Gulf Marine Services PLC

(‘Gulf Marine Services’, ‘GMS’, ‘the Company’ or ‘the Group’)

Preliminary Results for the year ended 31 December 2018

Gulf Marine Services (LSE: GMS), the leading provider of advanced self-propelled self-elevating support vessels (SESVs) serving the offshore oil, gas and renewable energy sectors, today announces its results for the year ended 31 December 2018.

US$ million	***2018***	***2017***
Revenue	123.3	112.9
Gross profit	47.0	36.0
Adjusted gross profit*	47.0	43.3
Adjusted EBITDA*	58.0	58.5
Loss for the year	(5.1)	(18.2)
Adjusted net (loss) / profit*	(5.1)	4.8
Basic and diluted loss per share (US cents)	(1.75)	(5.31)
Adjusted basic and diluted (loss) / earnings per share (US cents)*	(1.75)	1.26

** There were no adjusting items in 2018. Adjusted items relate to comparative figures only.*

Operational Highlights

- Improved utilisation rate[1] for the SESV fleet of 80% (2017: 61%). Calendar days[2] utilisation, including time for new contract mobilisations of 69% (2017: 58%).
- Seven new contract[3] awards announced, with a combined charter period of 20 years.
- Record 13 vessel mobilisations onto new charters.
- Continued flexibility in targeting diverse revenue streams:
  - Saudi Arabia particularly active, 44% of total revenue (2017: 37%).
  - Refocused on the renewables sector in Europe: 23% of total revenue (2017: 0%).
- Outstanding HSE performance, with zero recordable injuries in the year.
- Tendering activity in MENA is expected to continue to pick up in 2019, with clients anticipated to award a number of long-term contracts to the market during the year.
- Notwithstanding the tough market conditions, progress has been made in rebuilding backlog[4] by nearly 50%, to US$ 239.2 million, comprising US$ 127.3 million firm and US$ 111.9 million options as at 1 March 2019 (1 March 2018: US$160.6 million including options).

Financial Highlights

- 9% increase in revenue to US$ 123.3 million (2017: US$ 112.9 million), higher levels of utilisation partly offset by reduced average charter day rates.
- Adjusted gross profit margin remained consistent at 38%.
- Adjusted EBITDA margin reduced to 47% (2017: 52%) primarily reflecting the increased requirement for vessels to be in a state of operational readiness and reactivation costs of vessels previously stacked.
- US$ 5.1 million adjusted net loss (2017: adjusted net profit of US$ 4.8 million) reflecting increased cost of bank borrowing to US$ 30.6 million (2017: US$ 22.2 million) and higher tax charges.
- Net debt as at year end was US$ 400.5 million (2017: US$ 372.8 million). We expect this to reduce to approximately US$ 390.0 million by the end of Q1 2019.

- Amendment agreed to the 31 December 2018 financial covenant schedule resulting in full compliance at that date, future covenant compliance discussed below.
- Continued day rate pressure expected to restrain trading performance in 2019. Improving industry peer utilisation is a prerequisite for day rate improvement.

Capital Structure Update

- The Board believes that GMS' interest and debt repayment obligations are both serviceable in 2019. Anticipated trading means that there is significant doubt over the Group's ability to meet the covenant test at the 30 June and 31 December 2019 testing dates. Whilst this is a material uncertainty with regards to going concern, the Board believes that covenant amendments will be agreed such that it is considered appropriate and in line with current accounting standards to adopt the going concern basis.
- The Group's projected operating performance could mean that GMS is not able to fully service the increased scheduled debt repayments from the end of Q3 2020 onwards.

Repositioning Plan

- The Group is implementing a comprehensive repositioning plan to address its recent financial performance and the Board is actively engaged in developing and executing a three pronged plan to address the Group's governance, operational and capital structure challenges:
    - Steps have been initiated to strengthen governance with recent announcements regarding the appointment of Stuart Jackson as CFO and Board member, Mo Bississo as a non-executive Director, and the appointment of a new Chair is expected shortly.
    - A third round of cost cutting since 2016 is underway with US$ 6.0 million of annualised savings already identified to be realised in full by 2020.
    - The Group is engaging with its banking syndicate to address both the short-term covenant compliance challenges as well as to deliver a refinancing solution that establishes an appropriate long-term sustainable capital structure.
- Whilst already in process, these steps were outlined in disclosures ahead of the Extraordinary General Meeting requisitioned by Seafox International Limited ('Seafox'), Ithmar Capital Partners Limited ('Ithmar') and other shareholders held on 18 March 2019. We thank shareholders for their participation and support in rejecting the resolutions put forward at the EGM.

Duncan Anderson, Chief Executive Officer for GMS, commented:

“We are seeing a continued improvement in utilisation across our SESV fleet, reaching 80% in 2018 (2017: 61%). Furthermore, we believe our fleet has stronger prospects relative to our competitors, given the quality and flexibility of our vessels and the trust placed by customers in our operating track record. Our average daily charter rates have fallen by 38% since their peak in 2015. This pressure has continued into 2019 and we expect this to persist in the near term. A higher level of utilisation is a precursor for improvements in charter rates, but this must happen across our industry peer group as a whole before our own charter day rates can improve.

“We firmly believe that day rates will improve in due course, but in the meantime, we must focus on squeezing out better operating performance within our business, whilst also ensuring we remain well positioned to capture the upside from a recovering market. We have implemented two rounds of cost cutting in the business in the last three years and have recently completed the evaluation of a third round of cost savings and efficiency opportunities. As we announced earlier this month (8 March) this process has identified c.US$ 6.0 million of potential annualised savings. Implementation of some of the cost saving initiatives has already begun, and we expect that the full US$ 6.0 million of savings will be realised by 2020.

“We are also working hard to diversify our markets into other geographies. In 2018, 85% of our revenues were derived outside the UAE compared to 41% in 2015. Having already been successful in the offshore renewables industry in the past, we were pleased to have re-entered this sector in 2018, with nearly a quarter of our revenues for the year derived from wind-farm related projects in Europe.

“This drive to find work, which suits our modern fleet, has improved our utilisation level to what we believe is well above the industry average. None of this diversity of work can be taken for granted, and some of our initiatives (for example the SESV cantilever we have developed to extend our well intervention offering), have yet to pay off. We continue to be flexible in seeking ways to utilise our fleet at a time when charter day rates in our traditional market are under pressure.

“Our financial performance in 2018 was clearly very disappointing, and our expectation is that 2019 will show only limited improvement, if at all. We are working closely with the banking syndicate and are highly focused on addressing 2019 covenant compliance challenges as well as finding solutions for a sustainable longer term capital structure that will allow GMS to retain and enhance its exposure to charter rate upside in a recovering market. We firmly believe that the dramatic benefit of future improvements in charter day rates will enable us to achieve the fleet's earnings potential.”

– Ends –

** There were no adjusting items in 2018. Adjusted items relate to comparative figures only. For details and further information on Alternative Performance Measures, refer to note 2 of the condensed consolidated financial statements.*

[1]Utilisation rate is the percentage of available days in a relevant period during which an SESV is under contract and in respect of which a client is paying a day rate for the charter of the SESV, and excluding periods during which an SESV is not available for hire due to planned mobilisations, construction or upgrade work.

[2]Calendar days takes base days at 365 and only excludes periods of time for construction and delivery time for newly constructed vessels.
[3]All contracts include firm and option periods.
[4]Backlog represents firm contracts and extension options held by clients. Backlog equals (charter day rate x remaining days contracted) + ((estimated average Persons On Board x daily messing rate) x remaining days contracted) + contracted remaining unbilled mobilisation and demobilisation fees. An updated schematic summary of the backlog by vessel is available at: *https://www.gmsuae.com/investor-relations/results-and-presentations/*

Analyst presentation:
A presentation to analysts will be held today, 26 March 2019, at 09.30; for additional details and to register to attend analysts should please contact Leanne Shergold at Brunswick: lshergold@brunswickgroup.com

The live webcast of the presentation will be available on our website homepage at 09.30, and subsequently on demand on *http://www.gmsuae.com/investor-relations/results-and-presentations*

Enquiries
For further information please contact:

Gulf Marine Services PLC
Duncan Anderson
John Brown
Tel: +971 (2) 5028888
Anne Toomey
Tel: +44 (0) 1296 622736

Brunswick
Patrick Handley – UK
Will Medvei – UK
Tel: +44 (0) 20 7404 5959
Jade Mamarbachi - UAE
Tel: +971 (0) 50 600 3829

Notes to Editors:
Gulf Marine Services PLC, a company listed on the London Stock Exchange, was founded in Abu Dhabi in 1977 and has become the world's leading provider of advanced self-propelled self-elevating support vessels (SESVs). The fleet serves the oil, gas and renewable energy industries from its offices in the United Arab Emirates, Saudi Arabia and the United Kingdom. The Group's assets are capable of serving clients' requirements across the globe, including those in the Middle East, South East Asia, West Africa and Europe.

The GMS fleet of 13 SESVs is amongst the youngest in the industry, with an average age of eight years. The vessels support GMS' clients in a broad range of offshore oil and gas platform refurbishment and maintenance activities, well intervention work and offshore wind turbine maintenance work (which are opex-led activities), as well as offshore oil and gas platform installation and decommissioning and offshore wind turbine installation (which are capex-led activities).

The SESVs are categorised by size – Small, Mid-Size and Large Class – with these capable of operating in water depths of 45m to 80m depending on leg length. The vessels are four-legged and are self-propelled, which means they do not require tugs or similar support vessels for moves between locations in the field; this makes them significantly more cost-effective and time-efficient than conventional offshore support vessels without self-propulsion. They have a large deck space, crane capacity and accommodation facilities (for up to 300 people) that can be adapted to the requirements of the Group's clients. In addition, an innovative well workover cantilever system commissioned on a Large Class SESV in 2017 allows GMS to increase the well intervention activities it can offer from the vessel and to supplant higher cost non-propelled drilling rigs.
Gulf Marine Services PLC's Legal Entity Identifier is 213800IGS2QE89SAJF77
www.gmsuae.com

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Chief Executive's Review

Improved levels of enquiries and tender opportunities in our principal markets helped to generate an increase of 19 percentage points in our SESV fleet utilisation (11 percentage points adjusted utilisation based on calendar days) in 2018 compared to the previous year; however, charter rates remained under pressure, having fallen by 38% since their peak in 2015. Whilst the Group delivered an unprecedented 13 vessel mobilisations onto new charters, our financial results for the year reflect the ongoing challenging market conditions.

To address the current challenges and optimise our future prospects, a comprehensive plan is underway to reposition the Company, focussing on a review of operations, the capital structure and governance. Significant steps have already been taken. As announced on 8 March 2019, the Board and the Company's management have completed the evaluation of a third round of cost savings and efficiency opportunities. This process has identified around US$ 6.0 million of potential annualised savings, primarily achieved by the scaling back of our quayside facility in order to reduce costs, an organisational restructuring to allow further downsizing in headcount, and effective management of discretional capital expenditure across the Group. Implementation has already begun, and the Board expects that the full US$ 6.0 million of savings will be realised by 2020. The Company remains focused on the effective deployment of the Company's vessels at appropriate operating margins and continues to seek to improve and optimise this process.

As previously announced, the Group does not expect a recovery in its trading performance in 2019 despite continuing improving levels of utilisation. Although we believe we will be able to service all of our interest and debt repayment obligations in 2019, the Group's trading performance means that there is a significant doubt over the Group's ability to meet the covenant test at the 30 June and 31 December 2019 testing dates. Whilst recognising the material uncertainty over the going concern basis of the Group, which is described in note 1 of the consolidated financial statements, the Board believes that covenant amendments will be agreed and considers it appropriate for the going concern basis to be adopted in line with current accounting standards.

In addition, the repayments of principal under the Group's existing debt facilities step-up materially from 2020 onwards. While the Group expects to be able to service the associated interest payments, it will not be able to service fully the principal repayments, currently from the end of Q3 2020 onwards, unless cashflows improve.

Accordingly, and as previously announced, the Group in conjunction with its financial advisors have initiated discussions with the Group's banking syndicate to resolve the 2019 covenant issues and the future repayment schedule to deliver a refinancing solution that establishes an appropriate long-term and sustainable capital structure for the Group. Shareholders will continue to be updated on material developments.

A General Meeting requisitioned by Seafox International Limited ('Seafox'), Ithmar Capital Partners Limited ('Ithmar') and other shareholders was held on 18 March 2019 to vote on resolutions proposed by Seafox and Ithmar relating to composition of the Board. As announced previously, the meeting rejected the resolutions calling for the appointment of two Directors to the GMS Board, and we thank shareholders for their participation and support of our recommendations.

We remain confident about the fundamental strengths of the Group – our high quality and young fleet combined with a strong management team with the proven ability to innovate and provide efficient offshore support solutions tailored to our clients' evolving requirements, ensures GMS is well-positioned to capitalise on future opportunities.

Group financial performance
The Group's results for 2018 reflect the prolonged challenges within the oil and gas industry, where the recovery has been slower than we had anticipated. Improved vessel utilisation, partially offset by the continued pressure on day rates, resulted in a 9% increase in revenue for the year to US$ 123.3 million (2017: US$ 112.9 million). Adjusted EBITDA for 2018 remained flat at US$ 58.0 million (2017: US$ 58.5 million). The adjusted EBITDA margin reduced to 47% (2017: 52%) with the increase in revenue offset by an increase in operating costs mainly arising from reactivation costs of vessels previously stacked. Additionally, a number of vessels were required to be in a state of operational readiness ahead of contract commencement dates. We also experienced a delay in expected contract awards which affected the results for the year. The combined effect of the above, an increase in cost of bank borrowing to US$ 30.6 million (2017: US$ 22.2 million) as a result of increases in LIBOR and higher Group net bank leverage and a higher taxation charge from the proportion of Group revenue earned in taxable jurisdictions, contributed to deliver an adjusted net loss of US$ 5.1 million (2017: adjusted net profit of US$ 4.8 million).

Fleet utilisation and order book
Higher utilisation rates were achieved in all three vessel classes within our fleet compared to the previous year. Utilisation of the overall SESV fleet in 2018 was 80% (2017: 61%), with this calculation excluding the time vessels were unavailable for hire whilst mobilising for new contracts. As there was an unprecedented 13 vessel mobilisations in 2018, a utilisation rate based on calendar days, which includes the time the vessels were mobilising, would give an adjusted utilisation rate in the year of 69% (2017: 58%).

The Large and Mid-Size Class vessels' combined utilisation level increased to 94% (2017: 71%) with a calendar day utilisation rate of 74% (2017: 64%). It is also encouraging to see an improvement in utilisation for the Small Class vessels to 67% (2017: 53%) with a calendar day utilisation rate of 64% (2017: 49%).

The significant number of mobilisations in the year was partly as a result of our clients' requirements for a greater number of short-term contracts in the current market environment. At this point in the market cycle, our aim is to balance exposure to long-term contacts with less attractive operating margins whilst maintaining visibility from higher utilisation levels.

We are pleased to report we have made progress in improving our secured backlog, which increased by nearly 50% to US$ 239.2 million comprising US$ 127.3 million firm and US$ 111.9 million options as at 1 March 2019 (1 March 2018: US$ 160.6 million). During 2018 we announced three five-year contracts, which together with a further four awards in the year, added a total expected charter period of 20 years (including options), and US$ 153.0 million, to the Group's backlog. A number of short-term contracts were also secured in the year. Levels of enquiries and tender activity have continued to improve and in 2019 we have announced two contract awards, for a Small and a Large Class vessel, with a combined total charter period of nine-months, and a long-standing client exercised an option to extend the charter of a Mid-Size Class vessel by another six months.

The Group maintains strong relationships with regional EPC contractors and as a result has seen an increase of ten percentage points in EPC work during the year, with this representing 25% of 2018 revenue (2017: 15%). The majority of this work was in Saudi Arabia where clients have been particularly active during the year. The Group also made further inroads into the renewables sector, which accounted for 23% of total revenue (2017: 0%) earned in Europe. We have continued to diversify our markets into other geographies with 85% of our revenues derived outside the UAE in 2018 (2017: 83%), compared to 41% in 2015.

Operations

I am very pleased to report the Group has once again delivered an outstanding Health, Safety and Environmental performance, with a Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR) of zero and no environmental emission releases in 2018. The total number of man hours worked was 4.1 million (2017: 4.5 million). Health, safety and the environment are a major priority for GMS across all aspects of our business. We remain committed to providing all personnel with a high quality, safe working environment at all times and will continue to maintain a focus on safety.

Operationally, 2018 was a very busy year in which we also maintained our high standards of operational excellence, achieving a technical and operational uptime of 99% for our chartered vessels. A number of projects were delivered to support the Group's 13 vessel mobilisations in the year, including the repositioning of a Large Class SESV from MENA to the UK for a wind farm charter. We market our Large and Mid-Size Class vessels to both oil and gas and renewable energy sector clients. The successful relocation of this SESV from one region to another demonstrates both our operational flexibility and our ability to deploy our vessels quickly and efficiently to other geographies in response to market demand. Our innovative boat landing tower fitted to one of our Large Class vessels operating at a wind farm development became operational during the year, with this successfully facilitating the movement of around 200 people per day to and from transfer vessels while our SESV remains jacked up. Another project undertaken during the year was the enhancement of the capability of one of our Small Class vessels in response to a specific tender. Leg extensions were fitted to the vessel to allow it work in the same water depths as our Mid-Size Class vessels. This proved to be beneficial, as the Group was compliant with a tender process requirement with regard to the leg length and was successfully awarded a new contract.

In addition, we reactivated various vessels that had been stacked to minimise expenditure during a sustained period off hire. Following these reactivations, we are pleased to report that every vessel in the SESV fleet was on-charter at some point during 2018.

People

I would like to personally thank our Chairman Simon Heale for his support, leadership and stewardship over the past five years since the IPO of GMS. The Board, together with Spencer Stuart, is seeking a new Chair who has public market and sector experience, and who will have a particular focus on the comprehensive plan to reposition the Group and optimise its future prospects including assisting with efforts to secure a stable capital base for the business that will enable all shareholders to benefit from a future market recovery. We expect the new appointment to be announced shortly and the new Chair to be in place ahead of the AGM.

There have been a number of other changes to the Board. In October 2018, we were pleased to announce that Dr Shona Grant had joined us as an independent non-executive Director. Dr Grant brings to the Board considerable experience in the oil and gas industry, having worked extensively with BP in the areas of exploration, research and development and upstream operations. In March 2019, we welcomed Mo Bississo to the Board as a non-executive Director. Mr. Bississo co-heads Kasamar Holdings, an Abu Dhabi-based family office and shareholder of GMS through Castro Investments Ltd and is a valuable addition to the Board with extensive experience in the UAE financial sector.

Our Chief Financial Officer (CFO) John Brown tendered his resignation in October 2018, effective 28 May 2019; I would like to thank him for his significant contribution to GMS during his time with us. I look forward to welcoming Stuart Jackson, who will be appointed CFO and a member of the Board and is expected to join in July 2019. Mr Jackson has more than 20 years' experience as CFO at a number of publicly listed companies and has a deep knowledge of capital restructuring in the oilfield services sector.

Finally, I would also like to take this opportunity to thank everyone at GMS for their hard work in achieving increased fleet utilisation and for delivering another outstanding health and safety performance in such a busy year.

Market commentary

We have been encouraged by our clients' increasing activities in our oil and gas markets and by the ongoing development of the renewable energy sector. However, the protracted tender processes and delayed contract awards we have experienced in recent years continued in 2018. We recognise that we have been too hopeful in the past as to timing of market awards and project commencement dates in this downturn. We will try to remain mindful that contract awards are always subject to our clients' own operational requirements, including their tender evaluation processes and project start dates.

MENA

The quality of our modern well invested fleet continues to be helpful in tendering processes in the MENA region, where in the current competitive market environment our clients are able to express a preference for young SESVs of a high technical capability that can bring significant cost and operational efficiencies to their projects. GMS is well placed to capitalise on this situation, indeed we recently secured a contract in the region as the only vessel provider capable of meeting the clients' operating standards.

The Middle East is the Group's largest market and we were pleased to gain three new clients in 2018. The improving demand for our vessels resulted in six contract wins in the year, and a further two in early 2019. Saudi Arabia was our biggest individual market in 2018, with eight of our 13 vessel mobilisations being for new and existing clients in this country. We are continuing to develop our client relationships in the Middle East, seeking both long-term and short-term contracts to maximise levels of utilisation, whilst always being mindful to appropriate operating margins. While it is encouraging to see the return of long-term opex-based contract opportunities from NOCs, there continues to be a requirement for one-off project support to suit our clients' near-term operational needs.

We expect to see an increase in long-term charter opportunities over the mid to long term as our clients increase their focus on maximising their production levels. Unprecedented underinvestment over the last few years will risk production and asset integrity likely requiring an increase in clients' expenditure. One of our NOC clients has recently completed the first phase of a major tendering process with seven five-year contracts awarded in the region. We were very pleased to be awarded three of these contracts. A further seven contracts are expected to be awarded by the same client during 2019 in a second phase of tendering, which it is believed will result in a marginal tightening of the market as the number of competing vessels reduces.

We have also maintained our strong relationships with EPC contractors in this region and, as discussed earlier, revenue from this income stream increased ten percentage points in 2018. We believe the level of EPC activity across the region will continue to increase in the next few years, which should provide further opportunities for the Group.

Our MENA based NOC clients have all now introduced their own programmes to encourage their supply chains to maximise the goods and services procured in-country in order to benefit their own economies. We believe that this will prove beneficial to GMS over time as clients will take into account the suppliers' in-country spend score as part of tender pre-qualification and award. Our well-established presence in the region will help us to improve the likelihood of winning future contracts with these NOCs in addition to potentially acting as a barrier to entry for new entrants to our markets here.

Europe
The Group benefited from a return of demand in the renewables sector in Europe in 2018, following the award to GMS of three charters by two new clients. Wind farm-related projects represented 23% of revenue in the year (2017: 0%).

We continue to be optimistic about the opportunities in the oil and gas market for our innovative cantilever system, which is fitted to one of our Large Class SESVs. It has not been possible to demonstrate this new cantilever system operating in-field as the vessel was operating on a renewables contract. Subject to the award of future suitable charter opportunities, we believe that the ability to show the cantilever in action would help develop further interest amongst our oil and gas clients. In addition, we are enhancing our agreement with a drilling contractor to ensure a more collaborative approach to marketing of the system as well as offering greater delivery assurance to potential clients.

Outlook
An improving pipeline of both expressions of interest and tenders in the Middle East, together with increasing fleet utilisation levels provide some indication of a rebalancing of market supply and demand. As discussed above, our NOC clients continue to seek to maximise their production capacity, and this should lead to an increase in capex and opex-based contract opportunities for GMS. We are also hopeful of further opportunities in the renewables sector given the upcoming increased construction phase expected as part of round three of the UK's offshore renewables programme. However, it is difficult to predict when this improved demand will be reflected in increased charter rates. As we have previously commented, despite continuing improving levels of utilisation the Group does not expect a recovery in its trading performance in 2019. We have discussed above the circumstances leading to our ongoing active dialogue with our banking syndicate. Whilst we can continue to trade effectively in the near-term, as a priority, we are considering a number of ways to deliver a longer-term, and sustainable solution to our capital structure.

The Group's fleet is one of the youngest and most well-invested in the industry, with an expected future useful life of more than 25 years and we are well placed to capitalise on a market recovery when it materialises. I remain confident in the capability of our fleet and the operational expertise of our global workforce. We have a strong Board to lead us through the next important stage of the Group's development, where we will seek to maximise opportunities and to generate long-term value for our shareholders.

Duncan Anderson
Chief Executive Officer
25 March 2019

FINANCIAL REVIEW

US$ million	2018	2017
Revenue	123.3	112.9
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Adjusted gross profit*	47.0	43.3
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Loss for the year	(5.1)	(18.2)
Adjusted net (loss)/profit*	(5.1)	4.8
Basic and diluted loss per share (US cents)	(1.75)	(5.31)
Adjusted basic and diluted (loss)/earnings per share (US cents)*	(1.75)	1.26

*Adjusted results shown include certain adjustments for -non-recurring items in 2017. There were no non-recurring items requiring adjustments in 2018. For details and further information on Alternative Performance Measures, refer to the Glossary.

Overview

The Group's performance reflects continued challenging market conditions. Revenue increased by 9% from significantly improving utilisation rates to 80% (2017: 61%), but pressure on day rates continued, with the average day rate decreasing by approximately 7% year-on-year. These utilisation rates exclude the time vessels were unavailable for hire whilst mobilising for new contracts. An adjusted utilisation based on calendar days including this unavailable mobilisation time was 69% in 2018 (2017: 58%).

Higher cost of sales reflected operating costs increasing due to improved levels of utilisation, as well as higher than usual levels of asset mobilisations onto contracts and reactivation costs of vessels previously stacked. This was partly offset by a reduced depreciation charge in 2018 of US$ 27.3 million (2017: US$ 28.4 million) following the return of a leased vessel in August 2017. Overall, cost of sales excluding non-recurring items increased by 10% (excluding a non-recurring impairment charge of US$ 7.3 million in 2017) to US$ 76.3 million (2017: US$ 69.6 million excluding impairment charges). The Group delivered a consistent adjusted gross profit margin of 38% across both years.

Adjusted EBITDA remained flat at US$ 58.0 million (2017: US$ 58.5 million). The adjusted EBITDA margin reduced to 47% in 2018 (2017: 52%) primarily as a result of the higher operating costs discussed above, as well as higher administrative costs mainly arising from costs which could have been capitalised against projects now being expensed in the current year following completion of the new build programme. We continue to be focused on managing our costs appropriately in the current environment and are reviewing all areas of the business to drive additional efficiencies and pursue cost saving initiatives.

The adjusted net loss for the year of US$ 5.1 million (2017: adjusted net profit of US$ 4.8 million) reflects an increase in finance expenses to US$ 31.3 million (2017: US$ 23.3 million, excluding non-recurring finance costs of US$ 15.6 million). This resulted from higher borrowing rates during the year as a result of increases in LIBOR and higher Group net leverage, as well as US$ 3.1 million of interest costs reflected in the current loss which were previously being capitalised as directly attributable costs for the now completed construction of Evolution. As the new build programme has completed, all interest costs have now been expensed in the income statement. The Group also recognised a tax charge of US$ 2.7 million, compared to a tax credit of US$ 0.2 million in 2017, mainly arising from increased activity in taxable jurisdictions (particularly in Saudi Arabia) as well as a prior year tax credit of US$ 2.4 million as a result of a revision of the tax treatment of our operations in the UK.

At the year end, the Group's net bank debt (total bank borrowings less cash) was US$ 400.5 million (2017: US$ 372.8 million). At 31 December 2018, the Group had undrawn committed bank facilities of US$ 30.0 million (2017: US$ 50.0 million). As the Group was in technical breach of one covenant as at 31 December 2018, the bank debt on the balance sheet is required to be presented as a current liability which had a corresponding effect on our reported working capital balance. In January 2019, the Group agreed with its banking syndicate an amendment to its financial covenant levels for the 31 December 2018 test date and is now in full compliance with all financial covenants as at that date.

The Directors believe the Group will be able to service all of its interest and debt repayment obligations in 2019. The projections indicate that the Group's anticipated operating performance result in a significant doubt over the Group's ability to meet the covenant test at the 30 June and 31 December 2019 testing periods. Whilst recognising the material uncertainty in respect of going concern described in note 1 of the consolidated financial statements, the Directors believe that covenant amendments will be agreed and consider it appropriate for the going concern basis to be adopted in line with current accounting standards. The Company is continuing its active dialogue with its bank and is reviewing, together with its financial advisors, a range of long-term refinancing options.

The following sections discuss the Group's adjusted results as the Directors consider that they provide a useful indicator of the Group's underlying performance. Adjusted results are also an important measure providing useful information as they form the basis of calculations required for the Group's covenants. It is noted that there were no adjusting items for 2018; however, those that were made in 2017 are disclosed in note 2 to the consolidated financial statements.

Revenue and segmental profit

Revenue increased by just under 10% in 2018 to US$ 123.3 million (2017: US$ 112.9 million). This increase reflects an increase in the SESV fleet utilisation to 80% (2017: 61%). This calculation excluded the time vessels were unavailable for hire whilst mobilising for new contracts. An adjusted utilisation based on calendar days (which includes this unavailable time) was 69% (2017: 58%). All of the SESV fleet were on hire for at least some of the year, including certain Small Class vessels which were previously stacked to minimise costs.

During the year, 66% of total Group revenue was derived from customers located in the MENA region (2017: 70%) while the remaining 34% of revenue was earned from customers in Europe (2017: 30%). Our revenue in the MENA region is mainly from oil and gas services. We have seen growth in Saudi Arabia, which in 2018 remains our largest geographical market with 67% of revenue earned there (2017: 53%). The remainder is split between the UAE and Qatar at 21% and 12% respectively (2017: 25% in the UAE, 22% in Qatar). Saudi Arabia is also our biggest overall geographical market, with 44% of total revenue arising there in 2018 (2017: 37%).

Within Europe, all revenue was earned in the UK (2017: 49% in the UK, 41% in the Netherlands, 10% in the rest of Europe), with over half earned from renewables projects.

The table below shows the contribution to revenue and segment adjusted gross profit or loss (being gross profit excluding depreciation, amortisation and impairment) made by each vessel class during the year. Large Class vessels continue to be the largest contributor to overall revenue and adjusted gross profit.

Vessel Class	Revenue (US$'000)		Adjusted gross profit/(loss)* (US$'000)	
	2018	2017	2018	2017
Large Class vessels	52,077	42,549	31,563	29,074
Mid-Size Class vessels	35,407	34,990	22,960	22,800
Small Class vessels	35,847	35,337	20,836	22,024
Sundry rental income	4	5	(58)	(113)
Total	123,335	112,881	75,301	73,785

Increased tendering, pipeline of opportunities and current utilisation levels give some reassurance that the market is starting to recover; however, it is difficult to predict when this improved demand will be reflected in improved day rates.

Cost of sales, adjusted gross profit margin and general and administrative expenses
Cost management and efficiency remain central to our business practices. Cost of sales increased by 10% to US$ 76.3 million in 2018 (2017: US$ 69.6 million, excluding impairment charges) in line with the increase in revenue in the year. Cost of sales excluding depreciation and amortisation increased by 23%, which was offset by a reduction in depreciation following the return of a leased vessel in August 2017. The Group undertook 13 mobilisations for new contracts during the year, which is a significant increase compared to historic activity levels. A number of these vessels were required to be fully operational ahead of actual contract commencement dates, meaning the operating expenses for these vessels were at a similar level as on hire vessels which increased costs. The Group also incurred additional costs to reactivate vessels previously stacked. As a result, despite increased revenue the adjusted gross profit margin remained flat at 38% in 2018 (2017: 38%).

Gross general & administrative costs (including costs of this nature that were both expensed and capitalised in the year), reduced by 12% to US$ 19.0 million (2017: US$ 21.7 million). Costs capitalised also reduced from US$ 5.0 million in 2017 to US$ 0.5 million in 2018 following completion of the new build programme in 2017.

EBITDA
EBITDA for the year increased to US$ 58.0 million (2017: US$ 51.1 million) as there was a non-recurring impairment charge in the prior year. Adjusted EBITDA remained flat at US$ 58.0 million (2017: US$ 58.5 million). The Group's adjusted EBITDA margin in 2018 reduced to 47% (2017: 52%) with the increase in revenue offset by an increase in operating costs and general and administrative expenses described above.

Finance costs and foreign exchange
Finance costs increased by 34% in 2018 to US$ 31.3 million (2017: US$ 23.3 million excluding non-recurring refinancing costs of US$ 15.6 million), reflecting an increased cost of bank borrowing to US$ 30.6 million (2017: US$ 22.2 million) as a result of both increases in LIBOR and higher Group net leverage. The average borrowing rate in 2018 was 7.0% compared to 4.7% in 2017. In addition, no finance expenses (2017: US$ 3.3 million) were capitalised during the year following completion of the new build programme in 2017.

In 2018, there was a net foreign exchange gain of US$ 0.3 million (2017: US$ 1.9 million) arising from movements in exchange rates of the Pound Sterling and Euro against the US Dollar, the Group's presentational currency. The Group entered into new arrangements to partially hedge the volatility of movements in exchange rates as well as interest rates.

Taxation

The net tax charge for the year was US$ 2.7 million (2017: tax credit of US$ 0.2 million). There was an increase in the overall tax charge resulting from an increase in Group revenue earned in Saudi Arabia, which attracts both withholding tax and corporation tax, and a tax credit in 2017 of US$ 2.4 million as a result of a revision of the tax treatment of our operations in the UK.

Earnings

The net loss during the year was lower at US$ 5.1 million (2017: US$ 18.2 million) mainly arising from prior year non-recurring items including an impairment charge and additional finance costs as a result of refinancing of the Group's bank facility. The Group incurred an adjusted net loss of US$ 5.1 million (2017: adjusted net profit of US$ 4.8 million) mainly as a result of higher operating costs, borrowing rates, and the tax charge described above.

The Group achieved a diluted loss per share (DLPS) of 1.75 cents (2017: 5.31 cents). The adjusted diluted loss per share (DLPS) in 2018 was 1.75 cents (2017: adjusted diluted earnings per share (DEPS) of 1.26 cents). Adjusted DLPS/DEPS is calculated based on adjusted net loss/profit; a reconciliation between adjusted net loss/profit and statutory loss is provided in note 2.

Dividends

Dividend payments remain suspended while we focus on addressing our capital structure.

Capital expenditure

The Group's capital expenditure during the year was US$ 21.4 million (2017: US$ 29.7 million) which included expenditure on a number of vessels to make contractually committed alterations and/or enhancements which resulted in operational efficiencies for clients. Capital expenditure (including contract specific vessel modifications) during the second half of the year was US$ 7.0 million. No significant capital expenditure is currently planned in 2019 and beyond.

Cash flow and liquidity

The Group was in technical breach of one of its covenants at the 31 December 2018 testing date; however, in January 2019, the Group negotiated additional headroom, and as a result, the Group was in full compliance with all of its banking covenants for that testing date. As discussed above, the projections indicate that the Group's anticipated operating performance will result in a breach of financial covenants attached to its facilities at the 30 June and 31 December 2019 testing periods. While GMS expects the Group's interest and debt repayment obligations to be serviceable in 2019, anticipated trading means there is a significant doubt over the Group's ability to meet the covenant test contained at the 30 June and 31 December 2019 testing dates. Whilst recognising the material uncertainty in relation to going concern described in note 1 of the consolidated financial statements, the Board believes that covenant amendments will be agreed such that it is considered appropriate for the going concern basis to be adopted in line with current accounting standards.

The Group generated positive operating cash flows, with a net inflow of US$ 28.9 million in 2018 (2017: net inflow of US$ 56.3 million). The reduction in cash inflow reflects working capital requirements to support vessel mobilisations which were required to be fully operational ahead of contract commencement dates and an increase in trade and other receivables of US$ 22.6 million. This increase was in line with revenue but also as a result of delays in payments from certain clients. 84% of the 31 December 2018 trade receivables balance has been collected from customers subsequent to year end so we are confident the remaining amount will be collected during 2019. The net cash outflow from investing activities for 2018 increased to US$ 23.0 million (2017: net outflow of US$ 21.7 million) primarily as a result of vessel specific modifications to support mobilisations in the year. The Group's net cash flow relating to financing activities was an outflow of US$ 33.8 million (2017: US$ 57.2 million) mainly attributable to payments for loan capital and interest, partially offset by a loan drawdown of US$ 20.0 million to fund working capital requirements.

Net bank debt and borrowings
The net bank debt position (total bank borrowings less cash) as at 31 December 2018 was US$ 400.5 million (2017: US$ 372.8 million) reflecting increased working capital requirements to support vessel mobilisations during the year, increased trade receivables as described above and interest repayments. We expect net debt to reduce to approximately US$ 390.0 million by the end of Q1 2019.

As the Group was in a technical breach of one of its covenants as at 31 December 2018, all bank debt was required to be reclassified as a current liability. Following the year end, in January 2019, the Group negotiated additional headroom to one of its covenants for the 31 December 2018 test date. As a result, the Group was in full compliance with all of its banking covenants for that date. Undrawn working capital revolver facilities were US$ 30.0 million at 31 December 2018 (2017: US$ 50.0 million). We are continuing to work closely with the Group's banking syndicate both to address the near term covenant pressure and to establish an appropriate long-term and sustainable capital structure to avoid further financing constraints.

Balance sheet
Total current assets at 31 December 2018 were US$ 52.5 million (2017: US$ 57.4 million), with an increase in trade and other receivables to US$ 40.9 million (2017: US$ 18.5 million) being offset by a decrease in cash and cash equivalents to US$ 11.0 million (2017: US$ 39.0 million). Net trade receivables increased by US$ 20.6 million as a result of increased revenue and payment delays as described above. During the year receivable collection days increased to 68 days (2017: 56 days). Although receivable collection days have increased, the Group's customers comprise mainly NOCs, IOCs and international EPC companies, and therefore the credit quality of the outstanding receivables is considered to be good. The reduction in the cash balance of US$ 28.0 million from US$ 39.0 million in 2017 to US$ 11.0 million in 2018 reflects additional working capital requirements to support vessel mobilisations, debt repayments and increasing finance costs described above.

Total current liabilities increased to US$ 436.6 million at 31 December 2018 (2017: US$ 49.8 million), mainly as a result of the inclusion of all the bank borrowings as required to reflect the technical breach of a banking covenant at 31 December 2018 remedied post year end, discussed above. Total current liabilities on a like for like basis reduced to US$ 45.4 million (2017: US$ 49.8 million). Payable days outstanding increased to 58 days during the year (2017: 50 days).

The combined effect of the changes in current assets and current liabilities described above resulted in a working capital and cash deficit of US$ 384.1 million as at 31 December 2018 (2017: working capital and cash balance of US$ 7.6 million). The Group achieved a working capital and cash balance of US$ 7.1 million when excluding the reclassification of the Group's debt facility.

Total non-current assets at 31 December 2018 were US$ 802.9 million (2017: US$ 808.4 million). This decrease was primarily attributable to the US$ 5.9 million decrease in the net book value of property, plant and equipment mainly as a result of depreciation during the year. Total non-current liabilities decreased to US$ 2.7 million (2017: US$ 394.7 million) due to the reclassification of the Group's debt facility described above.

Equity
Shareholders' equity decreased to US$ 414.7 million at year end from US$ 420.7 million at 31 December 2017. The movement was mainly attributed to the loss of US$ 5.1 million incurred during the year as described above.

The number of issued ordinary shares in the Company increased to 349,967,878 following the issue of

263,905 shares on 12 April 2018 awarded under the Company's 2015 Long-Term Incentive Plan. On 16 April 2018, the Company granted awards over ordinary shares under the 2018 Long-Term Incentive Plan. The awards will vest three years after grant, subject to performance conditions measured over the three-year performance period.

Going concern

After assessing the Group's financial position for a period of not less than 12 months from the date of approval and having taken account of the material uncertainty described in note 1 to the consolidated financial statements, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. The Group has therefore adopted the going concern basis of accounting in preparing the consolidated financial statements. Please refer to note 1 in the consolidated financial statement for further details.

Adjusting items

The Group presents adjusted results, in addition to the statutory results, as the Directors consider that they provide a useful indication of underlying performance. Adjusted results are also an important measure providing useful information as they form the basis of calculations required for the Group's covenants. There have been no adjusting items in the year. In 2017, the adjusting items were comprised of non-recurring items. A reconciliation between the adjusted non-GAAP and statutory results is provided in note 2.

Related party transactions

Green Investment Commercial Investments LLC (GICI), which was previously classified as a related party, no longer has an ownership interest in the Company following the sale of its shareholding during 2018. There have been no new material related party transactions during the year.

John Brown
Chief Financial Officer
25 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Revenue	3	**123,335**	112,881
Cost of sales	6,7	**(76,317)**	(69,596)
Impairment charge		**–**	(7,327)
Gross profit		**47,018**	35,958
General and administrative expenses		**(18,556)**	(16,721)
Finance income		**22**	47
Finance expenses	4	**(31,301)**	(38,960)
Other income		**140**	75
Gain/(loss) on disposal of assets		**6**	(575)
Foreign exchange gain, net		**266**	1,856
Loss for the year before taxation		**(2,405)**	(18,320)
Taxation (charge)/credit for the year		**(2,698)**	167
Loss for the year		**(5,103)**	(18,153)
Other comprehensive income/(expense) – items that will not be reclassified subsequently to profit and loss:			
Net gain on cash flow hedges	13	**685**	–
Net change in cost of hedging	13	**(923)**	–
Other comprehensive (expense)/income – items that may be reclassified to profit and loss:			
Exchange differences on translating foreign operations		**(615)**	46
Total comprehensive loss for the year		**(5,956)**	(18,107)
Loss attributable to:			
Owners of the Company		**(6,126)**	(18,565)
Non-controlling interests		**1,023**	412
		(5,103)	(18,153)
Total comprehensive loss attributable to:			
Owners of the Company		**(6,979)**	(18,519)
Non-controlling interests		**1,023**	412
		(5,956)	(18,107)
Loss per share:			
Basic (cents per share)	5	**(1.75)**	(5.31)
Diluted (cents per share)	5	**(1.75)**	(5.31)

All results are derived from continuing operations in each year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 US$'000	2017 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**798,595**	804,500
Dry docking expenditure	7	**2,401**	2,711
Deferred tax asset		**1,866**	1,176
Total non-current assets		**802,862**	808,387
Current assets			
Trade and other receivables	8	**40,919**	18,493
Cash and cash equivalents	9	**11,046**	38,954
Derivative financial instruments	13	**543**	–
Total current assets		**52,508**	57,447
Total assets		**855,370**	865,834
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**57,992**	57,957
Share premium account	10	**93,080**	93,075
Restricted reserve		**272**	272
Group restructuring reserve	11	**(49,710)**	(49,710)
Share option reserve		**3,410**	2,465
Capital contribution	12	**9,177**	9,177
Cash flow hedge reserve	13	**685**	–
Cost of hedging reserve	13	**(923)**	–
Translation reserve		**(2,584)**	(1,969)
Retained earnings		**303,319**	309,445
Attributable to the Owners of the Company		**414,718**	420,712
Non-controlling interests		**1,346**	598
Total equity		**416,064**	421,310
Non-current liabilities			
Bank borrowings	14	**–**	391,514
Provision for employees' end of service benefits		**2,722**	3,188
Deferred tax liability		**13**	13
Total non-current liabilities		**2,735**	394,715
Current liabilities			
Trade and other payables		**18,833**	24,907
Current tax liability		**5,442**	4,633
Bank borrowings – scheduled repayments within one year	14	**20,338**	20,269
Bank borrowings – scheduled repayments more than one year	14	**391,177**	–
Derivative financial instruments		**781**	–
Total current liabilities		**436,571**	49,809
Total liabilities		**439,306**	444,524
Total equity and liabilities		**855,370**	865,834

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital US$'000	**Share premium account** US$'000	**Restricted reserve** US$'000	**Group restructuring reserve** US$'000	**Share option reserve** US$'000	**Capital contribution** US$'000	**Cash flow hedge reserve** US$'000	**Cost of hedging reserve** US$'000	**Translation reserve** US$'000	**Retained earnings** US$'000	**Attributable to the Owners of the Company** US$'000	**Non-controlling interests** US$'000	**Total equity** US$'000
At 1 January 2017	57,929	93,075	272	(49,710)	1,702	9,177	–	–	(2,015)	333,259	443,689	560	444,249
Total comprehensive (loss)/income	–	–	–	–	–	–	–	–	46	(18,565)	(18,519)	412	(18,107)
Share options rights charge	–	–	–	–	791	–	–	–	–	–	791	–	791
Shares issued under LTIP schemes (*Note 10*)	28	–	–	–	(28)	–	–	–	–	–	–	–	–
Dividends declared during the year	–	–	–	–	–	–	–	–	–	(5,249)	(5,249)	(374)	(5,623)
At 31 December 2017	57,957	93,075	272	(49,710)	2,465	9,177	–	–	(1,969)	309,445	420,712	598	421,310
Total comprehensive (loss)/income	–	–	–	–	–	–	685	(923)	(615)	(6,126)	(6,979)	1,023	(5,956)
Share options rights charge	–	–	–	–	985	–	–	–	–	–	985	–	985
Shares issued under LTIP schemes (*Note 10*)	35	5	–	–	(40)	–	–	–	–	–	–	–	–
Dividends declared during the year	–	–	–	–	–	–	–	–	–	–	–	(275)	(275)
At 31 December 2018	**57,992**	**93,080**	**272**	**(49,710)**	**3,410**	**9,177**	**685**	**(923)**	**(2,584)**	**303,319**	**414,718**	**1,346**	**416,064**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Net cash generated from operating activities	15	**28,876**	56,273
Investing activities			
Payments for property, plant and equipment		**(21,190)**	(22,822)
Proceeds from insurance claim		**–**	1,801
Proceeds from disposal of property, plant and equipment		**80**	1,209
Movement in capital advances		**–**	67
Dry docking expenditure incurred		**(1,890)**	(2,049)
Movement in guarantee deposits		**–**	82
Interest received		**22**	47
Net cash used in investing activities		**(22,978)**	(21,665)
Financing activities			
Bank borrowings received		**20,000**	–
Repayment of bank borrowings		**(20,653)**	(21,999)
Payment of issue cost on bank borrowings		**(796)**	(2,283)
Interest paid		**(32,357)**	(25,114)
Payment on obligations under finance lease		**–**	(2,584)
Dividends paid		**–**	(5,249)
Net cash used in financing activities		**(33,806)**	(57,229)
Net decrease in cash and cash equivalents		**(27,908)**	(22,621)
Cash and cash equivalents at the beginning of the year		**38,954**	61,575
Cash and cash equivalents at the end of the year	9	**11,046**	38,954
Non – cash transactions			
Shares issued under LTIP schemes		**35**	28
Return of finance leased vessel		**–**	(37,500)
Insurance claim receivable		**–**	(1,710)

Notes to the consolidated financial information for the year ended 31 December 2018

1 Basis of preparation

The preliminary announcement does not constitute the Group's statutory accounts for the year ended 31 December 2018, but is derived from those accounts. Statutory accounts for the year ended 31 December 2018 were approved by the Directors on 25 March 2019 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The independent auditor's report on those financial statements was unqualified, but did include an emphasis of matter in respect of the material uncertainty relating to the Company and the Group's ability to continue as a going concern and did not include a statement under Section 498 (2) or (3) of the 2006 Companies Act.

The 2018 Annual Report will be posted to shareholders in advance of the Annual General Meeting to be held on 28 May 2019.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with the disclosure aspects of IFRSs.

The consolidated preliminary announcement of the Group has been prepared in accordance with EU Endorsed IFRSs, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs. The consolidated financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities, including derivative instruments, at fair value.

Going Concern

The Company's Directors have assessed the Group's financial position for a period of not less than 12 months from the date of approval of the full year results and have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. The Group has committed credit facilities in place at 31 December 2018 (see note 14), comprising an existing loan facility with a balance of US$ 392.0 million and a committed working capital facility of US$ 50.0 million of which US$ 30.0 million remains undrawn as at 31 December 2018. Whilst the Company expects to continue to service its interest and debt repayment obligations in 2019, the Group's anticipated operating performance is projected to breach financial covenants attached to its facilities at the 30 June and 31 December 2019 test dates.

A breach of covenants could, possibly, result in the banks exercising their rights to recall all credit facilities (including the undrawn element of the working capital facility) and to demand immediate repayment. These conditions indicate a material uncertainty that may cast significant doubt as to the ability of the Group to continue as a going concern.

Having agreed an amendment to its financial covenant schedule for the 31 December 2018 test date, the Group continues to work closely with the banking syndicate to address this covenant pressure.

Notwithstanding the material uncertainty with regard to covenant compliance at 30 June and 31 December 2019, the Directors believe there is a reasonable prospect of a satisfactory outcome to covenant renegotiations for the 2019 test dates with which the Group will be able to comply and accordingly have adopted the going concern basis of accounting in preparing the consolidated and parent company financial statements.

The Board are also considering all options to reinforce the capital structure of the Group. In this context, discussions are also being had with the Group's banking syndicate to, amongst other things, reschedule the payment obligations of the existing facilities with the aim of establishing an appropriate long-term capital structure for the business. This matter is further discussed in the Group's Long Term Viability Statement as contained within the full annual report.

Significant accounting policies

The significant accounting policies and methods of computation adopted in the preparation of this financial information are consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as at 1 January 2018.

2 Presentation of adjusted non-GAAP results

The following table provides a reconciliation between the Group’s adjusted non-GAAP and statutory financial results:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Adjusted non-GAAP results	**Adjusting items**	**Statutory total**	Adjusted non-GAAP results	Adjusting items	Statutory total
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Revenue	**123,335**	**–**	**123,335**	112,881	–	112,881
Cost of sales						
- Operating expenses	**(48,034)**	**–**	**(48,034)**	(39,096)	–	(39,096)
- Depreciation and amortisation	**(28,283)**	**–**	**(28,283)**	(30,500)	–	(30,500)
- Impairment charge*	**–**	**–**	**–**	–	(7,327)	(7,327)
Gross profit	**47,018**	**–**	**47,018**	43,285	(7,327)	35,958
General and administrative						
- Depreciation	**(1,229)**	**–**	**(1,229)**	(1,391)	–	(1,391)
- Other administrative costs	**(17,327)**	**–**	**(17,327)**	(15,330)	–	(15,330)
Operating profit	**28,462**	**–**	**28,462**	26,564	(7,327)	19,237
Finance income	**22**	**–**	**22**	47	–	47
Finance expenses	**(31,301)**	**–**	**(31,301)**	(23,327)	–	(23,327)
Expensing of loan arrangement and facility fees**	**–**	**–**	**–**	–	(11,021)	(11,021)
Costs to acquire new bank facility***	**–**	**–**	**–**	–	(5,891)	(5,891)
Fair value gain on financial liabilities held at amortised cost****	**–**	**–**	**–**	–	1,279	1,279
Other income	**140**	**–**	**140**	75		75
Gain/(loss) on disposal of asset	**6**	**–**	**6**	(575)	–	(575)
Foreign exchange gain, net	**266**	**–**	**266**	1,856	–	1,856
(Loss)/profit before taxation	**(2,405)**	**–**	**(2,405)**	4,640	(22,960)	(18,320)
Taxation (charge)/credit	**(2,698)**	**–**	**(2,698)**	167	–	167
(Loss)/profit for the year	**(5,103)**	**–**	**(5,103)**	4,807	(22,960)	(18,153)
(Loss)/profit attributable to						
Owners of the Company	**(6,126)**	**–**	**(6,126)**	4,395	(22,960)	(18,565)
Non-controlling interests	**1,023**	**–**	**1,023**	412	–	412
Loss per share	**(1.75)**	**–**	**(1.75)**	1.26	(6.57)	(5.31)
Supplementary non-statutory information						
Operating profit	**28,462**	**–**	**28,462**	26,564	(7,327)	19,237
Add: Depreciation and amortisation charges	**29,512**	**–**	**29,512**	31,891	–	31,891
Non-GAAP EBITDA	**57,974**	**–**	**57,974**	58,455	(7,327)	51,128

** The impairment charge on certain vessels has been added back to operating profit to arrive at adjusted profit for the year ended 31 December 2017.*

*** The expensing of unamortised loan arrangement fees (US$ 9.6 million) following the extinguishment of old facility in December 2017 and the expensing of unamortised commitment fees (US$ 1.4 million) for a capex loan facility that was cancelled in June 2017, have been added back to profit before taxation to arrive at adjusted profit for the year ended 31 December 2017.*

**** Costs incurred to acquire a new bank facility have been added back to profit before taxation to arrive at adjusted profit for the year ended 31 December 2017.*

***** The gain on initial recognition of new financial liabilities at fair value has been added back to profit before taxation to arrive at adjusted profit for the year ended 31 December 2017.*

3 Segment reporting

Management have identified that the Directors and senior management team are the chief operating decision makers in accordance with the requirements of IFRS 8 *'Operating Segments'*. Segment performance is assessed based upon adjusted gross profit/(loss), which represents gross profit/(loss) before depreciation and amortisation and loss on impairment of assets. The reportable segments have been identified by management based on the size and type of asset in operation.

The operating and reportable segments of the Group are (i) Small Class vessels, which include the Kamikaze, Kikuyu, Kawawa, Kudeta, Keloa, Kinoa and Pepper vessels (ii) Mid-Size Class vessels, which include the Shamal, Scirocco and Sharqi vessels, (iii) Large Class vessels, which include the Endeavour, Endurance, Enterprise and Evolution vessels, and (iv) Other vessels, considered non-core assets, which include one accommodation barge (Khawla) and one 36-year old vessel (Naashi), which do not form part of the Small, Mid-Size or Large Class vessels segments. The composition of the Other vessels segment, which are non-core assets, was amended in 2018, following the sale of Khawla, and in the second half of 2017, following the reclassification of the vessel Naashi from Small Class vessels to Other vessels.

All of these operating segments earn revenue related to the hiring of vessels and related services including charter hire income, messing and accommodation services, personnel hire and hire of equipment. The accounting policies of the operating segments are the same as the Group's accounting policies.

	Revenue		**Segment adjusted gross profit/(loss)***	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Small Class vessels	**35,847**	35,337	**20,836**	22,024
Mid-Size Class vessels	**35,407**	34,990	**22,960**	22,800
Large Class vessels	**52,077**	42,549	**31,563**	29,074
Other vessels	**4**	5	**(58)**	(113)
	123,335	112,881	**75,301**	73,785
Less:				
Depreciation charged to cost of sales			**(26,083)**	(26,987)
Amortisation charged to cost of sales			**(2,200)**	(3,513)
Impairment charge			**–**	(7,327)
Gross profit			**47,018**	35,958
General and administrative expenses			**(18,556)**	(16,721)
Finance income			**22**	47
Finance expenses			**(31,301)**	(38,960)
Other income			**140**	75
Gain/(loss) on disposal of assets			**6**	(575)
Foreign exchange gain, net			**266**	1,856
Loss before taxation			**(2,405)**	(18,320)

* Alternative Performance Measure – see Note 18.

The total revenue from reportable segments which comprises the Small, Mid-Size and Large Class vessels is US$ 123.3 million (2017: US$ 112.9 million). The Other vessels segment does not constitute a reportable segment per IFRS 8 *Operating Segments*.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the years.

Segment assets and liabilities, including depreciation, amortisation and additions to non-current assets, are not reported to the chief operating decision makers on a segmental basis and are therefore not disclosed.

Information about major customers
During the year, five customers (2017: seven) individually accounted for more than 10% of the Group's revenues. The related revenue figures for these major customers, the identity of which may vary by year, were US$ 25.16 million (2017: US$ 18.35 million), US$ 23.55 million (2017: US$ 17.05 million), US$ 16.71 million (2017: US$ 15.61 million), US$ 14.94 million (2017: US$ 14.73 million), US$ 13.18 million (2017: US$ 13.84 million). The revenue from these customers is attributable to the Large Class vessels, Mid-Size Class vessels and Small Class vessels reportable segments.

Revenue by geographical segment is based on the geographical location of the customer as shown below.

	2018 US$'000	2017 US$'000
Saudi Arabia	**54,850**	41,830
United Arab Emirates	**17,262**	19,542
Qatar	**9,788**	18,119
Total – Middle East and North Africa	**81,900**	79,491
United Kingdom	**41,435**	16,338
Netherlands	**–**	13,602
Rest of Europe	**–**	3,450
Total – Europe	**41,435**	33,390
Worldwide Total	**123,335**	112,881

4 Finance expenses

	2018 US$'000	2017 US$'000
Interest on bank borrowings	**30,601**	22,174
Interest on finance leases	**–**	3,001
Write-off of unamortised loan facility fees*	**–**	11,021
Cost to acquire new bank facility**	**–**	5,891
Fair value gain on financial liabilities held at amortised cost***	**–**	(1,279)
Amortisation of issue costs and commitment fees	**700**	1,474
Finance expense	**31,301**	42,282
Less: Amounts included in the cost of qualifying assets	**–**	(3,322)
	31,301	38,960

** Triggered by the extinguishment of debt in December 2017 and cancellation of the capex loan facility in June 2017.*
*** Costs incurred in 2017 to acquire new loan facility including arrangement, advisory and legal fees.*
**** Fair value gain on recognition of new financial liability in 2017.*

5 Loss per share

	2018	2017
Loss for the purpose of basic and diluted loss per share being loss for the year attributable to Owners of the Parent (US$'000)	**(6,126)**	(18,565)
(Loss)/earnings for the purpose of adjusted basic and diluted (loss)/earnings per share (US$'000)	**(6,126)**	4,395
Weighted average number of shares ('000)	**349,895**	349,614
Weighted average diluted number of shares in issue ('000)	**349,895**	349,614
Basic loss per share (cents)	**(1.75)**	(5.31)
Diluted loss per share (cents)	**(1.75)**	(5.31)
Adjusted (loss)/earnings per share (cents)	**(1.75)**	1.26
Adjusted diluted (loss)/earnings per share (cents)	**(1.75)**	1.26

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company (as disclosed in the statement of comprehensive income) by the weighted average number of ordinary shares in issue during the year.

Adjusted (loss)/earnings per share is calculated on the same basis but uses the loss for the purpose of basic loss per share (shown above) adjusted by adding back the non-recurring items, which were recognised in the consolidated statement of comprehensive income in the prior year. The adjusted (loss)/earnings per share is presented as the Directors consider it provides an additional indication of the underlying performance of the Group.

Diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, adjusted for the weighted average effect of share options outstanding during the year. As the Group incurred a loss in 2018, diluted loss per share is the same as loss per share, as the effect of share options is anti-dilutive.

Adjusted diluted loss per share is calculated on the same basis but uses adjusted loss attributable to equity holders of the Company.

6 Property, plant and equipment

	Vessels US$'000	Capital work-in-progress US$'000	Land, building and improvements US$'000	Vessel spares, fitting and other equipment US$'000	Others US$'000	Total US$'000
Cost						
At 1 January 2017	896,890	108,339	10,299	14,964	4,545	1,035,037
Additions	–	29,723	–	–	–	29,723
Transfers	92,374	(127,664)	126	35,087	77	–
Disposals*	(75,780)	–	–	(1,616)	(973)	(78,369)
Other**	(3,511)	–	–	–	–	(3,511)
At 31 December 2017	909,973	10,398	10,425	48,435	3,649	982,880
Additions	–	21,356	–	–	51	21,407
Transfers	6,096	(18,989)	44	12,849	–	–
Disposals	(7,218)	–	–	(510)	–	(7,728)
At 31 December 2018	**908,851**	**12,765**	**10,469**	**60,774**	**3,700**	**996,559**

** Disposals in 2017 include the costs of disposal of vessel Kinoa which was returned to its lessor in August 2017 having previously been held under a finance lease.*

*** This relates to the insurance claim pertaining to the construction of a Mid-Size Class vessel that was delivered in March 2016. It comprises the insurance claim proceeds received during the 2017 of US$ 1.8 million and insurance claim receivable of US$ 1.7 million as at 31 December 2017.*

	Vessels	Capital work-in-progress	Land, building and improvements	Vessel spares, fitting and other equipment	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Accumulated depreciation						
At 1 January 2017	166,595	–	5,229	7,327	3,488	182,639
Eliminated on disposal of assets	(37,320)	–	–	(1,607)	(973)	(39,900)
Depreciation expense	25,410	–	965	1,417	586	28,378
Impairment charge	7,220	–	–	43	–	7,263
At 31 December 2017	161,905	–	6,194	7,180	3,101	178,380
Eliminated on disposal of assets	(7,218)	–	–	(510)	–	(7,728)
Depreciation expense	24,530	–	973	1,389	420	27,312
Transfers	(2,943)	–	–	2,943	–	–
At 31 December 2018	**176,274**	**–**	**7,167**	**11,002**	**3,521**	**197,964**
Carrying amount						
At 31 December 2018	**732,577**	**12,765**	**3,302**	**49,772**	**179**	**798,595**
At 31 December 2017	748,068	10,398	4,231	41,255	548	804,500

Depreciation amounting to US$ 26.1 million (2017: US$ 27.0 million) has been allocated to cost of sales. The balance of the depreciation charge is included in general and administrative expenses.

Included in additions to the vessels under construction is nil (2017: US$ 3.3 million) in respect of capitalised borrowing costs. The capitalisation rate used to determine this figure was nil (2017: 3.37%) based on specific borrowing rates.

Certain vessels with a total net book value of US$ 679.5 million (2017: US$ 748.1 million), have been mortgaged as security for the loans extended by the Group's banking syndicate.

Impairment Assessment

The Group undertook a full impairment review of its fixed assets during the year. The resulting recoverable amounts for each vessel was higher than their respective carrying amounts. Therefore, no impairment charge was recognised as at 31 December 2018.

In the prior year, the Group recognised an impairment charge of US$ 7.3 million on a 36-year old vessel to reduce its carrying amount to its estimated recoverable amount of US$ 3.0 million.

For the purpose of the impairment assessment, each vessel is considered a separate cash-generating unit ("CGU") and management has estimated the recoverable amounts of its vessels based on their value in use and fair value less costs to sell.

The cash flow projections used in determining the value in use of each CGU were based on forecasts prepared by management taking into account past experience. The average compound annual growth rates ("CAGR") in revenue for the CGUs were assumed as an average upward revision of 7.2% (2017: 10.0%) between 2019 and 2023, remaining flat thereafter. The CAGR is dependent on the average utilisation and charter rate of the vessels.

The risk adjusted cash flows have been discounted using a real pre-tax discount rate of 11.5% (2017: 11.5%), which was estimated taking into consideration the weighted average cost of capital of a portfolio of peer group companies with similar assets.

As part of the process of assessing fair values less costs to sell of the vessel, management obtain vessel valuations from leading, independent and internationally recognised ship brokers periodically.

7 Dry docking expenditure

The movement in dry docking expenditure is summarised as follows:

	2018 US$'000	2017 US$'000
At 1 January	**2,711**	4,327
Expenditure incurred during the year	**1,890**	2,049
Disposals	**–**	(88)
Amortised during the year	**(2,200)**	(3,513)
Impairment charge	**–**	(64)
At 31 December	**2,401**	2,711

Amortisation for the year has been charged to cost of sales.

8 Trade and other receivables

	2018 US$'000	2017 US$'000
Trade receivables	**33,009**	13,177
Less: Allowance for expected credit losses (ECL)	**(94)**	–
Less: Allowance for doubtful receivables	**(50)**	(920)
Trade receivables, net	**32,865**	12,257
Accrued revenue, net	**2,924**	1,469
Prepayments and deposits	**4,308**	2,343
Insurance and receivable	**–**	1,792
Advances to suppliers	**441**	123
VAT receivables	**103**	186
Other receivables	**278**	253
Due from related parties	**–**	70
At 31 December	**40,919**	18,493

9 Cash and cash equivalents

	2018 US$'000	2017 US$'000
Interest bearing		
Held in UAE banks	**26**	7,691
Non-interest bearing		
Held in UAE banks	**9,177**	8,354
Held in banks outside UAE	**2,448**	23,515
Total cash at bank and in hand	**11,651**	39,560
Presented as:		
Restricted cash included in trade and other receivables	**605**	606
Cash and cash equivalents	**11,046**	38,954
Total	**11,651**	39,560

10 Share capital

The Company was incorporated on 24 January 2014 with a share capital of 300 million shares at a par value of £1 each. On 5 February 2014, as part of a Group restructuring, the Company undertook a capital reduction by solvency statement, in accordance with s643 of the Companies Act 2006. Accordingly, the nominal value of the authorised and issued ordinary shares was reduced from £1 to 10p.

On 19 March 2014, the Company completed its initial public offering (IPO) on the London Stock Exchange. A total of 49,527,804 shares with a par value of 10 pence per share were issued at a price of 135 pence (US$ 2.24) per share.

On 6 July 2017, the Company issued a total of 176,169 ordinary shares at a par value of 10 pence per share in respect of the Company's 2014 long-term incentive plan.

On 12 April 2018, the Company issued a total of 263,905 ordinary shares at par value of 10 pence per share in respect of the Company's 2015 long-term incentive plan.

The movement in issued share capital and share premium is provided below.

The share capital of Gulf Marine Services PLC was as follows:

	Number of ordinary shares (thousands)	**Ordinary shares** US$'000	**Total** US$'000
At 31 December 2018			
Authorised share capital	**349,968**	**57,992**	**57,992**
Issued and fully paid	**349,968**	**57,992**	**57,992**
At 31 December 2017			
Authorised share capital	349,704	57,957	57,957
Issued and fully paid	349,704	57,957	57,957

Issued share capital and share premium account movement for the year were as follows:

	Number of ordinary shares (thousands)	**Ordinary shares** US$'000	**Share premium account** US$'000	**Total** US$'000
At 1 January 2017	349,528	57,929	93,075	151,004
Shares issued under LTIP schemes	176	28	–	28
At 31 December 2017	349,704	57,957	93,075	151,032
Shares issued under LTIP schemes	264	35	5	40
At 31 December 2018	**349,968**	**57,992**	**93,080**	**151,072**

11 Group restructuring reserve

The Group restructuring reserve arises on consolidation under the pooling of interests (merger accounting) method used for the Group restructuring. Under this method, the Group is treated as a continuation of GMS Global Commercial Investments LLC (the predecessor parent company) and its subsidiaries. At the date the Company became the new parent company of the Group via a share-for-share exchange, the difference between the share capital of GMS Global Commercial Investments LLC and the Company, amounting to US$ 49.7 million, was recorded in the books of Gulf Marine Services PLC as a Group restructuring reserve. This reserve is non-distributable.

12 Capital contribution

The capital contribution reserve is as follows:

	2018	2017
	US$'000	US$'000
At 31 December	**9,177**	9,177

During 2013, US$ 7.8 million was transferred from share appreciation rights payable to capital contribution as, effective 1 January 2013, the shareholders have assumed the obligation to settle the share appreciation rights. An additional charge in respect of this scheme of US$ 1.4 million was made in 2014. The total balance of US$ 9.2 million is not available for distribution.

13 Hedging reserve and cost of hedging reserve

The disaggregation of changes of OCI by each type of reserve in equity is shown below:

	Cash flow hedge reserve	**Cost of hedging reserve**	**Total**
	US$'000	US$'000	US$'000
Cross currency interest rate swap	1,466	(923)	543
Interest rate swap	(781)	–	(781)
	685	**(923)**	**(238)**

The Group had not entered in to any hedging arrangements during the year ended 31 December 2017.

14 Bank borrowings

Secured borrowings at amortised cost are as follows:

	2018	2017
	US$'000	US$'000
Term loans	**391,515**	411,783
Working capital facility	**20,000**	–
	411,515	411,783

Bank borrowings are presented in the consolidated statement of financial position as follows:

	2018 **US$'000**	2017 US$'000
Non-current portion		
Bank borrowings	**–**	391,514
Current portion		
Bank borrowings – scheduled repayments within one year	**20,338**	20,269
Bank borrowings – scheduled repayments more than one year	**391,177**	–
	411,515	411,783

The principal terms of the outstanding bank loan facility are as follows:

- The facility is repayable with final maturity in December 2023 (2017: December 2023);
- The revolving working capital facility amounts to US$ 50.0 million. US$ 30.0 million remained undrawn at 31 December 2018 and is available for drawdown until December 2023 (2017: US$ 50.0 million available for drawdown until December 2023);
- The facility remains secured by mortgages over certain Group vessels, with a net book value at 31 December 2018 of US$ 679.5 million (2017: US$ 748.1 million);
- The facility is subject to certain financial covenants including; Finance Service Cover, Interest Cover, Net Leverage Ratio, and Security Cover (loan to value).

The Group's loan covenants include an Interest Cover ratio which is calculated as the ratio of Adjusted EBITDA to net finance charges for the previous twelve months. At 31 December 2018, this Interest Cover ratio was calculated as 2.90 times when the covenant at that time was set at not less than 3.00 times. Subsequent to 31 December 2018, and prior to the approval of the 2018 Annual Report, the Group agreed with its banking syndicate to reduce the Interest Cover ratio covenant to not less than 2.5 times for the 31 December 2018 test date so that the Group will be compliant for that reporting period. As the Group was in a technical breach of one of its covenants as at 31 December 2018, all bank debt was required to be reclassified as a current liability.

In 2017, the Group had recognised a fair value gain of US$ 1.3 million in relation to the extinguishment of the old facility and recognition of the new bank facility at its initial fair value. The fair values of the bank borrowings were determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, using appropriate market interest rates. Bank borrowings represent level 3 value measurements as defined by the fair value hierarchy according to IFRS 13.

	Outstanding amount					
	Current	**Non-current**	**Total**	**Unused facility**	**Security**	**Maturity**
	US$'000	US$'000	US$'000	US$'000		
31 December 2018:						
Term loan – scheduled repayments within one year	**20,338**	**–**	**20,338**	**–**	**Secured**	**December 2023**
Term loan – scheduled repayments more than one year	**371,177**	**–**	**371,177**	**–**	**Secured**	**December 2023**
Working capital facility – scheduled repayment more than one year	**20,000**	**–**	**20,000**	**30,000**	**Secured**	**December 2023**
	411,515	**–**	**411,515**	**30,000**		
31 December 2017:						
Term loan	20,269	391,514	411,783	–	Secured	December 2023
Working capital facility	–	–	–	50,000	Secured	December 2023
	20,269	391,514	411,783	50,000		

15 Notes to cash flow statement

	2018 US$'000	2017 US$'000
Operating activities		
Loss for the year before taxation	**(2,405)**	(18,320)
Adjustments for:		
Depreciation of property, plant and equipment	**27,312**	28,378
Amortisation of dry docking expenditure	**2,200**	3,513
Impairment charge	**–**	7,327
End of service benefits charge	**592**	648
End of service benefits paid	**(1,058)**	(641)
Provision for ECL on 31 December 2017 balances	**31**	–
Movement in ECL provision during the year	**63**	–
Provision for doubtful debts on trade receivables	**50**	–
Provision for doubtful debts on accrued revenue	**530**	–
Recovery of doubtful debts	**(563)**	(1,367)
(Gain)/loss on disposal of asset	**(6)**	575
Share options rights charge	**985**	791
Interest income	**(22)**	(47)
Interest expense	**30,601**	22,068
Write-off of unamortised loan facility fees	**–**	11,021
Costs to acquire new bank facility	**–**	5,891
Fair value gain on financial liabilities held at amortised cost	**–**	(1,279)
Other income	**(140)**	(75)
Amortisation of issue costs	**700**	1,259
Cash flow from operating activities before movement in working capital	**58,870**	59,742
(Increase)/decrease in trade and other receivables	**(22,593)**	8,545
Decrease in trade and other payables	**(4,821)**	(13,261)
Cash generated from operations	**31,456**	55,026
Taxation (paid)/received	**(2,580)**	1,247
Net cash generated from operating activities	**28,876**	56,273

Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Obligations under finance leases US$'000	Bank Borrowings *(Note 14)* US$'000
At 1 January 2017	40,084	423,620
Financing cash flows*	(2,584)	(24,282)
<u>Non-cash changes:</u>		
Amortisation of issue cost**	–	1,474
Write-off of issue cost***	–	11,021
Accrued issue costs for new bank facility****	–	1,229
Fair value gain on financial liabilities*****	–	(1,279)
Return of finance leased vessel	(37,500)	–
At 31 December 2017	–	411,783
Financing cash flows*	**–**	**(653)**
<u>Non-cash changes:</u>		
Amortisation of discount on financial liabilities	**–**	**385**
At 31 December 2018	**–**	**411,515**

** The cash flows from bank borrowings and obligations under finance leases make up the net amount of repayment of bank borrowings, payment of issue costs and payment on finance leases in the statement of cash flows.*
*** The amortisation of issue cost includes the amount capitalised as borrowing costs of US$ 0.2 million.*
**** The write-off of issue cost includes the expensing of unamortised commitment fees (US$ 1.4 million) for a capex loan facility that was cancelled in June 2017 and the expensing of unamortised loan arrangement fees (US$ 9.6 million) following the extinguishment of old facility in December 2017 (Note 20).*
***** Costs to acquire new loan facility including arrangement, advisory and legal fees which were accrued as at 31 December 2017.*
****** Fair value gain on recognition of new financial liability.*

16 General information

Gulf Marine Services PLC ("GMS" or "the Company") is a Company which registered in England and Wales on 24 January 2014. The Company is a public limited company with operations mainly in the Middle East and North Africa, and Europe. The address of the registered office of the Company is 6th Floor, 65 Gresham Street, London, EC2V 7NQ. The registered number of the Company is 08860816.

The principal activities of GMS and its subsidiaries (together referred to as the "Group") are chartering and operating a fleet of specially designed and built vessels. All information in the notes relate to the Group, not the Company unless otherwise stated.

The Company and its subsidiaries are engaged in providing self-propelled, self-elevating support vessels, which provide the stable platform for delivery of a wide range of services throughout the total lifecycle of offshore oil, gas and renewable energy activities and which are capable of operations in the Middle East, South East Asia, West Africa and Europe.

17 Post balance sheet events

On 23 January 2019, the Group negotiated additional headroom to the interest cover covenant for the 31 December 2018 test date. As a result, the Group was in full compliance with all its banking covenants for the 31 December 2018 test date (see *Note 14* for further details).

18 Definitions

Below is a list of terms used by the Group:

Alternative Performance Measures (APMs) - An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

APMs are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and the Directors consider that they provide a useful indicator of underlying performance. Adjusted results are also an important measure providing useful information as they form the basis of calculations required for the Group's covenants. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted GAAP measure. Such measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure. In response to the Guidelines on APMs issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the Group.

Adjusted diluted (loss)/earnings per share - represents the adjusted (loss)/profit attributable to equity holders of the Company for the period divided by the weighted average number of ordinary shares in issue during the period, adjusted for the weighted average effect of share options outstanding during the period. The adjusted (loss)/profit attributable to equity shareholders of the Company is earnings used for the purpose of basic (loss)/earnings per share adjusted by adding back impairment charges, and finance costs relating to amendments to bank facilities in 2017. This measure provides additional information regarding earnings per share attributable to the underlying activities of the business. A reconciliation of this measure is provided in Note 2.

Adjusted EBITDA - represents operating profit after adding back depreciation and amortisation and impairment charges in 2017. This measure provides additional information in assessing the Group's underlying performance that management is more directly able to influence in the short term and on a basis comparable from year to year. A reconciliation of this measure is provided in Note 2.

Adjusted EBITDA margin - represents adjusted EBITDA divided by revenue. This measure provides additional information on underlying performance as a percentage of total revenue derived from the Group.

Adjusted gross profit - represents gross profit after adding back impairment charges in 2017. This measure provides additional information on the core profitability of the Group. A reconciliation of this measure is provided in Note 2.

Adjusted gross profit margin - represents adjusted gross profit divided by revenue. This measure provides additional information on core profitability as a percentage of total revenue derived by the Group.

Adjusted net (loss)/profit - represents net (loss)/profit after adding back impairment charges, and finance costs relating to amendments to bank facilities in 2017. This measure provides additional information in assessing the Group's total performance that management is more directly able to influence and on a basis comparable from year to year. A reconciliation of this measure is provided in Note 2 of these results.

Cost of sales excluding non-recurring items - represents cost of sales excluding an impairment charge in 2017. This measure provides additional information on the ongoing true direct costs and excludes any non-recurring items. A reconciliation is shown below;

	2018	2017
	US$'000	US$'000
Statutory cost of sales	**76,317**	76,923
Add back impairment charge	**-**	(7,327)
	76,317	69,596

EBITDA - represents Earnings before Interest, Tax, Depreciation and Amortisation, which represents operating profit after adding back depreciation and amortisation in 2018 and 2017. This measure provides additional information of the underlying operating performance of the Group. A reconciliation of this measure is provided in Note 2.

Finance expenses excluding non-recurring items – represents finance expenses after adding back non-recurring finance costs relating to amendments to bank facilities in 2017. This measure provides additional information on the true cost of financing the Group's debt obligation. A reconciliation is shown below;

	2018	2017
	US$'000	US$'000
Statutory finance expenses (see note 4)	**31,301**	38,960
Add back write-off of unamortised loan facility fees	**-**	(11,021)
Add back cost to acquire new bank facility	**-**	(5,891)
Add back fair value gain on financial liabilities held at amortised cost	**-**	1,279
	31,301	23,327

Gross general and administrative costs - represents general and administrative expenses including the impact of costs which were capitalised. This provides for better comparison since it takes into account true general and administrative expenses incurred in operations. A reconciliation is shown below;

	2018	2017
	US$'000	US$'000
Statutory general and administrative costs	**18,556**	16,721
Add back costs capitalised	**483**	5,004
	19,039	21,725

Group's net bank debt (total bank borrowings less cash) - represents the total bank borrowings less cash. This measure provides additional information of the Group's financial position. A reconciliation is shown below;

	2018	2017
	US$'000	US$'000
Statutory bank borrowings (see note 14)	**411,515**	411,783
Less cash and cash equivalents (see note 9)	**(11,046)**	(38,954)
	400,469	372,829

Segment adjusted gross profit/loss - represents gross profit/loss after adding back depreciation, amortisation and impairment charges in 2018 and 2017. This measure provides additional information on the core profitability of the Group attributable to each reporting segment. A reconciliation of this measure is provided in Note 3.

Total current liabilities on a like for like basis – represents total current liabilities adjusted for bank borrowings reclassified to current liabilities in the current year as a result of a technical breach of certain bank covenants. This measure provides additional information on the Group's true indebtedness due within one year. A reconciliation is shown below;

	2018	2017
	US$'000	US$'000
Statutory current liabilities	**436,571**	49,809
Less bank borrowings - scheduled repayments after more than one year (see note 14)	**(391,177)**	-
	45,394	49,809

Other definitions

Adjusted utilisation based on calendar days – Actual number of days a vessel is on hire divided by the number of calendar days in a year.

Available days - the number of days during which an SESV is available for hire. Periods during which the vessel is not available for hire due to planned upgrade work, transit time for long-term relocation to a new region or construction are excluded from the available days. In calculating available days for each SESV in a given year, we also subtract from a base of 365 days those days spent on mobilisation and demobilisation, planned refurbishment and, in the case of a newly constructed SESV, delivery time.

Backlog - represents firm contracts and extension options held by clients. Backlog equals (charter day rate x remaining days contracted) + ((estimated average Persons On Board x daily messing rate) x remaining days contracted) + contracted remaining unbilled mobilisation and demobilisation fees. Includes extension options.

Borrowing rate - LIBOR plus margin.

Calendar days - takes base days at 365 and only excludes periods of time for construction and delivery time for newly constructed vessels.

Costs capitalised - represent qualifying costs that are capitalised as part of a cost of the vessel rather than being expensed as they meet the recognition criteria of IAS 16 *Property, Plant and Equipment*.

EPC - engineering, procurement and construction.

Finance Service Cover - represents the ratio of Adjusted EBITDA to Finance Service (being Net finance charges plus scheduled repayments plus capital payments for finance leases adjusted for voluntary or mandatory prepayments), in respect of that relevant period.

Interest Cover - represents the ratio of Adjusted EBITDA to Net finance charges.

IOC - Independent Oil Company.

LIBOR - London Interbank Offered Rate.

Net finance charges - represents finance charges for that period less interest income for that period.

Net leverage ratio - represents the ratio of net bank debt to Adjusted EBITDA.

NOC - National Oil Company.

OSW – Off Shore Wind

Proforma EBITDA - represents EBITDA for covenant testing purposes being EBITDA (see definition above) for the trailing twelve months plus EBITDA contribution from new contracts, of at least six months in duration that commence during a covenant testing period, with the EBITDA contribution from these contracts annualised (unless contract duration is less than 12 months when total contract EBITDA contribution is applied).

Security Cover (loan to value) - the ratio (expressed as a percentage) of Total Net Debt at that time to the Market Value of the Secured Vessels.

Stacked - a vessel taken out of service to reduce operating costs when uncontracted.

Total Recordable Injury Rate (TRIR) - calculated on the injury rate per 200,000 man hours and includes all our onshore and offshore personnel and subcontracted personnel. Offshore personnel are monitored over a 24-hour period.

Utilisation - the percentage of available days in a relevant period during which an SESV is under contract and in respect of which a customer is paying a day rate for the charter of the SESV.

Cautionary Statement

This announcement includes statements that are forward-looking in nature. All statements other than statements of historical fact are capable of interpretation as forward-looking statements. These statements may generally, but not always, be identified by the use of words such as 'will', 'should', 'could', 'estimate', 'goals', 'outlook', 'probably', 'project', 'risks', 'schedule', 'seek', 'target', 'expects', 'is expected to', 'aims', 'may', 'objective', 'is likely to', 'intends', 'believes', 'anticipates', 'plans', 'we see' or similar expressions. By their nature these forward-looking statements involve numerous assumptions, risks and uncertainties, both general and specific, as they relate to events and depend on circumstances that might occur in the future.

Accordingly, the actual results, operations, performance or achievements of the Company and its subsidiaries may be materially different from any future results, operations, performance or achievements expressed or implied by such forward-looking statements, due to known and unknown risks, uncertainties and other factors. Neither Gulf Marine Services PLC nor any of its subsidiaries undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. No part of this announcement constitutes, or shall be taken to constitute, an invitation or inducement to invest the Company or any other entity, and must not be relied upon in any way in connection with any investment decision. All written and oral forward-looking statements attributable to the Company or to persons acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements referred to above.