognised over time.

Repairs of pipes

Each of the services provided in this operating segment has been identified as distinct on the basis that the following criteria are met:

- the customer can benefit from the good or service on its own or in conjunction with other readily available resources; and
- the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

As the Group's performance creates or enhances an asset that the customer controls as the asset is created, and this is a routine or recurring service, revenue is thus recognised over time.

Supply of electricity

The Group 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 Group performs, this is a routine or recurring service and thus revenue is recognised over time.

The Group'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.

Dividend income is recognised in profit or loss on the date on which the Company's right to receive payment is established.

3.14 / 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.

3.15 / GOVERNMENT GRANTS

Grants that compensate the Group 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 Group will comply with the conditions associated with the grant; they are then recognised in profit or loss on a systematic basis over the useful life of the asset and presented as a deduction from the amortization cost of the related asset.

3.16 / 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.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable 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. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

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

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;

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

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 business plans for individual subsidiaries in the Group. 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 Group 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.

3.17 / EARNINGS PER SHARE

The Group presents basic earnings per share (EPS) data for its ordinary shares. This EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, the calculation of EPS for all periods presented shall be adjusted retrospectively.

3.18 / SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors, the chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the Company's assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

04

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 Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated 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
- Amendments to References to Conceptual Framework in IFRS Standards.

5.1 /

The Group has three reportable segments, as described below, which represent the Group's strategic divisions. These divisions offer different products and services, and are managed separately because they require different resources and marketing strategies. For each of the strategic divisions, the Board of Directors, which is the chief operating decision maker, reviews internal management reports on a monthly basis.

The following summary describes the operations in each of the Group's reportable segments:

Includes the provision of comprehensive logistical support services to the offshore oil and gas industry from the Group's bases in Malta, Cyprus and Portugal.

Includes the provision of an integrated approach to OCTG handling, inspection, repairs and other ancillary services based in three Middle East locations, namely U.A.E., Southern Iraq and Sultanate of Oman.

Involves the generation of electricity which is sold into the national grid for a twenty-year period at a price secured under the tariff scheme regulated by subsidiary legislation S.L. 423.46 in Malta.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries

5.2 / INFORMATION ABOUT REPORTABLE SEGMENTS

	2018	2017	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€	€	€
External revenues	21,470,012	13,966,073	14,216,490	14,284,081	500,697	526,989	36,187,199	28,777,143
Inter-segment revenue	-	541,061	-	907,124	-	-	-	1,448,185
Net finance costs	(2,999,205)	(2,273,628)	(1,970,013)	(1,269,354)	(400,680)	(398,217)	(5,369,898)	(3,941,199)
Depreciation on property, plant and equipment	(2,458,751)	(1,974,792)	(1,502,894)	(1,170,854)	(208,112)	(208,110)	(4,169,757)	(3,353,756)
Depreciation on right-of-use assets	(2,474,525)	(1,308,956)	(1,037,558)	(983,505)	-	-	(3,512,083)	(2,292,461)
Amortisation	-	-	(1,472,987)	(1,666,012)	-	-	(1,472,987)	(1,666,012)
Other material non-cash items:								
- amortisation of signing bonus	-	-	(450,613)	(1,113,279)	-	-	(450,613)	(1,113,279)
- impairment losses on financial assets	(939,358)	(8,345)	(36,280)	-	-	-	(975,638)	(8,345)
- net impairment on property, plant and equipment	-	-	(981,572)	-	-	-	(981,572)	-
Reportable segment profit / (loss) before tax	(6,948,853)	(4,823,212)	(1,774,396)	(3,134,438)	(108,095)	(79,337)	(8,831,345)	(8,036,987)
Adjusted EBITDA	983,628	734,164	5,834,266	3,068,566	500,697	526,990	7,318,591	4,329,720

5.2 / INFORMATION ABOUT REPORTABLE SEGMENTS (CONTD)

	2018	2017	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€	€	€
Reportable segment assets	108,622,307	108,483,234	42,470,000	39,032,481	3,079,000	3,287,117	154,171,353	150,802,832
Capital expenditure	6,345,266	1,658,442	538,580	945,569	-	-	6,883,846	2,604,011
Reportable segment liabilities	104,476,048	76,127,976	27,352,239	42,808,209	6,277,915	6,238,210	138,106,202	125,174,395
Operating net cash flows	5,430,252	2,785,570	2,917,414	1,212,823	500,617	526,989	8,839,065	4,525,382
Investing net cash flows	(6,144,312)	(1,518,143)	(469,687)	(945,569)	-	-	(6,556,729)	(2,464,512)
Financing net cash flows	(576,869)	(3,337,657)	(817,143)	(1,294,889)	(400,680)	(398,216)	(2,346,268)	(5,030,762)

5.3 / RECONCILIATION OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS, ASSETS AND LIABILITIES

	€	€
Revenues		
Total external revenues for reportable segments	36,187,199	28,777,143
Profit or loss		
Loss before tax for reportable segments	(8,831,344)	(8,036,987)
Assets		
Total assets for reportable segments	154,171,312	150,802,832
Unallocated amounts	2,605,760	2,470,311
Liabilities		
Total liabilities for reportable segments	138,080,357	125,174,395

5.4 / GEOGRAPHICAL INFORMATION

The ILSS segment is managed from Malta but operates base facilities and/or offices in Malta, Cyprus, Egypt, Portugal and Libya. The OCTG segment is managed from U.A.E. and operates base facilities in U.A.E., Southern Iraq and Sultanate of Oman. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets. Non-current assets exclude goodwill amounting to €2,605,760 (2017: €2,470,311).

5.4 / GEOGRAPHICAL INFORMATION (CONTD)

	€	€
31 December 2018		
Libya	8,301,683	415
Italy	3,108,120	-
Cyprus	5,789,067	8,088,495
Malta	1,228,513	85,225,454
Croatia	8,505	-
Middle East	14,216,491	38,832,571
Other countries	3,534,820	-
31 December 2017		
Libya	7,176,395	1,246
Italy	571,183	-
UK	796,621	-
Portugal	652,535	136,196
Cyprus	2,363,824	3,710,738
Malta	2,046,122	93,437,949
South Korea	673,981	-
Netherlands	212,401	-
Middle East	14,284,081	33,225,237

Group revenues from transactions with three (2017: three) major external customers during the year amounted to approximately €22.1 million (2017: €16.1 million). Revenues are being analysed by country of incorporation of customers.

SITUATION IN LIBYA

Despite the political instability in Libya, the impact on the Group's operations in Libya remains minimal as the Group continues servicing normally the clients' operations offshore Libya, which are located 120 kilometers north of the Libyan coast.

06

Revenue

6.1 / DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see note 5).

	INTEGRATED LOGISTICS SUPPORT SERVICES		OIL COUNTRY TUBULAR GOODS		PHOTOVOLTAIC FARM		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017
For the year ended 31 December	€	€	€	€	€	€	€	€
Primary geographical markets								
Malta	12,909,102	10,949,714	-	-	500,697	526,989	13,409,799	11,476,703
Middle East	-	-	14,216,490	14,284,081	-	-	14,216,490	14,284,081
Cyprus	5,789,067	2,363,824	-	-	-	-	5,789,067	2,363,824
Portugal	1,134,259	652,535	-	-	-	-	1,134,259	652,535
Egypt	1,637,584	-	-	-	-	-	1,637,584	-
	21,470,012	**13,966,073**	**14,216,490**	**14,284,081**	**500,697**	**526,989**	**36,187,199**	**28,777,143**

06

Revenue

6.1 / DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

	INTEGRATED LOGISTICS SUPPORT SERVICES		OIL COUNTRY TUBULAR GOODS		PHOTOVOLTAIC FARM		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017
For the year ended 31 December	€	€	€	€	€	€	€	€
Major service lines								
Logistic support services	14,894,308	9,232,054	-	-	-	-	14,894,308	9,232,054
Supplies	2,691,729	1,337,283	-	-	-	-	2,691,729	1,337,283
Engineering services	1,202,674	1,608,958	-	-	-	-	1,202,674	1,608,958
Storage and handling	2,681,301	1,787,778	11,166,221	12,082,033	-	-	13,847,522	13,869,811
Inspection	-	-	1,499,359	1,309,531	-	-	1,499,359	1,309,531
Repairs of pipes	-	-	1,550,910	892,517	-	-	1,550,910	892,517
Supply of electricity	-	-	-	-	500,697	526,989	500,697	526,989
	21,470,012	**13,966,073**	**14,216,490**	**14,284,081**	**500,697**	**526,989**	**36,187,199**	**28,777,143**
Timing of revenue recognition								
Transferred over time	18,778,283	12,628,790	14,216,490	14,284,081	500,697	526,989	33,495,470	27,439,860
Point in time	2,691,729	1,337,283	-	-	-	-	2,691,729	1,337,283
	21,470,012	**13,966,073**	**14,216,490**	**14,284,081**	**500,697**	**526,989**	**36,187,199**	**28,777,143**

06

Revenue

(Contd)

6.2 / CONTRACT BALANCES

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	31 December 2018	31 December 2017
	€	€
Receivables, which are included in 'trade and other receivables'	12,824,215	12,298,397
Contract assets	67,775	802,611

The contract assets primarily relate to the Group'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.

6.3 / CONTRACT COSTS

The contract costs include the carrying amount of a signing bonus amounting to €954,239 (2017: €1,272,319) granted to key management personnel of METS during 2016 subject to vesting period. This signing bonus originally amounted to €1,590,401 and started being amortised over a period of five years, from the date of commencement of the contract on 1 January 2017.

7.1 / OTHER INCOME

	Note	2018 €	2017 €
Exchange differences		154,896	-
Gain on disposal of property, plant and equipment	13	10,560	-
Government grants	21	104,380	4,490
Reversal of deferred income	21	775,533	775,533
Reversal of provision	13.6	617,478	-
Other income		24,799	37,462
Gain on lease modification		361,967	-

7.2 / OTHER EXPENSES

	Note	2018 €	2017 €
Loss on disposal of property, plant and equipment	13	268,961	42,828
Impairment loss on property, plant and equipment	13.6	1,598,906	-
Exchange differences		-	104,295
Other expenses		-	11,854

08

Expenses by Nature

8.1 /

		THE GROUP		THE COMPANY	
		2018	2017	2018	2017
	Note	€	€	€	€
Direct cost of services		15,530,583	12,174,224	-	-
Consumables	17	8,336	3,531	-	-
Employee benefits	9	8,558,513	6,891,458	-	-
Depreciation	13,28	7,874,498	5,646,216	-	-
Amortisation of intangible assets	15	1,472,987	1,666,013	-	-
Amortisation of signing bonus	18	450,613	1,113,279	-	-
Professional fees		1,266,799	1,278,083	277,416	258,271
Listing expenses		89,504	86,986	89,504	86,986
Travelling and telecommunications		693,804	600,700	2,300	1,148
(Reversal of) impairment losses on investments in subsidiaries		-	-	(11,647)	12,127
Repairs and maintenance		649,150	787,017	-	-
Insurance		644,703	576,956	-	7,503
Security services		345,956	171,141	-	-
Staff welfare		453,766	655,224	-	-
Other		1,668,534	1,880,611	6,200	22,484
Total cost of sales and administrative expenses		**39,707,746**	**33,531,439**	**363,773**	**388,519**
Categorised as follows:					
Cost of sales		33,639,893	26,614,100	-	-
Adminstrative expenses		6,067,853	6,917,339	363,773	388,519
Total cost of sales and administrative expenses		**39,707,746**	**33,531,439**	**363,773**	**388,519**

08

Expenses by Nature

(Contd)

8.2 /

The total fees charged to the Group and the Company by the independent auditors during 2018 can be analysed as follows:

	THE GROUP	THE COMPANY
	€	€
Auditors' remuneration	196,414	57,500
Tax advisory services	8,390	1,155
Other non-audit services	87,160	3,200
	291,964	**61,855**

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

	€	€
Directors' emoluments:		
Salaries	464,220	424,525
Fees	90,000	90,000
Wages and salaries	7,451,959	6,031,623
Social security contributions	374,515	206,844
Termination benefit	139,306	127,775
Maternity fund	5,568	5,460
Special contribution	32,945	5,231

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

	No.	No.
Operating	255	222
Management and administration	37	36

The company had no employees during current and comparative years

10

Finance Income and Finance Cost

	THE GROUP		THE COMPANY	
	2018	2017	2018	2017
	€	€	€	€
Bank interest receivable	9	4,499	9	2,929
Interest receivable from subsidiaries	-	-	2,635,193	2,617,493
Unrealised exchange differences	-	-	640,018	1,067,677
Realised exchange differences	-	473,601	-	2,024
Finance income	**9**	**478,100**	**3,275,220**	**3,690,123**
Interest payable on bank loans	(256,431)	(112,794)	-	-
Other bank interest payable	(85,016)	(27,703)	-	-
Interest payable to note holders	(2,750,415)	(2,765,479)	(2,750,415)	(2,765,479)
Finance cost on finance leases	(1,760,802)	(1,507,778)	-	-
Exchange differences	(517,243)	(5,545)	(353,428)	(1,132,866)
Finance costs	**(5,369,907)**	**(4,419,299)**	**(3,103,843)**	**(3,898,345)**
Net finance (costs) /income	**(5,369,898)**	**(3,941,199)**	**171,377**	**(208,222)**

11.1 / RECOGNISED IN THE INCOME STATEMENT

	2018	2017	2018	2017
	€	€	€	€
Current tax expense				
Current year	(86,573)	(3,884)	(147)	-
Adjustment for prior years	-	-	-	(84)
Deferred tax movement				
Movement in temporary differences	(608,977)	407,312	-	-

11.2 / 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	2018	2017
	€	€	€	€
Loss before tax	(8,831,344)	(8,036,987)	(122,942)	(1,134,662)
Tax effect of: Investment tax credits (see note 16.2)	(958,574)	380,755	-	-
Disallowed expenses	(3,478,756)	(1,727,486)	(43,720)	(397,527)
Difference in tax rates applicable to Group entities	(132, 717)	(10,142)	542	-
Exempt income	1,386,258	863,266	-	-
Adjustment to prior year current taxation	-	-	-	311
Adjustment to prior years' deferred tax asset	246,009	(541,661)	-	-
Consolidation adjustments not subject to tax	(848,740)	(1,374,249)	-	-

The applicable tax rate during the current and comparative year is the statutory local income tax rate of 35% for income generated in Malta. The results from operations in Cyprus, Portugal and Egypt are subject to the statutory local income tax of 12.5%, 21% and 22.5% respectively. The Company's subsidiary in the Sohar Free Zone in the Sultanate of Oman is exempt from income tax for a period of 10 years starting from 15 January 2012. The Company's subsidiary in the Special Economic Zone in Duqm in the Sultanate of Oman is exempt from income tax for a period of 30 years from 1 November 2017. The Company's subsidiaries in the U.A.E. and Southern Iraq are exempt from income tax.

The Company's subsidiary, Medserv Operations Limited 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 16.3).

12

Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)

The Directors of the Group have presented the performance measure adjusted EBITDA as they monitor this performance measure at a consolidated level and they believe this measure is relevant to an understanding of the Group's financial performance. Adjusted EBITDA is calculated by adjusting profit from continuing operations to exclude the impact of taxation, net finance costs, depreciation, amortisation and net impairment losses on property, plant and equipment.

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

RECONCILIATION OF ADJUSTED EBITDA TO PROFIT FROM CONTINUING OPERATIONS

		THE GROUP	
		2018	2017
	Note	€	€
Loss from continuing operations		(9,526,894)	(7,633,559)
Tax expense / (income)	11	695,550	(403,428)
Loss before tax		**(8,831,344)**	**(8,036,987)**
Adjustments for:			
Net finance costs	10	5,369,898	3,941,199
Depreciation	13, 28	7,874,864	5,646,216
Amortisation of intangible assets	15	1,472,988	1,666,012
Amortisation of signing bonus	6	450,613	1,113,279
Net impairment losses on property, plant and equipment	13.6	981,572	-
Adjusted EBITDA		**7,318,591**	**4,329,719**

13.1 /

	€	€	€
Cost			
Balance at 01.01.17	51,956,388	11,576,395	9,367,575
Acquisitions	2,604,011	48,932	291,173
Transfer	(74,757)	-	-
Disposals	(399,159)	-	-
Effect on movements in exchange rates	(2,500,356)	(163,348)	(719,301)
Balance at 01.01.18	51,586,127	11,461,979	8,939,447
Additions	6,884,199	-	513,567
Transfers	-	-	950,562
Disposals	(2,190,831)	-	(1,437,581)
Effect on movements in exchange rates	1,244,878	54,764	254,193
Depreciation			
Balance at 01.01.17	17,701,607	2,107,788	3,845,538
Charge for the year	3,353,756	110,710	619,966
Disposals	(232,988)	-	-
Effect of movements in exchange rates	(1,119,687)	(80,047)	(310,775)
Balance at 01.01.18	19,702,688	2,138,451	4,154,729
Charge for the year	4,169,757	202,614	788,667
Impairment losses	1,598,905	-	1,227,853
Disposals	(1,594,762)	-	(1,191,436)
Effect of movements in exchange rates	447,018	29,298	125,840

€	€	€	€	€	€	€
19,182,390	4,016,252	3,479,429	1,161,733	775,623	1,194,292	1,202,699
1,965,623	-	-	74,047	48,498	175,738	-
(60,270)	-	-	-	-	(14,487)	-
(367,559)	-	-	-	-	(31,600)	-
(1,333,559)	-	-	(23,679)	(18,747)	(94,801)	(146,920)
19,386,625	4,016,252	3,479,429	1,212,100	805,374	1,229,142	1,055,779
6,040,186	-	-	69,573	38,995	178,185	43,693
(66,772)	-	-	-	-	-	(883,790)
(482,808)	-	-	(69,234)	(61,882)	(139,326)	-
819,648	-	-	8,532	8,080	49,420	50,241
8,462,688	521,030	790,530	467,338	557,485	949,210	-
1,739,418	208,110	347,084	101,783	93,392	133,293	-
(195,585)	-	-	-	-	(37,403)	-
(617,720)	-	-	(15,264)	(15,376)	(80,505)	-
9,388,801	729,140	1,137,614	553,857	635,501	964,595	-
2,264,065	208,112	347,436	104,220	104,309	150,334	-
371,052	-	-	-	-	-	-
(213,439)	-	-	(27,707)	(50,971)	(111,209)	-
254,526	-	-	5,643	5,899	25,812	

13.1 (CONTD)

	€	€	€
Carrying amounts			
At 1 January 2017	34,254,781	9,468,607	5,522,037

13.2

The Group's buildings and base improvements are situated on land held under title of temporary emphyteusis (see note 28.1).

13.3

Assets not yet in use as at year-end comprise capital expenditure on the development of warehouses and additional office buildings in the Group's facilities in the Middle East.

13.4 / COMMITMENTS

As at year-end, the Group's contractual commitments amounted to €508,568 (2017: €nil) in relation to the construction of new offices in Duqm.

13.5 / SECURITY

At 31 December 2018, the Group's emphyteutical rights on the Medserv site at the Malta Freeport at the Port of Marsaxlokk were subject to a general hypothec and a special hypothec in relation to the notes issue and bank borrowings by the Group (refer to note 22).

13.6 / IMPAIRMENT LOSSES

During the current year, one of the Group's significant customers has relocated its operations from the Group's base in the Sohar Freezone to its other base in Duqm. Consequently, the Group downsized its base in Sohar (see note 28.1) and incurred an impairment loss of €1,227,392 (2017: €nil) on the carrying amount of the base improvements, which loss has been recognised in 'other expenses'. Included in 'other income' is a reversal of a provision on legal and constructive obligations amounting to €617,478, which consisted of a minimum increment rate of 2% per annum over the future operating lease payments of the above-mentioned lease in Sohar (see note 23.1).

As a result of the losses sustained in the current year by Middle East Tubular Services Limited and Middle East Tubular Services (Iraq) Limited Cash-Generating Units (CGUs), the UAE and Iraq CGUs with a total carrying amount of €2,245,962 and €4,520,705, respectively, were tested for impairment. The recoverable amount of these CGUs as at reporting date were determined with reference to their

€	€	€	€	€	€	€
10,719,702	3,495,222	2,688,899	694,395	218,138	245,082	1,202,699

value-in-use, determined by discounting the future cash flows to be generated from their continuing use. The cash flow projections included specific estimates for the five-year period 2019 to 2023 and a terminal growth rate thereafter. The cash flow projections in the prior period considered specific estimates for the years 2018 to 2022.

An impairment loss of €371,514 was determined in relation to the Iraq Machine Shop CGU having a carrying amount of €3,631,663 and a recoverable amount of €3,260,149. The impairment loss was allocated in full to 'plant and machinery' within the property, plant and equipment schedule. This CGU provides handling, inspection and machine shop services to the OCTG market from its base in the Khor Al Zubair Freezone in Basra, located in South Iraq. The aggregate of assets relating to this CGU was adjusted from prior year to allocate corporate assets used by multiple CGUs that were previously used by one CGU.

The key assumptions used in the estimation of value-in-use calculation of the Iraq Machine Shop CGU were as follows:

	%	%
Pre-tax discount rate	26.60	25.10

The values assigned to the key assumptions represent management's assessment of future trends in the industry. The key assumptions are based on both external sources and internal sources (historical data). The projected annual revenue growth rate is based on the assumption that there is a significant increase in oil activity in the region.
The directors are satisfied that the judgements made are appropriate to the circumstances but, as with all projections relating to future events, there is a degree of uncertainty inherent in the figures.

14

Investment in subsidiaries

14.1 /

	TOTAL	CAPITAL SUBSCRIBED	LOANS RECEIVABLE
	€	€	€
At 1 January 2017	13,419,223	344,813	13,074,410
Impairment loss	(12,127)	(12,127)	-
At 31 December 2017	**13,407,096**	**332,686**	**13,074,410**
At 1 January 2018	13,407,096	332,686	13,074,410
Reversal of impairment losses	11,647	11.647	-
At 31 December 2018	**13,418,743**	**344,333**	**13,074,410**

14.2

The loan receivable from the subsidiary as at 31 December 2018 is unsecured and interest free. The loan is subject to an option to convert to share capital.

14

Investment in subsidiaries

(Contd)

14.3 / LIST OF SUBSIDIARIES AND SUB-SUBSIDIARIES

SUBSIDIARIES	REGISTERED OFFICE	OWNERSHIP INTEREST 2018	2017	NATURE OF BUSINESS	PAID UP
		%	%		%
Medserv International Limited	Port of Marsaxlokk Birzebbugia Malta	99.99	99.99	Holding company	25
Medserv Italy Limited	Port of Marsaxlokk Birzebbugia Malta	99.99	99.99	Holding company	20
Medserv Eastern Mediterranean Limited	Port of Marsaxlokk Birzebbugia Malta	99.99	99.99	Holding company	20
Medserv Western Mediterranean Limited	Port of Marsaxlokk Birzebbugia Malta	99.99	99.99	Holding company	20
Medserv Libya Limited	Port of Marsaxlokk Birzebbugia Malta	99.99	99.99	Logistical support and other services	20
Medserv M.E. Limited	Port of Marsaxlokk Birzebbugia Malta	99.99	99.99	Holding company	100
Medserv Operations Limited	Port of Marsaxlokk Birzebbugia Malta	99.99	99.99	Logistical support and other services	100
Sub-subsidiaries					
Medserv (Cyprus) Limited	Karaiskakis Street Limassol Cyprus	80.00	80.00	Logistical support and other services	100
MDS Energy Portugal Unipessoal Lda	Ave D Joao II 46–4-A 1990-095 Lisbon Portugal	100.00	100.00	Logistical support and other services	100
Medserv Energy TT Limited	18, Scott Bushe Street Port of Spain Trinidad & Tobago, W.I.	100.00	100.00	Logistical support and other services	100

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Investment in subsidiaries

(Contd)

SUBSIDIARIES	REGISTERED OFFICE	OWNERSHIP 2018	INTEREST 2017	NATURE OF BUSINESS	PAID UP
		%	%		%
Medserv Egypt Oil & Gas Services J.S.C	51, Tanta Street Cairo, Egypt	60.00	80.00	Logistical support and other services	100
Middle East Tubular Services Holdings Limited	Belmont Chambers Road Town Tortola, British Virgin Islands	100.00	100.00	Holding company	100
Middle East Tubular Services Limited	Belmont Chambers Road Town Tortola, British Virgin Islands	100.00	100.00	OCTG services in U.A.E.	100
Middle East Tubular Services L.L.C. (FZC)	PO Box 561 PC322 Al Falaj-Al Qabail Sohar Sultanate of Oman	100.00	100.00	OCTG services in Sultanate of Oman	100
Middle East Tubular Services (Iraq) Limited	Belmont Chambers Road Town Tortola, British Virgin Islands	90.00	90.00	OCTG services in Southern Iraq	100
Middle East Comprehensive Tubular Services (Duqm) L.L.C.	PO Box 45 PC102 The Special Economic Zone of Duqm Al Duqm, Al Wusta'a Sultanate of Oman	100.00	100.00	OCTG services in Sultanate of Oman	100
Middle East Tubular Services (Gulf) Limited	Belmont Chambers Road Town Tortola, British Virgin Islands	100.00	-	Holding company	100

15.1 / RECONCILIATION OF CARRYING AMOUNT

	Note	€	€	€	€	€	€
Cost							
Balance at 1 January 2017		18,568,596	2,873,598	284,402	14,102,368	343,104	965,124
Effect of movements in exchange rates		(403,287)	(403,287)	-	-	-	-
Transfer to right-of-use assets		(965,124)	-	-	-	-	(965,124)
Balance at 1 January 2018		17,200,185	2,470,311	284,402	14,102,368	343,104	-
Effect of movements in exchange rates		135,449	135,449	-	-	-	-
Amortisation							
Balance at 1 January 2017		1,388,343	-	23,700	1,175,197	28,592	160,854
Amortisation for the year		1,666,013	-	28,440	1,410,237	34,311	193,025
Transfer to right-of-use assets		(353,879)	-	-	-	-	(353,879)
Balance at 1 January 2018		2,700,477	-	52,140	2,585,434	62,903	-
Amortisation for the year		1,472,988	-	28,440	1,410,237	34,311	-
Carrying amounts							
At 31 December 2017		14,499,708	2.470,311	232,262	11,516,934	280,201	-

15.2 / AMORTISATION

The amortisation of customer relationships, licences, brand and contractual rights is included in 'cost of sales' in the statement of profit or loss and other comprehensive income.

15.3 / TRANSFER TO RIGHT-OF-USE ASSETS

At 31 December 2017, contractual rights with carrying amount of €611,245 relating to favourable lease terms on land leases of one of the Company's subsidiaries were reclassified to right-of-use assets. On 31 December 2018, the fair value of these right-of-use assets was found to be not materially different from its carrying amount (see note 28).

15.4 / IMPAIRMENT TESTING FOR GOODWILL

Goodwill arising from the acquisition of Middle East Tubular Services Limited ('the METS sub-group') is mainly attributable to the synergies expected to be achieved from combining the operations of the METS sub-group with the Group and the skills and technical talent of the METS sub-group's work force. The goodwill arising from the acquisition of the METS sub-group has been allocated to the group of CGUs making up the OCTG segment. Goodwill has been capitalised as an intangible asset and an impairment assessment is carried out annually.

The recoverable amount of this segment was based on its value-in-use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The businesses of the seperate CGU's underlying the OCTG CGU are subject to the following risks:

- the global and regional political and economic risks;
- the volatility in oil and steel prices; and
- the concentration risk due to the dependency on a few customers.

The recoverable amount of the CGU exceeded its carrying amount and thus no impairment loss was recognised.

The key assumptions used in the estimation of value-in-use were as follows:

	%	%
Discount rate - range	13.00 – 26.60	17.00 - 25.10
Discount rate – weighted average	20.99	17.89
Terminal value growth rate	2.00	2.00
Average annual EBITDA margin	18.19 – 48.47	22.69 - 46.48
Average annual revenue growth rate	21.65	15.05

15.4 / IMPAIRMENT TESTING FOR GOODWILL (CONTD)

The discount rates were a pre-tax measure based on the base-specific weighted-average cost of capital (WACC) and reflects specific risks and conditions related to the relevant base.

The cash flow projections considered specific estimates of between five to nine years for projects related CGUs, based on the expected duration of the contracts for the supply chain management of OCTG. The other CGUs' cash flow projections included specific estimates for five years and a terminal growth rate thereafter.

EBITDA margin was based on management's expectations of market developments and future outcomes, taking into account past performance, adjusted for anticipated revenue growth. It was assumed that sales prices would grow at a constant margin above forecast inflation over the projected period.

The estimated recoverable amount of the CGU exceeded its carrying amount by approximately €8.7 million (2017: €9.2 million). Management has identified that the following changes in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

Change required

	%	%
Discount rate	+ 13.97	+ 11.54
Average EBITDA margin	-24.32	-22.31

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Deferred tax assets and liabilities

16.1 /
Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€
Property, plant and equipment	-	-	(1,056,870)	(1,012,533)	(1,056,870)	(1,012,533)
Provision for discounted future gratuity payments	11,476	10,936	-	-	11,476	10,936
Provision for doubtful debts	335,024	2,921	-	-	335,024	2,921
Provision for exchange fluctuations	5,178	5,712	-	-	5,178	5,712
Investment tax credits	8,339,822	9,298,639	-	-	8,339,822	9,298,639
Unabsorbed capital allowances and unutilised tax losses	876,820	768,954	-	-	876,820	768,954
Lease liabilities	4,184,586	3,536,072	-	-	4,184,586	3,536,072
Right-of-use assets	-	-	(9,763,028)	(9,362,572)	(9,763,028)	(9,362,572)
Tax assets / (liabilities)	**13,752,906**	**13,623,234**	**(10,819,898)**	**(10,375,105)**	**2,933,008**	**3,248,129**
Set-off of tax	(4,334,362)	(4,357,709)	4,334,362	4,357,709	-	-
Net tax assets / (liabilities)	**9,418,544**	**9,265,525**	**6,485,536**	**(6,017,396)**	**2,933,008**	**3,248,129**

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Deferred tax assets and liabilities

16.2 / MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR - THE GROUP

	BALANCE	RECOGNISED IN PROFIT AND LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	BALANCE
	01.01.17	2017	2017	31.12.17
	€	€	€	€
Property, plant and equipment	(988,053)	(24,480)	-	(1,012,533)
Provision for discounted future gratuity payments	-	(502)	-	10,936
Provision for doubtful debts	11,438	2,921	-	2,921
Provision for exchange fluctuations	1,563	4,149	-	5,712
Investment tax credits	9,274,117	24,522	-	9,298,639
Unutilised tax losses and unabsorbed capital allowances	476,965	291,989	-	768,954
Right-of-use assets	-	(3,427,359)	(5,935,213)	(9,362,572)
Lease liabilities	-	3,536,072	-	3,536,072
	8,776,030	**407,312**	**(5,935,213)**	**3,248,129**

	BALANCE	RECOGNISED IN PROFIT AND LOSS	IFRS 9 ADJUSTMENT AT 01.01.18	BALANCE
	31.12.17	2018	2018	31.12.18
	€	€	€	€
Property, plant and equipment	(1,012,533)	(44,337)	-	(1,056,870)
Provision for discounted future gratuity payments	10,936	540	-	11,476
Provision for doubtful debts	2,921	38,247	293,856	335,024
Provision for exchange fluctuations	5,712	(534)	-	5,178
Investment tax credits	9,298,639	(958,817)	-	8,339,822
Unutilised tax losses and unabsorbed capital allowances	768,954	107,866	-	876,820
Right-of-use assets	(9,362,572)	(400,456)	-	(9,763,028)
Lease liabilities	3,536,072	648,514	-	4,184,586
	3,248,129	**(608,977)**	**293,856**	**2,933,008**

16

Deferred tax assets and liabilities

(Contd)

16.3 / RECOGNITION OF DEFERRED TAX ASSET ON INVESTMENT TAX CREDITS

As at 31 December 2018, a deferred tax asset of €8,339,822 (2017: €9,298,639) was recognised in the financial statements to the extent of investment tax credits expected to be utilised in the future. Based on the Group'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 utilisation of the investment tax credits, unutilised tax losses and unabsorbed capital allowance, 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) are to be utilised by 31 December 2020. During 2018, one of the Company's subsidiaries 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 two years. The first instalment was paid in 2018 and is being recognised in other income (see note 7.1). The second instalment will be received in 2019 and is included in other receivables (see note 18.1). 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.

Inventories amounting to €1,274,704 (2017: €1,247,944) consisted of consumables used in the provision of maintenance and OCTG services.

In 2018, inventories of €1,249,074 (2017: €615,209) were recognised as an expense during the year and included in 'cost of sales'.

18

Trade and other receivables

18.1

	Note	THE GROUP 2018 €	THE GROUP 2017 €	THE COMPANY 2018 €	THE COMPANY 2017 €
Trade receivables		12,824,215	12,229,307	-	-
Amounts due by subsidiaries	18.2	-	-	12,049,301	9,114,847
Loans receivable from subsidiaries	18.3	-	-	-	300,000
Other receivables		1,152,162	680,051	-	-
Prepayments	18.5	754,235	1,799,779	-	-
Total trade and other receivables		**14,730,612**	**14,709,137**	**12,049,301**	**9,414,847**
Non-current		-	483,294	-	-
Current		14,730,612	14,225,843	12,049,301	9,414,847
		14,730,612	**14,709,137**	**12,049,301**	**9,414,847**

18.2 /

Amounts due by subsidiaries are unsecured, interest-free and repayable on demand. Transactions with related parties are set out in note 30 to these financial statements.

18.3 /

Loan receivable from subsidiaries in the comparative year classified as current assets was subject to 4% interest unsecured and matured in 2018.

18.4 /

The Group's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in note 27.

18.5 /

In the comparative year, prepayments included a signing bonus originally amounting to €1,590,401 subject to vesting period granted to a key management personnel of METS and which was being amortised to profit or loss over a period of two years, starting on 23 February 2016. The carrying amount of this signing bonus as at year end amounts to €nil (2017: €132,533) and is included in 'administrative expenses'.

18

Trade and other receivables

(Contd)

18.6 /

Receivables from subsidiaries classified as non-current assets have the following terms and conditions:

	Currency	Nominal interest rate	Year of maturity	THE COMPANY 2018	2017
				€	€
Unsecured loan	EUR	6.00%	2023	3,424,959	3,409,882
Unsecured loan	EUR	6.00%	2022	3,683,704	3,683,680
Unsecured loan	EUR	4.50%	2026	941,270	941,265
Unsecured loan	EUR	4.50%	2026	21,318,220	21,282,846
Unsecured loan	USD	5.75%	2026	8,116,425	7,740,595
Unsecured loan	EUR	6.00%	2023	9,346,513	9,306,112
Unsecured loan	EUR	6.00%	2019	-	1,628,703
Unsecured loan	EUR	6.25%	2019	-	910,164
Unsecured loan	EUR	6.00%	2020	1,628,701	-
Unsecured loan	EUR	6.25%	2020	910,163	-
				49,369,955	**48,903,247**
Recognition of expected credit losses under IFRS 9				(107,000)	-
				49,262,955	**48,903,247**

18.7 /

Out of non-current assets, loans receivable from Medserv M.E. Limited amount to €38,781,158 (2017: €38,329,553). For past due loans receivable, the Company assesses whether those receivables are credit impaired. Any credit losses are measured at the present value of all cash shortfalls. In estimating any shortfalls (and therefore any expected credit loss) on these loans receivable, the Company applied the same value-in-use analysis prepared in estimating the recoverable amount of goodwill as the recoverability of those receivables is supported by the same cash flows and subject to the same risks factors and key assumptions as those underlying the calculation of the recoverable amount of the OCTG CGU. Refer to 15.4.

19.1 / SHARE CAPITAL

	Ordinary shares	
	2018	2017
	No.	No.

The Company's authorised share capital amounts to 120,000,000 shares of €0.10 each (2017: 120,000,000 ordinary shares of €0.10 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 Group and the Company's residual assets.

19.2 / SHARE PREMIUM

Share premium amounting to €12,003,829 (2017: €12,003,829) represents premium on issue of 8,744,399 ordinary shares of a nominal value of €0.10 each at a share price of €1.50 each (see note 19.1). Share premium is shown net of transaction costs of €238,330 directly attributable to the issue of the ordinary shares.

19.3 / TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

19.4 / HEDGING RESERVE

The hedging reserve comprises the net loss on hedge of net investment in foreign operations and the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

19.5 / REVALUATION RESERVE

The revaluation reserve relates to the revaluation of the right-of-use assets at the reporting date consisting of land held from emphyteutical grant (see note 28).

19.6 / AVAILABILITY OF RESERVES FOR DISTRIBUTION

	2018	2017
	€	€
Distributable	-	-
Non-distributable	12,003,829	12,003,829

19.7 / DIVIDENDS

No reserves are available for distribution by the Company.

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Earnings per share

The calculation of basic earnings per share of the Group and the Company is based on the profit or loss attributable to ordinary shareholders of the Company as shown in the statement of profit or loss and other comprehensive income, divided by the weighted-average number of ordinary shares at 31 December 2018.

There were no dilutive potential ordinary shares during the current and comparative year.

LOSS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS FROM CONTINUING OPERATIONS (BASIC)

	THE GROUP		THE COMPANY	
	2018	2017	2018	2017
	€	€	€	€
Loss for the year attributable to owners of the Company	(9,043,058)	(7,421,180)	(123,093)	(1,134,746)

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Earnings per share

(Contd)

WEIGHTED-AVERAGE NUMBER OF ORDINARY SHARES (BASIC)

	2018	2017
	€	€
Issued ordinary shares at 1 January and 31 December	53,744,405	53,744,405
Weighted-average number of ordinary shares at 31 December	53,744,405	53,744,405

Earnings per share of the Group and the Company for the year ended 31 December 2018 amounted to a negative 16c8 (2017: negative earnings per share of 13c8) and negative 0c2 (2017: positive earnings per share of 2c1) respectively.

During 2012, the Group 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 various emphyteutical grant deeds, a lease agreement as well as the operating licence issued by the Malta Freeport Corporation Limited to Medserv Operations Limited (the subsidiary). The award was conditional on the Group 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 emphyteutical 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 and a government grant amounting to €54,762 (2017: €59,142) received in relation to the Group's investment in property, plant and equipment, amortised over the estimated useful life.

22

Loans and borrowings

22.1 /

This note provides information about the contractual terms of the Group's and Company's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 27.

	THE GROUP		THE COMPANY	
	2018	2017	2018	2017
	€	€	€	€
Non-current liabilities				
Secured bank loans	3,975,265	1,221,877	-	-
Secured notes	19,928,216	19,862,674	19,928,216	19,862,674
Unsecured notes	30,124,841	29,707,967	30,124,841	29,707,967
	54,028,322	**50,792,518**	**50,053,057**	**49,570,641**
Current liabilities				
Secured bank loans	2,075,411	1,181,635	-	-
Bank overdrafts	3,209,219	865,083	-	-
	5,284,630	**2,046,718**	**-**	**-**

22.2 / TERMS AND DEBT REPAYMENT SCHEDULE

The terms and conditions of outstanding loans are as follows:

	ORIGINAL CURRENCY	CARRYING AMOUNT	NOMINAL INTEREST RATE	YEAR OF MATURITY
		€		
Bank loan	EUR	826,489	Bank's base rate+3.0%	2021
Bank loan	USD	457,642	LIBOR +3.50%	2019
Bank loan	OMR	749,112	5.50%	2022
Bank loan	EGP	4,017,432	5.00%	2021
Secured notes	EUR	19,928,216	6.00%	2023
Unsecured notes	EUR	22,074,946	4.50%	2026
Unsecured notes	USD	8,049,895	5.75%	2026

22

Loans and borrowings

(Contd)

The bank loans were secured by first and second general hypothec for €2,316,436 over all assets present and future given by Medserv Operations Limited, 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 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 Medserv Operations Limited through its shareholding throughout the duration of the facilities, and a letter of undertaking by the Company whereby it undertakes not to declare dividends or pay shareholders' loans without the bank's written consent. The USD denominated debt are designated as hedging instruments in a net investment hedge (note 27.6).

22.3 /
The carrying amount of the notes is made up as follows:

2018	€
Balance at 1 January 2018	49,570,641
Effect of movement in exchange rate	349,801
Amortisation of transaction costs during the year	132,615
Balance as at 31 December 2018	**50,053,057**

2017	€
Balance at 1 January 2017	50,534,118
Effect of movement in exchange rate	(1,065,785)
Amortisation of transaction costs during the year	102,308
Balance as at 31 December 2017	**49,570,641**

Notes issued in 2016 with a carrying amount as at 31 December 2018 of €30,124,841 (2017: €29,707,967) are unsecured. The other notes are secured by Medserv Operations Limited (a subsidiary – see note 14.3) through a general hypothec and a special hypothec over its emphyteutical rights on the Medserv site at the Malta Freeport at the Port of Marsaxlokk (refer to Note 13.7).

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Loans and borrowings

(Contd)

22.4 /

Furthermore, as at 31 December 2018, the Group enjoyed general overdraft facilities of €3,000,000 at the following terms and conditions:

BANK OVERDRAFT	INTEREST RATE	SECURITY
€2,500,000	5.35%	Second and special hypothec for €7,500,000 on subsidiary company's assets.
€500,000	5.15%	Joint and several guarantees for €1,500,000 by the parent company; and Letter of undertaking by the Company to inform the bank of any default.

At 31 December 2018, the Group had unutilised bank overdraft facilities of €587,560 (2017: €2,134,917).

At 31 December 2018, the Group availed of credit card facilities amounting to approximately €1,935,000 (2017: €nil) for OCTG customs clearance purposes.

23

Provisions

	TOTAL	LEGAL AND CONSTRUCTIVE OBLIGATIONS	OTHER CLAIMS
	€	€	€
Balance at 1 January 2018	(641,118)	(602,039)	(39,079)
Provisions used during the year	61,626	61,626	-
Provisions made during the year	(49,404)	(49,404)	-
Provisions reversed during the year	617,478	617,478	-
Effect of movement in exchange rates	(32,773)	(32,773)	-
Balance at 31 December 2018	**(44,191)**	**(5,112)**	**(39,079)**
Non-current	-	-	-
Current	(44,191)	(5,112)	(39,079)
	(44,191)	**(5,112)**	**(39,079)**

23.1 / LEGAL AND CONSTRUCTIVE OBLIGATIONS

Legal and constructive obligations amounting to €5,112 (2017: €602,039) consist of a minimum increment rate of 2% per annum over its future operating lease payments of the Group's lease in Sohar Free Zone, the Sultanate of Oman. As a result of the curtailment of activities in the Company's subsidiary in the Sohar Free Zone, a provision amounting to €617,478 (2017: €nil) was reversed during the year.

23.2 / OTHER CLAIMS

As a result of the acquisition of METS the Group assumed a liability of €39,079.

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Employee benefits

24.1 /

	2018	2017
	€	€
Liability for severance payments	(786,202)	(677,462)
Liability for retirement gratuities	(32,961)	(31,245)
	(819,163)	**(708,707)**
Non-current	(819,163)	(614,303)
Current	-	(94,404)
	(819.163)	**(708,707)**

24.2 /
The following table shows a reconciliation for the liability for severance payments:

	2018	2017
	€	€
Balance at 1 January	(677,462)	(601,458)
Included in profit or loss:		
Interest cost	(255,465)	(272,805)
Effect of movements in exchange rates	(33,533)	73,156
Benefits paid	180,258	123,645
Balance at 31 December	**(786,202)**	**(677,462)**

24.3 /
The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2018	2017
Discount rate	3.5%	3.5%
Future salary growth	5.0%	5.0%
Expected term	8.79 years	8.84 years

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Employee Benefits

(Contd)

24.4 /
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2018		31 December 2017	
	Increase	Decrease	Increase	Decrease
	€	€	€	€
Discount rate (1% movement)	28,029	(34,256)	44,230	(50,457)
Future salary growth (1% movement)	(86,248)	74,139	(111,360)	109,202
Expected term (1 year)	10,822	(13,639)	17,977	(20,090)

25.1 /

	2018	2017	2018	2017
	€	€	€	€
Trade payables	4,402,335	3,633,213	87,530	79,538
Amounts due to shareholders	61,014	61,314	61,014	61,314
Amounts due to note holders	8,560	59,236	8,560	59,236
Amounts due to subsidiaries	-	-	7,700,010	5,726,310
Amounts due to non-controlling interest	1,960,033	850,003	-	-
Accrued expenses	1,147,156	431,167	154,652	22,833
Other payables	566,295	628,932	-	-

25.2 /
The amounts due to subsidiaries and shareholders are all unsecured, interest free and repayable on demand. Transactions with related parties are set out in note 30 to these financial statements.

25.3 /
The Group's and Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

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Cash and cash equivalents

		THE GROUP		THE COMPANY	
		2018	2017	2018	2017
	Note	€	€	€	€
Cash in hand		161,602	84,090	-	-
Bank balances		5,454,630	3,549,673	15,916	704,909
		5,616,232	**3,633,763**	**15,916**	**704,909**
Bank overdraft used for cash management purposes	22	(3,209,219)	(865,083)	-	-
Cash and cash equivalents		**2,407,013**	**2,768,680**	**15,916**	**704,909**

The Group and Company exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 27.

27.1 / ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

Accounting classifications

The Group 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 Group'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 loans receivable from subsidiaries, cash and cash equivalents and trade and other receivables. The Group's non-derivative financial liabilities comprised secured notes, loans and borrowings, bank overdrafts and trade and other payables. The Company's non-derivative financial liabilities comprised secured notes and trade and other payables.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both 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 Group uses observable market data as far as possible.

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

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 Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

	Carrying amount	Fair value	Carrying amount	Fair value
	€	€	€	€
Financial instruments not measured at fair value				
Secured notes	(19,928,216)	(20,420,000)	(19,862,674)	(21,400,000)
Unsecured notes	(30,124,841)	(30,528,551)	(29,707,966)	(30,664,883)

The Group and 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:

Secured and unsecured notes issued

This category of liabilities is carried at amortised cost. Its fair value has been determined by reference to the market price as at 31 December 2018 and classified as Level 2 in view of the infrequent activity in the market.

Loans and receivables

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

Secured bank loans

The fair values of the Group'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.

27.2 / FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

27.3 / RISK MANAGEMENT FRAMEWORK

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

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

27.4 / CREDIT RISK

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

The carrying amounts of financial assets represent the maximum credit exposure as follows:

	CARRYING AMOUNT			
	2018	2017	2018	2017
	€	€	€	€
Trade and other receivables and contract assets	14,044,151	13,711,969	12,049,301	9,414,847
Receivable from subsidiaries	-	-	49,262,955	48,903,247
Cash at bank	5,454,630	3,549,673	15,916	704,909

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

	2018	2017	2018	2017
	€	€	€	€
Impairment loss on trade and other receivables	(95,751)	-	-	-
Impairment loss on amounts receivable from subsidiaries	-	-	69,454	-
Impairment loss on cash at bank	(26,894)	-	-	-

Trade receivables and contract assets

The Group offers logistical and OCTG 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 Group.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group'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. Details of concentration of revenue are included in note 5.4.

Through the Financial Risk Management Committee, the Group has an internal control system which identifies at an early stage any events of default. Most of the Group's customers have been transacting with the Group 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 Group and existence of previous financial difficulties.

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

As at 31 December 2018, the Group's three (2017: three) most significant customers accounted for €8.06 million (2017: €6.25 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:

	2018	2017
	€	€
Carrying amount		
Domestic	202,025	627,876
Eurozone countries	2,403,176	2,661,044
Libya	6,479,042	5,963,960
Middle East	2,637,202	2,977,246
Other regions	1,170,545	801,792

A summary of the Group'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	5,502,967
Other customers:		
Four or more years' trading history with the Group	11,086,884	6,534,716
Less than four years' trading history with the Group	476,495	1,063,325
Higher risk	880,043	-
Loss allowance	(948,774)	(69,090)

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:

	2017	2017
	€	€
Neither past due nor impaired		
Not past due	2,953,011	-
Past due 0-30 days	1,728,853	-
Past due 31-120 days	4,614,780	-
More than 120 days	2,932,663	-
Impaired		
More than 120 days	8,345	(8,345)

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

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

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

- Loss rates calculated using a 'roll rate' method is based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures by different type of customer

- 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 and externally rated customers.

Loss rates are based on actual credit loss experience over the past 3 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 Group's view of economic conditions over the expected lives of the receivables.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for corporate customers as at 31 December 2018:

	%	€	€	
Current (not past due) and < 30 days past due	0.15	750,585	(1,159)	No
Past due 31 to 60 days	1.59	106,382	(1,689)	No
Past due 61 to 90 days	3.00	118,381	(3,551)	No
Past due > 90 days	3.11	582,669	(18,133)	No

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.

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		%	€	€
Externally Rated				
AAA	0.00%	2,088,786	-	No
BBB	0.12%	2,417,039	(2,891)	No
Internally Rated				
Equivalent to CCC/C	46.09%	879,713	(405,501)	Yes
Equivalent to D	100.00%	237,805	(237,805)	Yes

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 and contract assets 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	866,829	8,345
Balance at 1 January under IFRS 9	875,174	8,345
Net remeasurement of loss allowance	106,015	-

Cash and cash equivalents

As at 31 December 2018, the Group and the Company held cash at bank of €5,454,630 (2017: €3,549,673) and €15,916 (2017: €704,909) respectively. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated BBB+ to AA, based on Standards & Poor's ratings, and B3 to A1 by Moody's.

Impairment on cash at bank has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash at bank has low credit risk based on the external credit ratings of the counterparties.

	2018	2018
	€	€
At amortised cost		
A1	219,891	-
A2	155,348	-
Baa1	3,903,641	-
Ba1	75,438	-
Baa3	1,775	-
B2	405,878	15,916
B3	672,249	-
BBB	47,304	-
Gross carrying amounts	5,481,524	15,916
Loss allowance	(26,894)	-

On initial application of IFRS 9, as at 1 January 2018, the Group and the Company recognised an impairment allowance on cash and cash equivalents of €26,894 and €Nil, respectively.

Amounts due by subsidiaries

During 2018, an impairment loss of €69,454(2017:€537,921) on the amounts owed by subsidiaries was incurred during the year.

Guarantees

At 31 December 2018, the Company has issued a guarantee to certain banks in respect of credit facilities granted to two subsidiaries (see Note 29).

27.5 / LIQUIDITY RISK

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

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

The Group 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 Group 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 Group had an unutilised overdraft facility amounting to €587,560 (2017: €2,134,917), which bears interest at the Bank's Base Rate plus 3 percent.

The following are the remaining 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:

	€	€	€	€	€	€	€
31 December 2018 Financial liabilities							
Secured notes	19,928,216	(26,000,000)	(1,200,000)	(1,199,425)	(23,600,575)	-	-
Unsecured notes	30,124,841	(40,856,634)	(1,448,858)	(1,452,827)	(4,346,573)	(33,608,376)	-
Secured bank loans	6,050,676	(6,508,746)	(2,475,006)	(1,974,086)	(2,059,654)	-	-
Bank overdraft	3,209,219	(3,338,261)	(3,338,261)	-	-	-	-
Lease liabilities	30,508,779	(61,763,650)	(3,739,945)	(3,884,699)	(7,867,344)	(9,573,967)	(36,697,695)
Trade and other payables	8,145,393	(8,145,393)	(8,145,393)	-	-	-	-
31 December 2017 Financial liabilities							
Secured notes	19,862,674	(27,200,000)	(1,200,000)	(1,200,000)	(3,600,000)	(21,200,000)	-
Unsecured notes	29,707,967	(41,789,946)	(1,428,906)	(1,430,111)	(4,290,634)	(34,640,295)	-
Secured bank loans	2,403,512	(2,628,716)	(1,290,932)	(760,926)	(576,858)	-	-
Bank overdraft	865,083	(888,224)	(888,224)	-	-	-	-
Lease liabilities	25,896,480	(57,111,074)	(2,288,180)	(2,037,982)	(6,119,287)	(10,285,705)	(36,379,920)
Trade and other payables	5,663,865	(5,663,865)	(5,663,865)	-	-	-	-

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

27.6 / MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates that will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group 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 respective functional currencies of the Group companies. The functional currencies of Group companies are primarily the Euro (EUR) and US Dollar (USD). The currencies in which these transactions are primarily denominated are Euro (EUR), US Dollar (USD), Libyan Dinar (LYD), Omani Rial (OMR), Egyptian Pounds (EGP), British Pounds (GBP) and United Arab Emirates Dirham (AED).

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

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are the changes in the timing of the hedged transactions.

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

Trade receivables	2,554,871	-	843,390	2,570,483	-	-
Trade payables	(71,834)	-	(241,052)	(1,835,005)	(3,042,570)	42,487
Unsecured notes	(9,212,171)	-	-	-	-	-
Bank loan	(523,446)	-	329,277	-	(82,095,476)	-
Available funds in foreign currency	4,310,573	13,798	207,290	693,529	12,210,199	-

Trade receivables	530,621	-	1,131,614	7,116,239
Trade payables	(369,579)	-	(375,793)	(3,734,272)
Unsecured notes	(9,181,930)	-	-	-
Bank loan	(1,072,075)	-	-	-
Available funds in foreign currency	2,670,658	29,424	178,152	1,513,137

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

	USD
Receivables from subsidiaries	9,288,307
Unsecured notes	(9,212,171)
Available funds in foreign currency	11,326

	USD
Receivables from subsidiaries	9,272,180
Unsecured notes	(9,181,930)
Available funds in foreign currency	838,474

The following significant exchange rates applied during the year:

	2018	2017	2018	2017
USD	1.181	1.130	1.144	1.198
GBP	0.889	0.876	0.899	0.880
LYD	1.571	1.562	1.579	1.617
OMR	0.454	0.434	0.440	0.460
AED	4.337	4.150	4.203	4.399

A 10 percent strengthening of the Euro against the following currencies as at 31 December 2018 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 Group and 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	(229,592)	(978)	486,251	-
LYD	(858)	-	-	-
OMR	-	-	(184,192)	-
AED	-	-	(34,002)	-
EGP	603,930	-	-	-
GBP	(4,770)	-	-	-
31 December 2017				
USD	(103,002)	(76,617)	697,350	(76,617)
LYD	(1,799)	-	-	-
OMR	-	-	(202,974)	-
AED	-	-	(111,284)	-

A 10 percent weakening of the Euro against the above currencies at 31 December 2018 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.

Interest rate risk

Profile

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

	2018	2017	2018	2017
	€	€	€	€
Variable-rate instruments				
Financial assets	5,454,630	3,549,673	15,916	704,909
Financial liabilities	(4,493,350)	(3,268,595)	-	-
Fixed-rate instruments				
Financial assets	-	-	49,262,955	48,903,247
Financial liabilities	(50,053,057)	(49,570,641)	(50,053,057)	(49,570,641)

The Group and the Company do 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 Group's and the Company's equity.

The Group's bank balances and borrowings and the Company's bank balances are subject to an interest rate that varies according to revisions made to the Bank's Base Rate. The Group does not carry out any hedging in order to hedge its interest rate risk exposure.

A change of 100 basis points in interest rates on variable-rate instruments would have increased or decreased the Group's profit or loss and equity by €22,723 (2017: €2,811) and by €159 (2017: €7,049) on the Company's profit or loss and equity. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. The analysis is performed on the same basis for 2017.

Net investment hedges

A foreign currency exposure arises from the Group's net investment in METS that has a USD functional currency. The risk arises from the fluctuation in spot exchange rates between the USD and the Euro, which causes the amount of the net investment to vary.

The hedged risk in the net investment hedge is the risk of a weakening USD against the Euro that will result in a reduction in the carrying amount of the Group's net investment in METS.

Part of the Group's net investment in METS is hedged by a USD denominated secured bank loan (carrying amount: €457,645 (2017: €894,962)) and a USD denominated bond (carrying amount: €8,049,895 (2017: €7,674,291)), which mitigates the foreign currency risk arising from the sub-group's net assets. The loan and the bond are designated as hedging instruments for the changes in the value of the net investment that is attributable to changes in the EUR/USD spot rate.

To assess hedge effectiveness, the Group determines the economic relationship between the hedging instrument and the hedged item by comparing changes in the carrying amount of the debts that is attributable to a change in the spot rate with changes in the investment in the foreign operation due to movements in the spot rate (the offset method). The Group's policy is to hedge the net investment only to the extent of the debt principal.

The amounts related to items designated as hedging instruments were as follows:

	2018	2017
	€	€
Foreign exchange denominated debt		
USD secured bank loan	457,642	894,962
USD denominated notes	8,049,895	7,674,291
Change in fair value used for calculating hedge ineffectiveness	487,867	(1,110,224)
Change in value of hedging instrument recognised in OCI	(487,867)	1,110,224
Hedge ineffectiveness recognised in profit or loss within finance costs	-	-

27.7 / OPERATIONAL RISK

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

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

27.8 / CAPITAL MANAGEMENT

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as cumulative translation adjustments are excluded from capital for the purposes of capital management.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity. The board also monitors 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 Group'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 Group's approach to capital management during the year.

28.1 / AS A LESSEE

The Group leases several parcels of land and buildings in Malta, Cyprus, Iraq, UAE and Oman. The lease terms for these leases run for various periods, up to a maximum remaining period of forty-two and a half years until 2060.

Information about leases for which the Group is a lessee is presented below:

	Note	€	€
Balance at 1 January		75,895,472	24,418,217
Transfer from prepaid operating lease		-	34,123,472
Additions		9,796,875	3,739,249
Depreciation charge for the year		(3,705,107)	(2,292,460)
Revaluation	28.1.1.2	-	16,957,752
Transfer from intangible assets	15.3	-	611,245
Lease modification		(4,586,001)	-
Effect of movement in exchange rates		933,818	(1,662,003)

The Group carried out a fair value exercise as at 31 December 2017 to revalue the property rights over the land that the Group holds. The property rights held by the Group 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 Group 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, it is the professional opinion of the independent valuer that the market value of the above-mentioned right-of-use assets, as at the 31 December 2017, amounts cumulatively to €59,913,561. The revaluation increase of €16,957,752 (gross of tax) recognised in other comprehensive income is thus determined after deducting the carrying amount of the right-of-use asset of €42,955,809 from the aggregate of €59,913,561.

The carrying amount of the other right-of-use assets relating to land are not deemed materially different from their fair value and have thus not been revalued.

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
Market approach: 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 metre ranging from €161 to €1,076.	The estimate fair value would increase/ (decrease) if: price per square metre was higher / (lower)

	€	€
Maturity analysis-contractual undiscounted cash flows		
Less than one year	3,739,945	2,288,180
One to five years	11,752,043	8,157,270
Five years to ten years	9,573,767	10,285,705
More than ten years	36,697,695	36,379,920

Current	1,825,925	841,670
Non-current	28,682,854	25,054,810

	€	€
Interest on lease liabilities	(1,760,802)	(1,507,778)
Variable lease payments not included in the measurement of lease liabilities	(53,040)	(70,418)

	€	€

Some leases contain extension options exercisable by the Group up to one year before the end of the contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable by the Group and not by the lessors. The Group 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 Group were assessed by management and it was concluded that all extension options exercisable by the Group are reasonably certain to be exercised.

29.1 /

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

- Guarantees given to the Group's bankers in favour of third parties amounting to €1,811,876 (2017: €106,099)
- The Company acts as a guarantor to certain banks in respect of credit facilities granted to two subsidiaries up to a limit of €12,270,000.
- First charge over the purchased machinery, equipment, vehicles by a subsidiary in favour of the bank.
- Irrevocable assignment of payments from a customer of a subsidiary in favour of the bank.
- Marginal deposit by way of monthly margin built up of OMR2,700 for 36 months till the balance reaches OMR 97,200;
- Letter of undertaking to route 100% of receivables of a particular customer through the Group's bankers.

29.2 /

The Company has uncalled share capital on its investments in subsidiaries, namely Medserv International Limited, Medserv Italy Limited, Medserv Libya Limited, Medserv Western Mediterranean Limited and Medserv Eastern Mediterranean Limited amounting to €38,781 (2017: €38,781) (see note 14).

30.1 / SIGNIFICANT SHAREHOLDERS

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%) respectively of the issued share capital of the Company either directly or indirectly.

30.2 / IDENTITY OF RELATED PARTIES

The Group has a related party relationship with its directors, shareholders and immediate relatives of a director.

The Company has a related party relationship with its subsidiaries (see note 14), its directors and companies controlled by subsidiaries ("other related parties").

30.3 / TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

There were no loans to directors during the current and comparative year. Compensation for services provided to the Group by key management personnel during the year amounted to €225,000 (2017: €228,500). The total remuneration paid to key management personnel of the Group (including directors' emoluments) during the year amounted to €1,378,511 (2017: €1,049,411).

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.

30.4 / OTHER RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed in the statements of changes in equity and cash flows and note 18 to these financial statements, there were the following related party transactions:

	2018	2017
	€	€
Subsidiaries		
Interest charged to	2,635,193	2,617,493

	2018	2017	2018	2017
	€	€	€	€
Other related parties				
Services provided by	40,567	17,181	-	-

30.5 / RELATED PARTY BALANCES

Information on amounts due from or payable to related parties are set out in notes 14, 18 and 25 to these financial statements.

Medserv International Limited, a subsidiary domiciled and incorporated in Malta, has been awarded a fifteen months contract to provide ILSS services for the nearshore drilling campaign conducted by Suriname's national oil company in the country. This new contract was awarded through a competitive tender process and is effective as from 1 January 2019. Consequently, the subsidiary has opened a branch in Suriname on 14 January 2019.

Independent Auditors' Report

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To the Shareholders
of Medserv p.l.c.

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Independent Auditors' Report

To the Shareholders of Medserv p.l.c.

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medserv p.l.c. (the "Company") and of the Group of which the Company is the parent, which comprise the statements 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 and of the Group as at 31 December 2018, and of their financial performance and their 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") and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU.

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. During the course of our audit, we maintained our independence from the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Assessment of the carrying amount of (a) Goodwill, intangible assets and property plant and equipment related to the Oil Country Tubular Goods ("OCTG") segment (collectively referred to as "METS sub-group") (Group); and (b) loans receivable from subsidiary (Company)

Accounting policy notes 3.3.1, 3.3.2, 3.5.1, 3.6.1, 3.9.1 and 3.9.2 to the financial statements and notes 13, 15, 18 and 27 for further disclosures.

Goodwill (Group: €2,605,760) and intangible assets (Group: €10,556,409) included in 'Intangible assets and goodwill';
Property, plant and equipment in relation to (i) Middle East Tubular Services Limited, and (ii) Middle East Tubular Services (Iraq) Limited ("PPE") (Group: €6,766,667 in aggregate, net of impairment) included in 'Property, plant and equipment'; and
Loans receivable from Medserv M.E Limited (Company: €38,781,158) included in 'Receivables from subsidiaries'.

The Group's assets include goodwill, intangible assets and PPE in relation to OCTG businesses of the Group. Each of those businesses is considered by the Group to be a separate cash generating unit ("CGU" or "CGUs"). Goodwill arising from the acquisition of the METS sub-group has been allocated to a collection of CGUs, the OCTG segment as a whole ("OCTG CGU").

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Independent Auditors’ Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters (continued)

At each reporting date, the Company is required to determine whether there is any indication of impairment on the intangible assets (other than goodwill) and the PPE. In the event that such indicators exist (at the separate CGU level), the Company is required to estimate the recoverable amount of that CGU, without consideration of goodwill. The OCTG CGU, to which the goodwill relates, is separately tested annually for impairment.

The key risk factors identified by the Group for the businesses to which the separate CGUs and the OCTG CGU relate are:

- the global and regional political and economic risks;
- the volatility in oil and steel prices; and
- the concentration risk due to dependency on a few customers.

In estimating the recoverable amount, as per the applicable financial reporting framework, the directors prepare a value-in-use analysis. The key inputs, specific to the Company, comprise future cash flows, growth rates and discount rates. Those inputs are subject to inherent estimation uncertainty and therefore, significant judgement.

At reporting date, the Company had loans receivable from one of its subsidiaries, Medserv M.E. Limited in relation to the loans advanced to that subsidiary for the acquisition of the METS sub-group. For past due loans receivable, the Company assesses whether those receivables are credit impaired. Any credit losses are measured at the present value of all cash shortfalls. In estimating any shortfalls (and therefore any expected credit loss), the Company applied the same value-in-use analysis prepared in estimating the recoverable amount of goodwill as the recoverability of those receivables is supported by the same cash flows and subject to the same risks factors and key assumptions as those underlying the calculation of the recoverable amount of the OCTG CGU.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters (continued)

Our response

We involved our valuation specialist, as appropriate, in performing our procedures. As part of those procedures,

- we compared the Group's 2018 budgets with the actual performance of each separate CGU for the reporting period and made enquiries as to the reasons for any significant variations identified and assessed the reasonableness of the explanations provided, by corroborating these against our knowledge of the Group;

- we assessed the impact of the underlying business risk factors and the assumptions applied in the value-in-use analysis including projected EBITDA margins with reference to our understanding of the Group, historical trends, available industry information, available market data and relevant documentation on contracted and current business pipeline;

- we assessed whether the discount rates applied in the discounted cash flow forecasts were within a reasonable range by reference to comparable market data; and

- we assessed the impact on the impairment assessment of reasonable possible changes in the key assumptions in the value-in-use analysis including discount rate, terminal value growth rate, average annual revenue growth rate and average EBITDA margins used for estimating the recoverable amounts of each separate CGU and the OCTG CGU.

Key observation

Specifically in relation to the estimation of value-in-use of the CGUs, we have engaged in discussions with the directors in respect of significant enhancements to the precision of the control over their review of the key inputs and assumptions underlying that estimate.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters (continued)

Recoverability of deferred tax assets

Accounting policy note 3.16 to the financial statements and note 16 for further disclosures.

'Deferred tax assets' (Group: €9,418,544).

The Group recognised deferred tax assets that, in the main, relate to unutilised tax credits, accumulated tax losses and unabsorbed capital allowances. In accordance with the applicable financial reporting framework, the recognition of those deferred tax assets is permitted only to the extent that it is probable that future taxable profits will be available against which these assets can be used. Such restrictions are more pronounced where the carry forward of tax credits to future profits are time-barred. The recognition of deferred tax assets, therefore, requires significant judgement in estimating future profitability (and the extent of taxable profits) based on profit forecasts drawn up by the directors. Due to estimation uncertainty, the projected relief of tax credits for which the deferred tax assets are recognised, might be materially different from the amount ultimately relieved.

Our response

As part of our audit procedures,

- we compared the Group's 2018 budget with the actual performance for the reporting period and made enquiries as to the reasons for any significant variations identified and assessed the reasonableness of the explanations provided, by corroborating these against our knowledge of the Group;

- we evaluated the assumptions adopted in the preparation of taxable profit forecasts with reference to our understanding of the Group's business, historical trends, available industry information and available market data and relevant documentation on the Group's contracted and current business pipeline; and

- specifically in relation to carry forward tax credits subject to time-barring, we also assessed the impact of reasonable possible changes in the underlying assumptions of the forecasts on the Group's ability to utilise these tax credits before expiry.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Key audit matters (continued)

Recoverability of deferred tax assets (continued)

Key observation

Specifically in relation to the estimation of future taxable profits, we have engaged in discussions with the directors in respect of significant enhancements to the precision of the control over their review of the key inputs and assumptions underlying that estimate.

Other information

The directors are responsible for the other information which comprises:

- the 'Chairman's Statement';
- the 'CEO's Statement';
- the 'Statement on Corporate Social Responsibility';
- the 'Directors' Report';
- the 'Statement by the Directors pursuant to Listing Rule 5.68'; and
- the 'Directors' Statement of Compliance with the Code of Principles of Good
- Corporate Governance',

but does not include the financial statements and our auditors' report thereon.

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

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

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

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, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they 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 and the Group'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 and/or the Group 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.

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

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

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.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- 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 and the Group'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 and the Group'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 and/or the Group to cease to continue as a going concern.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee 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.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

2 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, and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

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.

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

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

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

- we have nothing to report in relation to the statement on going concern.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

3 Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors by the board of directors on 26 October 2001, and subsequently reappointed by the shareholders at the Company's general meetings for each financial year thereafter. Following the listing of the Company's shares on the Malta Stock Exchange, and excluding the initial period during which those shares were listed (that is, financial year ending 31 December 2006), the period of total uninterrupted engagement is twelve years;

- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and

- we have not provided any of the prohibited services as set out in the APA.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c.

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

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Independent Auditors' Report

To the Shareholders of Medserv p.l.c

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta

We are required, pursuant to Listing Rule 5.98, to express an opinion to the shareholders of Medserv p.l.c (the "Company") on specific disclosures in the Annual Report which relate to the directors' corporate governance statement (the "Disclosures") for the year ended 31 December 2018.

Specifically, with respect to the following matters noted in Listing Rule 5.100, we report whether:

(a) we have identified material misstatements with respect to the disclosures referred to in Listing Rule 5.97.4 and Listing Rule 5.97.5. Where any material misstatements are identified, we are required to provide an indication of the nature of such misstatements; and

(b) the other disclosures required by Listing Rule 5.97 have been provided.

Responsibilities of the Directors

Pursuant to Listing Rule 5.97, the directors are responsible for preparing the Disclosures that are free from material misstatement in accordance with the requirements of the Listing Rules.

Auditors' Responsibilities

Our responsibility is to examine the Disclosures and to report thereon in the form of a reasonable assurance conclusion based on our work. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

We apply International Standard on Quality Control 1 and, accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c

Auditors' Responsibilities (continued)

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 are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures, nor on the ability of the Company to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rule 5.97.4 and Listing Rule 5.97.5 is based solely on our knowledge and understanding of the Company and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the Disclosures.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

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Independent Auditors' Report (continued)

To the Shareholders of Medserv p.l.c

Conclusion (continued)

In our opinion:

(a) in light of the knowledge and understanding of the Company and its environment obtained during the course of our audit of the financial statements, we have not identified material misstatements with respect to the following disclosures:

- (i) the information referred to in Listing Rule 5.97.4, included in the directors' Corporate Governance – Statement of Compliance, as this relates to the Company's internal control and risk management systems in relation to the financial reporting process; and

- (ii) the information referred to in Listing Rule 5.97.5, included in the Directors' Report, insofar as it is applicable to the Company;

(b) the other disclosures required by Listing Rule 5.97 have been included in the directors' Statement of Compliance on Corporate Governance, as these apply to the Company.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Noel Mizzi.

KPMG
Registered Auditors

30 April 2019

Notes

Notes

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info@medservenergy.com