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The Board of Directors
Medserv p.l.c.
Malta Freeport,
Port of Marsaxlokk,
Birzebbugia, BBG3011
Malta

11 May 2018

Dear Sirs,

Medserv plc – update to the Financial Analysis Summary (the **"Update FAS")**

In accordance with your instructions, and in line with the requirements of the MFSA Listing Policies, we have compiled the Update FAS set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the Update FAS is that of summarising key financial data appertaining to Medserv plc (the "**Issuer**" or the "**Company**" or the "**Group''**) and Medserv Operations Ltd (the "**Guarantor**" or "**Medops''**) in relation to the €20 million 6% Bonds 2020/23 note programme issued by the Company in 2013.

The data in this Update FAS is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the three years ended 31 December 2015 to 2017 extracted from both the Issuer and the Guarantor's audited statutory financial statements for the three years in question;
(b) The forecast data for the financial year ending 31 December 2018 has been extracted from the forecast financial information provided by the management of the Issuer and the Guarantor;
(c) Our commentary on the results of the Issuer and on its financial position is based on the explanations set out by the Issuer in the audited financial statements and assisted by management of the Issuer and Guarantor; and
(d) The ratios quoted in the Update FAS have been computed by us applying the definitions set out beneath each ratio.

The Update FAS is meant to assist existing and potential investors by summarising the more important financial data of the Issuer and the Guarantor. The Update FAS does not contain all data that is relevant to potential investors and is meant to complement and not replace financial and/or investment advice. The Update FAS does not constitute an endorsement by our firm of the listed bonds that the Issuer has outstanding on the Official List of the Malta Stock Exchange and should not be interpreted as a recommendation to invest in the bonds or otherwise. We shall not accept any liability for any loss or damage arising out of the use of the Update FAS and no representation or warranty is provided in respect of the reliability of the information contained herein. Potential investors are encouraged to seek professional advice before investing in the Issuer's securities.

Yours sincerely,

Vincent E Rizzo
Director

MEDSERV PLC

FINANCIAL ANALYSIS SUMMARY

11 MAY 2018

RIZZO FARRUGIA
YOUR INVESTMENT CONSULTANTS

RIZZO FARRUGIA
YOUR INVESTMENT CONSULTANTS

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*In line with the requirements of the Listing Policies as issued and last updated by the MFSA on 5 March 2013, this report constitutes an update to the Financial Analysis Summary ("**FAS**") that was first published on 7 April 2014 as part of the prospectus in relation to the issue of the 6% €20 million 2020/23 note programme, and which was subsequently updated on 15 May 2015, 18 May 2016 and 5 April 2017, respectively. The purpose of this report is to provide an update on the performance and on the financial position of Medserv plc (the "**Issuer**", "**Medserv**" or the "**Company**") and of Medserv Operations Ltd (the "**Guarantor**" or "**MedOps**").*

1 BUSINESS OVERVIEW UPDATE

1.1 UPDATE ON THE MEDSERV GROUP

2017 was another very challenging year for the Medserv Group (''**Group**''), largely characterised by the underlying dynamics of the oil and gas sector following the collapse in commodity prices in recent years. Volatility and uncertainties continued to impinge on the broader industry which, in turn, resulted in further delays in the execution of projects by the Group that ultimately had a significant impact on the 2017 financial performance of the Group. International Oil Companies ("**IOCs**") sought to renegotiate drilling and related contracts (including those that the Group had in place) in order to alleviate pressure on their cost structures thereby lowering their breakeven points.

The Group made no curtailment of costs during 2017, as it retained and built on resources which the Group expects to require for the upcoming contracts which were delayed or are currently mothballed.

Notwithstanding the above, in 2017, the Group continued to seek expansion and further geographic and service-offering diversification. In Oman, the Group was awarded a supply chain management contract by Sumitomo Corporation ("**Sumitomo**") where, through the Omani company, the Group will be offering Sumitomo a management programme for its order of Oil Country Tubular Goods ("**OCTG**") delivery to Petroleum Development Oman (more information on this contract is in the METS Oman section in 1.2 below).

During the course of 2017, the Group announced that the operational base support services contract with ENI S.p.A. ("**ENI**") in Cyprus was extended by a further two years.

More recently, on 23 January 2018, Medserv revealed that it penetrated into a new market - Egypt. This was done through the award of a three-year contract, effective as from 1 January 2018 and having an option of further extensions, for the provision of integrated logistics support services ("**ILSS**") for the offshore production phase being conducted in the Zohr gas field. The latter is the largest gas find in the Mediterranean Sea to-date. The announcement also further disclosed that the initial value of this new contract amounts to over €10 million.

1.2 KEY DEVELOPMENTS

MALTA BASE

During 2017, the Malta operations continued to experience a slowdown in demand for its services due to delayed projects as well as further deferment of procurement of equipment related to the Bahr Essalam field offshore Libya. Moreover, downward pressure on profit margins persisted, largely reflecting continued efforts by various International Oil Companies ("**IOCs**") to cut costs and streamline the business following the collapse in the price of oil in the second half of 2014.

Cyprus base

On 14 July 2017, Medserv announced that ENI S.p.A. ("**ENI**") extended its contract with the Group related to the provision of operational base support services in Cyprus for another two years. The extension of the contract includes the provision of dedicated facilities and services from the Group's new base in Limassol.

Medserv Cyprus remained in a mothball position for almost the entire year of 2017. In fact, the Limassol base became active only in the latter half of December 2017 to support the drilling of one well, which resulted in a significant find for ENI Cyprus. As a result, Medserv is consolidating its operations in Limassol given the long-term drilling program being put in place by the IOCs licensed to operate in these offshore waters. The base in the port of Larnaca remains in mothball and is only used for storage. This base is expected to remain so until August 2018.

Meanwhile, Medserv Cyprus participated in a tender for the provision of ILSS to a second IOC operating in Cypriot waters that is expected to conduct exploratory activity in 2018. The result of the award of this tender is at an advanced stage of being adjudicated.

Cyprus remains a lucrative location for the Group, given its presence already in the area, its involvement with a number of the IOCs which own rights for drilling in the Cypriot waters and the proximity of the areas in the Cypriot waters to the recent Zohr gas find which can provide the Group with opportunities for further work in the area.

Portugal

Medserv Portugal was also in mothball mode during 2017 as environmental issues persist over the oil exploratory activities. As such, the Group retained its base in Portugal in anticipation of any drilling activity that could take place in the latter part of this year.

Libya

The Group maintained the office in Tripoli active during 2017. The Libyan branch continues to provide support to the Malta base in relation to active and planned projects taking place in the Libyan territory, providing ancillary services to the IOCs through its presence and know-how in the country.

Middle East

The Group's operations in the Middle East are essentially conducted through METS entities which provide OCTG services from the four bases located in Basra (in South Iraq), Sharjah (United Arab Emirates – "**UAE**") and Duqm and Sohar in Oman.

- *Mets Oman*

The operations in Oman continued to be the main driving force behind the METS Group. In fact, during 2017, METS Oman opened the second base in the country – in Duqm which is situated in central-eastern part of the country - mainly in view of the additional business. On 27 February 2017, the Group announced that, through METS Oman, it was awarded a new long-term contract (the largest ever won by the Medserv Group) by Sumitomo for supply chain management of OCTG to Petroleum Development Oman. The latter is a joint-venture between the Government of Oman and Shell. The contract is for an initial period of five years with a five-year extension option and, in comparison with the previous contract that METS had with Sumitomo, includes the provision of new offerings such as inspection and rig ready/rig return services. This is in the port town of Duqm.

Going forward, the Group will evaluate the possibility of consolidating all its operations in Oman within the new base located in Duqm, given the relatively long distance between Duqm and Sohar which, in turn, is located in the northern part of the country. However, if the Group finds that other METS clients require servicing from Sohar, and as long as retaining Sohar remains a positive contributor to the performance of the Group, there could be a case for retaining both sites.

- *METS UAE*

Whilst the volume of work remained largely flat in 2017 when compared to previous years, METS UAE is currently targeting additional long-term business in the region which could generate stable revenues in the years ahead that also offer growth potential.

- *METS IRAQ*

The operations of METS in Iraq continued to be largely shaped by the uncertain socio-political landscape in the country which, in turn, is largely influenced by sectarian issues. However, the Group remains committed to continue operating in this country given the overall significance of Iraq in the oil rich region of the Middle East. Moreover, METS Iraq is the sole VAM® licensed workshop in 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 and GAS FRANCE.

NEW TARGET MARKETS

Following the unsuccessful penetration into Trinidad and Tobago in 2017, the Group decided to shelf its ambition to extend its geographic expansion into the Caribbean and instead increase its focus on regions that could potentially lead to more successful outcomes. Likewise, the Group elected not to pursue the Iranian market further at this stage, given the uncertainties related to the imposition of new sanctions on the country.

The Group turned its focus on the Mediterranean region, being now actively involved in the Egyptian market. Medserv considers the successful penetration into Egypt as a key milestone for the Group's prospects given the significant potential that could be extracted in the future through further additional business in this region.

In addition, Medserv is also actively pursuing growth opportunities in Africa and the UAE, particularly those related with the provision of long-term engineering services to existing and new IOC clients, thereby diversifying its client base even further.

1.3 EXPECTED KEY DEVELOPMENTS IN 2018

In 2018, Medserv is expecting a pick-up in activity, largely reflecting increased drilling and production activity. Works at the Cypriot base in Limassol is anticipated to increase materially, reflecting an uplift in exploratory and drilling activity in surrounding waters as well as the potential award of a contract with a new IOC.

In the OCTG segment, Medserv is expecting METS Oman to continue leading its operations in the Middle East. This may be further supported through the potential conclusion of an agreement with a new IOC. Moreover, METS UAE is now expected to start generating positive cash earnings to the Group's financial results on the back of a busier working environment.

As the Group continues to seek ways of strategically diversifying its geographic markets and client base, it is positioning itself for growth in various new significant oil and gas markets. Projects in new territories arise primarily from organic growth and are scheduled to come online towards the end of 2018. Furthermore, the Group reported that it is awaiting adjudication of a tender for the provision of machine shop services in Uganda by third quarter this year, which would be a long-term contract with consistent and dependable revenues. Further tendering opportunities are being presented within its core integrated logistics and OCTG segments.

1.4 Key Clients and Contracts

The Group identifies ENI and Sumitomo as its two major key clients. In the case of ENI, this relationship extends for over 40 years and involves a number of independently operated entities forming part of this group. Notwithstanding this, the Group has been gaining recognition internationally with other blue-chip IOCs and sub-contractors, and these are now contracting the Group companies for various drilling and exploratory projects. Significantly so, following the acquisition of METS and the large contract awarded to METS Oman in February 2017, the Group is also classifying Sumitomo as a key client relationship.

1.5 Directors and Key Employees

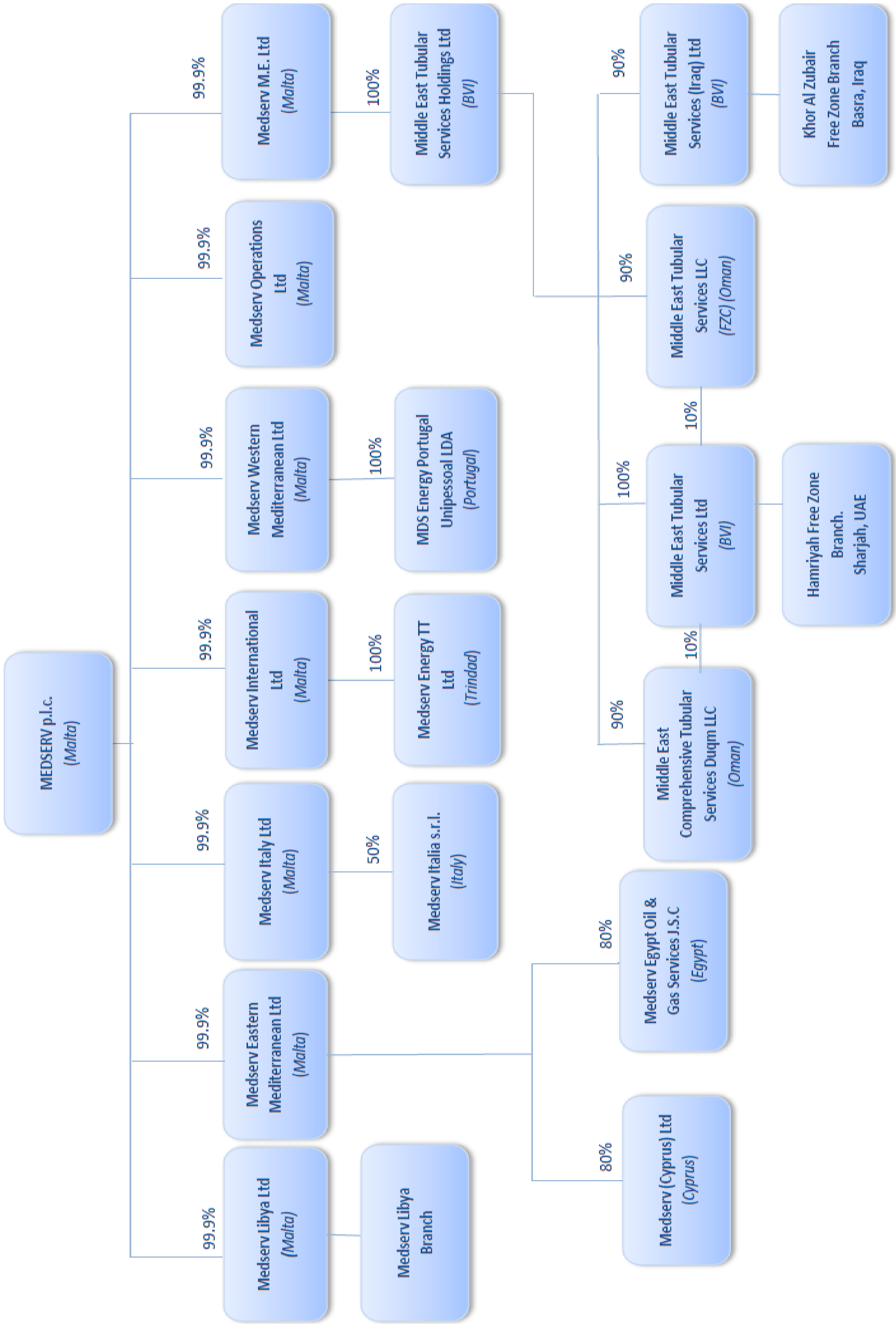
Board of Directors	Role
Mr Anthony S Diacono	Chairman & Executive Director
Mr Anthony J Duncan	Executive Director
Dr Laragh Cassar	Non-Executive Director
Mr Joseph F X Zahra	Chairman of Audit Committee & Non-Executive Director
Mr Joseph Zammit Tabona	Chairman of Remuneration Committee & Non-Executive Director
Mr Godwin A Borg	Executive Director
Dr Laragh Cassar	Non-Executive Director & Company Secretary *(appointed as director on 1 January 2017)*

Executive Management	Role
Mr Karl Bartolo	Group Chief Executive Officer *(appointed as CEO on 30 April 2018)*
Mr Neil Jamieson Patterson	Group Strategic Development Officer
Mr Wayne Wrigley	Group Quality, Health Safety & Environment Officer
Mr Silvio Camilleri	Group Chief Financial Officer *(appointed as CFO on 30 April 2018)*
Mr Nicholas Schembri	Group HR Officer
Mr Edward Farrugia	Group Information Officer
Mr Christopher Clark	Regional General Manager, Cyprus and Portugal *(as from 1 January 2018)*
Mr Godfrey Attard	Managing Director, Egypt *(as from 1 January 2018)*
Mr Gareth McMurray	Regional General Manager, Middle East

1.6 Group Structure

The Medserv Group is currently composed of the Issuer which is the holding company of several subsidiary companies as shown in the organigram overleaf.

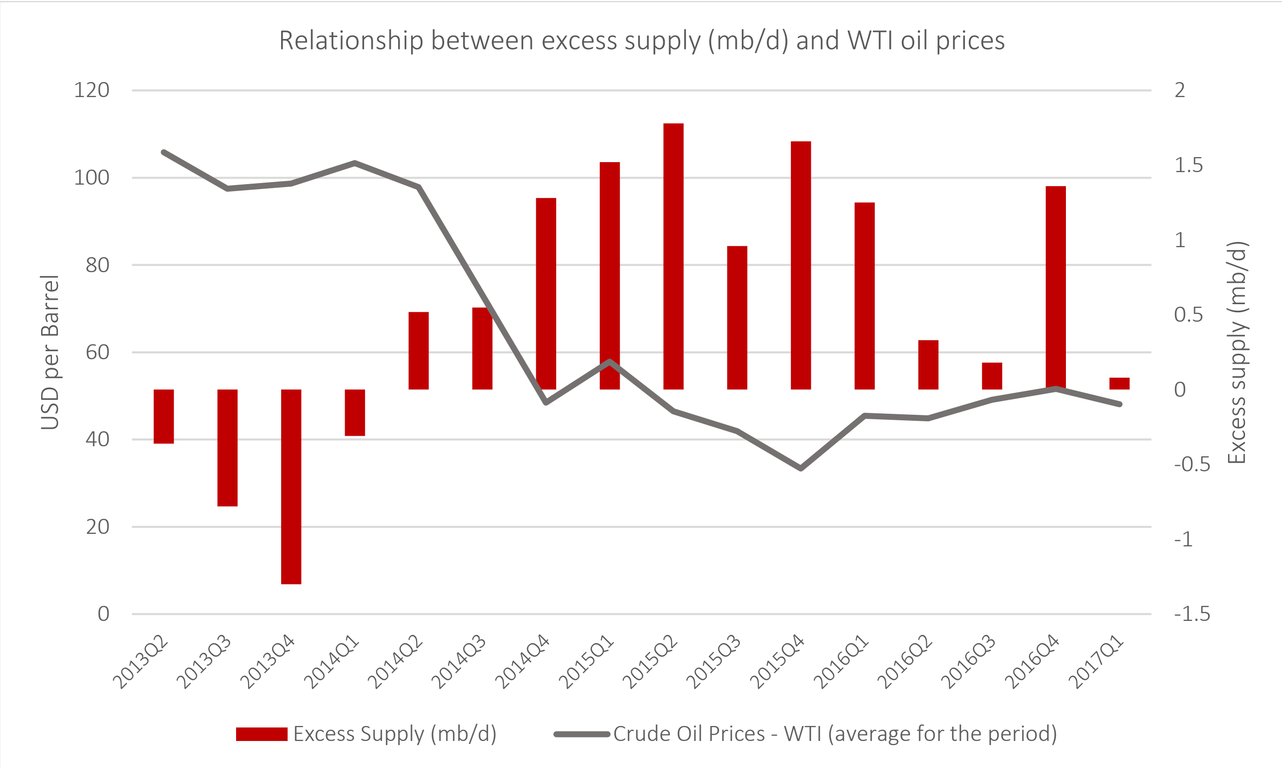
The Group is continuously working to cross-sell its services and uses its expertise across the Group's various geographical locations. During 2017, the Group setup a new subsidiary – Middle East Comprehensive Tubular Service Duqm LLC in Oman - which will be the company that will service the Sumitomo contract and which will be used to facilitate the supply chain management service offering of the Group.


MEDSERV p.l.c. (Malta)
99.9%
Medserv M.E. Ltd (Malta)
100%
Middle East Tubular Services Holdings Ltd (BVI)
90%
Middle East Tubular Services (Iraq) Ltd (BVI)
Khor Al Zubair Free Zone Branch Basra, Iraq
90%
Middle East Tubular Services LLC (FZC) (Oman)
10%
100%
Middle East Tubular Services Ltd (BVI)
Hamriyah Free Zone Branch. Sharjah, UAE
10%
90%
Middle East Comprehensive Tubular Services Duqm LLC (Oman)
99.9%
Medserv Operations Ltd (Malta)
99.9%
Medserv Western Mediterranean Ltd (Malta)
100%
MDS Energy Portugal Unipessoal LDA (Portugal)
99.9%
Medserv International Ltd (Malta)
100%
Medserv Energy TT Ltd (Trindad)
99.9%
Medserv Italy Ltd (Malta)
50%
Medserv Italia s.r.l. (Italy)
99.9%
Medserv Eastern Mediterranean Ltd (Malta)
80%
Medserv Egypt Oil & Gas Services J.S.C (Egypt)
80%
Medserv (Cyprus) Ltd (Cyprus)
99.9%
Medserv Libya Ltd (Malta)
Medserv Libya Branch

1.7 THE OIL INDUSTRY

The global oil and gas industry has undergone significant changes in the past few years, mainly driven by a period of rebalancing in inventories. This, combined with the complex and changing political situation in the Middle East, makes the oil and gas sector an extremely challenging business for every company that is dependent on it.

The collapse in the price of oil in the second half of 2014, triggered by the US shale revolution, the acceleration of non-OPEC supply, and OPEC's determination not to concede market share, set in motion a gradual adjustment process in both supply and demand that gathered pace through 2015 and the first half of 2016. In fact, the price of oil briefly dropped to a thirteen year-low to USD26 in February 2016 before starting to recover. In the meantime, various oil and gas companies were forced to sharply reduce investment in exploration and production. As a result, several operators rolled-out deep cost-cutting measures and also pursued consolidation.



Source: OECD/IEA

In late 2016, OPEC member countries agreed on production adjustments for an initial period of six months, beginning 1 January 2017. This was immediately followed by the decision from eleven non-OPEC producing nations to also reduce oil production. Together, these countries colluded to rebalance the oil supply glut and stabilise the market. This agreement between OPEC and non-OPEC countries is still in place today and is expected to last until the end of this year, albeit further extensions are also possible.

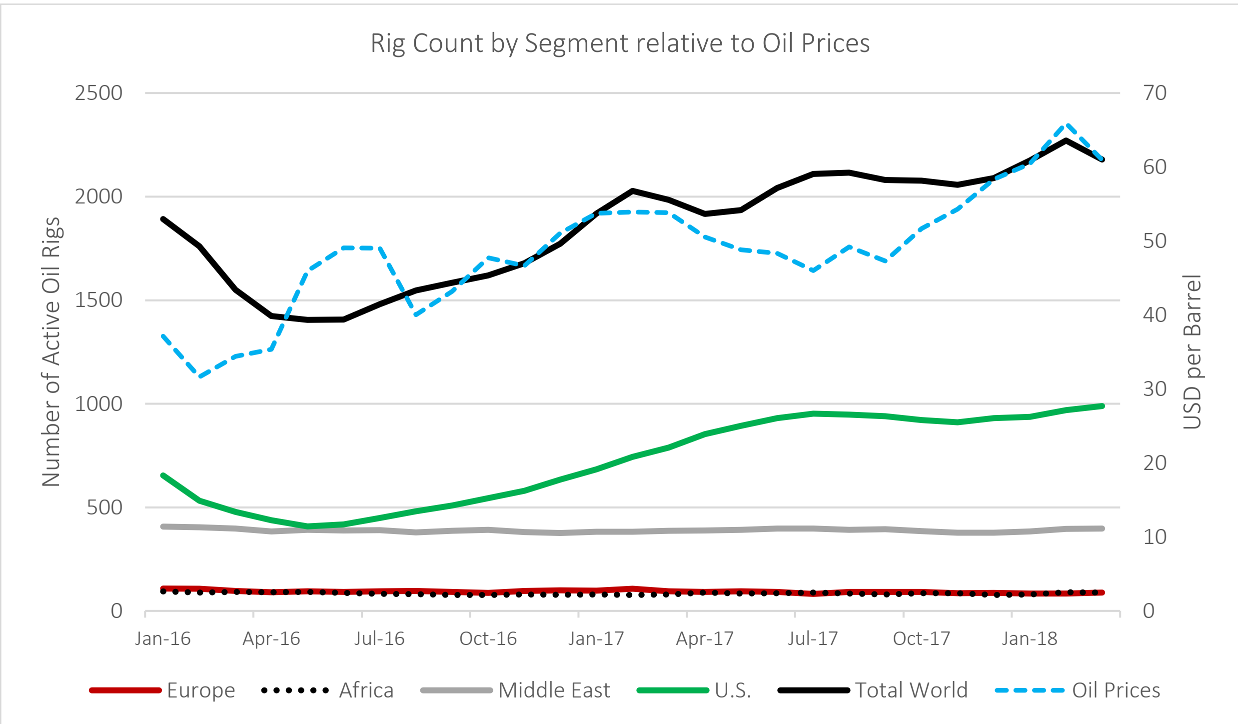
In addition to curbs in supply, the recovery in the price of oil was further boosted by increased demand. This was partly price-induced, coupled with the improving and more positive dynamics of the world economy in general. Indeed, the price of oil has more than doubled since the multi-year low touched in early 2016 and is now ranging between the USD60 and the USD70 level. Moreover, geopolitical uneasiness in the Middle East, and between the West and Russia, remains a recurring theme that provides a certain level of support to the price of oil.

Notwithstanding the above, the oil and gas sector remains highly volatile, largely reflecting the high level of uncertainties related to the industry in general. In fact, although OPEC is expecting demand for oil to grow in the near term (largely reflecting increased demand from emerging and/or developing countries/regions such as Latin America, the Middle East, Africa, India and China), further challenges lie ahead as the rate of growth in demand for oil is expected to slow in the future due to increased attention to policies promoting clean and renewable sources of energy in particular across OECD countries. In fact, OPEC is anticipating demand for oil from OECD countries to drop by nearly 20% from current levels by 2040. The chart below provides the projected long-term oil demand by region in this respect.

Year	2016	2020	2025	2030	2035	2040	Growth 2016 - 2040	% Growth 2016 - 2040
OECD	46.8	47.5	45.5	43	40.5	37.9	-8.9	-19%
Developing Countries	43.2	47.5	52.8	58.2	63	67	23.8	55%
Eurasia	5.3	5.7	6	6.2	6.3	6.2	0.9	17%
World	95.3	100.7	104.3	107.4	109.8	111.1	15.8	17%

Source: World Oil Outlook 2017, OPEC

Furthermore, the oil and gas sector is also highly impacted by activity that takes place in the US. In this respect, the Baker Hughes rig count – which is an important benchmark for the oil industry and also a leading indicator of demand for oil products – shows that after a period of declining number of oil rigs, these have now started to increase in line with the most recent rebound in the price of oil. This trend is also being reproduced in the chart below which compares the total rig count in the world to that in the US, Europe, Africa and the Middle East, relative also to the price of oil.



Source: Baker Hughes

Overall, the total number of active oil rigs in the world today now amounts to approximately 2,200. This represents more than a 50% increase from two years ago, largely reflecting increased activity in the US whilst the total number of rig counts in Europe, Africa and the Middle East remained broadly stable.

Looking ahead, the outlook for the oil and gas industry remains highly challenging as geopolitical and environmental issues, macroeconomic trends, and industry-related developments are likely to keep volatility in the sector at elevated levels in the years ahead.

Related Links and Sources:

https://www.investing.com/news/commodities-news/iea-says-mission-accomplished-for-opec-as-oil-stocks-shrink-1393267

https://invst.ly/75-f1

https://www.bloomberg.com/news/videos/2018-04-16/will-geopolitical-risks-impact-the-price-of-oil-video

https://www.bloomberg.com/news/videos/2018-04-16/morgan-stanley-says-oil-price-needs-to-rise-to-spur-investment-video

https://www.bloomberg.com/news/articles/2018-04-16/kuwait-sees-opec-allies-mulling-longer-oil-cuts-at-june-meeting

https://www.bloomberg.com/news/articles/2018-04-16/oil-halts-gain-near-67-as-u-s-rig-rise-counters-mideast-clash

https://www.tableau.com/solutions/gallery/worldwide-oil-rigs

https://www.reuters.com/article/us-iea-oil/surge-in-global-oil-supply-may-overtake-demand-in-2018-iea-idUSKBN1FX0VQ

PREAMBLE TO THE FINANCIAL ANALYSIS SECTIONS

In preparation of the financial statements for the year ended 31 December 2017, the directors resolved to adopt new accounting standards – IFRS 15 *Revenue from contracts with customers* and IFRS 16 *Leases* – across the Group's operating companies as of 1 January 2017, including the Issuer and the Guarantor. Such adoption resulted in a number of changes in the income statements and the statements of financial position of the two companies, as will be seen in the statements and as summarised hereunder.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes the principles which an entity may, for the time being, apply in reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Its core principle is as follows: an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the previous accounting standards, the Group had consistently recognised revenue for services provided depending on the stage of completion of a contract, assessed by reference to surveys of works performed for each contract. As a result, there was no impact on the income statement as a result of the early adoption. In the balance sheet, the new standard requires contract assets and contract costs to be shown separately from trade and other receivables. Contract assets represents the Company's rights to consideration for work completed but not billed by the reporting date on 31 December 2017. The contract assets are transferred to trade receivables when the rights to payment by the billing entity become unconditional. Contract costs represents the incremental costs of obtaining a contract with a customer and are amortised on a systematic basis consistent with the transfer to the customer of the goods or services to which the contract relates.

The Group's contract costs as at 31 December 2017 represent the carrying amount of a signing bonus amounting to €1,272,319 (originally €1,590,401) granted to a key management personnel of METS during 2016 subject to vesting period. This signing bonus started being amortised over a period of five years, from the date of commencement of the contract on 1 January 2017. This signing bonus was classified in 2016 to contract assets and included in trade and other receivables. Upon the early adoption of IFRS 15, this signing bonus was reclassified to contract costs and is being presented separately in the statement of financial position. No adjustment was deemed necessary on the liabilities side of the balance sheet.

IFRS 16 - Leases

IFRS 16 relates to the recognition of leases on the balance sheet. Under the previous accounting standard (IAS 17), the Company was required to split the leases into operating or finance lease based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. In substance, under a finance lease, the lessee is in control of the asset and therefore finance leases are recognised as assets and liabilities in the lessee's statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The value of such asset and liability would then be reduced through elements of interest payments and depreciation, thus impacting both operating income and finance costs. On the other hand, lease payments under an operating lease were recognised as an expense in the income statement on a straight-line basis over the lease term under IAS 17. All the Group's leases were classified as operating leases under IAS 17 in the comparative periods and were therefore recognised in profit or loss as an operating expense on a straight-line basis over the term of the lease.

On transition to IFRS 16, the Group recognized an additional €24,418,217 of right-of-use assets and €24,418,217 of lease liabilities on 1 January 2017. The prepaid operating lease recognised in prior years as a government grant consisting of the emphyteutical grant over industrial property forming part of the Malta Freeport at the Port of Marsaxlokk was reclassified to the right-of-use assets category. The Group also carried out a fair value exercise as at 31 December 2017 to revalue the property rights over the land that the Group holds under the separate lease agreements in Malta. The market value of these right-of-use assets as at the 31 December 2017 was valued cumulatively at €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 right-of-use assets are depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of–use assets are determined on the same basis as those of property. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments and the impact of lease modifications.

2 ISSUER PERFORMANCE & FINANCIAL POSITION OVERVIEW

This section provides an analysis of the FY2017 figures in relation to the previous two years. The historic information is in the main sourced from published annual reports as issued by Medserv plc, supported by additional information sourced from management. The projections for the current financial year ending 31 December 2018 have been prepared by management.

Unless otherwise stated, all amounts in the tables below are in thousands of euro (€'000) and have also been subject to rounding.

2.1 INCOME STATEMENT

	ACTUAL	ACTUAL	ACTUAL	FORECAST
for the year ended 31 December	2015	2016	2017	FY2018
	€'000	*€'000*	*€'000*	*€'000*
Revenue	42,722	32,822	28,777	36,667
Cost of Sales	(27,232)	(22,902)	(19,495)	(25,133)
Gross Profit	**15,490**	**9,921**	**9,282**	**11,534**
Other income	39	573	817	897
Administrative expenses	(5,247)	(4,966)	(5,611)	(5,618)
Other expenses	(111)	-	(159)	-
EBITDA	**10,171**	**5,528**	**4,329**	**6,813**
Depreciation	(2,650)	(3,468)	(5,646)	(6,104)
Amortisation	-	(2,051)	(2,779)	(2,116)
Results from operating activities	**7,521**	**9**	**(4,096)**	**(1,407)**
Finance income	3	384	478	-
Finance costs	(1,508)	(2,848)	(4,419)	(4,264)
Net finance costs	*(1,504)*	*(2,463)*	*(3,941)*	*(4,264)*
Profit before tax	**6,016**	**(2,454)**	**(8,037)**	**(5,671)**
Tax income / (expense)	(1,306)	5,431	403	36
Profit (Loss) from continuing operations	**4,710**	**2,977**	**(7,634)**	**(5,635)**
Loss from Discontinued Operations	(219)	-	-	-
Profit (Loss) for the period	**4,492**	**2,977**	**(7,634)**	**(5,635)**

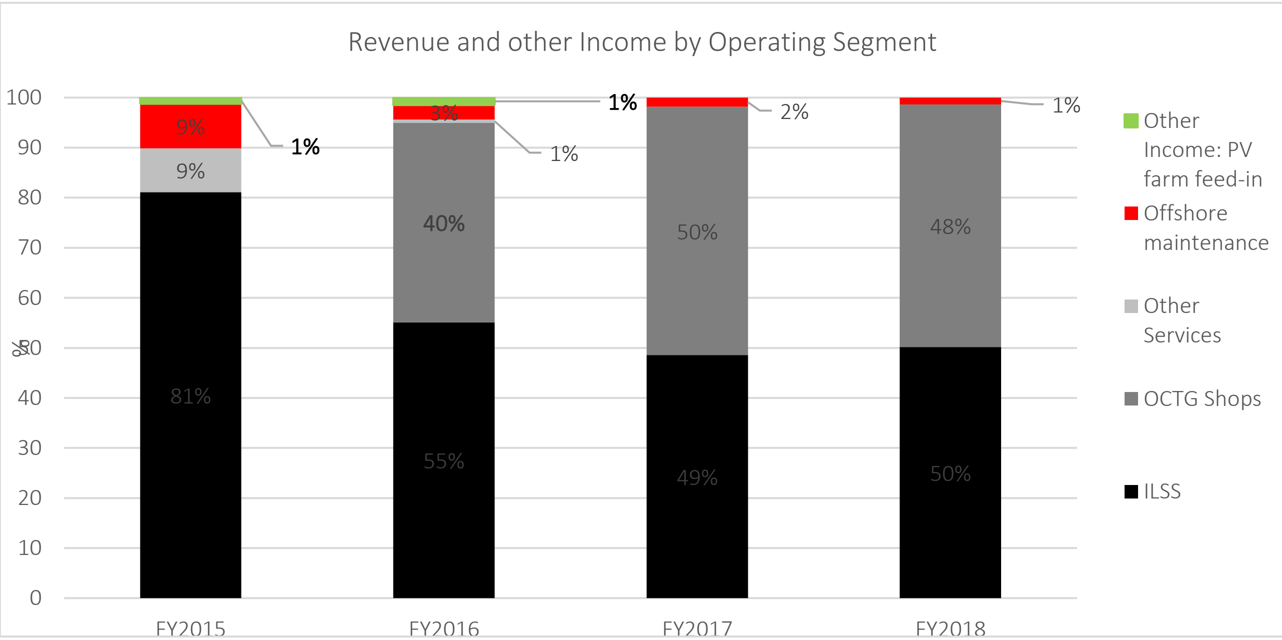
FY 2017 REVIEW

The results for the financial year ending 31 December 2017 were hampered by the deferrals of projects which affected the contracted works that Medserv had with IOCs. 2017 was a year where IOCs focused more on their cost efficiencies through various adjustments of their business models. As a result, the Group experienced a slowdown in the demand for its services and faced pressure on its profit margins from such IOCs. However, despite this downturn in the oil and gas industry, the Group managed a positive EBITDA of €4.3 million consisting of revenues of €28.8 million (a decline of 12.3% from FY2016) supported by cost of sales of €19.5 million.

The Group's main revenue is divided into three main segments – integrated logistics support services ("ILSS"), supply chain management and threading of OCTG and income from the PV farm. In terms of geographical location, the Middle Eastern subsidiaries of the Group generated nearly half of the revenues of FY2017. METS Oman was awarded a 5+5 year contract by Sumitomo for the supply chain management of OCTG to Petroleum Development Oman (PDO) (a joint venture between the Omani Government and Shell). METS UAE experienced lower machinery works as the price of steel went down, making it less viable for a client to repair the pipes. Nonetheless, it managed to breakeven, despite the charge of all head office costs of the METS operations.

Despite the slowdown encountered, the Group did not curtail its investment in its business development team – conversely it continued to invest in additional manpower with the objective of participating in new tenders as opportunities present themselves. As such, the level of administrative expenses (excluding the depreciation charge) increased during FY2017 from €4.97 million to €5.6 million.

In FY2017, Medserv opted to go for an early adoption of the new accounting standards – IFRS 16 *Leases* – and IFRS 15 *Revenue from contracts with customers*. The impact of IFRS 15 on performance was none since the Group was already accounting for revenue from contracts according to the stage of completion. Meanwhile, the impact of IFRS 16 was significant as the Group recognised on its balance sheet those leases which were previously classified as operating leases (until FY2016 operating leases were recognised in profit or loss on a straight-line basis over the term of the lease in line with IAS 17) and resulted in an increased depreciation charge for the year of €2.3 million (+63% compared to FY2016) – *more information on the implications and impacts of IFRS 16 are found in the Preamble to the Financial Analysis Sections of this FAS*.



In FY2017, the Group accounted for an amortisation charge of €2.8 million, consisting of €1.7 million amortisation of intangible assets (consisting mainly of the acquired customer relationship upon acquisition of the METS group) and €1.1 million in relation to the amortisation of the signing bonus granted to key management personnel as a result of the acquisition of METS).

Finance costs in FY2017 include a finance charge of €1.5 million (non-cash item) arising from the amortisation of the lease liabilities under IFRS 16. This has largely attributed to the increase in finance costs during the year.

The Group ended FY2017 with a loss before tax of €8 million, of which €8.4 million pertain to depreciation and amortisation charges.

FORECASTS FY2018

Management has prepared and approved the forecasts for FY2018 after carefully considering the current industry environment, the level and volatility of oil prices as well as the feedback being provided by clients in so far as project timings and the current state of the industry are concerned. Furthermore, the forecasts do not assume any capex otherwise necessary should the Company be awarded new contracts.

The Group forecasts revenue growth for FY2018 of 27.4% over that registered in FY2017 despite the current economic conditions in the industry. The main growth drivers are the supply chain management services being offered through METS Oman, the contract awarded in Egypt and the resumption of activities in Cyprus (which was active for the first three months of 2018).

In FY2018, the ILSS segment is forecasted to generate revenue amounting to €18.4 million in year (FY2017: €14 million). The increase in this operating segment is attributable to the additional income generated from the activity in Cyprus and the income from the Egyptian contract which was announced earlier this year. The Malta base is expected to generate the same level of revenue as that for FY2017, while Portugal is assumed to remain in mothball during FY2018, contributing income relating to the resources applied to the base, including storage and personnel.

Revenue from the OCTG operating segment is expected to reach €17.8 million (FY2017: €14.3 million), primarily through the significant contribution from the supply chain management contract of METS Oman.

Administrative expenses are forecasted at the same level as those incurred during FY2017. EBITDA for FY2018 is expected to be 57% higher than that of FY2017, at €6.8 million. The depreciation charge is forecasted to increase to €6.1 million in view of the depreciation charge expected on the new additions of plant and equipment, while amortisation comes in lower at €2.1 million, reflecting the extinguishing of one of the signing bonuses which was fully amortised by February 2018. These non-cash charges to the Company's income statement will result in an operating loss of €1.4 million. Following net finance costs of €4.3 million, the Company's loss before tax for FY2018 is expected to be €5.7 million.

2.2 Statement of Cash Flows

for the year ended 31 December	ACTUAL 2015 €'000	ACTUAL 2016 €'000	ACTUAL 2017 €'000	FORECAST 2018 €'000
Net cash from operating activities	8,825	7,349	4,525	14,320
Net cash used for investing activities	(6,306)	(37,540)	(2,464)	(5,630)
Net cash (used for) / from financing activities	(1,316)	38,346	(5,031)	(2,196)
Net movements in cash and cash equivalents	**1,203**	**8,155**	**(2,970)**	**6,494**
Cash and cash equivalents at beginning of the year	(2,688)	(1,652)	6,218	2,769
Effects of exchange rate fluctuations on cash held	-	(286)	(479)	(198)
Cash and cash equivalents at end of year	**(1,652)**	**6,218**	**2,769**	**9,065**

FY 2017 Review

In FY2017, the cash generated from the Group's operations amounted to €4.5 million, a decline of 38.4% as revenue was noticeably lower than that of FY2016 which affected also changes in working capital adjustments.

The outflow of cash used for investing activities represents the acquisition of PPE during FY2017 of €2.6 million, against an inflow from disposal of PPE of €0.14 million.

The cash outflow for financing activities includes interest paid on notes of €2.7 million, repayment of existing bank loans including interest thereon of €1.3 million and principal repayments on all lease liabilities of €2.1 million, against a new loan to finance the acquisition of PPE during 2017.

Forecasts FY2018

In FY2018, the Group is expected to close in a stronger cash position. The Group's operations are expected to generate a net cash inflow from operations of €14.3 million by the end of FY2018. Additional equipment in preparation for the contract in Egypt will necessitate a cash outflow classified under investing activities. This is expected to leave the Group with a cash balance of €9.1 million by the end of the year which cash could come in useful if and when the Group lands new contracts that would require initial capex for setup purposes.

2.3 STATEMENT OF FINANCIAL POSITION

as at 31 December	ACTUAL 2015 *€'000*	ACTUAL 2016 *€'000*	ACTUAL 2017 *€'000*	FORECAST 2018 *€'000*
ASSETS				
Goodwill and intangible assets	-	17,180	14,500	13,027
Property, plant and equipment	24,048	34,255	31,883	33,665
Trade and other receivables	-	1,272	483	371
Contract costs	-	-	954	636
Right-of-use assets	-	-	75,896	74,050
Prepaid operating lease	34,123	33,348	-	-
Deferred tax assets	3,504	8,837	9,266	9,382
Total non-current assets	**61,675**	**94,892**	**132,982**	**131,131**
Inventories	-	1,266	1,248	563
Prepaid operating lease	776	776	-	-
Current tax asset	-	2	3	-
Derivative financial asset	1,176	-	-	-
Contract costs	-	-	378	318
Contract assets	-	-	803	-
Trade and other receivables	16,477	18,300	14,226	9,703
Cash at bank and in hand	1,037	6,218	3,634	9,065
Total current assets	**19,466**	**26,561**	**20,292**	**19,649**
Total assets	**81,141**	**121,453**	**153,274**	**150,780**
LIABILITIES				
Deferred income	34,123	33,348	32,632	31,796
Loans and borrowings (unlisted)	2,661	1,522	1,222	4,795
Bond (listed)	19,743	50,534	49,571	49,571
Lease liabilities	-	-	25,055	24,643
Deferred tax liabilities	161	61	6,017	5,943
Provisions & employee benefits	31	1,219	1,214	652
Total non-current liabilities	**56,720**	**86,684**	**115,711**	**117,400**
Current tax payable	287	63	1	-
Deferred income	776	839	776	776
Lease Liabilities	-	-	842	720
Loans and borrowings (unlisted)	3,788	1,112	2,047	440
Current portion of bond (listed)	-	-	-	-
Trade and other payables, provisions & employee benefits	8,448	6,347	5,798	5,600
Total current liabilities	**13,299**	**8,361**	**9,464**	**7,536**
Total liabilities	**70,019**	**95,045**	**125,175**	**124,936**
EQUITY				
Share capital	4,500	5,374	5,374	5,374
Share premium	-	12,004	12,004	12,004
Reserves	5,296	403	9,721	8,294
Retained earnings	1,315	8,573	1,152	124
Total equity attributable to equity-holders of the Company	**11,110**	**26,354**	**28,251**	**25,796**
Non-controlling interest	12	54	(152)	48
Total equity	**11,122**	**26,408**	**28,099**	**25,844**
Total equity and liabilities	**81,141**	**121,453**	**153,274**	**150,780**

FY 2017 Review

Over the three financial years presented in this FAS, the Group's asset base increased from €81.1 million to €153.3 million. In FY2016 the increase to €121.5 million was the result of the integration of the asset-base of METS following the acquisition of the Middle-Eastern group during the year. In FY2017, the increase to €153.3 million (a further increase of 26%) was, in the main, a reflection of the recognition of the fair value of the land leases on balance sheet.

The increase in the asset base was complemented with the creation of a revaluation reserve (net of €11 million after accounting for the deferred tax liabilities arising on the revaluation of the right-of-use assets); as well as the recognition of the lease liabilities in terms of IFRS 16.

On the funding side, the Group's borrowings were principally composed of listed bonds - a bond programme of €20 million issued over two tranches between 2013 and 2014, and another bond issued in 2016 amounting to €30 million. Net of cash, the net debt of the Group increased from €46.95 million in FY2016 to €49.2 million by the end of FY2017 as the cash balances of the Group were significantly lower to lower the amount of net debt for the year.

BORROWINGS	ACTUAL	ACTUAL	ACTUAL
for the year ended 31 December	**2015**	**2016**	**2017**
	€'000	*€'000*	*€'000*
Loans and borrowings (non-current)	2,661	1,522	1,222
Bond (listed)	19,743	50,534	49,571
Loans and borrowings (current)	3,788	1,112	2,047
Total Borrowings	**26,193**	**53,168**	**52,840**
Cash at bank and in hand	1,037	6,218	3,634
Net Debt	**25,156**	**46,950**	**49,206**

Forecasts FY2018

In FY2018, the balance sheet is expected to remain at the same levels of FY2017 except for cash at bank where it is expected to be in the region of €9.1 million, as opposed to €3.6 million in FY2017, which largely represents the conversion of trade receivables into cash.

2.4 Ratio Analysis

The following set of ratios have been computed by Rizzo Farrugia & Co (Stockbrokers) Ltd using the figures extracted from annual reports and management information.

Profitability Ratios

The below is a set of ratios prepared to assist in measuring a company's ability to generate profitable sales from its assets.

for the year ended 31 December	ACTUAL 2015	ACTUAL 2016	ACTUAL 2017	FORECAST 2018
Gross Profit margin *(Gross Profit / Revenue)*	36.26%	30.23%	32.25%	31.46%
EBITDA margin *(EBITDA / Revenue)*	23.81%	16.84%	15.04%	18.58%
Operating Profit margin *(Operating Profit / Revenue)*	17.60%	0.03%	n/a	n/a
Net Profit margin *(Profit for the period / Revenue)*	10.51%	9.07%	n/a	n/a
Return on Equity *(Profit attributable to owners of the Company / Average Equity attributable to owners of the Company)*	39.99%	16.73%	n/a	n/a
Return on Capital Employed *(Profit for the period / Average Capital Employed)*	12.34%	5.09%	n/a	n/a
Return on Assets *(Profit for the period / Average Assets)*	5.55%	2.94%	n/a	n/a

In view of the losses that the Group registered during FY2017 and those expected during FY2018, certain ratios are not applicable because of their negative return.

Liquidity Ratios

The below is a set of ratios prepared to assist in measuring a Company's ability to meet its short-term obligations.

	ACTUAL	ACTUAL	ACTUAL	FORECAST
for the year ended 31 December	2015	2016	2017	2018
Current Ratio *(Current Assets / Current Liabilities)*	1.46x	3.18x	2.14x	2.61x
Cash Ratio *(Cash & cash equivalents / Current Liabilities)*	0.08x	0.74x	0.38x	1.20x

The decrease in the Group's current assets, coupled with an increase in current liabilities resulted in a current ratio of 2.14 times compared to the Group's short-term liquidity position as at 31 December 2016, which at the time was 3.18 times.

Similarly, as the Group's cash balances were significantly lower at the end of FY2017, the Group's cash ratio came in lower at 0.38 times compared to the 0.74 times by the end of FY2016.

In FY2018, both liquidity ratios are expected to improve over those reported for FY2017, with a current ratio of 2.61 times and a cash ratio of 1.20 times.

SOLVENCY RATIOS

The below is a set of ratios prepared to assist in measuring a Company's ability to meet its debt obligations.

for the year ended 31 December	ACTUAL 2015	ACTUAL 2016	ACTUAL 2017	FORECAST 2018
Interest Coverage ratio *(EBITDA / Net finance costs)*	6.76x	2.24x	1.10x	1.60x
Gearing Ratio (1) *(Net debt / Total Equity)*	2.26x	1.78x	1.75x	1.75x
Gearing Ratio (2) *[Total debt / (Total Debt plus Total Equity)]*	70.19%	66.81%	65.28%	65.28%
Net Debt to EBIDTA *(Net Debt / EBIDTA)*	2.47x	8.49x	11.37x	7.22x

The decrease in revenue, resulting in lower EBITDA during FY2017 has resulted in a weaker interest coverage ratio from 2.24 times in FY2016 to 1.10 times in FY2017. The weaker net debt to EBIDTA signifies that, based on the EBITDA of FY2017, the Group will require 11.37 years of EBITDA to pay back its net debt.

Meanwhile, the gearing ratios were lower than those of FY2016, albeit marginally, as the increase in the Group's reserves forming part of equity did more than just offset the decline in cash balances netted off from total debt.

In FY2018, interest cover and the Group's net debt to EBITDA are expected to improve on the back of higher EBITDA anticipated for the year. Gearing is expected to remain in line with the FY2017 levels.

2.5 VARIATIONS IN THE ISSUER'S FINANCIAL PERFORMANCE

INCOME STATEMENT *for the year ended 31 December*	ACTUAL 2017	FORECAST 2017	*VARIANCE*	
	€'000	*€'000*	*€'000*	*%*
Revenue	28,777	35,938	*(7,161)*	*-20%*
Cost of sales	(19,495)	(25,076)	*5,581*	*-22%*
Gross Profit	**9,282**	**10,862**	*(1,580)*	*-15%*
Other income	817	512	*305*	*60%*
Administrative expenses	(5,611)	(3,820)	*(1,791)*	*47%*
Other expenses	(159)	-	*-*	*n/a*
EBITDA	**4,329**	**7,554**	*(3,225)*	*-43%*
Depreciation	(5,646)	(3,545)	*(2,101)*	*59%*
Amortisation of intangible assets	(2,779)	(2,501)	*(278)*	*n/a*
Results from operating activities	**(4,096)**	**1,508**	*(5,604)*	*-372%*
Finance income	478	-	*n/a*	*100%*
Finance costs	(4,419)	(2,925)	*(1,494)*	*51%*
Net finance costs	*(3,941)*	*(2,925)*	*(1,016)*	*35%*
(Loss)/Profit before tax	**(8,037)**	**(1,417)**	*(6,620)*	*467%*
Tax income / (expense)	403	(967)	*1,370*	*-142%*
Profit from continuing operations	**(7,634)**	**(2,384)**	*(5,250)*	*220%*

The Company attributes the reduced performance of FY2017 compared to forecasts to the situation where most IOCs were re-engineering their business models and thereby delaying oil exploratory / drilling projects in order to assess which projects are most viable in view of the persistent low price of oil. Most IOCs were in fact seeking to renegotiate rates in order to make their oil & gas activity economically viable. This put pressures on revenues to companies such as the Medserv Group and led to a delay in planned projects already contracted. Medserv was not immune to this reality and revenue suffered in this respect.

Overall, total revenue was 20% less than that forecasted last year at €28.8 million as forecasted activity expected in the ILSS segment and the stalled maintenance services anticipated for FY2017 did not happen. OCTG was less impacted and the deviation from forecasts in that segment was minimal and had little impact on the overall revenue figure for FY2017.

Meanwhile, administrative expenses came in higher than those expected to be incurred in FY2017 because of an increase in resources within the business development team. The Group continued to invest in additional resources with the objective of participating in new tenders as opportunities are presented. The majority of the variance relates to administrative costs incurred for scouting new markets.

3 GUARANTOR PERFORMANCE & FINANCIAL POSITION OVERVIEW

Set up in 1974, Medserv Operations Limited ("**MedOps**") has been the main operating subsidiary of the Group providing ILSS. MedOps is the Guarantor of the bond issue to which this FAS relates to (i.e. the bond programme for the €20 million 6% bond 2020/23) and also holds the emphyteutic rights over its site within the Malta Freeport.

What follows is an analysis of the FY2017 figures in comparison to the previous two years and a presentation of the forecasts for the current year. The information in relation to the historic information is sourced from published annual reports as issued by MedOps as well as from additional information provided by management. The forecasts have been provided and approved by the Guarantor's management.

Unless otherwise stated, all amounts in the tables below are in thousands of euro (€'000) and have been subject to rounding.

3.1 INCOME STATEMENT

	ACTUAL	ACTUAL	ACTUAL	FORECAST
for the year ended 31 December	**2015**	**2016**	**2017**	**2018**
	€'000	*€'000*	*€'000*	*€'000*
Revenue	27,086	16,468	11,109	11,594
Cost of sales	(18,496)	(10,641)	(7,986)	(8,146)
Gross Profit	**8,590**	**5,827**	**3,123**	**3,448**
Other income	13	436	876	775
Administrative and other expenses	(1,641)	(2,349)	(2,785)	(3,024)
EBITDA	**6,962**	**3,914**	**1,214**	**1,199**
Depreciation and amortisation	(1,445)	(1,559)	(2,382)	(2,592)
Results from operating activities	**5,516**	**2,355**	**(1,168)**	**(1,393)**
Net finance costs	(1,064)	(665)	(1,110)	(1,123)
Profit / (Loss) before tax	**4,453**	**1,690**	**(2,278)**	**(2,516)**
Tax income / (expense)	(633)	5,160	629	207
Net Profit / (Loss) for the year	**3,819**	**6,851**	**(1,649)**	**(2,309)**

FY 2017 REVIEW

During 2017, MedOps continued supporting the Libyan offshore operations of the Group whilst also providing general onshore ancillary and support services, as well as managing the PV farm at the Medserv site at the Freeport in Birzebbugia.

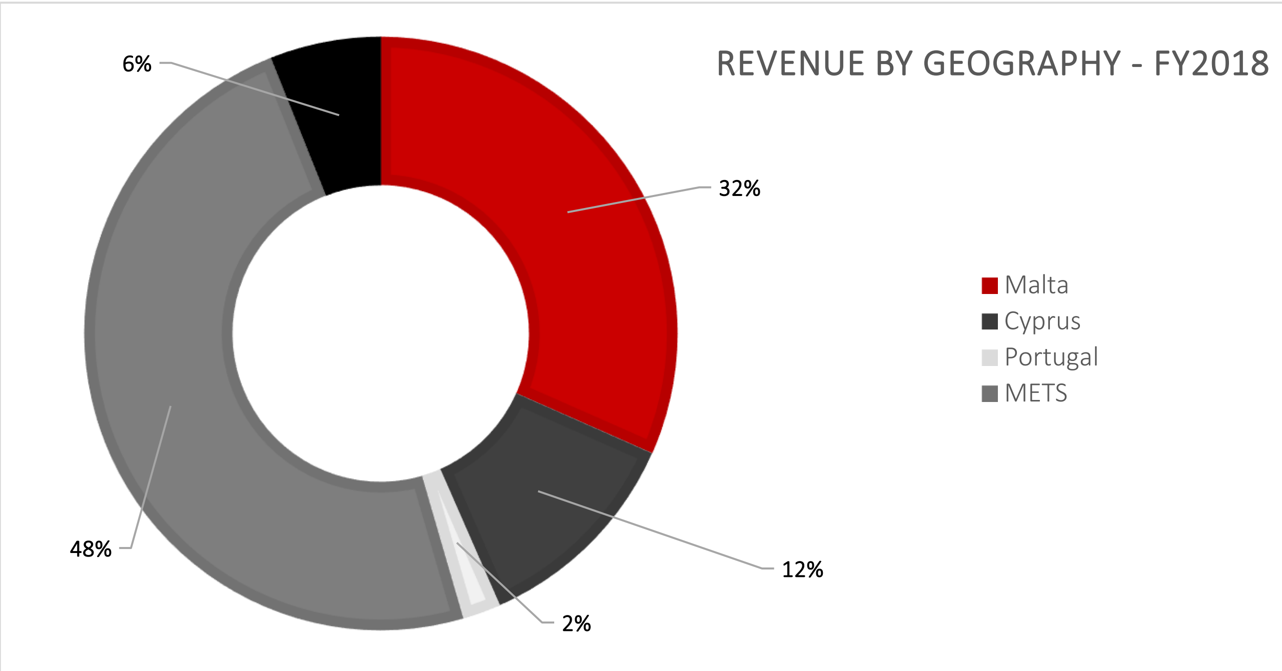
Revenues amounting to €11.1 million were generated by MedOps in FY2017, representing just under 40% of the total revenue of the Group, as other subsidiaries of the Group, particularly METS, increased their contribution towards revenue. The revenue generated by MedOps represents a decline of 32.5% from FY2016, as the company suffered from a further downturn in overall activity and faced delays in the delivery of equipment for the maintenance works on the Bahr Essalam platform that was to accrue during FY2017. The operational difficulties in Libya coupled with the continued challenging market conditions in the sector have also contributed to continued pressure on profit margins as the company had to respond to its IOC clients' efforts to cut costs. Given the drop in revenue that did not translate in a corresponding decline in costs, MedOps' EBITDA for FY2017 contracted to €1.2 million compared to €3.91 million in FY2016.

Despite the overall decrease in activity, administrative expenses were higher by nearly 18%, reflecting the fixed nature of most of the Guarantor's costs, as well as additional investments in human resources which management deem is necessary in preparation for contracts which to date have been delayed. In addition, an impairment loss of €560,039 (2016: €nil) on the amounts owed by fellow subsidiaries was incurred during the year. In view of the recognition of the value of the leases on the balance sheet, MedOps' depreciation charge was nearly double that of FY2016. The increase in net finance costs is mostly due to finance cost on the finance leases in terms of the implications of the new IFRS.

Forecasts FY2018

In FY2018, MedOps is forecasted to generate revenue marginally better than that of FY2017, at €11.6 million (+4.4%), as the company is envisaging a slightly higher level of activity at its Malta base. EBITDA for FY2018 is expected to be in line with that of FY2017, at €1.2 million.

Despite the decline in the overall contribution of MedOps to the revenue of Medserv Group over the past two years following the acquisition of the METS Group in 2016, the Guarantor remains a key revenue generator for the Group.



In FY2018, MedOps is expected to register a pre-tax loss of €2.5 million and a net loss of €1.6 million, taking the accounting charge of depreciation and amortisation of €2.6 million.

3.2 STATEMENT OF CASH FLOWS

	ACTUAL	ACTUAL	ACTUAL	FORECAST
for the year ended 31 December	2015	2016	2017	2018
	€'000	*€'000*	*€'000*	*€'000*
Net cash from / (used for) operating activities	(2,036)	5,493	1,558	5,929
Net cash used for investing activities	(3,582)	(1,291)	(1,596)	(230)
Net cash from / (used for) financing activities	5,335	(1,007)	(1,236)	(2,705)
Net movements in cash and cash equivalents	**(283)**	**3,195**	**(1,274)**	**2,994**
Cash and cash equivalents at beginning of the year	(2,213)	(2,496)	699	(575)
Cash and cash equivalents at end of year	**(2,496)**	**699**	**(575)**	**2,419**

FY 2017 REVIEW

The cash contribution from operating activities during FY2017 declined to just under €1.6 million, largely reflecting the drop in activity experienced during the year. Moreover, the increases in net cash used in investing and financing activities continued to put pressure on the company's cash balances, and by the end of the year, the company had a negative effective cash balance, which was supported by a drawdown on a bank overdraft facility.

FORECASTS FY2018

The Guarantor's cash position is expected to improve significantly in FY2018 mainly as a result of the increased business activities and improvement in its collection of the amounts owed by trade receivables resulting in a better liquidity position.

3.3 STATEMENT OF FINANCIAL POSITION

as at 31 December	ACTUAL 2015 €'000	ACTUAL 2016 €'000	ACTUAL 2017 €'000	FORECAST 2018 €'000
ASSETS				
Property, plant and equipment	18,470	17,823	18,043	16,869
Prepaid operating leases	34,123	33,348	-	-
Right-of-use assets	-	-	59,914	58,904
Deferred tax assets	3,424	8,584	9,213	9,225
Total non-current assets	**56,017**	**59,755**	**87,170**	**84,998**
Derivative financial asset	1,176	-	-	-
Prepaid operating leases	776	776	-	-
Trade and other receivables	14,297	15,799	13,612	9,398
Contract asset	-	-	69	-
Cash at bank and in hand	193	699	290	2,420
Total current assets	**16,441**	**17,273**	**13,971**	**11,818**
Total assets	**72,459**	**77,027**	**101,141**	**96,816**
LIABILITIES				
Deferred income	34,123	33,348	32,572	31,796
Non-current portion of loan from parent *(unlisted)*	16,287	8,020	8,035	8,035
Non-current portion of bank loan *(unlisted)*	2,661	1,522	1,222	545
Lease liabilities	-	-	9,906	9,406
Deferred tax liabilities	-	-	5,935	5,934
Provisions	31	33	31	31
Total non-current liabilities	**53,102**	**42,923**	**57,701**	**55,747**
Deferred income	776	776	776	776
Current portion of bank loan and bank overdraft *(unlisted)*	3,788	1,112	2,047	278
Amount due to parent	3,448	3,798	3,997	4,100
Trade and other payables	5,284	3,433	2,261	4,615
Total current liabilities	**13,296**	**9,118**	**9,081**	**9,769**
Total liabilities	**66,398**	**52,042**	**66,782**	**65,516**
Equity				
Share capital	233	233	233	233
Parent company loan	-	13,074	13,074	13,074
Reserves	4,018	9,274	20,320	20,527
Retained earnings	1,810	2,404	732	(2,534)
Total equity	**6,061**	**24,986**	**34,359**	**31,300**
Total equity and liabilities	**72,459**	**77,027**	**101,141**	**96,816**

FY 2017 Review

The Guarantor's asset base expanded by 27% to nearly €98 million by the end of FY2017 mainly attributable to the implementation of the new accounting standards as explained towards the beginning of this section, which necessitated the recognition of the value of the right-of-use assets with respect to land leases.

The drop of nearly 14% in trade and other receivables to €13.6 million (FY2016: €15.8 million) is mainly attributable to a drop in the trade receivables balance and the insurance claim proceeds included in the comparative year which were received during 2017.

On transition to IFRS 16, the company recognised lease liabilities at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The lease liabilities are measured at amortised cost using the effective interest method. As at 31 December 2017, the carrying amount of the lease liabilities amounted to €9.9 million. The revaluation of the right-of-use assets on 31 December 2017, gave rise to a deferred tax liability of €5.65 million which is equivalent to 35% (the tax rate applicable in Malta, being the company's country of incorporation) of the increase in the fair value of the right-of-use assets of €16.9 million).

The company's equity was mainly boosted by a net increase of €10.3 million in reserves. This largely relates to the revaluation of the right-of-use assets on 31 December 2017 consisting of land held from emphyteutical grant.

Forecasts FY2018

The total asset base of MedOps is not expected to be largely different in FY2018 from that of FY2017. The changes will mainly reflect depreciation charges and settlement of outstanding dues from debtors which, in turn, is anticipated to boost the cash balance position of the Guarantor.

The main changes in liabilities in FY2018 are expected to be related to the €2.45 million drop in bank borrowings, which is partly netted off by a €1.69 million increase in trade and other payables.

Meanwhile, total equity is expected to remain largely flat, at €31.3 million, despite the drop in retained earnings reflecting the net loss expected in FY2018.

3.4 Ratio Analysis

The following set of ratios have been computed by Rizzo Farrugia & Co (Stockbrokers) Ltd using the figures extracted from annual reports and information and forecasts provided by management.

Profitability Ratios

Such ratios assist in measuring a Company's ability to generate profitable sales from its assets.

for the year ended 31 December	ACTUAL 2015	ACTUAL 2016	ACTUAL 2017	FORECAST 2018
Gross Profit margin *(Gross Profit / Revenue)*	31.71%	35.38%	28.11%	29.74%
EBITDA margin *(EBITDA / Revenue)*	25.70%	23.77%	10.93%	10.34%
Operating Profit margin *(Operating Profit / Revenue)*	20.37%	14.30%	n/a	n/a
Net Profit margin *(Profit for the period / Revenue)*	14.10%	41.60%	n/a	n/a
Return on Equity *(Profit attributable to owners of the Company / Average Equity attributable to owners of the Company)*	70.72%	44.13%	n/a	n/a
Return on Capital Employed *(Profit for the period / Average Capital Employed)*	15.27%	21.26%	n/a	n/a
Return on Assets *(Profit for the period / Average Assets)*	5.50%	9.17%	n/a	n/a

MedOps' profitability ratios for FY2017 and those forecasted for FY2018 are reflective of the subdued level of revenue that was generated in FY2017 and is expected to be persist during FY2018. The fact that the company registered loss for the period ended 31 December 2017 means that certain profitability ratios could not be computed given the lack of positive return on the company's average equity, assets or capital employed. This is expected to be the case also for FY2018 as the company is not expected to register a profit during the said period.

Liquidity Ratios

Such ratios assist in measuring a Company's ability to meet its short-term obligations.

for the year ended 31 December	ACTUAL 2015	ACTUAL 2016	ACTUAL 2017	FORECAST 2018
Current Ratio *(Current Assets / Current Liabilities)*	1.24x	1.89x	1.54x	1.21x
Cash Ratio *(Cash & cash equivalents / Current Liabilities)*	0.01x	0.08x	0.03x	0.25x

Despite the reduction in absolute figures of the company's current liabilities, this was not enough to offset the larger decline in the company's current assets, which resulted in a lower current ratio for FY2017 compared to FY2016, at 1.54 times. For FY2018, this ratio is expected to be further subdued by the end of FY2018 as current assets are expected to decline while current liabilities are envisaged to increase.

MedOps' cash ratio deteriorated in FY2017 when compared to FY2016, going down to 0.03 times. However, this is expected to improve to 0.25 times in FY2018 on the back of collections from debtors which are expected to result in higher cash balances, which will also clear the bank overdraft in the current liabilities.

Solvency Ratios

Such ratios assist in measuring a Company's ability to meet its debt obligations.

for the year ended 31 December	ACTUAL 2015	ACTUAL 2016	ACTUAL 2017	FORECAST 2018
Interest Coverage ratio *(EBITDA / Net finance costs)*	6.54x	5.89x	1.09x	1.07x
Gearing Ratio (1) *(Net debt / Total Equity)*	3.72x	0.40x	0.32x	0.21x
Gearing Ratio (2) *[Total debt / (Total Debt plus Total Equity)]*	78.95%	29.89%	24.76%	22.06%
Net Debt to EBIDTA *(Net Debt / EBIDTA)*	3.24x	2.54x	9.07x	5.37x

The lower level of revenues that the company generated during FY2017 translated in a weak interest coverage ratio, going down to 1.09 times in FY2017 compared to a healthier 5.89 times in FY2016. This is expected to remain largely unchanged during FY2018.

Gearing ratios were marginally better in FY2017, although the net debt of the company increased. This was, however, offset largely by the effect of the increase in the revaluation reserve as a result of the revaluation of the right-of-use assets in terms of IFRS 16. In FY2018, gearing is expected to improve even further, as net debt declines (due to a combination of debtors being converted to cash and partial repayments of debt).

The net debt to EBITDA metric was weak in FY2017 (9.07 times) when compared to that of FY2016 (2.54 times). This was due to the subdued level of EBITDA for the year. As EBITDA improves and net debt declines in FY2018, this metric is expected to improve.

3.5 VARIATIONS IN THE GUARANTOR'S FINANCIAL PERFORMANCE

MedOps, being a key operating entity within the Group, witnessed similar variations in its financial performance for the same reasons described in section 2.5 above.

INCOME STATEMENT	ACTUAL	FORECAST	*VARIANCE*	
for the year ended 31 December	2017	2017		
	€'000	*€'000*	*€'000*	*%*
Revenue	11,109	13,390	*(2,281)*	*-17%*
Cost of sales	(7,986)	(8,928)	*942*	*-11%*
Gross Profit	**3,123**	**4,462**	*(1,339)*	*-30%*
Other income	876	-	*876*	*n/a*
Administrative and other expenses	(2,785)	(1,542)	*(1,243)*	*81%*
EBITDA	**1,214**	**2,920**	*(1,706)*	*-58%*
	-			
Depreciation and amortisation	(2,382)	(1,417)	*(965)*	*68%*
Results from operating activities	**(1,168)**	**1,503**	*(2,671)*	*-178%*
	-			
Net finance costs	(1,110)	(597)	*(513)*	*86%*
	-			
Profit / (Loss) before tax	**(2,278)**	**906**	*(3,184)*	*-351%*
	-			
Tax income / (expense)	629	(317)	*946*	*-298%*
Net Profit / (Loss) for the year	**(1,649)**	**589**	*(2,238)*	*-380%*

The delays experienced by the company during FY2017 deviated the company's forecasts negatively, resulting in a net loss for the year of €1.6 million reported as opposed to the €0.6 million profit that was expected to be generated same time this year. Revenue was lower, however, administrative expenses were not curtailed, despite the slowdown in operations, as the company continued to invest in its human resources and expensed costs which were necessary for tenders submitted but which were not successful.

As explained in earlier sections, the effect of IFRS 16 and the revaluation of the company's property rights led to a higher depreciation charge for the year, offsetting all operating profits and turning these to accounting losses.

Similarly, net finance costs were higher, reflecting also the additional €0.5 million finance lease cost (which was previously expensed above the EBITDA line).

4 LISTED SECURITIES

Medserv plc's ordinary shares are listed on the Official List of the Malta Stock Exchange – details as follows:

ISIN: MT0000310103

Issued Shares: 53,744,405 ordinary shares

Nominal Value: €0.10

Apart from the shares, the Issuer has issued other debt securities which are also listed on the Official List of the Malta Stock Exchange. Details of these bonds are found in the table below:

ISIN	Details	Maturity	Nominal Amount
MT0000311218	6% Secured & Guaranteed 2020/2023 S1 T1	Callable between 30/09/2020 and 30/09/2023	20,000,000
MT0000311234	4.5% Unsecured 2026 (€)	05/02/2026	21,982,400
MT0000311242	5.75% Unsecured 2026 ($)	05/02/2026	9,148,100

5 COMPARABLES

NB: The table below seeks to compare the securities of Medserv with securities with a similar term. It is to be noted, however, that there are significant differences in the business models of each of the listed companies being compared below and an exact match to the operations and business of the Issuer (and/or Guarantor) is not available. Thus, while the metrics below can be used as a gauge of Medserv's financial strength against other issuers listed locally, they do not capture the quantitative factors such as the different business models of each issuer, their competitive position in the market, KPIs, etc.

Bond Details	Outstanding Amount (€)	Total Assets (€'000)	Total Equity (€'000)	Gearing Ratio*	Net Debt to EBITDA** (times)	Interest Cover*** (times)	YTM (as at 10.05.2018)^
5.50% Pendergardens Dev. plc Secured € 2020 Series I	14,711,000	68,589	14,418	74.10%	28.63	1.50	2.49%
5.80% IHI plc € 2021	20,000,000	1,602,317	884,632	38.60%	7.87	2.64	4.06%
5.75% Central Business Centre plc € 2021	3,000,000	28,567	15,926	42.48%	72.96	(0.87)	4.25%
6.00% Pendergardens Dev. plc Secured € 2022 Series II	27,000,000	68,589	14,418	74.10%	28.63	1.50	3.53%
4.25% GAP group plc € 2023	40,000,000	59,906	6,696	85.47%	13.20	2.60	3.32%
5.80% IHI plc € 2023	10,000,000	1,602,317	884,632	38.60%	7.87	2.64	3.96%
6.00% Medserv plc Secured € 2020/23	20,000,000	153,273	28,098	65.28%	11.36	1.10	5.67%

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Rizzo, Farrugia & Co (Stockbrokers) Ltd

**Gearing: This refers to the fundamental analysis ratio of a company's level of long-term debt compared to its equity capital. In the above table this is computed as follows: Total Debt / [Total Debt + Total Equity].*

***Net Debt to EBITDA: This is the measurement of leverage calculated by dividing a company's interest-bearing borrowings net of any cash or cash equivalents by its EBITDA.*

****Interest Cover: The interest coverage ratio is calculated by dividing a company's EBITDA of one period by the company's net finance costs of the same period.*

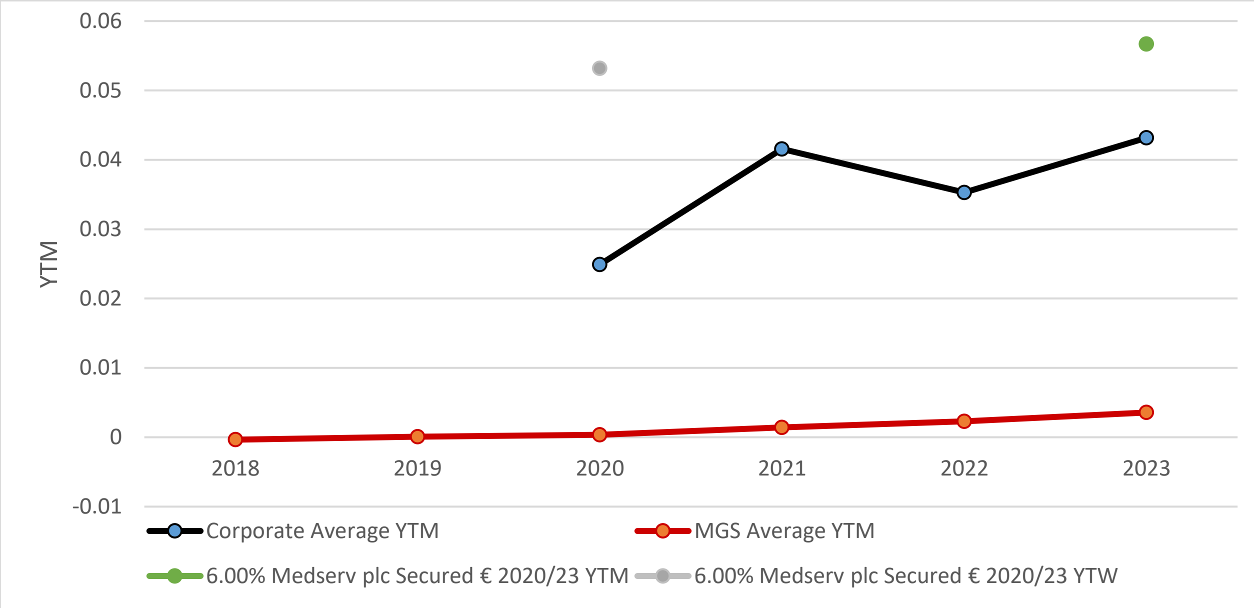
^Yield to Maturity (YTM) from rizzofarrugia.com, based on bond prices of 10 May 2018. YTM is the rate of return expected on a bond which is held till maturity. It is essentially the internal rate of return on a bond and it equates the present value of bond future cash flows to its current market price.

Ratio workings and financial information quoted have been based on the Issuers' published financial data, including:

- *Pendergardens Developments plc - figures based on FY2017 annual report*
- *IHI plc - figures based on FY2017 annual report*
- *Central Business Centre plc - figures based on FY2017 annual report*
- *GAP Group plc - figures based on FY2017 annual report*
- *Medserv plc - figures based on FY2017 annual report*

The chart overleaf compares the 6% Medserv plc Secured 2020/23 bond to other corporate bonds listed on the Malta Stock Exchange and benchmarked against the Malta Government Stock yield curve as at 10 May 2018.

Medserv plc secured bond YTM & YTW vs Corporate & MGS YTM – as at 10.05.2018



At a YTM of 5.67%, the 6% Medserv plc Secured 2020/23 bond is priced at a premium of 531 basis points over the average YTM of Malta Government Stock (MGS) maturing in 2023 and at a premium of 135 basis points over the average YTM of corporate bonds maturing in 2023. Moreover, at a YTW (yield-to-worst*) of 5.32%, the 6% Medserv plc Secured 2020/23 bond is priced at a premium of 529 basis points over the average YTM of Malta Government Stock (MGS) maturing in 2020 and at a premium of 283 basis points over the average YTM of corporate bonds maturing in 2020.

**YTW – Yield to Worst refers to the lowest potential yield that can be received on the bond should the callability feature of the Medserv plc 6% secured bond is triggered, i.e. redeemed on the first available redemption date in 2020.*

6 GLOSSARY

Definition of General Terms

Issuer	Medserv p.l.c. (Medserv/Group), a public limited liability Company registered under the laws of Malta with Company registration number C28847 and with registered office situated at Malta Freeport, Port of Marsaxlokk, Birzebbugia, BBG 3011. Medserv p.l.c. is the parent Company of the Group.
Guarantor	Medserv Operations Limited (MedOps), a limited liability Company registered under the laws of Malta with Company registration number C2971 and with registered office situated at Malta Freeport, Port of Marsaxlokk, Birzebbugia, BBG3011, Malta. Medserv Operations Limited is wholly owned by Medserv p.l.c., the Issuer, and is also one of its main subsidiaries.
Group	Incorporates the Issuer and its subsidiaries including the operating Company Medserv Operations Limited.
Guarantee	The joint and several suretyship granted by the Guarantor as security for the punctual performance of the Issuer's payment obligations under the Notes.
FY20xx	Refers to financial year 20xx.

Definition of Terms in Statement of Comprehensive Income

Revenue	The income generated by the Group from the services it provides mainly made up of Integrated Logistics Support Services (ILSS), supply chain management and threading of Oil Country Tubular Goods (OCTG), income from offshore maintenance and income from the PV farm.
Cost of sales	The costs incurred in direct relation to the provision of services including supplies, freight, base yard expenses and transportation.
Gross Profit	The difference between 'Revenue' and 'Cost of sales' which reflects the Group's ability to generate profitable sales.
Administrative expenses	Costs incurred in relation to the running of the business including wages and salaries, Directors' remuneration, professional fees and travelling expenses.
EBITDA	Earnings before interest, tax, depreciation and amortisation reflecting the Group's earnings power purely from operations.
Depreciation and amortisation	An accounting charge to compensate for the reduction in the value of assets and the eventual cost to replace the asset when fully depreciated.
Results from operating activities	EBITDA less depreciation and amortisation reflecting the earnings power of the Company before accounting for interest costs and taxes.
Finance Income	Interest earned on cash at bank balances.
Finance Costs	Interest accrued on debt obligations and finance cost on finance leases
Share of profit / loss of jointly-controlled entity	The proportionate share of the Group's profit or loss generated or incurred by the jointly-controlled-entity which in the case of Medserv p.l.c. relates to Medserv Italia s.r.l.
Non-controlling interest	An adjustment to extract amounts attributable to third-party minority shareholders in subsidiaries.
Net Profit / (Loss)	The profit generated or loss incurred in one financial year.

Definition of Terms in Statement of Cash Flows

Net cash from / (used for) operating activities *[CFO]*	The cash used for or generated from the Group's business activities.
Net cash from / (used for) investing activities *[CFI]*	The cash used for or generated from investing activities including investments in new entities and acquisition or disposal of fixed assets.
Net cash from / (used for) financing activities *[CFF]*	The cash used for or generated from financing activities including new borrowings, interest payments, repayment of borrowings and dividend payments.

Definition of Terms in Statement of Financial Position

Assets	What the Company owns. There are two types of assets: (i) Non-current assets and (ii) Current assets.
Non-Current Assets	Mainly consist of tangible and intangible assets which support the operations of the Company. Tangible assets include property, plant and equipment. Intangible assets include goodwill, brand, customer relationships, licenses, contractual rights, right-of-use assets and deferred tax assets. Other types of non-current assets are financial in nature such as trade and other receivables, contract costs, investments in jointly-controlled entities and investments in subsidiaries.
Current Assets	Cash or assets which can be converted into cash within one financial year including inventories, trade receivables and cash balances.
Liabilities	What the Company owes. There are two types of liabilities: (i) Non-current liabilities and (ii) Current liabilities.
Non-current liabilities	Obligations due after more than one financial year including lease liabilities, bonds and long-term bank borrowings.
Current liabilities	Obligations due within one financial year including lease liabilities, trade payables and short-term borrowings such as bank overdrafts.
Equity	Equity is calculated as assets less liabilities and represents the accounting book value of the Company.