30 September 2019

Gulf Marine Services PLC

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

Interim results for the six months ended 30 June 2019

BUILDING GMS FOR THE FUTURE

Gulf Marine Services (LSE: GMS), a leading provider of advanced self-propelled self-elevating support vessels (SESVs) serving the offshore oil, gas and renewable energy sectors, today announces its interim results for the six months ended 30 June 2019.

Executive Chairman Tim Summers said:
“Since April, GMS has made considerable progress overhauling governance and leadership, reducing costs and stabilising our financial position, and we continue to deliver safe and reliable services for our customers. Markets have remained challenging overall in 2019 and we are addressing this through our previously announced comprehensive repositioning plan.

“The entire Board has been replaced over the last 12 months, following shareholder feedback. Subsequent to the announcement of the CEO’s departure in August, a search process is ongoing for a permanent replacement.

“The Group is on track to meet its forward guidance. On costs, the target of US$ 6.0 million in annualised cost savings will be exceeded by year end, with an improved target set at US$ 8.5 million of annualised savings, underpinning 2020 delivery. We are also pursuing other opportunities to further improve operating efficiency.

“On 29 September 2019 we received a waiver of our anticipated covenant breaches with reference to our 30 June 2019 financial results, obtained a rollover of the committed portion of our working capital facility and secured access to performance bonding facilities that will underpin the Group’s liquidity and support the growth of its business, in each case until 31 December 2019.

The Group is continuing its constructive dialogue with its lenders on a long-term solution to its capital structure, which will require binding agreements to be in place by the end of 2019 for an amendment and extension to its existing facilities, comprising the term loan, the working capital facility and the performance bond facility (the “banking facilities”). This will seek to address the Group’s future loan repayment profile, as well as its continued access to working capital and performance bonds, and its financial covenant tests going forward.

"While the current financial conditions facing the Group are challenging, our business is stable and demand in the Middle East, our principal market, is strengthening, as evidenced by a much stronger forward order book than twelve months ago. We fully expect to achieve a successful outcome to our negotiations with our banking syndicate, and are committed to improving the Group's financial performance over the coming years."

Financial Overview

US$ million	H1 2019	H1 2018
Revenue	**55.0**	**56.1**
Adjusted gross profit*	**14.1**	**21.3**
Adjusted EBITDA*	**22.3**	**25.4**
Loss for the period after tax	**(16.9)**	**(4.4)**
Adjusted loss for the period*	**(12.3)**	**(4.4)**
Basic and diluted loss per share (US cents)	**(4.88)**	**(1.42)**
Adjusted basic and diluted loss per share (US cents)*	**(3.58)**	**(1.42)**

*Alternative performance measure. Refer to Glossary for further detail and definitions.

Financial Highlights

- Revenue remained broadly flat at US$ 55.0 million (H1 2018: US$ 56.1 million).
- Adjusted EBITDA fell to US$ 22.3 million with an adjusted EBITDA margin of 41% (H1 2018: 45%), mainly arising from pressure on vessel day rates. Average rates were US$ 30k (H1 2018: US$ 36k).
- General and administrative expenses excluding depreciation and amortisation fell to US$ 7.5 million (H1 2018: US$ 8.4 million), reflecting the Group's ongoing cost-saving programme. The Group will exceed the targeted US$ 6.0 million in annualised cost savings by the end of 2019, with an improved target set at US$ 8.5 million.
- Loss after tax was US$ 16.9 million (H1 2018: US$ 4.4 million) reflecting both a decrease in adjusted EBITDA margin and higher depreciation. The loss also includes a non-cash impairment charge of US$ 4.6 million on non-core assets and equipment.
- As announced on 21 August 2019, the Group's full year 2019 adjusted EBITDA forecast was reset from US$ 58.0 million to a range US$ 45.0 million – US$ 48.0 million.
- Subsequent to the period end, the Group received a waiver of its anticipated breaches on covenants attached to the term loan and working capital facilities, with reference to its 30 June 2019 financial results as well as confirmation of continued access to the US$ 25.0 million committed portion of its working capital facility and access to US$ 10.0 million of performance bonding facilities that will underpin the Group's liquidity and support the growth of its business, in

each case until the end of the year. As noted above, the Group is now required to secure a long-term solution to its capital structure by entering into binding agreements to amend and extend its banking facilities before the end of 2019. While the Directors are confident about the Group's ability to meet this deadline, if it does not and the Group cannot obtain a further extension to complete these negotiations, a payment default under its working capital facility will be triggered as at 31 December 2019 and access to the Group's performance bond facility will immediately cease. Notwithstanding the material uncertainty with regard to the negotiations, the Directors continue to believe that a satisfactory outcome to the restructuring of its banking facilities is likely and, accordingly, have adopted the going concern basis of accounting in preparing the Group's interim results.

Operational

- Continued strong safety performance with zero lost time injuries incurred.
- H1 2019 utilisation increased based on calendar days[1] for the SESV fleet to 69% (H1 2018: 62%).
- Seven new contract awards in the year to date with a combined charter period of c. six and a half years (including options). Six of our 13 vessels are already fully contracted for 2020. At this point 12 months ago only 15% of utilisation was secured on firm contracts.
- Activity in the Middle East continues to strengthen with significant clients in our core markets (including ADNOC and Aramco) actively tendering.
- Investment in E&P offshore activities 2019-23 in the Middle East is expected to increase demand for GMS SESVs.
- Secured backlog[2] is US$ 210.5 million as at 29 September 2019, up US$ 89.4 million since September 2018 (27 May 2019 backlog: US$ 218.8 million).

Outlook

While the immediate future remains challenging, we are confident that demand for vessels in our largest market, the Middle East, is strengthening. Charters for almost half of our fleet are already fully secured for 2020, which is a significantly stronger position than 12 months ago. In addition, the Group will participate actively in the recent number of long-term tender opportunities with NOCs in the region, the majority of which are expected to be awarded in Q4 2019, and into next year. The increasing levels of tender activity are expected to tighten the supply/demand balance in the region.

In the near term, the market in NW Europe, where three of our E-Class vessels are currently located, remains subdued. We anticipate fewer opportunities in the renewables sector for the remainder of 2019 and 2020, partly driven by seasonality but also based on the technical requirements of current wind farm installation phases.

In the North Sea, oil & gas sector opportunities for the fleet have been limited, as a number of new independent exploration and production companies have entered the market and are evolving their development programmes. While opportunities may be constrained through 2019 and 2020, we would expect offshore service activity to increase in 2021 as these plans are executed.

Our focus this year in reducing costs will increasingly be evident in 2020, as the annualised savings flow fully into our income statement. We expect to deliver further savings through continued focus on driving efficiencies throughout the organisation.

We are working closely with our banking syndicate to negotiate an amendment and extension to our existing banking facilities by the end of 2019 to ensure the Group is financially secure. We are confident that all parties to the negotiations are committed to working constructively together to ensure that this is achieved. In the meantime, the business is expected to continue to generate a strong operating cash flow. GMS intends to optimise opportunities for its young fleet, which has an expected operational lifespan of more than 25 years, and to ensure the Group and its shareholders benefit from the measures it is taking to improve both its business and operations.

– Ends –

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

[2]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: *http://www.gmsuae.com/investor-relations/results-and-presentations/*

Analyst presentation:

A presentation to analysts will be given via a conference call today, 30 September 2019, at 12:30 BST. For dial-in details, analysts should please contact Leanne Liddiard at Brunswick: lliddiard@brunswickgroup.com

The replay of the presentation to analysts will be available on demand later today at: *http://www.gmsuae.com/investor-relations/results-and-presentations*

This announcement contains inside information and is provided in accordance with the requirements of Article 17 of the EU Market Abuse Regulation.

Steve Kersley
Chief Financial Officer (responsible for arranging the release of this announcement)
Gulf Marine Services PLC
30 September 2019

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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 a world 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, North America, the Gulf of Mexico 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's 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 – K-Class (Small), S-Class (Mid) and E-Class (Large) – 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.

Gulf Marine Services PLC's Legal Entity Identifier is 213800IGS2QE89SAJF77
www.gmsuae.com

Disclaimer
The content of the Gulf Marine Services PLC website should not be considered to form a part of or be incorporated into this announcement.

Executive Chairman's Review

Following engagement with our major shareholders, there has been a fundamental overhaul of the GMS Board and leadership posts, with five new Board appointments in the first half of 2019. Over the past 12 months the entire Board has been replaced.

The SESV market remains challenging in 2019 and we have taken measures to address this through implementation of a comprehensive repositioning plan. We have made significant progress towards our objectives of governance, leadership and cost improvement.

Negotiations are continuing with our banking syndicate, which has been both supportive and constructive in its approach. We are confident of achieving a long-term solution by 31 December 2019 that will deliver a stable borrowing base for the future.

As at 30 June 2019, the Group had delivered US$ 1.7 million of savings. Our target of US$ 6.0 million in annualised cost savings will be exceeded by year end, with an improved target set at US$ 8.5 million of annualised savings reflecting the implementation of further efficiencies across the business.

Operational Review

The Group continues to deliver safe and reliable operations with another strong HSE performance in H1 2019. The total number of hours worked was 2.0 million (H1 2018: 2.0 million hours). The total recordable injury rate was 0.1 (H1 2018: zero) with zero lost time injuries incurred (H1 2018: zero). There were no unintentional environmental emission releases in the period.

Middle East

Demand in the region is continuing to improve with increased fleet utilisation at 72% (H1 2018: 61%). A total of seven new contracts have been awarded in the year to date, with five of these in the Middle East.

Tender activity, particularly for long-term work, is strengthening with a pipeline of opportunities from the NOCs in Saudi Arabia, the UAE and Qatar. The award of these contracts should see a tightening of supply in the region.

North West Europe

Three E-Class vessels are located in NW Europe where the market has been disappointing, with utilisation levels for these vessels lower for the six-month period to 30 June 2019 at 58% (H1 2018: 69%). Market conditions in NW Europe have been challenging through H1 2019 and this is expected to continue in H2 2019. In the renewables sector, there have been fewer tender opportunities and an excess of vessel supply. In the longer term, the renewables market for SESVs is expected to grow substantially with new installation, maintenance and servicing requirements for the installed capacity. Oil & gas activity

in the North Sea has also dipped, reflecting the changes in asset ownership of our customers within the sector. Several new players have acquired significant operations and are currently reassessing their field development plans and tender activity has been affected by this process.

Backlog

Notwithstanding the above, the overall backlog position has improved. The secured backlog is US$ 210.5 million, comprising US$ 136.1 million firm and US$ 74.4 million options as at 29 September 2019, slightly down from our last backlog announcement of US$ 218.8 million on 27 May 2019, but up by US$ 89.4 million from September 2018.

The order book for the coming financial year shows improvement, with almost half of the Group's fleet already secured on firm contracts fully for the year, which is a significantly stronger position than at the same point 12 months ago.

I would like to thank the GMS workforce for their resilience during this time of transformational change across the Group. Both our onshore and offshore personnel are to be commended for their dedication to delivering our services to clients efficiently, reliably and safely. GMS's underlying business remains sound and the new Board recognises the importance of building a track record of delivery for our shareholders. This will be our priority as we re-set the business.

Tim Summers

Executive Chairman

29 September 2019

Financial Review

US$ million	**H1 2019**	H1 2018
Revenue	**55.0**	56.1
Adjusted gross profit*	**14.1**	21.3
Adjusted EBITDA*	**22.3**	25.4
Loss for the period after tax	**(16.9)**	(4.4)
Adjusted loss for the period after tax*	**(12.3)**	(4.4)
Basic and diluted loss per share (US cents)	**(4.88)**	(1.42)
Adjusted basic and diluted loss per share (US cents)*	**(3.58)**	(1.42)

*Alternative performance measure. Refer to Glossary for further detail and definitions

Introduction

Market conditions continued to be challenging during the six-month period to 30 June 2019. Revenue remained flat at US$ 55.0 million (H1 2018: US$ 56.1 million), with increased utilisation rates at 69% based on calendar days (H1 2018: 62%) being offset by continued pressure on vessel day rates. While offset by better utilisation, lower day rates reduced margins and adjusted EBITDA which fell in the period to US$ 22.3 million (H1 2018: US$ 25.4 million).

General and administrative expenses excluding depreciation and amortisation decreased by 11% to US$ 7.5 million (H1 2018: US$ 8.4 million), reflecting cost savings achieved.

The cost savings programme achieved total savings of US$ 1.7 million through to 30 June 2019. We are on track to exceed the targeted annualised savings of US$ 6.0 million by the end of 2019, with a total of US$ 8.5 million expected to be achieved.

The loss for the period after tax was US$ 16.9 million (H1 2018: US$ 4.4 million), reflecting the reduction in margins mentioned above, as well as a non-cash impairment charge of US$ 4.6 million on non-core assets, being the vessel Naashi and a cantilever. The average age of our core fleet of 13 vessels is around eight years; this excludes the 37-year-old Naashi. At the end of 2018, we had planned to dispose of Naashi as the oldest vessel in our asset base. In the first half of this year, previously expressed interest in her reduced sufficiently such that we now believe the most likely commercial option is to proceed with our plan to scrap the vessel. The cantilever for our S-Class vessels was previously included in capital work-in-progress, however, after a review of future options and market appetite, disposal of this is now the most likely outcome.

Depreciation and amortisation increased to US$ 16.8 million (H1 2018: US$ 13.1 million) and finance expenses increased to US$ 16.4 million (H1 2018: US$ 15.0 million). Depreciation and amortisation increased by 28.2%, primarily as a result of an E-Class commencing depreciation in May 2018, after being modified and delivered to the client ready for use, as well as an accounting adjustment of US$ 0.6 million as part of the implementation of IFRS 16 Leases, which became effective 1 January 2019. Finance expenses increased by US$ 1.4 million as a result of slightly higher borrowing rates due to increases in LIBOR.

The adjusted diluted loss per share was 3.58 cents (H1 2018: 1.42 cents). Diluted loss per share was 4.88 cents (H1 2018: 1.42 cents). As announced on 21 August 2019, adjusted EBITDA will be lower than in 2018, in an expected range of US$ 45.0 million - US$ 48.0 million.

Total capital expenditure for H1 2019 reduced to US$ 4.2 million (H1 2018: US$ 14.4 million) as the business focuses on essential capital expenditure only. Total net borrowings were US$ 403.4 million at 30 June 2019 (31 December 2018: US$ 400.5 million).

Subsequent to the period end, the Group received a waiver for covenants attached to the term loan and working capital facilities for the 30 June 2019 testing date and secured continued access to US$ 25.0 million of its US$ 50.0 million working capital, as well as US$ 10.0 million of performance bonding facilities that will underpin the Group's liquidity and support the growth of its business, in each case until the end of the year. The Group, together with its advisors, is continuing to negotiate a long-term solution to its capital structure, by way of an amendment and extension to its banking facilities. This will seek to address the Group's future loan repayment profile, as well as provide continued access to working capital and performance bonds, and reset its financial covenant tests going forward. The Directors continue to believe that a satisfactory outcome to the restructuring of its banking facilities by 31 December 2019 is likely and, accordingly, have adopted the going concern basis. Given the risk that such negotiations with the banking group may not be successful, a material uncertainty regarding the ability to continue as a going concern has been disclosed in note 2 of the condensed consolidated financial statements.

The following sections discuss the Group's results. The results have been adjusted in certain places to reflect what the Directors consider a more useful indicator of underlying performance. The adjusting items are discussed below in this review and a reconciliation between the adjusted and statutory results is contained in note 4 of the condensed consolidated financial statements.

Revenue and segmental profit

Revenue in H1 2019 was US$ 55.0 million (H1 2018: US$ 56.1 million). There was an improvement in SESV fleet utilisation to 69% based on calendar days (H1 2018: 62%). Utilisation for the S-Class vessel segment was particularly high, increasing to 96% (H1 2018: 74%).

Vessel day rates remained under pressure during the period to 30 June 2019, with the average decreasing to US$ 30k (H1 2018: US$ 36k). The average day rate for E-Class vessels decreased to US$ 43k (H1 2018: US$ 49k), for S-Class vessels to US$ 34k (H1 2018: US$ 42k) and for K-Class vessels to US$ 21k (H1 2018: US$ 24k). We continue to focus on balancing exposure to long-term contracts and operating margins.

During the six-month period to 30 June 2019, 72% of total Group revenue was derived from customers located in the Middle East (H1 2018: 72%) mainly from NOC clients in the oil & gas sector, while the remaining 28% of revenue was earned from customers in Europe (H1 2018: 28%).

The table below shows the contribution to revenue and segment adjusted gross profit or loss (being gross profit excluding depreciation, amortisation and impairment charge) made by each vessel class during the period. E-Class vessels continue to be the largest contributor to overall revenue. S-Class vessels were the largest contributor to segment adjusted gross profit, compared to E-Class vessels in H1 2018, following higher utilisation levels mentioned above.

(US$'000) Vessel Class	Revenue		Segmented adjusted gross profit/(loss)*	
	H1 2019	H1 2018	H1 2019	H1 2018
E-Class vessels	18,951	20,474	8,313	12,309
S-Class vessels	18,201	19,083	11,667	12,195
K-Class vessels	17,815	16,528	9,790	9,356
Sundry rental income	2	-	(26)	(71)
Total	54,969	56,085	29,744	33,789

**See Glossary.*

Cost of sales and general and administrative expenses

The Group's target of US$ 6.0 million in annualised cost savings will be exceeded by year end, with an improved target set at US$ 8.5 million of annualised savings, as cost management continues to be a core focus for the business. This has primarily been achieved through headcount reductions, renegotiations on contracts with some of our largest suppliers and by reducing our property costs. Cost of sales excluding depreciation and amortisation was 13% higher at US$ 25.2 million (H1 2018: US$ 22.3 million).

This reflects the impact on variable costs of higher vessel activity levels. Average on hire daily vessel operating expenses across all vessel classes was flat at US$ 9k for K-Class, US$ 12k for S-Class and US$ 15k for E-Class.

Depreciation and amortisation included in cost of sales increased to US$ 15.7 million (H1 2018: US$ 12.5 million), primarily as a result of an E-Class commencing depreciation in May 2018 after being modified and delivered to the client.

General and administrative costs were 5% lower in the period at US$ 8.6 million (H1 2018: US$ 9.1 million). General and administrative expenses excluding depreciation and amortisation were 11% lower at US$ 7.5 million (H1 2018: US$ 8.4 million), reflecting implementation of the cost saving initiatives announced. As at 30 June 2019, the Group had delivered US$ 1.7 million of savings. Our target of US$ 6.0 million in annualised cost savings will be exceeded by year end, with an improved target set at US$ 8.5 million of annualised savings as the full benefit of headcount reductions and further new initiatives will have crystallised.

The Group has recognised right-of-use-assets for property leases previously expensed as a result of IFRS 16, a new Standard which became effective 1 January 2019, resulting in US$ 0.6 million of amortisation in the period.

During the period, the Group reviewed the book value of the fleet and associated capital equipment. An impairment was identified on Naashi of US$ 1.8 million, the Group's oldest SESV that is not part of the core fleet and which has been out of work since 2016. At the end of 2018 we had planned to dispose of this vessel. In the first half of this year previously expressed interest in her has reduced sufficiently such that we now believe the most likely commercial option is scrap. As at year end, there was an amount of US$ 3.0 million classified as capital work in progress relating to the costs incurred as at that date relating to the construction of an S-Class cantilever. After a review of options as of the period end for the cantilever and taking into consideration a lack of market appetite, the carrying value has been transferred into equipment and written down by US$ 2.8 million to its estimated scrap value.

EBITDA and Adjusted EBITDA

EBITDA for the period was US$ 17.7 million (H1 2018: US$ 25.4 million). Adjusted EBITDA for the period to 30 June 2019 was US$ 22.3 million (H1 2018: US$ 25.4 million). The reduction compared to H1 2018 primarily arises from the impact on margins of lower rates. The Group's adjusted EBITDA margin in the period reduced to 41% (H1 2018: 45%). The Board has recently conducted a detailed review of the Group's financial performance and forecast activity levels. This review established that full year 2019 adjusted EBITDA will be lower than previous guidance, in an expected range of US$ 45.0 million - US$

48.0 million. This has mainly been driven by a reduction in activity levels in NW Europe (mentioned above).

Finance costs

Finance costs in the period to 30 June 2019 were US$ 16.4 million (H1 2018: US$ 15.0 million), reflecting higher rates and also additional interest as a result of increased borrowings. The average borrowing rate in the period was 7.7% compared to 6.7% in H1 2018. The cost of borrowings from banks is based on US$ LIBOR (which increased from the same period in 2018) plus a variable rate margin on our term loan linked to net leverage levels.

Foreign exchange losses

In H1 2019, there was a net foreign exchange loss of US$ 0.5 million (H1 2018: gain of US$ 0.3 million) arising from movements in exchange rates of the Pound Sterling and Euro against the US Dollar, the Group's presentational currency. Both the Pound Sterling and Euro weakened against the US dollar following continued uncertainty surrounding Brexit.

Taxation

The taxation expense decreased to US$ 1.0 million (H1 2018: US$ 1.9 million), reflecting a reduction in withholding tax and corporation tax, as a result of a decrease in Group revenue earned in taxable jurisdictions.

Earnings

The Group incurred a loss after tax of US$ 16.9 million (H1 2018: US$ 4.4 million), including the non-cash impairment charge of US$ 4.6 million described above. Adjusted net loss after tax increased in H1 2019 to US$ 12.3 million from US$ 4.4 million in H1 2018. Diluted loss per share was 4.88 cents (H1 2018: 1.42 cents). The adjusted diluted loss per share was 3.58 cents (H1 2018: diluted loss per share of 1.42 cents).

Dividends

The Board has elected to continue the suspension of dividend payments while we focus on addressing our capital structure.

Capital expenditure

Capital expenditure during the first half of the year reduced to US$ 4.2 million (H1 2018: US$ 14.4 million) primarily relating to ongoing fleet maintenance. Capital expenditure for the remainder of 2019 is expected to be less than US$ 3.0 million.

Cash flow and liquidity

The Group's net cash flow from operating activities was a net inflow of US$ 18.9 million (H1 2018: net outflow of US$ 8.2 million) primarily resulting from lower working capital. In the prior period, working capital was required to support vessel modifications not repeated in the current period.

The net cash outflow from investing activities for H1 2019 reduced to US$ 6.0 million (H1 2018: US$ 11.9 million) as a result of lower levels of capital expenditure discussed above. The Group's net cash flow from financing activities during the period was an outflow of US$ 21.1 million (H1 2018: US$ 8.4 million) relating to debt repayment and interest payments offset by the US$ 5.0 million working capital facility drawdown.

On 29 September 2019, the Group received a waiver to the covenants attached to the term loan and working capital facilities for the 30 June 2019 testing date and secured continued access to US$ 25.0 million of its US$ 50.0 million working capital, as well as US$ 10.0 million of performance bonding facilities that will underpin the Group's liquidity and support the growth of its business, in each case until the end of the year. Under the terms of the Waiver Agreement signed, the Group is required to deliver an agreed amendment and extension to the existing banking facilities with its lenders by 31 December 2019, or the business will fall into payment default on the US$ 25.0 million working capital facility that has already been drawn and will immediately lose access to its lines of credit to provide performance bonds to secure new business. Through careful management of our liquidity during persistent challenging market conditions, we expect to be able to make our interest and principal repayments on our banking facilities through the end of 2019, after which time an amended and extended repayment schedule will be required. Absent a successful resolution to negotiations to amend and extend the existing banking facilities, the Group expects to be in breach of its financial covenants attached to the term loan and working capital facilities as at the 31 December 2019 and 30 June 2020 testing dates.

Balance sheet

Total current assets at 30 June 2019 were US$ 43.4 million (31 December 2018: US$ 52.5 million). Cash and cash equivalents decreased to US$ 2.9 million (31 December 2018: US$ 11.0 million). Trade and other receivables remain flat at US$ 40.0 million (31 December 2018: US$ 40.9 million), broadly in line with revenue. Trade receivables are due from customers which are mainly NOC, IOC and international EPC companies, with no balances being due for more than 120 days as at 30 June 2019. Since the 30 June 2019 reporting date, US$ 23.2 million of trade receivables have been collected.

Total current liabilities decreased to US$ 432.1 million at 30 June 2019 (31 December 2018: US$ 436.6 million), primarily as a result of borrowings decreasing by US$ 5.2 million from a US$ 10.3 million principal repayment offset by the US$ 5.0 million which was drawn down under the working capital facility in April 2019.

Total non-current assets at 30 June 2019 were US$ 790.7 million (31 December 2018: US$ 802.9 million). This decrease is primarily attributable to the decrease in the net book value of property, plant and equipment arising from depreciation during the period of US$ 15.2 million offset by capital expenditure amounting to US$ 4.2 million discussed above. In addition, impairments have been recognised on Naashi and a cantilever totalling US$ 4.6 million. At 30 June 2019, the Group had a right-to-use asset of US$ 2.0 million as a result of the adoption of IFRS 16 described above. Total non-current liabilities increased to US$ 3.2 million (31 December 2018: US$ 2.7 million) mainly from the recognition of a long-term lease liability of US$ 0.9 million, also as a result of the adoption of IFRS 16.

Net debt

Total net borrowings as at 30 June 2019 were US$ 403.4 million (31 December 2018: US$ 400.5 million), mainly attributable to a decrease in cash and cash equivalents to US$ 2.9 million (31 December 2018: US$ 11.0 million) which was offset by a decrease in bank borrowings to US$ 406.4 million (31 December 2018: US$ 411.5 million), both described above.

Assuming GMS is unable to successfully amend and extend the terms of its banking facilities by the end of 2019, it does not expect to meet interest cover and leverage financial covenants under its term loan and working capital facilities with reference to the 31 December 2019 and 30 June 2020 testing dates which would trigger an event of default with all banking facilities becoming immediately repayable upon request. Subsequent to the half year reporting date, a waiver was received for the financial covenants attached to the term loan for the 30 June 2019 testing date. As a breach was expected with reference to the 30 June 2019 testing date, all bank debt continues to be classified as a current liability. See note 11 of the condensed consolidated financial statements for details of the Group's facilities.

Equity

Total equity decreased from US$ 416.1 million at 31 December 2018 to US$ 398.8 million at 30 June 2019. The movement is mainly attributed to the loss incurred during the period.

The number of ordinary shares issued in the Company increased to 350,487,787 following the issue of 519,909 shares on 2 April 2019 awarded under the Company's 2016 Long-Term Incentive Plan (LTIP). No LTIP awards have been granted during the period.

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 interim results. The Group has committed credit facilities in place at 30 June 2019 (see note 11 of the condensed consolidated financial statements), comprising an existing

term loan facility with a balance of US$ 381.4 million and a working capital facility of US$ 50.0 million, of which US$ 25.0 million has been drawn.

Following active negotiations with its bank syndicate, subsequent to the period end the Group received a waiver. This waiver agreement is for anticipated breaches on covenants attached to its existing term loan and working capital facilities with reference to its 30 June 2019 financial results, as well as continued access to the US$ 25.0 million committed portion of its working capital facility and access to US$ 10.0 million of performance bonding facilities that will underpin the Group's liquidity and support the growth of its business, in each case until the end of the year. As noted above, the Group is now required to secure a long-term solution to its capital structure by entering into binding agreements to amend and extend its banking facilities before the end of 2019.

If it is unable to do so and cannot obtain a further extension to complete its negotiations, a payment default under its working capital facility will be triggered as at 31 December 2019 and the Group will also immediately lose access to its current performance bond facilities. In addition, with regard to its financial covenants, absent a successful resolution to negotiations to amend and extend the existing banking facilities, the Group expects to be in breach of its financial covenants as at the 31 December 2019 and 30 June 2020 testing dates.

Subject to the agreement of a majority of banks representing at least 66.67% of total commitments, a payment default could result in the banks exercising their rights to recall all credit facilities, demand immediate repayment and/or enforce their rights over the security granted by the Group as part of this facility either by enforcing security over assets and/or exercising the share pledge to take control of the Group.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on discussions to date, the Directors are confident in the willingness of the lending group to support a long-term solution to the Group's current banking facilities, which will address its access to working capital and performance bonds, reset its covenant levels and repayment profile going forward. Notwithstanding the material uncertainty with regard to the outcome of these negotiations, the Directors continue to believe that a satisfactory outcome to the restructuring of its banking facilities is likely by 31 December 2019 and, accordingly, have adopted the going concern basis of accounting in preparing the interim condensed consolidated financial statements.

Related party transactions

There have been no related party transactions during the period.

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. In H1 2019 the adjusting items are a non-cash impairment charge on non-core property, plant and equipment of US$ 4.6 million (H1 2018: nil adjustments).

A reconciliation between the adjusted non-GAAP and statutory results is provided in note 4.

Risks and uncertainties

There are a number of risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of 2019. Other than the financial risks, which have been updated to reflect the need to successfully complete current bank negotiations, the Directors do not consider that the principal risks and uncertainties have materially changed since the last publication of the Annual Report for the year ended 31 December 2018. A detailed explanation of the risks summarised below, and how the Group seeks to mitigate the risks, can be found on pages 19 to 22 of the 2018 annual report which is available at www.gmsuae.com.

- Financial – Failure to enter into binding agreements that amend and extend the terms of the banking facilities with lenders by 31 December 2019 will lead to default on those facilities and failure to meet covenant tests as at that date. This will trigger a further payment default after cure periods in the loan agreement are exhausted. Subject to the majority of banks representing at least 66.67% of total commitments agreeing, a default could result in the lenders exercising their rights to recall all banking facilities, demand immediate repayment and/or enforce their rights over the security granted by the Group as part of the banking facilities either by enforcing security over assets and/or exercising the share pledge to take control of the Group.
- Strategic - The Group is subject to threats from competitor actions or the entrance of new competitors in the market as well as macroeconomic events, including the impact of a sustained period of low oil prices on demand for the Group's services. Market sentiment could reduce the share price and the intrinsic value of the business.
- People - The Group's success depends on its ability to attract and retain suitably qualified and experienced personnel.
- Commercial - The Group relies on a limited number of blue-chip clients that may expose us to losses if these relationships breakdown. The Group may not be able to win contracts or retain existing contracts, tenders may be unusually protracted or contractual option periods may not be exercised. Contract cancelations may lead to commercial downtime between contracts and lower

overall average utilisation. Discounted pricing in the industry could reduce charter day rates, impacting margins and utilisation.

- Compliance and Regulation - The Group has to appropriately identify and comply with laws and regulations and other regulatory statutes.
- Health, Safety, Security, Environment and Quality - The Group's operations have an inherent safety risk due to our offshore operations.
- Brexit - Continuing uncertainty surrounding the UK's exit from the European Union and future legislation in the UK could impact the Group's UK operations.
- Operational - The Group's assets should operate in the manner intended by management. Changes in political landscapes could adversely affect operations. There may be cybersecurity incidents which could impact operations or lead to a financial or reputational loss.

RESPONSIBILITY STATEMENT

Financial information for the period ended 30 June 2019.

We confirm that to the best of our knowledge:

(a) the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting;

(b) the interim management report includes a fair view of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair view of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Tim Summers	**Stephen Kersley**
Executive Chairman	Chief Financial Officer
29 September 2019	29 September 2019

INDEPENDENT REVIEW REPORT TO GULF MARINE SERVICES PLC

We have been engaged by Gulf Marine Services plc (the "Company" together with its subsidiaries, the "Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, and condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows and the related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim

financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Material uncertainty related to going concern

We draw attention to the Going concern paragraph in note 2 in the condensed consolidated financial statements, which indicates the anticipated breach of the Group's existing debt covenants as at the 31 December 2019 and the 30 June 2020 testing dates; and the requirement for the Group to have entered into binding agreements with its lenders to amend and extend the Group's existing banking facilities by 31 December 2019 in order to avoid an event of default under the Group's term loan and working capital facilities at that date and to ensure continued liquidity and access to its performance bond facility. As stated in note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte LLP
Statutory Auditor
Aberdeen, United Kingdom
29 September 2019

GULF MARINE SERVICES PLC
Condensed Consolidated Statement of Comprehensive Income
for the period ended 30 June 2019

	Notes	Six months period ended 30 June 2019 US$'000 (Unaudited)	2018 US$'000 (Unaudited)	Year ended 31 December 2018 US$'000 (Audited)
Revenue	3	**54,969**	56,085	123,335
Cost of sales		**(40,903)**	(34,771)	(76,317)
Impairment charge	7	**(4,561)**	-	-
Gross profit		**9,505**	21,314	47,018
General and administrative expenses		**(8,596)**	(9,063)	(18,556)
Operating profit		**909**	12,251	28,462
Finance income		**8**	15	22
Finance expense		**(16,437)**	(15,027)	(31,301)
Gain on disposal of property, plant and equipment		**3**	-	6
Other income/(loss)		**75**	(35)	140
Foreign exchange (loss)/gain, net		**(474)**	259	266
Loss for the period/year before taxation		**(15,916)**	(2,537)	(2,405)
Taxation charge for the period/year	5	**(959)**	(1,867)	(2,698)
Loss for the period/year		**(16,875)**	(4,404)	(5,103)
Other comprehensive income/(loss) – items that may be reclassified to profit or loss:				
Net (loss)/gain on cash flow hedges		**(449)**	-	685
Net change in cost of hedging		**(781)**	-	(923)
Exchange differences on translating foreign operations		**96**	(176)	(615)
Total comprehensive loss for the period/year		**(18,009)**	(4,580)	(5,956)
(Loss)/profit attributable to:				
Owners of the Company		**(17,095)**	(4,973)	(6,126)
Non-controlling interests		**220**	569	1,023
		(16,875)	(4,404)	(5,103)
Total comprehensive (loss)/income attributable to:				
Owners of the Company		**(18,229)**	(5,149)	(6,979)
Non-controlling interests		**220**	569	1,023
		(18,009)	(4,580)	(5,956)
Loss per share				
Basic (cents per share)	6	**(4.88)**	(1.42)	(1.75)
Diluted (cents per share)	6	**(4.88)**	(1.42)	(1.75)

Results in each period/year are derived from continuing operations.

The accompanying notes form an integral part of these condensed consolidated financial statements.

GULF MARINE SERVICES PLC
Condensed Consolidated Balance Sheet
as at 30 June 2019

	Notes	30 June 2019 US$'000	31 December 2018 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**783,043**	798,595
Right-of-use assets	2	**2,032**	-
Dry docking expenditure		**3,417**	2,401
Deferred tax asset		**2,162**	1,866
Total non-current assets		**790,654**	802,862
Current assets			
Trade and other receivables	8	**40,032**	40,919
Cash and cash equivalents		**2,924**	11,046
Derivative financial instruments		**439**	543
Total current assets		**43,395**	52,508
Total assets		**834,049**	855,370
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	9	**58,057**	57,992
Share premium account		**93,080**	93,080
Restricted reserve		**272**	272
Group restructuring reserve		**(49,710)**	(49,710)
Share option reserve	10	**4,055**	3,410
Capital contribution		**9,177**	9,177
Cash flow hedge reserve		**236**	685
Cost of hedging reserve		**(1,704)**	(923)
Translation reserve		**(2,488)**	(2,584)
Retained earnings		**286,224**	303,319
Attributable to the Owners of the Company		**397,199**	414,718
Non-controlling interests		**1,566**	1,346
Total equity		**398,765**	416,064
Non-current liabilities			
Lease liabilities	2	**870**	–
Provision for employees' end of service benefits		**2,343**	2,722
Deferred tax liability		**13**	13
Total non-current liabilities		**3,226**	2,735
Current liabilities			
Trade and other payables		**17,431**	18,833
Current tax liability		**4,926**	5,442
Lease liabilities	2	**1,438**	-
Bank borrowings – scheduled repayments within one year	11	**66,306**	20,338
Bank borrowings – scheduled repayments more than one year	11	**340,050**	391,177
Derivative financial instruments		**1,907**	781
Total current liabilities		**432,058**	436,571
Total liabilities		**435,284**	439,306
Total equity and liabilities		**834,049**	855,370

The accompanying notes form an integral part of these condensed consolidated financial statements.

GULF MARINE SERVICES PLC
Condensed Consolidated Statement of Changes in Equity
For the period ended 30 June 2019

	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$'000	Non-con-trolling interests US$'000	Total equity US$'000
As at 1 January 2019	57,992	93,080	272	(49,710)	3,410	9,177	685	(923)	(2,584)	303,319	414,718	1,346	416,064
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(449)	(781)	96	(17,095)	(18,229)	220	(18,009)
Share options rights charge (note 10)	-	-	-	-	710	-	-	-	-	-	710	-	710
Shares issued under LTIP schemes	65	-	-	-	(65)	-	-	-	-	-	-	-	-
As at 30 June 2019	**58,057**	**93,080**	**272**	**(49,710)**	**4,055**	**9,177**	**236**	**(1,704)**	**(2,488)**	**286,224**	**397,199**	**1,566**	**398,765**
As at 1 January 2018	57,957	93,075	272	(49,710)	2,465	9,177	-	-	(1,969)	309,445	420,712	598	421,310
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	-	-	(176)	(4,973)	(5,149)	569	(4,580)
Share options rights charge	-	-	-	-	539	-	-	-	-	-	539	-	539
Shares issued under LTIP schemes	35	5	-	-	(40)	-	-	-	-	-	-	-	-
As at 30 June 2018	**57,992**	**93,080**	**272**	**(49,710)**	**2,964**	**9,177**	**-**	**-**	**(2,145)**	**304,472**	**416,102**	**1,167**	**417,269**

The accompanying notes form an integral part of these condensed consolidated financial statements.

GULF MARINE SERVICES PLC
Condensed Consolidated Statement of Cash Flows
for the period ended 30 June 2019

	Six month period ended 30 June		Year ended 31 December
	2019	2018	2018
	US$'000	US$'000	US$'000
Net cash generated from/(used in) operating activities (note 13)	**18,939**	(8,202)	28,876
Investing activities			
Payments for property, plant and equipment	**(3,954)**	(13,019)	(21,190)
Proceeds from insurance claim	**-**	1,710	–
Proceeds from disposal of property, plant and equipment	**3**	-	80
Dry docking expenditure incurred	**(2,013)**	(616)	(1,890)
Interest received	**8**	15	22
Net cash used in investing activities	**(5,956)**	(11,910)	(22,978)
Financing activities			
Bank borrowings received	**5,000**	20,000	20,000
Repayment of bank borrowings	**(10,327)**	(11,720)	(20,653)
Payment of issue costs on borrowings	**(92)**	(416)	(796)
Interest paid	**(15,607)**	(16,304)	(32,357)
Principal elements of lease payments	**(79)**	-	–
Net cash used in financing activities	**(21,105)**	(8,440)	(33,806)
Net decrease in cash and cash equivalents	**(8,122)**	(28,552)	(27,908)
Cash and cash equivalents at the beginning of the period/year	**11,046**	38,954	38,954
Cash and cash equivalents at the end of the period/year	**2,924**	10,402	11,046
Non-cash transactions			
Share issued under LTIP schemes	**65**	40	35

The accompanying notes form an integral part of these condensed consolidated financial statements.

1 Corporate information

Gulf Marine Services PLC ("GMS" or the "Company") is a Company which was registered and was incorporated in England and Wales on 24 January 2014. The Company is a public limited liability company with operations mainly in the Middle East, North Africa and Europe. The address of the registered office of the Company 107 Hammersmith Road, London, W14 0QH. 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 Group is engaged in providing self-propelled, self-elevating support vessels (SESVs) that present a 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, North America, the Gulf of Mexico and Europe.

The condensed consolidated financial statements of the Group for the six month period ended 30 June 2019 were authorised for issue on 29 September 2019. The condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The condensed consolidated financial statements have been reviewed, not audited.

The Company issued statutory financial statements for the year ended 31 December 2018 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Those financial statements were approved by the Board of Directors on 25 March 2019. The report of the auditor on those accounts was unqualified but referred to the Company's disclosures in respect of a material uncertainty relating to going concern. The report of the auditor on those accounts was unqualified and did not contain any statement under section 498(2) or 498(3) of the Companies Act 2006. The information for the year to 31 December 2018 contained in these condensed consolidated accounts have been extracted from the latest published audited financial statements. A copy of the statutory accounts for year ended 31 December 2018 has been delivered to the Registrar of Companies.

2 Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018 as disclosed in the Annual Report, except for the adoption of new standards and interpretations effective as of 1 January 2019.

Basis of preparation

The annual consolidated financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The interim set of condensed consolidated financial statements included in this half-yearly financial report has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union.

The condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2018. In addition, results for the six month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019. The condensed consolidated statement of comprehensive income for the six month period ended 30 June 2019 is not affected significantly by seasonality of results.

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 interim results. The Group has committed credit facilities in place at 30 June 2019 (see note 11), comprising an existing term loan facility with a balance of US$ 381.4 million and a working capital facility of US$ 50.0 million, of which US$ 25.0 million has been drawn.

Following active negotiations with its bank syndicate, subsequent to the period end the Group received a waiver. This waiver is for anticipated breaches on covenants attached to its existing term loan and working capital facilities with reference to its 30 June 2019 financial results, as well as continued access to the US$ 25.0 million committed portion of its working capital facility and access to US$ 10.0 million of performance bonding facilities that will underpin the Group's liquidity and support the growth of its business, in each case until the end of the year. As noted above, the Group is now required to secure a long-term solution to its capital structure by entering into binding agreements to amend and extend its banking facilities before the end of 2019.

If it is unable to do so and cannot obtain a further extension to complete its negotiations, a payment default under its working capital facility will be triggered as at 31 December 2019 and the Group will also immediately lose access to its current performance bond facilities. In addition, with regard to its financial covenants, absent a successful resolution to negotiations to amend and extend the existing banking facilities, the Group expects to be in breach of its financial covenants as at the 31 December 2019 and 30 June 2020 testing dates.

Subject to the agreement of a majority of banks representing at least 66.67% of total commitments, a payment default could result in the banks exercising their rights to recall all credit facilities, demand immediate repayment and/or enforce their rights over the security granted by the Group as part of this facility either by enforcing security over assets and/or exercising the share pledge to take control of the Group.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on discussions to date, the Directors are confident in the willingness of the lending group to support a long-term solution to the Group's current banking facilities, which will address its access to working capital and performance bonds, reset its covenant levels and repayment profile going forward. Notwithstanding the material uncertainty with regard to the outcome of these negotiations, the Directors continue to believe that a satisfactory outcome to the restructuring of its banking facilities is likely by 31 December 2019 and, accordingly, have adopted the going concern basis of accounting in preparing the interim condensed consolidated financial statements.

The following standard became applicable for the current reporting period and the Group had to change its accounting policies as a result.

New and amended standards adopted by the Group

IFRS 16 *Leases*

IFRS 16 *Leases*, introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The Group has adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application as at 1 January 2019, as permitted by transitional provisions of the standard, and has not restated comparatives for the annual period ended on 31 December 2018. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Lessee accounting

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Furthermore, the classification of cash flows has changed as operating lease payments under IAS 17 were presented as operating cash flows; whereas under the IFRS 16 model, lease payments are split into a principal and finance cost which will be presented as financing and operating cash flows respectively. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The Group's weighted average incremental borrowing rate applied to lease liabilities on 1 January 2019 is 7.8%.

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019

	1 January 2019 US$' 000
Operating lease commitments disclosed as at 31 December 2018	1,346
Add: finance lease liabilities recognised as at 31 December 2018	1,095
Less: Discounting using the incremental borrowing rate of at the date of initial application	(134)
Lease liability as at 1 January 2019	**2,307**

Movement in the lease liability during the six month period ended 30 June 2019 was as follows:

	US$' 000
Lease liability as at 1 January 2019	2,307
Finance costs on leases during the period	80
Principal payments made during the period	(79)
Lease liability as at 30 June 2019	**2,308**

The lease liability as at 30 June 2019 is presented in the condensed consolidated financial statements as follows:

	30 June 2019 US$' 000
Current	1,438
Non-current	870
Total lease liability	**2,308**

The associated right-of-use asset for property leases were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognised right-of-use asset relates to office space and land and buildings leased by the Group and is presented separately on the face of the condensed consolidated balance sheet. During the period ended 30 June 2019 US$ 0.1 million has been recognised as finance costs on the lease liability, to the condensed consolidated statement of comprehensive income.

The movement in the right-of-use asset during the six month period ended 30 June 2019 was as follows:

	US$' 000
Right-of-use-assets as at 1 January 2019	2,648
Amortisation on existing right-of-use assets during the period	(278)
Amortisation on new right-of-use assets during the period	(338)
Right-of-use assets as at 30 June 2019	**2,032**

During the period ended 30 June 2019, US$ 0.6 million has been recognised in general and administrative expenses as amortisation of the right-of-use-asset, to the condensed consolidated statement of comprehensive income (refer to *note 4*).

The differences in the lease liability and the right-of-use assets as at 1 January 2019 relate to movements since inception of the leases recognised and the opening balance sheet date as at 1 January 2019.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- the accounting for operating leases with a low value as at 1 January 2019 as low-value leases.

The Group leases various offices and a yard. Rental contracts are typically made for fixed periods of one to five years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the year ended 31 December 2018, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. As at 1 January 2019, the Group used the incremental borrowing rate applicable on its leases.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

In contrast to lessee accounting, lessor accounting requirements remain largely unchanged from IAS 17 and continue to require a lessor to classify a lease as either an operating lease or a finance lease.

The Group's revenue contracts with customers contain a lease element as the Group's clients have the right to 'direct use' of the assets within the parameters of a predetermined contract.

The pattern of income recognition is the same under IFRS 16 as that under IFRS 15 *Revenue from Contracts with Customers*. However, there is a requirement to disclose the leasing component separate to contract revenue. For the period ended 30 June 2019, the Group had lease income of US$ 16.8 million separate to revenue under IFRS 15 *Revenue from Contracts with Customers*.

The application of the other new and revised IFRSs has not had any material impact on the amounts reported for the current and prior periods and did not require any retrospective adjustments but may affect the accounting for future transactions or arrangements. The full revised accounting policies applicable from 1 January 2019 will be provided in the Group's annual financial statements for the year ending 31 December 2019.

There were also a number of new or amended standards which became applicable on 1 January 2019, which did not have any material impact on the Group's accounting policies as follows:

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- IFRS 3 *Business Combinations*
- IAS 12 *Income Taxes*
- IAS 23 *Borrowing Costs*
- Amendments to IAS 19 *Employee Benefits*

3 Segment reporting

The segment information provided to the chief operating decision makers for the operating and reportable segments for the period include the following:

	Revenue			Segment adjusted gross profit/(loss)*		
	6 months ended 30 June		31 December	6 months ended 30 June		31 December
	2019	2018	2018	**2019**	2018	2018
	US$'000	US$'000	US$'000	**US$'000**	US$'000	US$'000
Large Class vessels	**18,951**	20,474	52,077	**8,313**	12,309	31,563
Mid-Size Class vessels	**18,201**	19,083	35,407	**11,667**	12,195	22,960
Small Class vessels	**17,815**	16,528	35,847	**9,790**	9,356	20,836
Other	**2**	-	4	**(26)**	(71)	(58)
Total	**54,969**	56,085	123,335	**29,744**	33,789	75,301
Less:						
Depreciation charged to cost of sales				**(14,681)**	(11,182)	(26,083)
Amortisation charged to cost of sales				**(997)**	(1,293)	(2,200)
Impairment charge				**(4,561)**	-	-
Gross profit				**9,505**	21,314	47,018
General and administrative expenses				**(8,596)**	(9,063)	(18,556)
Finance income				**8**	15	22
Finance expense				**(16,437)**	(15,027)	(31,301)
Gain on disposal of property plant and equipment				**3**	-	6
Other income/(loss)				**75**	(35)	140
Foreign exchange (loss)/gain, net				**(474)**	259	266
Loss before taxation				**(15,916)**	(2,537)	(2,405)

**See Glossary.*

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

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.

4 Presentation of adjusted non-GAAP results

The following table provides a reconciliation between the statutory and non-statutory financial results:

	6 months ended 30 June 2019			6 months ended 30 June 2018		
	Adjusted non-GAAP results US$'000	**Adjusting items US$'000**	**Statutory total US$'000**	Adjusted Non-GAAP results US$'000	Adjusting Items US$'000	Statutory total US$'000
Revenue	**54,969**	**-**	**54,969**	56,085	-	56,085
Cost of sales						
-Operating expenses	**(25,225)**	**-**	**(25,225)**	(22,296)	-	(22,296)
Segmented Gross profit	**29,744**	**-**	**29,744**	33,789	-	33,789
-Depreciation and amortisation	**(15,678)**	**-**	**(15,678)**	(12,475)	-	(12,475)
-Impairment charge*	**-**	**(4,561)**	**(4,561)**	-	-	-
Gross profit	**14,066**	**(4,561)**	**9,505**	21,314	-	21,314
General and administrative						
-Depreciation	**(516)**	**-**	**(516)**	(631)	-	(631)
-Amortisation of right-of-use asset	**(615)**	**-**	**(615)**	-	-	-
-Other administrative costs	**(7,465)**	**-**	**(7,465)**	(8,432)	-	(8,432)
Operating profit	**5,470**	**(4,561)**	**909**	12,251	-	12,251
Finance income	**8**	**-**	**8**	15	-	15
Finance expense	**(16,437)**	**-**	**(16,437)**	(15,027)	-	(15,027)
Gain on disposal of asset	**3**	**-**	**3**	-	-	-
Other income/(loss)	**75**	**-**	**75**	(35)	-	(35)
Foreign exchange (loss)/gain, net	**(474)**	**-**	**(474)**	259	-	259
Loss before taxation	**(11,355)**	**(4,561)**	**(15,916)**	(2,537)	-	(2,537)
Taxation charge	**(959)**	**-**	**(959)**	(1,867)	-	(1,867)
Net loss after taxation	**(12,314)**	**(4,561)**	**(16,875)**	(4,404)	-	(4,404)
(Loss)/profit attributable to						
Owners of the Company	**(12,534)**	**(4,561)**	**(17,095)**	(4,973)	-	(4,973)
Non-controlling interests	**220**	**-**	**220**	569	-	569
Loss per share	**(3.58)**	**(1.30)**	**(4.88)**	(1.42)	-	(1.42)
Supplementary non-statutory information						
Operating profit	**5,470**	**(4,561)**	**909**	12,251	-	12,251
Add: Depreciation and amortisation charges	**16,809**	**-**	**16,809**	13,106	-	13,106
Non-GAAP EBITDA	**22,279**	**(4,561)**	**17,718**	25,357	-	25,357

**The impairment charge on property, plant and equipment has been added back to operating profit to arrive at the adjusted loss for the period.*

5 Taxation

Tax is charged at 6.0% for the six months ended June 2019 (June 2018: 73.6%) representing the best estimate of the average annual effective tax rate expected to apply for the full year, applied to the Group's pre-tax loss of the six month period. The decrease in the effective tax rate is the result of a decrease in Group revenue earned in taxable jurisdictions leading to a reduction in withholding tax and corporation tax and an increase in losses derived from non-taxable jurisdictions.

The withholding tax included in the current tax charge amounted to US$ 1.0 million (six month period ended June 2018: US$ 1.4 million).

6 Loss per share

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
Loss for the purpose of basic and diluted loss per share being loss for the period attributable to Owners of the Company (US$'000)	**(17,095)**	(4,973)	(6,126)
Loss for the purpose of adjusted basic and diluted loss per share (US$'000) (note 4)	**(12,534)**	(4,973)	(6,126)
Weighted average number of shares ('000)	**350,195**	349,821	349,895
Weighted average diluted number of shares ('000)	**350,195**	349,821	349,895
Basic loss per share (cents)	**(4.88)**	(1.42)	(1.75)
Diluted loss per share (cents)	**(4.88)**	(1.42)	(1.75)
Adjusted loss per share (cents)	**(3.58)**	(1.42)	(1.75)
Adjusted diluted loss per share (cents)	**(3.58)**	(1.42)	(1.75)

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

Adjusted loss per share is calculated on the same basis but uses the loss for the purpose of basic earnings per share (shown above) adjusted by adding back impairment charges on property, plant and equipment (US$ 4.6 million) which has been charged to the income statement (see note 7). The adjusted 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 owners of the Company for the period 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. As the Group incurred a loss for the periods ended 30 June 2019 and 30 June 2018 and for the year ended 31 December 2018, the diluted loss per share is the same as loss per share, as the effect of share options is anti-dilutive.

Adjusted diluted earnings per share is calculated on the same basis but uses adjusted loss (note 4) attributable to the equity shareholders of the Company.

The following table shows a reconciliation between basic and diluted average number of shares:

	30 June 2019 000's	30 June 2018 000's	31 December 2018 000's
Weighted average basic number of shares in issue	**350,195**	349,821	349,895
Weighted average diluted number of shares in issue	**350,195**	349,821	349,895

7 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						
Balance as at 1 January 2019	**908,851**	**12,765**	**10,469**	**60,774**	**3,700**	**996,559**
Additions	-	4,206	-	-	-	4,206
Transfers	12,157	(15,442)	19	3,254	12	-
Eliminated on disposal	-	-	-	-	(49)	(49)
Balance as at 30 June 2019	**921,008**	**1,529**	**10,488**	**64,028**	**3,663**	**1,000,716**
Accumulated Depreciation						
Balance at 1 January 2019	**176,274**	**-**	**7,167**	**11,002**	**3,521**	**197,964**
Eliminated on disposal	-	-	-	-	(49)	(49)
Depreciation expense	13,028	-	522	1,571	76	15,197
Impairment charge	1,717	-	-	2,844	-	4,561
Balance as at 30 June 2019	**191,019**	**-**	**7,689**	**15,417**	**3,548**	**217,673**
Net Book Value as at 30 June 2019	**729,989**	**1,529**	**2,799**	**48,611**	**115**	**783,043**

	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						
Balance as at 1 January 2018	**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)
Balance as at 31 December 2018	**908,851**	**12,765**	**10,469**	**60,774**	**3,700**	**996,559**
Accumulated Depreciation						
Balance at 1 January 2018	**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	-	-
Balance as at 31 December 2018	**176,274**	**-**	**7,167**	**11,002**	**3,521**	**197,964**
Net Book Value as at 31 December 2018	**732,577**	**12,765**	**3,302**	**49,772**	**179**	**798,595**

Impairment Assessment

The Group undertook a full impairment review of its fixed assets as at 30 June 2019. As a result, the Group recognised an impairment charge of US$ 1.7 million on a 37-year old non-core vessel, the oldest vessel in the fleet and US$ 2.8 million on other vessel equipment to reduce their carrying amounts to their estimated recoverable (scrap) amounts of US$ 0.3 million and US$ 0.2 million respectively. In the first half of this year previously expressed interest in the vessel has reduced sufficiently and the only viable commercial option for her is scrap. The other vessel equipment was previously included in capital work in progress. After a review of future options and market appetite, disposal is now the most likely outcome. The impairment charge has been expensed in the condensed consolidated statement of comprehensive income through cost of sales.

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, with the exception of the Naashi. 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.

8 Trade and other receivables

	30 June 2019 US$'000	31 December 2018 US$'000
Trade receivables	**31,206**	33,009
Less: Allowance for expected credit losses (ECL)	**(94)**	(94)
Less: Allowance for doubtful receivables	**(316)**	(50)
Trade receivables, net	**30,796**	32,865
Accrued revenue, net	**2,578**	2,924
Prepayments and deposits	**5,360**	4,308
Advances to suppliers	**1,055**	441
VAT receivables	**-**	103
Other receivables	**243**	278
	40,032	40,919

9 Share capital

Share capital as at 30 June 2019 amounted to US$ 58.1 million (31 December 2018: US$ 58.0 million). On 2 April 2019, the Company issued a total of 519,909 shares at par value of 10 pence per share in respect of the Company's 2016 Long-Term Incentive Plan (LTIP).

10 Share option reserve

Share based expenses for the period of US$ 0.7 million (31 December 2018: US$ 1.0 million) relate to awards granted to employees under the Group's LTIP. The charge is included in cost of sales and general and administrative expenses in the condensed consolidated statement of comprehensive income.

11 Bank borrowings

Bank borrowings relate to the bank facility provided by a group of six banks, which comprises of term loans and amounts available under revolving working capital facilities.

Secured borrowings at amortised cost are as follows:

	30 June 2019 US$'000	31 December 2018 US$'000
Term loans	**381,356**	391,515
Working capital facility	**25,000**	20,000
	406,356	411,515

Bank borrowings are presented in the condensed consolidated balance sheet as follows:

	30 June 2019 US$'000	31 December 2018 US$'000
Current		
Bank borrowings – scheduled repayments within one year	**66,306**	20,338
Bank borrowings – scheduled repayments more than one year	**340,050**	391,177
	406,356	411,515

The Group's facility amortises quarterly with final maturity in December 2023.

The Group entered into an interest rate swap (IRS) in June 2018 converting variable interest rate exposure into fixed rate obligations. The Group also entered into a Cross Currency Interest Rate Swap (CCIRS) in July 2018 to hedge the volatility of variable interest rates and exchange rates (see note 16).

The Group has undrawn loan facilities at the period/year end as shown below:

	30 June 2019 US$'000	31 December 2018 US$'000
Working capital facility	50,000	50,000
Less: Drawdown	(25,000)	(20,000)
Undrawn uncommitted/committed loan facility	**25,000***	30,000

**The undrawn loan facility as at 30 June 2019 has been restricted and is therefore uncommitted while negotiations on the wider capital structure of the Group are ongoing. Refer to note 2 for more details.*

Net debt as at the end of the period/year was as follows:

	30 June 2019 US$'000	31 December 2018 US$'000
Bank borrowings	**406,356**	411,515
Less: Cash at Bank and in hand	**(2,924)**	(11,046)
Total	**403,432**	400,469

The Group's term loan covenants include an interest cover ratio which is calculated as the ratio of adjusted EBITDA to net finance charges for the previous 12 months, and net leverage cover which is calculated as the ratio of net bank debt as at the testing date to adjusted EBITDA for the previous 12 months. As a breach was anticipated on these covenants for the 30 June testing date, the bank borrowings were classified as a current liability. On 27 September the Group received a waiver to the financial covenant tests for the 30 June 2019 testing date. Until the Group is able to successfully amend and extend the terms of its banking facilities including financial covenants, all bank debt continues to be classified as a current liability.

The term loan facility is secured by mortgages over certain Group vessels, with a net book value of US$ 670.3 million (31 December 2018: US$ 679.5 million). As disclosed in the going concern note above, failure to meet future debt obligations could, subject to the majority of banks representing at least 66.67% of total commitments agreeing to, result in the banks exercising their rights to recall all banking facilities, demand immediate repayment and or enforce its rights over the security granted by the Company as part of this facility.

The Group and its financial advisors continue to be in active and constructive discussions with its banking syndicate on the amendment and extension of its banking facilities and access to the US$ 25.0 million remaining of the working capital facility that has been restricted.

12 Subsequent events

Subsequent to the period end, on 29 September 2019, the Group received a waiver for the 30 June testing date for the financial covenants attached to its term loan and working capital facilities, as well as continued access to US$ 25.0 million of the US$ 50.0 million working capital facility and a US$ 10.0 million performance bond facility. These amended terms and facilities are in place until 31 December 2019. Refer to note 2 for further details.

In addition, subsequent to the year end, the Group has committed to placing US$ 2.4 million in an escrow account and will be drawing this down against cost associated to obtaining an appropriate long-term capital structure. This cash has been sourced from the same amount previously collateralised for two performance bonds which will now be held under the new bonding facility.

13 Notes to the condensed consolidated statement of cash flows

	Six month period ended 30 June		Year ended 31 December
	2019	2018	2018
	US$'000	US$'000	US$'000
Loss for the period/year before taxation	**(15,916)**	(2,537)	(2,405)
Adjustments for:			
Depreciation of property, plant and equipment	**15,197**	11,813	27,312
Amortisation of dry docking expenditure	**997**	1,293	2,200
Amortisation of right-of-use asset	**615**	-	-
Impairment charge	**4,561**	-	-
Opening adjustment on adoption of IFRS 16	**87**	-	-
End of service benefits charge	**236**	333	592
End of service benefits paid	**(615)**	(974)	(1,058)
Provision for ECL on 31 December 2017 balances	**-**	-	31
Movement in ECL provision during the period/year	**-**	120	63
Allowance for provision for doubtful trade receivables	**644**	-	50
Allowance for provision for doubtful accrued revenue	**-**	-	530
Recovery of doubtful debts on accrued revenue	**(530)**	-	-
Recovery of doubtful debts of trade receivables	**(378)**	-	(563)
Gain on disposal of property, plant and equipment	**(3)**	-	(6)
Share options rights charge	**710**	539	985
Interest income	**(8)**	(15)	(22)
Interest expense	**16,141**	14,504	30,601
Interest of IFRS 16 leases	**80**	-	-
Other (income)/loss	**(75)**	35	(140)
Amortisation of issue costs	**216**	-	700
Cash flow from operating activities before movement in working capital	**21,959**	25,111	58,870
Decrease/(increase) in trade and other receivables	**1,305**	(25,758)	(22,593)
Decrease in trade and other payables	**(2,492)**	(7,186)	(4,821)
Cash generated from/(used in) operations	**20,772**	(7,833)	31,456
Taxation paid	**(1,833)**	(369)	(2,580)
Net cash generated from/(used in) operating activities	**18,939**	(8,202)	28,876

14 Capital commitments

Capital commitments as at 30 June 2019 were US$ 0.3 million (31 December 2018: US$ 1.4 million) comprising mainly of capital expenditure which has been contractually agreed with suppliers for future periods for new build vessels or contract specific vessel modifications.

15 Contingent liabilities

During the reporting period the Group engaged the services of advisers in relation to negotiating a sustainable capital structure with the banking syndicate. The fee structure includes US$ 3.25 million, of which US$ 0.25 million is contingent on the amendment to or waiver of financial covenant tests and US$ 3.0 million on the amendment to the successful terms of existing debt and/or an equity raise. As the negotiations are ongoing and both the outcome and timing were uncertain at the reporting date, no provision has been made.

16 Fair value measurement of financial instruments

The Group entered into an IRS on 30 June 2018 to hedge a notional amount of US$ 50.0 million. The remaining notional amount hedged from the IRS as at 30 June 2019 was US$ 47.4 million (2018: US$ 48.7 million). The IRS hedges the risk of variability in interest payments by converting a floating rate liability to a fixed rate liability. The fair value of the IRS as at 30 June 2019 was a liability value of US$ 1.9 million (2018: US$ 0.8 million).

The Group entered into a CCIRS on 5 July 2018 to hedge a notional amount of US$ 36.7 million. As at 30 June 2019, the amount of notional hedged from the CCIRS was US$ 10.1 million (2018: US$ 22.4 million). The CCIRS hedges the volatility in GBP to US$ exchange rates as well as variability in interest rate payments by converting a US$ floating rate loan with US$ repayments to a GBP fixed rate loan wherein both the GBP notional and coupon payments are fixed and matched to actual GBP receivables of highly probable forecast sales. The fair value of the CCIRS as at 30 June 2019 was an asset value of US$ 0.4 million (2018: US$ 0.5 million).

For the purpose of applying hedge accounting, cash flow hedges are defined as hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable transaction.

The effective portion of the gain or loss on the hedging instrument is recognised in the condensed consolidated OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the condensed consolidated statement of comprehensive income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The ineffective portion relating to cash flow hedges is recognised in other operating income or other expenses.

The Group designates IRS and CCIRS as cash flow hedging instruments. The Group designates the change in fair value of the entire derivative contracts in its cash flow hedge relationships. For a CCIRS derivative, upon adoption of the hedge accounting requirements of IFRS 9, the Group designates forward points and foreign currency basis points in other comprehensive income as a separate component of equity and any fair value movement is recognised in the cost of hedging reserve.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

The fair value measurement of the derivative financial instrument has been determined by independent valuers by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. They represent Level 2 fair value measurements under the IFRS hierarchy.

The Group had no financial instruments in the current or previous year with fair values that are determined by reference to significant unobservable inputs i.e., those that would be classified as level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

17 Glossary

Alternative Performance Measure (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. 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 4.

Adjusted EBITDA – represents operating profit after adding back depreciation and amortisation and impairment charges. 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 4.

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. This measure provides additional information on the core profitability of the Group. A reconciliation of this measure is provided in note 4.

Adjusted net (loss)/profit - represents net (loss)/profit after adding back impairment charges. 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 4 of these results.

Cost of sales excluding depreciation and amortisation – represents cost of sales excluding depreciation and amortisation. This measure provides additional information of the Group's cost for operating the vessels. A reconciliation is shown below;

	30 June 2019 US$'000	31 June 2018 US$'000
Statutory general and administrative expenses	**40,903**	34,771
Less depreciation and amortisation	**(15,678)**	(12,475)
	25,225	22,296

EBITDA – represents Earnings before Interest, Tax, Depreciation and Amortisation, which represents operating profit after adding back depreciation and amortisation. This measure provides additional information of the underlying operating performance of the Group. A reconciliation of this measure is provided in note 4.

General and administrative expenses excluding depreciation and amortisation - represents general and administrative expenses excluding depreciation and amortisation. This measure provides additional information of the Group's real general and administrative expenses excluding accounting entries for depreciation and amortisation. A reconciliation is shown below:

	30 June 2019 US$'000	31 June 2018 US$'000
Statutory general and administrative expenses	**8,596**	9,063
Less depreciation	**(516)**	(631)
Less amortisation of right-of-use asset	**(615)**	-
	7,465	8,432

Segment adjusted gross profit/loss – represents gross profit/loss after adding back depreciation, amortisation and impairment charges. 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 4.

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

	30 June 2019 US$'000	31 December 2018 US$'000
	US$'000	US$'000
Statutory bank borrowings	**406,356**	411,515
Less cash and cash equivalents	**(2,924)**	(11,046)
	403,432	400,469

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.

E&P - exploration and production
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.

GMS core fleet - consists of 13 SESVs, with an average age of eight years, which excludes the 37-year-old vessel Naashi. Naashi has not generated revenue since 2017 when it was reclassified to non-core vessels.
IOC - International 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.

On hire daily vessel operating expenses - costs incurred to ensure a vessel is operationally ready and capable of carrying out work required to fulfil contract requirements. This excludes mobilisation costs and bad debt provisions

OSW - Offshore Wind.

Proforma EBITDA - represents EBITDA for covenant testing purposes being EBITDA (see definition above) for the trailing 12 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).

Secured 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.

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.

SESV – Self-Elevating Support 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.

Waiver Agreement – 27th September 2019 amendment to the common terms agreement between, among others, the Gulf Marine Middle East FZE and Abu Dhabi Commercial Bank PJSC which sets out the terms and conditions of the banking facilities. The Waiver Agreement has been consented to by the Group and the banking syndicate.

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.