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

5 April 2017

Dear Sirs,

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

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

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

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

(a) Historical financial data for the three years ended 31 December 2014 to 2016 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 2017 has been extracted from the forecast financial information provided by the management of the Issuer and the Guarantor;
(c) Our commentary on the results of the Issuer and on its financial position is based on the explanations set out by the Issuer in the audited financial statements and assisted by management of the Issuer and Guarantor; and
(d) The ratios quoted in the Update FAS have been computed by us applying the definitions set out beneath each ratio.

The Update FAS is meant to assist existing and potential investors by summarising the more important financial data of the Issuer and the Guarantor. The Update FAS does not contain all data that is relevant to potential investors and is meant to complement and not replace independent 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 debt securities.

Yours sincerely,

Vincent E Rizzo
Director

MEDSERV PLC

FINANCIAL ANALYSIS SUMMARY

5 APRIL 2017

RIZZO FARRUGIA
YOUR INVESTMENT CONSULTANTS

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Preamble

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

1 BUSINESS OVERVIEW UPDATE

1.1 Update on the Medserv Group

For the Medserv Group (‶**Group′′**), 2016 was one of the most challenging years the Group has had to face to date. The continuing uncertainly in the oil industry due to the oversupply of fossil fuel in the market which in turn led to declining prices for both oil and gas resulted in significant delays of drilling operations which had its negative impact on the Group's performance in 2016.

Portugal, Cyprus and Malta operations experienced a slowdown due to either environmental issues or pressure on profit margins. Nonetheless, the Group continued to show resilience and managed to secure major contracts across its geographical operating spread during 2016, most of which are anticipated to shift from mothball to operational in the third and fourth quarter of 2017.

During 2016, the Group continued to implement its strategic development plan to respond to the reality of the downturn in oil industry. The plan is designed to implement diversification in three crucial areas, mainly geographical, product and client. Through the acquisition of the METS companies in the Middle East, which was completed in February 2016, the Company diversified its geographical and product offering. METS introduced the Group to geographical locations considered as easy oil countries (where it costs less to extract fossil fuel), and introduced a new income segment through engineering and supply chain management for the OCTG tubular industry (‶**OCTG′′**). The METS acquisition introduced the Group to a new client base of major blue-chip companies operating in the region.

In February 2017, the Company announced that METS was awarded a five-year multimillion-dollar contract by a Sumitomo Corporation Tubular Supply in Oman, for supply chain management of OCTG to Petroleum Development Oman (a joint venture between the government of Oman, Shell and small stakes held by Total SA and Partex). This contract is considered to be the largest ever awarded to the Group.

1.2 KEY DEVELOPMENTS IN 2016

MALTA BASE

During the course of 2016, the Malta operations experienced a downturn in activity. The security issues and instability in the Libyan market as well as the difficult global market conditions in the oil sector have contributed to a slowdown in operations. In 2015, the Company has had to react to the reality of low oil prices by responding to clients' efforts to cut costs. This continued in 2016 and had a short term negative effect on the financial performance of the Malta operation during the year. In contrast, however the long-term prospects for the Malta operation have improved as the Company has managed to retain all the business that came to market during 2016 for the Malta region albeit through a very tough competitive tender process. In fact, the Company was awarded two contracts in respect of the replacement of an offshore storage facility permanently lying offshore Libya and further renewed a contract with an International Oil Company ("**IOC**") for a further two years to provide integrated shore base services in support of the further development of the Bahr Essalam field offshore Libya. This success confirms the resilience of the Company and the Malta operation.

CYPRUS BASE

In Cyprus, the base in Larnaca remained in a mothballed position during 2016. The Group is in discussions on the future of shore base services. Furthermore, in October 2016, the Company announced that it was unsuccessful in its bid for a contract relating to the provision of services offshore Cyprus to an IOC. Meanwhile, the Company has maintained its operational readiness and is awaiting the decisions of its main customer ENI on their future drilling programme offshore Cyprus.

PORTUGAL

Medserv Portugal was also in mothball mode during 2016 as ENI was prevented from carrying out exploration activities as planned. The Group retained its base in Portugal and provided related services to ENI in anticipation of the drilling operations in Portugal, which are expected to commence in the fourth quarter of 2017.

LIBYA

The Company has maintained the Tripoli office operational to support the work being done in the Malta base for Libya. Although Company management has the willingness to penetrate the Libyan onshore oil and gas market, the security issues and present political instability are preventing it.

MIDDLE EAST

The integration of the METS Group, following the acquisition of which was completed in February 2016, is reportedly proceeding well and Medserv believes that there is huge potential for further business growth in the Middle East. Currently METS has three branches located in Basra (South

Iraq), Sharjah (United Arab Emirates) and Sohar (Oman). The acquisition has diversified the Company into engineering and supply chain management for OCTG in the Middle East which includes three main services: storage and handling of pipes, inspection and threading of OCTG' with premium threads. During the year, the Company announced that the first contract for pipe testing was successfully completed in the Hal Far Malta facility using technology and know-how imported from METS.

- ***METS OMAN***

During 2016, Medserv reported a growing business at the Oman operation, where a healthy business pipeline is to continue in Oman. This trend continued to be augmented further when Medserv announced that METS Oman was awarded a large supply-chain contract. Further information on this contract is found under the *'Developments in 2017'* section in this document.

- ***METS UAE***

METS UAE is considered as the Group's hub in the Middle East. In UAE, the Group offers storage services and a machine shop. Management is predicting major growth in UAE and the surrounding countries on the same basis of Oman and is envisaging new business opportunities in threading work.

- ***METS IRAQ***

METS Iraq was significantly impacted by the global political and economic factors surrounding the oil industry as most drilling programs had to be renegotiated with the Iraqi government. However, management remains committed to operating in this country given that Iraq is the fourth largest oil producer in the world and positive signs are evident, as the southern Iraqi oil and gas market is picking up and this is evident with the renewed interest from various IOCs. Moreover, the Iraq business venture has a leading position being the sole VAM® licensed workshop in the country. The VAM® licensee network consists of certified repair shops that thread premium connections of the same quality and performance as those delivered from the production facilities of VALLOUREC OIL and GAS FRANCE.

NEW TARGET MARKETS

The Group is continuously working to cross-sell and diversify its services in new oil and gas markets with potential for growth. During FY2016 Medserv incorporated two new companies; one in Trinidad and Tobago and another one in Egypt. Although there have been no contracts that materialised in these new target markets, the Group has intentionally set up these companies in order to have the possibility to participate in new tender opportunities.

- ***TRINIDAD AND TOBAGO***

The Company has not limited its geographical expansion to the Middle East or the Mediterranean region but has also been trying to make inroads in Trinidad and Tobago, where a new company was incorporated. In February 2017, the Company announced that it has been unsuccessful in

its first tender in Trinidad and Tobago and that it was awaiting adjudication on a second tender. Management advised that the Company is actively pursuing other work in Trinidad and Tobago and the surrounding region and that further tendering opportunities are expected during 2017.

- EGYPT

The Group has also incorporated a new company in Egypt, and discussions with various IOCs are ongoing. Medserv was accepted on the vendor list of two IOCs which will allow the Company to participate in new tenders for the provision of shore base logistics to offshore operations in Egypt. Management expects that this new geographical location will result in new revenue streams from 2017.

- IRAN

The Group's presence in the Middle East has made it possible to explore possibilities of entering the Iranian market. Progress in this area is subject to additional due diligence and compliance issues that have arisen due to American sanctions still in force on Iran.

1.3 DEVELOPMENTS IN 2017

The challenges that 2016 presented to the oil and gas industry have changed the landscape of this whole industry. Whilst there are signs that stability may be returning to the market, the outcome is not yet certain. It is also evident that service companies may have difficulty in surviving under new market conditions. To sustain growth services companies must have a strong cross section of clients and offer a comprehensive range of products combined with the capability to operate in different geographical areas. The Company has achieved this position and will continue to concentrate on these three areas of growth through an active diversification strategy.

Resumed drilling activity in Portugal, and possibly Cyprus, together with the potential establishment of a new onshore support base serving offshore Egypt, are expected to bolster growth in 2017 and reverse the effect of delays in contracted work on the Group's financial performance.

Furthermore, in November 2016, the Group was re-awarded a one-year contract, with the possibility of a further one-year extension, by Eni North Africa ("**EniNA**") for the provision of a logistics base and associated services for its exploration activities taking place offshore and onshore Libya. This contract came into effect on 1 January 2017.

The Group anticipates better performance in the OCTG operating segment as the market continues to improve in the Middle East over year 2016 and with the contract that METS Oman was awarded by Sumitomo for the supply chain management of OCTG to Petroleum Development Oman. This contract, which is the largest ever won by Medserv Group, will require METS to open a new facility of 117,000 sq.m at the new port of Duqm in Oman and is expected to bring employment opportunities for around 60 people.

The Group is constantly monitoring how it can enter new, promising markets in other geographical areas.

1.4 KEY CLIENTS AND CONTRACTS

The Company continues to identify the ENI Group as a major key client. 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 Company for various drilling and exploratory projects. Furthermore, following the large contract awarded to METS Oman in February 2017, the Group is also classifying Sumitomo Group as a major client.

1.5 DIRECTORS AND KEY EMPLOYEES

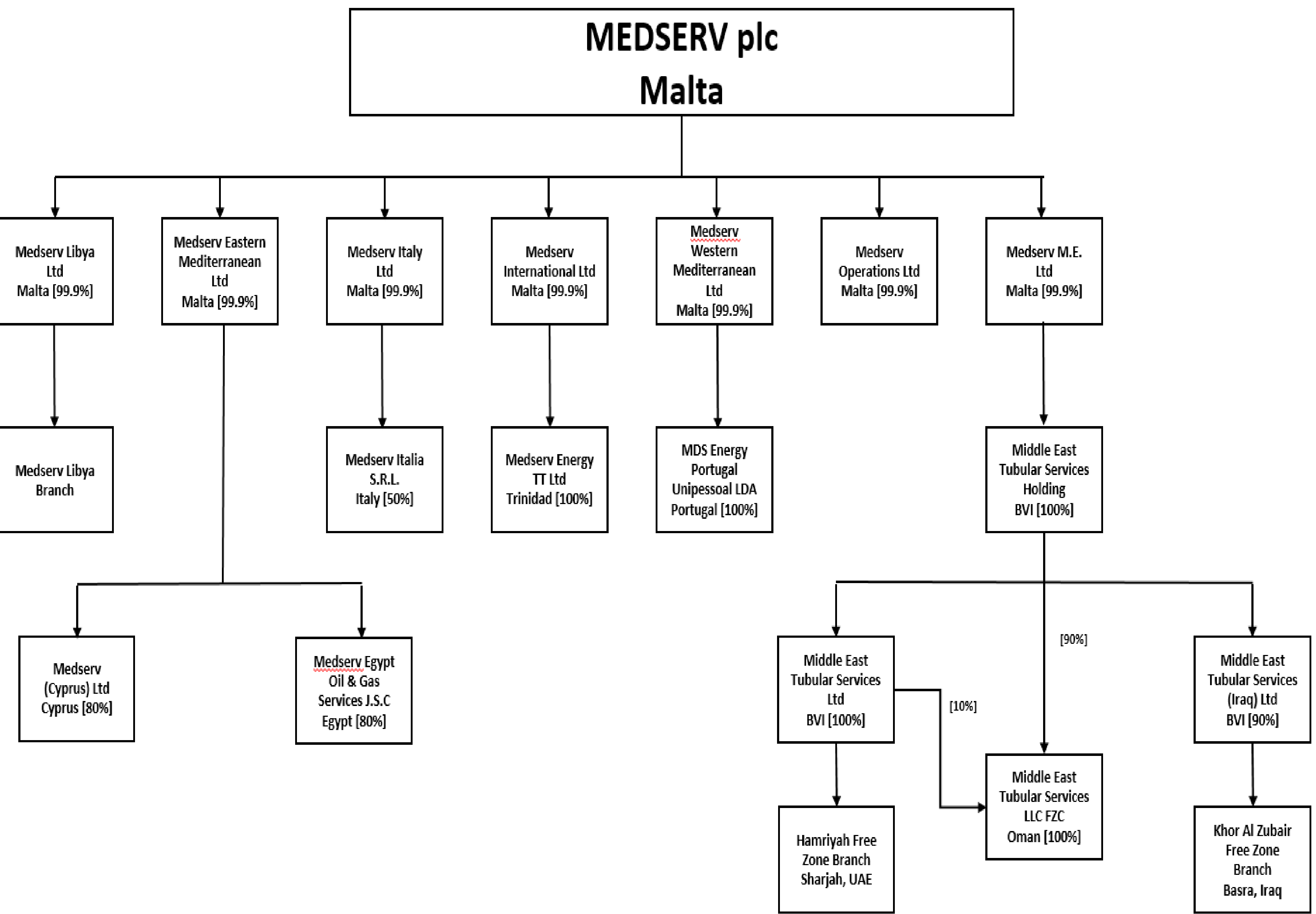
Board of Directors	**Role**
Mr Anthony S Diacono	Chairman & Chief Executive Officer
Mr Anthony J Duncan	Executive Director
Dr Laragh Cassar	Non-Executive Director
Mr Joseph F X Zahra	Chairman of Audit Committee & Non-Executive Director
Mr Joseph Zammit Tabona	Chairman of Remuneration Committee & Non-Executive Director
Mr Godwin A Borg *(appointed 4 July 2016)*	Non-Executive Director
Mr Charles Daly *(resigned 31 December 2016)*	Non-Executive Director
Dr Laragh Cassar *(appointed 1 January 2017)*	Non-Executive Director & Company Secretary

Executive Management	**Role**
Mr Karl Bartolo	CEO Designate & Chief Financial Officer
Mr Neil Jamieson Patterson	Group Strategic Development Officer
Mr Wayne Wrigley	Group Quality, Health Safety & Environment Officer
Mr Nicholas Schembri	Group HR Officer
Mr Edward Farrugia	Group IT Officer
Mr Godfrey Attard	Regional General Manager, Cyprus, Egypt and Portugal
Mr Gareth McMurray	Regional General Manager Middle East

1.6 GROUP STRUCTURE

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

The Group is continuously working to cross-sell its services and uses its expertise across the Group's various geographical locations. During 2016, the Group has setup two new subsidiaries, Medserv Energy TT Limited, incorporated in Trinidad, and Medserv Egypt Oil and Gas Services Joint Stock Company, incorporated in Egypt as the Group continues to pursue work in these two developed oil and gas markets.

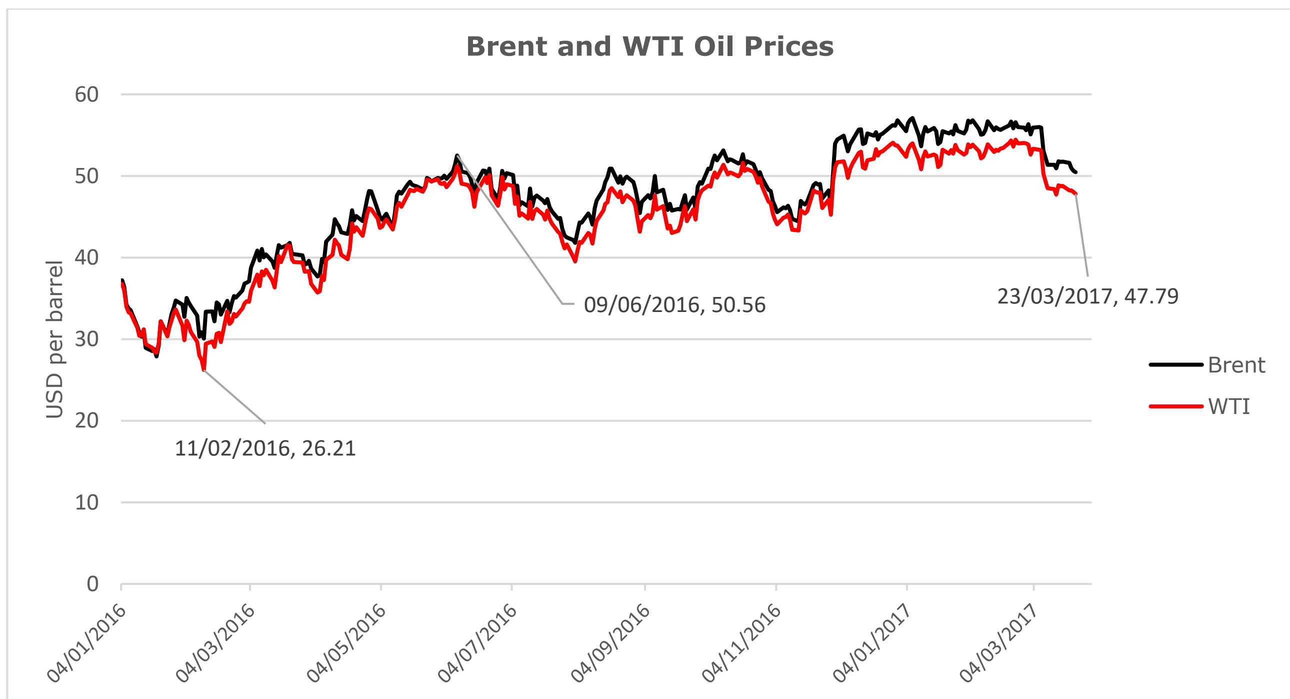

MEDSERV plc
Malta
Medserv Libya Ltd
Malta [99.9%]
Medserv Eastern Mediterranean Ltd
Malta [99.9%]
Medserv Italy Ltd
Malta [99.9%]
Medserv International Ltd
Malta [99.9%]
Medserv Western Mediterranean Ltd
Malta [99.9%]
Medserv Operations Ltd
Malta [99.9%]
Medserv M.E. Ltd
Malta [99.9%]
Medserv Libya Branch
Medserv Italia S.R.L.
Italy [50%]
Medserv Energy TT Ltd
Trinidad [100%]
MDS Energy Portugal Unipessoal LDA
Portugal [100%]
Middle East Tubular Services Holding
BVI [100%]
Medserv (Cyprus) Ltd
Cyprus [80%]
Medserv Egypt Oil & Gas Services J.S.C
Egypt [80%]
Middle East Tubular Services Ltd
BVI [100%]
[10%]
[90%]
Middle East Tubular Services (Iraq) Ltd
BVI [90%]
Middle East Tubular Services LLC FZC
Oman [100%]
Hamriyah Free Zone Branch
Sharjah, UAE
Khor Al Zubair Free Zone Branch
Basra, Iraq

1.7 THE OIL INDUSTRY

The oil and gas industry is going through one of the most transformative periods in its history, which will ultimately redefine the energy business as we know it. This coupled with the geopolitical risk within the region in which the Group operates makes it challenging but brings with it opportunities.

The operations of Medserv Group are directly dependent on the performance of the oil and gas sector. Since late 2014 the sector has witnessed a serious of challenges and global oil companies were forced to decommission about two-thirds of their rigs and sharply cut investment in exploration and production. Consequently, the industry's focus has increasingly turned towards delivering efficiency improvements, building on cost reductions and rationalisation of activity.

The collapse in oil prices in late 2014, triggered by the US shale revolution, the acceleration of non-OPEC supply and OPEC's determination not to cede market share, set in motion a gradual adjustment process in both supply and demand that gathered pace through 2015 and continued in the first half of 2016. The price of oil dropped briefly to a 13-year low of USD26 per barrel in February 2016. Prices recovered to USD50 per barrel in June 2016 and have since traded steadily between the range of USD50 and USD55. This near-doubling of price was mainly driven by OPEC's decision in November 2016 to curb production. However, the market remains highly volatile and in March 2017 oil prices slipped back to three-month lows and were trading below USD50 per barrel after data showed that U.S. crude inventories are rising faster than expected, piling pressure on OPEC to extend output cuts beyond June 2017.



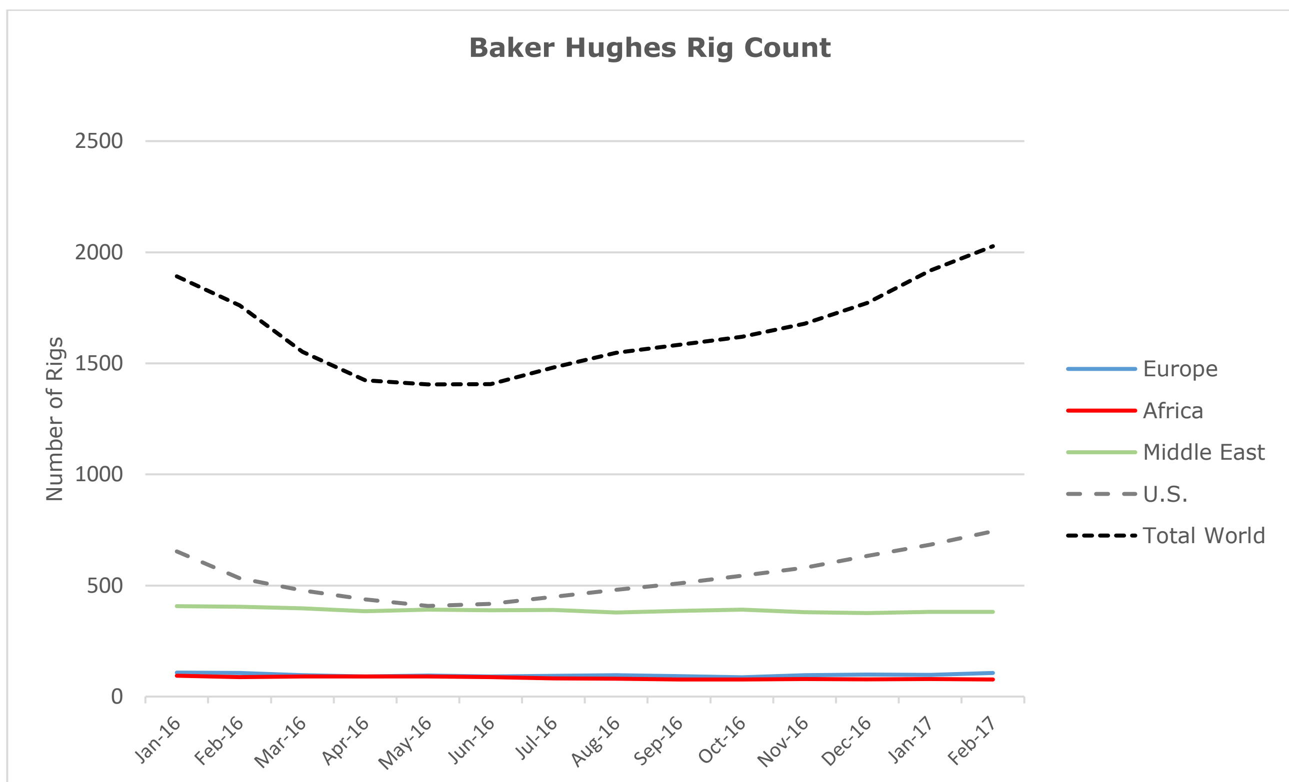
Source: Reuters

The decision by OPEC in late 2016 to limit oil output by 1.2 million barrels per day (bpd) in an attempt to end the global surplus of oil supply was supported by a number of the large producers. Iraq, OPEC's second largest producer decided to cut output by 200,000 bpd while Saudi Arabia

planned to reduce output by almost 500,000 bpd accounting to nearly 40% of the burden. Iran was the only OPEC member allowed to increase production by 90,000 bpb until it recovers the market share it lost when international sanctions were imposed due to concerns about Tehran's nuclear program. Nigeria and Libya were granted exemptions because of internal conflicts that have hampered their oil production. Several non-OPEC producers including Russia, Mexico, Oman and Azerbaijan have also agreed to reduce their oil production by 558,000 bpd.

On the demand side, low oil prices have spurred demand in many advanced economies, while this has been partially offset by lower demand in emerging markets where many expensive fuel subsidies have been eased. While demand is expected to continue to grow, the rate of growth is expected to slow due to weaker macroeconomic conditions and as vehicles are becoming more energy-efficient.

Over the last two years, there has been a massive plunge in the number of active oil rigs, which followed the collapse in oil prices where companies across the supply chain have suffered an average fall in revenues. The Baker Hughes rig count is an important business barometer for the oil drilling industry. The active rig count acts as a leading indicator of demand for oil products. For the first time in months, the rig count has been increasing since June 2016 as oil prices have recovered after the fall in 2014. The chart below compares the total rig count to that in the US, Europe, Africa and the Middle East. It was compiled using publicly-available data from the Baker Hughes website *(http://phx.corporate-ir.net/phoenix.zhtml?c=79687&p=irol-rigcountsintl)*.



Source: Baker Hughes

While the above suggests an overall increase of oil rigs present in international waters since June 2016, the increase mainly relates to the US as evidenced by the 29% growth in the rig count in the fourth quarter of 2016 as compared to the third quarter of 2016. While the chart clearly shows that there was a lower number of rigs registered in Europe, African and Middle East

regions, the extent of such a dip was not that significant. The oil market in these three regions is very much in a wait-and-see mode.

Looking ahead, many challenges still remain for the oil and gas sector and the actions the global oil companies take will determine the future of the industry. Oil price dynamics will continue to remain uncertain and volatile in 2017. The industry faces multiple challenges including the uncertain prospects for the global economy, managing excessive speculation, geopolitical dynamics, and attracting new investment and managing advances in technology. These challenges will continue to remain in 2017 and beyond both for oil companies and across much of the supply chain.

2 ISSUER PERFORMANCE & FINANCIAL POSITION OVERVIEW

This section provides an analysis of the FY2016 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 year (FY2017) are presented in sub-section 2.3 and are in line with the requirements of the Listing Policies of the MFSA.

All amounts in the tables below are in thousands (€'000), unless otherwise specified, and have been subject to rounding.

2.1 Financial Statements Review

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	**ACTUAL**	**ACTUAL**	**ACTUAL**
for the year ended 31 December	**2014**	**2015**	**2016**
	€'000	*€'000*	*€'000*
Revenue*	32,411	42,722	32,822
Cost of Sales	(23,133)	(27,232)	(22,901)
Gross Profit	**9,278**	**15,490**	**9,921**
Other income	28	39	573
Administrative expenses	(3,426)	(5,247)	(4,966)
Other expenses	(2)	(111)	-
EBITDA	**5,878**	**10,171**	**5,528**
Depreciation	(1,662)	(2,650)	(3,468)
Amortisation	-	-	(2,051)
Results from operating activities	**4,216**	**7,521**	**9**
Finance income	2	3	384
Finance costs	(1,079)	(1,508)	(2,848)
Net finance costs	*(1,077)*	*(1,504)*	*(2,463)*
Profit / (Loss) before tax	**3,139**	**6,016**	**(2,454)**
Tax (expense) / income	(858)	(1,306)	5,431
Profit from continuing operations	**2,281**	**4,710**	**2,977**
Loss from Discontinued Operations	(95)	(219)	-
(Net Profit) *for the period*	**2,186**	**4,492**	**2,977**
Attributable to Non-controlling interest	*249*	*374*	*(162)*
Attributable to shareholders	*1,937*	*4,118*	*3,139*

**In 2016, the Group reclassified the income generated from the PV farm, which was previously presented within "Other Income" to "Revenue". As such, Revenue and Other Income of FY2014 and FY2015 were adjusted to reflect this change in accounting policy, resulting in Revenue of FY2014 and FY2015 to now read €32.4 million and €42.7 million respectively (previously reported at €32.2 million and €42.2 million respectively) and Other Income of FY2014 and FY2015 now reading €0.03 million and €0.04 million respectively (previously read €0.2 million and €0.6 million respectively). This reflects the adjustment of €203,810 and €525,424 being the income from the PV farm earned during FY2014 and FY2015.*

During FY2016, Medserv Group continued to face difficult market conditions and major changes in the oil industry have negatively impacted the Group's performance. The challenging period for the industry is mainly caused by the continuing uncertainty due to the oversupply of fossil fuel in the market which in turn led to declining prices for both oil and gas, making the process of drilling for oil less attractive. As a matter of fact, the industry has seen significant delays in drilling activity.

The Group registered a 23% drop in revenue to €32.8 million reflecting a slowdown in the provision of shore base logistics after exploratory drilling activity in Cyprus was put on hold, and revenue generated from shore base logistics in Portugal due to a delay in drilling activities. Furthermore, this decrease was not supplemented to the same extent by additional revenue from the METS Group, recognised in the books for ten months.

The Group's main revenue streams can be divided into four main segments – shore base logistical support, supply chain management and threading of OCTG, income from offshore maintenance and income from the PV farm. As from FY2016, the income generated from the PV has started being recognised as Revenue and thus has been reclassified from Other Income accordingly.

REVENUE AND OTHER INCOME ANALYSIS BY OPERATING SEGMENT	**ACTUAL**	**ACTUAL**	**ACTUAL**
for the year ended 31 December	**2014**	**2015**	**2016**
	€'000	*€'000*	*€'000*
Shore Base Logistical Support[1]	24,858	34,658	18,089
OCTG Shops	-	-	13,084
Other Services*	7,349	3,733	212
Offshore Maintenance	-	3,805	952
PV farm feed-in	204	525	485
Total Revenue	**32,411**	**42,722**	**32,822**

**Other services consist of bunkering which is provided by the Company on an ad-hoc basis.*

The Malta base has also suffered from a downturn in activity due to the continuing operational difficulties in Libya. The security issues and instability in the Libyan market as well as the difficult market conditions in the sector have contributed to a slowdown in operations. This is reflected in the decline in revenue generated from offshore maintenance and other low-margin related services. The difficult market conditions in the sector have also contributed to the pressure on profit margins in Malta. However, it is worth noting that the long-term prospects for the Malta operation have improved as the Company has managed to retain all the business that came to market during FY2016 for the Malta region albeit through a very tough competitive tender process. In fact, in November 2016, the Company announced that it has been re-awarded a contract by Eni NA to provide logistics base and associated services for its exploration activities taking place offshore and onshore Libya. The contract duration is for a period of one year, which started on 1 January 2017, with the possibility of extending for another year. Furthermore, additional revenue of €13.1 million was generated from the OCTG services provided by the newly-acquired METS group which is the equivalent of ten months' revenue for FY2016.

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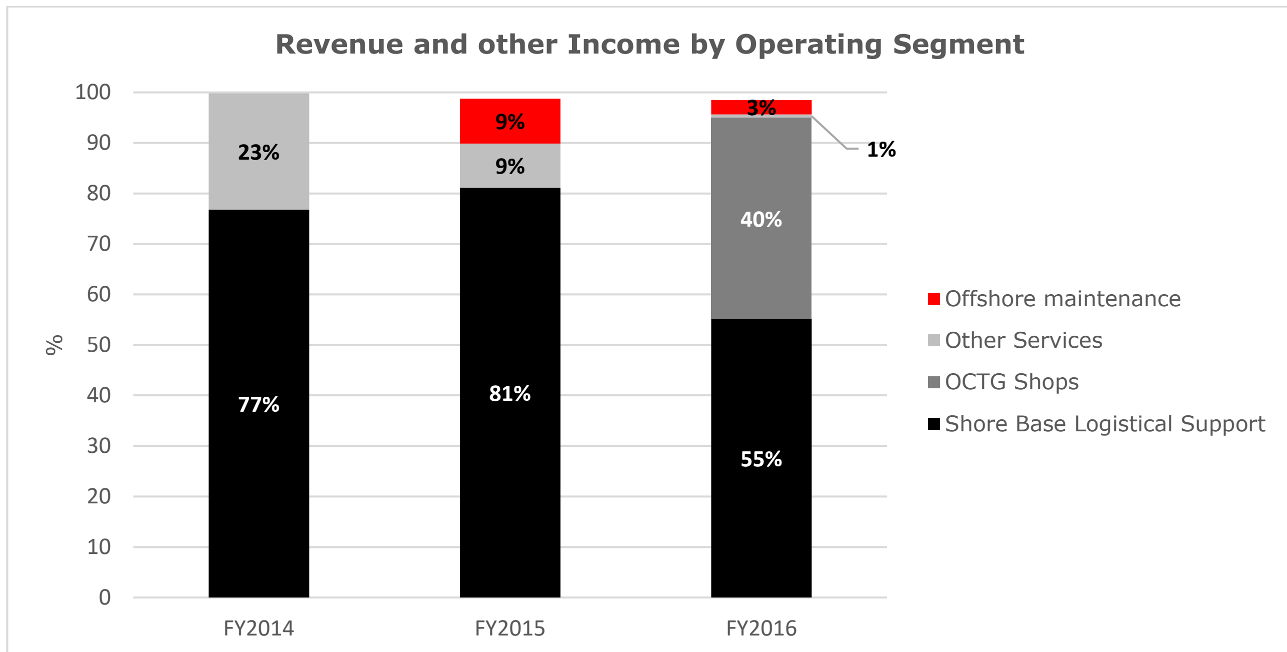
[1] *Revenue from Shore Base Logistical Support includes income from Rig Stops which in previous years were shown separately.*



As can be observed from the chart above, during FY2016, the Group continued to implement its strategic development plan to diversify in three crucial areas mainly geographical, product and client. The acquisition of METS companies in the Middle East was the main contributor to this diversification process which resulted in a new geographical presence in easy-oil countries, a new income segment through engineering and supply chain management for the OCTG tubular industry, as well as a new client base operating in the region. In fact, for FY2016 total Group revenue can be split in two main segments: 55% made up of 'Shore Base Logistics' services and 40% from 'OCTG-related services'. The remaining balance was not material, and consisted of offshore maintenance, other related low-margin services and the feed-in-tariff from the PV farm. This is a positive result in the Company's efforts to diversify its products to reduce its concentration risk, which was previously very much concentrated on shore base logistic services.

Cost of sales also declined by 16% to €23 million, albeit at a slower pace than revenue. Gross profit for FY2016 was of €9.9 million representing a 34% drop from the level of FY2015. Administrative expenses have been maintained at the same levels of FY2015 as the Group did not curtail any of the resources of its business development team but decided to invest in additional resources with the objective of participating in new tenders when opportunities are presented. As a result, the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) was of €5.5 million for FY2016, representing a 46% drop when compared to the €10.2 million registered in FY2015.

In FY2016, in relation to the acquisition of METS, the Group carried out a detailed 'Price Purchase Allocation' exercise following which the difference between the purchase consideration and the fair value of all identifiable net assets acquired as at the acquisition date is recognised as goodwill. Identifiable assets include intangible assets amounting to €15.7 million which mainly consists of client relationships and are estimated to have an economic useful life of ten years. Moreover, the Group has entered into employment contracts with two METS executives in order to retain their expertise. The value of these employment contracts will be amortised over a two-year period.

During FY2016, the Company issued two new bonds, denominated in both Euro and US Dollars, for an aggregate of €30 million, which proceeds were used to part-finance the METS acquisition. In this respect, net finance costs increased by 64% to €2.5 million.

After deducting a depreciation charge of €3.5 million (an increase of 31%), amortisation charges of €2.1 million, and net finance costs of €2.5 million, profit before tax on continued operations amounted to €0.01 million, as opposed to the €7.5 million registered in FY2015.

Profit after tax attributable to shareholders was €3.1 million compared to the €4.1 million registered in FY2015. In FY2016, Medserv was able to use a tax credit of €5.4 million (FY2015: tax charge of €1.3 million), resulting in a net profit for the year of €3 million, which is 34% lower than that of FY2015 (FY2015: €4.5 million). The tax credit was mainly attributable to investment tax credits availed of by the Group's Malta subsidiary.

Statement of Cash Flows

CASH FLOWS STATEMENT	**ACTUAL**	**ACTUAL**	**ACTUAL**
for the year ended 31 December	**2014**	**2015**	**2016**
	€'000	*€'000*	*€'000*
Net cash from / (used for) operating activities	(2,809)	8,825	7,349
Net cash used for investing activities	(13,421)	(6,306)	(37,540)
Net cash from / (used for) financing activities	7,857	(1,316)	38,346
Net movements in cash and cash equivalents	**(8,373)**	**1,203**	**8,155**
Cash and cash equivalents at beginning of the year	5,644	(2,688)	(1,652)
Effects of exchange rate fluctuations on cash held	2	-	(286)
Effect of disposal of subsidiary	-	(167)	-
Cash released from guarantee	39	-	-
Cash and cash equivalents at end of year	**(2,688)**	**(1,652)**	**6,218**

During FY2016, the total amount of net cash generated from operating activities decreased to €7.3 million compared to €8.8 million in FY2015, largely reflecting the downturn in the Group's business activity which in turn resulted in a lower level of revenue.

The net cash outflow of €37.5 million in relation to the cash used for investing activities was in the main in relation to the acquisition of the METS Group during FY2016.

Meanwhile, as a result of the additional funding obtained from equity and debt issuance in FY2016, net cash generated from financing activities amounted to €38.3 million (FY2015: net cash outflow of €1.3 million).

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	ACTUAL	ACTUAL	ACTUAL
as at 31 December	2014	2015	2016
	€'000	€'000	€'000
ASSETS			
Goodwill and intangible assets	-	-	17,180
Property, plant and equipment	23,342	24,048	34,255
Trade and other receivables	-	-	1,272
Prepaid operating lease	34,899	34,123	33,348
Deferred tax assets	4,063	3,504	8,837
Total non-current assets	**62,304**	**61,675**	**94,892**
Inventories	-	-	1,266
Prepaid operating lease	776	776	776
Current tax asset	-	-	2
Derivative financial asset	-	1,176	-
Trade and other receivables	16,641	16,477	18,300
Cash at bank and in hand	1,116	1,037	6,218
Total current assets	**18,532**	**19,466**	**26,561**
TOTAL ASSETS	**80,836**	**81,141**	**121,453**
LIABILITIES			
Deferred Income	34,899	34,123	33,348
Loans and borrowings (unlisted)	1,449	2,661	1,522
Bond (listed)	19,689	19,743	50,534
Deferred tax liabilities	47	161	61
Provisions & Employee Benefits	30	31	1,219
Total non-current liabilities	**56,114**	**56,720**	**86,684**
Current tax payable	142	287	63
Deferred income	776	776	839
Loans and borrowings (unlisted)	4,880	3,788	1,112
Current portion of bond (listed)	-	-	-
Trade and other payables & Employee Benefits	9,452	8,448	6,347
Total current liabilities	**15,250**	**13,299**	**8,361**
Total liabilities	**71,363**	**70,019**	**95,045**
EQUITY			
Share capital	2,500	4,500	5,374
Share Premium	-	-	12,004
Reserves	4,353	5,296	403
Retained earnings	2,363	1,315	8,573
Total equity attributable to equity-holders of the Company	**9,216**	**11,110**	**26,354**
Non-controlling interest	257	12	54
Total equity	**9,473**	**11,122**	**26,408**
Total equity and liabilities	**80,836**	**81,141**	**121,453**

The Statement of Financial Position as at 31 December 2016 compared to the figures as at 31 December 2015, reveals that total assets increased by 50% to €121.5 million (FY2015: €81.1 million) largely reflecting the integration of the asset-base following the acquisition of the METS Group with effect from February 2016. Furthermore, the Company's cash balances, advanced from €1 million in FY2015 to €6.2 million in FY2016.

In the same way, total liabilities increased by 36% to €95 million largely representing the additional debt taken on by the Group to finance the METS acquisition. Overall, total equity of the Medserv Group amounted to €26.4 million compared to €11.1 million as at the end of the 2015 financial year mainly reflecting the €13 million additional equity (recognised in share capital and share premium) raised by the Group through a rights issue ahead of the METS acquisition.

On the funding side, the Group's borrowings were principally composed of listed bonds - a bond programme of €20 million issued over two tranches between 2013 and 2014, and another bond issued in 2016 amounting to €30 million. To this effect, the net debt of the Group increased from €25.2 million in FY2015 to just below €47 million by the end of FY2016.

BORROWINGS	**ACTUAL**	**ACTUAL**	**ACTUAL**
for the year ended 31 December	**2014**	**2015**	**2016**
	€'000	*€'000*	*€'000*
Loans and borrowings (non-current)	1,449	2,661	1,522
Bond (listed)	19,689	19,743	50,534
Loans and borrowings (current)	4,880	3,788	1,112
Total Borrowings	**26,018**	**26,193**	**53,168**
Cash at bank and in hand	1,116	1,037	6,218
Net Debt	**24,902**	**25,156**	**46,950**

2.2 RATIO ANALYSIS

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

PROFITABILITY RATIOS

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

	ACTUAL	**ACTUAL**	**ACTUAL**
for the year ended 31 December	**2014**	**2015**	**2016**
Gross Profit margin *(Gross Profit / Revenue)*	28.63%	36.26%	30.23%
EBITDA margin *(EBITDA / Revenue)*	18.14%	23.81%	16.84%
Operating Profit margin *(Operating Profit / Revenue)*	13.01%	17.60%	0.03%
Net Profit margin *(Profit for the period / Revenue)*	6.75%	10.51%	9.07%
Return on Equity *(Profit attributable to owners of the Company / Average Equity attributable to owners of the Company)*	21.98%	39.99%	16.73%
Return on Capital Employed *(Profit for the period / Average Capital Employed)*	7.76%	12.34%	5.09%
Return on Assets *(Profit for the period / Average Assets)*	3.13%	5.55%	2.94%

The Group's gross profit, EBITDA and net profit margins for 2016 were weaker when compared to the previous year reflecting the decrease in revenue, already explained in the previous sections of this report. Similarly, due to an overall reduction in profitability, the return on equity, assets and capital employed came in lower in 2016 when compared to the previous year.

Liquidity Ratios

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

for the year ended 31 December	**ACTUAL 2014**	**ACTUAL 2015**	**ACTUAL 2016**
Current Ratio *(Current Assets / Current Liabilities)*	1.22x	1.46x	3.18x
Cash Ratio *(Cash & cash equivalents / Current Liabilities)*	0.07x	0.08x	0.74x

The Group's short-term liquidity position as at 31 December 2016, represented by the current ratio, was 3.18 times (FY2015: 1.46 times) in particular due to the increased cash balances and inventories related to the METS Group, and a decline in the short-term debts and other payables. Similarly, the Group's cash ratio was stronger than that of FY2015 at 0.74 times (FY2015: 0.08 times).

Solvency Ratios

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

for the year ended 31 December	**ACTUAL 2014**	**ACTUAL 2015**	**ACTUAL 2016**
Interest Coverage ratio *(EBITDA / Net finance costs)*	5.46x	6.76x	2.24x
Gearing Ratio (1) *(Net debt / Total Equity)*	2.63x	2.26x	1.78x
Gearing Ratio (2) *[Total debt / (Total Debt plus Total Equity)]*	73.31%	70.19%	66.81%
Net Debt to EBIDTA *[Net debt / EBIDTA]*	4.24x	2.47x	8.49x

The decrease in revenue, resulting in lower EBITDA during FY2016 as well as the additional borrowings that increased the Group's finance costs, have resulted in a weaker interest coverage ratio from 6.76 times in FY2015 to 2.24 times. The weaker net debt to EBIDTA signifies that, based on the EBITDA of FY2016, the Group will require 8.5 years of EBITDA to pay back its net debt.

Despite the additional debt undertaken by the Group during FY2016, the rights issue which generated an additional €13 million of equity and the higher cash balances aided the Group's gearing ratios in FY2016.

2.3 FORECASTS – THE ISSUER

The 2017 forecasts have been provided and approved by management and now include the METS Group entities for the whole year ending 31 December 2017.

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	**ACTUAL**	**FORECAST**
for the year ended 31 December	**2016**	**2017**
	€'000	*€'000*
Revenue	32,822	35,938
Cost of Sales	(22,901)	(25,076)
Gross Profit	**9,921**	**10,862**
Other income	573	512
Administrative expenses	(4,966)	(3,820)
EBITDA	**5,528**	**7,554**
Depreciation	(3,468)	(3,545)
Amortisation of Intangible Assets	(2,051)	(2,501)
Results from operating activities	**9**	**1,508**
Finance income	384	-
Finance costs	(2,848)	(2,925)
Net finance costs	(2,463)	(2,925)
Loss before tax	**(2,454)**	**(1,417)**
Tax income / (expense)	5,431	(967)
Profit (Loss) from continuing operations	**2,977**	**(2,384)**

Management has prepared and approved the forecasts for FY2017 after carefully considering the current industry environment, the level and volatility of oil prices as well as the feedback being provided by clients in so far as project timings and the current state of the industry are concerned. Furthermore, the forecasts do not assume any capex otherwise necessary should the Company is awarded new contracts.

The Group forecast revenue growth for FY2017 of 9.5% over that registered in FY2016 despite the current economic conditions in the industry. The main growth drivers are an increase of threading work in METS UAE, an improved performance in METS Iraq and a possible resumption of drilling activity in Portugal and Cyprus.

The table below provides a breakdown of revenue for 2017 as against that generated in year 2016.

REVENUE AND OTHER INCOME ANALYSIS BY OPERATING SEGMENT	**ACTUAL**	**FORECAST**
for the year ended 31 December	**2016**	**2017**
	€'000	*€'000*
Shore Base Logistical Support	18,089	15,318
OCTG Shops	13,084	17,613
Other Services (Bunkering)	212	0
Offshore Maintenance	952	2,500
PV farm feed-in	485	507
Total Revenue	**32,822**	**35,938**

Source: Management Information

In FY2017, shore base logistics is forecasted to generate revenue amounting to €15.3 million in year (FY2016: €18.1 million). The decrease in this operating segment is attributable to the Malta base, as it is envisaged to go through a slowdown in operations attributable to a delay in the delivery of relevant equipment to be utilised in the Bahr Esslam phase 2 project, which equipment is expected to start arriving at the Malta base towards the end of the second quarter of 2017. The Portuguese and Cyprus shore base are assumed to remain mothballed for most of the year and Cyprus is expected to become active in the fourth quarter of FY2017. The Group is scheduled to drill one offshore well in Portugal in September 2017 following which the rig will shift to Cyprus to commence a drilling campaign of three wells, commencing in December 2017.

The OCTG operating segment is expected to generate a revenue of €17.6 million (ten months FY2016: €13.1 million). METS UAE is assumed to carry out more threading works in FY2017 than that in FY2016. Meanwhile, METS Oman is assumed to generate the same volume of work as FY2016 and the revenue from METS Iraq is forecast to improve by 91% to €2.4 million (FY2016: €1.2 million). This improvement is a result of an expected increase in rig counts in Iraq as IOCs move towards resolving issues relating to renegotiation of drilling and exploratory agreements with the National Oil Company of Iraq.

Group revenue is not expected to accrue evenly during FY2017 as most of the projects contracted and business anticipated is expected to be generated in the second half of the year for both shore base logistics and OCTG.

Administrative expenses are forecasted at a lower level of €3.8 million (FY2016: €5 million) as the Company will be reviewing these costs overruns and reduce any costs of a fixed nature where possible.

EBIDTA for FY2017 is expected to improve by 37% to €7.6 million as against the €5.5 million in financial year 2016. The improvement is mainly derived from OCTG operating segment and Portugal shore base which increase amounts to €2 million. The increase makes up for the decrease in EBITDA of €1 million for the Malta shore base forecasted in FY2017.

STATEMENT OF CASH FLOWS

CASH FLOWS STATEMENT	**ACTUAL**	**FORECAST**
for the year ended 31 December	**2016**	**2017**
	€'000	*€'000*
Net cash from operating activities	7,349	7,249
Net cash used in investing activities	(37,540)	(281)
Net cash from / (used in) financing activities	38,346	(3,344)
Net movements in cash and cash equivalents	**8,155**	**3,624**
Cash and cash equivalents at beginning of the year	(1,652)	6,218
Effect of disposal of subsidiary	(286)	-
Cash and cash equivalents at end of year	**6,218**	**9,842**

In FY2017, the Group is expected to close in a stronger cash position. The Group's operations are expected to generate a net cash inflow from operations of €7.2 million by the end of FY2017. No further material investment is being envisaged during FY2017 which would require additional borrowings. This is expected to leave the Group with a cash balance of €9.8 million by the end of the year which cash could come in useful if and when the Group lands new contracts that would require initial capex for setup purposes, particularly in new geographical areas.

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION	ACTUAL	FORECAST
as at 31 December	**2016**	**2017**
	€'000	*€'000*
ASSETS		
Goodwill and intangible assets	17,180	15,653
Property, plant and equipment	34,255	30,965
Trade and other receivables	1,272	1,590
Prepaid operating lease	33,348	32,572
Deferred tax assets	8,837	8,267
Total non-current assets	**94,892**	**89,047**
Inventories	1,266	988
Prepaid operating lease	776	776
Current tax asset	2	95
Trade and other receivables	18,300	18,102
Cash at bank and in hand	6,218	9,842
Total current assets	**26,561**	**29,803**
TOTAL ASSETS	**121,453**	**118,850**
LIABILITIES		
Deferred Income	33,348	32,572
Loans and borrowings (unlisted)	1,522	493
Bond (listed)	50,534	49,741
Deferred tax liabilities	61	306
Provisions and Employee Benefits	1,219	1,366
Total non-current liabilities	**86,684**	**84,478**
Current tax payable	63	213
Deferred income	839	835
Loans and borrowings (unlisted)	1,112	1,616
Trade and other payables & Employee Benefits	6,347	7,678
Total current liabilities	**8,361**	**10,342**
Total liabilities	**95,045**	**94,820**
EQUITY		
Share capital	5,374	5,374
Share Premium	12,004	12,004
Reserves	403	549
Retained earnings	8,573	5,791
Total equity attributable to equity-holders of the Company	**26,354**	**23,718**
Non-controlling interest	54	312
Total equity	**26,408**	**24,030**
Total equity and liabilities	**121,453**	**118,850**

In FY2017, the balance sheet is expected to remain at the same levels of FY2016 except for cash at bank where it is expected to be in the region of €9.8 million, as opposed to €6.2 million in FY2016.

The financial ratios of the Issuer are expected to change significantly in FY2017. While the gross profit and EBIDTA margins are expected to remain at the same levels of FY2016.

Likewise, the return on assets, equity and capital employed are expected to suffer further declines, reflecting the lower profitability being forecasted for the year.

The interest cover ratio is estimated to increase to 2.81 times in FY2017 due to an anticipated increase in EBIDTA, while Medserv's gearing level is anticipated to remain at the same levels of FY2016.

3 GUARANTOR PERFORMANCE & FINANCIAL POSITION OVERVIEW

Medserv Operations Limited ("**MedOps**") is the guarantor of the bond issue to which this FAS relates. MedOps manages and operates the Malta base of the Group – which, to date, remains the largest in terms of size and activity.

What follows is an analysis of the FY2016 figures in comparison to the previous two years. The information in relation to the historic information is sourced from published annual reports as issued by Medserv plc as well as from additional information provided by management. Furthermore, sub-section 3.3 includes a set of projections for the current year (FY2017) of the Guarantor. All amounts in the tables below are in thousands (€'000), unless otherwise specified and have been subject to rounding.

3.1 Financial Statements Review

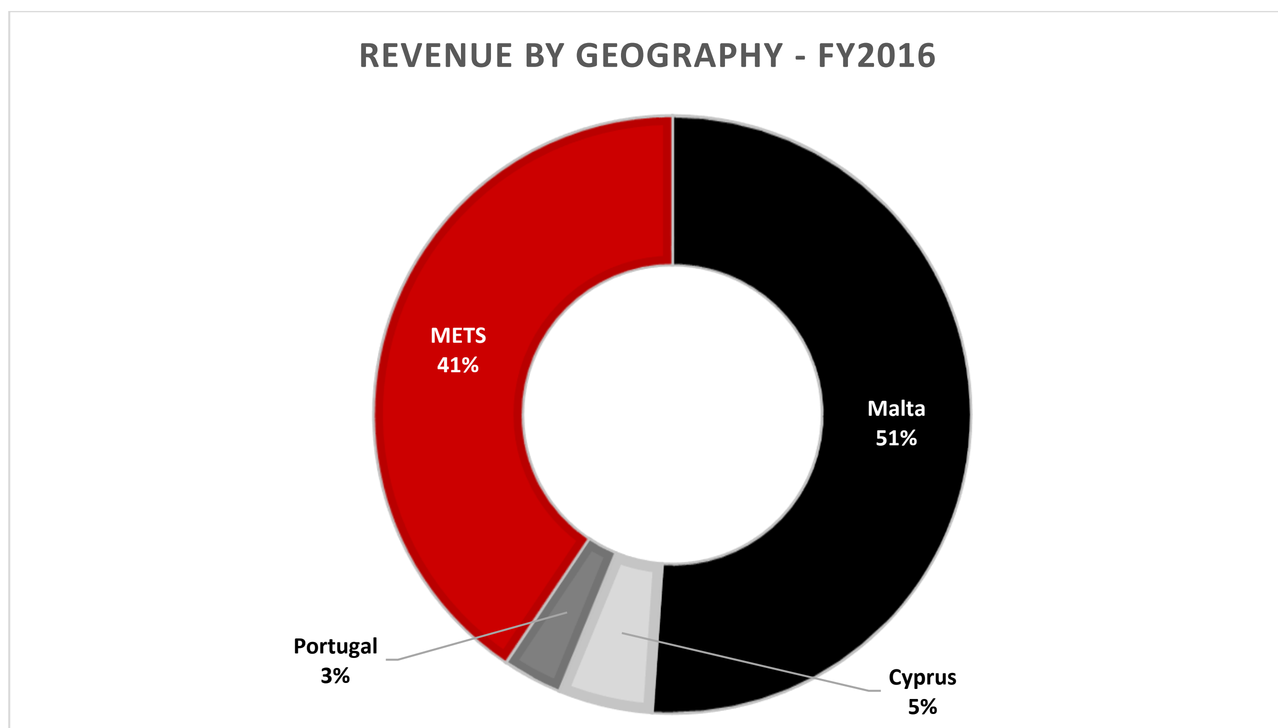
Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	**ACTUAL**	**ACTUAL**	**ACTUAL**
for the year ended 31 December	**2014**	**2015**	**2016**
	€'000	*€'000*	*€'000*
Revenue*	22,641	27,086	16,468
Cost of Sales	(17,410)	(18,496)	(10,641)
Gross Profit	**5,231**	**8,590**	**5,827**
Other income	10	13	436
Administrative and other expenses	(1,799)	(1,641)	(2,349)
EBITDA	**3,442**	**6,962**	**3,914**
Depreciation	(924)	(1,445)	(1,559)
Results from operating activities	**2,518**	**5,516**	**2,355**
Net finance costs	(605)	(1,064)	(665)
Profit before tax	**1,913**	**4,453**	**1,690**
Tax (expense)/ income	(495)	(633)	5,160
Net Profit for the year	**1,418**	**3,819**	**6,851**

**In 2016, MedOps reclassified the income generated from the PV farm, which was previously presented within "Other Income", to "Revenue". As such, Revenue and Other Income of FY2014 and FY2015 were adjusted to reflect this change in accounting policy, resulting in Revenue of FY2014 and FY2015 to now read €22.6 million and €27.1 million respectively (previously reported at €22.4 million and €26.6 million respectively) and Other Income of FY2014 and FY2015 now reading €0.01 million and €0.01 million respectively (previously read €0.21 million and €0.54 million respectively).*

Set up in 1974, MedOps remains to date the main operating subsidiary of the Issuer. 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). This subsidiary holds the emphyteutic rights over its site within the Malta Freeport and to date has always been the main contributor to profitability of the Group.

During FY2016, MedOps remained the largest operation in scope and revenue, servicing the Libyan offshore operations, onshore ancillary and support services and the PV farm.
Revenues amounting to €16 million were generated by MedOps in FY2016, representing 51% of the total revenue of the Group, under by 13 percentage point when compared to FY2015. The revenue generated by MedOps represents a decline of 40% from FY2015, as the company suffered from a downturn in activity in offshore maintenance and bunkering. The operational difficulties in Libya coupled with dampened market conditions in the sector have also contributed to pressure on profit margins as the company had to respond to clients' efforts to cut costs. Given the drop in revenue, MedOps generated an EBITDA of €3.9 million, representing a decline of 44% from FY2015.



Administrative expenses were higher by 43% as these costs are mainly fixed in nature. MedOps is currently reviewing all costs and is working towards reducing any costs of a fixed nature where possible. Depreciation was marginally higher on the back of a larger fixed-asset base while net finance costs were 38% lower.

STATEMENT OF CASH FLOWS

CASH FLOWS STATEMENT	**ACTUAL**	**ACTUAL**	**ACTUAL**
for the year ended 31 December	**2014**	**2015**	**2016**
	€'000	*€'000*	*€'000*
Net cash (used in)/from operating activities	(3,529)	(2,036)	5,493
Net cash used in investing activities	(7,482)	(3,582)	(1,291)
Net cash from / (used in) financing activities	3,647	5,335	(1,007)
Net movements in cash and cash equivalents	**(7,364)**	**(283)**	**3,195**
Cash and cash equivalents at beginning of the year	5,152	(2,213)	(2,496)
Cash and cash equivalents at end of year	**(2,212)**	**(2,496)**	**699**

Cashflow management during FY2016 was better than that in FY2015, as a result of significant improvement in net cash from operating activities. This cash was used to settle bank borrowings amounting to €1.2 million and the purchase of €1.2 million worth of PPE.

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	**ACTUAL**	**ACTUAL**	**ACTUAL**
as at 31 December	**2014**	**2015**	**2016**
	€'000	*€'000*	*€'000*
ASSETS			
Property, plant and equipment	16,325	18,470	17,823
Prepaid operating leases	34,899	34,123	33,348
Deferred tax assets	4,005	3,424	8,584
Total non-current assets	**55,229**	**56,017**	**59,755**
Derivative financial asset	-	1,176	-
Prepaid operating leases	776	776	776
Trade and other receivables	10,188	14,297	15,799
Cash at bank and in hand	333	193	699
Total current assets	**11,297**	**16,441**	**17,273**
TOTAL ASSETS	**66,526**	**72,459**	**77,027**
LIABILITIES			
Deferred income	34,899	34,123	33,348
Non-current portion of loan from parent *(unlisted)*	12,565	16,287	8,020
Non-current portion of bank loan *(unlisted)*	125	2,661	1,522
Provisions	30	31	33
Total non-current liabilities	**47,619**	**53,102**	**42,923**
Deferred income	776	776	776
Amounts owed to group Company	166	-	-
Current portion of bank loan and bank overdraft *(unlisted)*	3,623	3,788	1,112
Amounts due to related parties	3,306	3,448	3,798
Trade and other payables	6,295	5,284	3,433
Total current liabilities	**14,166**	**13,296**	**9,118**
Total liabilities	**61,785**	**66,398**	**52,042**
Equity			
Share capital	233	233	233
Shareholder's contribution	-	-	13,074
Reserves	4,215	4,018	9,274
Retained Earnings	293	1,810	2,404
Total equity	**4,741**	**6,061**	**24,986**
Total equity and liabilities	**66,526**	**72,459**	**77,027**

The Guarantor's asset base grew by 6% to €77 million by the end of FY2016 mainly attributable to the recognition of deferred tax asset consisting of investment tax credits which are being recognised in FY2016 due to a favourable change in regulation.

The increase of 11% in trade and other receivables to €15.8 million (FY2015: €14.3 million) is mainly attributable to the slowdown in settlement of payments by clients operating in Libya due to the continuing operational difficulties being faced in the country.

The company's equity was mainly boosted by shareholder's contribution amounting to €13.1 million, representing a loan payable to the parent company which is unsecured, interest free, and repayable at the option of MedOps.

3.2 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 provided by management.

PROFITABILITY RATIOS

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

for the year ended 31 December	**ACTUAL 2014**	**ACTUAL 2015**	**ACTUAL 2016**
Gross Profit margin *(Gross Profit / Revenue)*	23.10%	31.71%	35.38%
EBITDA margin *(EBITDA / Revenue)*	15.20%	25.70%	23.77%
Operating Profit margin *(Operating Profit / Revenue)*	11.12%	20.37%	14.30%
Net Profit margin *(Profit for the period / Revenue)*	6.26%	14.10%	41.60%
Return on Equity *(Profit attributable to owners of the Company / Average Equity attributable to owners of the Company)*	29.96%	70.72%	44.13%
Return on Capital Employed *(Profit for the period / Average Capital Employed)*	7.98%	15.27%	21.26%
Return on Assets *(Profit for the period / Average Assets)*	2.30%	5.50%	9.17%

MedOps's gross profit and EBITDA margins for FY2016 were relatively flat over the previous year. On the other hand, the net profit margin improved by 272 basis points to 41.60% from 14.10% in FY2015, although this was the result of the tax credit (as opposed to the tax charge in FY2015) in FY2016.

Similarly, the return on assets and capital employed came in higher in FY2016 when compared to the previous year. On the other hand, the return on equity came in lower in FY2016 when compared to FY2015, reflecting the increase in equity of the Guarantor.

LIQUIDITY RATIOS

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

for the year ended 31 December	ACTUAL 2014	ACTUAL 2015	ACTUAL 2016
Current Ratio *(Current Assets / Current Liabilities)*	0.80x	1.24x	1.89x
Cash Ratio *(Cash & cash equivalents / Current Liabilities)*	0.02x	0.01x	0.08x

The company's current ratio advanced from 1.24 times in FY2015 to 1.89 times, as the company had a higher level of current assets to cover its short-term obligations. The result was due to a combination of increased current assets and a lower level of current liabilities, which was also lower in FY2016 due to the conversion of debts due to the parent into equity and the repayment of short-term bank debts. Furthermore, the Company's cash ratio was stronger than that of FY2015 at 0.08 times (FY2015: 0.01 times), as capex was contained in view of the slowdown experienced by the oil and gas industry.

SOLVENCY RATIOS

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

for the year ended 31 December	***ACTUAL*** 2014	***ACTUAL*** 2015	***ACTUAL*** 2016
Interest Coverage ratio *(EBITDA / Net finance costs)*	5.69x	6.54x	5.89x
Gearing Ratio (1) *(Net debt / Total Equity)*	3.41x	3.72x	0.40x
Gearing Ratio (2) *[Total debt / (Total Debt plus Total Equity)]*	77.66%	78.95%	29.89%
Net Debt to EBIDTA *[Net debt / EBIDTA]*	4.69x	3.24x	2.54x

The decrease in revenue, resulting in lower EBITDA during FY2016, have resulted in a weaker interest coverage ratio from 6.54 times in FY2015 to 5.89 times.

MedOps's gearing ratios, which show how indebted a company is in relation to the equity contribution of its shareholders, improved notably in FY2016 on the back of a capital injection by the parent through the capitalisation of debt.

3.3 Forecasts – The Guarantor

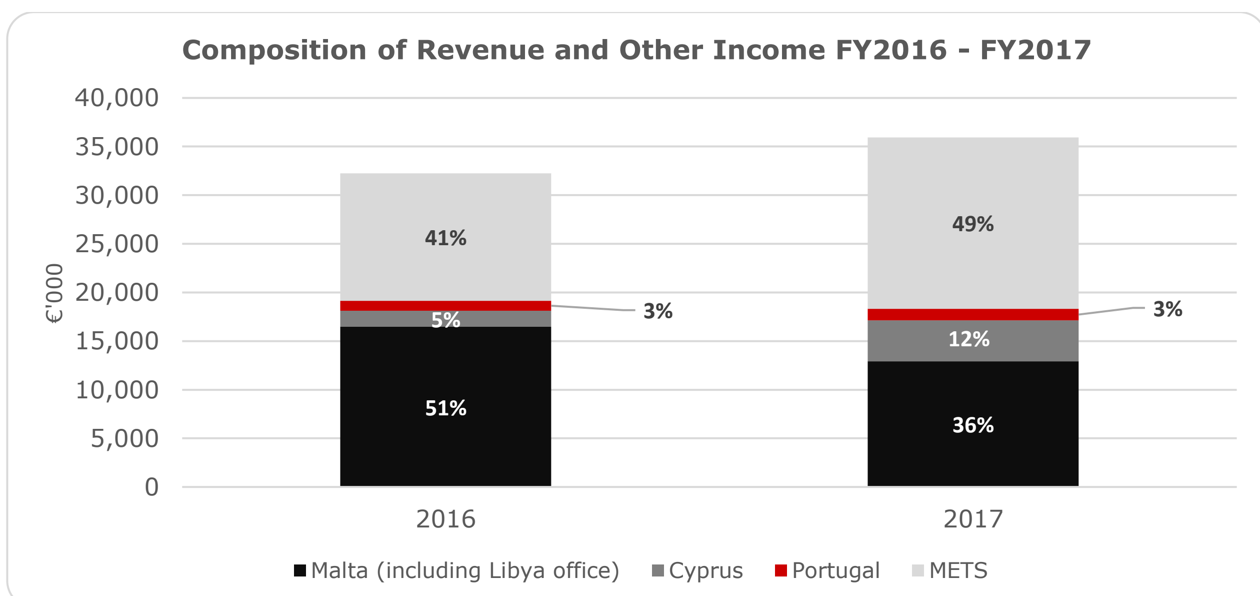
The Guarantor's FY2017 forecasts have been provided and approved by management.

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME	**ACTUAL**	**FORECAST**
for the year ended 31 December	**2016**	**2017**
	€'000	*€'000*
Revenue	16,468	13,390
Cost of Sales	(10,641)	(8,928)
Gross Profit	**5,827**	**4,462**
Other income	436	-
Administrative and other expenses	(2,349)	(1,542)
EBITDA	**3,914**	**2,920**
Depreciation and amortisation	(1,559)	(1,417)
Results from operating activities	**2,355**	**1,503**
Net finance costs	**(665)**	**(597)**
Profit before tax	**1,690**	**906**
Tax income/(expense)	5,160	(317)
Net Profit for the year	**6,851**	**589**

In FY2017, MedOps is forecasted to generate revenue of €13 million, which is 19% lower than that generated in FY2016, as the company is envisaged to suffer from a delay in the delivery of equipment needed for its Libyan offshore projects. The decrease in revenue will impact negatively the EBIDTA which is forecasted to be 25% lower than FY2016 to €2.9 million (FY2016: €4 million).

Despite a decline in percentage revenue contribution expected out of MedOps in FY2017, the Guarantor remains a very important component and revenue generator for the Group, albeit declining as revenue generated from the METS entities is expected to exceed that of MedOps as from FY2017, as can be seen from the revenue by location analysis below.



Administrative expenses are expected to decrease to €1.5 million in line with the slowdown in operations. Profit before tax is expected to be €0.9 million, and after a tax charge of €0.3 million, MedOps is expected to close FY2017 at a net profit of €0.6 million.

Statement of Cash Flows

CASH FLOWS STATEMENT	ACTUAL	FORECAST
for the year ended 31 December	**2016**	**2017**
	€'000	*€'000*
Net cash from operating activities	5,493	4,643
Net cash used in investing activities	(1,291)	(140)
Net cash used in financing activities	(1,007)	(1,347)
Net movements in cash and cash equivalents	**3,195**	**3,156**
Cash and cash equivalents at beginning of the year	(2,496)	699
Cash and cash equivalents at end of year	**699**	**3,855**

The Guarantor's cash position is expected to improve in FY2017, as there is a limited amount of capital expenditure envisaged, and this is thus expected to result in a net positive cash balance of €3.9 million by the end of FY2017. This supports improved cash ratio and net gearing ratios for FY2017.

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	**ACTUAL**	**FORECAST**
as at 31 December	**2016**	**2017**
	€'000	*€'000*
ASSETS		
Property, plant and equipment	17,823	16,546
Prepaid operating leases	33,348	32,572
Deferred tax assets	8,584	8,267
Total non-current assets	**59,755**	**57,385**
Prepaid operating leases	776	776
Trade and other receivables	15,799	12,160
Cash at bank and in hand	699	3,855
Total current assets	**17,273**	**16,791**
TOTAL ASSETS	**77,027**	**74,176**
LIABILITIES		
Deferred income	33,348	32,572
Non-current portion of loan from parent *(unlisted)*	8,020	7,894
Non-current portion of bank loan *(unlisted)*	1,522	493
Provisions	33	33
Total non-current liabilities	**42,923**	**40,992**
Deferred income	776	776
Current portion of bank loan and bank overdraft *(unlisted)*	1,112	1,616
Amount due to parent	3,798	2,796
Trade and other payables	3,433	1,722
Total current liabilities	**9,118**	**6,910**
Total liabilities	**52,042**	**47,902**
EQUITY		
Share capital	233	233
Shareholder's contribution	13,074	13,074
Reserves	9,274	7,609
Retained Earnings	2,404	5,358
Total equity	**24,986**	**26,274**
TOTAL EQUITY AND LIABILITIES	**77,027**	**74,176**

The total asset base of MedOps is not expected to be largely different from that of FY2016. The lower level of operations is reflected in a lower level of trade receivables. Similarly, the borrowings will not be materially different from that of FY2016 as the company does not envisage any major capital expenditure or investment to take place during the year.

Retained earnings are expected to reflect the level of profits retained in the Company, which in turn boosts equity. This will improve gearing, which is expected to go down from 29.89% to 27.57% by the end of FY2017.

The financial ratios of the Guarantor are expected to remain comforting in FY2017. The gross profit margin is expected to remain at the same levels of FY2016 as the anticipated percentage reduction in total revenues is expected to be reflected in a corresponding lower level of cost of sales. However, EBITDA and net profit margins are projected to decline to 21.81% and 4.4% (FY2016: 23.77% and 41.60%) respectively, reflecting costs which are of fixed nature and therefore immune to the decline in revenues anticipated during the year.

Likewise, the return on assets, equity and capital employed are expected to suffer further declines, reflecting the lower profitability for the year.

The interest cover ratio is estimated to pull back to 4.89 times in FY2017 due to an anticipated decline in EBIDTA, although this is still considered to be a good level for this metric.

4 COMPARISON TO PREVIOUS FORECAST

The actual results of Medserv p.l.c. as well as those of Medserv Operations Limited for the financial year ended 31 December 2016 varied from the forecasts presented in the FAS last updated on 18 May 2016. These variances are further analysed below.

NB: The FY2016 Forecast figures in the statement of comprehensive income of the Issuer were restated from those published in the previous FAS as during 2016 the Company completed the Price Purchase Allocation of METS resulting in the recognition of intangible assets and the employment contracts entered with two METS executives. The recognition of these assets results in an annual amortisation charge to the statement of comprehensive income.

4.1 VARIATIONS IN THE ISSUER'S FINANCIAL PERFORMANCE

STATEMENT OF COMPREHENSIVE INCOME	**ACTUAL**	**FORECAST**	***VARIANCE***	
for the year ended 31 December	**2016**	**2016**		
	€'000	*€'000*	*€ '000*	*%*
Revenue	32,822	43,957	*(11,135)*	*-25%*
Cost of Sales	(22,901)	(29,090)	*6,188*	*-21%*
Gross Profit	**9,921**	**14,867**	***(4,946)***	***-33%***
		-		
Other income	573	545	*28*	*5%*
Administrative expenses	(4,966)	(3,934)	*(1,032)*	*26%*
EBITDA	**5,528**	**11,478**	***(5,950)***	***-52%***
Depreciation	(3,468)	(4,305)	*837*	*-19%*
Amortisation	(2,051)	-	*n/a*	*n/a*
Results from operating activities	**9**	**7,173**	***(7,164)***	***-100%***
Finance income	384	-	*384*	*100%*
Finance costs	(2,848)	(2,723)	*(125)*	*5%*
Net finance costs	(2,463)	(2,723)	*260*	*-10%*
(Loss)/Profit before tax	**(2,454)**	**4,450**	***(6,904)***	***-155%***
Tax income	5,431	175	*5,256*	*3004%*
Profit for the period	**2,977**	**4,625**	***(1,648)***	***-36%***

Note: the forecasts published last year for FY2016 had contribution from the PV farm included as Other Income and this year, the Group reclassified that income to Revenue. The amount was €510,000. Furthermore, no amount was provided for the amortisation of intangible assets acquired in the METS transaction, since by the time of issue of the FAS last year, the Company was yet to carry out a purchase price allocation exercise.

The Company attributes the reduced performance of FY2016 compared to forecasts to three factors:

1. the slowdown in the business operations and lower profit margins in Malta base;
2. the unforeseen circumstances in Portugal where ENI was prevented from carrying out exploration activities as planned during the year; and
3. the downturn in engineering and maintenance services due to the continuing operational difficulties in Libya.

A more-detailed analysis of revenue by the type of service offered by the Medserv Group follows:

Revenue and Other Income Analysis by Service	**ACTUAL**	**FORECAST**	**VARIANCE**	
for the year ended 31 December	**2016**	**2016**		
	€'000	*€'000*	*€ '000*	*%*
Shore Base Logistical Support *(including revenue from rig stops)*	18,089	22,891	(4,802)	-21%
OCTG Shops	13,084	16,343	(3,259)	-20%
Other Services	212	2,222	(2,010)	-90%
Offshore maintenance	952	2,500	(1,548)	-62%
PV farm feed-in *(reclassified from Other Income to Revenue during FY2016)*	485	510	(25)	-5%
Total Revenue	**32,822**	**44,466**	**(11,644)**	**-26%**

Source: Management Information

Overall, total revenue was 26% less than that forecasted last year at €44 million. The material deviation from forecasts was negatively noted in the revenue generated from other services (bunkering), however, management explained that the decrease in revenue from other services is not surprising and neither worrying as it is derived on an ad hoc basis and only accounts for a profit margin of less than 1%. Forecasted revenue generated from shore base logistics and OCTG shops were also not met.

The major variance in revenue from 'Shore Base Logistics' is due to the Portugal operation where the Group was awarded a contract by ENI Portugal in the second quarter of FY2016 which was included in the forecast revenue at €3.8 million. However, due to unforeseen circumstances, ENI was prevented from carrying out exploration activities as planned during the year and therefore the Company experienced a delay in this revenue stream. 'Offshore Maintenance' and related services also experienced a downturn in activity due to the continuing operational difficulties in Libya. The security issues and instability in the Libyan market as well as the difficult global market conditions in the sector have contributed to a slowdown in maintenance and engineering projects as well as pressure on profit margins as the Group had to respond to clients' efforts to cut costs.

The variance of 20% in OCTG shops is due to a significant slowdown in the Iraq operation consequent to the global political and economic factors of the industry where all IOCs operating in Iraq had their budgets slashed and re-negotiated as the costs were not sustainable at the current oil prices. This resulted in all work-over programs to be put on hold until the IOCs

completed their negotiations with Iraqi's national oil companies impacting negatively the result for the year.

Cost of sales of the Group amounted to €22.9 million which is significantly higher than forecasted, considering a 25% decrease in revenue compared to forecast, resulting in gross profit margins to decrease by 4% over forecast. The cost of sales did not decrease by the same proportion to revenue due to the following factors: the majority of the operating costs are fixed by nature, the Group has maintained the Cyprus and Portuguese shore bases operational despite not contributing any significant revenue, and the cash drain sustained in the Iraq operations.

Although the Group suffered a reduction in business operations during the year, administrative expenses have still increased by 26% to €5 million when compared to that forecasted in the previous FAS. This occurred because the Group did not curtail any of the resources of its business development team; on the contrary, the Group continued to invest in additional resources with the objective of participating in new tenders as opportunities are presented. The majority of the variance relates to administrative costs incurred for scouting new markets, predominately Trinidad and Tobago.

The most noteworthy variance between the forecasts published in the 2016 FAS and the actual figures for FY2016 was the tax credit of €5.4 million, relating to investment tax credits availed by the Group following favourable changes in local regulations.

The effect of the lower revenue figures translated into negative variances across other figures, as EBITDA, profit before tax and profit after tax were all lower than those forecasted in the previous FAS.

4.2 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 4.1 above.

STATEMENT OF COMPREHENSIVE INCOME	**ACTUAL**	**FORECAST**	**VARIANCE**	
for the year ended 31 December	**2016**	**2016**		
	€'000	*€'000*	*€ '000*	*%*
Revenue	16,468	22,877	(6,409)	-28%
Cost of Sales	(10,641)	(15,998)	5,357	-33%
Gross Profit	**5,827**	**6,879**	(1,052)	-15%
Other income	436	-	436	100%
Administrative and other expenses	(2,349)	(1,826)	(523)	29%
EBITDA	**3,914**	**5,053**	(1,139)	-23%
Depreciation and amortisation	(1,559)	(1,460)	(99)	7%
Results from operating activities	**2,355**	**3,593**	(1,238)	-34%
Net finance costs	(665)	(1,345)	680	-51%
Profit before tax	**1,690**	**2,248**	(558)	-25%
Tax income / (expense)	5,160	470	4,690	998%
Net Profit for the year	**6,851**	**2,718**	4,133	152%

Revenue for FY2016 registered by MedOps amounted to €16 million which is 28% lower than that envisaged last year. Forecast for FY2016 included 10% of low margin business made up of other services (bunkering). Forecast revenue from bunkering amounted to €2.2 million of which only €0.2million materialised. However, the latter revenue line has a profit margin of less than 1%.

Readjusting the forecast amount to disregard revenue from bunkering, the revised forecast revenue amounts to €20.7 million of which the Company generated €16.5 million during the year. The decrease of 20% relates to a downturn in activity due to the continuing operational difficulties in Libya as well as pressure on profit margins as the Company had to respond to clients' efforts to cut costs. However, despite the various economic pressures, the Company remained resilient and through various cost efficiencies, it managed to generate a gross profit margin of 35% when compared to the 30% that was forecasted last year.

Administrative expenses surpassed forecast by 29% to €2.3 million. The Company is reviewing these costs and is working to reduce costs of a fixed nature where possible.

Overall, the reduction in revenue and higher administrative expenses translated into lower profit figures for the year.

5 GLOSSARY

DEFINITION OF GENERAL TERMS

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

DEFINITION OF TERMS IN STATEMENT OF COMPREHENSIVE INCOME

Revenue	The income generated by the Group from the services it provides mainly made up of shore base logistical support, supply chain management and threading of OCTG, income from offshore maintenance and income from the PV farm.
Cost of sales	The costs incurred in direct relation to the provision of services including supplies, freight, base yard expenses and transportation.
Gross Profit	The difference between 'Revenue' and 'Cost of sales' which reflects the Group's ability to generate profitable sales.
Administrative expenses	Costs incurred in relation to the running of the business including wages and salaries, Directors' remuneration, professional fees and travelling expenses.
EBITDA	Earnings before interest, tax, depreciation and amortisation reflecting the Group's earnings power purely from operations.
Depreciation and amortisation	An accounting charge to compensate for the reduction in the value of assets and the eventual cost to replace the asset when fully depreciated.
Results from operating activities	EBITDA less depreciation and amortisation reflecting the earnings power of the Company before accounting for interest costs and taxes.
Finance Income	Interest earned on cash bank balances.

Finance Costs	Interest accrued on debt obligations.
Share of profit / loss of jointly-controlled entity	The proportionate share of the Group's profit or loss generated or incurred by the jointly-controlled-entity which in the case of Medserv p.l.c. relates to Medserv Italia s.r.l.
Non-controlling interest	An adjustment to extract amounts attributable to third-party shareholders in subsidiaries.
Net Profit / (Loss)	The profit generated or loss incurred in one financial year.

DEFINITION OF TERMS IN STATEMENT OF CASH FLOWS

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

DEFINITION OF TERMS IN STATEMENT OF FINANCIAL POSITION

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