RIZZO FARRUGIA
YOUR INVESTMENT CONSULTANTS

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

15 July 2020

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**") and Medserv Operations Ltd (the "**Guarantor**") 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 2017 to 2019 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 2020 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;

(d) The ratios quoted in the Update FAS have been computed by us applying the definitions set out beneath each ratio; and

(e) Relevant financial data in respect of other issuers with same-maturing bond issues as analysed in Part D of this report has been extracted from public sources such as the web sites of the companies concerned or financial statements filed at the Registry of Companies.

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

FINANCIAL ANALYSIS SUMMARY

Update 2020

Prepared by Rizzo, Farrugia & Co (Stockbrokers) Ltd, in compliance with the Listing Policies issued by the Malta Financial Services Authority, dated 5 March 2013.

15 JULY 2020

RIZZO FARRUGIA
YOUR INVESTMENT CONSULTANTS

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Important Information

Purpose of the Document

Medserv plc (the "**Issuer**" or the "**Company**" or the "**Group''**) issued €20 million 6% Bonds 2020/23 note programme in 2013 pursuant to a base prospectus dated 12 August 2013 (the "**Bond Issue**"). The final terms issued pursuant to the prospectus (dated 30 August 2013 and 7 April 2014) included a Financial Analysis Summary ("**FAS**") in line with the requirements of the Listing Policies as issued and last updated by the MFSA on 5 March 2013. The purpose of this report is to provide an update to the FAS (the "**Update FAS**") on the performance and on the financial position of the Company and Medserv Operations Limited, as guarantor to the Bond Issue (the "**Guarantor**" or "**MedOps**").

Sources of Information

The information that is presented has been collated from a number of sources, including the Company's website (www.medservenergy.com), the audited Financial Statements for the years ended 31 December 2017, 2018 and 2019 and forecasts for financial year ending 31 December 2020 for both the Company and the Guarantor.

Forecasts that are included in this document have been prepared and approved for publication by the directors of the Company and Guarantor, who undertake full responsibility for the assumptions on which these forecasts are based.

Wherever used, FYXXXX refers to financial year covering the period 1st January to 31st December. The financial information is being presented in thousands of Euro, unless otherwise stated, and has been rounded to the nearest thousand.

Previous FAS Issued

The Company has published the following FAS which are available on its website:

- FAS dated 30 August 2013 (appended to the final terms)
- FAS dated 7 April 2014 (appended to the final terms)
- FAS dated 15 May 2015
- FAS dated 18 May 2016
- FAS dated 5 April 2017
- FAS dated 11 May 2018
- FAS dated 22 May 2019

1 UPDATE ON THE MEDSERV GROUP AND THE OIL AND GAS 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 and a pandemic-fuelled economic recession. 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.

Following the downturn in 2014 and 2015, oil prices started recovering, from as low as $40 in 2016, breaching the $50 per barrel in 2017 and edging above $70 per barrel during 2018[1]. That recovery had been a result of various factors, including the production restraint agreement between the Organisation of the Petroleum Exporting Countries ("**OPEC**") and non-OPEC countries in force since the beginning of 2017, less supply from other producers not part of the OPEC agreement, and continued strong global oil demand growth as estimated by the Energy Information Administration[2] at about 1.6 million barrels per day (b/d) in 2018. These efforts together had brought global oil inventory levels down by more than 175 million barrels since 2016 and buoyed prices.

The Baker Hughes GE rig count[3] – which is an important benchmark for the oil industry and also a leading indicator of demand for oil products – shows that following a period of increases in the number of oil rigs between 2017 and 2018, which was in line with the rebound in the price of oil during those same years, the worldwide rig count began to ease slightly before plummeting to as low as 1,176 rigs as at May 2020. This trend is 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. Overall, the total number of active oil rigs in the world today now amounts to approximately 1,176. This represents a decrease of just under 50% from the recent peak levels reached in February 2019, largely reflecting an oversupply of oil driven by OPEC and Russia, the slowdown in demand which was brought about by a sudden halt in economic activity across the globe due to the coronavirus pandemic and the lockdown measures enforced by governments around the world and lastly the lack of storage space available due to the wide discrepancies between demand and supply.

The decrease in rig counts was experienced in all regions but in particular the US which fell by 67.3% from recent highs to a new record low. The rate of rig closures in the US was also accelerated by the plunging price of oil and given that many US oil companies are able to finance and refinance drilling with a breakeven price of $40 and above per barrel. Therefore, with prices following well below these levels, oil production in the US declined significantly.

In fact, soon after the outburst of the COVID-19 pandemic, prices tanked into negative territory for the first time ever as the price of West Texas Intermediate crude oil futures expiring in May 2020 plunged to $40.32 a

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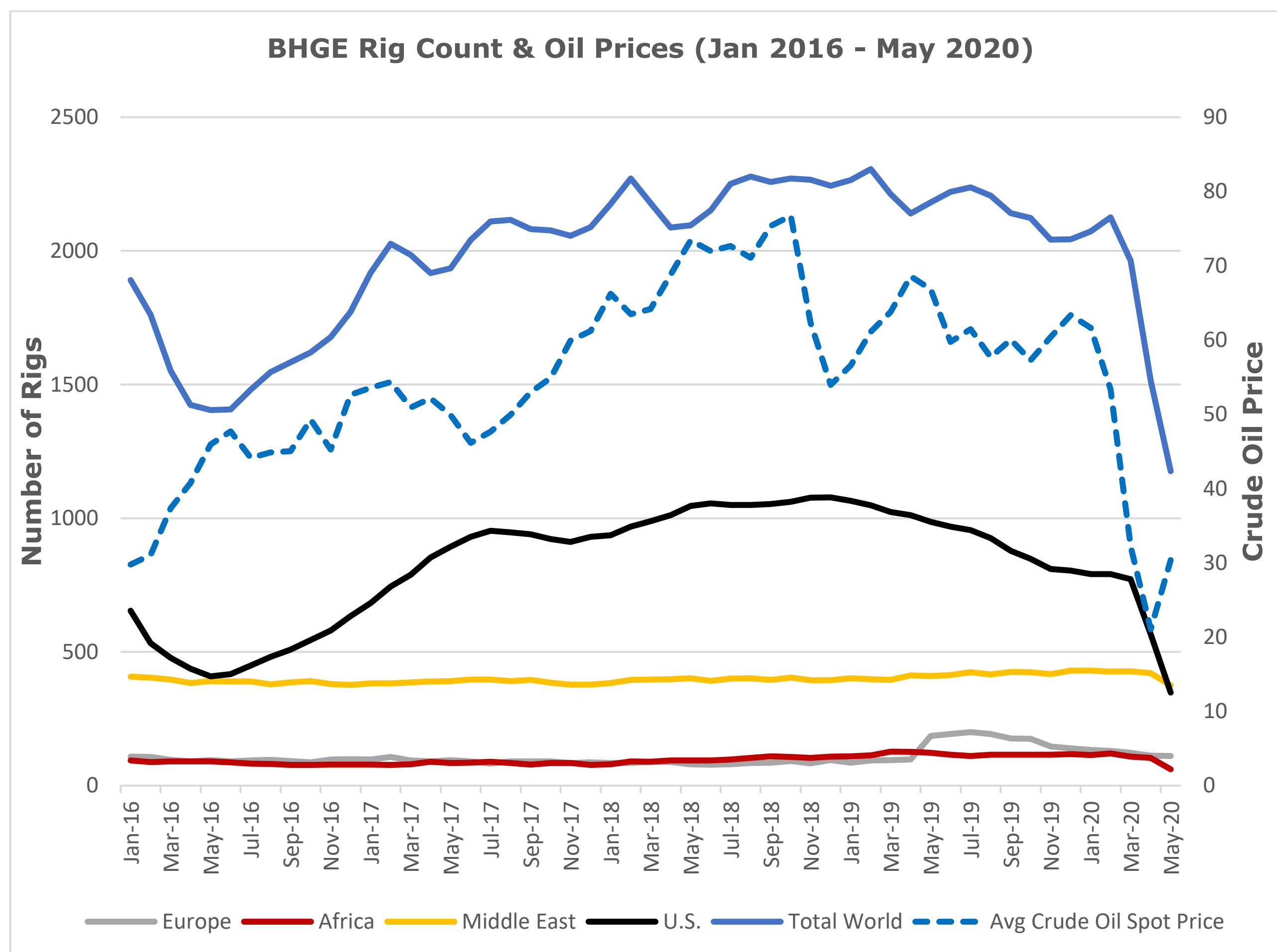
[1] www.bloomberg.com/energy

[2] www.eia.gov

[3] http://phx.corporate-ir.net/phoenix.zhtml?c=79687&p=irol-rigcountsintl

barrel, amid the aforementioned demand and supply shocks and worldwide oil storage reaching close to full capacity. Since then, crude oil prices have rebounded to as high as $40 a barrel following the resumption of economic activity across the globe and a record 9.7 million barrels per day oil production cut which was agreed to by OPEC+.



Source: Baker Hughes GE and Indexmundi

Meanwhile, a decade of speculation about the potential of the east Mediterranean in natural oil and gas resources was recently brought to an end following the recent gas finds in the said region, prompting revived interest in drilling activity by the large International Oil Companies ("**IOCs**") in the Mediterranean. The finds have been concentrated in the waters between Egypt and Cyprus and drilling concessions that the likes of ENI, ExxonMobil and Total have in that area put the Medserv Group in an optimal position to attract Integrated Logistics Support Services ("**ILSS**") contracts in the region, having worked, directly and indirectly, with these significant IOCs on other drilling projects and/or tenders.

The fundamental challenge for this industry remains the intrinsic volatility within the sector. IOCs need time to address the swings of an over- or under-supplied market and develop a resilient strategy to mitigate the risks related thereto. This uncertainty leads to caution threading by the oil and gas companies who in recent

years have curbed their investment for a while, assessing the right opportunity that is indicative of stabilisation of the industry dynamics.

2 KEY DEVELOPMENTS 2019 AND OUTLOOK FOR 2020

The Group continues to seek ways of strategically diversifying its geographic markets and client base, positioning itself for growth in various new significant oil and gas markets. The tendering processes that it is participating in are giving the Medserv Group the visibility with the larger IOCs and have led to the Group being listed on top-5 vendor lists of large IOCs. Such aspect is important for Medserv, because it would be in a position of being invited to tender for future exploratory and drilling projects.

MALTA BASE

During FY2019, the Malta base continued to provide shore base services for the development of offshore Libya projects. The Bahr Essalam Phase II project was completed in August 2019[4], which extends the field production from 995 million standard cubic feet of gas per day to 1.1 billion. Medserv began to act as the logistics base for the development of two new gas offshore structures. This project, together with the increase in the upcoming drilling activity in the Mediterranean basin, resulted in a new potential product offering being presented to the Malta facility. Also, despite the ongoing political and hostile environment currently ensuing in Libya, management is confident that the Company will remain the shore base for all oil and gas operations offshore Libya. This is because the Company's base in Malta is seen as a reliable and safe haven for the storage and mobilisation of oil field equipment employed by companies engaged in offshore Libya projects. It is also worth noting that the offshore oilfields are far from the clashes that are taking place in Libya.

During FY2019, the Malta base was also involved in a number of engineering and maintenance projects which supported the offshore Libyan drilling campaigns carried out in the second half of 2019.

Management also indicated that the scope for additional works in Libya may increase, as in FY2018 ENI NA purchased from BP Libya concession rights for drilling offshore Libya.

CYPRUS BASE

Medserv Cyprus returned to active mode in November 2018 when ExxonMobil in partnership with Qatar Petroleum began drilling the Delphyne-1 well, the first of two wells in Block 10. In January 2019, drilling on the first well was completed and the operation to drill the second well, the Glaucus-1, in Block 10 began immediately after and was completed in March 2019. This drilling led to a major natural gas discovery of approximately between five to eight trillion cubic feet of gas. Due to the end of the first phase of drilling of the

[4] *https://www.libya-businessnews.com/2019/08/07/phase-2-of-bahr-essalam-gas-project-completed/*

ExxonMobil campaign, Medserv Cyprus went back into non-active mode as from beginning of April 2019. During this phase, Medserv Cyprus continued to provide a number of services to the IOC, including the storage of their equipment at the Limassol base. Apart from this, throughout the non-active period in 2019, Medserv Cyprus also provided several other services to ENI Cyprus holding a significant number of concessions in the region.

On 1 July 2019, Medserv Cyprus was awarded a contract by Total E&P Cyprus BV to provide shore base logistics services from its facilities in the port of Limassol for drilling activities taking place offshore Cyprus. The contract, which came into force on 4 June 2019, is for a period of one year with options to extend.

In view of the COVID-19 pandemic in Cyprus in the beginning of 2020, IOCs have taken a decision to delay their drilling campaigns by a year and drilling projects which were planned to take place during 2020 have been extended to be revived in 2021.

Libya

The Group maintained the office in Tripoli active during 2019. The Libyan branch continues to provide support to the Malta base in relation to the 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 Oil Country Tubular Goods ("**OCTG**") services from the four bases located in Basra (in South Iraq), Sharjah (United Arab Emirates – "**UAE**") and the two bases in Oman - Sohar and Duqm.

During 2019, METS has remained consistent with the prior year's performance, with some improvements registered in Oman and Iraq due to the improvement in the oil market as prices started recovering. Meanwhile Oman remains the key profit generating unit in the OCTG business.

From the Duqm base, **METS Oman** services the contract with 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, awarded in 2017 and the largest of its kind ever awarded to METS, 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.

In FY2019, Medserv purchased the remaining 10% that was not held by it in **METS Iraq**. The Group reported an improved positive turnaround from this subsidiary in FY2019 on the back of improved market conditions and political stability in the region as well as leaner cost structures.

Suriname

This shore base was a success story for the Group as for the first time, it combined the cross-selling of OCTG and ILSS services. This base was awarded a fifteen-month €30 million contract in November 2018 by Staatsolie Maatschappij Suriname N.V., a state-owned oil company, for the purpose of drilling nine wells near-shore. The project started on 1 April 2019 and was concluded by the end of December of the same year, three months ahead of schedule. The Group continues to pursue its potential growth opportunities to increase both its client base within Suriname as well as increase its footprint in the region. The base is currently mothballed as the Group intends to remain in the region. In fact, the large finds in Guyana, Trinidad and Tobago, as well as future activity planned in Suriname makes this region an exciting area for exploration in the oil and gas industry.

Egypt

Following the discovery of Zohr[5] in Egyptian territories back in 2015 by ENI, the Medserv Group set up Medserv Egypt in 2016 after the Group's board of directors determined Egypt to be a lucrative region to be in, in view of the potential business. In 2017, Medserv Egypt secured a contract with an ENI group company for a period of three years, with the option to extend. Initially, the Group was procuring equipment from third parties. It then purchased its own equipment in order to manage margins better towards the end of the said year. FY2019 was indeed the first full year when Medserv Egypt was using its own equipment, therefore recognising significant improvement in its financial performance when compared to FY2018, also in view of the improved margins relating to labour contracts in place with the IOC, despite the increased rate of interest applicable on the loan taken in Egypt which was increased by a significant 10% during the year[6].

Following the successful execution of this important contract, the Group is well positioned to secure services of similar scope with other operators in Egypt. In fact, drilling and project development in Egypt remains ongoing and is expected to be maintained at current levels.

3 COVID-19 and Significant Updates in 2020

The 'COVID-19' pandemic resulted in the creation of significant uncertainties within the oil and gas industry, which consequently necessitated the Group to take quick and tough decisions. Overall, Medserv's objective for the year is to preserve liquidity and ensure that it continues to register positive EBITDA. In this respect,

[5] *The Zohr field is believed to be the largest-ever gas discovery in Egypt and the Mediterranean. Zohr is located within the Shorouk concession, approximately 190 km north of the city of Port Said. Eni has a 50 per cent stake in the block and is responsible for operations there. The other stakeholders are Rosneft (30 per cent), BP (10 per cent) and Mubadala Petroleum (10 per cent). In August 2019, production from the field reached more than 2.7 billion cubic feet of gas per day (bcf/d) (source: https://www.eni.com/en-IT/operations/egypt-zohr.html).*

[6] *Management has explained that the Group managed to claw-back the 10% increase on the loan interest during July 2020 and as such, the interest rate on this financing is back to 5%.*

immediate cost containment measures have been put in place across all of the Group's operations. These included restructuring to the new norm and postponing any capital expenditure plans. Such measures ensure that Medserv will have sufficient funds to meets its obligations as they arise and fall due through the course of the year. In fact, based on the Company's mitigation plans put into immediate effect, the Company has confirmed that it has sufficient resources and funds to maintain all its payment obligations as they arise and fall due throughout the course of 2020. Furthermore, the Group is also expected to benefit from the varying schemes adopted by the respective Governments to mitigate the significant economic and financial repercussions from the 'COVID-19' pandemic.

As international oil companies are cutting back on capital expenditure, and customers demanding discounts, the Group's budgeted earnings for the 2020 financial year will be impacted particularly in the ILSS segment. To begin with, given the impact of the significant ILSS contract in Suriname which was terminated in December 2019, the Company's performance in 2020 is not comparable with that recorded in 2019. The lost revenue from Suriname was originally forecasted to be recovered from new drilling projects that were scheduled to commence in Cyprus in Q2 2020. However, the postponement of offshore drilling in Cyprus, coupled with the suspension of other similar drilling projects due to the coronavirus pandemic, has resulted in Medserv revising its budgeted targets downwards. The suspension of service was mainly due to the inability of providing a safe working environment, consequent to travel bans and closure of ports imposed by Governments. Once travel bans are lifted, these long-term energy projects for which Medserv is already contracted to service will resume as their cost of commercialising is low, apart from being located close to the market or are needed for national consumption.

In the case of Suriname, Medserv has resized its setup in the country with a view of maintaining a presence in the region where large finds in neighbouring Guyana, Trinidad and Tobago, as well as future activity planned in Suriname itself, make the region an exciting area for exploration in the oil and gas industry.

On the other hand, the earnings from the OCTG segment of the Company which is driven by onshore drilling activity in the Middle East is expected to be minimally impacted by the pandemic and the decline in oil prices. Demand for supply chain management services is expected to remain strong as national oil companies within this region did not suspend any onshore drilling and continue to confirm their commitment to approved projects as well as to increase their production capabilities.

Overall, Medserv is expecting 2020 to be a challenging year as offshore exploratory drilling and development in the Company's operating markets have been suspended and are projected to resume in Q2 2021 which would thus lead to the EBITDA in 2021 to pave the way to return to the same level as 2019. Nonetheless, Medserv still enjoys a strong business pipeline across its core markets, being North Africa, Eastern Mediterranean and the Middle East, which will allow the Company to implement its financial plan to establish a sustainable long-term capital structure (including reducing indebtedness) and position itself for long-term growth. Additionally, Medserv is awaiting adjudication of several tenders including ILSS services to an international oil company operating offshore Egypt and Supply Chain Management for OCTG contracts in the United Arab Emirates. Beyond existing markets, Medserv has also plans to penetrate new geographies in Africa.

Meanwhile, with respect to the sourcing of a strategic investor, the two major shareholders will continue to seek a new investor that will be ready to support the continued global growth of Medserv.

New Development - Air Liquide

Meanwhile, on 23 March 2020, Medserv plc announced that it signed a long-term agreement with Air Liquide[7] to install and operate a compressed gases filling plant to provide diving and welding gases to the offshore industry in Mediterranean. The facility will be installed at Medserv's base in the Malta Freeport and has already received the required approvals. Plans are in place to commission the gases filling plant by fourth quarter of year 2020.

Update on the Major Shareholders' Divesting Strategy

In April 2018, the two major shareholders, i.e. Mr Anthony Diacono (holding 29.61%) and Malampaya Investments Limited (holding 34.33% and beneficially owned by Mr Anthony J Duncan), both Executive Directors of the Company, informed the board of directors of their intention to seek a strategic investor to purchase their shareholding (in part or in full). The annual general meeting of 28 May 2018 approved that the Company makes available unpublished price-sensitive information that may be necessary for *bona fide* offerors for them to be able to make, confirm, withdraw or modify any *bona fide* offer for the purchase of any or all such shareholding. Further to this announcement, another announcement was made by the Company on 20 May 2019. In this announcement, the Company advised that the two major shareholders received non-binding offers and they were in the process of evaluating the offerors before the Company proceeds with granting selected offerors further information on the Company as part of the process.

During the course of 2019, there were discussions taking place with Advanced Maritime Transports SA (AMT), a Swiss group of companies very active in maritime transport with reportedly strong prominence in the oil and gas sector in Sub-Saharan Africa. The majority shareholders and AMT were discussing a share exchange option that was expected to result in a reverse takeover of the Medserv Group. However, in April 2020, citing reasons relating to the COVID-19 pandemic, this transaction as originally planned was terminated and the Group announced that discussions with AMT could still resume in order to assess whether there is still scope to resume the transaction at a later date.

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.

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[7] *Air Liquide, through its subsidiary Air Liquide Oil & Gas Services Ltd (ALOS) - https://www.airliquide.com/industry/oil-gas*

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.

5 Governance & Management

Board of Directors*	Role
Mr Anthony S Diacono	Chairman & Executive Director
Mr Anthony J Duncan	Executive Director
Dr Laragh Cassar	Non-Executive Director & Company Secretary
Mr Joseph Zammit Tabona	Non-Executive Director
Mr Joseph F X Zahra	Chairman of Audit Committee & Non-Executive Director

Executive Management	Role
Mr Carmel *sive* Karl Bartolo	Group Chief Executive Officer
Mr Silvio Camilleri	Group Chief Financial Officer
Mr Edward Farrugia	Group Chief Information Officer
Mr Christopher Clark	Regional General Manager, Cyprus and Malta
Mr Godfrey Attard	Managing Director, Egypt
Mr Gareth McMurray	Regional General Manager, Middle East

**Godwin Borg held the post of director of the Company until 2 July 2019. In the upcoming annual general meeting of the shareholders, the Company advised in its notice to shareholders that it received nominations from Anthony S. Diacono, Joseph Zammit Tabona, Laragh Cassar, Carmelo sive Karl Bartolo, Kevin Rapinett and Etienne Borg Cardona for appointment to the board. Joseph F X Zahra did not submit himself for nomination to the board.*

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.

MEDSERV p.l.c.
(Malta)

99.9%
Medserv Libya Ltd
(Malta)

Medserv Libya
Branch

99.9%
Medserv Eastern
Mediterranean Ltd
(Malta)

80%
Medserv (Cyprus) Ltd
(Cyprus)

60%
Medserv Egypt Oil &
Gas Services J.S.C
(Egypt)

50.0%
InMedco Ltd
(Malta)

99.9%
Medserv International
Ltd
(Malta)

100%
Medserv Suriname
Branch

100%
Medserv Energy TT
Ltd
(Trindad)

99.9%
Medserv Western
Mediterranean Ltd
(Malta)

99.9%
Medserv Operations
Ltd
(Malta)

99.9%
Medserv M.E. Ltd
(Malta)

100%
Middle East Tubular
Services Holdings Ltd
(BVI)

100%
Middle East Tubular
Services (Gulf) Limited
(BVI)

10%

90%
Middle East
Comprehensive Tubular
Services Duqm LLC
(Oman)

100%
Middle East Tubular
Services Ltd
(BVI)

Hamriyah Free Zone
Branch.
Sharjah, UAE

10%

90%
Middle East Tubular
Services LLC
(FZC) (Oman)

100%
Middle East Tubular
Services (Iraq) Ltd
(BVI)

7 MAJOR ASSETS

The Group's major capital assets are split in three: 'Intangible Assets & Goodwill'; 'Property, Plant & Equipment' (PPE) and 'Right-of-use assets' (ROU).

The below schedule provides a split of the components within each asset class.

	FY2017	FY2018	FY2019
	€	€	€
Property, Plant & Equipment	31,883,439	33,200,773	31,472,005
Buildings & base Improvements	*14,108,246*	*13,260,915*	*13,512,202*
Plant & equipment	*9,997,824*	*13,631,874*	*12,322,228*
PV farm	*3,287,112*	*3,079,006*	*2,870,895*
Cargo carrying units	*2,341,815*	*1,994,379*	*1,647,298*
Furniture, fittings & office equipment	*828,116*	*680,787*	*710,379*
Motor vehicles	*264,547*	*287,889*	*183,176*
Assets not yet in use	*1,055,779*	*265,923*	*225,827*
Intangible Assets & Goodwill	14,499,708	13,162,169	11,751,165
Goodwill	*2,470,311*	*2,605,760*	*2,667,740*
Brand	*232,262*	*203,822*	*175,383*
Customer Relationships	*11,516,934*	*10,106,697*	*8,696,461*
Licences	*280,201*	*245,890*	*211,581*
Right-of-use assets	75,895,472	78,335,057	75,847,997
Total Major Assets	122,278,619	124,697,999	119,071,167
Total Assets	153,273,143	156,777,072	154,685,386
Major Assets as a % of Total Assets	*79.8%*	*79.5%*	*77.0%*

PPE includes those assets used in the operations of the Group. 75% of the buildings and base improvements relate to the shore base in Malta and includes warehouses, workshops, open yard facilities and offices. Plant and equipment consist mainly of heavy lifting equipment spread across the Group and fully equipped bulk plant facilities in Malta for the cutting of and storage of cement, barite and bentonite. The PV farm is located at its base in Malta and consists of over 8,000 photovoltaic panels producing around 2MWp of electricity which is sold back to the local grid. The Group owns a fleet of cargo carrying units (CCUs) which are located in Malta and in Cyprus. Assets not yet in use as at the year-ended 31 December 2019 comprise of machinery to be utilised in the Group's future projects in the Middle East. The movements in this asset class would typically be either additions (particularly when a new contract is awarded which would require new machinery) and depreciation charges.

The Intangible Assets & Goodwill were recognised in FY2016 upon the acquisition and consolidation of the METS Group. The intangible assets consist mainly of acquired customer relationships and is being amortised over a period of ten years. The remaining intangible assets are amortised over their useful life. Goodwill arising from this acquisition 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 has been wholly 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 at least annually.

Medserv was an early adopter of IFRS 16 *Leases*. As a result, as from FY2017, Medserv started recognising on its balance sheet the leases of its bases across the Group, namely in Malta, Cyprus, Oman, UAE and Iraq. The Group carries out a fair value exercise to revalue the property rights over the land that the Group holds on a regular basis. 75% of the right-of-use assets consist of the revalued property rights held at the Malta Freeport Terminals, which comprise industrial land and the overlying buildings and facilities and the property rights at Hal Far Industrial Estate, which comprise two adjacent plots of industrial land. 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. 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.

ASSUMPTIONS FOR FY2020

The forecasts have been based on the key developments that the Group expects to happen during FY2020, as described further in sections 3 and 4 above.

8 ISSUER PERFORMANCE & FINANCIAL POSITION OVERVIEW

This section provides an analysis of the FY2019 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 2020 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.

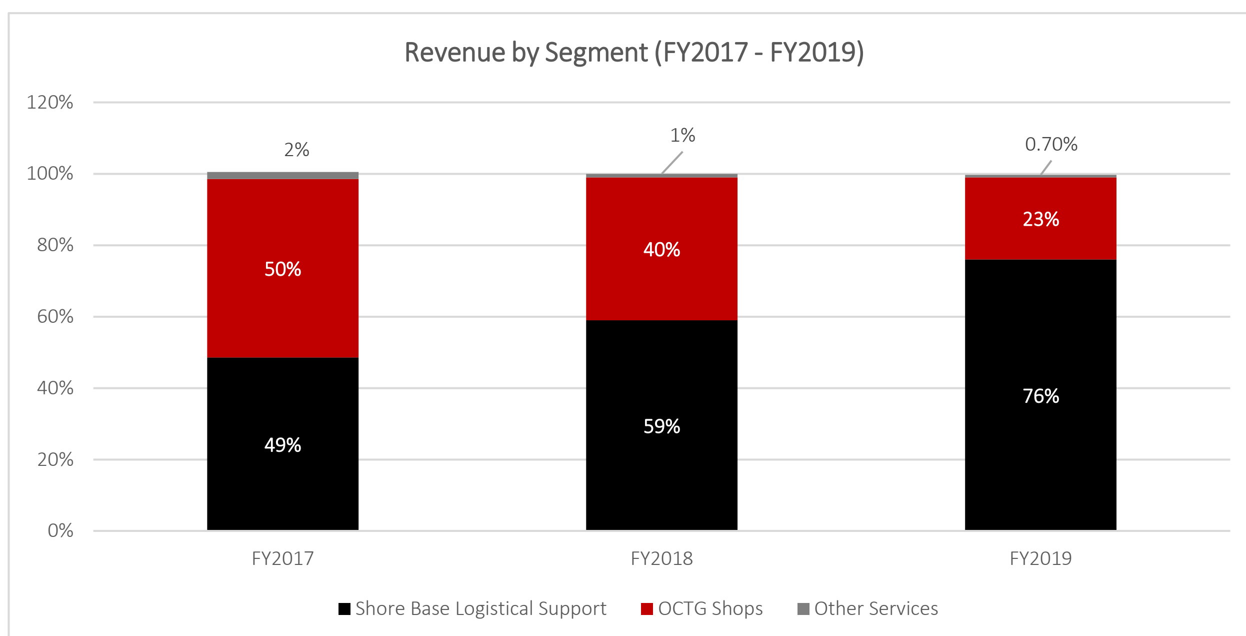
8.1 INCOME STATEMENT

for the year ended 31 December	ACTUAL 2017 *€'000*	ACTUAL 2018 *€'000*	ACTUAL 2019 *€'000*	FORECAST 2020 *€'000*
Revenue	28,777	36,187	68,730	27,055
Cost of Sales	(19,495)	(24,557)	(50,257)	(16,274)
Gross Profit	**9,282**	**11,630**	**18,473**	**10,781**
Other income	817	1,432	1,376	1,039
Administrative expenses	(5,611)	(5,352)	(7,017)	(6,340)
Impairment loss on financial assets	-	(122)	(69)	-
Other expenses	(159)	(269)	(44)	-
EBITDA	**4,329**	**7,319**	**12,719**	**5,480**
Depreciation	(5,646)	(7,874)	(7,840)	(7,656)
Impairment on PPE	-	(982)	-	**-**
Amortisation of Intangible Assets	(2,779)	(1,924)	(1,791)	(1,791)
Results from operating activities	**(4,096)**	**(3,461)**	**3,088**	**(3,967)**
Finance income	478	0	51	-
Finance costs	(4,419)	(5,370)	(5,693)	(5,723)
Net finance costs	(3,941)	(5,370)	(5,641)	(5,723)
Loss before tax	**(8,037)**	**(8,831)**	**(2,553)**	**(9,690)**
Tax income / (expense)	403	(696)	(808)	(106)
	(7,634)	(9,526)	(3,361)	(9,796)
Profit from Discontinued Operations	-	-	28	-
Loss for the period	**(7,634)**	**(9,526)**	**(3,333)**	**(9,796)**

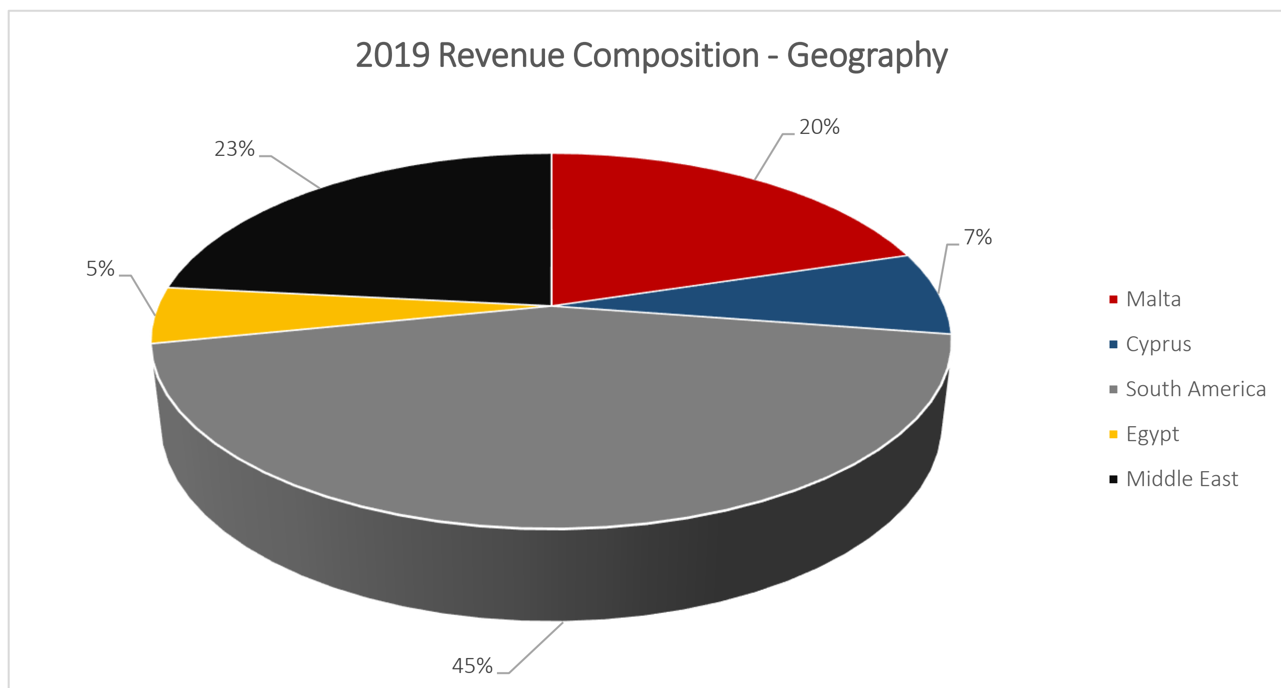
Note: earnings per share (EPS) and dividend cover ratios have not been compiled since the Group's results have been negative in the periods under review.

FY2019 REVIEW

Revenue in FY2019 increased from €36.2 million to €68.7 million. The increase in revenue during the financial year under review was mainly attributable to the nearshore drilling project in Suriname. This led to the ILSS segment, one of the three main revenue segments of the Group, to contribute 76% to the year's revenue (FY2018: 59%). Meanwhile, revenue from OCTG activities increased in absolute terms, albeit at a slower pace than ILSS.



As inferred to above, the majority of the revenue in FY019 was generated through the Suriname contract, which contributed approximately €30.5 million, representing 45% of total revenue for the year. The Suriname contract was awarded in November 2018, with mobilisation starting in January 2019. The project started in April 2020 and ended in mid-December 2019. The Company believes that this contract has provided the Group with significant positive exposure, particularly in cognisance of the opportunities that there are in the area (in view of the discoveries made in neighbouring Guyana).



During FY2019, the Malta base secured a number of engineering services relating to the repair of a crane boom located on the Bouri platform, dredging works at the Azzawiya Harbour, maintenance projects for an oil tanking company and various tank cleaning projects, resulting in revenue of €13.9 million, representing 20% of total revenue.

Another major revenue contributor was the METS OCTG business. While the business generated from the Omani subsidiary (Duqm) remained largely in line with FY2018, the Company reported an improvement in Sohar (Oman) and Iraq as the market improved. In FY2019, METS recorded revenues of €16 million, representing 23% of total revenue.

Meanwhile, revenue from the Cypriot base was 7% to total revenue, despite being active only three months during FY2019. Operations in Egypt commenced in January 2018 and following the commissioning of its own equipment, the Company managed better margins in FY2019. Revenue from Medserv Egypt was €3.3 million in FY2019.

As a result of the increased activity in FY2019, the Group's cost base increased both in terms of cost of sales and administrative costs pertaining to operations. The Group's EBITDA significantly improved from that of FY2018, at €12.7 million (FY2018: €7.3 million) as a result of the growth in revenue. Depreciation and amortisation charges amounted to €9.6 million, which resulted in an operating profit of €3.1 million (FY2018: operating loss of €3.5 million). After recognising a net finance charge of €5.6 million and taxation charge of €0.8 million, the Group's performance turned negative, resulting in a loss of €3.4 million for the year.

Forecasts FY2020

As explained in section 4 of this report, FY2020 is expected to be characterised by a slowdown of activity in the sector. Demand for energy slowed down in the former part of the year following the various lock downs across the globe, while the restrictions on the movement of people was not helpful in being able to continue with operations. The Group has experienced increased demand for storage and repair works, particularly at its METS base, in view of the slowdown in drilling activities.

Contracted works in Cyprus that were meant to commence in April 2020 have been delayed by a year, likewise offshore Libya projects that were contracted to operate from the Malta base have been postponed to June 2021. Before the shift, the Cypriot base was very busy with a number of ad-hoc requests, including pipe inspections. METS will continue to be the main contributor for FY2020, at €14.3 million of the €27.1 million forecasted revenue.

As a result, revenue in FY2020 is expected to reflect the revenue contracted before lock-down at the various bases and the shift of contracted works to a later date. EBITDA for the year is expected to be €5.5 million (a contraction of 57% over that of FY2019, although representing a better margin to revenue of 20.3% (FY2019: 18.5%) as the Group continues to rationalise on costs at the various bases. This level of EBITDA however, will not be sufficient to absorb the depreciation and amortisation charges for the year (€9.4 million) and the finance costs accrued for the period (€5.7 million), and as a result, the Group is expected to end FY2020 with a loss of €9.8 million (FY2019: loss of €3.4 million).

8.2 Statement of Cash Flows

for the year ended 31 December	Actual 2017 €'000	Actual 2018 €'000	Actual 2019 €'000	Forecast 2020 €'000
Net cash from / (used for) operating activities	4,525	8,839	10,054	10,332
Net cash used for investing activities	(2,464)	(6,557)	(1,690)	(400)
Net cash used for financing activities	(5,031)	(2,346)	(9,836)	(7,992)
Net movements in cash and cash equivalents	**(2,970)**	**(64)**	**(1,472)**	**1,940**
Cash and cash equivalents at beginning of the year	6,218	2,769	2,407	625
Effects of exchange rate fluctuations on cash held	(479)	(298)	(283)	-
ECL Allowance	-	-	(27)	(27)
Cash and cash equivalents at end of year	**2,769**	**2,407**	**625**	**2,538**

FY2019 Review

The increased level of business generated superior cash flows from operations during FY2019, which at €10.1 million was nearly 14% that of FY2018. The Group's investing activities in FY2019, compared to those in FY2018, were subdued, as the investments to equip the new bases incurred in FY2018 (particularly in Egypt) were to a lesser extent in FY2019. As a result, cash outflows related to investing activities were at €1.7 million compared to the €6.6 million a year earlier. Financing activities absorbed a further €9.8 million in FY2019 (FY2018: €2.3 million outflow, netted off by increased borrowings).

Forecasts FY2020

With FY2020 expected to be a year of rationalisation of costs, cash flows for the period are expected to improve mainly as a result of working capital movements (receipts from trade debtors relating to FY2019 and a lower receivables balance at the end of FY2020 in view of the reduced activity). The Group's cash from operations of €10.3 million are expected to sufficiently cover the cash flows related to financing activities (which continue to have to be paid out, notwithstanding the delay in contracts) of €8 million, while cash flows expected to be used in investing activities are expected to amount to just under half a million euro on the basis of subdued operations during the year.

8.3 STATEMENT OF FINANCIAL POSITION

as at 31 December	Actual 2017 €'000	Actual 2018 €'000	Actual 2019 €'000	Forecast 2020 €'000
ASSETS				
Goodwill and intangible assets	14,500	13,162	11,751	10,278
Property, plant and equipment	31,883	33,201	31,472	28,605
Trade and other receivables	483	-	-	-
Contract costs	954	636	368	-
Right-of-use assets	75,896	78,335	75,848	71,652
Deferred tax assets	9,266	9,419	8,303	8,201
Total non-current assets	132,982	134,753	127,743	118,736
Inventories	1,248	1,275	1,383	1,245
Current tax asset	3	1	107	96
Contract costs	378	334	318	318
Contract assets	803	68	1,608	-
Trade and other receivables	14,226	14,731	17,784	8,649
Cash at bank and in hand	3,634	5,616	5,743	4,888
Total current assets	20,292	22,024	26,942	15,196
Total assets	153,274	156,777	154,685	133,932
LIABILITIES				
Deferred income	32,632	31,852	31,072	30,296
Loans and borrowings	1,222	3,975	2,449	2,699
Bond (listed)	49,571	50,053	50,343	50,663
Trade and other payables	-	-	1,860	1,860
Lease liabilities	25,055	28,683	29,171	26,944
Deferred tax liabilities	6,017	6,486	6,223	6,084
Provisions & employee benefits	1,214	819	960	1,008
Total non-current liabilities	115,711	121,868	122,077	119,554
Current tax payable	1	37	12	-
Deferred income	776	876	776	776
Lease liabilities	842	1,826	1,374	1,720
Loans and borrowings	2,047	5,285	7,264	4,129
Trade and other payables, provisions & employee benefits	5,798	8,190	9,095	3,460
Total current liabilities	9,464	16,213	18,519	10,085
Total liabilities	125,175	138,080	140,597	129,639
EQUITY				
Share capital	5,374	5,374	5,374	5,374
Share premium	12,004	12,004	12,004	12,004
Reserves	9,721	10,187	9,829	9,570
Retained earnings	1,152	(8,216)	(12,439)	(21,675)
Total equity attributable to equity-holders of the Company	28,251	19,349	14,768	5,273
Non-controlling interest	(152)	(653)	(680)	(980)
Total equity	28,099	18,696	14,088	4,293
Total equity and liabilities	153,274	156,777	154,685	133,932

FY2019 Review

The Group's total asset base contracted marginally in FY2019 – this was mainly the result of the depreciation and amortisation charges to the Group's major assets - *further information on the Group's major assets is in section 7 of this report*. Meanwhile, the current assets of the Group increased by 22% to €26.9 million, as the increased operations resulted in an increase in trade and other receivables and contract assets.

Funding of the Group's operations is through a mix of debt and equity, with borrowings increasing only marginally in FY2019 despite the increase in activities as the Group funded most of its operations through working capital management and own cash flow resources.

	Actual	Actual	Actual	Forecast
for the year ended 31 December	**2017**	**2018**	**2019**	**2020**
	€'000	*€'000*	*€'000*	*€'000*
Loans and borrowings (non-current)	1,222	3,975	2,449	2,699
Bond (listed)	49,571	50,053	50,343	50,663
Loans and borrowings (current)	2,047	5,285	7,264	4,129
Total Borrowings	**52,840**	**59,313**	**60,056**	**57,491**
Cash at bank and in hand	3,634	5,616	5,743	4,888
Net Debt	**49,206**	**53,697**	**54,313**	**52,603**

In view of the increased activities, the Group had a higher level of trade payables (FY2019: €11 million vs FY2018: €8.2 million), reflecting mainly the additional creditors created for the Suriname contract.

The Group's equity base was negatively impacted by the losses incurred during the year, which increased the negative balance in the retained earnings reserve to €12.4 million.

Forecasts FY2020

The fixed assets of the Group are not expected to be materially different in FY2020, save for the depreciation and amortisation charges that write down the book value of the various asset classes. In terms of current assets, the Group is expected to receive payments from its trade debtors and reduce its payables accordingly, including the repayment of loan balances.

The Group's equity base will be impacted negatively again in FY2020, in view of the loss expected to be made in the year, bringing total equity down to €4.3 million.

8.4 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.

Note: where the ratios were non-comparable because of a negative return or a negative result, the ratio has been recorded as 'n/a' or excluded from the list of ratios presented in view of negative returns in all years under review.

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.

	Actual FY2017	Actual FY2018	Actual FY2019	Forecast FY2020
Gross Profit margin *(Gross Profit / Revenue)*	32.25%	32.14%	26.88%	39.85%
EBITDA margin *(EBITDA / Revenue)*	15.04%	20.23%	18.51%	20.26%
Operating Profit margin *(Operating Profit / Revenue)*	n/a	n/a	4.49%	n/a

The four years reviewed in this report have been characterised by negative returns for the Group. As such, while up to EBITDA level, the Group was generating healthy margins, the charges pertaining to depreciation and amortisation (particularly) and finance costs resulted in the Group registering a loss in all three historic years with the same projected for FY2020.

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 FY2017	Actual FY2018	Actual FY2019	Forecast FY2020
Current Ratio *(Current Assets / Current Liabilities)*	2.14x	1.36x	1.45x	1.51x
Cash Ratio *(Cash & cash equivalents / Current Liabilities)*	0.38x	0.35x	0.31x	0.49x

The Group's current ratio for the past two years has been around the 1.4x level, which is weaker than that of FY2017. This was necessary in view of Medserv's increased scope of works from FY2018 (particularly in Egypt in FY2018 and in Suriname in FY2019). In FY2020, this ratio is expected to improve marginally to 1.51x as short-term payables are expected to be reduced.

The cash ratio was under pressure also for the same reason as explained above – the Medserv business model requires an element of significant investment whenever new regions are being entered into. This ratio is expected to improve in FY2020 as investment is subdued as projects got delayed to next year and as such, the Group will be focusing its financial resources to manage working capital.

Solvency Ratios

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

	Actual FY2017	Actual FY2018	Actual FY2019	Forecast FY2020
Interest Coverage ratio *(EBITDA / Net finance costs)*	1.10x	1.36x	2.25x	0.96x
Gearing Ratio (1) *(Net debt / Total Equity)*	1.75x	2.87x	3.86x	12.25x
Gearing Ratio (2) *[Total debt / (Total Debt plus Total Equity)]*	65.28%	76.03%	81.00%	93.05%
Net Debt to EBIDTA *(Net Debt / EBIDTA)*	11.37x	7.34x	4.27x	9.60x

As EBITDA improved over the years FY2017 to FY2019, interest coverage and net debt to EBITDA ratios improved significantly. This is expected to weaken in FY2020 in view of the slowdown of activities during the year.

Meanwhile, however, gearing ratios are significantly weakening, as the losses made in each of the years under review have been impacting negatively the equity base of the Group, with gearing expected to increase to as much as 93% in FY2020 in view of the persisting negative returns expected during the year.

8.5 VARIATIONS IN THE ISSUER'S FINANCIAL PERFORMANCE

for the year ended 31 December	Actual 2019 *€'000*	Forecast 2019 *€'000*	*Variance*
Revenue	68,730	64,221	*7.02%*
Cost of Sales	(50,257)	(46,040)	*9.16%*
Gross Profit	**18,473**	**18,181**	*1.61%*
Other income	1,376	912	*50.82%*
Administrative expenses	(7,017)	(4,959)	*41.49%*
Impairment loss on financial assets	(69)	-	*n/a*
Other expenses	(44)	-	*n/a*
EBITDA	**12,719**	**14,134**	*-10.01%*
Depreciation	(7,840)	(8,759)	*-10.50%*
Amortisation of Intangible Assets	(1,791)	(1,791)	*0.00%*
Results from operating activities	**3,088**	**3,584**	*-13.83%*
Finance income	51	-	*n/a*
Finance costs	(5,693)	(5,313)	*7.14%*
Net finance costs	(5,641)	(5,313)	*6.18%*
Loss before tax	**(2,553)**	**(1,729)**	*47.66%*
Tax income / (expense)	(808)	(216)	*273.89%*
	(3,361)	**(1,945)**	*72.78%*
Profit from Discontinued Operations	28	-	*n/a*
Loss for the period	**(3,333)**	**(1,945)**	*71.36%*

Despite revenue for FY2019 being 7% higher than forecasted in last year's report, the EBITDA generated was 10% lower to that forecasted since Medserv incurred additional expenses in relation to the majority shareholding exercise (further information on this exercise may be found in section 3 of this report). Depreciation charges were lower in FY2019 than anticipated because during the year, following discussions at Audit Committee level, the Group modified its depreciation policy, which now takes into account a more-realistic scenario of a residual value of the capital assets at the end of the useful life and as such results in a lower depreciation charge per annum. However, the increase in borrowings against what was originally forecasted led to higher finance costs incurred, while the increase in revenues resulted in an increase in tax charge for the year. This resulted in a loss for the year which came in higher than forecasted at €3.3 million (forecasted: €1.9 million)

9. 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 FY2019 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.

9.1 Income Statement

for the year ended 31 December	Actual 2017 *€'000*	Actual 2018 *€'000*	Actual 2019 *€'000*	Forecast 2020 *€'000*
Revenue	11,109	13,672	13,768	6,105
Cost of Sales	(7,986)	(9,451)	(8,920)	(4,934)
Gross Profit	**3,123**	**4,221**	**4,848**	**1,171**
Other income	876	878	941	775
Administrative and other expenses	(2,785)	(1,384)	(1,965)	(2,000)
EBITDA	**1,214**	**3,715**	**3,824**	**(54)**
Depreciation and amortisation	(2,382)	(2,898)	(2,506)	(2,519)
Results from operating activities	**(1,168)**	**818**	**1,318**	**(2,573)**
Net impairment loss on amounts receivable from related parties	-	(82)	1,232	-
Net finance costs	(1,110)	(1,180)	(1,160)	(970)
Profit / (Loss) before tax	**(2,278)**	**(444)**	**1,390**	**(3,543)**
Tax income / (expense)	629	(786)	(204)	44
Net Profit / (Loss) for the year	**(1,649)**	**(1,230)**	**1,186**	**(3,499)**

FY2019 Review

In terms of revenue, FY2019 was an almost identical year to FY2018. Revenue generation was mainly attributable to the increase in volume activity continuing from FY2018 after a period of two years of relative market downturn previously. In FY2019, the Guarantor also secured a number of services principally in the engineering space. These included crane boom repairs, dredging works, maintenance and tank cleaning projects as well as transportation and handling of heavy equipment for use in specific offshore activities that the Guarantor has been servicing for a number of years.

In addition, the Company was also involved in the provision of manpower and equipment for a one-off new project awarded mid-way through FY2019 which is also expected to spill over into FY2020. Here again, this one-off project is related to the servicing of facilities on a platform that has been serviced by the Guarantor for some time and in anticipation of increased activity in the future.

The improved turnover and margins in FY2019 including the engineering services highlighted above, improved the Guarantor EBITDA from €3.7 million to €3.8 million. After accounting for a reversal in the impairment allowance on related party balances, the Company achieved a profit before tax of just under €1.4 million.

Forecasts FY2020

The business pipeline of the Guarantor has naturally been impacted by COVID-19 and the FY2020 forecasts factor in this global pandemic that has halted activity for a period of time as port operations were effectively shut down. The impact is material.

The forecasts account for the provision of shore base services and maintenance services for various oil and gas projects in the central Mediterranean which projects are anticipated to use the Medserv shore base in Malta to logistically support the operations. Furthermore, management has advised that it is confident that the Guarantor will continue to remain the shore base of choice for operations offshore Libya despite the continued political turmoil and hostile environment in the country. The storage capabilities in Malta remains an attractive offering and further business in this regard is forecasted in FY2020. As such, it seems that business lost and reflected in the forecasts for FY2020 will spill over into subsequent years.

A number of contracts effective FY2019 remain in force some of which are even extendible however a marked slowdown in activity in relation to these contracts was inevitable. Most notably, however, the Guarantor is forecasting new business in FY2020 that is factored into the numbers provided emanating from a long-term agreement concluded with Air Liquide as announced. In order to provide these services from its base in Malta, the Guarantor has had to apply and has indeed obtained the necessary approvals for the installation of facilities at the base that will support this contract. The forecasts factor in that the works will start in the second half of FY2020.

As a result, the Guarantor is forecasting a relatively material loss in 2020 as revenue is expected to more than halve from €13.7 million in 2019 to €6.1 million in 2020.

9.2 STATEMENT OF CASH FLOWS

for the year ended 31 December	Actual 2017 *€'000*	Actual 2018 *€'000*	Actual 2019 *€'000*	Forecast 2020 *€'000*
Net cash from / (used for) operating activities	1,558	594	957	1,260
Net cash used for investing activities	(1,596)	(196)	(618)	(400)
Net cash used for financing activities	(1,236)	(2,128)	(1,660)	473
Net movements in cash and cash equivalents	**(1,273)**	**(1,730)**	**(1,321)**	**1,333**
Cash and cash equivalents at beginning of the year	699	(574)	(2,305)	(3,626)
Cash and cash equivalents at end of year	**(574)**	**(2,305)**	**(3,626)**	**(2,293)**

FY2019 REVIEW

The cash contribution from operating activities during FY2019 was superior to that of FY2018, reflecting increased operational activity during the year. Investing activities during the year increased from €200,000 to €600,000 as additional investment was required to service its existing operational activity. Meanwhile, in terms of cash flows used for financing activities, the company made use of €1.6 million principally to honour its lease obligations. The company closed the year in a negative cash position of €3.6 million rising from €2.3 million in 2018.

FORECASTS FY2020

The forecasts for FY2020 indicate a material decrease in cash used for financing and investing activities as business is materially curtailed for a good part of the year in view of the halting of activity due to COVID-19. The resultant decrease in net cash used is forecasted to results in positive net cash movements for the year under review thereby reducing the negative cash position from €3.6 million to €2.3 million.

9.3 Statement of Financial Position

as at 31 December	Actual 2017 €'000	Actual 2018 €'000	Actual 2019 €'000	Forecast 2020 €'000
ASSETS				
Property, plant and equipment	18,043	16,747	16,256	15,542
Right-of-use assets	59,914	58,509	57,104	55,698
Deferred tax assets	9,213	8,582	8,238	8,142
Total non-current assets	**87,170**	**83,837**	**81,598**	**79,382**
Contract asset	69	24	542	-
Trade and other receivables	13,612	15,103	8,015	4,623
Cash at bank and in hand	290	108	83	105
Total current assets	**13,971**	**15,235**	**8,640**	**4,728**
Total assets	**101,141**	**99,072**	**90,238**	**84,110**
LIABILITIES				
Deferred income	32,572	31,797	31,021	30,246
Non-current portion of loan from parent	8,035	8,050	2,077	3,727
Non-current portion of bank loan	1,222	549	235	-
Lease liabilities	9,906	9,977	10,043	10,088
Deferred tax liability	5,935	5,796	5,656	5,517
Provisions	31	33	33	33
Total non-current liabilities	**57,701**	**56,202**	**49,065**	**49,611**
Deferred income	776	876	776	776
Current portion of bank loan and bank overdraft	2,047	3,148	4,023	2,655
Amount due to parent	3,997	3,900	-	-
Trade and other payables	2,261	2,667	3,356	1,016
Provision	-	-	16	-
Total current liabilities	**9,081**	**10,589**	**8,171**	**4,997**
Total liabilities	**66,782**	**66,791**	**57,236**	**54,608**
Equity				
Share capital	233	233	233	233
Shareholder's contribution	13,074	13,074	13,074	13,074
Reserves	20,320	19,102	18,844	18,584
Retained earnings	732	(129)	851	(2,389)
Total equity	**34,359**	**32,280**	**33,002**	**29,502**
Total equity and liabilities	**101,141**	**99,072**	**90,238**	**84,110**

FY2019 Review

Financial position movements in FY2019 focused principally on a reduction in receivables and a corresponding decrease in liabilities following the settlement by the Guarantor of a loan to its parent by way of assignment of receivable balances from group entities. The impact of depreciation of the company's property, plant and equipment and the lease payments also had it usual effect on the balance sheet while bank facilities increased marginally.

Meanwhile, in view of the profits generated in FY2019, retained earnings experienced a swing from negative to positive thereby pushing up total equity to €33 million. The company did not have any distributable reserves and as such no dividends were distributed to the parent.

Forecasts FY2020

The asset base as at the end of FY2020 is expected to contract to €84 million, reflecting the depreciation charge to the company's leased asset and PPE as well as a material reduction in activity as highlighted earlier. Financing is expected to remain composed of a mix of bank facilities in place and equity albeit dependence is likely to decrease as activity dwindles for the reasons mentioned earlier. As such, retained earnings are once again expected to swing into negative territory bringing total equity to under €30 million.

9.4 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.

Note: where the ratios were non-comparable because of a negative return or a negative result, the ratio has been recorded as 'n/a'.

PROFITABILITY RATIOS

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

	Actual FY2017	Actual FY2018	Actual FY2019	Forecast FY2020
Gross Profit margin *(Gross Profit / Revenue)*	28.11%	30.87%	35.21%	19.18%
EBITDA margin *(EBITDA / Revenue)*	10.93%	27.17%	27.77%	-0.88%
Operating Profit margin *(Operating Profit / Revenue)*	n/a	5.98%	9.57%	-42.15%
Net Profit margin *(Profit for the period / Revenue)*	n/a	n/a	8.61%	n/a
Return on Equity *(Profit for the period / Average Equity)*	n/a	n/a	3.63%	n/a
Return on Capital Employed *(Profit for the period / Average Capital Employed)*	n/a	n/a	2.85%	n/a
Return on Assets *(Profit for the period / Average Assets)*	n/a	n/a	1.25%	n/a

An improvement in margins and returns across the board were registered in 2019 compared to 2018. However, as can be seen and in view of the reason mentioned earlier in the income statement forecast review, the numbers are expected to turn materially negative in 2020 as activity sinks.

Liquidity Ratios

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

	Actual FY2017	Actual FY2018	Actual FY2019	Forecast FY2020
Current Ratio *(Current Assets / Current Liabilities)*	1.54x	1.44x	1.06x	0.95x
Cash Ratio *(Cash & cash equivalents / Current Liabilities)*	0.03x	0.01x	0.01x	0.02x

Dependency of the Guarantor on the bank overdraft was essential in FY2018 and likewise in FY2019, as evidenced by the company's cash ratio of just 0.01 times, as the situation with respect to payment processes specifically emanating from Libya remained evident. This situation is not expected to improve throughout FY2020.

Solvency Ratios

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

	Actual FY2017	Actual FY2018	Actual FY2019	Forecast FY2020
Interest Coverage ratio *(EBITDA / Net finance costs)*	1.09x	3.15x	3.30x	-0.06x
Gearing Ratio (1) *(Net debt / Total Equity)*	0.32x	0.36x	0.19x	0.21x
Gearing Ratio (2) *[Total debt / (Total Debt plus Total Equity)]*	24.76%	26.68%	16.10%	17.79%
Net Debt to EBIDTA *(Net Debt / EBIDTA)*	9.07x	3.13x	1.63x	-116.24x

Interest cover in FY2019 improved marginally over that for FY2018 to remain at over 3x. However, the results for FY2020 as forecasted as likely to reverse this positive multiple completely as activity slides, generating materially lower levels of EBITDA, indeed forecasted at negative. Gearing ratios for FY2019 improved as did the all-important net debt to EBITDA multiple. Unfortunately, for reasons described above, these numbers are expected to deteriorate materially in FY2020.

9.5 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 above.

for the year ended 31 December	Actual 2019 *€'000*	Forecast 2019 *€'000*	*Variance*
Revenue	13,768	14,767	*-6.77%*
Cost of Sales	(8,920)	(10,263)	*-13.09%*
Gross Profit	**4,848**	**4,504**	*7.64%*
Other income	941	876	*7.42%*
Administrative and other expenses	(1,965)	(1,345)	*46.10%*
EBITDA	**3,824**	**4,035**	*-5.23%*
Depreciation and amortisation	(2,506)	(3,081)	*-18.66%*
Results from operating activities	**1,318**	**954**	*38.16%*
Net impairment loss on amounts receivable from related parties	1,232	-	
Net finance costs	(1,160)	(1,089)	*6.52%*
Profit / (Loss) before tax	**1,390**	**(135)**	*-1129.63%*
Tax expense	(204)	(504)	*-59.52%*
Net Profit / (Loss) for the year	**1,186**	**(639)**	*-285.60%*

Gross profit in FY2019 was actually marginally better than forecasted as the drop in cost of sales more than offset the drop in actual revenue compared to forecast. Meanwhile however, actual EBITDA was 5% lower than forecasted and administrative and other expenses were materially above forecast, particularly in relation to human resources and travelling costs. There was a material improvement in bottom line principally as a result of the reversal of a net impairment loss on a related party receivable that was not forecasted.

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

PART D COMPARATIVES

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.

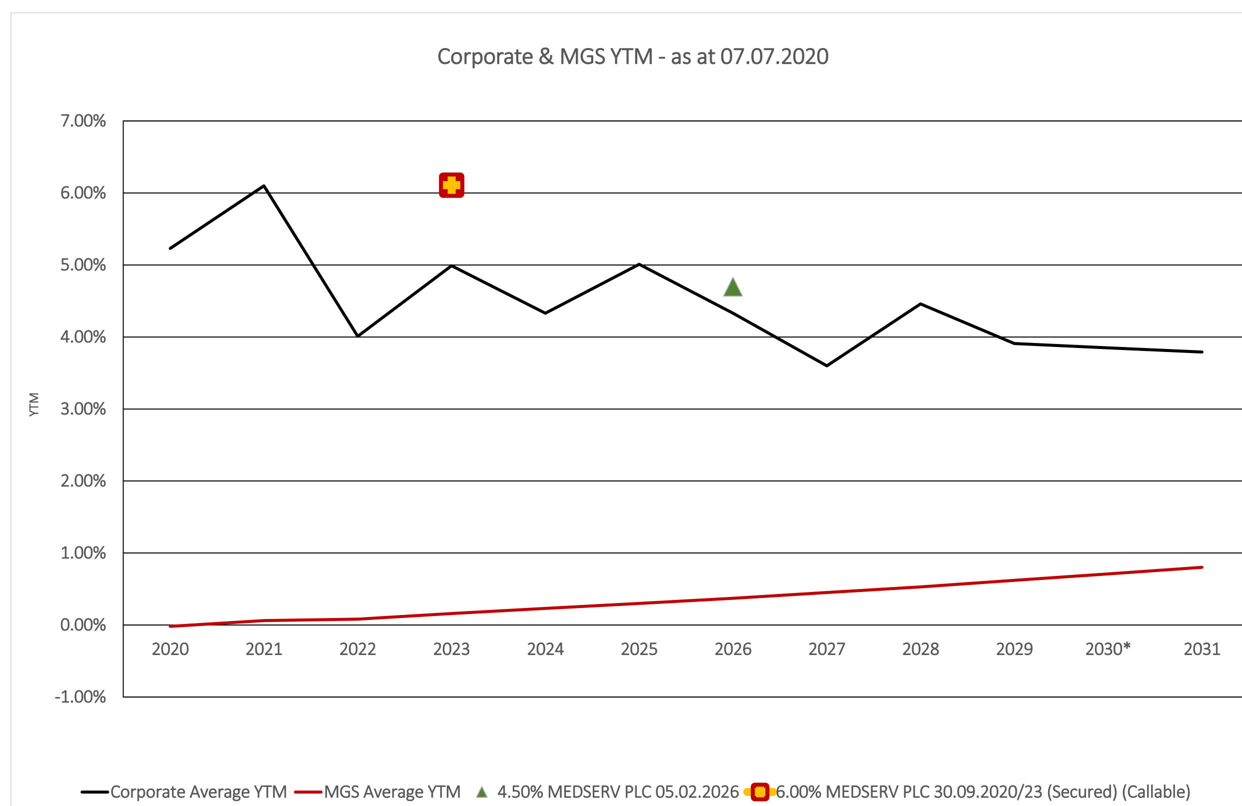
Bond Details	*Amount Outstanding (€)*	*Gearing**	*Net Debt to EBITDA*	*Interest Cover (times)*	*YTM (as at 07.07.2020)*
4.25% GAP Group plc 2023 (Secured)	19,394,000	79.38%	7.00	2.22	3.88%
5.80% Int. Hotel Investments plc 2023	55,000,000	36.46%	7.53	3.05	5.79%
6.00% AX Investments plc 2024	40,000,000	19.11%	3.23	5.55	4.82%
6.00% MEDSERV PLC 2020/23 (Secured) (Callable)	20,000,000	78.62%	4.27	2.25	6.11%
4.00% MIDI plc 2026 (Secured)	50,000,000	26.50%	3.11	5.82	3.90%
4.00% Int. Hotel Investments plc 2026 (Secured)	55,000,000	36.46%	7.53	3.05	4.00%
3.90% Plaza Centres plc 2026	8,500,000	26.27%	3.92	6.30	3.90%
4.50% MEDSERV PLC 2026	21,982,000	78.62%	4.27	2.25	4.70%
3.25% AX Group plc 2026	15,000,000	19.11%	3.23	5.55	3.25%

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

**Gearing: (Net Debt / [Net Debt + Total Equity])*

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 7 July 2020.

MEDSERV PLC BONDS' YTM VS CORPORATE & MGS YTM – AS 7 JULY2020



** For the purposes of 2030, given that there are no other listed corporate bonds with a 2030 maturity, the average YTM of 2029 and 2031 average corporate yields was taken.*

Both the Medserv bonds currently outstanding yield a rate which constitutes a premium to the corporate bonds' average YTM for that particular year. At 6.11%, the 6% Medserv callable bond 2020/23 is 112 basis points over the corporate bonds average YTM for 2023 and 575 basis points over the average MGS YTM. The 4.5% Medserv bonds maturing in 2026 had a yield of 4.7% based on the closing prices of 7 July 2020, which is 37 basis points over the corporate bonds average YTM maturing in the same year and 433 basis points over the average MGS YTM.

INCOME STATEMENT EXPLANATORY DEFINITIONS

Revenue	Total revenue generated by the company from its business activity during the financial year.
EBITDA	Earnings before interest, tax, depreciation and amortization, reflecting the company's earnings purely from operations.
Normalisation	Normalisation is the process of removing non-recurring expenses or revenue from a financial metric like EBITDA, EBIT or earnings. Once earnings have been normalised, the resulting number represents the future earnings capacity that a buyer would expect from the business.
EBIT	Earnings before interest and tax.
Depreciation and Amortization	An accounting charge to compensate for the reduction in the value of assets and the eventual cost to replace the asset when fully depreciated.
Finance Income	Interest earned on cash bank balances and from the intra-group companies on loans advanced.
Finance Costs	Interest accrued on debt obligations.
Net Profit	The profit generated in one financial year.

CASH FLOW STATEMENT EXPLANATORY DEFINITIONS

Cash Flow from Operating Activities	The cash used or generated from the company's business activities.
Cash Flow from Investing Activities	The cash used or generated from the company's investments in new entities and acquisitions, or from the disposal of fixed assets.
Cash Flow from Financing Activities	The cash used or generated from financing activities including new borrowings, interest payments, repayment of borrowings and dividend payments.

STATEMENT OF FINANCIAL POSITION EXPLANATORY DEFINITIONS

Assets	What the company owns which can be further classified in Current and Non-Current Assets.

Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Liabilities	What the company owes, which can be further classified in Current and Non-Current Liabilities.
Current Liabilities	Obligations which are due within one financial year.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Equity	Equity is calculated as assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.

Profitability Ratios

EBITDA Margin	EBITDA as a percentage of total revenue.
Operating Profit Margin	Operating profit margin is operating profit achieved during the financial year expressed as a percentage of total revenue.
Net Profit Margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Return on Equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on Capital Employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	This is computed by dividing profit after tax by total assets.

Liquidity Ratios

Current Ratio	The current ratio is a financial ratio that measures whether a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.

Cash Ratio	Cash ratio is the ratio of cash and cash equivalents of a company to its current liabilities. It measures the ability of a business to repay its current liabilities by only using its cash and cash equivalents and nothing else.

Solvency Ratios

Interest Coverage Ratio	This is calculated by dividing a company's EBITDA of one period by the company's net finance costs of the same period.
Gearing Ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' 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.

Other Definitions

Yield to Maturity	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

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