Gulf Marine Services PLC

Preliminary Results for the year ended 31 December 2016

Gulf Marine Services (LSE: GMS), the leading provider of advanced self-propelled self-elevating support vessels (SESVs) serving the offshore oil, gas and renewable energy sectors, today announces its results for the year ended 31 December 2016.

Financial Results Summary

US$ million	*2016*	*2015*
Revenue	179.4	219.7
Gross profit	74.3	132.2
Adjusted gross profit*	95.6	132.2
Adjusted EBITDA*	106.8	138.5
Net profit	29.4	75.0
Adjusted net profit*	50.7	84.9
Diluted earnings per share (US cents)	8.34	21.25
Adjusted diluted earnings per share (US cents)*	14.35	24.05
Proposed final dividend per share (pence)	1.20	1.20

- Adjusted EBITDA was US$ 106.8 million (2015: US$ 138.5 million). Adjusted EBITDA margin of 60% (2015: 63%).
- Adjusted net profit after taxation was US$ 50.7 million (2015: US$ 84.9 million). Adjusted diluted earnings per share was 14.35 cents (2015: 24.05 cents).
- Gross profit was US$ 74.3 million (2015: US$ 132.2 million). Adjusted gross profit was US$ 95.6 million (2015: US$ 132.2 million).
- Impairment of US$ 21.3 million on non-core assets and a leased vessel.
- Final dividend proposed of 1.20 pence (1.50 cents) per share taking total 2016 dividend payments to 1.61 pence (2.04 cents).
- Net debt* of US$ 362.0 million (2015: US$ 304.3 million), undrawn committed bank facilities of US$ 145.0 million (2015: US$ 225.0 million) at 31 December 2016; deleveraging from Q2 2017 onwards.
- The Group's net leverage* ratio was 3.4 times (2015: 2.2 times) Adjusted EBITDA at year end.

Operational Highlights

- SESV fleet utilisation of 70% despite a challenging market.
- Secured six new contracts since our interim results, including two long-term contracts (18-month charter including extension options in Europe, three-year charter including extension options in the MENA region).
- New build programme completed within budget and on schedule, with a Mid-Size Class and a Large Class SESV delivered during the year.
- Development and installation of a pioneering cantilever on new Large Class vessel GMS Evolution, scheduled to be ready for operations Q2 2017.
- On target to deliver previously announced annualised cost savings.
- Strong HSE performance maintained during a busy year.

Outlook

- Modern fleet, leading operational experience and expanding technological capability places GMS in a good position to capitalise on the market recovery.
- Good level of client interest in the cantilever capability, an innovation with the potential to significantly increase work opportunities for GMS.
- Increasing tender activity in core regions of Europe and the Middle East.
- Continued focus on maximising utilisation, cost control and cash management.
- Secured backlog* of US$ 209.2 million as at 1 March 2017, providing visibility of 2017 trading.
- Net debt expected to peak at around US$ 375.0 million in Q1 2017, reducing to approximately US$ 335.0 million at the end of 2017.

Duncan Anderson, Chief Executive Officer for GMS, commented:

"The Group has delivered a solid set of 2016 results in line with expectations in challenging market conditions. Increasing tender activity is presenting significant opportunities for GMS in our core regions of Europe and the Middle East and we are looking forward to broadening significantly our cost-effective well intervention services in 2017, when the cantilever system becomes operational. Whilst recognising oil prices will continue to influence our business, I am confident that our modern fleet, leading operational experience and expanding technological capability places GMS in a good positon to capitalise on new contract opportunities as the market recovers."

- Ends -

The above highlights are based on the Group's adjusted results. A full reconciliation between the adjusted and statutory results is contained in note 2. Refer to note 17 for a list of definitions.

Analyst presentation: A management presentation to analysts will be held on 28 March at 09.30am. For additional details and registration for admission, please contact Leanne Shergold via email at lshergold@brunswickgroup.com

Presentation slides: The full year results presentation slides will be available on the GMS website after the presentation: *http://www.gmsuae.com/investor-relations/results-and-presentations*

**This metric is an Alternative Performance Measure. Refer to note 17 for further details and definitions.*

Enquiries
For further information please contact:

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

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

Notes to Editors:

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

The GMS SESV fleet of 15 vessels is amongst the youngest in the industry, with an average age of eight years. The vessels support GMS' clients in a broad range of offshore oil and gas platform refurbishment and maintenance activities, well intervention work and offshore wind turbine maintenance work (which are opex-led activities), as well as offshore oil and gas platform installation and decommissioning and offshore wind turbine installation (which are capex-led activities).

The SESVs are four-legged vessels 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 that can be adapted to the requirements of the Group's clients. A well workover cantilever system that has been developed for the Large Class vessels will be available to clients for the first time in 2017. Developed in partnership with leading Norwegian designer Dwellop A.S., the innovative cantilever allows GMS to significantly increase the level and type of well intervention activities that can be carried out from these vessels to include operations that have traditionally been performed by more expensive non-propelled drilling rigs.

The fleet is categorised by size into Large Class vessels (operating in water depth of up to 80m, with crane capacity of up to 400 tonnes and accommodation for up to 300 people), Mid-Size Class vessels (operating in water depth up to 55m, with crane capacity of up to 150 tonnes and accommodation for up to 300 people) and Small Class vessels (operating in water depth of up to 45m, with crane capacity of up to 45 tonnes and accommodation for up to 300 people).

Demand for GMS' vessels is predominantly driven by their premium and cost-effective capabilities, underpinned by the need to maintain ageing oil and gas infrastructure and the increasing use of enhanced oil recovery techniques to offset declining production profiles.

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.

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.

Chief Executive's Review

The Group has delivered a solid set of 2016 results in line with expectations for the business against the backdrop of a sustained low oil price environment. This performance continues to show our resilience in the brownfield sector when there are lower customer activity levels. Clients are more likely to charter our cost-effective, fit-for-purpose and flexible fleet independent of oil price sentiment, which is not typically the case elsewhere in the wider offshore support vessel sector. While we anticipate some of the challenges faced in 2016 will carry forward into the near-term, I am confident that the steps we have taken to help us navigate the industry downturn, including the delivery of significant reductions in our cost base, a competitive business development strategy, together with the strategic expansion of our fleet, will allow us to deliver earnings growth for GMS in due course.

Group financial performance

Our priority in 2016 was on maximising vessel utilisation in challenging market conditions. It was a creditable performance by the management team that resulted in 2016 revenue at US$ 179.4 million being restricted to a less than 20% reduction compared to the previous year. Adjusted EBITDA for the year was US$ 106.8 million (US$ 138.5 million in 2015) reflecting the strong operating cash flow generation of the business and we are able to report an Adjusted EBITDA margin of 60% for 2016 (63% in 2015). Adjusted net profit after taxation for the year was US$ 50.7 million (US$ 84.9 million in 2015).

As a reflection of our confidence in the stability of the business, the proposed final dividend for the year is recommended to be 1.20 pence (1.50 cents) per share subject to shareholders' approval at the AGM on 16 May 2017 and this will be paid on 19 May 2017, giving a total dividend for the year of 1.61 pence (2.04 cents).

Fleet utilisation and order book

GMS achieved a 70% utilisation rate for our SESV fleet in 2016 (98% in 2015), with 100% technical and operational uptime for our contracted vessels. We expected our fleet utilisation and charter rates for the year to be affected by the low oil price environment, reflecting some clients' focus on cost savings rather than production. This level of utilisation is still healthy compared to that experienced in both the wider offshore support vessel and drilling rig sectors. We currently expect utilisation to increase during the course of 2017, although it will be partially affected for a period as we transition into new contracts.

In the first half of 2016 we saw significantly lower levels of tender activity as our clients reduced their expenditure plans in response to market uncertainties. We have subsequently seen a gradual increase in tender opportunities and since our interim results have secured six new contracts with a total charter period in excess of six years including extension options. Encouragingly, two of these awards are for long-term charters, as short-term contract opportunities have been more customary in the current environment. These new charters comprise a three-year contract (including options) for one of our Mid-Size Class vessels in the MENA region, and an 18-month contract (including options) for one of our Large Class vessels in Europe.

Our focus remains on maximising our vessel utilisation. While this has necessitated the negotiation of lower charter rates on certain contracts, we expect to see an improvement in pricing in the future as the market tightens. The secured backlog as at 1 March 2017 is US$ 209.2 million (comprising firm and extension options) and is expected to increase towards the end of 2017 as the anticipated further improvement in utilisation is reflected in our order book.

Operations

Health, safety and the environment continue to be our top priority and we delivered a strong safety performance in 2016. The total number of man hours worked was 6.0 million in 2016 (7.7 million man hours in 2015). There was an improvement in our lost time injury rate (LTI) with one LTI being sustained during the year compared to two in 2015; we will continue to strive for our target of zero LTIs. The total recordable injury rate was 0.20 in 2016 (0.18 in 2015).

The SESV new build programme to expand the fleet by six vessels was completed within budget and on schedule at the end of 2016. The Mid-Size Class GMS Sharqi was delivered in Q1 2016. The Large Class GMS Evolution was completed in Q4 2016, with further work on the installation and testing of a cantilever system on the vessel expected to continue into Q2 2017. The strategic decision to expand the fleet has significantly increased the scope of our service offering, with the investment in the new Large Class and Mid-Size Class SESVs validated by the current higher utilisation of these vessels for operations that were less suited to our smaller class assets. Future development of the fleet is likely to focus on the extension of our service offering, with the installation of additional cantilever systems on all our Large Class vessels in time as more clients see the value this new capability brings to their businesses.

The Group maintains a very high focus on asset integrity and marine assurance and our off-hire vessels are being kept in readiness for swift deployment as the market starts to recover and as we secure further charters.

<u>Expansion of services</u>

GMS has been at the forefront of technological innovation in its industry for many years. As both a builder and operator, we have expanded and enhanced our fleet for the future, ensuring our vessels can meet the technical and operational specifications we have identified as being especially useful for our anticipated clients' requirements. This has included the introduction of our Large Class and Mid-Size SESVs more recently. While our Small Class fleet is of value for many of our clients' operations in the Gulf, the addition of our newer vessels has helped us to broaden our service offering.

During 2016 we also took significant steps to further expand our well services capability through our pioneering cantilever system. We designed and developed the system, in partnership with Dwellop A.S., with a well workover unit and top drive for our latest new build vessel GMS Evolution. This system, which is expected to be ready for operations in Q2 2017 following the completion of sea trials, will allow us to provide a greater range of services from the vessel and to compete for well workover activity that was previously only able to be carried out from more expensive and less efficient non-propelled jackup drilling rigs.

The faster transit and jacking speed of our self-propelled SESV allows us to deploy our vessel in less than a day, versus the three days or more required for a conventional drilling rig. We estimate that this advantage, combined with our cantilever capability and other operational efficiencies, will allow us to complete a typical well workover project in approximately 25% less time than the same activity performed by a drilling rig. This translates into significant cost savings for our client, even before any further economies that may be achieved from charter rates lower than alternatives such as drilling rigs, as well as the additional cost of hiring the necessary support vessels that these require. GMS will be the first to introduce this capability on an SESV and we have been very encouraged by the good level of interest from our existing and prospective clients in the cantilever capability.

We will continue to innovate and seek to differentiate our offering from our competitors. Our intention over the medium-term would be to offer our clients a more extensive and integrated package of well intervention services across our SESV fleet by bringing in-house more of the ancillary specialist services we currently sub-contract. This should help us to be an even more cost-effective solution for our clients.

Finance

The Group's decisive actions on cost-saving initiatives and the prioritisation of utilisation have helped to mitigate the impact on our business of the challenging market conditions. I am pleased to report that we expect to deliver the previously announced annualised cost-savings; further details can be found in the Financial Review.

During the year we conducted a full impairment review of our fixed assets. No impairments are required of our core SESV fleet, reflecting the low original self-construction cost of the vessels and the outlook for the Group's markets over the vessel life of the assets. Our non-core assets (two anchor tug supply vessels and an accommodation barge) were impaired during the year. A leased Small Class vessel, on which we hold an option to purchase but which we are unlikely to exercise given the low oil price environment, has also been impaired. Accordingly, a total impairment charge of US$ 21.3 million has been recorded in the income statement.

Our people

I would like to thank our highly skilled and dedicated workforce for their contribution to GMS during a challenging period. As has been the case with other companies in our industry, it was necessary to lower our costs during the year and this included a reduction in our headcount and a decrease in salaries for all personnel. The support and continued commitment of all our staff is very much appreciated.

Market commentary

<u>Middle East</u>

During 2016 the effects of the prolonged low oil price environment shifted focus amongst some of our key clients in the Middle East away from increasing production to reducing operating costs. The extent to which this affected GMS varied. In some instances, extension options were not exercised or contracts were terminated early. In other cases, it was necessary to renegotiate contracts at lower day rates in order to maintain the term of the contract. We have been seeing an increase in the number of tender opportunities from the second half of 2016 onwards and our success in winning a significant amount of the available work tendered is testament to the quality of our fleet and operational delivery. As our clients' again begin to focus on production targets, we anticipate that most, if not all, of the work lost due to cancellations or the non-renewal of contracts in 2016 will be re-tendered in 2017 and we remain well-positioned to secure these opportunities as they come to the market.

We are actively advising our clients on the cost advantages that our SESV well intervention cantilever and top drive system will deliver. The system presents a number of opportunities for GMS to perform additional well intervention operations more efficiently than currently provided by drilling rig operators, for example change out of electric submersible pumps and well completions.

Europe

Despite the challenges of the oil price environment, we successfully maintained high utilisation in the European market, albeit partly through the renegotiation of charter rates. Decommissioning remains a significant source of potential demand for GMS in the North Sea, although the competing strategic and economic priorities of stakeholders in these offshore assets has meant that the scale of actual decommissioning progress is not yet as advanced as previously anticipated. GMS continues to engage with clients on developing these opportunities as our new cantilever designs for our Large Class SESVs lend themselves particularly well to the cost-effective plug and abandonment of old wells, a key step in the decommissioning process.

In the renewables sector new installation activity was low in 2016, resulting in large wind turbine installation vessels competing for accommodation work that had traditionally been carried out by similar vessels to our Large Class SESVs. The wind turbine market is expected to improve in 2017, which should result in more opportunities for any available GMS SESVs and less competition for work in the oil and gas sector.

Rest of World

A key step in developing our services in markets outside the Middle East and Europe was the establishment of our South East Asia office. Having our own regional presence working continuously and directly with clients alongside our partners will better position GMS for future geographic diversification. We continue to believe in the potential within those countries where factors such as water depth, weather conditions and ageing oil producing infrastructure lend themselves particularly to the use of our SESVs.

Outlook

Whilst recognising oil prices will continue to influence our business, increasing tender activity is presenting significant opportunities for GMS in our core regions of Europe and the Middle East. This should lead to higher utilisation of our fleet and, in time, earnings growth for the business.

We are looking forward to introducing to the market our pioneering well workover cantilever system installed on GMS Evolution this year, which will allow us to provide an even greater range of low cost well intervention services. We are very optimistic about the potential of this new service as our clients recognise the value it can bring to their businesses.

Our focus remains on maximising utilisation whilst managing our costs appropriately and maintaining a stable capital structure, with cash conservation and deleveraging continuing to be key priorities. We expect the pace of recovery to build momentum, with utilisation increasing ahead of day rates. Whilst we anticipate some modest progress half-on-half in 2017, we are comfortable with expectations for the full year. I am confident that our modern fleet, leading operational experience and expanding technological capability places GMS in a good position to capitalise on new contract opportunities and to successfully grow our business in due course as our markets recover.

Duncan Anderson
Chief Executive Officer
27 March 2017

FINANCIAL REVIEW

US$ million	2016	2015
Revenue	179.4	219.7
Gross profit	74.3	132.2
Adjusted gross profit*	95.6	132.2
Adjusted EBITDA*	106.8	138.5
Net profit	29.4	75.0
Adjusted net profit*	50.7	84.9
Diluted earnings per share (US cents)	8.34	21.25
Adjusted diluted earnings per share (US cents)*	14.35	24.05
Proposed final dividend per share (pence)	1.20	1.20

**Alternative Performance Measure. Refer to note 17 for further details and definitions.*

Summary

The Group delivered satisfactory results for 2016 against the background of challenging market conditions. Revenue for the year was US$ 179.4 million (2015: US$ 219.7 million) and we achieved an Adjusted EBITDA margin of 60% (2015: 63%) with 2016 Adjusted EBITDA of US$ 106.8 million (2015: US$ 138.5 million). Net profit for 2016 of US$ 29.4 million (2015: US$ 75.0 million) reflects a non-operational and non-cash impairment charge (recognised in cost of sales) of US$ 21.3 million related to non-core assets and a leased vessel that is unlikely to be acquired. Adjusted net profit after taxation for 2016 was US$ 50.7 million (2015: US$ 84.9 million) and adjusted diluted EPS was 14.35 cents (2015: 24.05 cents).

Our focus remains on maintaining a stable financial structure and continuing to manage our costs appropriately with cash conservation and deleveraging being key priorities.

The Group continues to have a sound financial base with a stable balance sheet and strong operating cash flows. Total capital expenditure for 2016 of US$ 106.0 million (2015: US$ 205.4 million) was primarily spent on construction of new vessels (US$ 95.4 million). The Group had undrawn committed bank facilities of US$ 145.0 million (2015: US$ 225.0 million) at 31 December 2016. The net debt level (being bank borrowings less cash) increased to US$ 362.0 million at the year end (2015: US$ 304.3 million) mainly as a result of the continued investment in the new build programme. The Group's net leverage ratio was 3.4 times (2015: 2.2 times) Adjusted EBITDA at year end, well within the maximum permitted net leverage ratio of 5.0 times. Net borrowing is expected to peak at US$ 375.0 million in Q1 2017. The Group is then expected to deleverage given its strong cash flow generation characteristics and the absence of significant committed capital expenditure.

The following sections discuss the Group's adjusted results as the Directors consider that they provide a useful indicator of underlying performance. The adjusting items (non-operational costs) are discussed below in this review and a reconciliation between the adjusted and statutory results is contained in note 2.

Revenue and segmental profit

Revenue decreased by 18% to US$ 179.4 million in 2016 (2015: US$ 219.7 million) demonstrating the pressure on vessel demand and certain charter rates from a sustained low oil price. Our 2016 SESV fleet utilisation was 70% (2015: 98%) which, whilst satisfactory in this challenging market, clearly demonstrates the potential for future upside.

The Small Class vessel segment made the largest contribution to Group revenue with US$ 76.8 million (2015: US$ 114.5 million). Revenue contribution from Large Class vessels was US$ 68.7 million (2015: US$ 86.4 million), US$ 33.0 million (2015: US$ 14.5 million) for Mid-size Class vessels and US$ 0.9 million (2015: US$ 4.4 million) for Other vessels. The segmental profit, being gross profit excluding depreciation, amortisation and impairment, was US$ 55.9 million (2015: US$ 82.7 million) for Small Class vessels, US$ 53.2 million (2015: US$ 64.6 million) for Large Class vessels, US$ 18.0 million (2015: US$ 10.1 million) for Mid-size Class vessels, and a segmental loss of US$ 0.1 million (2015: profit of US$ 0.9 million) for Other vessels.

74% of total Group revenue was derived from customers located in the MENA region in 2016 (2015: 72%) while the remaining 26% of revenue was earned from customers in Europe (2015: 28%).

The backlog as at 1 March 2017 was US$ 209.2 million comprising firm and option periods. When negotiating commercial terms with customers the Group seeks to maintain a balance between profitability and securing revenue visibility through contracted backlog.

Cost of sales and general and administrative expenses

We continue to be very conscious of managing our costs appropriately in the current environment. The Group expects to deliver the previously announced annualised cash cost saving targets of over 10% in our vessel operating costs and in excess of 15% in our general and administrative costs. These cost-saving initiatives included a lowering of our crew costs and overhead cost base through reductions in both headcount and salaries across the Group. We have also achieved efficiencies within our supply chain and operations, including reducing the rental costs for our principal maintenance and modification yard and quayside space.

The challenging market environment during the year resulted in some of our fleet being off hire for more extended periods than previously. The Group warm stacked the off hire vessels in the Group's own yard ready for deployment at a cost of approximately US$ 2,000 per day which is significantly lower than that of peers who have to use third party facilities.

The benefits of the cost saving initiatives started to be realised more fully during the second half of 2016. Cost of sales for the year on a cash basis, excluding depreciation, amortisation and impairment charges, reduced by 15% to US$ 52.4 million (2015: US$ 61.4 million). Cost of sales, excluding impairment charges, decreased by 4% to US$ 83.8 million (2015: US$ 87.5 million). General and administrative expenses were US$ 21.6 million in 2016 (2015: US$ 20.9 million) and includes a 29% reduction in general and administrative expenses in the second half of 2016 compared to the first half of the year. As the volume of construction activities significantly scales down as we near completion of the cantilever programme, overhead expenditure relating to capex activities will also reduce further accordingly with corresponding material additional cash savings and a lower value of capitalised costs.

The Group recognised an impairment charge of US$ 21.3 million in 2016 cost of sales on the Group's non-core assets, included within the Other vessels segment, and a leased vessel included within the Small Class vessels segment, further details of which are discussed below.

Depreciation

Depreciation increased by 22% to US$ 28.2 million (2015: US$ 23.2 million) arising from the additional depreciation (US$ 5.0 million) from the three new Mid-Size Class vessels. Two of the vessels were delivered in June and October 2015, and accordingly 2016 constituted a full year of depreciation for these vessels. The third Mid-Size Class vessel was delivered in March 2016 with nine months depreciation being charged during 2016.

Adjusted EBITDA

Adjusted EBITDA for the year was US$ 106.8 million (2015: US$ 138.5 million). The Group's Adjusted EBITDA margin in 2016 was 60% (2015: 63%) demonstrating the effective management of costs during the year.

Finance costs and foreign exchange

Net finance costs in 2016 were lower at US$ 20.1 million (2015: US$ 33.5 million). After adjusting for the expensing of unamortised loan arrangement fees of US$ 9.9 million that arose on the previous bank facility, that was refinanced in 2015, net finance costs decreased by US$ 3.5 million year on year. This primarily reflects the benefits of the reduced borrowing margins following the refinancing of the Group's long-term debt in December 2015 and the acquisition of a leased Small Class vessel during Q1 2016 which resulted in a reduction of the finance lease interest payments for 2016. During the year US$ 2.4 million (2015: US$ 5.8 million) of finance costs were capitalised as part of the new build programme as directly attributable costs.

There was a net foreign exchange loss of US$ 1.0 million (2015: US$ 0.03 million) arising mainly from the impact of the announcement of the Brexit referendum results in June on the United States Dollar and the Pound Sterling exchange rate.

Taxation

The tax charge for the year was US$ 1.4 million (2015: US$ 2.1 million), representing 4% of profit before taxation (2015: 3%). The Group's effective tax rate has remained low overall demonstrating the significant proportion of profits earned in low or zero tax jurisdictions.

Earnings

Adjusted net profit decreased in 2016 to US$ 50.7 million (2015: US$ 84.9 million) mainly arising from the reduction in revenue in the year. The fully diluted adjusted earnings per share (DEPS) for the year decreased to 14.35 cents (2015: 24.05 cents). Adjusted DEPS is calculated based on adjusted profit after tax and a reconciliation between the adjusted and statutory profit, is provided in note 2.

Dividends

The Group's dividend policy looks to reflect GMS' earnings and cash flow characteristics, while also allowing the retention of sufficient funds to invest in long-term growth for the Group and ensure an appropriate capital structure is maintained.

The Group paid an interim dividend of 0.41 pence per ordinary share on 3 October 2016 to shareholders on the register at 9 September 2016.

The Board is recommending a final dividend of 1.20 pence (1.50 cents) per share. Subject to shareholder approval, this will be paid on 19 May 2017 to all ordinary shareholders who were on the register of members at close of business on 18 April 2017. This brings the total 2016 dividend to US$ 7.1 million.

Capital expenditure

The Group's capital expenditure during the year was US$ 106.0 million (2015: US$ 205.4 million). The main area of investment was additions to assets under the course of construction (Capital work in progress) of US$ 104.6 million (2015: US$ 139.2 million) which includes the construction of a Large Class vessel, a Mid-Size Class Vessel and the cantilever system. The Group currently has no plans to incur any significant capital expenditure in 2017 and beyond with ongoing committed capital expenditure anticipated to be approximately US$ 10.0 million per annum.

Cash flow and net debt

The Group's net cash flow from operating activities continued to be strong, reflected in a net inflow of US$ 126.3 million in 2016 (2015: net inflow of US$ 125.0 million) mainly on account of a US$ 33.0 million decrease in receivables outstanding at year end. The net cash outflow from investing activities for 2016 was US$ 149.2 million (2015: net outflow of US$ 189.8 million) which includes US$ 51.0 million for the acquisition of a leased Small Class vessel in Q1 2016. The Group's net cash flow relating to financing activities was an inflow of US$ 23.7 million (2015: net inflow of US$ 66.1 million). The decrease in outflows from investing activities and decrease in inflows from financing activities has mainly arisen from fewer capital projects during the year as we approached the end of our new build programme, resulting in lower capital expenditure and reduced drawdowns from our banking facilities.

The net debt position (being bank borrowings less cash) as at 31 December 2016 was US$ 362.0 million, compared to US$ 304.3 million as at 31 December 2015. The year end outstanding debt was US$ 463.7 million (2015: US$ 459.7 million) comprising bank borrowings of US$ 423.6 million (2015: US$ 365.1 million) and finance lease obligations of US$ 40.1 million (2015: US$ 94.6 million). Undrawn committed bank facilities were US$ 145.0 million at year end (2015: US$ 225.0 million). Net debt is expected to reduce to approximately US$ 335.0 million at the end of 2017 and is forecast to peak at US$ 375.0 million in Q1 2017 following completion of the cantilever programme.

In June 2016 the Group was granted amended banking covenants to increase the maximum permitted leverage ratio from 4.0 times EBITDA to 5.0 times EBITDA. The Group's net leverage ratio, being the ratio of net debt to Adjusted EBITDA, was 3.4 times at year end (2015: 2.2 times). At the year end the Group was in full compliance with all its banking covenants and expects to remain so.

Balance sheet

The Group has a stable, well-financed balance sheet. A review of the major components of the balance sheet follows.

Total current assets at 31 December 2016 were US$ 85.5 million (2015: US$ 120.7 million). This movement is mainly attributable to a decrease in trade and other receivables to US$ 23.9 million (2015: US$ 59.9 million) reflecting a decrease in outstanding collections from customers. As the Group's customers are mainly NOCs and IOCs, the credit quality of the outstanding receivables is generally considered to be good.

Total current liabilities at 31 December 2016 were US$ 93.7 million (2015: US$ 110.0 million), the principal movement being the decrease in the current portion of obligations under finance leases to US$ 40.1 million (2015: US$ 55.0 million) arising mainly as a result of the Group exercising a purchase option to acquire a leased Small Class vessel that was completed in Q1 2016. There was a decrease in trade and other payables to US$ 28.8 million (2015: US$ 33.9 million) mainly arising from a lower level of creditors relating to construction of new build vessels.

The combined effect of the above items was a decrease in the Group's working capital and cash balance to a negative US$ 8.2 million at 31 December 2016 (2015: positive US$ 10.7 million). The Group's negative working capital position is primarily as a result of the exercise date of a purchase option, held by the Group on a leased vessel, falling within 12 months such that the lease liability is classified as current at year end. Cash and cash equivalents at year end was US$ 61.6 million (2015: US$ 60.8 million).

Total non-current assets at 31 December 2016 were US$ 857.2 million (2015: US$ 803.4 million). This increase is primarily attributable to the US$ 56.1 million increase in the net book value of property, plant and equipment, mainly from the ongoing new build programme to expand the fleet. The increase in the net book value of property, plant and equipment was partially offset by the impairment charges as discussed below. Total non-current liabilities at 31 December 2016 were US$ 404.8 million (2015: US$ 390.2 million). This increase reflects the drawdown on the Group's committed capex facility during the year resulting in an increase in the non-current portion of borrowings to US$ 401.6 million (2015: US$ 347.3 million).

Equity

Shareholders' equity increased from US$ 423.3 million at 31 December 2015 to US$ 443.7 million at 31 December 2016 and the increase comprised the profit earned during the year after recording the dividend paid of US$ 8.0 million.

Property, plant and equipment

During the year the Group undertook impairment assessments of its vessels and there was no impairment identified on the SESVs owned by the Group.

At the 2016 half year reporting an impairment loss of US$ 14.2 million was identified on the Group's non-core assets. The assets comprise two anchor tug supply vessels and an accommodation barge. The assets have been affected by the influence of the continued low oil price on the charter rates and utilisation levels of those type of vessels. The Group is currently in discussions with a third party for the disposal of the non-core assets and accordingly the year end recoverable amount of US$ 1.1 million has taken into consideration the likely realisable value, increasing the full year impairment charge to US$ 14.7 million.

An impairment of US$ 6.6 million was identified at year end on a leased Small Class Vessel accounted for as a finance lease. As the release of the lease liability is recorded in the financial statements at a faster rate than the rate at which the asset is depreciated, this has resulted in the asset having a higher carrying amount compared to the balance of the lease liability. Given that the Group is unlikely to exercise the purchase option on the lease in the current market environment, this difference between the carrying amount of the asset and the balance of the lease liability as at 31 December 2016, has given rise to an impairment loss in the financial statements.

The total impairment loss in the year of US$ 21.3 million has been charged to cost of sales in the statement of comprehensive income.

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. The items that are excluded from the adjusted results are non-operational items. In 2016 these comprised non-cash impairment charges on the non-core assets and a leased vessel, amounting to US$ 21.3 million. In 2015 the adjusting items comprised the expensing of unamortised loan arrangement fees of US$ 9.9 million that were written off at the time of the Group refinancing. A reconciliation between the adjusted and statutory results is provided in note 2.

In the Group's 2016 interim results we provided guidance for the full year of EBITDA in the range of US$ 100 - 110 million and earnings per share of 14.5 - 15.5 cents. Consistent with how management considers EBITDA and EPS in assessing underlying Group performance, this guidance is based on adjusted results. The Group's results on an adjusted basis were in line with the guidance provided.

Outlook

The Group has a stable balance sheet, with good liquidity and robust operating cash flows. Cash conservation and deleveraging will be our key priorities and we would expect the Group's net debt level to reduce to approximately US$ 335.0 million at the end of 2017. We will also maintain our focus on managing our costs appropriately and on maintaining a suitable financial structure to position ourselves well for the recovery in the markets.

John Brown
Chief Financial Officer
27 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Revenue	3	**179,410**	219,713
Cost of sales		**(83,761)**	(87,491)
Impairment charge	6, 7	**(21,307)**	-
Gross profit		**74,342**	132,222
General and administrative expenses		**(21,636)**	(20,875)
Finance income		**75**	640
Finance expense	4	**(20,181)**	(34,134)
Other loss		**(759)**	(740)
Foreign exchange loss, net		**(1,023)**	(32)
Profit for the year before taxation		**30,818**	77,081
Taxation charge for the year		**(1,377)**	(2,058)
Profit for the year		**29,441**	75,023
Other comprehensive income – items that may be reclassified to profit and loss:			
Exchange differences on translating foreign operations		**(1,378)**	(817)
Total comprehensive income for the year		**28,063**	74,206
Profit attributable to:			
Owners of the Company		**29,509**	74,776
Non-controlling interests		**(68)**	247
		29,441	75,023
Total comprehensive income attributable to:			
Owners of the Company		**28,131**	73,959
Non-controlling interests		**(68)**	247
		28,063	74,206
Earnings per share			
Basic (cents per share)	5	**8.44**	21.39
Diluted (cents per share)	5	**8.34**	21.25

All results are derived from continuing operations in each year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**852,398**	796,261
Intangibles		**-**	375
Dry docking expenditure	7	**4,327**	6,510
Deferred tax asset		**455**	-
Fixed asset prepayments		**66**	261
Total non-current assets		**856,246**	803,407
Current assets			
Trade and other receivables	8	**23,945**	59,876
Cash and cash equivalents	9	**61,575**	60,834
Total current assets		**85,520**	120,710
Total assets		**942,766**	924,117
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**57,929**	57,929
Share premium account	10	**93,075**	93,075
Restricted reserve		**272**	272
Group restructuring reserve	11	**(49,710)**	(49,710)
Share option reserve		**1,702**	1,409
Capital contribution	12	**9,177**	9,177
Translation reserve		**(2,015)**	(637)
Retained earnings		**333,259**	311,760
Attributable to the Owners of the Company		**443,689**	423,275
Non-controlling interests		**560**	628
Total equity		**444,249**	423,903
Non-current liabilities			
Bank borrowings	13	**401,599**	347,253
Obligations under finance leases		**-**	39,577
Provision for employees' end of service benefits		**3,181**	3,391
Deferred tax liability		**13**	13
Total non-current liabilities		**404,793**	390,234
Current liabilities			
Trade and other payables		**28,787**	33,883
Current tax liability		**2,832**	3,208
Bank borrowings	13	**22,021**	17,863
Obligations under finance leases		**40,084**	55,026
Total current liabilities		**93,724**	109,980
Total liabilities		**498,517**	500,214
Total equity and liabilities		**942,766**	924,117

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	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	Translation reserve US$'000	Retained earnings US$'000	Attributable to the owners of the Company US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2015	57,929	93,247	272	(49,437)	563	9,177	180	246,631	358,562	610	359,172
Total comprehensive income	-	-	-	-	-	-	(817)	74,776	73,959	247	74,206
Share options rights charge	-	-	-	-	846	-	-	-	846	-	846
Group restructuring reserve	-	-	-	(273)	-	-	-	-	(273)	-	(273)
Acquisition of interest in joint venture	-	-	-	-	-	-	-	(1,816)	(1,816)	(229)	(2,045)
Share issue cost	-	(172)	-	-	-	-	-	-	(172)	-	(172)
Dividends paid during the year	-	-	-	-	-	-	-	(7,831)	(7,831)	-	(7,831)
Balance at 1 January 2016	57,929	93,075	272	(49,710)	1,409	9,177	(637)	311,760	423,275	628	423,903
Total comprehensive income	-	-	-	-	-	-	(1,378)	29,509	28,131	(68)	28,063
Share options rights charge	-	-	-	-	293	-	-	-	293	-	293
Dividends paid during the year	-	-	-	-	-	-	-	(8,010)	(8,010)	-	(8,010)
Balance at 31 December 2016	**57,929**	**93,075**	**272**	**(49,710)**	**1,702**	**9,177**	**(2,015)**	**333,259**	**443,689**	**560**	**444,249**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	2016 US$'000	2015 US$'000
Net cash generated from operating activities (note 14)	**126,297**	124,960
Investing activities		
Payments for property, plant and equipment	**(147,089)**	(184,403)
Proceeds from disposal of property, plant and equipment	**109**	768
Movement in capital advances	**195**	489
Dry docking expenditure incurred	**(2,594)**	(7,320)
Movement in pledged deposits	**-**	299
Movement in guarantee deposits	**81**	(247)
Interest received	**75**	640
Net cash used in investing activities	**(149,223)**	(189,774)
Financing activities		
Bank borrowings received	**105,000**	485,000
Repayment of bank borrowings	**(44,938)**	(370,500)
Payment of issue cost on borrowings	**(2,700)**	(9,921)
Share issue cost paid	**-**	(172)
Interest paid	**(22,166)**	(25,832)
Payment on obligations under finance lease	**(3,519)**	(4,628)
Dividends paid	**(8,010)**	(7,831)
Net cash provided by financing activities	**23,667**	66,116
Net increase in cash and cash equivalents	**741**	1,302
Cash and cash equivalents at the beginning of the year	**60,834**	59,532
Cash and cash equivalents at the end of the year (note 9)	**61,575**	60,834
Non-cash transactions		
Finance lease transaction	**-**	53,000

Notes to the financial information for the year ended 31 December 2016

1. Basis of preparation

The preliminary announcement does not constitute the Group's statutory accounts for the year ended 31 December 2016, but is derived from those accounts. Statutory accounts for the year ended 31 December 2016 were approved by the Directors on 27 March 2017 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The independent auditor's report on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not include a statement under Section 498 (2) or (3) of the 2006 Companies Act.

The 2016 Annual Report will be posted to shareholders in advance of the Annual General Meeting to be held on 16 May 2017.

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

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

Going concern

The Group is expected to continue to generate positive operating cash flows on its own account for the foreseeable future and has in place a committed capex loan facility of US$ 175.0 million, of which US$ 95.0 million remained undrawn as at 27 March 2017. The Group also has access to a committed working capital facility of US$ 50 million, the total facility remained undrawn at 27 March 2017.

On the basis of their assessment of the Group's financial position, and after reviewing its cash flow forecasts for a period of not less than 12 months from the date of approval of the Annual Report, the Group's Directors have a reasonable expectation that, taking into account reasonably possible changes in trading performance and appropriate mitigating actions, the Group will be able to continue in operational existence for the foreseeable future. Thus they have adopted the going concern basis of accounting in preparing the consolidated financial statements.

Significant accounting policies

The significant accounting policies and methods of computation adopted in the preparation of this financial information is consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016 none of which had a material impact on the results or financial position of the Group.

2 Presentation of adjusted non-GAAP results

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

	Year ended 31 December 2016			Year ended 31 December 2015		
	Adjusted non-GAAP results	**Adjusting items**	**Statutory total**	Adjusted non-GAAP results	Adjusting items	Statutory total
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Revenue	**179,410**	**-**	**179,410**	219,713	-	219,713
Cost of sales						
-Operating expenses	**(52,435)**	**-**	**(52,435)**	(61,400)	-	(61,400)
-Depreciation and amortization	**(31,326)**	**-**	**(31,326)**	(26,091)	-	(26,091)
-Impairment charge*	**-**	**(21,307)**	**(21,307)**	-	-	-
Gross profit	**95,649**	**(21,307)**	**74,342**	132,222	-	132,222
General and administrative						
-Depreciation	**(1,451)**	**-**	**(1,451)**	(1,094)	-	(1,094)
-Other administrative costs	**(20,185)**	**-**	**(20,185)**	(19,781)	-	(19,781)
Operating profit	**74,013**	**(21,307)**	**52,706**	111,347	-	111,347
Finance income	**75**	**-**	**75**	640	-	640
Finance expense	**(20,181)**	**-**	**(20,181)**	(24,268)	-	(24,268)
Expensing of refinancing costs**	**-**	**-**	**-**	-	(9,866)	(9,866)
Other income	**88**	**-**	**88**	305	-	305
Loss on sale of asset	**(847)**	**-**	**(847)**	(1,045)	-	(1,045)
Foreign exchange loss, net	**(1,023)**	**-**	**(1,023)**	(32)	-	(32)
Profit before taxation	**52,125**	**(21,307)**	**30,818**	86,947	(9,866)	77,081
Tax	**(1,377)**	**-**	**(1,377)**	(2,058)	-	(2,058)
Net profit	**50,748**	**(21,307)**	**29,441**	84,889	(9,866)	75,023
Profit attributable to						
Owners of the Company	**50,816**	**(21,307)**	**29,509**	84,642	(9,866)	74,776
Non-controlling interest	**(68)**	**-**	**(68)**	247	-	247
Earnings per share	**14.54**	**(6.10)**	**8.44**	24.22	(2.83)	21.39
Supplementary non-statutory information						
Operating profit	**74,013**	**(21,307)**	**52,706**	111,347	-	111,347
Add: Depreciation and Amortisation charges	**32,777**	**-**	**32,777**	27,185	-	27,185
Non-GAAP EBITDA	**106,790**	**(21,307)**	**85,483**	138,532	-	138,532

**The impairment charge on certain vessels being non-operational in nature has been added back to net profit to arrive at adjusted net profit for the year.*

***The write-off of unamortised arrangement fees being non-operational in nature has been added back to net profit to arrive at adjusted net profit in 2015.*

3 Segment reporting

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

The operating and reportable segments of the Group are (i) Small Class vessels which includes the Naashi, Kamikaze, Kikuyu, Kawawa, Kudeta, Keloa, Kinoa and Pepper vessels (ii) Mid-Size Class vessels which includes the Shamal, Scirocco and Sharqi vessels, (iii) Large Class vessels which includes the Endeavour, Endurance and Enterprise vessels, and (iv) Other vessels considered non-core assets, which includes two legacy non-SESV vessels and one accommodation barge (Khawla) which do not form part of the Small, Mid-Size or Large Class vessels segments.

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

	Revenue		**Adjusted gross profit***	
	2016	2015	**2016**	2015
	US$'000	US$'000	**US$'000**	US$'000
Small Class vessels	**76,836**	114,468	**55,851**	82,667
Mid-Size Class vessels	**32,959**	14,459	**18,041**	10,120
Large Class vessels	**68,701**	86,390	**53,202**	64,646
Other vessels	**914**	4,396	**(119)**	880
	179,410	219,713	**126,975**	158,313
Less:				
Depreciation charged to cost of sales			**(27,151)**	(22,467)
Amortisation charged to cost of sales			**(4,175)**	(3,624)
Impairment charge			**(21,307)**	**-**
Gross profit			**74,342**	132,222
General and Administrative expenses			**(21,636)**	(20,875)
Finance income			**75**	640
Finance expense			**(20,181)**	(34,134)
Other income			**88**	305
Loss on sale of asset			**(847)**	(1,045)
Foreign exchange loss, net			**(1,023)**	(32)
Profit before taxation			**30,818**	77,081

*Alternative Performance Measure – see note 17.

The total revenue from reportable segments which comprises the Small, Mid-Size and Large Class vessels is US$ 178.50 million (2015: US$ 215.32 million). The Other segment does not constitute a reportable segment per IFRS 8 Operating Segments.

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

Information about major customers

Certain customers individually accounted for greater than 10% of the Group's revenue. During the year, 3 customers (2015: 3) individually accounted for more than 10% of the Group's revenues. The related revenue figures for these major customers, the identity of which may vary by year, were US$ 51.46 million (2015: US$ 47.07 million), US$ 40.46 million (2015: US$ 46.93 million) and US$ 24.45 million (2015: US$ 36.43 million). The revenue from these customers is attributable to the Large Class vessels, Mid-Size Class vessels and Small Class vessels reportable segments.

Geographical segments

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

	2016 **US$ '000**	2015 US$ '000
United Arab Emirates	**109,740**	129,320
Qatar	**14,401**	17,657
Rest of Middle East and North Africa	**8,858**	11,581
Total - Middle East and North Africa	**132,999**	158,558
United Kingdom	**24,455**	36,425
Netherlands	**16,708**	19,515
Rest of Europe	**5,248**	5,215
Total - Europe	**46,411**	61,155
Worldwide Total	**179,410**	219,713

4 Finance expenses

	2016	2015

	US$'000	US$'000
Interest on bank borrowings	**15,126**	13,945
Interest on finance leases	**6,362**	11,966
Write-off of unamortised loan arrangement fees*	**-**	9,866
Amortisation of issue costs and commitment fees	**1,143**	4,158
Fair value loss on derivative financial instrument	**-**	27
Finance expense	**22,631**	39,962
Less: Amounts included in the cost of qualifying assets	**(2,450)**	(5,828)
	20,181	34,134

* triggered by the loan refinancing in December 2015.

5 Earnings per share

	2016 US$	2015 US$
Earnings for the purpose of basic and diluted earnings per share being profit for the year attributable to owners of the parent (US$'000)	**29,509**	74,776
Earnings for the purpose of adjusted basic and diluted earnings per share (US$'000) (see note 2)	**50,816**	84,642
Weighted average number of shares ('000)	**349,528**	349,528
Weighted average diluted number of shares in issue ('000)	**354,012**	351,946
Basic earnings per share (cents)	**8.44**	21.39
Diluted earnings per share (cents)	**8.34**	21.25
Adjusted earnings per share (cents)	**14.54**	24.22
Adjusted diluted earnings per share (cents)	**14.35**	24.05

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

Adjusted earnings per share is calculated on the same basis but uses the earnings for the purpose of basic earnings per share (shown above) adjusted by adding back the impairment charge mainly on non-core vessels which has been charged to the income statement (US$ 21.3 million). The adjusted earnings per share is presented as the Directors consider it provides an additional indication of the underlying performance of the Group.

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, adjusted for the weighted average effect of share options outstanding during the year.

Adjusted diluted earnings per share is calculated on the same basis but uses adjusted profit (note 2) attributable to equity holders of the Company.

6 Property, plant and equipment

	Vessels	Capital work-in-progress	Land, building and improvements	Vessel Spares, fittings and other equipment	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost						
Balance at 1 January 2015	615,168	88,711	7,400	10,586	4,845	726,710
Additions	64,626	139,197	622	861	56	205,362
Transfers	146,942	(146,472)	771	(1,544)	303	-
Disposals	(635)	-	(74)	(14)	(1,066)	(1,789)
Balance at 1 January 2016	826,101	81,436	8,719	9,889	4,138	930,283
Additions	1,280	104,640	-	71	35	106,026
Transfers	70,639	(77,737)	1,580	5,025	493	-
Disposals	(1,130)	-	-	(21)	(121)	(1,272)
Balance at 31 December 2016	**896,890**	**108,339**	**10,299**	**14,964**	**4,545**	**1,035,037**

	Vessels US$'000	Capital work-in-progress US$'000	Land, building and improvements US$'000	Vessel Spares, fittings and other equipment US$'000	Others US$'000	Total US$'000
Accumulated depreciation						
Balance at 1 January 2015	98,514	-	4,424	5,823	3,425	112,186
Eliminated on disposal of assets	(186)	-	(74)	(14)	(1,076)	(1,350)
Depreciation expense	21,621	-	300	663	602	23,186
Balance at 1 January 2016	119,949	-	4,650	6,472	2,951	134,022
Eliminated on disposal of assets	(191)	-	-	(4)	(121)	(316)
Depreciation expense	26,216	-	579	774	658	28,227
Impairment charge	20,621	-	-	85	-	20,706
Balance at 31 December 2016	**166,595**	**-**	**5,229**	**7,327**	**3,488**	**182,639**
Carrying amount						
Balance at 31 December 2016	**730,295**	**108,339**	**5,070**	**7,637**	**1,057**	**852,398**
Balance at 31 December 2015	706,152	81,436	4,069	3,417	1,187	796,261

The carrying amount of vessels held under finance leases is US$ 38.4 million (2015: US$ 100.2 million). During the year the Group purchased the formerly leased vessel Pepper for US$ 51.0 million. In 2015, the Group entered into a finance lease for the vessel Pepper with the related addition of US$ 53.0 million.

Depreciation amounting to US$ 27.2 million (2015: US$ 22.5 million) has been allocated to cost of sales. The balance of the depreciation charge is included in administrative expenses.

Included in additions to the vessels under construction is US$ 2.4 million (2015: US$ 5.8 million) in respect of capitalised borrowing costs. The capitalisation rate used to determine this figure was 3.99 % (2015: 5.56%) based on specific borrowing rates.

Certain vessels, with a total net book value of US$ 566.6 million (2015: US$ 465.2 million), have been mortgaged as security for the loans extended by the Group's bankers.

Impairment Assessment

The Group undertook a full impairment review of its fixed assets during the year and an impairment loss of US$ 21.3 million was identified on the Group's non-core assets and a leased Small Class vessel accounted for as a finance lease. The impairment on the non-core assets, comprising of two anchor tug supply vessels and an accommodation barge, is a result of the impact the continued low oil price had on the charter rates and utilisation levels of those vessels. The recoverable amount of the non-core assets of US$ 1.1 million was lower than the carrying amount of the assets and therefore an impairment charge of US$ 14.7 million was booked. The Group is currently in discussions with a third party for the disposal of the non-core assets and accordingly the recoverable amount of US$ 1.1 million has taken into consideration the likely realisable value.

Whilst there was no impairment on the SESVs owned by the Group the impairment loss on the leased Small Class vessel, on which the Group holds an option to purchase in 2017, arose as the Group is unlikely to exercise the purchase option given the current low oil price environment. The lease liability is released at a faster rate than the rate at which the asset is depreciated. Consequently, the recoverable amount of the leased asset of US$ 37.9 million was lower than the carrying amount of the asset resulting in an impairment of US$ 6.6 million. The total impairment loss of US$ 21.3 million has been charged to cost of sales in the statement of comprehensive income.

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. The cash flow projections used in determining the value in use of each CGU were based on forecasts prepared by management taking into account past experience. The average compound annual growth rates ("CAGR") in revenue for the CGUs were assumed as an average upward revision of 6.8% between 2017 and 2022, remaining flat thereafter. The CAGR is dependent on the average utilisation and charter rate of the vessels.

The cash flows have been discounted using a pre-tax discount rate of 11.5% which was estimated taking into consideration the weighted average cost of capital of a portfolio of peer group companies with similar assets. The discount rate reflects current market assessments of the time value of money, the risks associated with the cash flows, and the expected levels of leverage. Consideration has also been given to other factors such as currency risk, operational risk and country risk.

7 Dry docking expenditure

The movement in dry docking expenditure is summarised as follows:

	2016	2015
	US$ '000	US$ '000
At 1 January	**6,510**	4,177
Expenditure incurred during the year	**2,594**	7,320
Disposals	**-**	(1,363)
Amortised during the year	**(4,176)**	(3,624)
Impairment charge (primarily on leased vessel. See note 6)	**(601)**	-
At 31 December	**4,327**	6,510

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

8 Trade and other receivables

	2016 US$ '000	2015 US$ '000
Trade receivables	**19,289**	54,700
Accrued income	**1,787**	503
Prepayments and deposits	**2,349**	3,918
Advances to suppliers	**128**	540
Other receivables	**322**	145
Due from related parties	**70**	70
	23,945	59,876

9 Cash and cash equivalents

	2016 US$ '000	2015 US$ '000
Interest bearing		
Held in UAE banks	**11,671**	35,922
Non-interest bearing		
Held in UAE banks	**43,265**	5,323
Held in banks outside UAE	**7,326**	20,357
Total cash at bank and in hand	**62,262**	61,602
Presented as:		
Restricted cash included in trade and other receivables	**687**	768
Cash and cash equivalents	**61,575**	60,834
Total	**62,262**	61,602

10 Share capital

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

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

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

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

	Number of ordinary shares (thousands)	Ordinary shares US$'000	Total US$'000
At 31 December 2016			
Authorised Share Capital	**349,528**	**57,929**	**57,929**
Issued and fully paid	**349,528**	**57,929**	**57,929**
At 31 December 2015			
Authorised Share Capital	349,528	57,929	57,929
Issued and fully paid	349,528	57,929	57,929

Issued share capital and share premium account were as follows:

	Number of ordinary shares (thousands)	Ordinary shares US$'000	Share premium account US$'000	Total US$'000
At 31 December 2016	**349,528**	**57,929**	**93,075**	**151,004**
At 31 December 2015	349,528	57,929	93,075	151,004

11 Group restructuring reserve

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

12 Capital contribution

The capital contribution reserve is as follows:

	2016 US$'000	2015 US$'000
At 31 December	**9,177**	9,177

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

13 Bank borrowings

Secured borrowings at amortised cost

	2016 US$'000	2015 US$'000
Term loans	**435,061**	375,000
Less: Unamortised issue costs	**(11,441)**	(9,884)
	423,620	365,116

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

	2016 US$'000	2015 US$'000
Non-current portion	**401,599**	347,253
Current portion	**22,021**	17,863
	423,620	365,116

In December 2015, the Group entered into a new facility with key terms of the loan as follows:

- The bank facility is repayable in 2021;
- The term loan facility to fund capital expenditure amounts to US$ 175.0 million. The Group drew down US$ 80.0 million from the loan facility during the year and the balance of US$ 95.0 million is available for draw down until December 2017;
- The revolving working capital facility amounts to US$ 50.0 million. The total facility remained undrawn at 31 December 2016 and is available for draw down until December 2017;
- The facility remains secured by mortgages over certain Group vessels, with a net book value at year end of US$ 566.6 million (2015: US$ 465.2 million).

	Outstanding amount					
	Current	**Non-current**	**Total**	**Unused facility**	**Security**	**Maturity**
	US$'000	**US$'000**	**US$'000**	**US$'000**		
31 December 2016:						
Term loan	**18,750**	**337,500**	**356,250**	**-**	Secured	November 2021
Working capital facility	**-**	**-**	**-**	**50,000**	Secured	November 2021
Capex facility	**4,584**	**74,227**	**78,811**	**95,000**	Secured	November 2021
Unamortised issue costs	**(1,313)**	**(10,128)**	**(11,441)**	**-**		
	22,021	**401,599**	**423,620**	**145,000**		
31 December 2015:						
Term loan	18,750	356,250	375,000	-	Secured	November 2021
Working capital facility	-	-	-	50,000	Secured	November 2021
Capex facility	-	-	-	175,000	Secured	November 2021
Unamortised issue costs	(887)	(8,997)	(9,884)	-		
	17,863	347,253	365,116	225,000		

14 Net cash flow from operating activities

	2016 US$'000	2015 US$'000
Operating activities		
Profit for the year before taxation	**30,818**	77,081
Adjustments for:		
Depreciation of property, plant and equipment	**28,227**	23,186
Amortisation of intangibles	**375**	375
Amortisation of dry docking expenditure	**4,176**	3,624
Impairment charge	**21,307**	-
End of service benefit charge	**780**	1,181
End of service benefits paid	**(990)**	(258)
Provision for doubtful debts	**2,287**	614
Recovery of doubtful debts	**-**	(925)
Fair value loss on derivative financial instrument	**-**	27
Loss on disposal of property, plant and equipment	**847**	1,045
Share options rights charge	**293**	846
Interest income	**(75)**	(640)
Interest expense	**19,199**	21,452
Write-off of unamortised issue costs	**-**	7,743
Other income	**(88)**	(305)
Amortisation of issue costs	**982**	2,516
Cash flow from operating activities before movement in working capital	**108,138**	137,562
Decrease/(Increase) in trade and other receivables	**32,962**	(9,669)
(Decrease)/Increase in trade and other payables	**(12,595)**	718
Cash generated from operations	**128,505**	128,611
Taxation paid	**(2,208)**	(3,651)
Net cash generated from operating activities	**126,297**	124,960

15 General information

Gulf Marine Services PLC ("GMS" or "the Company") is a Company which registered in England and Wales on 24 January 2014. The Company is a public limited company with operations mainly in the Middle East and North Africa, and Europe. The address of the registered office of the Company is 1st Floor, 40 Dukes Place, London EC3A 7NH. The registered number of the Company is 08860816.

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

16 Post balance sheet events

The Board has decided to recommend a final dividend of 1.20 pence (1.50 cents) per ordinary share in respect of the year ended 31 December 2016. This is to be proposed at the Annual General Meeting. These financial statements do not reflect this final dividend.

There have been no other events subsequent to 31 December 2016 for disclosure.

17 Definitions

Below is a list of terms used by the Group:

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

Alternative Performance Measures 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. 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.

Adjusted diluted earnings per share – represents the adjusted 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 profit attributable to equity shareholders of the Company is earnings used for the purpose of basic earnings per share adjusted by adding back the impairment charge mainly on non-core vessels which has been charged to the income statement in the period. See note 5.

EBITDA – represents Earnings before Interest, Tax, Depreciation and Amortisation, which represents operating profit after adding back depreciation and amortisation. See note 2.

Adjusted EBITDA – represents operating profit after adding back depreciation and amortisation and, non-operational impairment charges in 2016. See note 2.

Adjusted EBITDA margin – represents adjusted EBITDA divided by revenue.

Adjusted gross profit – represents gross profit after adding back depreciation, amortisation and non-operational impairment charges in 2016. See note 3.

Adjusted net profit – represents net profit after adding back non-operational impairment charges in 2016 and non-operational refinancing costs in 2015. See note 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. Includes extension options.

Net Debt – represents the total bank borrowings less cash.

Net leverage ratio – represents the ratio of net debt (bank borrowings less cash) to Adjusted EBITDA.

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.

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.