

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

22 May 2019

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 2016 to 2018 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 2019 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 2019

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

22 MAY 2019



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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), discussions with management, the audited Financial Statements for the years ended 31 December 2016, 2017 and 2018 and forecasts for financial year ending 31 December 2019 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 and the information in this document.

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



1 UPDATE ON THE MEDSERV GROUP AND THE OIL AND GAS INDUSTRY

Following a rather challenging FY2017, FY2018 was an important year for the Medserv Group (“Group”).

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.

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 2018¹. This recovery has 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 Administration² at about 1.6 million barrels per day (b/d) in 2018. These efforts together have brought global oil inventory levels down by more than 175 million barrels since 2016 and buoyed prices.

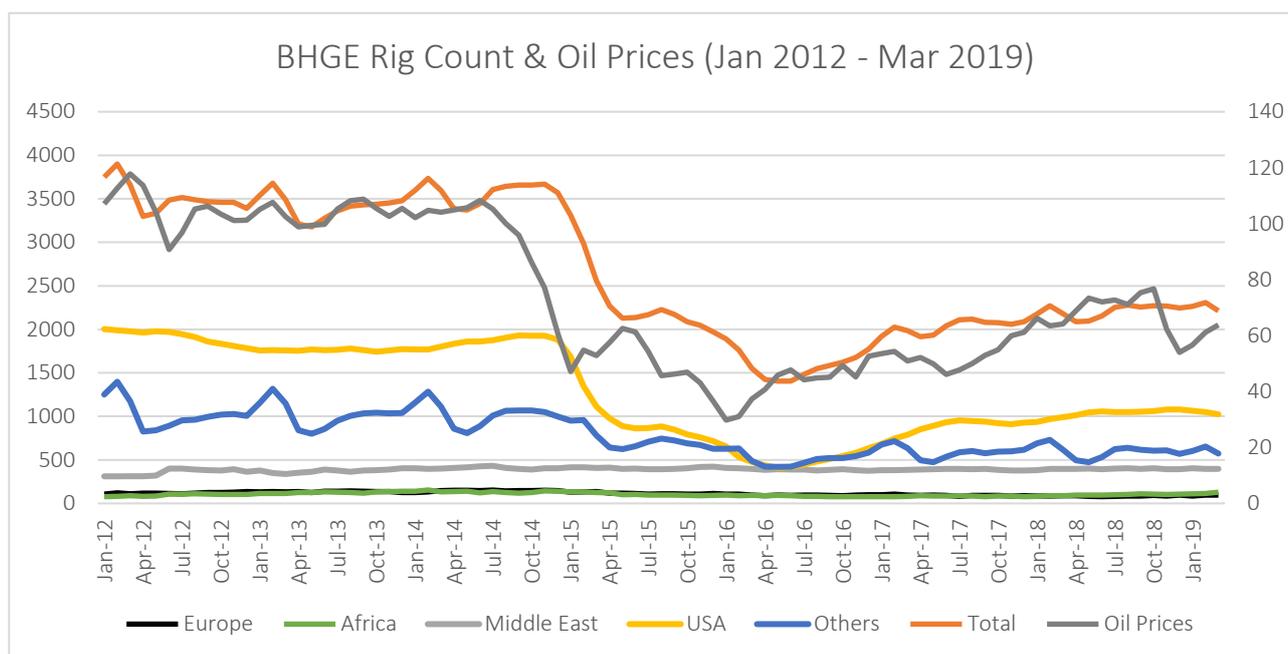
The fundamental challenge for this industry is the intrinsic volatility in the sector. International Oil Companies (“IOCs”) need time to address the swings of an over- or under-supplied market and develop a resilient strategy to mitigate the risks related thereto. This uncertainty leads to caution threading 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.

The Baker Hughes GE rig count³ – 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. Overall, the total number of active oil rigs in the world today now amounts to approximately 2,200. This represents nearly a 50% increase from three 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.

¹ www.bloomberg.com/energy

² www.eia.gov

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



Source: Baker Hughes GE

Furthermore, a decade of speculation about the potential of the east Mediterranean in natural oil and gas resources was brought to an end following the recent gas finds in the said region, prompting revived interest in drilling activity by the large 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.

2 KEY DEVELOPMENTS

MALTA BASE

During FY2018, the Malta base continued to service the offshore Libya Bahr Essalam Phase Two project. While the first quarter of FY2018 was slow, operations picked up during the rest of the year. The Malta base carried out a number of maintenance jobs, some of which were over and above the projects that were forecasted for FY2018. Furthermore, the contracts with ENI NA have been renewed for a further two years (starting 1 January 2019), while that with Mellitah Oil & Gas (“MOG”) has been renewed for a further two years, extendable by a further year.

The only setback to the Maltese base in its activities in Libya are that, in view of the political instability in the region, which to most has become the ‘status quo’ of the day, receipt of payments is slow and as such, the company had to make use of overdraft banking facilities to manage its day-to-day payments until it receives the funds from the Libyan counterparts. However, by the time of publication of this report, management



advised that the outstanding amount of the overdraft facility has already started being reduced in view of payment starting to be received.

CYPRUS BASE

The Cypriot base was active between 17 December 2017 and mid-March 2018. The Calypso lean gas (Zohr-like) discovery offshore Cyprus has given Medserv Cyprus the opportunity to offer ILSS to another IOC client. The 3-year contract was awarded by ExxonMobil in June 2018 and works commenced later that year. No additional major resources were required for Medserv to be able to service this new contract.

Cyprus continues to remain 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 scopes in the area.

PORTUGAL

Medserv has taken a decision to close down the base in Portugal after the IOC client discontinued the project following a ruling by the Portuguese courts to suspend the licenses in view of environmental pressures. The process of liquidating the company is ongoing and is expected to be finalised later this year.

LIBYA

The Group maintained the office in Tripoli active during 2018. 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 Oil Country Tubular Goods ("OCTG") services from the four bases located in Basra (in South Iraq), Sharjah (United Arab Emirates – "UAE") and Sohar and Duqm in Oman.

The operations in Oman continued to be the main driving force behind the METS Group. Operations have been relocated to Duqm which is situated in central-eastern part of the country. From this 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 a total period of ten years 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. Further to the relocation from Sohar to Duqm, the Company had to take a net impairment charge on the property, plant and equipment ("PPE") in Sohar of €0.6 million (total of €1.2 million net of a reversal of €0.6 million legal provision accounted for in earlier years) in FY2018.

Whilst the volume of work remained largely flat in 2018 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.



The performance of METS Iraq continues to be challenging and management does not exclude further restructuring. Nonetheless, the Iraqi venture has a leading position, being the sole VAM licensed workshop in the south of the country. Furthermore, the operators in the Basra region, south of Iraq, have reactivated their plans to boost their output by a combined 1.8 million barrels of oil per day, thereby increasing the probability of this resulting in scope of works for the Iraqi venture. In fact, management reported that there have been increased levels of enquiries and work orders after end of the FY2018 reporting period. Notwithstanding, the Group had to take an impairment on the PPE of the Iraqi investment, in the region of €0.4 million.

NEW MARKETS IN 2018

During FY2018, Medserv extended its service offering in two new countries, namely Egypt and Suriname.

The **Egypt** contract was awarded towards the end of 2017, with works commencing during 2018. The Egyptian operation was a start-up for the Group, which necessitated substantial capital expenditure to set-up and gear-up for the operation. The Group encountered some delays in the procurement and mobilisation of the equipment, which impacted margins in the first half of FY2018, as Medserv had to outsource the necessary equipment until it procured and mobilised its own. However, following a \$6 million investment in new specialised equipment (able to handle high sulphur fuels) and management systems, the Company started seeing improvement in margins as from the latter quarter of the year. Through this setup, the Company is poised to service three key bases in Alexandria, Port Said and Damietta. The contract in Egypt is for a period of three years and extendable by a further year.

Furthermore, during the last quarter of 2018, Medserv announced that it secured a shore base contract for a value of \$30.6 million in **Suriname** – breaking into a completely new geographical market for the Group, following an international tendering process. The contract, awarded by state-owned Staatsolie, commenced on 1 January 2019 and is for a period of 15 months. The first three months were preparatory and mobilisation period, and on 2 April 2019, the project became fully active and drilling commenced. The Group applied existing internal resources for this contract and does not expect any major capital expenditure.

3 EXPECTED KEY DEVELOPMENTS IN 2019

FY2019 is expected to be an important year for Medserv. After being awarded the Suriname contract, the ILSS segment is expected to be boosted significantly thanks to this 15-month contract which commenced on 1 January 2019. The below are the key developments that Medserv expects or has contracted for FY2019 and provide the basis for the forecasts of FY2019 presented in Part B of this report.

Egypt is expected to make significant contribution to the Group's financial performance in FY2019, particularly since with effect from 1 January 2019, the Group will be utilising its own specialised equipment and personnel to support the operations in this location (whereas FY2018 was affected by the outsourcing of equipment and personnel for the first half of the year, and will thereby improve margins). For the Egyptian operations, which deal with high-sulphur fuels, the Group needed to make a significant investment to purchase specialised



equipment to be able to handle the said fuel. All the capital expenditures have now been made in relation to this contract, and save for the variable costs, this contract is expected to contribute significantly in FY2019.

The **Suriname** contract is now in full swing as activities commenced on 2 April 2019. The revenue contribution from this contract are significant (approx. half of revenues generated from the ILSS segment in FY2019 as further commented on in Part B of this report). The contract in Suriname provides for the drilling of nine wells (near-shore) – ExxonMobil had a successful drilling campaign in neighbouring Guyana and this has generated interest to other IOCs in the region, which can only increase the scope of works for Medserv going forward.

In **Cyprus**, the revenue being projected to be generated has all been contracted. Furthermore, Medserv has been assisting ExxonMobil in its drilling campaign in the first quarter of 2019, which has resulted in a significant gas discovery. These positive developments have triggered additional exploration campaigns offshore Lebanon for which the Company has been invited to participate.

In **Malta**, Medserv will continue to support MOG and ENI NA. The contract with the latter, effective from 1 January 2019, is for a period of 2 years, while that with MOG is for two years extendable by a further year. Furthermore, the projections in Part B of this report take into account additional maintenance and engineering jobs for the oil majors operating in Libya. Management indicated also that the scope for additional works in Libya can increase, as ENI NA purchased concession rights for drilling offshore Libya from BP during FY2018 and this may lead in additional jobs for the team.

The second base for **METS Oman** has been set up in Duqm and as such, management expects this base to start generating revenues as it gradually replaces Sohar (the base in the latter has remained operational but the size has been reduced). **METS UAE** is tendering for a supply chain management contract which, according to management, if awarded, will generate substantial revenues for the Group. The **Iraqi** arm of METS is still not profit-generating, however, management are still confident that once the market recovers in this region, the potential for this subsidiary is significant as it is the only VAM-licensed entity in the South of the country. The Group has reportedly registered an improvement in its order book and business pipeline, which can only improve once the market recovers further.

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 the Group to qualify in the IOCs' vendor lists. Such aspect is important for Medserv, because it would be in a position of being invited to tender for IOC exploratory and drilling projects.

MAJOR SHAREHOLDERS' DIVESTING STRATEGY

In April 2018, the two major shareholders, i.e. Mr Anthony Diacono (holding 31.17%) 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.

4 KEY CLIENTS AND CONTRACTS

In terms of revenue contribution, the Group identifies ENI, MOG and Sumitomo as its major key clients up to FY2018. 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. Furthermore, following the contract awarded in Suriname earlier in FY2018, Staatsolie will also feature as a top-revenue contributor for the Group.

Apart from geographic diversification, the Group seeks to diversify also its client base, and has in recent years tendered for other IOCs, some contracts of which were awarded. These IOCs, although not material in terms of historical revenue-generation, included big oil & gas industry names such as ExxonMobil, BP and Total.



5 GOVERNANCE & MANAGEMENT

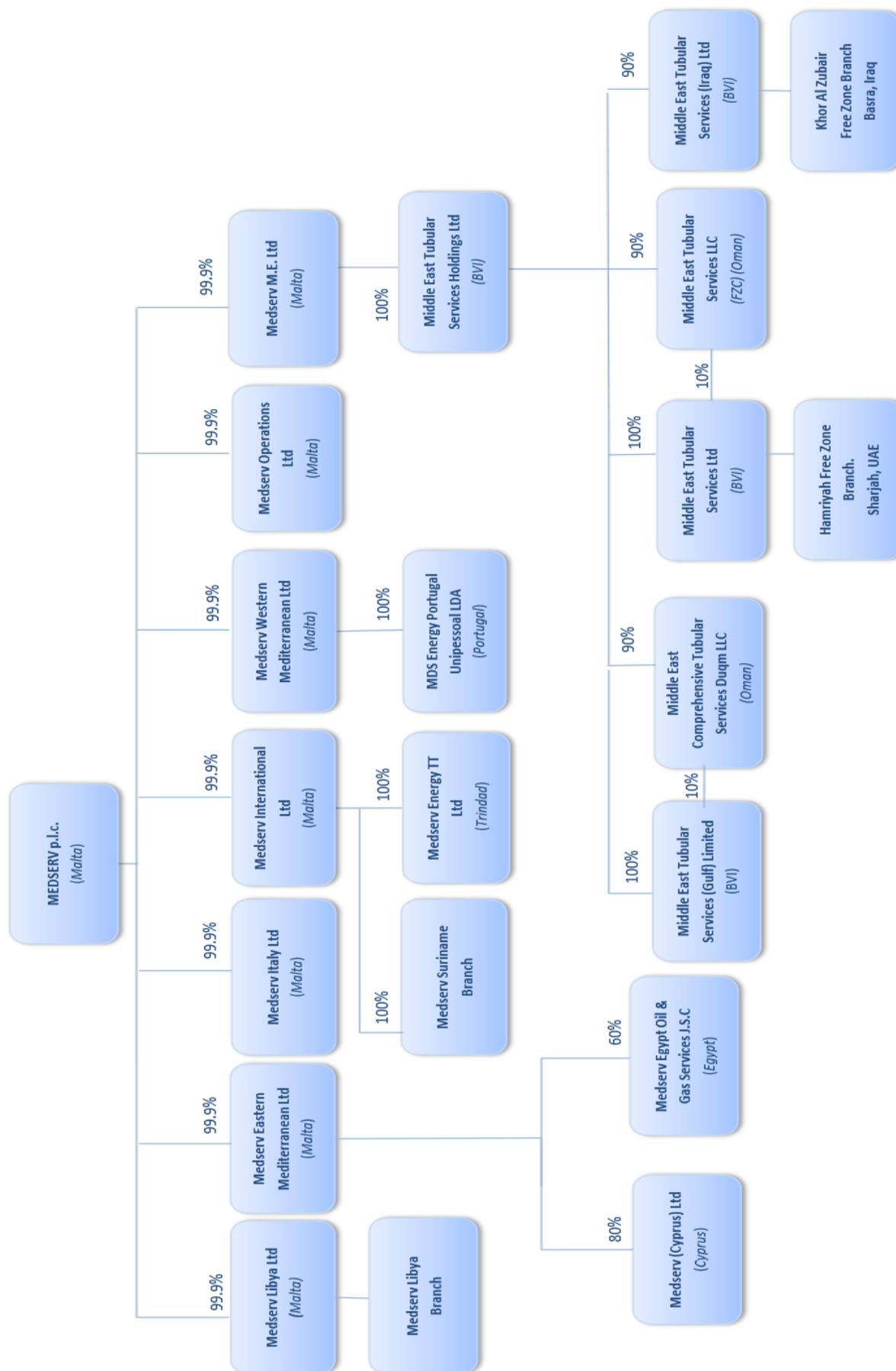
| BOARD OF DIRECTORS | ROLE |
|-------------------------|---|
| Mr Anthony S Diacono | Chairman & Executive Director |
| Mr Anthony J Duncan | Executive Director |
| Mr Joseph F X Zahra | Chairman of Audit Committee & Non-Executive Director |
| Mr Joseph Zammit Tabona | Chairman of Remuneration Committee & Non-Executive Director |
| Mr Godwin A Borg | Executive Director |
| Dr Laragh Cassar | Non-Executive Director & Company Secretary |

| EXECUTIVE MANAGEMENT | ROLE |
|----------------------|--|
| Mr Karl Bartolo | Group Chief Executive Officer (<i>appointed as CEO on 30 April 2018</i>) |
| Mr Neil Patterson | Group Strategic Development Officer |
| Mr Wayne Wrigley | Group Quality, Health Safety & Environment Officer |
| Mr Silvio Camilleri | Group Chief Financial Officer (<i>appointed as CFO on 30 April 2018</i>) |
| Mr Nicholas Schembri | Group HR Officer |
| Mr Edward Farrugia | Group Information Officer |
| Mr Christopher Clark | Regional General Manager, Cyprus and Malta (<i>as from 3 September 2018</i>) |
| Mr Godfrey Attard | Managing Director, Egypt (<i>as from 1 January 2018</i>) |
| Mr Peter Loshi | Libya Country Manager (<i>as from 3 September 2018</i>) |
| Mr Gareth McMurray | Regional General Manager, Middle East |

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.





7. PREAMBLE TO THE FINANCIAL ANALYSIS SECTIONS

Following the early application of IFRS 15 *Revenue from contracts with customers* and IFRS 16 *Leases* in FY2017, the Group had a new standard applicable to the FY2018 accounts, that of IFRS 9 *Financial Instruments*. The adoption of these standards 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. 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 2018 includes the carrying amount of a signing bonus amounting to €954,239 (originally €1,590,401) granted to a key management personnel of METS during the acquisition in 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. 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 in 2017. 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 (within the Freeport and HalFar), which was determined to be €59.9 million.

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. Following a depreciation charge in FY2018 and accounting for the additions and modifications during the year, the carrying value of the right-of-use assets was €78.3 million.

IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 – *Financial Instruments* became applicable for financial periods commencing after 1 January 2018 and replaces IAS 39 – *Financial Instruments – Recognition and Measurement*. The new standard is based on the concept that financial assets should be classified and measured at fair value, and any such changes to the fair value of these assets should be recognised through the income statement of the entity. This standard affects any financial asset of the company, which goes beyond the cash held with banks, but includes also receivable balances. The standard also has significant implications on how a company calculates impairment on these financial assets, taking an 'expected loss model' approach, i.e. a company is required to assess its receivables on the basis of historical payment trends and apply appropriate models to such balances (such as time-value of money and credit risk scoring (either that issued by credit rating agencies, or based on credit scoring models developed internally on a per-receivable basis)) to assess the impairment necessary on the balances at the end of the financial year. The concept of 'expected loss' takes a forward-looking approach, and the company is expected to make an assessment of its balances of financial assets at the end of the financial year and take an impairment on those assets based on the scoring model applied thereto.



In line with the transition options available for companies to apply IFRS 9, Medserv applied an opening adjustment on its financial assets as at 1 January 2018 of €0.6 million and then applied the model again based on the year-end balances of financial assets. Based on the year-end balances of financial assets, the Group recognised €0.1 million of impairment loss on financial assets in its income statement. *More detailed explanation of this new standard and how the Group calculates its impairment charge is found in the Group's annual report, notes 2 and 27.*

ASSUMPTIONS

The forecasts have been based on the key developments that the Group expects during FY2019, as described further in section 3 above.



8 ISSUER PERFORMANCE & FINANCIAL POSITION OVERVIEW

This section provides an analysis of the FY2018 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 2019 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

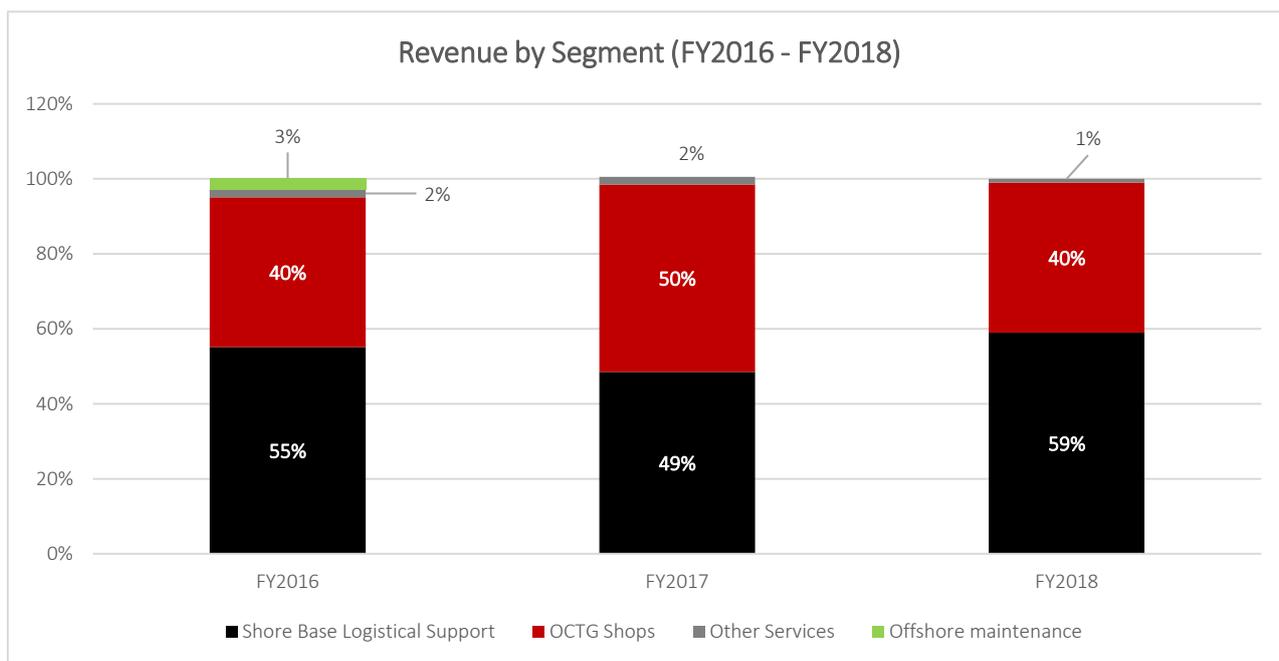
| | ACTUAL | ACTUAL | ACTUAL | FORECAST |
|--|----------------|----------------|----------------|----------------|
| <i>for the year ended 31 December</i> | 2016 | 2017 | 2018 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Revenue | 32,822 | 28,777 | 36,187 | 64,221 |
| Cost of Sales | (22,902) | (19,495) | (24,557) | (46,040) |
| Gross Profit | 9,921 | 9,282 | 11,630 | 18,181 |
| Other income | 573 | 817 | 1,432 | 912 |
| Administrative expenses | (4,966) | (5,611) | (5,352) | (4,959) |
| Impairment loss on financial assets | - | - | (122) | - |
| Other expenses | - | (159) | (269) | - |
| EBITDA* | 5,528 | 4,329 | 7,319 | 14,134 |
| Depreciation | (3,468) | (5,646) | (7,874) | (8,759) |
| Net impairment loss on PPE | - | - | (982) | - |
| Amortisation of Intangible Assets | (2,051) | (2,779) | (1,924) | (1,791) |
| Results from operating activities | 9 | (4,096) | (3,461) | 3,584 |
| Finance income | 384 | 478 | - | - |
| Finance costs | (2,848) | (4,419) | (5,370) | (5,313) |
| Net finance costs | (2,463) | (3,941) | (5,370) | (5,313) |
| Loss before tax | (2,454) | (8,037) | (8,831) | (1,729) |
| Tax income / (expense) | 5,431 | 403 | (696) | (216) |
| Profit (Loss) for the period | 2,977 | (7,634) | (9,527) | (1,945) |

*EBITDA excludes also the effect of net impairment losses on PPE

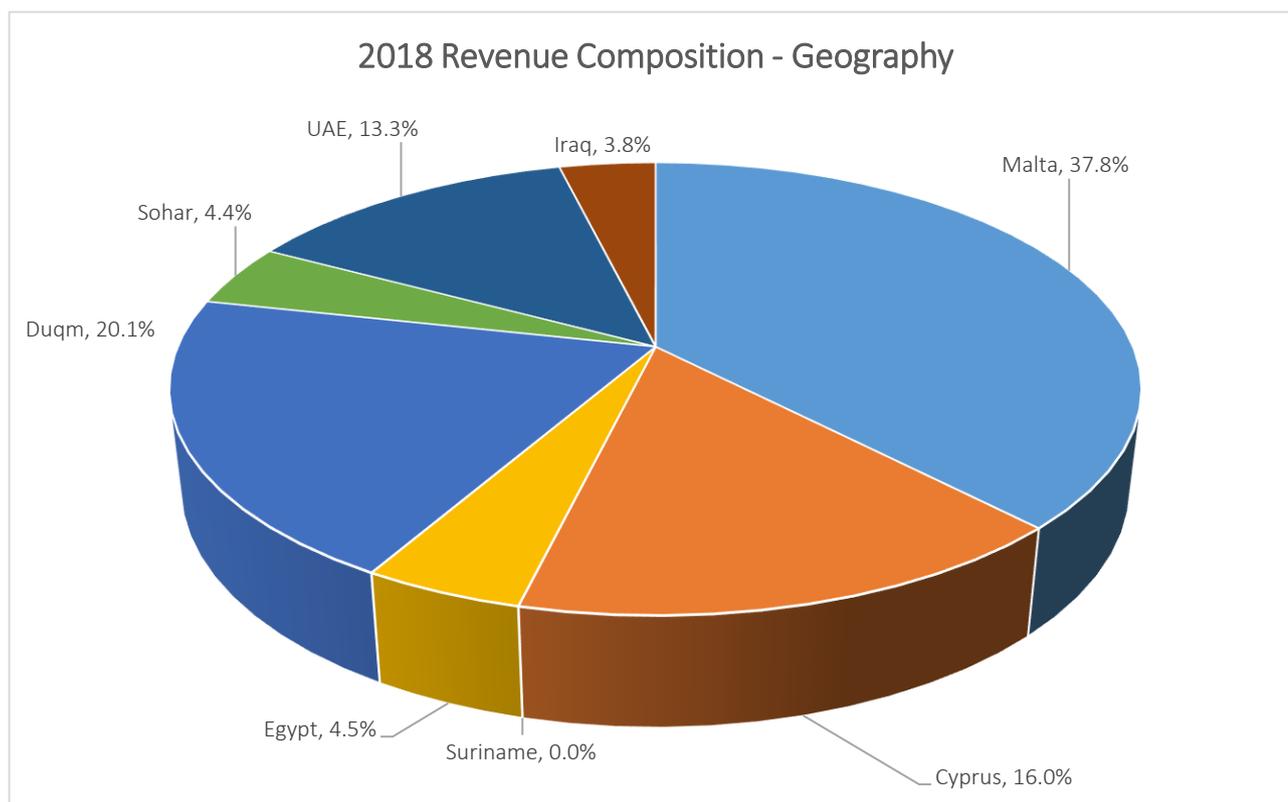


FY2018 REVIEW

The Group's main revenue is divided into three main segments – ILSS, supply chain management and threading of OCTG, and photovoltaic income, primarily generated from the PV farm in Malta. Activity in Cyprus, Egypt and Libya contributed to a significant increase in the revenues generated by the ILSS segment, which comprised 59% of total revenue for the year at €21.5 million (FY2017: €14.0 million). Revenues from the OCTG segment were stable at €14.2 million (FY2017: €14.3 million).



In FY2018, revenues were up 26% as were cost of sales (excluding depreciation and amortisation). As explained in earlier sections of this report, the Group has been seeking to diversify its geographical footprint. As highlighted in the chart below, in FY2018, most of the revenue was generated from the Malta base (37.8%), followed by Duqm (20.1%), Cyprus (16%) and UAE (13.3%).



The new ventures, particularly that of Egypt and the relocation to Duqm, required substantial expenses and resources in place for the Group to be able to become operational in both geographical locations. EBITDA (excluding net impairment losses on PPE) was up 69% in FY2018 compared to that of FY2017 at €7.3 million.

Meanwhile, the additional investment required in FY2018 led to a higher depreciation charge for the year, increasing by more than 39% to €7.9 million – this figure is also impacted by IFRS16 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 – *more information on the implications and impacts of IFRS 16 are found in the Preamble to the Financial Analysis Sections of this FAS*. Furthermore, the Group recognised a net impairment loss on PPE of €1.2 million relating to the downsizing of the Sohar base.

The increase in net finance costs was partially attributable to an increase in the finance lease payments (as the Group increased its leases during the year). Furthermore, exchange differences were not favourable in FY2018, accounting for a negative €0.5 million (FY2017 this was positive €0.5 million, bringing the effect on net finance costs of nearly an additional €1 million in costs).

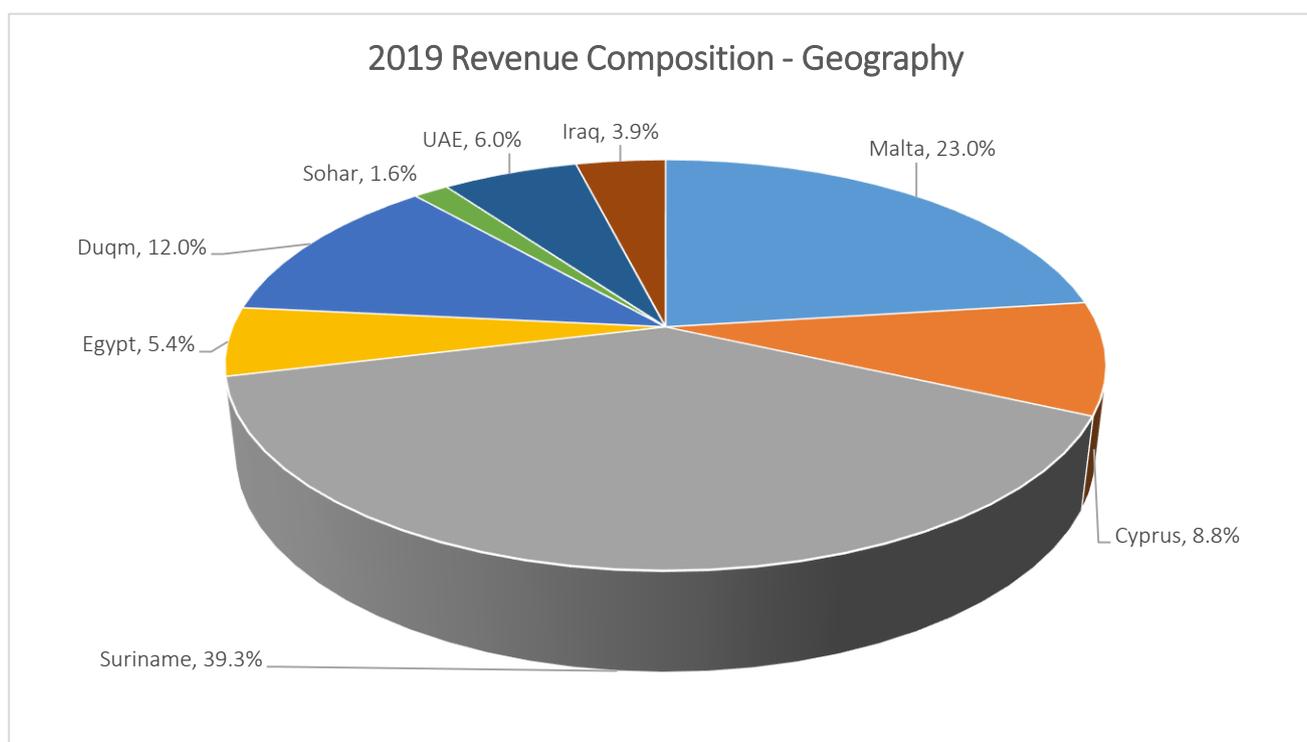
Eliminating the non-cash elements (depreciation, impairment losses on PPE and amortisation) from EBITDA and deducting net finance costs, the Company's performance was better than that of last year (FY2018: €2 million; FY2017: €0.4 million). After deducting amortisation and depreciation, the loss before tax for FY2018 stood at €8.8 million (FY2017: loss €8.0 million).

Following a tax charge of €0.7 million (FY2017: tax credit of €0.4 million), reflecting a net reduction in deferred tax assets during the financial year, the Group closed the year with a net loss of €9.5 million.



FORECASTS FY2019

The forecasts of FY2019 have been largely based on contracted revenues, with only a few exceptions, and where this was the case, management explain that the assumptions were based on 'quasi-contracted revenues'. The ILSS segment is expected to contribute some 76% of revenue, while OCTG will contribute the remaining balance, save for €0.5million which will come from the PV farm. The significant increase in ILSS is mainly the result of the Suriname contract (which is expected to contribute short of 40% of total revenue), but also from the Maltese (23%) and Cypriot operations (8.8%). OCTG, on the other hand, is expected to remain at the same level of FY2018. *Further information on the expected projects in FY2019 can be found in section 3 above.*



These improved revenue prospects are expected to generate EBITDA which is close to double that of FY2018. Depreciation is expected to increase by a further €1 million, reflecting, in the main, a full year depreciation charge of the equipment in Egypt which was commissioned during the last quarter of FY2018. Meanwhile, as borrowing levels are expected to remain largely in line with those of FY2018, the net finance costs of the Group are not envisaged to change materially.



8.2 STATEMENT OF CASH FLOWS

| | ACTUAL | ACTUAL | ACTUAL | FORECAST |
|--|--------------|----------------|--------------|--------------|
| <i>for the year ended 31 December</i> | 2016 | 2017 | 2018 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Net cash from / (used for) operating activities | 7,349 | 4,525 | 8,839 | 12,778 |
| Net cash from / (used for) investing activities | (37,540) | (2,464) | (6,557) | (1,013) |
| Net cash from / (used for) financing activities | 38,346 | (5,031) | (2,346) | (8,963) |
| Net movements in cash and cash equivalents | 8,155 | (2,970) | (64) | 2,802 |
| Cash and cash equivalents at beginning of the year | (1,652) | 6,218 | 2,769 | 2,407 |
| Effects of exchange rate fluctuations on cash held | (286) | (479) | (298) | (101) |
| Cash and cash equivalents at end of year | 6,218 | 2,769 | 2,407 | 5,108 |

FY2018 REVIEW

The increased level of business generated superior cash flows from operations during FY2018, which at €8.8 million was near double the level of FY2017 (at €4.5 million). As mentioned earlier in the report, the additional investments to equip the new bases led to cash outflows to the tune of €6.6 million (FY2017: €2.5 million), while financing activities absorbed a further €2.3 million.

FORECASTS FY2019

The increased scope of works for FY2019 are expected to result in additional cash from operating activities which when compared to that generated in FY2018, the amount in FY2019 is expected to be 45% higher. This additional cash will be applied primarily towards the repayment of €5.2 million of debt obligations and €3.7 million in lease payments of the Group, whilst a further €1 million is expected to be applied towards property improvements and lifting equipment at Duqm.



8.3 STATEMENT OF FINANCIAL POSITION

| as at 31 December | ACTUAL 2016 €'000 | ACTUAL 2017 €'000 | ACTUAL 2018 €'000 | FORECAST 2019 €'000 |
|--|-------------------------|-------------------------|-------------------------|---------------------------|
| ASSETS | | | | |
| Goodwill and intangible assets | 17,180 | 14,500 | 13,162 | 11,689 |
| Property, plant and equipment | 34,255 | 31,883 | 33,201 | 29,801 |
| Trade and other receivables | 1,272 | 483 | - | - |
| Contract costs | - | 954 | 636 | 318 |
| Right-of-use assets | - | 75,896 | 78,335 | 73,989 |
| Prepaid operating lease | 33,348 | - | - | - |
| Deferred tax assets | 8,837 | 9,266 | 9,419 | 9,471 |
| Total non-current assets | 94,892 | 132,982 | 134,753 | 125,268 |
| Inventories | 1,266 | 1,248 | 1,275 | 1,278 |
| Prepaid operating lease | 776 | - | - | - |
| Current tax asset | 2 | 3 | 1 | 1 |
| Contract costs | - | 378 | 334 | 318 |
| Contract assets | - | 803 | 68 | - |
| Trade and other receivables | 18,300 | 14,226 | 14,731 | 15,726 |
| Cash at bank and in hand | 6,218 | 3,634 | 5,616 | 6,794 |
| Total current assets | 26,561 | 20,292 | 22,024 | 24,117 |
| Total assets | 121,453 | 153,274 | 156,777 | 149,385 |
| LIABILITIES | | | | |
| Deferred income | 33,348 | 32,632 | 31,852 | 31,076 |
| Loans and borrowings | 1,522 | 1,222 | 3,975 | 2,378 |
| Bonds (listed) | 50,534 | 49,571 | 50,053 | 50,196 |
| Lease liabilities | - | 25,055 | 28,683 | 25,220 |
| Deferred tax liabilities | 61 | 6,017 | 6,486 | 6,347 |
| Provisions & Employee Benefits | 1,219 | 1,214 | 819 | 860 |
| Total non-current liabilities | 86,684 | 115,711 | 121,868 | 116,077 |
| Current tax payable | 63 | 1 | 37 | 208 |
| Deferred income | 839 | 776 | 876 | 776 |
| Lease liabilities | - | 842 | 1,826 | 3,150 |
| Loans and borrowings | 1,112 | 2,047 | 5,285 | 3,588 |
| Trade and other payables, Provisions & Employee Benefits | 6,347 | 5,798 | 8,190 | 8,836 |
| Total current liabilities | 8,361 | 9,464 | 16,213 | 16,558 |
| Total liabilities | 95,045 | 125,175 | 138,080 | 132,635 |



EQUITY

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Share capital | 5,374 | 5,374 | 5,374 | 5,374 |
| Share premium | 12,004 | 12,004 | 12,004 | 12,004 |
| Reserves | 403 | 9,721 | 10,187 | 9,928 |
| Retained earnings/(accumulated losses) | 8,573 | 1,152 | (8,216) | (10,039) |
| Total equity attributable to owners of the Company | 26,354 | 28,251 | 19,349 | 17,267 |
| Non-controlling interest | 54 | (152) | (653) | (517) |
| Total equity | 26,408 | 28,099 | 18,696 | 16,750 |
| Total equity and liabilities | 121,453 | 153,274 | 156,777 | 149,385 |

FY2018 REVIEW

The Group's total asset base continued to grow in FY2018, increasing by a further 7.1% over that of FY2017. This was driven by the additional investment made by the Group at the new bases, particularly in Egypt, where the Group purchased equipment to the tune of €6 million during the year under review. The Group's PPE was also effected by disposals (net of recycled depreciation) of €0.6 million, impairments to the base and equipment in Sohar (due to downsizing in relation to the relocation of the base) of €1.2 million and a further €0.4 million impairment recognised in PPE in relation to the Iraq machine shop cash generating unit, as well as positive net currency movements of €0.8 million. As at the end of FY2018, PPE had a book value of €33.2 million (an increase of 4.1% over the balance as at the end of the previous year).

The Right-of-use assets represent the leases the Group has across the various geographical areas in which they operate. During FY2018, the Group secured additional leases valued at €9.8 million (€6.2 million in relation to the Cypriot base and €3.6 million in Duqm) and modified €4.6 million (in relation to the downsizing of the Sohar base in Oman further to the relocation of most of the OCTG operations to Duqm).

The additional investments made during the year necessitated additional funding, with total borrowings going up to €59.3 million by the end of FY2018 (FY2017: €52.8 million) through an increase of a mix of short and longer-term bank financing. Meanwhile, cash balances increased to €5.6 million (FY2017: €3.6 million), resulting in net borrowings of €53.7 million.

| | Actual 2016 | Actual 2017 | Actual 2018 | Forecast 2019 |
|---------------------------------------|----------------|----------------|----------------|------------------|
| <i>for the year ended 31 December</i> | €'000 | €'000 | €'000 | €'000 |
| Loans and borrowings (non-current) | 1,522 | 1,222 | 3,975 | 2,378 |
| Bond (listed) | 50,534 | 49,571 | 50,053 | 50,196 |
| Loans and borrowings (current) | 1,112 | 2,047 | 5,285 | 3,588 |
| Total Borrowings | 53,168 | 52,840 | 59,313 | 56,162 |
| Cash at bank and in hand | 6,218 | 3,634 | 5,616 | 6,794 |
| Net Debt | 46,950 | 49,206 | 53,697 | 49,368 |



The current portion of the lease payables was higher in FY2018, in line with the additional leases undertaken as explained above. Meanwhile, in view of the additional works undertaken during the year, trade payables and accrued expenses were up by just over €1.5 million, while amounts due to non-controlling interest increased by another €1.1 million to €2 million.

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, which stood at a negative €0.8 million as at the end of FY2018.

FORECASTS FY2019

The financial position of the Group at the end of FY2019 is expected to be affected by the €10.6 million depreciation and amortisation of the Group's assets, although the increased scope of works for Medserv will imply additional trade receivables and cash being generated through the Group's operations. This will result in total assets amounting to €149.4 million.

€56.2 million of the Group's asset base is expected to be funded through bank and capital market borrowings, while equity attribute a further €16.8 million. The liability created in respect of the leases is expected to have a value of €28.4 million. The remaining balance is forecasted to consist of trade payables and deferred tax liabilities.



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 as well as further information provided by management.

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 | ACTUAL | ACTUAL | FORECAST |
|---|--------|--------|--------|----------|
| <i>for the year ended 31 December</i> | 2016 | 2017 | 2018 | 2019 |
| Gross Profit margin <i>(Gross Profit / Revenue)</i> | 30.23% | 32.25% | 32.14% | 28.31% |
| EBITDA margin <i>(EBITDA / Revenue)</i> | 16.84% | 15.04% | 20.23% | 22.01% |
| Operating Profit margin <i>(Operating Profit / Revenue)</i> | 0.03% | n/a | n/a | 5.58% |
| Net Profit margin <i>(Profit for the period / Revenue)</i> | 9.07% | n/a | n/a | n/a |
| Return on Equity <i>(Profit attributable to owners of the Company / Average Equity attributable to owners of the Company)</i> | 16.73% | n/a | n/a | n/a |
| Return on Capital Employed <i>(Profit for the period / Average Capital Employed)</i> | 5.09% | n/a | n/a | n/a |
| Return on Assets <i>(Profit for the period / Average Assets)</i> | 2.94% | n/a | n/a | n/a |

In view of the losses that the Group registered during FY2018 and those expected during FY2019, certain ratios are not applicable because of their negative return, despite a recovery in EBITDA margin during FY2018, which



is expected to improve further in FY2019. Net profit is affected by the IFRS 16 accounting charge to depreciation of the value in use of the lease, which in turn affects the other return-based ratios.

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 FY2016 | ACTUAL FY2017 | ACTUAL FY2018 | FORECAST FY2019 |
|---|------------------|------------------|------------------|--------------------|
| Current Ratio <i>(Current Assets / Current Liabilities)</i> | 3.18x | 2.14x | 1.36x | 1.46x |
| Cash Ratio <i>(Cash & cash equivalents / Current Liabilities)</i> | 0.74x | 0.38x | 0.35x | 0.41x |

The increase in the balance of trade and other payables by the end of FY2018 was faster than the increase in the current assets of the Group, resulting in a weaker current ratio for FY2018.

However, given the increase in cash balances by the end of the year under review, the same increase in current liabilities did not materially reduce the Group's cash ratio. As the scope of works for Medserv increases in FY2019, and in cognisance also of the significant expenditures made in FY2018 which necessitated the faster increase in trade payables, the situation in FY2019 is expected to be better, as the Group is anticipating an increase its cash balances following the translation of revenues to cash.



SOLVENCY RATIOS

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

| | ACTUAL | ACTUAL | ACTUAL | FORECAST |
|--|--------|--------|--------|----------|
| | FY2016 | FY2017 | FY2018 | FY2019 |
| Interest Coverage ratio | | | | |
| <i>(EBITDA / Net finance costs)</i> | 2.24x | 1.10x | 1.36x | 2.66x |
| Gearing Ratio (1) | | | | |
| <i>(Net debt / Total Equity)</i> | 1.78x | 1.75x | 2.87x | 2.95x |
| Gearing Ratio (2) | | | | |
| <i>[Net debt / (Net debt plus Equity)]</i> | 64.00% | 63.65% | 74.17% | 74.67% |
| Net Debt to EBITDA | | | | |
| <i>(Net Debt / EBITDA)</i> | 8.49x | 11.37x | 7.34x | 3.49x |

Improved EBITDA in FY2018 led to improved interest coverage, despite the increase in finance lease costs and interest payments related to the higher level of borrowings undertaken during the year to sustain the required investment and bases preparations. Notwithstanding this increase in borrowings, the Group's net debt to EBITDA improved from 11.37x in FY2017 to 7.34x, reflecting the substantial improvement in EBITDA.

Meanwhile, the increased debt and the lower level of equity, given the negative retained earnings balance by the end of FY2018 led to worsened gearing ratios for the Group.

In FY2019, the targeted EBITDA is expected to lead to improved interest coverage ratio and a significant reduction in the net debt to EBITDA ratio, which goes down further from 7.34 times to 3.49 times, meaning that with the projected level of EBITDA, it would take the Group 3.5 years to repay its net debt the Group is forecasted to have by the end of FY2019. Gearing is not expected to be materially different, as borrowing levels are not envisaged to change significantly, nor is equity.



8.5 VARIATIONS IN THE ISSUER'S FINANCIAL PERFORMANCE

| | ACTUAL | FORECAST | VARIANCE |
|--|----------------|----------------|-----------|
| <i>for the year ended 31 December</i> | 2018 | 2018 | |
| | €'000 | €'000 | |
| Revenue | 36,187 | 36,667 | -1.31% |
| Cost of Sales | (24,557) | (25,133) | -2.29% |
| Gross Profit | 11,630 | 11,534 | 0.83% |
| Other income | 1,432 | 897 | 59.64% |
| Administrative expenses | (5,352) | (5,618) | -4.73% |
| Impairment loss on financial assets | (122) | | N/A |
| Other expenses | (269) | - | N/A |
| EBITDA | 7,319 | 6,813 | 7.43% |
| Depreciation | (7,874) | (6,104) | 29.01% |
| Impairment on PPE | (982) | | |
| Amortisation of Intangible Assets | (1,924) | (2,116) | -9.09% |
| Results from operating activities | (3,461) | (1,407) | 145.98% |
| Finance income | 0 | - | N/A |
| Finance costs | (5,370) | (4,264) | 25.94% |
| Net finance costs | (5,370) | (4,264) | 25.94% |
| Loss before tax | (8,831) | (5,671) | 55.72% |
| Tax income / (expense) | (696) | 36 | -2032.08% |
| Profit (Loss) for the period | (9,526) | (5,635) | 69.06% |

While the results relating to the operations, in terms of revenues and costs related thereto, were on target with the forecasts presented in the FAS of 2018, the charges to the income statement related to impairments, the additional lease payments and the increased depreciation led to a loss more pronounced than expected.



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 FY2018 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

| | ACTUAL | ACTUAL | ACTUAL | FORECAST |
|--|--------------|----------------|----------------|--------------|
| <i>for the year ended 31 December</i> | 2016 | 2017 | 2018 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Revenue | 16,468 | 11,109 | 13,672 | 14,767 |
| Cost of Sales | (10,641) | (7,986) | (9,533) | (10,263) |
| Gross Profit | 5,827 | 3,123 | 4,139 | 4,504 |
| Other income | 436 | 876 | 878 | 876 |
| Administrative and other expenses | (2,349) | (2,785) | (1,383) | (1,345) |
| EBITDA | 3,914 | 1,214 | 3,634 | 4,035 |
| Depreciation and amortisation | (1,559) | (2,382) | (2,898) | (3,081) |
| Results from operating activities | 2,355 | (1,168) | 736 | 954 |
| Net finance costs | (665) | (1,110) | (1,180) | (1,089) |
| Profit / (Loss) before tax | 1,690 | (2,278) | (443) | (135) |
| Tax income / (expense) | 5,160 | 629 | (786) | 192 |
| Net Profit / (Loss) for the year | 6,851 | (1,649) | (1,230) | 57 |

FY2018 REVIEW

While the first quarter of FY2018 was quiet, works picked up in the remaining months, and MedOps improved its revenue contribution to the Group, increasing from €11.1 million in FY2017 to €13.7 million in FY2018. This translated to EBITDA of €3.6 million, which was nearly three times that generated in FY2017. The company was engaged in a number of engineering projects offshore Libya. After accounting for depreciation and net finance costs, both of which were largely in line with those of FY2017, the Company reported a loss before tax



of €0.5 million (FY2017: loss of €2.3 million). MedOps was in a tax payable position in FY2018, and as such, the loss after tax reported for the year stood at €1.2 million (FY2017: loss €1.6 million).

FORECASTS FY2019

In FY2019, MedOps is expected to breakeven in terms of net profit for the year. Revenues are forecasted to increase to €14.8 million (an uplift of 8% over those of FY2018). This is a result of the additional maintenance and engineering jobs that are expected to be undertaken by the Guarantor during the year. There will be a corresponding increase in cost of sales, while administrative expense are expected to be contained. Depreciation charge for FY2019 is expected to be largely in line with that of FY2018, as are finance costs. Taxation is expected to be positive, reflecting a favourable movement in the balance of deferred tax assets; which will lead to a breakeven profit position of €57K.



9.2 STATEMENT OF CASH FLOWS

| | ACTUAL | ACTUAL | ACTUAL | FORECAST |
|--|--------------|----------------|----------------|--------------|
| <i>for the year ended 31 December</i> | 2016 | 2017 | 2018 | 2019 |
| | €'000 | €'000 | €'000 | €'000 |
| Net cash from / (used for) operating activities | 5,493 | 1,558 | 594 | 4,850 |
| Net cash used for investing activities | (1,291) | (1,596) | (196) | (500) |
| Net cash used for financing activities | (1,007) | (1,236) | (2,128) | (1,775) |
| Net movements in cash and cash equivalents | 3,195 | (1,273) | (1,730) | 2,575 |
| Cash and cash equivalents at beginning of the year | (2,496) | 699 | (574) | (2,305) |
| Cash and cash equivalents at end of year | 699 | (574) | (2,305) | 270 |

FY2018 REVIEW

The cash contribution from operating activities during FY2018 was superior to that of FY2017, reflecting the higher scope of works for the company during the year. Investing activities during the year were contained, as the company did not require additional investment to carry out its jobs. Meanwhile, in terms of cash flows used for financing activities, the company made use of €2.1 million, particularly as it repaid €1.7 million of bank and related party loans, while the balance was used to pay for the lease. The company closed the year in a negative cash position of €2.3 million., supported by a bank overdraft facility.

FORECASTS FY2019

Increased revenue generating activities are expected to result in an increase in cash flowing in from operations, albeit this being at the expense of an increase in the trade payables. Cash applied to investing activities is expected to be €0.5 million, consisting of property improvements and new lifting equipment purchased during the year. €1.8 million is expected to be applied repayment of bank financing, particularly the overdraft balances which stood at €3.1 million at the end of FY2018 and are expected to ease to €0.3 million by the end of FY2019.



9.3 STATEMENT OF FINANCIAL POSITION

| <i>as at 31 December</i> | ACTUAL 2016 €'000 | ACTUAL 2017 €'000 | ACTUAL 2018 €'000 | FORECAST 2019 €'000 |
|---|-------------------------|-------------------------|-------------------------|---------------------------|
| ASSETS | | | | |
| Property, plant and equipment | 17,823 | 18,043 | 16,747 | 15,571 |
| Right-of-use assets | 33,348 | 59,914 | 58,509 | 57,104 |
| Deferred tax assets | 8,584 | 9,213 | 8,582 | 8,634 |
| Total non-current assets | 59,755 | 87,170 | 83,837 | 81,309 |
| Prepaid operating leases | 776 | - | - | - |
| Contract asset | - | 69 | 24 | - |
| Trade and other receivables | 15,799 | 13,612 | 14,637 | 14,796 |
| Cash at bank and in hand | 699 | 290 | 108 | 1,056 |
| Total current assets | 17,273 | 13,971 | 14,769 | 15,852 |
| Total assets | 77,027 | 101,141 | 98,606 | 97,161 |
| LIABILITIES | | | | |
| Deferred income | 33,348 | 32,572 | 31,797 | 31,021 |
| Non-current portion of loan from parent | 8,020 | 8,035 | 8,050 | 8,050 |
| Non-current portion of bank loan | 1,522 | 1,222 | 549 | 257 |
| Lease liabilities | - | 9,906 | 9,977 | 10,027 |
| Deferred tax liability | - | 5,935 | 5,796 | 5,657 |
| Provisions | 33 | 31 | 33 | 33 |
| Total non-current liabilities | 42,923 | 57,701 | 56,202 | 55,045 |
| Deferred income | 776 | 776 | 876 | 776 |
| Current portion of bank loan and bank overdraft | 1,112 | 2,047 | 3,148 | 1,078 |
| Amount due to parent | 3,798 | 3,997 | 3,900 | 3,900 |
| Trade and other payables | 3,433 | 2,261 | 2,667 | 4,496 |
| Total current liabilities | 9,118 | 9,081 | 10,589 | 10,250 |
| Total liabilities | 52,042 | 66,782 | 66,791 | 65,295 |
| Equity | | | | |
| Share capital | 233 | 233 | 233 | 233 |
| Shareholder's contribution | 13,074 | 13,074 | 13,074 | 13,074 |
| Reserves | 9,274 | 20,320 | 19,102 | 18,844 |
| Retained earnings | 2,404 | 732 | (595) | (285) |
| Total equity | 24,986 | 34,359 | 31,815 | 31,866 |
| Total equity and liabilities | 77,027 | 101,141 | 98,606 | 97,161 |



FY2018 REVIEW

MedOps' asset base declined to €98.6 million, reflecting the depreciation of the company's property, plant and equipment and the lease payments, while recognising an increase in the receivables balance, reflecting the increased scope of works undertaken by MedOps during the year.

The increased activity was supported through an increase in the bank overdraft. Meanwhile, in view of the loss the company made in FY2018, retained earnings were negative, which is also reflected in the reduction of total equity from €34.4 million as at the end of FY2017 to €31.8 million as at the end of FY2018. The company did not have any distributable reserves and as such no dividends were distributed to the parent.

FORECASTS FY2019

MedOps' asset base as at the end of FY2019 is expected to retract to €97.2 million, reflecting the depreciation charge to the company's leased asset and PPE. Financing is expected to remain a mix of loans from the parent company (Medserv plc) and equity. The Guarantor is expected to be less dependent on the bank overdraft facility, reflecting substantial payments made to reduce it to below €1 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 further information and forecasts provided by management.

PROFITABILITY RATIOS

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

| | ACTUAL FY2016 | ACTUAL FY2017 | ACTUAL FY2018 | FORECAST FY2019 |
|---|------------------|------------------|------------------|--------------------|
| Gross Profit margin <i>(Gross Profit / Revenue)</i> | 35.38% | 28.11% | 30.27% | 30.50% |
| EBITDA margin <i>(EBITDA / Revenue)</i> | 23.77% | 10.93% | 26.58% | 27.32% |
| Operating Profit margin <i>(Operating Profit / Revenue)</i> | 14.30% | N/A | 5.39% | 6.46% |
| Net Profit margin <i>(Profit for the period / Revenue)</i> | 41.60% | N/A | N/A | 0.39% |
| Return on Equity <i>(Profit attributable to owners of the Company / Average Equity attributable to owners of the Company)</i> | 44.13% | N/A | N/A | 0.18% |
| Return on Capital Employed <i>(Profit for the period / Average Capital Employed)</i> | 21.26% | N/A | N/A | 0.13% |
| Return on Assets <i>(Profit for the period / Average Assets)</i> | 9.17% | N/A | N/A | 0.06% |

In view of the net losses that MedOps registered during FY2018 and FY2017, certain ratios are not applicable because of their negative return and as such have been included as 'n/a'.



MedOps' margins up to EBITDA showed an improvement in FY2018 over those of FY2017, on the back of improved level of revenues. However, following significant non-cash depreciation and amortisation charges and after deducting finance costs, profitability ratios were turned negative and as such certain profitability ratios could not be computed given the lack of positive return on the company's average equity, assets or capital employed. For FY2019, the situation is expected to improve to breakeven point and as such, return ratios are expected to be positive. Margins are also expected to improve further.

LIQUIDITY RATIOS

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

| | ACTUAL FY2016 | ACTUAL FY2017 | ACTUAL FY2018 | FORECAST FY2019 |
|---|------------------|------------------|------------------|--------------------|
| Current Ratio <i>(Current Assets / Current Liabilities)</i> | 1.89x | 1.54x | 1.39x | 1.55x |
| Cash Ratio <i>(Cash & cash equivalents / Current Liabilities)</i> | 0.08x | 0.03x | 0.01x | 0.10x |

Dependency of the Guarantor on the bank overdraft was essential in FY2018, as evidenced by the company's cash ratio of just 0.01 times, as the company experienced payment delays by MOG in view of the situation in Libya which led to a slowdown in approval of payments. This is expected to be better in FY2019 (0.10 times) on lower current liabilities and a improvement in cash balances at the end of the year.

Meanwhile, the current ratio for FY2018 dipped to 1.39 times the faster increase in current liabilities when compared to the increases in current assets of the company. Following a substantial repayment of the bank overdraft in FY2019, this ratio is expected to improve.



SOLVENCY RATIOS

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

| | ACTUAL | ACTUAL | ACTUAL | FORECAST |
|--|--------|--------|--------|----------|
| | FY2016 | FY2017 | FY2018 | FY2019 |
| Interest Coverage ratio <i>(EBITDA / Net finance costs)</i> | 5.89x | 1.09x | 3.08x | 3.71x |
| Gearing Ratio (1) <i>(Net debt / Total Equity)</i> | 0.40x | 0.32x | 0.37x | 0.26x |
| Gearing Ratio (2) <i>[Net debt / (Net debt plus Equity)]</i> | 28.49% | 24.27% | 26.78% | 20.72% |
| Net Debt to EBITDA <i>(Net Debt / EBITDA)</i> | 2.54x | 9.07x | 3.20x | 2.06x |

As revenues increased, the interest coverage ratio in FY2018 went from just above one time to over three times. This is expected to increase even further in FY2019 should the budgets of the company for the said financial year come to fruition. Gearing ratios for FY2018 were pretty much in line with those of earlier periods, save for a slight increase reflecting the balance on the overdraft facility by the end of FY2018, which is expected to be reduced again by the end of FY2019, bringing down gearing ratios even further.

The improved EBITDA in FY2018 is reflected in the net debt to EBITDA, which, despite the increase in net debt, the ratio came in much lower than that of FY2017, at 3.2 times. This is expected to improve further in FY2019, as the company's scope of works increase.



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 section 9.4 above.

| | ACTUAL | FORECAST | VARIANCE |
|--|----------------|----------------|----------|
| <i>for the year ended 31 December</i> | 2018 | 2018 | |
| | €'000 | €'000 | % |
| Revenue | 13,672 | 11,594 | 18% |
| Cost of Sales | (9,533) | (7,846) | 22% |
| Gross Profit | 4,139 | 3,748 | 10% |
| Other income | 878 | - | |
| Administrative and other expenses | (1,383) | (2,188) | -37% |
| EBITDA | 3,634 | 1,560 | 133% |
| Depreciation and amortisation | (2,898) | (1,578) | 84% |
| Results from operating activities | 736 | (18) | n/a |
| Net finance costs | (1,180) | (1,123) | 5% |
| Profit / (Loss) before tax | (443) | (1,141) | -61% |
| Tax income / (expense) | (786) | 207 | -480% |
| Net Loss for the year | (1,230) | (934) | 32% |

While revenues that the company generated in FY2018 were higher than those expected this time last year, and administrative expenses came in lower, the positive combined impact of these two items was netted off by an increase in cost of sales and depreciation & amortisation charges. Furthermore, the company recognised a tax charge in relation to reversal of previously recognised investment tax credits, which resulted in a higher net loss for the year.



PART C

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 |



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 qualitative factors such as the different business models of each issuer, their competitive position in the market, KPIs, etc.

| Bond Details | Outstanding Amount €'000 | Total Assets | Total Equity | Gearing Ratio | Net Debt / EBITDA (times) | Interest Cover (times) | YTM (%) |
|--|-----------------------------|--------------------|-------------------|---------------|------------------------------|---------------------------|-------------|
| 4.25% GAP GROUP PLC 03.10.2023 (Secured) | 40,000 | 55,236,633 | 9,869,123 | 65.90% | 2.72 | 4.45 | 3.28 |
| 5.80% INT. HOTEL INVESTMENTS PLC 14.11.2023 | 20,000 | 1,617,853,000 | 877,620,000 | 36.40% | 7.45 | 2.36 | 3.14 |
| 6.00% AX INVESTMENTS PLC 06.03.2024 | 40,000 | 325,243,218 | 214,590,046 | 18.50% | 2.33 | 6.97 | 2.02 |
| 6.0% MEDSERV PLC 30.09.2020/23 (Secured) (Callable) | 20,000 | 156,777,072 | 18,696,715 | 74.17% | 7.34 | 1.36 | 6.00 |
| 4.00% MIDI PLC 27.07.2026 (Secured) | 50,000 | 220,613,004 | 97,440,126 | 32.00% | 2.41 | 9.8 | 3.32 |
| 4.00% INT. HOTEL INV. PLC 29.07.2026 (Secured) | 55,000 | 1,617,853,000 | 877,620,000 | 36.40% | 7.45 | 2.36 | 3.36 |
| 3.90% PLAZA CENTRES PLC 22.09.2026 | 8,500 | 46,036,614 | 28,034,949 | 29.40% | 4.52 | 5.61 | 3.66 |
| 4.50% MEDSERV PLC 05.02.2026 (EUR) | 21,982 | 156,777,072 | 18,696,715 | 74.17% | 7.34 | 1.36 | 4.50 |

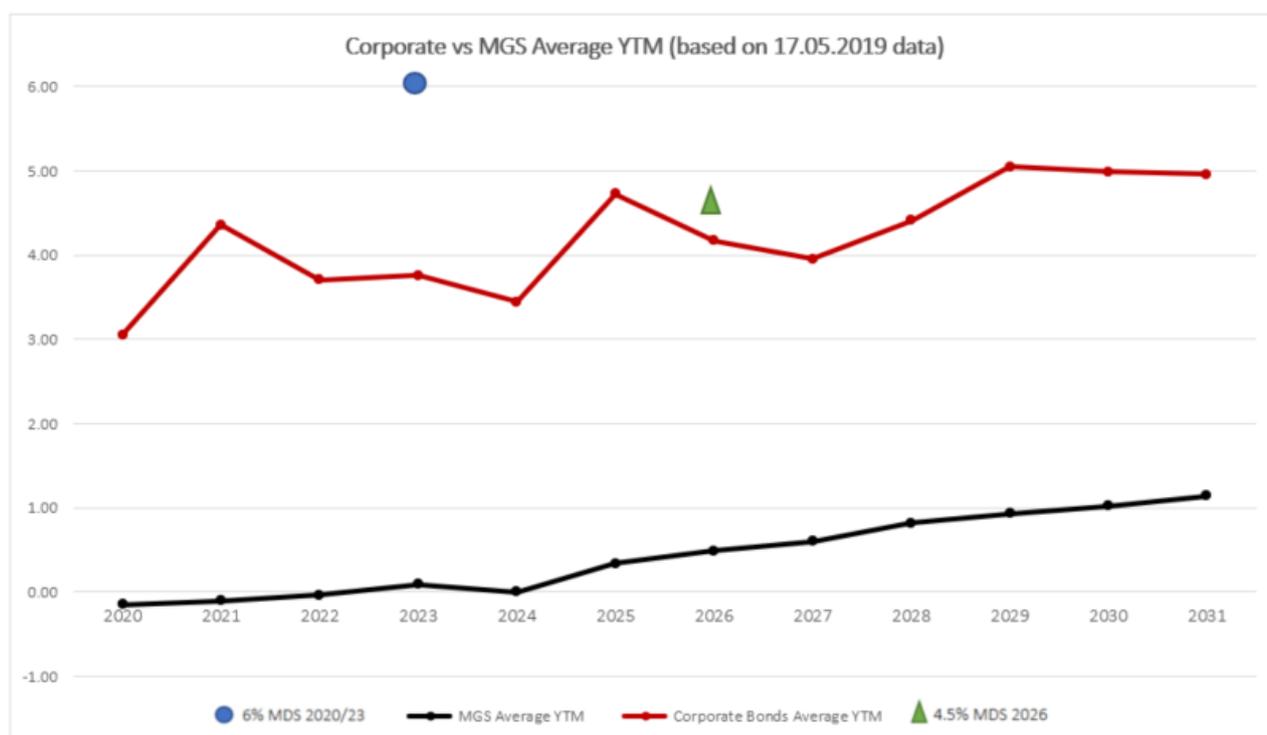
Source: Malta Stock Exchange, Audited Accounts of Listed Companies and respective Guarantors, Rizzo, Farrugia & Co (Stockbrokers) Ltd

Yield to Maturity (YTM) from rizzofarrugia.com based on bond prices as at 17 May 2019.

Interest Cover: EBITDA / Net Finance Cost

Gearing Ratio: Net Debt / (Net Debt + Equity)

The chart overleaf compares Medserv's bonds in Euro to other Euro corporate bonds listed on the Malta Stock Exchange and benchmarked against the Malta Government Stock yield curve as at 17 May 2019. (Note: The 4.5% bonds issued by Medserv in 2016 are tradeable subject to a minimum hold of €50,000 per bond and as such, the pricing on the secondary market would be reflective of this characteristic.)



The YTM of the 6% Medserv plc Secured 2020/23 bond is equivalent to its coupon, which is a premium of 233 basis points over the average YTM of corporate bonds maturing in 2023 (latest date for the redemptions of these bonds). Similarly, the YTM of the 4.5% Medserv plc 2026 bonds is at a premium of 82 basis points over the average YTM of corporate bonds maturing in 2026. Compared to YTM of MGS with a similar maturity, the 4.5% 2026 bond is trading at a premium of 401 basis points, whilst the 6% 2020/23 bond trades at a premium of 591 basis points.

**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. |



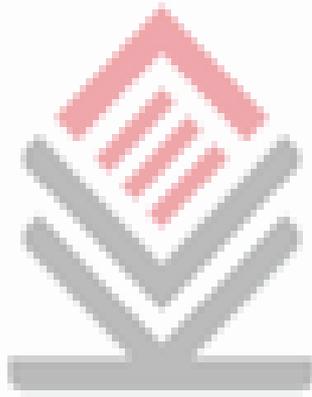
Net Debt to EBITDA

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



Prepared by:
Rizzo, Farrugia & Co (Stockbrokers) Ltd
E: sponsors@rizzofarrugia.com
T: +356 2258 3000